

October 28, 2008

**Quarterly Report
Third Quarter 2008**

For the third quarter of 2008, we reported a \$1.36 million profit, compared with \$1.67 million for the third quarter of 2007, a decline of 18.8%. On a year to date basis, earnings for the nine months ended September 30, 2008, were \$4.03 million as compared to the \$5.15 million earned through September 30, 2007. This represented a 21.6% drop in earnings on a year to date basis. Assets totaled \$636.7 million on September 30, 2008, a 4.0% increase over the September 30, 2007 \$612.0 million figure.

Total loans have increased from \$418.8 million at the end of June 30, 2008 to \$421 million at the end of September 30, 2008. While we do not know that this trend will continue considering the economy, we are pleased by this increase in loan demand. The global, national, and regional economies have certainly undergone dramatic changes since our last quarterly report. As we have all been made aware by the media, the economy is slipping into what is now defined as a recession, and the ultimate question remains as to how long it will last and how deep it will be.

The markets that Kentucky Bank serves are certainly impacted by these times, as well. Home sales continue to slide, retail sales are on the decline, and unemployment numbers continue to increase. The management of the bank continues to be very aggressive in working on credit issues as they arise. As a prudent bank, it is imperative that we take this posture during these uncertain economic times.

Additionally, this is an environment in which we should take aggressive steps to control our expenses, as we prepare our budget for 2009. Along those lines, management has made a decision to terminate our Defined Benefit Plan as of December 31, 2008. These plans have become expensive to administer and because regulations relating to these plans have become so burdensome, we concluded it to be in the long term best interest of the bank, the shareholders, and the employees to terminate the plan. Our estimates anticipate that we will save approximately \$4 million over a ten year period as a result.

We always want to ensure that our bank is positioned to accommodate future growth when the economy does rebound. Along those lines, I am happy to say that progress is being made on the construction of our new Nicholasville office. We are coming in on budget, and may have this office on line prior to our anticipated date in the early spring. As always, we continue to look at new products and services, as well as focusing on the delivery of premier customer service. By continuing to add value to our banking customer relationships, we will provide the appropriate return to our shareholders.

It is with very mixed emotions that we are announcing, as of January 2009, Chairman Buckner Woodford IV has decided to retire. However, we are fortunate to have him continue in his position as Chairman of the Board. Buck's vision and leadership through the last 37 years have helped contribute to the growth and profitability of the bank. Without question, Buck's tenure at Kentucky Bank has proven to be of tremendous benefit to our customers and our shareholders. He will now have the opportunity to pursue other activities with that same energy and insight. Beyond that, I personally want to thank Buck for all that he has done for Kentucky Bank and Kentucky Bancshares, and I look forward to his continued advice and counsel as we move forward.

As always, we appreciate your support and confidence.

Louis Prichard
President, CEO

UNAUDITED

CONSOLIDATED BALANCE SHEET

	9/30/2008	9/30/2007	Percentage Change
Assets			
Cash & Due From Banks	\$ 14,191,970	\$ 13,420,164	5.8%
Securities	145,135,199	125,596,032	15.6
Loans Held For Sale	40,000	254,400	-84.3
Loans	420,552,066	423,130,006	-0.6
Reserve for Loan Losses	5,757,658	4,781,278	20.4
Net Loans	414,794,408	418,348,728	-0.8
Federal Funds Sold	14,676,000	9,188,000	59.7
Other Assets	47,841,582	45,182,566	5.9
Total Assets	\$636,679,159	\$611,989,890	4.0%
Liabilities & Stockholders' Equity			
Deposits			
Demand	\$ 93,859,909	\$ 87,409,373	7.4%
Savings & Interest Checking	145,482,377	132,269,814	10.0
Certificates of Deposit	232,236,700	243,097,465	-4.5
Total Deposits	471,578,986	462,776,652	1.9
Repurchase Agreements	8,656,381	11,506,568	-24.8
Other Borrowed Funds	95,173,186	73,058,675	30.3
Other Liabilities	5,558,139	7,156,770	-22.3
Total Liabilities	580,966,692	554,498,665	4.8
Stockholders' Equity	55,712,467	57,491,225	-3.1
Total Liabilities & Stockholders' Equity	\$636,679,159	\$611,989,890	4.0%

CONSOLIDATED INCOME STATEMENT

	Nine Months Ending			Three Months Ending		
	9/30/2008	9/30/2007	Percentage Change	9/30/2008	9/30/2007	Percentage Change
Interest Income	\$26,716,449	\$29,641,511	-9.9%	\$ 8,788,176	\$ 9,801,190	-10.3%
Interest Expense	11,682,880	14,374,892	-18.7	3,688,165	4,653,672	-20.7
Net Interest Income	15,033,569	15,266,619	-1.5	5,100,011	5,147,518	-0.9
Loan Loss Provision	1,500,000	650,000	130.8	600,000	330,000	81.8
Net Interest Income After Provision	13,533,569	14,616,619	-7.4	4,500,011	4,817,518	-6.6
Other Income	6,011,025	5,981,218	0.5	1,976,361	2,043,727	-3.3
Other Expenses	14,352,348	13,539,146	6.0	4,736,201	4,590,720	3.2
Income Before Taxes	5,192,246	7,058,691	-26.4	1,740,171	2,270,525	-23.4
Income Taxes	1,157,308	1,909,038	-39.4	383,821	600,577	-36.1
Net Income	\$ 4,034,938	\$ 5,149,653	-21.6	\$ 1,356,350	\$ 1,669,948	-18.8
Net Change in Unrealized Gain (loss)						
on Securities	(1,589,827)	(111,999)	-1319.5	(739,557)	1,268,265	-158.3
Comprehensive Income	\$ 2,445,111	\$ 5,037,654	-51.5%	\$ 616,793	\$ 2,938,213	-79.0%
Selected Ratios						
Return on Average Assets	0.85%	1.08%		0.85%	1.08%	
Return on Average Equity	9.3	12.2		9.4	12.0	
Earnings Per Share	\$ 1.44	\$ 1.80		\$ 0.49	\$ 0.58	
Earnings Per Share - assuming dilution	1.44	1.79		0.49	0.58	
Cash Dividends Per Share	0.84	0.81		0.28	0.27	
Book Value Per Share	20.28	20.15				
Market Price						
	High	Low	Close			
Third Quarter '08	\$27.25	\$24.00	\$26.00			
Second Quarter '08	\$30.00	\$27.00	\$27.25			