

October 30, 2007

**Quarterly Report
Third Quarter 2007**

We have two construction projects currently underway, and both are proceeding nicely. Both projects will help us better serve our current customers and attract new ones.

Soon we will be opening a new banking office in downtown Paris. The building we purchased at 401 Main Street, now known as the Bourbon Banking Center, has been refurbished and will have a substantial amount of our own customer parking for the first time. More drive-in lanes have been built to provide greater convenience. Our lending and deposit taking functions will be located close to each other for additional customer convenience. We are consolidating two other downtown offices into this nice new one. Plans are to open this new facility in early November.

In Morehead we are constructing a brand new facility near downtown. The site is at a very busy intersection, and highly visible to the public. Construction is well underway and we expect to open this office early in 2008. Because Morehead is on Interstate 64 and is the home of Morehead State University, continuing population growth is expected. Our new location should help us attract additional customers in this important market.

Details of our financial results are included with this report. For the year to date, our earnings are up 9%. Earnings per share on a fully diluted basis, for the first three quarters are \$1.79, up from \$1.72 for the same period a year ago. For the third quarter alone, fully diluted earnings per share of \$0.58 is down slightly from the \$0.60 reported in 2006.

The national news has been full of unfortunate stories about sub-prime lending, falling real estate prices, and increased foreclosures. Some larger banks have been hurt by these practices. Kentucky Bank has not purchased securities backed by these sub-prime loans, and our mortgage credit standards have not been lowered. We are not expecting any significant negative impact. However, we do finance homebuilders. Some of them could be hurt by slowing demand and lower home prices. Therefore, we are watching this portfolio closely to be sure we take any necessary corrective action promptly.

As always, we thank you for your investment in your company. We will continue to protect your investment and work to build your business.

Louis Prichard
President, CEO