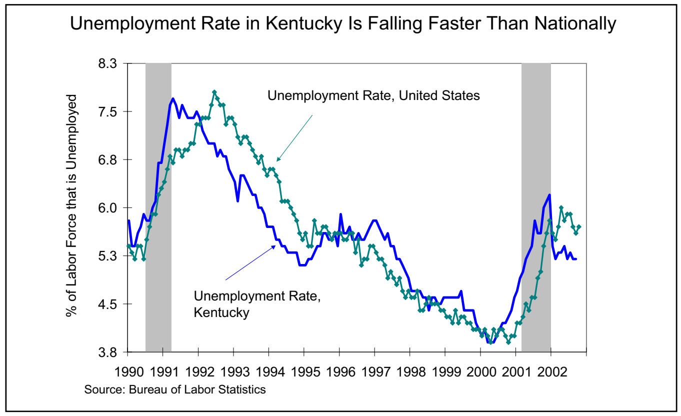
State Profile

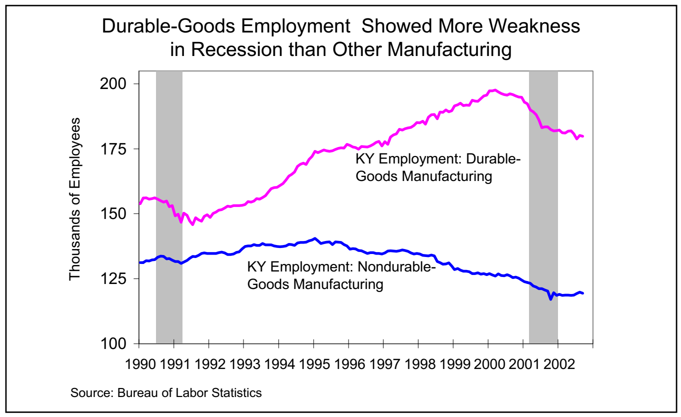
WINTER 2002

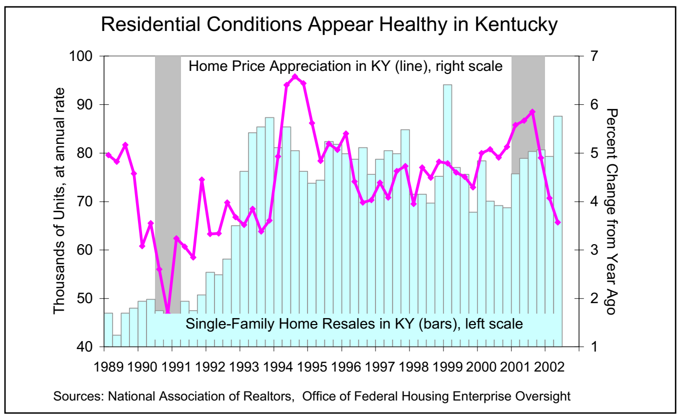
Kentucky

Kentucky Participates in the Economic Recovery

- Labor market indicators are a proxy for overall economic activity in the state. Repeating the pattern seen at the end of the prior recession, the state's unemployment rate recently has improved more quickly than the nation's (see top chart). Even so, Kentucky's rate has hovered near 5.3 percent so far in 2000, noticeably higher than its 4.0 percent rate in early 2000.
- The stabilization of the unemployment rate has been accompanied by modest job growth experienced to date in 2002. In fact, employment in July and August averaged the same as the prior high, experienced in fourth quarter 2000. For comparison, employment nationwide is about 1 percent below its prior peak level.
- Kentucky's producers of durable goods–those making industrial machinery and equipment, motor vehicles and other transportation equipment, and metals, for example–appear to have keenly felt the impact of the recent recession (see middle chart). In contrast, employment among manufacturers of nondurable-goods–such as apparel, textile products, and tobacco products–are dealing more heavily with longer-term structural declines in activity that have been under way for some years.
- Reflecting local economic conditions and favorable mortgage rates, home resales in the state have remained strong in recent quarters (see bars in bottom chart). This has been accompanied by moderate home price appreciation, as indicated by the line in the chart.
- The impacts of cyclical developments and longer-term structural forces vary considerably across the state. Areas heavily dependent on motor-vehicle production or appliance manufacturing may fare reasonably well if the recent sales pace is maintained. Warehousing and delivery services likely will see rising activity in step with the recovery. In contrast, areas dependent on apparel and textile manufacturing, for example, continue to face longer-term competitive challenges that predate the recent recession.
- The state and national economies in October appeared to be on track for continuing expansion, but the recovery is vulnerable to shocks that could arise at home or abroad.







Kentucky's banks and thrifts have weathered the recession well during the last year.

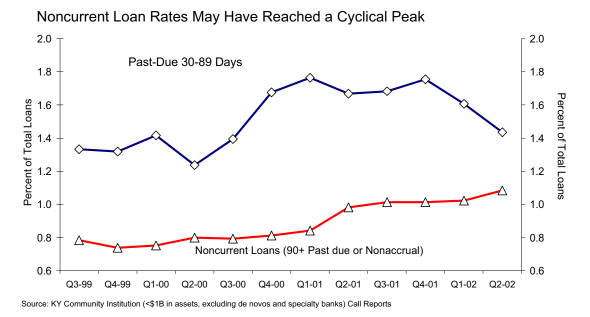
- Profitability, as measured by the median return on assets ratio, improved during the twelve months ending June 30, 2002, after falling a fair amount the prior year. Profitability was helped by an improvement in net interest margins associated with the steepening yield curve and continued migration toward higher-yielding commercial real estate (CRE) loans.

Earnings and Capital are Generally Sound in Kentucky

Median Ratio	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02
Net Interest Margin	4.37	4.28	4.14	4.28	3.97	4.04
Return on Assets	1.29	1.27	1.19	1.21	1.03	1.10
Tier 1 Capital	9.67	9.51	9.36	9.66	9.49	9.23

Source: Bank and Thrift Call Reports

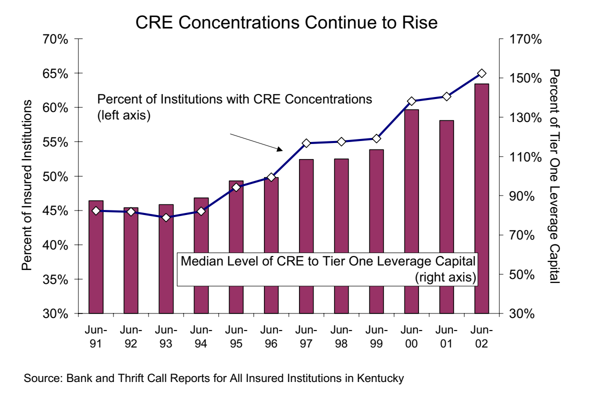
- Much of the improvement in margins stemmed from a significant drop in the cost of interest-bearing liabilities. Kentucky's institutions have a relatively high level of noncore funding, and as these liabilities tend to be more sensitive to interest rate movements, institutions may have overly benefited from the falling rate environment in 2001. Nevertheless, certain segments of the state, such as the area near *Cincinnati*, may continue to face margin pressures due to some very competitive banking markets.



- Kentucky's loan delinquencies improved modestly in the first two quarters of 2002 (see chart). Loans 30-89 days past due have lessened, while noncurrent loans (those 90+ days past due or in nonaccrual status) continued to trend higher. Nevertheless, improvement in the 30-89 day delinquency segment may indicate that the worst of credit quality deterioration may have been seen for this credit cycle.

Commercial real estate exposures continue to grow.

- A substantial share of the banks in the state are focused on commercial and industrial (C&I) or commercial real estate (CRE) lending, with CRE exposures continuing to increase. During the last several years, the percentage of institutions in the state with concentrations in CRE lending has risen considerably (see bottom chart). Prudent insured institutions will need to manage this loan segment carefully, since CRE has historically been susceptible to higher chargeoff levels, especially during economic downturns.



Kentucky at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	254	263	284	292	309	314
Total Assets (in thousands)	57,803,753	56,946,444	54,135,509	55,490,817	55,730,176	60,567,593
New Institutions (# < 3 years)	12	16	19	20	19	14
New Institutions (# < 9 years)	41	41	39	40	37	31
Capital						
Tier 1 Leverage (median)	9.23	9.49	9.66	9.36	9.51	9.67
Asset Quality						
Past-Due and Nonaccrual (median %)	2.30%	2.33%	1.77%	1.89%	2.33%	2.12%
Past-Due and Nonaccrual ≥ 5%	35	38	22	19	26	23
ALLL/Total Loans (median %)	1.25%	1.17%	1.18%	1.19%	1.21%	1.23%
ALLL/Noncurrent Loans (median multiple)	1.53	1.42	1.68	1.73	1.74	1.91
Net Loan Losses/Loans (aggregate)	0.48%	0.36%	0.22%	0.37%	0.32%	0.32%
Earnings						
Unprofitable Institutions (#)	19	19	18	21	17	15
Percent Unprofitable	7.48%	7.22%	6.34%	7.19%	5.50%	4.78%
Return on Assets (median %)	1.10	1.03	1.21	1.19	1.27	1.29
25th Percentile	0.68	0.64	0.84	0.86	0.92	0.99
Net Interest Margin (median %)	4.04%	3.97%	4.28%	4.14%	4.28%	4.37%
Yield on Earning Assets (median)	6.92%	8.27%	8.29%	7.88%	8.27%	8.29%
Cost of Funding Earning Assets (median)	2.92%	4.32%	4.04%	3.77%	4.03%	3.96%
Provisions to Avg. Assets (median)	0.16%	0.16%	0.15%	0.13%	0.12%	0.16%
Noninterest Income to Avg. Assets (median)	0.64%	0.64%	0.60%	0.59%	0.60%	0.61%
Overhead to Avg. Assets (median)	2.80%	2.87%	2.78%	2.78%	2.77%	2.80%
Liquidity/Sensitivity						
Loans to Deposits (median %)	81.70%	83.68%	86.02%	81.46%	79.99%	78.52%
Loans to Assets (median %)	66.49%	67.34%	68.79%	65.88%	66.16%	64.49%
Brokered Deposits (# of Institutions)	34	41	43	43	50	49
Bro. Deps./Assets (median for above inst.)	1.19%	0.82%	1.02%	1.71%	1.53%	1.45%
Noncore Funding to Assets (median)	19.73%	20.80%	19.20%	17.78%	15.99%	14.56%
Core Funding to Assets (median)	68.86%	67.76%	68.35%	71.00%	72.04%	73.47%
Bank Class						
State Nonmember	165	168	183	186	194	192
National	51	52	58	61	67	70
State Member	11	11	9	8	8	9
S&L	10	10	11	11	14	14
Savings Bank	17	22	23	26	26	29
Mutually Insured	0	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	178	22,012,881	70.08%	38.08%
Lexington KY	22	4,095,149	8.66%	7.08%
Louisville KY-IN	19	23,166,396	7.48%	40.08%
Cincinnati OH-KY-IN PMSA	16	3,093,582	6.30%	5.35%
Huntington-Ashland WV-KY-OH	9	1,309,004	3.54%	2.26%
Owensboro KY	5	3,396,221	1.97%	5.88%
Clarksville-Hopkinsville TN-KY	3	541,131	1.18%	0.94%
Evansville-Henderson IN-KY	2	189,389	0.79%	0.33%