FDIC State Profile

**Summer 2004**

# Kentucky

### Kentucky's economic recovery is showing signs of momentum.

- Increased hiring eased Kentucky's unemployment rate to 5.4 percent. Forty-six percent of counties showed significant declines from a year earlier (See Map 1).
- Kentucky gained 6,700 jobs in first quarter 2004, the largest year-over-year increase since late 2000 and 0.4 percent above first quarter 2003.
- Job growth occurred mainly in the service sectors. The rate of manufacturing job loss continued to slow but remains particularly weak in the primary metals, computer products, electrical equipment, and apparel sectors.

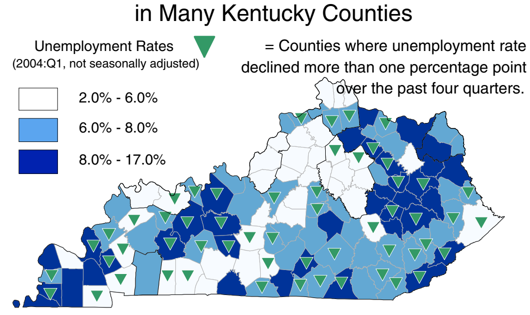
### Major metropolitan areas see positive job growth.

- After notable job losses during the recession, Kentucky's two largest metropolitan areas saw payroll gains in line with national growth (See Chart 1).
- The outlook for ***Louisville*** is positive. Citicorp plans to add 1,600 jobs in a new call center by 2005, while GE plans to move a unit from Connecticut to its Louisville facility.[1]
- *Forbes Magazine* named ***Lexington*** the ninth best large metropolitan area in the "2004 Best Places for Business" edition, reflecting the availability of skilled labor, low business costs, and other factors.[2]

### Real estate markets continue moderate growth.

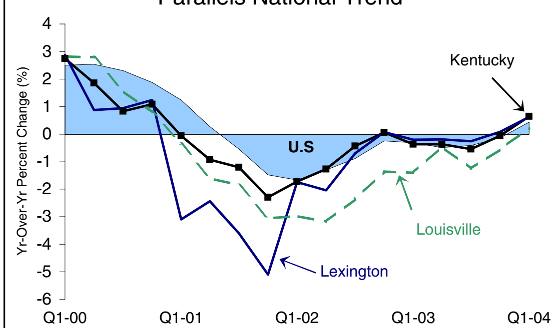
- ***Louisville's*** central business district (CBD) office market posted net absorption and solid leasing activity in first quarter 2004, as did the industrial market. The vacancy rate fell in the CBD but rose in the larger suburban office market and for industrial space. Industrial rents may hold steady, however, as little additional space is expected to become available during 2004.[3]
- Home price appreciation improved in fourth quarter 2003 but remains below the rate prior to the latest recession.

Map 1: Unemployment Rates Have Declined in Many Kentucky Counties



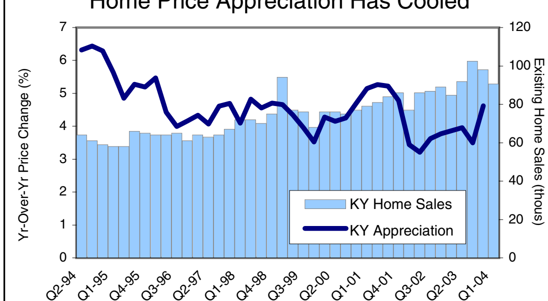

Note: Dark outlined counties are metropolitan areas (1999 definitions).
Source: Bureau of Labor Statistics

Chart 1: Improving Job Growth in Kentucky Parallels National Trend




Source: Bureau of Labor Statistics

Chart 2: Despite Fourth-Quarter Rise, Kentucky's Home Price Appreciation Has Cooled




Sources: National Association of Realtors, Office of Federal Housing Enterprise Oversight

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[1] Economy.com, Inc. Kentucky Précis, March 2004
[2] Kurt Badenhause. "Best Places for Business," Forbes (May 7, 2004).
[3] Grubb & Ellis Research, First Quarter 2004.

Home sales moderated in first quarter after rising interest rate concerns spurred a 2003 spike (See Chart 2).

**High bankruptcy and foreclosure rates in Kentucky highlight household financial stress.**

- Personal bankruptcies rose sharply in 2003 to a record of almost 30,000 filings. However, year-over-year growth slowed considerably in fourth quarter, and filings in first quarter 2004 were below year-earlier levels for the first time in seven quarters. The conventional mortgage foreclosure rate rose to 1.92 percent in 2003, the eighth highest rate in the country.
- On a positive note, personal income growth accelerated in line with the national trend, hitting 4.3 percent in fourth quarter relative to a year earlier (See Chart 3).

**Poor consumer fundamentals have not resulted in asset quality problems among insured institutions.**

- For community institutions headquartered in Kentucky, the past-due and nonaccrual rate (PDNA) declined 23 basis points from March 31, 2003 to 2.5 percent as of March 31, 2004.[4]
- All major loan types, except nonresidential real estate, posted lower PDNA rates. Notably, the PDNA for consumer loans dropped to 2.68 percent, the lowest since before the recession (See Chart 4).
- The median allowance for loan and lease losses to noncurrent loans of 1.66 percent remained within the 1.45- to 1.85-percent range of the past five years, which is relatively high compared with the rest of the Region.[5]

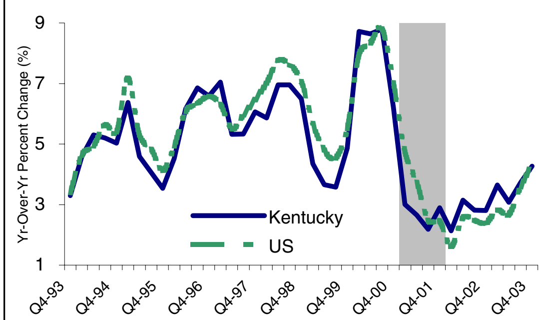
**Profitability of community institutions rose slightly.**

- The first quarter 2004 return on assets reported by Kentucky's community institutions increased modestly from March 31, 2003 (See Table 1). The decline in provision expense, which resulted in the majority of the increase in profitability, mirrored improvements in loan quality and charge-off rates.

**Net interest margin (NIM) increased for the first time in five consecutive quarters.**

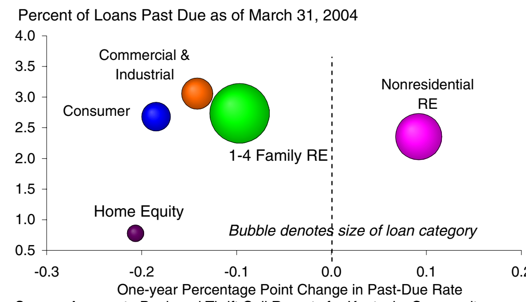
- In first quarter 2004, Kentucky was the only state in the Region to record an increase in its median NIM, compared to first quarter 2003. As of March 31, 2004, the median NIM equaled 3.99 percent in Kentucky, up ten basis points from a year earlier.
- Although the NIM of Kentucky institutions is relatively high, their median cost of funds has averaged ten basis points higher over the past five years than for all institutions in the Chicago Region. However, the impact of higher-cost funds has been countered by an annual median yield on earning assets that averaged 29 basis points higher than elsewhere.

Chart 3: Personal Income Growth Is Climbing but Remains Well Below Pre-Recession Levels




Source: Bureau of Economic Analysis

Chart 4: Kentucky's First-Quarter Past-Due Rates Are Lower Across Most Lending Categories




Source: Aggregate Bank and Thrift Call Reports for Kentucky Community Institutions

Table 1: Earnings Performance Improved at Kentucky Community Banks and Thrifts

Income statement contribution (as a percentage of average assets)

| | 3 months ended March 31 | | Basis Point Change |
|---|---|---|---|
| | 2003 | 2004 | |
| Net Interest Income | 3.62 | 3.62 | 0.00 |
| Noninterest Income | 0.89 | 0.82 | -0.07 |
| Noninterest Expense | -2.83 | -2.88 | -0.04 |
| Provision Expense | -0.30 | -0.18 | 0.12 |
| Security Gains & Losses | 0.07 | 0.05 | -0.02 |
| Income Taxes | -0.36 | -0.32 | 0.04 |
| Net Income (ROA) | 1.08 | 1.12 | 0.04 |

Source: Aggregate Bank and Thrift Call Reports for Community Institutions

[4] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts.
[5] Chicago Region includes Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

# Kentucky at a Glance

| General Information | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| Institutions (#) | 243 | 250 | 257 | 263 | 287 |
| Total Assets (in thousands) | 47,510,060 | 56,035,841 | 57,193,669 | 55,306,817 | 54,564,435 |
| New Institutions (# < 3 years) | 7 | 12 | 14 | 15 | 18 |
| New Institutions (# < 9 years) | 39 | 42 | 41 | 39 | 39 |

| Capital | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median) | 9.22 | 9.04 | 9.21 | 9.43 | 9.59 |

| Asset Quality | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual (median %) | 2.27% | 2.51% | 2.30% | 2.40% | 2.08% |
| Past-Due and Nonaccrual >= 5% | 25 | 32 | 37 | 37 | 25 |
| ALLL/Total Loans (median %) | 1.31% | 1.28% | 1.24% | 1.17% | 1.20% |
| ALLL/Noncurrent Loans (median multiple) | 1.72 | 1.70 | 1.46 | 1.57 | 1.97 |
| Net Loan Losses/Loans (aggregate) | 0.16% | 0.44% | 0.43% | 0.31% | 0.26% |

| Earnings | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| Unprofitable Institutions (#) | 11 | 10 | 20 | 24 | 18 |
| Percent Unprofitable | 4.53% | 4.00% | 7.78% | 9.13% | 6.27% |
| Return on Assets (median %) | 1.11 | 1.06 | 1.07 | 1.05 | 1.19 |
| 25th Percentile | 0.71 | 0.67 | 0.68 | 0.67 | 0.81 |
| Net Interest Margin (median %) | 3.99% | 3.89% | 3.97% | 3.99% | 4.22% |
| Yield on Earning Assets (median) | 5.75% | 6.20% | 6.98% | 8.36% | 8.18% |
| Cost of Funding Earning Assets (median) | 1.74% | 2.26% | 3.01% | 4.42% | 3.97% |
| Provisions to Avg. Assets (median) | 0.13% | 0.19% | 0.15% | 0.14% | 0.14% |
| Noninterest Income to Avg. Assets (median) | 0.66% | 0.69% | 0.62% | 0.61% | 0.58% |
| Overhead to Avg. Assets (median) | 2.90% | 2.87% | 2.79% | 2.88% | 2.76% |

| Liquidity/Sensitivity | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| Loans to Deposits (median %) | 81.36% | 77.92% | 80.10% | 82.35% | 83.86% |
| Loans to Assets (median %) | 66.01% | 65.40% | 65.26% | 66.74% | 67.94% |
| Brokered Deposits (# of Institutions) | 40 | 38 | 37 | 41 | 45 |
| Bro. Deps./Assets (median for above inst.) | 3.04% | 1.74% | 1.21% | 0.71% | 1.10% |
| Noncore Funding to Assets (median) | 20.50% | 19.83% | 20.22% | 19.98% | 18.51% |
| Core Funding to Assets (median) | 68.04% | 68.51% | 68.67% | 68.06% | 69.44% |

| Bank Class | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|---|---|---|---|---|---|
| State Nonmember | 162 | 164 | 167 | 167 | 183 |
| National | 48 | 50 | 51 | 51 | 58 |
| State Member | 7 | 9 | 11 | 11 | 9 |
| S&L | 9 | 10 | 10 | 11 | 11 |
| Savings Bank | 17 | 17 | 18 | 23 | 26 |
| Stock and Mutual SB | 0 | 0 | 0 | 0 | 0 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| No MSA | 173 | 23,752,233 | 71.19% | 49.99% |
| Lexington KY | 24 | 4,967,972 | 9.88% | 10.46% |
| Louisville KY-IN | 16 | 13,793,756 | 6.58% | 29.03% |
| Cincinnati OH-KY-IN PMSA | 14 | 1,863,444 | 5.76% | 3.92% |
| Huntington-Ashland WV-KY-OH | 8 | 1,385,867 | 3.29% | 2.92% |
| Owensboro KY | 3 | 680,476 | 1.23% | 1.43% |
| Clarksville-Hopkinsville TN-KY | 3 | 865,518 | 1.23% | 1.82% |
| Evansville-Henderson IN-KY | 2 | 200,794 | 0.82% | 0.42% |