

SECOND BANCORP INC

Form 8-K

May 03, 2004

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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: May 3, 2004

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

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Item 5. Other Events

On April 29, 2004, the Company issued the following press release:

**SECOND BANCORP REPORTS
FIRST QUARTER 2004 EARNINGS**

Warren, Ohio, April 29, 2004 SECOND BANCORP INCORPORATED (Nasdaq SECD , SECDP) reported net income for first quarter 2004 of \$2,767,000 or \$.29 per diluted share compared to \$8,661,000 or \$.89 per diluted share for the same period last year. Earnings for first quarter 2004 were adversely affected by \$1,138,000 in non-recurring expenses associated with Second Bancorp's pending merger with Sky Financial Group, Inc. Earnings for last year's first quarter included gains (after tax) of \$3.65 million on the sale of two of subsidiary Second National Bank's banking centers in Jefferson County, Ohio. Absent these items, earnings for the current quarter would have been \$3,812,000 or \$.39 per diluted share, and last year's first quarter would have been \$5,009,000 or \$.52 per diluted share. All results contained in this press release are reported on a GAAP basis unless specifically indicated otherwise.

The Company's return on average assets (ROA) for the just completed quarter was .52% compared to 1.85% (or 1.07% on a non-GAAP basis) for the comparable quarter in 2003. Second Bancorp's return on average equity (ROE) was 7.93% for the quarter compared to 25.61% (or 14.81% on a non-GAAP basis) for the year-ago quarter. Persistently low interest rates continued to compress the Company's net interest margin which was 2.84% for the just completed quarter compared to 3.33% during the same period last year. Lower non-interest income reflected, in part, slowing secondary market activity in our mortgage lending line of business and higher non-interest expenses (including merger costs) produced a 73.95% efficiency ratio for the quarter compared to 47.48% for the same quarter last year.

Second Bancorp President and Chief Executive Officer R. L. (Rick) Blossom stated "Among the many challenges Second Bancorp and Second National Bank face as we move toward completion of the pending merger with Sky Financial Group have been customer retention and continuing business development. Our charge is to deliver to Sky Financial the bargained-for customer base and accompanying earnings potential. With average total loans for the first quarter 1.6% higher

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than for fourth quarter 2003 and average deposits up 4.6% for the same periods, we're satisfied that our dedicated, professional staff continues to focus on those things which have historically created value for our shareholders.

As mentioned, Second Bancorp announced January 8, 2004 that it has entered with Sky Financial Group, Inc. into a definitive merger agreement under which Sky Financial will acquire all of Second Bancorp's outstanding shares in a stock-for-stock transaction. Under the agreement, Second Bancorp's common shareholders will receive 1.26 shares of Sky Financial stock in exchange for each Second Bancorp share. Second Bancorp's special meeting of shareholders for the purpose of considering and approving the merger will be held on May 18, 2004. Shareholders of record on April 5, 2004 are entitled to vote at that meeting. The transaction, subject also to regulatory approvals, is expected to be completed as of the close of business June 30, 2004.

The Company also reported that its Board of Directors declared a nineteen cent (\$.19) per share common dividend payable April 30, 2004 to shareholders of record on April 15. That dividend is unchanged from the previous quarter.

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.

Shareholders are urged to read the joint proxy statement/prospectus regarding the referenced proposed transaction filed by Sky Financial Group, Inc. and Second Bancorp Incorporated filed with the SEC because it will contain important information. Shareholders and interested parties can obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Sky Financial and Second Bancorp, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that are incorporated by reference in the joint proxy statement/prospectus also can be obtained, without charge, by directing a request to Sky Financial Group, Inc., 221 South Church Street, Bowling Green, Ohio 43402, Attention: Shareholder Relations (800-576-5007), or to Second Bancorp Incorporated, 108 Main Avenue, S.W., Warren, Ohio 44481, Attention: Executive Vice President and Secretary (330-841-0234).

Second Bancorp and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of Second Bancorp in connection with the proposed merger transaction. Information about the directors and executive officers of Second Bancorp is available in its proxy statement filed with the SEC on March 5, 2003. Additional information regarding the participants in the proxy solicitation and a description of their direct and indirect interests will be contained in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available. This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities.

Second Bancorp is a \$2.1 billion financial holding company providing a full range of commercial and consumer banking, wealth management, insurance and investment products and services to communities in a nine county area of Northeastern Ohio through subsidiaries Second National Bank and Stouffer-Herzog Insurance Agency, Inc.

Additional information about Second Bancorp and information about products and services offered by Second National Bank can be found on the Web at www.secondnationalbank.com.

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

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Second Bancorp Incorporated and Subsidiaries
Financial Highlights
Quarterly Data

(Dollars in thousands, except per share data)

| | March 2004 | Dec. 2003 | Sept. 2003 | June 2003 | March 2003 |
|---|-------------------|------------------|-------------------|------------------|-------------------|
| Earnings: | | | | | |
| Net interest income | \$ 13,558 | \$ 14,181 | \$ 13,817 | \$ 13,790 | \$ 14,083 |
| Provision for loan losses | 1,350 | 1,486 | 1,096 | 2,855 | 2,173 |
| Non-interest income | 6,061 | 5,581 | 3,491 | 10,700 | 14,211 |
| Security gains | 498 | 967 | 3,566 | 0 | 51 |
| Non-interest expense | 14,849 | 13,998 | 13,076 | 14,016 | 13,673 |
| Federal income taxes | 1,151 | 1,096 | 1,795 | 2,181 | 3,838 |
| Net income | \$ 2,767 | \$ 4,149 | \$ 4,907 | \$ 5,438 | \$ 8,661 |
| Per share: | | | | | |
| Basic earnings | 0.29 | 0.44 | 0.52 | 0.57 | 0.90 |
| Diluted earnings | 0.29 | 0.43 | 0.51 | 0.57 | 0.89 |
| Common dividends | 0.19 | 0.19 | 0.19 | 0.19 | 0.19 |
| Book value | 15.10 | 14.47 | 14.34 | 14.81 | 14.36 |
| Tangible book value | 12.82 | 12.17 | 12.05 | 12.40 | 11.95 |
| Market value | 32.44 | 26.40 | 27.24 | 25.80 | 22.15 |
| Weighted average shares outstanding: | | | | | |
| Basic | 9,477,710 | 9,471,371 | 9,474,925 | 9,484,646 | 9,620,401 |
| Diluted | 9,702,224 | 9,616,188 | 9,610,350 | 9,575,001 | 9,714,253 |
| Period end balance sheet: | | | | | |
| Assets | \$2,116,947 | \$2,116,530 | \$2,074,750 | \$1,926,233 | \$1,909,027 |
| Securities | 620,091 | 620,696 | 602,893 | 556,434 | 539,309 |
| Total loans | 1,339,838 | 1,349,820 | 1,301,618 | 1,199,630 | 1,215,481 |
| Allowance for loan losses | 19,137 | 18,874 | 18,372 | 18,030 | 17,756 |
| Deposits | 1,287,292 | 1,215,342 | 1,165,281 | 1,172,816 | 1,121,866 |
| Total shareholders equity | 143,139 | 137,016 | 135,799 | 140,215 | 136,369 |
| Tier I capital | 147,906 | 146,397 | 144,583 | 140,335 | 137,595 |
| Tier I ratio | 10.6% | 10.2% | 10.4% | 10.8% | 10.5% |
| Total capital | 165,334 | 164,396 | 161,946 | 156,613 | 154,010 |
| Total capital ratio | 11.9% | 11.4% | 11.7% | 12.0% | 11.7% |
| Total risk-adjusted assets | 1,392,535 | 1,439,030 | 1,388,065 | 1,300,512 | 1,311,849 |
| Tier I leverage ratio | 7.1% | 7.1% | 7.3% | 7.6% | 7.5% |
| Average balance sheet: | | | | | |
| Assets | \$2,114,043 | \$2,092,553 | \$2,004,789 | \$1,908,978 | \$1,869,524 |
| Earning assets | 1,977,023 | 1,957,682 | 1,871,145 | 1,789,611 | 1,750,900 |
| Loans | 1,338,254 | 1,317,153 | 1,245,980 | 1,197,300 | 1,177,617 |

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| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Deposits | 1,251,016 | 1,196,389 | 1,157,817 | 1,159,719 | 1,135,681 |
| Shareholders equity | 139,486 | 133,653 | 134,844 | 139,269 | 135,254 |
| Key ratios: (%) | | | | | |
| Return on average assets (ROA) | 0.52 | 0.79 | 0.98 | 1.14 | 1.85 |
| Return on average shareholders equity (ROE) | 7.93 | 12.42 | 14.56 | 15.62 | 25.61 |
| Net interest margin | 2.84 | 3.00 | 3.06 | 3.19 | 3.33 |
| Net overhead | 1.78 | 1.72 | 2.05 | 0.74 | (0.12) |
| Efficiency ratio | 73.95 | 69.12 | 73.49 | 56.10 | 47.48 |
| Credit quality: | | | | | |
| Non-accrual loans | \$ 14,135 | \$ 13,348 | \$ 12,735 | \$ 12,238 | \$ 12,709 |
| Restructured loans | 497 | 1,017 | 461 | 340 | 374 |
| 90 day past due and accruing | 8,784 | 8,879 | 8,625 | 7,231 | 6,623 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-performing loans | 23,416 | 23,244 | 21,821 | 19,809 | 19,706 |
| Other real estate owned | 921 | 713 | 753 | 621 | 1,270 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-performing assets | \$ 24,337 | \$ 23,957 | \$ 22,574 | \$ 20,430 | \$ 20,976 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Charge-offs | \$ 1,534 | \$ 1,111 | \$ 918 | \$ 2,721 | \$ 2,213 |
| Recoveries | 447 | 126 | 165 | 139 | 201 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net charge-offs | \$ 1,087 | \$ 985 | \$ 753 | \$ 2,582 | \$ 2,012 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Allowance for loan losses as a percent of period-end loans (%) | 1.43 | 1.40 | 1.41 | 1.50 | 1.46 |
| Net charge-offs (annualized) as a percent of average loans (%) | 0.32 | 0.30 | 0.24 | 0.86 | 0.68 |
| Non-performing loans as a percent of loans | 1.75 | 1.72 | 1.68 | 1.65 | 1.62 |
| Non-performing assets as a percent of assets | 1.15 | 1.13 | 1.09 | 1.06 | 1.10 |

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Financial Highlights
Year-to-Date Data

(Dollars in thousands, except per share data)

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Earnings: | | | | | |
| Net interest income | \$ 13,558 | \$ 55,871 | \$ 41,690 | \$ 27,873 | \$ 14,083 |
| Provision for loan losses | 1,350 | 7,610 | 6,124 | 5,028 | 2,173 |
| Non-interest income | 6,061 | 33,983 | 28,402 | 24,911 | 14,211 |
| Security gains | 498 | 4,584 | 3,617 | 51 | 51 |
| Non-interest expense | 14,849 | 54,763 | 40,765 | 27,689 | 13,673 |
| Federal income taxes | 1,151 | 8,910 | 7,814 | 6,019 | 3,838 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | \$ 2,767 | \$ 23,155 | \$ 19,006 | \$ 14,099 | \$ 8,661 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Per share: | | | | | |
| Basic earnings | 0.29 | 2.43 | 1.99 | 1.48 | 0.90 |
| Diluted earnings | 0.29 | 2.41 | 1.97 | 1.46 | 0.89 |
| Common dividends | 0.19 | 0.76 | 0.57 | 0.38 | 0.19 |
| Book value | 15.10 | 14.47 | 14.34 | 14.81 | 14.36 |
| Tangible book value | 12.82 | 12.17 | 12.05 | 12.40 | 11.95 |
| Market value | 32.44 | 26.40 | 27.24 | 25.80 | 22.15 |
| Weighted average shares outstanding: | | | | | |
| Basic | 9,477,710 | 9,512,324 | 9,526,125 | 9,552,149 | 9,620,401 |
| Diluted | 9,702,224 | 9,623,388 | 9,631,663 | 9,644,621 | 9,714,253 |
| Period end balance sheet: | | | | | |
| Assets | \$2,116,947 | \$2,116,530 | \$2,074,750 | \$1,926,233 | \$1,909,027 |
| Securities | 620,091 | 620,696 | 602,893 | 556,434 | 539,309 |
| Total loans | 1,339,838 | 1,349,820 | 1,301,618 | 1,199,630 | 1,215,481 |
| Allowance for loan losses | 19,137 | 18,874 | 18,372 | 18,030 | 17,756 |
| Deposits | 1,287,292 | 1,215,342 | 1,165,281 | 1,172,816 | 1,121,866 |
| Total shareholders' equity | 143,139 | 137,016 | 135,799 | 140,215 | 136,369 |
| Tier I capital | 147,906 | 146,397 | 144,583 | 140,335 | 137,595 |
| Tier I ratio | 10.6% | 10.2% | 10.4% | 10.8% | 10.5% |
| Total capital | 165,334 | 164,396 | 161,946 | 156,613 | 154,010 |
| Total capital ratio | 11.9% | 11.4% | 11.7% | 12.0% | 11.7% |
| Total risk-adjusted assets | 1,392,535 | 1,439,030 | 1,388,065 | 1,300,512 | 1,311,849 |
| Tier I leverage ratio | 7.1% | 7.1% | 7.3% | 7.6% | 7.5% |
| Average balance sheet: | | | | | |
| Assets | \$2,114,043 | \$1,969,670 | \$1,928,259 | \$1,889,360 | \$1,869,524 |
| Earning assets | 1,977,023 | 1,842,980 | 1,804,326 | 1,770,363 | 1,750,900 |
| Loans | 1,338,254 | 1,234,926 | 1,207,216 | 1,187,513 | 1,177,617 |

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| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Deposits | 1,251,016 | 1,162,555 | 1,151,153 | 1,147,766 | 1,135,681 |
| Shareholders equity | 139,486 | 135,748 | 136,454 | 137,273 | 135,254 |
| Key ratios: (%) | | | | | |
| Return on average assets (ROA) | 0.52 | 1.18 | 1.31 | 1.49 | 1.85 |
| Return on average shareholders equity (ROE) | 7.93 | 17.06 | 18.57 | 20.54 | 25.61 |
| Net interest margin | 2.84 | 3.14 | 3.19 | 3.26 | 3.33 |
| Net overhead | 1.78 | 1.13 | 0.91 | 0.31 | (0.12) |
| Efficiency ratio | 73.95 | 59.63 | 56.95 | 51.48 | 47.48 |
| Credit quality: | | | | | |
| Non-accrual loans | \$ 14,135 | \$ 13,348 | \$ 12,735 | \$ 12,238 | \$ 12,709 |
| Restructured loans | 497 | 1,017 | 461 | 340 | 374 |
| 90 day past due and accruing | 8,784 | 8,879 | 8,625 | 7,231 | 6,623 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Non-performing loans | 23,416 | 23,244 | 21,821 | 19,809 | 19,706 |
| Other real estate owned | 921 | 713 | 753 | 621 | 1,270 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Non-performing assets | \$ 24,337 | \$ 23,957 | \$ 22,574 | \$ 20,430 | \$ 20,976 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Charge-offs | \$ 1,534 | \$ 6,963 | \$ 5,852 | \$ 4,934 | \$ 2,213 |
| Recoveries | 447 | 631 | 505 | 340 | 201 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net charge-offs | \$ 1,087 | \$ 6,332 | \$ 5,347 | \$ 4,594 | \$ 2,012 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Allowance for loan losses as a percent of period-end loans (%) | 1.43 | 1.40 | 1.41 | 1.50 | 1.46 |
| Net charge-offs (annualized) as a percent of average loans (%) | 0.32 | 0.51 | 0.59 | 0.77 | 0.68 |
| Non-performing loans as a percent of loans | 1.75 | 1.72 | 1.68 | 1.65 | 1.62 |
| Non-performing assets as a percent of assets | 1.15 | 1.13 | 1.09 | 1.06 | 1.10 |

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Second Bancorp Incorporated and Subsidiaries
Consolidated Statements of Income
Quarterly Data

(Dollars in thousands, except per share data)

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|------------------|-------------------|------------------|-------------------|
| INTEREST INCOME | | | | | |
| Loans (including fees): | | | | | |
| Taxable | \$ 19,001 | \$ 19,286 | \$ 18,950 | \$ 18,814 | \$ 18,605 |
| Exempt from federal income taxes | 211 | 209 | 212 | 206 | 211 |
| Securities: | | | | | |
| Taxable | 5,587 | 5,819 | 5,348 | 5,518 | 6,234 |
| Exempt from federal income taxes | 643 | 703 | 689 | 714 | 728 |
| Federal funds sold and other temp. investments | 34 | 27 | 30 | 136 | 123 |
| | <u>25,476</u> | <u>26,044</u> | <u>25,229</u> | <u>25,388</u> | <u>25,901</u> |
| INTEREST EXPENSE | | | | | |
| Deposits | 5,660 | 5,338 | 5,118 | 5,563 | 5,779 |
| Federal funds purchased and securities sold under agreements to repurchase | 539 | 682 | 613 | 596 | 581 |
| Note Payable | 49 | 47 | 50 | 54 | 63 |
| Other borrowed funds | 2 | 3 | 2 | 3 | 3 |
| Federal Home Loan Bank advances | 4,912 | 4,971 | 4,895 | 4,649 | 4,659 |
| Debentures and capital securities | 756 | 822 | 734 | 733 | 733 |
| | <u>11,918</u> | <u>11,863</u> | <u>11,412</u> | <u>11,598</u> | <u>11,818</u> |
| Total interest expense | 11,918 | 11,863 | 11,412 | 11,598 | 11,818 |
| Net interest income | 13,558 | 14,181 | 13,817 | 13,790 | 14,083 |
| Provision for loan losses | 1,350 | 1,486 | 1,096 | 2,855 | 2,173 |
| | <u>12,208</u> | <u>12,695</u> | <u>12,721</u> | <u>10,935</u> | <u>11,910</u> |
| Net interest income after provision for loan losses | 12,208 | 12,695 | 12,721 | 10,935 | 11,910 |
| NON-INTEREST INCOME | | | | | |
| Mortgage banking income | 1,928 | 441 | (1,157) | 6,550 | 4,358 |
| Service charges on deposit accounts | 1,620 | 1,628 | 1,549 | 1,555 | 1,527 |
| Trust fees | 687 | 757 | 631 | 563 | 609 |

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| | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Security gains | 498 | 967 | 3,566 | 0 | 51 |
| Gain on sale of banking centers | 0 | 0 | 0 | 0 | 5,619 |
| Other operating income | 1,826 | 2,755 | 2,468 | 2,032 | 2,098 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total non-interest income | 6,559 | 6,548 | 7,057 | 10,700 | 14,262 |
| NON-INTEREST EXPENSE | | | | | |
| Salaries and employee benefits | 7,729 | 7,636 | 6,701 | 7,642 | 7,604 |
| Net occupancy | 1,252 | 1,236 | 1,180 | 1,125 | 1,199 |
| Equipment | 1,015 | 909 | 1,045 | 1,059 | 1,039 |
| Professional services | 795 | 805 | 707 | 1,138 | 767 |
| Assessment on deposits and other taxes | 430 | 222 | 501 | 388 | 392 |
| Amortization of intangible assets | 113 | 124 | 113 | 112 | 118 |
| Merger costs | 1,138 | 0 | 0 | 0 | 0 |
| Other operating expenses | 2,377 | 3,066 | 2,829 | 2,552 | 2,554 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total non-interest expense | 14,849 | 13,998 | 13,076 | 14,016 | 13,673 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before federal income taxes | 3,918 | 5,245 | 6,702 | 7,619 | 12,499 |
| Income tax expense | 1,151 | 1,096 | 1,795 | 2,181 | 3,838 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | <u>\$ 2,767</u> | <u>\$ 4,149</u> | <u>\$ 4,907</u> | <u>\$ 5,438</u> | <u>\$ 8,661</u> |
| NET INCOME PER COMMON SHARE: | | | | | |
| Basic | \$ 0.29 | \$ 0.44 | \$ 0.52 | \$ 0.57 | \$ 0.90 |
| Diluted | \$ 0.29 | \$ 0.43 | \$ 0.51 | \$ 0.57 | \$ 0.89 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 9,477,710 | 9,471,371 | 9,474,925 | 9,484,646 | 9,620,401 |
| Diluted | 9,702,224 | 9,616,188 | 9,610,350 | 9,575,001 | 9,714,253 |
| Note: Fully taxable equivalent adjustment | \$ 460 | \$ 491 | \$ 485 | \$ 495 | \$ 506 |

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

(Dollars in thousands, except per share data)

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|------------------|-------------------|------------------|-------------------|
| INTEREST INCOME | | | | | |
| Loans (including fees): | | | | | |
| Taxable | \$ 19,001 | \$ 75,655 | \$ 56,369 | \$ 37,419 | \$ 18,605 |
| Exempt from federal income taxes | 211 | 838 | 629 | 417 | 211 |
| Securities: | | | | | |
| Taxable | 5,587 | 22,919 | 17,100 | 11,752 | 6,234 |
| Exempt from federal income taxes | 643 | 2,834 | 2,131 | 1,442 | 728 |
| Federal funds sold and other temp. investments | 34 | 316 | 289 | 259 | 123 |
| | <u>25,476</u> | <u>102,562</u> | <u>76,518</u> | <u>51,289</u> | <u>25,901</u> |
| INTEREST EXPENSE | | | | | |
| Deposits | 5,660 | 21,798 | 16,460 | 11,342 | 5,779 |
| Federal funds purchased and securities sold under agreements to repurchase | 539 | 2,472 | 1,790 | 1,177 | 581 |
| Note Payable | 49 | 214 | 167 | 117 | 63 |
| Other borrowed funds | 2 | 11 | 8 | 6 | 3 |
| Federal Home Loan Bank advances | 4,912 | 19,174 | 14,203 | 9,308 | 4,659 |
| Debentures and capital securities | 756 | 3,022 | 2,200 | 1,466 | 733 |
| | <u>11,918</u> | <u>46,691</u> | <u>34,828</u> | <u>23,416</u> | <u>11,818</u> |
| Net interest income | 13,558 | 55,871 | 41,690 | 27,873 | 14,083 |
| Provision for loan losses | 1,350 | 7,610 | 6,124 | 5,028 | 2,173 |
| | <u>12,208</u> | <u>48,261</u> | <u>35,566</u> | <u>22,845</u> | <u>11,910</u> |
| NON-INTEREST INCOME | | | | | |
| Mortgage banking revenue | 1,928 | 10,194 | 9,751 | 10,908 | 4,358 |
| Service charges on deposit accounts | 1,620 | 6,259 | 4,631 | 3,082 | 1,527 |
| Trust fees | 687 | 2,560 | 1,803 | 1,172 | 609 |

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| | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Security gains | 498 | 4,584 | 3,617 | 51 | 51 |
| Gain on sale of banking centers | 0 | 5,619 | 5,619 | 5,619 | 5,619 |
| Other operating income | 1,826 | 9,351 | 6,598 | 4,130 | 2,098 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total non-interest income | 6,559 | 38,567 | 32,019 | 24,962 | 14,262 |
| NON-INTEREST EXPENSE | | | | | |
| Salaries and employee benefits | 7,729 | 29,583 | 21,947 | 15,246 | 7,604 |
| Net occupancy | 1,252 | 4,740 | 3,504 | 2,324 | 1,199 |
| Equipment | 1,015 | 4,052 | 3,143 | 2,098 | 1,039 |
| Professional services | 795 | 3,417 | 2,612 | 1,905 | 767 |
| Assessment on deposits and other taxes | 430 | 1,503 | 1,281 | 780 | 392 |
| Amortization of intangible assets | 113 | 467 | 343 | 230 | 118 |
| Merger costs | 1,138 | 0 | 0 | 0 | 0 |
| Other operating expenses | 2,377 | 11,001 | 7,935 | 5,106 | 2,554 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total non-interest expense | 14,849 | 54,763 | 40,765 | 27,689 | 13,673 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before federal income taxes | 3,918 | 32,065 | 26,820 | 20,118 | 12,499 |
| Income tax expense | 1,151 | 8,910 | 7,814 | 6,019 | 3,838 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | \$ 2,767 | \$ 23,155 | \$ 19,006 | \$ 14,099 | \$ 8,661 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| NET INCOME PER COMMON SHARE: | | | | | |
| Basic | \$ 0.29 | \$ 2.43 | \$ 1.99 | \$ 1.48 | \$ 0.90 |
| Diluted | \$ 0.29 | \$ 2.41 | \$ 1.97 | \$ 1.46 | \$ 0.89 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 9,477,710 | 9,512,324 | 9,526,125 | 9,552,149 | 9,620,401 |
| Diluted | 9,702,224 | 9,623,388 | 9,631,663 | 9,644,621 | 9,714,253 |
| Note: Fully taxable equivalent adjustment | \$ 460 | \$ 1,977 | \$ 1,486 | \$ 1,001 | \$ 506 |

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Second Bancorp Incorporated and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

| | <u>March 31</u> | <u>December 31</u> | <u>September 30</u> | <u>June 30</u> | <u>March 31</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> | <u>2003</u> | <u>2003</u> |
| ASSETS | | | | | |
| Cash and due from banks | \$ 40,046 | \$ 40,773 | \$ 57,305 | \$ 42,194 | \$ 43,334 |
| Federal funds sold and other temp. investments | 18,065 | 6,529 | 13,128 | 44,505 | 29,523 |
| Securities available-for-sale (at market value) | 620,091 | 620,696 | 602,893 | 556,434 | 539,309 |
| Loans: | | | | | |
| Commercial | 649,767 | 631,170 | 598,762 | 571,788 | 558,499 |
| Consumer | 420,031 | 399,137 | 372,826 | 339,723 | 325,819 |
| Real estate | 270,040 | 319,513 | 330,030 | 288,119 | 331,163 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total loans | 1,339,838 | 1,349,820 | 1,301,618 | 1,199,630 | 1,215,481 |
| Less allowance for loan losses | 19,137 | 18,874 | 18,372 | 18,030 | 17,756 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net loans | 1,320,701 | 1,330,946 | 1,283,246 | 1,181,600 | 1,197,725 |
| Premises and equipment | 19,257 | 19,013 | 17,944 | 17,048 | 16,125 |
| Accrued interest receivable | 8,214 | 8,501 | 8,710 | 8,289 | 9,414 |
| Goodwill and intangible assets | 19,935 | 20,047 | 20,117 | 20,230 | 20,343 |
| Servicing assets | 18,808 | 20,936 | 19,827 | 14,880 | 13,743 |
| Other assets | 51,830 | 49,089 | 51,580 | 41,053 | 39,511 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total assets | \$ 2,116,947 | \$ 2,116,530 | \$ 2,074,750 | \$ 1,926,233 | \$ 1,909,027 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Deposits: | | | | | |
| Demand non-interest bearing | \$ 156,302 | \$ 170,176 | \$ 165,242 | \$ 155,285 | \$ 155,892 |
| Demand interest bearing | 133,592 | 142,709 | 164,186 | 204,430 | 147,747 |
| Savings | 350,702 | 346,851 | 350,231 | 347,722 | 363,443 |
| Time deposits | 646,696 | 555,606 | 485,622 | 465,379 | 454,784 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total deposits | 1,287,292 | 1,215,342 | 1,165,281 | 1,172,816 | 1,121,866 |
| Federal funds purchased and securities sold under | 179,327 | 216,761 | 238,047 | 175,011 | 206,069 |

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| | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| agreements to repurchase | | | | | |
| Note payable | 13,000 | 7,750 | 7,750 | 7,750 | 14,000 |
| Other borrowed funds | 661 | 1,301 | 1,579 | 1,219 | 155 |
| Accrued expenses and other liabilities | 15,587 | 14,524 | 17,562 | 19,612 | 20,089 |
| Federal Home Loan Bank advances | 446,391 | 492,299 | 478,198 | 379,089 | 379,971 |
| Debentures | 31,550 | 31,537 | 0 | 0 | 0 |
| Corporation-obligated mandatorily redeemable capital securities of subsidiary trust | 0 | 0 | 30,534 | 30,521 | 30,508 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 1,973,808 | 1,979,514 | 1,938,951 | 1,786,018 | 1,772,658 |
| Shareholders' equity: | | | | | |
| Common stock, no par value; 30,000,000 shares authorized; | 43,160 | 42,973 | 42,815 | 41,750 | 41,745 |
| Treasury stock | (36,173) | (36,173) | (36,173) | (34,771) | (33,740) |
| Other comprehensive income | 4,136 | (834) | 457 | 7,642 | 6,410 |
| Retained earnings | 132,016 | 131,050 | 128,700 | 125,594 | 121,954 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total shareholders' equity | 143,139 | 137,016 | 135,799 | 140,215 | 136,369 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$ 2,116,947 | \$ 2,116,530 | \$ 2,074,750 | \$ 1,926,233 | \$ 1,909,027 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Miscellaneous data: | | | | | |
| Common shares issued | 10,999,230 | 10,991,460 | 10,990,460 | 10,936,760 | 10,922,720 |
| Treasury shares | 1,520,089 | 1,520,089 | 1,520,089 | 1,468,541 | 1,426,841 |
| Bank owned life insurance (in other assets) | \$ 35,117 | \$ 34,742 | \$ 34,149 | \$ 33,769 | \$ 33,489 |
| Loans serviced for others | \$ 1,809,713 | \$ 1,750,733 | \$ 1,692,880 | \$ 1,631,790 | \$ 1,463,926 |
| Goodwill | \$ 16,701 | \$ 16,700 | \$ 16,647 | \$ 16,647 | \$ 16,647 |
| Other intangibles | 3,234 | 3,347 | 3,470 | 3,583 | 3,696 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total goodwill and intangible assets | \$ 19,935 | \$ 20,047 | \$ 20,117 | \$ 20,230 | \$ 20,343 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Mortgage servicing rights (net of allowance) | \$ 18,369 | \$ 20,512 | \$ 19,378 | \$ 14,429 | \$ 13,299 |
| Other servicing assets | 439 | 424 | 449 | 451 | 444 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 18,808 | \$ 20,936 | \$ 19,827 | \$ 14,880 | \$ 13,743 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Valuation allowance for
mortgage servicing rights
included above

| | | | | | | | | | |
|----|---------|----|---------|----|---------|----|---------|----|---------|
| \$ | (5,302) | \$ | (2,393) | \$ | (2,774) | \$ | (6,304) | \$ | (4,783) |
|----|---------|----|---------|----|---------|----|---------|----|---------|

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Second Bancorp Incorporated and Subsidiaries
Consolidated Average Balance Sheets
For the Quarter Ended

(Dollars in Thousands)

| ASSETS | March 2004 | Dec. 2003 | Sept. 2003 | June 2003 | March 2003 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash and demand balances due from banks | \$ 39,963 | \$ 40,524 | \$ 43,675 | \$ 37,686 | \$ 38,392 |
| Federal funds sold and other temp. investments | 14,480 | 12,219 | 14,697 | 50,390 | 44,849 |
| Securities available-for-sale | 624,289 | 628,310 | 610,468 | 541,921 | 528,434 |
| Loans: | | | | | |
| Commercial | 640,009 | 613,183 | 584,553 | 562,499 | 551,882 |
| Consumer | 407,658 | 389,303 | 353,299 | 336,303 | 324,729 |
| Real estate | 290,587 | 314,667 | 308,128 | 298,498 | 301,006 |
| Total loans | 1,338,254 | 1,317,153 | 1,245,980 | 1,197,300 | 1,177,617 |
| Allowance for loan losses | 18,909 | 18,463 | 18,137 | 17,787 | 17,566 |
| Net loans | 1,319,345 | 1,298,690 | 1,227,843 | 1,179,513 | 1,160,051 |
| Premises and equipment | 19,326 | 19,020 | 17,666 | 16,828 | 16,508 |
| Goodwill and intangible assets | 19,967 | 20,076 | 20,166 | 20,282 | 20,461 |
| Servicing assets | 21,202 | 20,105 | 17,377 | 14,859 | 13,310 |
| Other assets | 55,471 | 53,609 | 52,897 | 47,499 | 47,519 |
| Total assets | \$2,114,043 | \$2,092,553 | \$2,004,789 | \$1,908,978 | \$1,869,524 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities: | | | | | |
| Demand deposits (non-interest bearing) | \$ 162,275 | \$ 167,689 | \$ 161,281 | \$ 159,636 | \$ 153,223 |
| Demand deposits (interest bearing) | 137,631 | 152,202 | 187,231 | 183,323 | 117,469 |
| Savings | 349,693 | 353,391 | 346,965 | 356,281 | 382,673 |
| Time deposits | 601,417 | 523,107 | 462,340 | 460,479 | 482,316 |
| Total deposits | 1,251,016 | 1,196,389 | 1,157,817 | 1,159,719 | 1,135,681 |
| Federal funds purchased and securities sold under agreements | 184,141 | 230,115 | 208,549 | 178,618 | 164,329 |

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| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| to repurchase | | | | | |
| Note payable | 8,212 | 7,749 | 7,750 | 8,369 | 9,733 |
| Other borrowed funds | 790 | 370 | 563 | 186 | 455 |
| Accrued expenses and other | | | | | |
| Liabilities | 14,791 | 15,693 | 17,626 | 18,243 | 17,863 |
| Federal Home Loan Bank | | | | | |
| advances | 484,065 | 478,044 | 447,116 | 374,061 | 375,710 |
| Debentures and capital securities | 31,542 | 30,540 | 30,524 | 30,513 | 30,499 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 1,974,557 | 1,958,900 | 1,869,945 | 1,769,709 | 1,734,270 |
| Shareholders' equity: | | | | | |
| Common stock | 43,120 | 42,839 | 42,506 | 41,747 | 41,757 |
| Treasury shares | (36,173) | (36,172) | (35,646) | (34,127) | (30,666) |
| Other comprehensive income | 1,917 | (2,128) | 939 | 7,434 | 6,778 |
| Retained earnings | 130,622 | 129,114 | 127,045 | 124,215 | 117,385 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total shareholders' equity | 139,486 | 133,653 | 134,844 | 139,269 | 135,254 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$2,114,043 | \$2,092,553 | \$2,004,789 | \$1,908,978 | \$1,869,524 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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Second Bancorp Incorporated and Subsidiaries
Consolidated Average Balance Sheets
For the Year-to-date period ended:

(Dollars in Thousands)

| ASSETS | March 2004 | Dec. 2003 | Sept. 2003 | June 2003 | March 2003 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash and demand balances due from banks | \$ 39,963 | \$ 40,085 | \$ 39,937 | \$ 38,037 | \$ 38,392 |
| Federal funds sold | 14,480 | 30,406 | 36,535 | 47,635 | 44,849 |
| Securities available-for-sale | 624,289 | 577,648 | 560,575 | 535,215 | 528,434 |
| Loans: | | | | | |
| Commercial | 640,009 | 578,215 | 566,431 | 557,220 | 551,882 |
| Consumer | 407,658 | 351,092 | 338,215 | 330,548 | 324,729 |
| Real estate | 290,587 | 305,619 | 302,570 | 299,745 | 301,006 |
| Total loans | 1,338,254 | 1,234,926 | 1,207,216 | 1,187,513 | 1,177,617 |
| Allowance for loan losses | 18,909 | 17,991 | 17,832 | 17,677 | 17,566 |
| Net loans | 1,319,345 | 1,216,935 | 1,189,384 | 1,169,836 | 1,160,051 |
| Premises and equipment | 19,326 | 17,513 | 17,005 | 16,669 | 16,508 |
| Goodwill and intangible assets | 19,967 | 20,245 | 20,302 | 20,371 | 20,461 |
| Servicing assets | 21,202 | 16,434 | 15,197 | 14,089 | 13,310 |
| Other assets | 55,471 | 50,404 | 49,324 | 47,508 | 47,519 |
| Total assets | \$2,114,043 | \$1,969,670 | \$1,928,259 | \$1,889,360 | \$1,869,524 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Liabilities: | | | | | |
| Demand deposits (non-interest bearing) | \$ 162,275 | \$ 160,499 | \$ 158,076 | \$ 156,447 | \$ 153,223 |
| Demand deposits (interest bearing) | 137,631 | 160,226 | 162,930 | 150,578 | 117,469 |
| Savings | 349,693 | 359,712 | 361,842 | 369,404 | 382,673 |
| Time deposits | 601,417 | 482,118 | 468,305 | 471,337 | 482,316 |
| Total deposits | 1,251,016 | 1,162,555 | 1,151,153 | 1,147,766 | 1,135,681 |
| Federal funds purchased and securities sold under agreements to repurchase | 184,141 | 195,619 | 183,994 | 171,513 | 164,329 |

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| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Note payable | 8,212 | 8,393 | 8,610 | 9,047 | 9,733 |
| Other borrowed funds | 790 | 394 | 402 | 320 | 455 |
| Accrued expenses and other | | | | | |
| Liabilities | 14,791 | 17,351 | 17,910 | 18,054 | 17,863 |
| Federal Home Loan Bank | | | | | |
| advances | 484,065 | 419,091 | 399,224 | 374,881 | 375,710 |
| Debentures and capital securities | 31,542 | 30,519 | 30,512 | 30,506 | 30,499 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 1,974,557 | 1,833,922 | 1,791,805 | 1,752,087 | 1,734,270 |
| Shareholders' equity: | | | | | |
| Common stock | 43,120 | 42,216 | 42,006 | 41,752 | 41,757 |
| Treasury shares | (36,173) | (34,172) | (33,498) | (32,406) | (30,666) |
| Net unrealized holding gains | 1,917 | 3,225 | 5,029 | 7,108 | 6,778 |
| Retained earnings | 130,622 | 124,479 | 122,917 | 120,819 | 117,385 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total shareholders' equity | 139,486 | 135,748 | 136,454 | 137,273 | 135,254 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$2,114,043 | \$1,969,670 | \$1,928,259 | \$1,889,360 | \$1,869,524 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Financial Highlights Non-GAAP Operating Results
Quarterly Data**

(Dollars in thousands, except per share data)

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Non-GAAP earnings: | | | | | |
| Net interest income | \$ 13,558 | \$ 14,181 | \$ 13,817 | \$ 13,790 | \$ 14,083 |
| Provision for loan losses | 1,350 | 1,486 | 1,096 | 2,855 | 2,173 |
| Non-interest income | 7,199 | 5,581 | 3,491 | 10,700 | 14,211 |
| Security gains (losses) | 498 | 967 | 3,566 | 0 | 51 |
| Non-interest expense | 14,849 | 13,998 | 13,076 | 14,016 | 19,292 |
| Federal income taxes | 1,244 | 1,096 | 1,795 | 2,181 | 1,871 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-GAAP net income | \$ 3,812 | \$ 4,149 | \$ 4,907 | \$ 5,438 | \$ 5,009 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-GAAP per share: | | | | | |
| Basic earnings | \$ 0.40 | \$ 0.44 | \$ 0.52 | \$ 0.57 | \$ 0.52 |
| Diluted earnings | 0.39 | 0.43 | 0.51 | 0.57 | 0.52 |
| Non-GAAP key ratios: (%) | | | | | |
| Return on average assets (ROA) | 0.72 | 0.79 | 0.98 | .14 | 1.07 |
| Return on average shareholders' equity (ROE) | 10.93 | 12.42 | 14.56 | 15.62 | 14.81 |
| Net interest margin | 2.84 | 3.00 | 3.06 | 3.19 | 3.33 |
| Net overhead | 1.55 | 1.72 | 2.05 | 0.74 | 1.16 |
| Efficiency ratio | 68.29 | 69.12 | 73.49 | 56.10 | 58.98 |

**Second Bancorp Incorporated and Subsidiaries
Reconciliation of GAAP vs. Non-GAAP Operating Results
Quarterly Data**

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|------------------|-------------------|------------------|-------------------|
| Net income | \$ 2,767 | \$ 4,149 | \$ 4,907 | \$ 5,438 | \$ 8,661 |
| Adjustments to GAAP to reflect Non-GAAP Operating Basis: | | | | | |
| Add non-recurring costs: | | | | | |
| Sale of banking centers | 0 | 0 | 0 | 0 | (5,619) |
| Merger costs | 1,138 | 0 | 0 | 0 | 0 |
| Banking center reconfiguration | 0 | 0 | 0 | 0 | 0 |

| | | | | | |
|--------------------------------------|----------|---------|---------|---------|----------|
| | _____ | _____ | _____ | _____ | _____ |
| Total adjustments | 1,138 | 0 | 0 | 0 | (5,619) |
| Federal income tax benefit (expense) | 93 | 0 | 0 | 0 | (1,967) |
| | _____ | _____ | _____ | _____ | _____ |
| Non-GAAP net income | \$ 3,812 | \$4,149 | \$4,907 | \$5,438 | \$ 5,009 |
| | _____ | _____ | _____ | _____ | _____ |

Note: Recap of Income from Mortgage Banking Activities

| | March 2004 | Dec. 2003 | Sept. 2003 | June 2003 | March 2003 |
|--|-----------------------|----------------------|-------------------|------------------|-----------------------|
| | _____ | _____ | _____ | _____ | _____ |
| Gross income from servicing | \$ 1,125 | \$ 947 | \$ 1,052 | \$ 986 | \$ 903 |
| Amortization of MSR's | (1,052) | (790) | (2,723) | (2,101) | (1,549) |
| | _____ | _____ | _____ | _____ | _____ |
| (Excess amortization) / net servicing income | 73 | 157 | (1,671) | (1,115) | (646) |
| Change in valuation allowance MSR's | (2,909) | 381 | 3,530 | (1,522) | (989) |
| Net derivative gain (loss) non hedging | 3,738 | (834) | (6,759) | 3,035 | 1,805 |
| | _____ | _____ | _____ | _____ | _____ |
| Income (loss) from Mortgage Servicing | 902 | (296) | (4,900) | 398 | 170 |
| Gain on sale of mortgage loans | 1,026 | 737 | 3,743 | 6,152 | 4,188 |
| | _____ | _____ | _____ | _____ | _____ |
| Net mortgage banking revenue (loss) | \$ 1,928 | \$ 441 | \$(1,157) | \$ 6,550 | \$ 4,358 |
| | _____ | _____ | _____ | _____ | _____ |

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Second Bancorp Incorporated and Subsidiaries
Financial Highlights Non-GAAP Operating Results
Year-to-Date Data

(Dollars in thousands, except per share data)

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Non-GAAP earnings: | | | | | |
| Net interest income | \$13,558 | \$55,871 | \$41,690 | \$27,873 | \$14,083 |
| Provision for loan losses | 1,350 | 7,610 | 6,124 | 5,028 | 2,173 |
| Non-interest income | 7,199 | 28,364 | 22,783 | 19,292 | 14,211 |
| Security gains (losses) | 498 | 4,584 | 3,617 | 51 | 51 |
| Non-interest expense | 14,849 | 54,763 | 40,765 | 27,689 | 19,292 |
| Federal income taxes | 1,244 | 6,943 | 5,847 | 4,052 | 1,871 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-GAAP net income | \$ 3,812 | \$19,503 | \$15,354 | \$10,447 | \$ 5,009 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-GAAP per share: | | | | | |
| Basic earnings | \$ 0.40 | \$ 2.05 | \$ 1.61 | \$ 1.09 | \$ 0.52 |
| Diluted earnings | 0.39 | 2.03 | 1.59 | 1.08 | 0.52 |
| Non-GAAP key ratios: (%) | | | | | |
| Return on average assets (ROA) | 0.72 | 0.99 | 1.06 | 1.11 | 1.07 |
| Return on average shareholders' equity (ROE) | 10.93 | 14.37 | 15.00 | 15.22 | 14.81 |
| Net interest margin | 2.84 | 3.14 | 3.19 | 3.26 | 3.33 |
| Net overhead | 1.55 | 1.43 | 1.33 | 0.95 | 1.16 |
| Efficiency ratio | 68.29 | 63.52 | 61.80 | 57.49 | 58.98 |

Second Bancorp Incorporated and Subsidiaries
Reconciliation of GAAP vs. Non-GAAP Operating Results
Year-to-Date Data

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net income | \$ 2,767 | \$23,155 | \$19,006 | \$14,099 | \$ 8,661 |
| Adjustments to GAAP to reflect Non-GAAP Operating Basis: | | | | | |
| Add non-recurring costs: | | | | | |
| Sale of banking centers | 0 | (5,619) | (5,619) | (5,619) | (5,619) |
| Merger costs | 1,138 | 0 | 0 | 0 | 0 |
| Banking center reconfiguration | 0 | 0 | 0 | 0 | 0 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

| | | | | | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total adjustments | 1,138 | (5,619) | (5,619) | (5,619) | (5,619) |
| Federal income tax benefit (expense) | 93 | (1,967) | (1,967) | (1,967) | (1,967) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-GAAP net income | \$ 3,812 | \$ 19,503 | \$ 15,354 | \$ 10,447 | \$ 5,009 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Note: Recap of Income from Mortgage Banking Activities

| | <u>March 2004</u> | <u>Dec. 2003</u> | <u>Sept. 2003</u> | <u>June 2003</u> | <u>March 2003</u> |
|---|-----------------------|-------------------|-------------------|-------------------|-----------------------|
| Gross income from servicing | \$ 1,125 | \$ 3,888 | \$ 2,941 | \$ 1,889 | \$ 903 |
| Amortization of MSR's | (1,052) | (7,163) | (6,373) | (3,650) | (1,549) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| (Excess amortization) / net servicing income | 73 | (3,275) | (3,432) | (1,761) | (646) |
| Change in valuation allowance MSR's | (2,909) | 1,400 | 1,019 | (2,511) | (989) |
| Net derivative gain (loss) non hedging | 3,738 | (2,753) | (1,919) | 4,840 | 1,805 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income (loss) from mortgage servicing | 902 | (4,628) | (4,332) | 568 | 170 |
| Gain on sale of mortgage loans | 1,026 | 14,822 | 14,083 | 10,340 | 4,188 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net mortgage banking revenue | \$ 1,928 | \$ 10,194 | \$ 9,751 | \$ 10,908 | \$ 4,358 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Second Bancorp Incorporated

Date: May 3, 2004

/s/ David L. Kellerman

David L. Kellerman
Chief Financial Officer and Treasurer

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