

SECOND BANCORP INC

Form 8-K

July 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: July 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 July 17, 2003, the Company issued the following press release:

**SECOND BANCORP REPORTS SECOND QUARTER EARNINGS
UP 25% OVER A YEAR AGO**

Warren, Ohio, July 17, 2003 SECOND BANCORP INCORPORATED (Nasdaq SECD , SECDP) reported consolidated net income for second quarter 2003 of \$5,438,000, a 25% increase over the \$4,353,000 reported for the same period last year. Year-to-date earnings were \$14,099,000, 56% above the \$9,036,000 reported for the first half of 2002. On a per share basis, diluted earnings for the just completed quarter were \$.57 or 33% above the \$.43 reported for the year-ago quarter. Earnings per share for the first two quarters of the year reached \$1.46, a 62% improvement over the \$.90 reported for the same period last year. Year-to-date 2003 earnings include a one time \$3.65 million (or \$.38 diluted per share) after-tax gain on the sale of two banking centers completed during the first quarter.

The Company's key ratios for the quarter and for the first half of 2003 were similarly improved over last year. Returns on average assets (ROA) for the quarter and year-to-date were 1.14% and 1.49% respectively compared to 1.01% and 1.06% a year ago. Returns on average equity (ROE) also strengthened to 15.62% for the quarter and 20.54% year-to-date compared to 13.12% and 13.75% respectively last year. The Company's efficiency ratio for the quarter was 56.10% and 51.48% for the first six months of the year compared to the 59.49% and 59.44% reported for the respective year-ago periods. Historically low interest rates continued to pressure Second Bancorp's net interest margin which was 3.19% for the quarter and 3.26% for the first half of 2003. The margin for the same periods last year was 3.69% and 3.70%.

Non-interest income for the quarter was \$10.70 million, 164% above the \$4.05 million reported last year. Leading that strong performance was \$6.31 million in gains on sale of loans reflecting secondary market activity in the Company's mortgage lending line of business, \$4.60 million more than was generated in second quarter 2002. Non-interest income was similarly improved

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for the year's first two quarters reaching \$24.96 million (including the above mentioned gain on sale of two banking centers) compared to \$9.02 million for the same period last year.

Non-interest expenses for the quarter were \$14.02 million, up from \$11.28 million a year ago. The quarter-over-quarter increase was led by salaries and benefits which grew \$1.32 million primarily reflecting higher pension costs, incentive compensation payouts and additions to staff associated with acquisition activity and growth in the Company's mortgage business.

President and Chief Executive Officer Rick L. Blossom stated "Strategic decisions made several years ago have allowed us to maintain earnings growth at an attractive rate despite persistent margin compression and a slow economy. Aggressive expansion of our mortgage lending business as interest rates fell and the sale of a large percentage of our loan production into the secondary market allowed us to claim a growing share of the booming home finance market without burdening our balance sheet with long-term, fixed-rate loans. As interest rates return to more normal levels and mortgage activity moderates, the profitability of our traditional lending businesses will benefit from expanding margins and, along with our ongoing migration into higher growth markets, will be a driver of future earnings."

Credit quality was stable during the second quarter. Period-end non-performing loans, however, remained at elevated levels generally reflecting economic conditions and the impact of two non-performing commercial credits aggregating \$7.2 million in outstandings. John L. Falatok, Senior Vice President and Chief Lending Officer of subsidiary Second National Bank indicated "The referenced credits, first identified and reserved during last year's third quarter, are substantially secured and covered by surety bonds issued by several well capitalized insurance companies. Collection of those loans has been delayed by pending litigation and bankruptcy proceedings but we continue to believe that additional charges to our loan loss reserve resulting from these loans will be minimal. Quarter-end non-accrual and 90-days past due but accruing loans were \$12.24 million and \$7.23 million respectively compared to \$6.29 million and \$6.01 for the same periods last year. Net loan charge-offs for the quarter were \$2.58 million compared to the \$1.38 million taken during second quarter 2002. Falatok further stated "The half million dollar increase in net charge-offs from first quarter levels was the result of the deterioration of a small group of seasoned commercial loans. We believe this quarter-over-quarter result is an anomaly and that net charge-offs levels will generally trend downward during foreseeable reporting periods. The Company's loan loss reserve at the end of the quarter was 1.50% of period-end loans, down slightly from the 1.54% reported a year earlier while non-performing loans as a percentage of total loans has largely stabilized over the last four quarters."

The Company also reported that its Board of Directors declared a nineteen cent (\$.19) per share common dividend payable July 31, 2003 to shareholders of record on July 15. That dividend is unchanged from the first quarter of the year and is 5.6% higher than the dividend paid for the second quarter last year.

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, General Counsel and Secretary, at 330.841.0234 (phone), 330.841.0489 (fax), or estanitz@secondnationalbank.com.

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Financial Highlights****Quarterly Data**

(Dollars in thousands, except per share data)

| | June 2003 | March 2003 | Dec. 2002 | Sept. 2002 | June 2002 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Earnings: | | | | | |
| Net interest income | \$ 13,790 | \$ 14,083 | \$ 13,946 | \$ 13,954 | \$ 14,403 |
| Provision for loan losses | 2,855 | 2,173 | 2,350 | 1,573 | 1,303 |
| Non-interest income | 10,700 | 14,211 | 7,314 | 6,329 | 4,053 |
| Security gains (losses) | 0 | 51 | (67) | 832 | 0 |
| Trading account losses | 0 | 0 | 0 | 0 | 0 |
| Non-interest expense | 14,016 | 13,673 | 14,575 | 11,841 | 11,283 |
| Federal income taxes | 2,181 | 3,838 | 840 | 2,165 | 1,517 |
| Net income | \$ 5,438 | \$ 8,661 | \$ 3,428 | \$ 5,536 | \$ 4,353 |
| Per share: | | | | | |
| Basic earnings | 0.57 | 0.90 | 0.35 | 0.56 | 0.44 |
| Diluted earnings | 0.57 | 0.89 | 0.34 | 0.55 | 0.43 |
| Common dividends | 0.19 | 0.19 | 0.18 | 0.18 | 0.18 |
| Book value | 14.81 | 14.36 | 13.97 | 14.14 | 13.71 |
| Tangible book value | 12.40 | 11.95 | 11.75 | 11.99 | 11.85 |
| Market value | 25.80 | 22.15 | 26.50 | 26.73 | 27.30 |
| Weighted average shares outstanding: | | | | | |
| Basic | 9,468,639 | 9,621,709 | 9,835,995 | 9,876,844 | 9,958,928 |
| Diluted | 9,558,994 | 9,715,561 | 9,967,373 | 9,993,241 | 10,087,003 |
| Period end balance sheet: | | | | | |
| Assets | \$ 1,926,233 | \$ 1,909,027 | \$ 1,894,775 | \$ 1,825,235 | \$ 1,719,744 |
| Securities | 556,434 | 539,309 | 523,669 | 535,174 | 448,736 |
| Total loans | 1,199,630 | 1,215,481 | 1,167,791 | 1,153,581 | 1,092,398 |
| Allowance for loan losses | 18,030 | 17,756 | 17,595 | 17,443 | 16,810 |
| Deposits | 1,172,816 | 1,121,866 | 1,195,112 | 1,181,281 | 1,146,451 |
| Total shareholders equity | 140,215 | 136,369 | 136,334 | 139,682 | 136,293 |
| Tier I capital | 140,335 | 137,595 | 138,000 | 139,983 | 141,011 |
| Tier I ratio | 10.8% | 10.5% | 10.8% | 10.7% | 11.9% |
| Total capital | 156,613 | 154,010 | 153,925 | 156,401 | 155,799 |
| Total capital ratio | 12.0% | 11.7% | 12.1% | 11.9% | 13.2% |
| Total risk-adjusted assets | 1,300,512 | 1,311,849 | 1,272,335 | 1,312,414 | 1,181,029 |
| Tier I leverage ratio | 7.6% | 7.5% | 7.7% | 8.4% | 8.4% |
| Average balance sheet: | | | | | |
| Assets | \$ 1,908,978 | \$ 1,869,524 | \$ 1,825,714 | \$ 1,770,928 | \$ 1,727,642 |
| Earning assets | 1,789,611 | 1,750,900 | 1,712,604 | 1,657,438 | 1,618,286 |
| Loans | 1,197,300 | 1,177,617 | 1,171,162 | 1,108,133 | 1,097,302 |
| Deposits | 1,159,719 | 1,135,681 | 1,180,609 | 1,173,188 | 1,153,065 |
| Shareholders equity | 139,269 | 135,254 | 137,229 | 136,494 | 132,734 |
| Key ratios: (%) | | | | | |
| Return on average assets (ROA) | 1.14 | 1.85 | 0.75 | 1.25 | 1.01 |
| Return on average shareholders equity (ROE) | 15.62 | 25.61 | 9.99 | 16.22 | 13.12 |

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| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Net interest margin | 3.19 | 3.33 | 3.38 | 3.49 | 3.69 |
| Net overhead | 0.74 | (0.12) | 1.70 | 1.33 | 1.79 |
| Efficiency ratio | 56.10 | 47.48 | 66.94 | 56.94 | 59.49 |
| Credit quality: | | | | | |
| Non-accrual loans | \$ 12,238 | \$ 12,709 | \$ 13,123 | \$ 12,756 | \$ 6,287 |
| Restructured loans | 340 | 374 | 378 | 259 | 197 |
| 90 day past due and accruing | 7,231 | 6,623 | 5,692 | 6,995 | 6,011 |
| <hr/> | | | | | |
| Non-performing loans | 19,809 | 19,706 | 19,193 | 20,010 | 12,495 |
| Other real estate owned | 621 | 1,270 | 1,371 | 1,593 | 1,644 |
| <hr/> | | | | | |
| Non-performing assets | \$ 20,430 | \$ 20,976 | \$ 20,564 | \$ 21,603 | \$ 14,139 |
| <hr/> | | | | | |
| Charge-offs | \$ 2,721 | \$ 2,213 | \$ 2,558 | \$ 1,116 | \$ 1,625 |
| Recoveries | 139 | 201 | 360 | 176 | 248 |
| <hr/> | | | | | |
| Net charge-offs | \$ 2,582 | \$ 2,012 | \$ 2,198 | \$ 940 | \$ 1,377 |
| <hr/> | | | | | |
| Allowance for loan losses as a percent of period-end loans (%) | 1.50 | 1.46 | 1.51 | 1.51 | 1.54 |
| Net charge-offs (annualized) as a percent of average loans (%) | 0.86 | 0.68 | 0.75 | 0.34 | 0.50 |
| Non-performing loans as a percent of loans | 1.65 | 1.62 | 1.64 | 1.73 | 1.14 |
| Non-performing assets as a percent of assets | 1.06 | 1.10 | 1.09 | 1.18 | 0.82 |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Financial Highlights****Year-to-Date Data**

(Dollars in thousands, except per share data)

| | June 2003 | March 2003 | Dec. 2002 | Sept. 2002 | June 2002 |
|---|------------------|-----------------|------------------|------------------|-----------------|
| Earnings: | | | | | |
| Net interest income | \$ 27,873 | \$ 14,083 | \$ 56,460 | \$ 42,514 | \$ 28,560 |
| Provision for loan losses | 5,028 | 2,173 | 6,159 | 3,809 | 2,236 |
| Non-interest income | 24,911 | 14,211 | 22,853 | 15,539 | 9,210 |
| Security gains (losses) | 51 | 51 | 592 | 659 | (173) |
| Trading account losses | 0 | 0 | (20) | (20) | (20) |
| Non-interest expense | 27,689 | 13,673 | 49,496 | 34,921 | 23,080 |
| Federal income taxes | 6,019 | 3,838 | 6,230 | 5,390 | 3,225 |
| Net income | \$ 14,099 | \$ 8,661 | \$ 18,000 | \$ 14,572 | \$ 9,036 |
| Per share: | | | | | |
| Basic earnings | 1.48 | 0.90 | 1.82 | 1.47 | 0.91 |
| Diluted earnings | 1.46 | 0.89 | 1.79 | 1.45 | 0.90 |
| Common dividends | 0.38 | 0.19 | 0.72 | 0.54 | 0.36 |
| Book value | 14.81 | 14.36 | 13.97 | 14.14 | 13.71 |
| Tangible book value | 12.40 | 11.95 | 11.75 | 11.99 | 11.85 |
| Market value | 25.80 | 22.15 | 26.50 | 26.73 | 27.30 |
| Weighted average shares outstanding: | | | | | |
| Basic | 9,552,569 | 9,621,709 | 9,905,832 | 9,929,276 | 9,948,346 |
| Diluted | 9,645,041 | 9,715,561 | 10,040,001 | 10,051,077 | 10,071,366 |
| Period end balance sheet: | | | | | |
| Assets | \$ 1,926,233 | \$ 1,909,027 | \$ 1,894,775 | \$ 1,825,235 | \$ 1,719,744 |
| Securities | 556,434 | 539,309 | 523,669 | 535,174 | 448,736 |
| Total loans | 1,199,630 | 1,215,481 | 1,167,791 | 1,153,581 | 1,092,398 |
| Allowance for loan losses | 18,030 | 17,756 | 17,595 | 17,443 | 16,810 |
| Deposits | 1,172,816 | 1,121,866 | 1,195,112 | 1,181,281 | 1,146,451 |
| Total shareholders equity | 140,215 | 136,369 | 136,334 | 139,682 | 136,293 |
| Tier I capital | 140,335 | 137,595 | 138,000 | 139,983 | 141,011 |
| Tier I ratio | 10.8% | 10.5% | 10.8% | 10.7% | 11.9% |
| Total capital | 156,613 | 154,010 | 153,925 | 156,401 | 155,799 |
| Total capital ratio | 12.0% | 11.7% | 12.1% | 11.9% | 13.2% |
| Total risk-adjusted assets | 1,300,512 | 1,311,849 | 1,272,335 | 1,312,414 | 1,181,029 |
| Tier I leverage ratio | 7.6% | 7.5% | 7.7% | 8.4% | 8.4% |
| Average balance sheet: | | | | | |
| Assets | \$ 1,889,360 | \$ 1,869,524 | \$ 1,754,156 | \$ 1,730,190 | \$ 1,709,483 |
| Earning assets | 1,770,363 | 1,750,900 | 1,642,907 | 1,619,420 | 1,600,096 |
| Loans | 1,187,513 | 1,177,617 | 1,121,777 | 1,105,135 | 1,103,611 |
| Deposits | 1,147,766 | 1,135,681 | 1,159,350 | 1,152,186 | 1,141,511 |
| Shareholders equity | 137,273 | 135,254 | 134,178 | 133,150 | 131,450 |
| Key ratios: (%) | | | | | |
| Return on average assets (ROA) | 1.49 | 1.85 | 1.03 | 1.12 | 1.06 |
| | 20.54 | 25.61 | 13.42 | 14.59 | 13.75 |

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| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Return on average shareholders' equity (ROE) | | | | | |
| Net interest margin | 3.26 | 3.33 | 3.56 | 3.63 | 3.70 |
| Net overhead | 0.31 | (0.12) | 1.62 | 1.60 | 1.73 |
| Efficiency ratio | 51.48 | 47.48 | 60.81 | 58.57 | 59.44 |
| Credit quality: | | | | | |
| Non-accrual loans | \$ 12,238 | \$ 12,709 | \$ 13,123 | \$ 12,756 | \$ 6,287 |
| Restructured loans | 340 | 374 | 378 | 259 | 197 |
| 90 day past due and accruing | 7,231 | 6,623 | 5,692 | 6,995 | 6,011 |
| <hr/> | | | | | |
| Non-performing loans | 19,809 | 19,706 | 19,193 | 20,010 | 12,495 |
| Other real estate owned | 621 | 1,270 | 1,371 | 1,593 | 1,644 |
| <hr/> | | | | | |
| Non-performing assets | \$ 20,430 | \$ 20,976 | \$ 20,564 | \$ 21,603 | \$ 14,139 |
| <hr/> | | | | | |
| Charge-offs | \$ 4,934 | \$ 2,213 | \$ 6,584 | \$ 4,026 | \$ 2,910 |
| Recoveries | 340 | 201 | 1,325 | 965 | 789 |
| <hr/> | | | | | |
| Net charge-offs | \$ 4,594 | \$ 2,012 | \$ 5,259 | \$ 3,061 | \$ 2,121 |
| <hr/> | | | | | |
| Allowance for loan losses as a percent of period-end loans (%) | 1.50 | 1.46 | 1.51 | 1.51 | 1.54 |
| Net charge-offs (annualized) as a percent of average loans (%) | 0.77 | 0.68 | 0.47 | 0.37 | 0.38 |
| Non-performing loans as a percent of loans | 1.65 | 1.62 | 1.64 | 1.73 | 1.14 |
| Non-performing assets as a percent of assets | 1.06 | 1.10 | 1.09 | 1.18 | 0.82 |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Statements of Income****Quarterly Data**

(Dollars in thousands, except per share data)

| | June 2003 | March 2003 | Dec. 2002 | Sept. 2002 | June 2002 |
|---|-----------|------------|-----------|------------|-----------|
| INTEREST INCOME | | | | | |
| Loans (including fees): | | | | | |
| Taxable | \$ 18,814 | \$ 18,605 | \$ 19,637 | \$ 19,598 | \$ 19,965 |
| Exempt from federal income taxes | 206 | 211 | 219 | 227 | 233 |
| Securities: | | | | | |
| Taxable | 5,518 | 6,234 | 5,566 | 5,963 | 5,797 |
| Exempt from federal income taxes | 714 | 728 | 735 | 722 | 715 |
| Federal funds sold and other temp. investments | 136 | 123 | 154 | 324 | 394 |
| Total interest income | 25,388 | 25,901 | 26,311 | 26,834 | 27,104 |
| INTEREST EXPENSE | | | | | |
| Deposits | 5,563 | 5,779 | 6,771 | 7,526 | 7,429 |
| Federal funds purchased and securities sold under agreements to repurchase | 596 | 581 | 700 | 597 | 636 |
| Note Payable | 54 | 63 | 28 | 10 | 0 |
| Other borrowed funds | 3 | 3 | 14 | 10 | 2 |
| Federal Home Loan Bank advances | 4,649 | 4,659 | 4,119 | 4,003 | 3,901 |
| Corporation-obligated mandatorily redeemable capital securities of subsidiary trust | 733 | 733 | 733 | 734 | 733 |
| Total interest expense | 11,598 | 11,818 | 12,365 | 12,880 | 12,701 |
| Net interest income | 13,790 | 14,083 | 13,946 | 13,954 | 14,403 |
| Provision for loan losses | 2,855 | 2,173 | 2,350 | 1,573 | 1,303 |
| Net interest income after provision for loan losses | 10,935 | 11,910 | 11,596 | 12,381 | 13,100 |
| NON-INTEREST INCOME | | | | | |
| Gain on sale of loans | 6,310 | 4,342 | 5,462 | 2,421 | 1,709 |
| Service charges on deposit accounts | 1,555 | 1,527 | 1,587 | 1,505 | 1,411 |
| Trust fees | 563 | 609 | 637 | 596 | 696 |
| Trading account losses | 0 | 0 | 0 | 0 | 0 |
| Security gains (losses) | 0 | 51 | (67) | 832 | 0 |
| Gain on sale of banking centers | 0 | 5,619 | 0 | 0 | 0 |
| Other operating income | 2,272 | 2,114 | (372) | 1,807 | 237 |
| Total non-interest income | 10,700 | 14,262 | 7,247 | 7,161 | 4,053 |
| NON-INTEREST EXPENSE | | | | | |

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|---|---------------|---------------|---------------|---------------|---------------|
| Salaries and employee benefits | 7,642 | 7,604 | 7,217 | 6,494 | 6,325 |
| Net occupancy | 1,125 | 1,199 | 1,099 | 1,119 | 1,125 |
| Equipment | 1,059 | 1,039 | 742 | 931 | 1,023 |
| Professional services | 1,138 | 767 | 648 | 563 | 443 |
| Assessment on deposits and other taxes | 388 | 392 | 354 | 384 | 330 |
| Amortization of intangible assets | 112 | 118 | 144 | 110 | 111 |
| Merger costs | 0 | 0 | 10 | 124 | 0 |
| Banking center reconfiguration | 0 | 0 | 2,096 | 0 | 0 |
| Other operating expenses | 2,552 | 2,554 | 2,265 | 2,116 | 1,926 |
| Total non-interest expense | 14,016 | 13,673 | 14,575 | 11,841 | 11,283 |
| Income before federal income taxes | 7,619 | 12,499 | 4,268 | 7,701 | 5,870 |
| Income tax expense | 2,181 | 3,838 | 840 | 2,165 | 1,517 |
| Income before accounting change | \$ 5,438 | \$ 8,661 | \$ 3,428 | \$ 5,536 | \$ 4,353 |
| NET INCOME PER COMMON SHARE: | | | | | |
| Basic | \$ 0.57 | \$ 0.90 | \$ 0.35 | \$ 0.56 | \$ 0.44 |
| Diluted | \$ 0.57 | \$ 0.89 | \$ 0.34 | \$ 0.55 | \$ 0.43 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 9,468,639 | 9,621,709 | 9,835,995 | 9,876,844 | 9,958,928 |
| Diluted | 9,558,994 | 9,715,561 | 9,967,373 | 9,993,241 | 10,087,003 |
| Note: Fully taxable equivalent adjustment | \$ 495 | \$ 506 | \$ 514 | \$ 511 | \$ 510 |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Statements of Income****Year-to-Date Data**

(Dollars in thousands, except per share data)

| | June 2003 | March 2003 | Dec. 2002 | Sept. 2002 | June 2002 |
|---|---------------|---------------|----------------|---------------|---------------|
| INTEREST INCOME | | | | | |
| Loans (including fees): | | | | | |
| Taxable | \$ 37,419 | \$ 18,605 | \$ 79,671 | \$ 60,034 | \$ 40,436 |
| Exempt from federal income taxes | 417 | 211 | 922 | 703 | 476 |
| Securities: | | | | | |
| Taxable | 11,752 | 6,234 | 22,648 | 17,082 | 11,119 |
| Exempt from federal income taxes | 1,442 | 728 | 2,946 | 2,211 | 1,489 |
| Federal funds sold and other temp. investments | 259 | 123 | 1,085 | 931 | 607 |
| Total interest income | 51,289 | 25,901 | 107,272 | 80,961 | 54,127 |
| INTEREST EXPENSE | | | | | |
| Deposits | 11,342 | 5,779 | 29,400 | 22,629 | 15,103 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,177 | 581 | 2,499 | 1,799 | 1,202 |
| Note Payable | 117 | 63 | 38 | 10 | 0 |
| Other borrowed funds | 6 | 3 | 42 | 28 | 18 |
| Federal Home Loan Bank advances | 9,308 | 4,659 | 15,900 | 11,781 | 7,778 |
| Corporation-obligated mandatorily redeemable capital securities of subsidiary trust | 1,466 | 733 | 2,933 | 2,200 | 1,466 |
| Total interest expense | 23,416 | 11,818 | 50,812 | 38,447 | 25,567 |
| Net interest income | 27,873 | 14,083 | 56,460 | 42,514 | 28,560 |
| Provision for loan losses | 5,028 | 2,173 | 6,159 | 3,809 | 2,236 |
| Net interest income after provision for loan losses | 22,845 | 11,910 | 50,301 | 38,705 | 26,324 |
| NON-INTEREST INCOME | | | | | |
| Gain on sale of loans | 10,652 | 4,342 | 11,136 | 5,674 | 3,253 |
| Service charges on deposit accounts | 3,082 | 1,527 | 5,823 | 4,236 | 2,731 |
| Trust fees | 1,172 | 609 | 2,715 | 2,078 | 1,482 |
| Trading account losses | 0 | 0 | (20) | (20) | (20) |
| Security gains (losses) | 51 | 51 | 592 | 659 | (173) |
| Gain on sale of banking centers | 5,619 | 5,619 | 0 | 0 | 0 |
| Other operating income | 4,386 | 2,114 | 3,179 | 3,551 | 1,744 |

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|--|-----------|-----------|------------|------------|------------|
| Total non-interest income | 24,962 | 14,262 | 23,425 | 16,178 | 9,017 |
| NON-INTEREST EXPENSE | | | | | |
| Salaries and employee benefits | 15,246 | 7,604 | 26,345 | 19,128 | 12,634 |
| Net occupancy | 2,324 | 1,199 | 4,480 | 3,381 | 2,262 |
| Equipment | 2,098 | 1,039 | 3,898 | 3,156 | 2,225 |
| Professional services | 1,905 | 767 | 2,139 | 1,491 | 928 |
| Assessment on deposits and other taxes | 780 | 392 | 1,397 | 1,043 | 659 |
| Amortization of intangible assets | 230 | 118 | 475 | 331 | 221 |
| Merger costs | 0 | 0 | 134 | 124 | 0 |
| Banking center reconfiguration | 0 | 0 | 2,096 | 0 | 0 |
| Other operating expenses | 5,106 | 2,554 | 8,532 | 6,267 | 4,151 |
| Total non-interest expense | 27,689 | 13,673 | 49,496 | 34,921 | 23,080 |
| Income before federal income taxes | 20,118 | 12,499 | 24,230 | 19,962 | 12,261 |
| Income tax expense | 6,019 | 3,838 | 6,230 | 5,390 | 3,225 |
| Net income | \$ 14,099 | \$ 8,661 | \$ 18,000 | \$ 14,572 | \$ 9,036 |
| NET INCOME PER COMMON SHARE: | | | | | |
| Basic | \$ 1.48 | \$ 0.90 | \$ 1.82 | \$ 1.47 | \$ 0.91 |
| Diluted | \$ 1.46 | \$ 0.89 | \$ 1.79 | \$ 1.45 | \$ 0.90 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 9,552,569 | 9,621,709 | 9,905,832 | 9,929,276 | 9,948,346 |
| Diluted | 9,645,041 | 9,715,561 | 10,040,001 | 10,051,077 | 10,071,366 |
| Note: Fully taxable equivalent adjustment | \$ 1,001 | \$ 506 | \$ 2,083 | \$ 1,569 | \$ 1,058 |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Balance Sheets**

(Dollars in thousands)

| | June 30 | March 31 | Dec. 31 | Sept. 30 | June 30 |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2003 | 2003 | 2002 | 2002 | 2002 |
| ASSETS | | | | | |
| Cash and due from banks | \$ 42,194 | \$ 43,334 | \$ 60,822 | \$ 40,815 | \$ 36,230 |
| Federal funds sold and other temp. investments | 44,505 | 29,523 | 61,449 | 15,033 | 64,194 |
| Securities available-for-sale (at market value) | 556,434 | 539,309 | 523,669 | 535,174 | 448,736 |
| Loans: | | | | | |
| Commercial | 571,788 | 558,499 | 542,693 | 520,175 | 485,652 |
| Consumer | 339,723 | 325,819 | 322,840 | 325,088 | 333,178 |
| Real estate | 288,119 | 331,163 | 302,258 | 308,318 | 273,568 |
| Total loans | 1,199,630 | 1,215,481 | 1,167,791 | 1,153,581 | 1,092,398 |
| Less allowance for loan losses | 18,030 | 17,756 | 17,595 | 17,443 | 16,810 |
| Net loans | 1,181,600 | 1,197,725 | 1,150,196 | 1,136,138 | 1,075,588 |
| Premises and equipment | 17,048 | 16,125 | 16,632 | 16,333 | 16,592 |
| Accrued interest receivable | 8,289 | 9,414 | 8,762 | 9,582 | 8,724 |
| Goodwill and intangible assets | 20,230 | 20,343 | 20,422 | 20,224 | 17,636 |
| Servicing assets | 14,880 | 13,743 | 12,403 | 10,961 | 10,779 |
| Other assets | 41,053 | 39,511 | 40,420 | 40,975 | 41,265 |
| Total assets | \$ 1,926,233 | \$ 1,909,027 | \$ 1,894,775 | \$ 1,825,235 | \$ 1,719,744 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Deposits: | | | | | |
| Demand non-interest bearing | \$ 155,285 | \$ 155,892 | \$ 179,714 | \$ 153,341 | \$ 145,006 |
| Demand interest bearing | 204,430 | 147,747 | 103,583 | 98,359 | 98,893 |
| Savings | 347,722 | 363,443 | 405,437 | 410,322 | 394,907 |
| Time deposits | 465,379 | 454,784 | 506,378 | 519,259 | 507,645 |
| Total deposits | 1,172,816 | 1,121,866 | 1,195,112 | 1,181,281 | 1,146,451 |
| Federal funds purchased and securities sold | | | | | |
| under agreements to repurchase | 175,011 | 206,069 | 138,796 | 166,532 | 119,867 |
| Note payable | 7,750 | 14,000 | 7,000 | 3,000 | 0 |
| Other borrowed funds | 1,219 | 155 | 3,863 | 3,788 | 4,249 |
| Accrued expenses and other liabilities | 19,612 | 20,089 | 17,331 | 14,583 | 10,486 |
| Federal Home Loan Bank advances | 379,089 | 379,971 | 365,844 | 285,887 | 271,930 |
| Corporation-obligated mandatorily redeemable capital securities of subsidiary trust | 30,521 | 30,508 | 30,495 | 30,482 | 30,468 |

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| | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Total liabilities | 1,786,018 | 1,772,658 | 1,758,441 | 1,685,553 | 1,583,451 |
| Shareholders' equity: | | | | | |
| Common stock, no par value; 30,000,000 shares authorized; | 41,750 | 41,745 | 41,763 | 40,994 | 38,822 |
| Treasury stock | (34,771) | (33,740) | (27,180) | (23,631) | (19,462) |
| Other comprehensive income | 7,642 | 6,410 | 6,656 | 8,894 | 7,265 |
| Retained earnings | 125,594 | 121,954 | 115,095 | 113,425 | 109,668 |
| Total shareholders' equity | 140,215 | 136,369 | 136,334 | 139,682 | 136,293 |
| Total liabilities and shareholders' equity | \$ 1,926,233 | \$ 1,909,027 | \$ 1,894,775 | \$ 1,825,235 | \$ 1,719,744 |
| Miscellaneous data: | | | | | |
| Common shares issued | 11,055,123 | 11,041,083 | 11,041,263 | 11,024,693 | 10,932,360 |
| Treasury shares | 1,586,484 | 1,542,784 | 1,279,009 | 1,147,849 | 991,589 |
| Bank owned life insurance (in other assets) | \$ 33,769 | \$ 33,489 | \$ 33,086 | \$ 32,677 | \$ 32,268 |
| Loans serviced for others | \$ 1,631,790 | \$ 1,463,926 | \$ 1,320,316 | \$ 1,121,372 | \$ 1,047,988 |
| Goodwill | \$ 16,647 | \$ 16,647 | \$ 16,708 | \$ 17,344 | \$ 14,645 |
| Other intangibles | 3,583 | 3,696 | 3,714 | 2,880 | 2,991 |
| Total goodwill and intangible assets | \$ 20,230 | \$ 20,343 | \$ 20,422 | \$ 20,224 | \$ 17,636 |
| Mortgage servicing rights (net of allowance) | \$ 14,429 | \$ 13,299 | \$ 11,967 | \$ 10,516 | \$ 10,323 |
| Other servicing assets | 451 | 444 | 436 | 445 | 456 |
| | \$ 14,880 | \$ 13,743 | \$ 12,403 | \$ 10,961 | \$ 10,779 |
| Valuation allowance for mortgage servicing rights included above | \$ (6,304) | \$ (4,783) | \$ (3,794) | \$ (3,087) | \$ (2,285) |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Average Balance Sheets****For the Quarter Ended**

(Dollars in Thousands)

| ASSETS | June 2003 | March 2003 | Dec. 2002 | Sept. 2002 | June 2002 |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash and demand balances due from banks | \$ 37,686 | \$ 38,392 | \$ 35,454 | \$ 35,266 | \$ 32,510 |
| Federal funds sold and other temp. investments | 50,390 | 44,849 | 47,197 | 80,102 | 94,687 |
| Securities: | | | | | |
| Trading | 0 | 0 | 0 | 0 | 0 |
| Available-for-sale | 541,921 | 528,434 | 494,245 | 469,203 | 426,297 |
| Total securities | 541,921 | 528,434 | 494,245 | 469,203 | 426,297 |
| Loans: | | | | | |
| Commercial | 562,499 | 551,882 | 533,996 | 507,412 | 510,444 |
| Consumer | 336,303 | 324,729 | 323,939 | 319,482 | 308,804 |
| Real estate | 298,498 | 301,006 | 313,227 | 281,239 | 278,054 |
| Total loans | 1,197,300 | 1,177,617 | 1,171,162 | 1,108,133 | 1,097,302 |
| Allowance for loan losses | 17,787 | 17,566 | 17,345 | 16,904 | 16,830 |
| Net loans | 1,179,513 | 1,160,051 | 1,153,817 | 1,091,229 | 1,080,472 |
| Premises and equipment | 16,828 | 16,508 | 16,611 | 16,497 | 16,849 |
| Goodwill and intangible assets | 20,282 | 20,461 | 19,676 | 19,400 | 18,435 |
| Servicing assets | 14,859 | 13,310 | 11,832 | 10,184 | 10,672 |
| Other | 47,499 | 47,519 | 46,882 | 48,609 | 47,720 |
| Total assets | \$ 1,908,978 | \$ 1,869,524 | \$ 1,825,714 | \$ 1,770,490 | \$ 1,727,642 |

LIABILITIES AND SHAREHOLDERS EQUITY

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Liabilities: | | | | | |
| Demand deposits (non-interest bearing) | \$ 159,636 | \$ 153,223 | \$ 156,607 | \$ 145,177 | \$ 145,418 |
| Demand deposits (interest bearing) | 183,323 | 117,469 | 100,240 | 105,903 | 98,924 |
| Savings | 356,281 | 382,673 | 411,109 | 405,813 | 370,748 |
| Time deposits | 460,479 | 482,316 | 512,653 | 516,295 | 537,975 |
| Total deposits | 1,159,719 | 1,135,681 | 1,180,609 | 1,173,188 | 1,153,065 |
| Federal funds purchased and securities sold under agreements to repurchase | 178,618 | 164,329 | 165,504 | 135,611 | |