

SECOND BANCORP INC

Form 8-K

April 18, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: April 17, 2003

Second Bancorp Incorporated

(Exact name of registrant as specified in its charter)

Ohio	0-15624	34-1547453
(State of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
108 Main Avenue S.W., Warren, Ohio		44482-1311
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code: 330-841-0123

Item 5. Other Events

On April 17, 2003, the Company issued the following press release:

**SECOND BANCORP
REPORTS STRONG FIRST QUARTER**

Warren, Ohio, April 17, 2003 **SECOND BANCORP INCORPORATED** (Nasdaq **SECD** , **SECDP**) reported first quarter 2003 net income of \$8,661,000, up 84.9% from the \$4,683,000 reported for the same period last year. On a diluted basis, earnings per share for the quarter were \$.89 or nearly 90% above the \$.47 reported a year ago. Earnings for the quarter were positively impacted by banking subsidiary Second National Bank's sale of two banking centers in Jefferson County, Ohio including \$88 million in deposits. That transaction, completed February 7, 2003, produced a \$5.62 million pre-tax gain. Excluding that non-recurring event, earnings for the quarter were \$5,009,000 or \$.52 per diluted share compared to a market consensus estimate of \$.49 per share.

While significantly improved on a GAAP basis, key operating performance ratios for the quarter were mixed in comparison with the same period in 2002. The Company's return on average assets (ROAA) for the quarter was 1.85% (or 1.07% on an operating basis) compared to 1.11% last year and return on average equity (ROAE) climbed to 25.61% (or 14.81% on an operating basis) from 14.39% a year ago. The Company's efficiency ratio on an operating basis was marginally improved at 58.98% compared to 59.40% for first quarter 2002 while its net interest margin for the quarter was compressed by persistent and historically low interest rates to 3.33% from 3.72% a year ago.

Excluding the gain on the Jefferson County branch sale, non-interest income for the quarter was \$8.6 million, a strong 67% ahead of results for the same period last year. That improvement was led by a nearly tripling of the Company's gains on sale of loans primarily reflecting aggressive secondary market activity in mortgages, and service charges on deposit accounts which were

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15.7% higher than a year ago. Earnings attributed to the Company's mortgage lending line of business were also positively effected by continuing growth in the Company's \$1.5 billion mortgage servicing portfolio and a recognized net gain of \$700,000 for the quarter on derivative investments economically hedging fluctuations in the value of mortgage servicing rights due to interest rates.

Non-interest expenses for the quarter grew 16% over the same period last year to \$13.67 million led by increased salary and benefit costs associated largely with the Company's 2002 acquisition of Stouffer-Herzog Insurance Agency, Inc. and increased staffing in our expanding mortgage lending business. That rate of increase in non-interest expenses mirrors the Company's 13% growth in assets over the same period and is significantly less than the 67% growth in non-interest income.

Credit quality remains a focal point for Second Bancorp. Though non-performing loans continue at elevated levels, they have generally stabilized over the last three quarters in the \$19 to \$20 million range or a quarter-end 1.62% of total loans. Net charge-offs for the quarter fell by \$186,000 to \$2,012,000 but quarter-end 90 day past due and accruing loans were 16.4% higher than at the end of fourth quarter 2002. The Company's allowance for loan losses as a percentage of period-end loans was stable at 1.46% compared to 1.51% at year-end 2002.

Commenting on Second Bancorp's prospects for the remainder of the year, Treasurer David L. Kellerman indicated "We expect the local and national economies to remain sluggish and interest rates to remain at historically low levels into the second half of the year. That kind of environment makes double-digit earnings per share growth goals difficult to achieve. We continue to manage our core businesses with an eye toward minimizing risks associated with slowing economic activity and believe our core wealth management and commercial lending businesses are positioned to become strong contributors to our financial success as the economy returns to a more traditional growth pattern. We currently believe that net income for the calendar year on an operating basis will fall within the range of from \$2.08 to \$2.13 per diluted share compared to the \$1.94 we reported last year.

Second Bancorp previously announced a 5.6% increase in its quarterly dividend to \$.19 per share (an annualized \$.76) payable April 30, 2003 to shareholders of record April 15, 2003. That action maintains Second Bancorp's record of having increased its dividend in each of the seventeen years since its incorporation.

This announcement contains forward-looking statements that involve risk and uncertainties, including changes in general economic and financial market conditions and the Company's ability to execute its business plans. Although management believes the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

Second Bancorp is a \$1.9 billion financial holding company providing a full range of commercial and consumer banking, wealth management, insurance and investment products and services to communities in an eight county area of Northeastern Ohio through subsidiaries Second National Bank and Stouffer-Herzog Insurance Agency, Inc. Additional information about Second Bancorp can be found on the Web at www.secondbancorp.com.

CONTACT: Christopher Stanitz, Executive Vice President and Secretary, at 330.841.0234 (phone), 330.841.0489 (fax), or estanitz@secondnationalbank.com.

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**Second Bancorp Incorporated and Subsidiaries
Financial Highlights
Quarterly Data**

(Dollars in thousands, except per share data)

	<u>March 2003</u>	<u>Dec. 2002</u>	<u>Sept. 2002</u>	<u>June 2002</u>	<u>March 2002</u>
Earnings:					
Net interest income	\$14,083	\$13,946	\$13,954	\$14,403	\$14,157
Provision for loan losses	2,173	2,350	1,573	1,303	933
Non-interest income	14,211	7,314	6,329	4,053	5,157
Security gains (losses)	51	(67)	832	0	(173)
Trading account losses	0	0	0	0	(20)
Non-interest expense	13,673	14,575	11,841	11,283	11,797
Federal income taxes	3,838	840	2,165	1,517	1,708

Net income
\$8,661 \$3,428 \$5,536 \$4,353 \$4,683

Per share:

Basic earnings

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0.90 0.35 0.56 0.44 0.47

Diluted earnings

0.89 0.34 0.55 0.43 0.47

Common dividends

0.19 0.18 0.18 0.18 0.18

Book value

14.36 13.91 14.14 13.71 12.96

Tangible book value

11.95 11.69 11.99 11.85 11.11

Market value

22.15 26.50 26.73 27.30 24.25

Weighted average shares outstanding:

Basic

9,621,709 9,835,995 9,876,844 9,958,928 9,944,671

Diluted

9,715,561 9,967,373 9,993,241 10,087,003 10,054,758

Period end balance sheet:

Assets

\$1,909,027 \$1,894,775 \$1,825,235 \$1,719,744 \$1,684,848

Securities

539,309 523,669 535,174 448,736 411,897

Total loans

1,215,481 1,167,791 1,153,581 1,092,398 1,114,314

Allowance for loan losses

17,756 17,595 17,443 16,810 16,884

Deposits

1,121,866 1,195,112 1,181,281 1,146,451 1,131,199

Total shareholders equity

136,369 135,780 139,682 136,293 128,853

Tier I capital

137,595 138,000 139,983 141,011 139,474

Tier I ratio

10.5% 10.8% 10.7% 11.9% 11.3%

Total capital

154,010 153,925 156,401 155,799 154,854

Total capital ratio

11.7% 12.1% 11.9% 13.2% 12.6%

Total risk-adjusted assets

1,311,849 1,272,335 1,312,414 1,181,029 1,228,918

Tier I leverage ratio

7.5% 7.7% 8.4% 8.4% 8.3%

Average balance sheet:

Assets

\$1,869,524 \$1,825,714 \$1,770,928 \$1,727,642 \$1,691,123

Earning assets

1,750,900 1,712,604 1,657,438 1,618,286 1,581,704

Loans

1,177,617 1,171,162 1,108,133 1,097,302 1,109,990

Deposits

1,135,681 1,180,609 1,173,188 1,153,065 1,129,829

Shareholders equity

135,254 137,229 136,494 132,734 130,152

Key ratios: (%)

Return on average assets (ROA)

1.85 0.75 1.25 1.01 1.11

Return on average shareholders equity (ROE)

25.61 9.99 16.22 13.12 14.39

Net interest margin

3.33 3.38 3.49 3.69 3.72

Net overhead

(0.12) 1.70 1.33 1.79 1.68

Efficiency ratio

47.48 66.94 56.94 59.49 59.40

Credit quality:

Non-accrual loans

\$12,709 \$13,123 \$12,756 \$6,287 \$5,313

Restructured loans

374 378 259 197 0

90 day past due and accruing

6,623 5,692 6,995 6,011 6,257

Non-performing loans

19,706 19,193 20,010 12,495 11,570

Other real estate owned

1,270 1,371 1,593 1,644 1,423

Non-performing assets

\$20,976 \$20,564 \$21,603 \$14,139 \$12,993

Charge-offs

\$2,213 \$2,558 \$1,116 \$1,625 \$1,285

Recoveries

201 360 176 248 541

Net charge-offs

\$2,012 \$2,198 \$940 \$1,377 \$744

Allowance for loan losses as a percent of period-end loans (%)

1.46 1.51 1.51 1.54 1.52

Net charge-offs (annualized) as a percent of average loans (%)

0.68 0.75 0.34 0.50 0.27

Non-performing loans as a percent of loans

1.62 1.64 1.73 1.14 1.04

Non-performing assets as a percent of assets

1.10 1.09 1.18 0.82 0.77

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Financial Highlights
Year-to-Date Data**

(Dollars in thousands, except per share data)

<u>March 2003</u>	<u>Dec. 2002</u>	<u>Sept. 2002</u>	<u>June 2002</u>	<u>March 2002</u>
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Earnings:

Net interest income	\$14,083	\$56,460	\$42,514	\$28,560	\$14,157
Provision for loan losses	2,173	6,159	3,809	2,236	933
Non-interest income	14,211	22,853	15,539	9,210	5,157
Security gains (losses)	51	592	659	(173)	(173)
Trading account losses	0	(20)	(20)	(20)	(20)
Non-interest expense	13,673	49,496	34,921	23,080	11,797
Federal income taxes	3,838	6,230	5,390	3,225	1,708

Net income
\$8,661 \$18,000 \$14,572 \$9,036 \$4,683

Per share:

Basic earnings

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0.90	1.82	1.47	0.91	0.47
Diluted earnings				
0.89	1.79	1.45	0.90	0.47
Common dividends				
0.19	0.72	0.54	0.36	0.18
Book value				
14.36	13.91	14.14	13.71	12.96
Tangible book value				
11.95	11.69	11.99	11.85	11.11
Market value				
22.15	26.50	26.73	27.30	24.25

Weighted average shares outstanding:

Basic				
9,621,709	9,905,832	9,929,276	9,948,346	9,944,671
Diluted				
9,715,561	10,040,001	10,051,077	10,071,366	10,054,758

Period end balance sheet:

Assets				
\$1,909,027	\$1,894,775	\$1,825,235	\$1,719,744	\$1,684,848
Securities				
539,309	523,669	535,174	448,736	411,897
Total loans				
1,215,481	1,167,791	1,153,581	1,092,398	1,114,314
Allowance for loan losses				
17,756	17,595	17,443	16,810	16,884
Deposits				
1,121,866	1,195,112	1,181,281	1,146,451	1,131,199
Total shareholders equity				
136,369	135,780	139,682	136,293	128,853
Tier I capital				
137,595	138,000	139,983	141,011	139,474
Tier I ratio				
10.5%	10.8%	10.7%	11.9%	11.3%
Total capital				
154,010	153,925	156,401	155,799	154,854
Total capital ratio				
11.7%	12.1%	11.9%	13.2%	12.6%
Total risk-adjusted assets				
1,311,849	1,272,335	1,312,414	1,181,029	1,228,918
Tier I leverage ratio				
7.5%	7.7%	8.4%	8.4%	8.3%

Average balance sheet:

Assets				
\$1,869,524	\$1,754,156	\$1,730,190	\$1,709,483	\$1,691,123
Earning assets				
1,750,900	1,642,907	1,619,420	1,600,096	1,581,704
Loans				
1,177,617	1,121,777	1,105,135	1,103,611	1,109,990
Deposits				
1,135,681	1,159,350	1,152,186	1,141,511	1,129,829
Shareholders equity				
135,254	134,178	133,150	131,450	130,152

Key ratios: (%)

Return on average assets (ROA)				
1.85	1.03	0.84	0.53	0.28
Return on average shareholders equity (ROE)				
25.61	13.42	10.94	6.87	3.60
Net interest margin				

3.33 3.56 3.63 3.70 3.72
Net overhead
(0.12) 1.62 1.60 1.73 1.68
Efficiency ratio
47.48 60.81 58.57 59.44 59.40

Credit quality:

Non-accrual loans
\$12,709 \$13,123 \$12,756 \$6,287 \$5,313
Restructured loans
374 378 259 197 0
90 day past due and accruing
6,623 5,692 6,995 6,011 6,257

Non-performing loans
19,706 19,193 20,010 12,495 11,570
Other real estate owned
1,270 1,371 1,593 1,644 1,423

Non-performing assets
\$20,976 \$20,564 \$21,603 \$14,139 \$12,993

Charge-offs
\$2,213 \$6,584 \$4,026 \$2,910 \$1,285

Recoveries

201 1,325 965 789 541

Net charge-offs

\$2,012 \$5,259 \$3,061 \$2,121 \$744

Allowance for loan losses as a percent of period-end loans (%)

1.46 1.51 1.51 1.54 1.52

Net charge-offs (annualized) as a percent of average loans (%)

0.68 0.47 0.37 0.38 0.27

Non-performing loans as a percent of loans

1.62 1.64 1.73 1.14 1.04

Non-performing assets as a percent of assets

1.10 1.09 1.18 0.82 0.77

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**Second Bancorp Incorporated and Subsidiaries
Consolidated Statements of Income
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(Dollars in thousands, except per share data)

	<u>March 2003</u>	<u>Dec. 2002</u>	<u>Sept. 2002</u>	<u>June 2002</u>	<u>March 2002</u>
<u>INTEREST INCOME</u>					
Loans (including fees):					
Taxable					
\$18,605	\$19,637	\$19,598	\$19,965	\$20,471	
Exempt from federal income taxes					
211	219	227	233	243	
Securities:					
Taxable					
6,234	5,566	5,963	5,797	5,322	
Exempt from federal income taxes					
728	735	722	715	774	
Federal funds sold and other temp. investments					
123	154	324	394	213	
Total interest income					
25,901	26,311	26,834	27,104	27,023	
<u>INTEREST EXPENSE</u>					
Deposits					
5,779	6,771	7,526	7,429	7,674	
Federal funds purchased and securities sold under agreements to repurchase					
581	700	597	636	566	
Note Payable					
63	28	10	0	0	
Other borrowed funds					
3	14	10	2	16	
Federal Home Loan Bank advances					
4,659	4,119	4,003	3,901	3,877	
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust					
733	733	734	733	733	
<hr/>					
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Total interest expense					
11,818	12,365	12,880	12,701	12,866	

Net interest income
 14,083 13,946 13,954 14,403 14,157
 Provision for loan losses
 2,173 2,350 1,573 1,303 933

Net interest income after provision for loan losses
 11,910 11,596 12,381 13,100 13,224

NON-INTEREST INCOME

Service charges on deposit accounts
 1,527 1,587 1,505 1,411 1,320
 Trust fees
 609 637 596 696 786
 Gain on sale of loans
 4,342 5,462 2,421 1,709 1,544
 Trading account losses
 0 0 0 0 (20)
 Security gains (losses)
 51 (67) 832 0 (173)
 Gain on sale of banking centers
 5,619 0 0 0 0
 Other operating income
 2,114 (372) 1,807 237 1,507
 Total non-interest income
 14,262 7,247 7,161 4,053 4,964

NON-INTEREST EXPENSE

Salaries and employee benefits
7,604 7,217 6,494 6,325 6,309

Net occupancy
1,199 1,099 1,119 1,125 1,137

Equipment
1,039 742 931 1,023 1,202

Professional services
767 648 563 443 485

Assessment on deposits and other taxes
392 354 384 330 329

Amortization of intangible assets
118 144 110 111 110

Merger costs
0 10 124 0 0

Banking center reconfiguration
0 2,096 0 0 0

Other operating expenses
2,554 2,265 2,116 1,926 2,225

Total non-interest expense
13,673 14,575 11,841 11,283 11,797

Income before federal income taxes
12,499 4,268 7,701 5,870 6,391

Income tax expense
3,838 840 2,165 1,517 1,708

Income before accounting change
\$8,661 \$3,428 \$5,536 \$4,353 \$4,683

NET INCOME PER COMMON SHARE:

Basic
\$0.90 \$0.35 \$0.56 \$0.44 \$0.47

Diluted
\$0.89 \$0.34 \$0.55 \$0.43 \$0.47

Weighted average common shares outstanding:

Basic
9,621,709 9,835,995 9,876,844 9,958,928 9,944,671

Diluted
9,715,561 9,967,373 9,993,241 10,087,003 10,054,758

Note: Fully taxable equivalent adjustment
\$506 \$514 \$511 \$510 \$548

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Second Bancorp Incorporated and Subsidiaries
Consolidated Statements of Income
Year-to-Date Data (Dollars in thousands, except per share data)

	March 2003	Dec. 2002	Sept. 2002	June 2002	March 2002
<u>INTEREST INCOME</u>					
Loans (including fees):					
Taxable					
\$18,605	\$79,671	\$60,034	\$40,436	\$20,471	
Exempt from federal income taxes					
211	922	703	476	243	
Securities:					
Taxable					
6,234	22,648	17,082	11,119	5,322	
Exempt from federal income taxes					
728	2,946	2,211	1,489	774	
Federal funds sold and other temp. investments					
123	1,085	931	607	213	
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Total interest income					
25,901	107,272	80,961	54,127	27,023	
<u>INTEREST EXPENSE</u>					
Deposits					
5,779	29,400	22,629	15,103	7,674	
Federal funds purchased and securities sold under agreements to repurchase					
581	2,499	1,799	1,202	566	
Note Payable					
63	38	10	0	0	
Other borrowed funds					
3	42	28	18	16	
Federal Home Loan Bank advances					
4,659	15,900	11,781	7,778	3,877	
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust					
733	2,933	2,200	1,466	733	

Total interest expense
11,818 50,812 38,447 25,567 12,866

Net interest income
14,083 56,460 42,514 28,560 14,157
Provision for loan losses
2,173 6,159 3,809 2,236 933

Net interest income after provision for loan losses
11,910 50,301 38,705 26,324 13,224

NON-INTEREST INCOME

Service charges on deposit accounts
1,527 5,823 4,236 2,731 1,320
Trust fees
609 2,715 2,078