

SECOND BANCORP INC  
Form 10-Q/A  
August 30, 2001

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Second Bancorp Incorporated and Subsidiary Consolidated Balance Sheets**

**Consolidated Statements of Income**

**Consolidated Statements of Shareholders' Equity**

**Consolidated Statements of Cash Flows**

**Notes to Consolidated Financial Statements (unaudited)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Item 3. Qualitative and Quantitative Disclosure About Market Risk.**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Item 2. Changes in Securities Not Applicable**

**Item 3. Defaults upon Senior Securities Not Applicable**

**Item 4. Submission of Matters to a Vote of Security Holders**

**Item 5. Other Information Not Applicable**

**Item 6. Exhibits and Reports on Form 8-K:**

**SIGNATURES**

**Exhibit 11**

---

**Table of Contents**

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

**FORM 10-Q/A**

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) THE SECURITIES  
EXCHANGE ACT OF 1934 For quarter ended March 31, 2001

OR( ) TRANSITION  
REPORT PURSUANT  
TO SECTION 13 OR  
15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF  
1934. For the transition  
period

\_\_\_\_\_

to

\_\_\_\_\_

Commission file  
number: 0-15624

**SECOND BANCORP INCORPORATED**  
(exact name of registrant as specified in its charter)

Ohio

34-1547453

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

108 Main Ave. S. W. Warren, Ohio  
44482-1311

(Address of principal executive  
offices) (Zip Code)

330.841.0123

Registrant's telephone number, including area code

Not applicable

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, without par value 10,003,260 shares outstanding as of April 30, 2001.

Explanatory Note: We are amending our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 to include in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operation additional information regarding changes in financial condition from December 31, 2000 to March 31, 2001.

Page 1 of 13

---

**Table of Contents**

SECOND BANCORP INCORPORATED AND SUBSIDIARY

INDEX

Page  
Number

PART I. FINANCIAL INFORMATION

## Edgar Filing: SECOND BANCORP INC - Form 10-Q/A

Item 1. Financial Statements (unaudited)	
Consolidated balance sheets March 31, 2001 and 2000 and December 31, 2000.	3
Consolidated statements of income Three months ended March 31, 2001 and 2000.	4
Consolidated statement of shareholders equity Three months ended March 31, 2001 and 2000.	5
Consolidated statements of cash flows Three months ended March 31, 2001 and 2000.	6
Notes to consolidated financial statements March 31, 2001.	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8-9
Item 3. Qualitative and Quantitative Disclosure About Market Risk	10
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	11
Item 2. Changes in Securities	11
Item 3. Defaults upon Senior Securities	11
Item 4. Submission of Matters to a Vote of Security Holders	11
Item 5. Other Information	11
Item 6. Exhibits and Reports on Form 8-K	11
SIGNATURES	
Exhibit 11 Statement Re: Computation of Earnings Per Share	12 13

---

### **Table of Contents**

#### PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Second Bancorp Incorporated and Subsidiary

Consolidated Balance Sheets

	March 31	December 31	March 31
(Dollars in thousands)	2001	2000	2000
<b>ASSETS</b>			
Cash and due from banks	\$36,937	\$35,272	\$43,925
Federal funds sold and temporary investments	25,451	100	Trading account
238,328	280	Securities: Available-for-sale (at market value)	377,323
382,098	384,941	Loans	1,076,284
1,070,089	1,099,413	Less reserve for loan losses	15,778
15,217	11,354		
<hr/>			
<hr/>			
<hr/>			
Net loans	1,060,506	1,054,872	1,088,059
Premises and equipment	17,533	18,039	18,611
Accrued interest receivable	10,118	11,181	19,509
Goodwill and intangible assets	6,157	6,038	5,739
Other assets	37,568	38,462	42,209
<hr/>			
<hr/>			
<hr/>			
Total assets	\$1,571,831	\$1,546,290	\$1,592,993
<hr/>			
<hr/>			
<hr/>			
<b>LIABILITIES AND SHAREHOLDERS</b>			
<b>EQUITY</b>			
Deposits: Demand non-interest bearing	\$105,920	\$110,045	\$113,207
Demand interest bearing	86,124	87,268	89,465
Savings	239,661	246,056	277,892
Time deposits	629,851	592,766	613,559
<hr/>			
<hr/>			
<hr/>			
Total deposits	1,061,556	1,036,135	1,095,123
Federal funds purchased and securities sold under			

agreements to  
 repurchase 119,684 129,895 136,640 Note  
 Payable 1,000 1,000 Other borrowed  
 funds 462,163 2,798 Federal Home Loan  
 Bank  
 advances 256,591 251,733 233,144 Accrued  
 expenses and other  
 liabilities 10,986 8,167 9,249

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Total  
 liabilities 1,449,863 1,429,093 1,476,954 Shareholders  
 equity: Common stock, no par value;  
 30,000,000 shares authorized; 10,785,760;  
 10,787,310 and 10,776,470 shares issued,  
 respectively 36,953 36,935 36,944 Treasury  
 stock; 785,000, 730,200 and 393,100  
 shares,  
 respectively (14,740) (13,947) (8,897) Other  
 comprehensive income (loss), net of  
 tax 3,440 281 (8,597) Retained  
 earnings 96,315 93,928 96,589

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Total shareholders  
 equity 121,968 117,197 116,039

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Total liabilities and shareholders  
 equity \$1,571,831 \$1,546,290 \$1,592,993

See notes to consolidated financial statements.

**Table of Contents**

Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Income

**For the Three  
 Months  
 Ended March  
 31**

(Dollars in thousands,

Edgar Filing: SECOND BANCORP INC - Form 10-Q/A

except per share data)	2001	2000
<b>INTEREST INCOME</b>		
Loans (including fees): Taxable	\$22,101	\$21,536
Exempt from federal income taxes	288215	288215
Securities: Taxable	5,1254,709	5,1254,709
Exempt from federal income taxes	773882	773882
Federal funds sold and other interest income	19193	19193
<hr/>		
Total interest income	28,47827,435	28,47827,435
<b>INTEREST EXPENSE</b>		
Deposits	11,46910,879	11,46910,879
Federal funds purchased and securities sold under agreements to repurchase	1,1871,184	1,1871,184
Note Payable	1819	1819
Other borrowed funds	3743	3743
Federal Home Loan Bank advances	3,8512,892	3,8512,892
<hr/>		
Total interest expense	16,56215,017	16,56215,017
<hr/>		
Net interest income	11,91612,418	11,91612,418
Provision for loan losses	761687	761687
<hr/>		
Net interest income after provision for loan losses	11,15511,731	11,15511,731
<b>NON-INTEREST INCOME</b>		
Service charges on deposit accounts	1,2611,054	1,2611,054
Trust fees	7561,004	7561,004
Gains on sale of loans	783391	783391
Trading account gains	58114	58114
Security gains	52999	52999
Other operating income	1,1721,141	1,1721,141
<hr/>		
Total non-interest income	4,5593,803	4,5593,803
<b>NON-INTEREST EXPENSES</b>		
Salaries and employee benefits	5,1945,316	5,1945,316
Net occupancy	1,1161,052	1,1161,052
Equipment	1,049987	1,049987
Professional services	343477	343477
Assessment on deposits and other taxes	401413	401413
Amortization of goodwill and other intangibles	81116	81116
Other operating expenses	1,8671,936	1,8671,936
<hr/>		
Total non-interest expense	10,05110,297	10,05110,297
<hr/>		
Income before federal income taxes	5,6635,237	5,6635,237
Income tax expense	1,4751,301	1,4751,301
<hr/>		
Net income before cumulative effect of accounting change	\$4,188\$3,936	\$4,188\$3,936
Cumulative effect of accounting change, net of tax SFAS 133(101)0	0	0
Net income	\$4,087\$3,936	\$4,087\$3,936
<hr/>		
<b>NET INCOME PER COMMON SHARE:</b>		
Basic before cumulative effect of accounting change	\$0.42\$0.38	\$0.42\$0.38
Dilutive before cumulative effect of accounting change	\$0.42\$0.38	\$0.42\$0.38
Basic	\$0.41\$0.38	\$0.41\$0.38
Diluted	\$0.41\$0.38	\$0.41\$0.38
Weighted average common shares outstanding:	Basic 10,020,097 10,406,020	Diluted 10,046,562 10,436,890

See notes to consolidated financial statements.

**Table of Contents**

Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)	Common Stock	Treasury Stock	Accumulated Other Comprehen- sive Income	Retained Earnings	Total	Comprehen- sive Income
Balance, January 1, 2000	\$36,966	\$(7,140)	\$(7,791)	\$94,312	\$116,347	
Comprehensive income: Net income						\$3,936
Other comprehensive income, net of tax						\$3,936
Change in unrealized market value adjustment on securities available-for-sale, net of tax						\$(806)
<hr/>						
Comprehensive income						\$3,130
<hr/>						
Cash dividends declared: common (\$ .16 per share)						\$(1,659)
Purchase of treasury shares						\$(1,757)
Common stock issued						\$22
dividend reinvestment plan						\$(22)
<hr/>						
<hr/>						
<hr/>						
<hr/>						
Balance, March 31, 2000	\$36,944	\$(8,897)	\$(8,597)	\$96,589	\$116,039	
<hr/>						
<hr/>						
<hr/>						
<hr/>						
Balance, January 1, 2001	\$36,935	\$(13,947)	\$281	\$93,928	\$117,197	
Comprehensive income: Net income						\$4,087
Other comprehensive income, net of tax						\$4,087
Change in other comprehensive income - SFAS						\$133
Change in unrealized market value adjustment on securities available-for-sale, net of tax						\$692,669
<hr/>						
Comprehensive income						\$7,246
<hr/>						

Cash dividends declared: common (\$.17 per share)(1,700)(1,700)Purchase of treasury shares(793)(793)Common stock issued dividend reinvestment plan1818

---



---



---



---



---

Balance, March 31,  
2001\$36,953\$(14,740)\$3,440\$96,315\$121,968

---



---



---



---



---

See notes to consolidated financial statements.

**Table of Contents**

Consolidated Statements of Cash Flows

Second Bancorp Incorporated and Subsidiary

(Dollars in thousands) Operating Activities	For the Three Months Ended	
	March 31 2001	March 31 2000
Net income	\$4,087	\$3,936
Adjustments to reconcile net income to netcash provided by operating activities:		
Provision for loan losses761687		
Provision for depreciation850860		
Provision for amortization of goodwill and core deposit intangibles81116		
Provision for allowance for mortgage servicing rights30		
Net gain / amortization on servicing rights(230)76		
(Accretion) amortization of		



investment discount and  
 premium(33)90Deferred  
 income  
 taxes0(63)Securities  
 gains(529)(99)Other  
 gains, net(841)(400)Net  
 decrease in trading  
 account  
 securities148114Decrease  
 (Increase) in interest  
 receivable1,063(232)Increase  
 (Decrease) in interest  
 payable52(177)Originations  
 of loans  
 held-for-sale(59,912)(14,464)Proceeds  
 from sale of loans  
 held-for-sale60,69514,750Net  
 change in other assets &  
 other  
 liabilities2,7141,097

---

Net cash provided by  
 operating  
 activities8,9366,291 **Investing**  
**Activities**Proceeds from  
 maturities of securities  
 available-for-sale26,5037,757Proceeds  
 from sales of securities  
 available-for-sale32,86212,188Purchases  
 of securities  
 available-for-sale(49,922)(38,531)Net  
 increase in  
 loans(6,395)(28,253)Net  
 increase in premises and  
 equipment(344)(896)

---

Net cash provided by  
 (used by) investing  
 activities2,704(47,735) **Financing**  
**Activities**Net  
 (decrease) increase in  
 demand deposits, interest  
 bearing demand and  
 savings  
 deposits(11,664)9,638Net  
 increase (decrease) in  
 time  
 deposits37,085(12,104)Net  
 (decrease) increase in  
 federal funds purchased  
 and securities sold under  
 agreements to  
 repurchase(10,211)30,108Decrease  
 in note  
 payable0(4,000)Net  
 decrease in  
 borrowings(2,117)(2,941)Net  
 advances from Federal  
 Home Loan

Bank4,85832,868Cash  
 dividends(1,700)(1,659)Purchase  
 of treasury  
 stock(793)(1,757)Net  
 issuance of common  
 stock18(22)

---



---

Net cash provided by  
 financing  
 activities15,47650,131

---



---

Increase in cash and cash  
 equivalents27,1168,687

---



---

Cash and cash  
 equivalents at beginning  
 of year35,27235,238

---



---

Cash and cash  
 equivalents at end of  
 period\$62,388\$43,925

---



---

Supplementary Cash  
 Flow Information:Cash  
 paid for 1) Federal  
 Income taxes \$0 and \$0  
 for the three months  
 ended March 31, 2001  
 and 2000, respectively  
 and 2) Interest  
 \$16,496,000 and  
 \$15,091,000 for the three  
 months ended March 31,  
 2001 and 2000,  
 respectively

See notes to consolidated financial statements.

---

**Table of Contents**

Notes to Consolidated Financial Statements (unaudited) Second Bancorp  
 Incorporated and Subsidiary  
 March 31, 2001  
 (Dollars in thousands)

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. Certain reclassifications have been made to amounts previously reported in order to conform to current period presentations. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

**NOTE 2 COMPREHENSIVE INCOME**

During the first three months of 2001 and 2000, total comprehensive income amounted to \$6,046 and \$4,730, respectively. The components of comprehensive income, net of tax, for the three month periods ended March 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Net income	\$4,087	\$3,936
Change in other comprehensive income SFAS 133 derivative holdings		
Unrealized losses on available-for-sale securities	2,669	(806)
<hr/>		
Comprehensive income	\$7,246	\$3,130
<hr/>		
<hr/>		

Accumulated other comprehensive income, net of related tax, at March 31, 2001 totaled \$3,440 and was comprised of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax, and other comprehensive income from SFAS 133 derivative holdings. Accumulated other comprehensive income (loss), net of related tax, at December 31, 2000 and March 31, 2000 totaled \$281 and \$(8,597), respectively, and were comprised entirely of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax. Disclosure of reclassification amounts:

	<u>January 1 to March 31, 2001</u>	<u>January 1 to March 31, 2000</u>
Unrealized holding gains (losses) arising during the period	\$ 3,198	\$ (707)
Less: reclassification for losses (gains) included in net income	(529)	(99)
<hr/>		
Net unrealized gains (losses) on available-for-sale securities	\$2,669	\$(806)
<hr/>		
<hr/>		

**NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS**

In June 1998, the Financial Accounting standard Board (FASB) issued Statement of Financial Accounting Standards

(SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activity as amended in June, 1999 by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and in June 2000, by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, (collectively SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of derivative (gains and losses) depends on the intended use of the derivative and resulting designation. On January 1, 2001, the Corporation adopted SFAS No. 133 resulting in a cumulative effect of accounting change transition adjustment of \$(101,000), after tax.

-7-

---

## **Table of Contents**

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Second Bancorp Incorporated and Subsidiary

### General

Second Bancorp Incorporated (the Company) is a one-bank holding company which owns The Second National Bank of Warren (the Bank), a Warren, Ohio based commercial bank. Operating through thirty-four branches the Bank offers a wide range of commercial and consumer banking and trust services primarily to business and individual customers in various communities in a nine county area in northeastern Ohio. The Bank focuses its marketing efforts primarily on local independent and professional firms and individuals that are the owners and principals of such firms.

### Forward-looking statements:

The sections that follow contain certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

### Financial Condition

At March 31, 2001, the Company had consolidated total assets of \$1.57 billion, deposits of \$1.06 billion and shareholders' equity of \$122 million. Since March 31, 2000, total assets have decreased by \$21 million or 1.3%, primarily as a result of the sale of \$130 million in mortgage loans during the third quarter of 2000. The sale resulted in a smaller balance sheet and lower exposure to long-term fixed rate assets. Gross loans have decreased by \$23 million to total \$1.076 billion. Consumer lending activities have resulted in a strong increase in outstanding balances, while the sale of residential real estate loan balances has reduced from a 42% concentration of total loans as of March 31, 2000 to 31% at the most recent quarter end. Consumer loans represented 29% of loans at the end of the first quarter of 2001 versus 21% for the first quarter of 2000. The loan loss reserve position increased from \$11.4 million at March 31, 2000 to \$15.8 million at March 31, 2001 primarily through the third quarter 2000 restructuring process that included a review process that yielded an additional provision of \$4 million. Cash, federal funds sold and other liquid assets increased by \$18 million over the past year as short-term funding was acquired to meet anticipated loan demand.

Funding growth has primarily been generated through advances from the Federal Home Loan Bank (FHLB). FHLB advances have increased by \$23 million over the past year.

Since December 31, 2000, total assets have increased by an annualized rate of 6.6%, primarily through an increase in liquid assets. Deposits have increased by \$25.4 million and now total \$1.06 billion. The increase in deposits was attributable to an increase in short-term time deposits totaling \$37 million during the period. The short-term funding was acquired to meet anticipated loan demand. Loan growth has been nominal over the last three months, increasing by \$6 million over the period.

## Results of Operations

### General.

The Company reported net operating income of \$4,188,000, exclusive of the \$101,000 cumulative effect of accounting change from the transition to SFAS 133. Net operating income for the first quarter represented a diluted forty-two cents (\$.42) per share. Operating return on average assets (ROA) and return on average total shareholders equity (ROE) were 1.08% and 14.09%, respectively for the first quarter of 2001 compared to 1.02% and 13.70% for last year's first quarter. A reduced net interest margin caused by a shift in funding from core deposits to more expensive large time deposits. The decline in net interest margin was offset by an increase in non-interest income coupled with a decline in non-interest expenses.

-8-

---

### Table of Contents

**Asset Quality.** The reserve for loan losses increased to 1.47% of loans through an addition of \$761,000 in provision coupled with lower than normal net charge-offs of .07%. Loan losses are expected to resume their more historical level of .25% to .30% of loans for the remainder of the year. The reserve was 1.03% of total loans at March 31, 2000. Non-accrual loans have increased over the past year and total \$5,163,000 as of March 31, 2001 versus \$3,068,000 as of the same date last year. Similarly, loans past due over 90 days and still accruing totaled \$3,849,000 as of March 31, 2001 versus \$2,082,000 as of the same date last year, reflecting the general economic slowdown in both the local and national economies.

**Net Interest Income.** Net interest income for the first quarter of 2001 decreased by \$502,000 from the same period last year to \$11,916,000. The decrease was primarily due to a lower net interest margin that is being influenced by a decline in low-cost core deposits and an increase in higher cost large time deposits. The net interest margin declined to 3.43% for the first quarter of 2001 versus 3.61% for the same period in 2000. Average interest earning assets increased by .7% during the past year, influenced strongly by the sale of mortgage loans in the third quarter of 2000.

**Non-interest Income.** Non-interest income totaled \$4,559,000, or 20% higher than the first quarter of 2000. The increase came from a variety of sources including 1) an increase in 20% of service charges on deposit accounts attributable to a revised deposit account structure, fee schedule and collection procedures, 2) a doubling of gains on sale of loans from \$391,000 to \$783,000 primarily due to lower mortgage rates and the resulting increase in refinancing activity and 3) a \$430,000 increase in gains on the sale of securities. The gains on the sale of securities were generated and proceeds reinvested in higher yielding securities improving future income streams. Trust income decreased by \$248,000, or 20%, from a year ago primarily to a reduction in assets under management.

**Non-interest Expense.** Expenses for the first quarter of 2001 were 2.4% lower than for the same period in 2000. Reductions in salaries and benefits, professional services, assessments on deposits and other taxes, amortization of goodwill and other intangibles and other operating expenses were realized.

**Capital resources.** Shareholders' equity has increased by \$6 million since March 31, 2000 due primarily to the increase in accumulated other comprehensive income (OCI), which increased by over \$11 million since a year earlier. Since December 31, 2000, shareholders' equity has increased by \$6.3 million primarily through earnings retention and an

increase in OCI. The company repurchased 54,800 shares of common stock into Treasury during the first quarter of 2001, which partially offset the increase in OCI. The Company has slightly more than 65,000 shares remaining under the present repurchase authorization. Repurchases under this authorization are expected to be completed through open market transactions at prevailing market prices and are discretionary, based upon management's periodic assessment of market conditions and financial benefit to the Company. This continuing repurchase authorization will remain in effect until amended or withdrawn by subsequent board action. As of March 31, 2001, the Company had repurchased 785,000 of the authorized shares of common stock.

Liquidity. Management of the Company's liquidity position is necessary to ensure that funds are available to meet the cash flow needs of depositors and borrowers as well as the operating cash needs of the Company. Funds are available from a number of sources including maturing securities, payments made on loans, the acquisition of new deposits, the sale of packaged loans, borrowing from the FHLB and overnight lines of credit of over \$37 million through correspondent banks. The parent company has three major sources of funding including dividends from the Bank, \$20 million in unsecured lines of credit with correspondent banks, which are renewable annually, and access to the capital markets. One million of the unsecured line of credit is in use as of March 31, 2001.

-9-

---

## **Table of Contents**

### Item 3. Qualitative and Quantitative Disclosure About Market Risk.

#### Forward-looking statements:

The sections that follow contain certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

#### Market Risk Management:

Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company's market risk is composed primarily of interest rate risk. The Company's Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit the exposure to interest rate risk. Since nearly the Company's entire interest rate risk exposure relates to the financial instrument activity of the Bank, the Bank's Board of Directors review the policies and guidelines established by ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is monitored through the use of two complementary measures: dynamic gap analysis and earnings simulation models. While each of the measurement techniques has limitations, taken together they represent a reasonably comprehensive tool for measuring the magnitude of interest rate risk inherent in the Company.

The earnings simulation model forecasts earnings for a one-year horizon frame under a variety of interest rate scenarios; including interest rate shocks, stepped rates and yield curve shifts. Management evaluates the impact of the various rate simulations against earnings in a stable interest rate environment. The most recent model projects net income would increase by 0.5% if interest rates would immediately rise by 200 basis points. It projects a decrease in net income of 2.0% if interest rates would immediately fall by 200 basis points. Management believes this reflects an appropriate level of risk from interest rate movements. The earnings simulation model includes assumptions about

how the various components of the balance sheet and rate structure are likely to react through time in different interest rate environments. These assumptions are derived from historical analysis and management's outlook. Management expects interest rates to have a neutral to downward bias for the remainder of 2001.

Interest rate sensitivity is managed through the use of security portfolio management techniques, the use of fixed rate long-term borrowings from the FHLB, the establishment of rate and term structures for time deposits and loans and the sale of long-term fixed rate mortgages through the secondary mortgage market. The Company also uses off-balance sheet swaps, caps and floors to manage interest rate risk.

-10-

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from such litigation or threat thereof will not have a material impact on the financial position or results of operations of the Company.

**Item 2. Changes in Securities Not Applicable**

**Item 3. Defaults upon Senior Securities Not Applicable**

**Item 4. Submission of Matters to a Vote of Security Holders**

(a) - (d) Second Bancorp Incorporated's Annual Meeting of Shareholders was held on March 8, 2001. The results of the votes on the matters presented to shareholders are as follows: Of the 10,000,760 issued and outstanding shares eligible to vote, 8,757,523 were represented at the meeting. The shareholders approved Proposal 1 to set the number of directors at eleven with 8,172,381 votes FOR, 500,052 votes AGAINST and 85,085 ABSTAINED. Elected to serve as directors of the Company in Class I until the 2003 Annual Meeting of Shareholders under Proposal 2 were:

Share voted FOR	Dr. David A. Allen, Jr.	8,233,274	WITHHELD	524,249
Share voted FOR	R. L. (Rick) Blossom	8,620,125	WITHHELD	137,398
Share voted FOR	Norman C. Harbert	8,232,063	WITHHELD	525,460
Share voted FOR	Phyllis J. Izant	8,070,691	WITHHELD	686,832
Share voted FOR	John L. Pogue	8,227,509	WITHHELD	530,014
Share voted FOR	Raymond John Wean, III	8,177,177	WITHHELD	580,346

Continuing directors include John A. Anderson, Alan G. Brant, Jack Gibson and James R. Izant.

The shareholders approved Proposal 3 to ratify the appointment of Ernst & Young LLP as the independent Certified Public Accountants of the Company with votes FOR of 8,653,157, votes AGAINST of 22,280 and votes ABSTAINED of 82,082.

Item 5. Other Information Not Applicable

Item 6. Exhibits and Reports on Form 8-K:

The following exhibits are included herein:

(11) Statement re: computation of earnings per share

The Company filed a report on Form 8-K on March 27, 2001 to announce an increase in the common stock dividend to \$.17 per share. The Company filed a report on Form 8-K on March 27, 2001 regarding earnings for the fourth quarter of 2000. The Company filed a report on Form 8-K on April 25, 2001 to announce earnings for the first quarter of 2001. The Company filed a report on Form 8-K on May 11, 2001 to announce the election of Rick L. Blossom as Chairman of Second Bancorp Incorporated and The Second National Bank of Warren.

-11-

---

**Table of Contents**

**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 thereunto duly authorized.

SECOND BANCORP INCORPORATED

Date: August 29, 2001

/s/ David L. Kellerman

\_\_\_\_\_  
David L. Kellerman, Treasurer

Signing on behalf of the registrant and as principal accounting officer and principal financial officer.

-12-