

August 4, 2010

**Quarterly Report
Second Quarter 2010**

We are pleased to report for the second quarter ended June 30, 2010, earnings for your company were up 30.7% when compared to the June 30, 2009 earnings. We reported \$1.18 million in profit for the second quarter of 2010, compared to \$903.7 thousand for the second quarter of 2009. On a year to date basis, we earned \$2.13 million compared to \$2.07 million for the six months ended June 30, 2009, a 2.6% increase. Earnings per share on a fully diluted basis, increased from \$0.76 per share to \$0.78 per share through June 30, 2010.

Additionally, we are pleased to announce that the total assets of Kentucky Bank reached \$687.2 million at June 30, 2010, which represents a 5.9% increase over the period ended June 30, 2009. Deposits increased 12.3% from \$494.1 million to \$554.9 million.

As has been said in prior quarterly reports, the state of the national and local economies still provides a large measure of uncertainty as we prepare for the second half of 2010 and even into 2011. We are now seeing mixed reports concerning the status of our economy as exemplified by the national unemployment rate hovering at 9.5% and the Kentucky unemployment rate at 10.2% as of the date of this letter. The housing market continues to be difficult in the markets that we serve, and the manufacturing sector continues to face certain difficulties. However, recent reports show that retail sales have shown improvement in the month of May, which may be an indicator of some positive trends. On balance, all of these factors still indicate that for the remainder of 2010, the economy is still a bit fragile.

We believe that in today's world there are still opportunities to pursue. We believe that because of the increased number of troubled banks in our market areas, we will have an ability to move market share for your bank. As the result of that belief, we have put into action some strategic initiatives to accomplish that goal.

Carol Norton is now heading up our Corporate Business Department with that area focused on providing automated banking services to our business customers.

In terms of additional people that have joined your company, we have hired Tom James to manage our Downtown Morehead office. Tom brings with him thirteen years of banking experience and has served in various civic capacities related to economic development.

Most recently Nick Woods has joined our Trust and Wealth Management Department, and his primary responsibilities will be in the area of business development. Nick brings with him ten years of prior Trust experience, and has an MBA from the University of Kentucky as well as having obtained the status of Certified Trust Financial Advisor.

Recently, we have added Regional Board members who, we believe, can help us with our business opportunities in various markets. We look forward to their contributions, as well as continued contributions from our existing regional directors. We are pleased to announce the following people have agreed to serve in our markets.

Bobby Shiflet, owner of Frames on Main, has joined our Bourbon Market.
Trent Hamilton, owner of Hamilton Incorporated, has joined our East KY Market.

Ann Getting, Plant Manager at 3M, has joined our Harrison Market.
Katy Prather, Realtor with Keller Williams, has joined our Scott Market.

Carolyn McDonald, Realtor with Rector Hayden, has joined our Woodford Market.

Finally, we are also very pleased to announce that *U.S. Banker* magazine has recognized Kentucky Bank as one of the nation's top 200 community banks. With over 6,000 community banks in the country, we believe that this is a reflection of your bank's long term stability, along with our efforts to do what is in the long term best interest of our customers, employees, and shareholders.

As always, we appreciate your support.

Louis Prichard
President, CEO

UNAUDITED

CONSOLIDATED BALANCE SHEET

	6/30/2010	6/30/2009	Percentage Change
Assets			
Cash & Due From Banks	\$ 13,566,766	\$ 13,675,111	-0.8%
Securities	191,625,562	172,075,329	11.4
Loans Held For Sale	294,800	0	n/m
Loans	416,474,796	417,555,563	-0.3
Reserve for Loan Losses	6,460,927	6,372,929	1.4
Net Loans	410,013,869	411,182,634	-0.3
Federal Funds Sold	16,837,000	25,000	672.5
Other Assets	54,816,975	51,768,287	5.9
Total Assets	\$ 687,154,972	\$ 648,726,361	5.9%
Liabilities & Stockholders' Equity			
Deposits			
Demand	\$ 117,022,918	\$ 95,083,873	23.1%
Savings & Interest Checking	160,874,631	139,219,785	15.6
Certificates of Deposit	277,033,341	259,790,859	6.6
Total Deposits	554,930,890	494,094,517	12.3
Repurchase Agreements	4,340,585	8,715,189	-50.2
Other Borrowed Funds	58,830,688	77,537,076	-24.1
Other Liabilities	6,193,764	9,570,083	-35.3
Total Liabilities	624,295,927	589,916,865	5.8
Stockholders' Equity	62,859,045	58,809,496	6.9
Total Liabilities & Stockholders' Equity	\$ 687,154,972	\$ 648,726,361	5.9%

CONSOLIDATED INCOME STATEMENT

	Six Months Ending			Three Months Ending		
	6/30/2010	6/30/2009	Percentage Change	6/30/2010	6/30/2009	Percentage Change
Interest Income	\$ 15,448,422	\$ 16,104,728	-4.1%	\$ 7,876,830	\$ 7,907,994	-0.4%
Interest Expense	5,447,301	6,679,492	-18.4	2,745,055	3,234,176	-15.1
Net Interest Income	10,001,121	9,425,236	6.1	5,131,775	4,673,818	9.8
Loan Loss Provision	1,250,000	900,000	38.9	800,000	450,000	77.8
Net Interest Income After Provision	8,751,121	8,525,236	2.6	4,331,775	4,223,818	2.6
Other Income	4,116,720	4,563,703	-10.8	2,369,947	2,562,157	-9.3
Other Expenses	10,507,694	10,848,311	-3.6	5,335,341	5,964,377	-11.3
Income Before Taxes	2,360,147	2,240,628	5.3	1,366,381	821,598	66.3
Income Taxes	234,628	169,644	38.3	185,281	(82,076)	325.7
Net Income	\$ 2,125,519	\$ 2,070,984	2.6	\$ 1,181,100	\$ 903,674	30.7
Net Change in Unrealized Gain (loss)						
on Securities	891,283	818,877	8.8	685,050	(217,594)	414.8
Comprehensive Income	\$ 3,016,802	\$ 2,889,861	4.4%	\$ 1,866,150	\$ 686,080	172.0%
Selected Ratios						
Return on Average Assets	0.60%	0.61%		0.66%	0.54%	
Return on Average Equity	6.9	7.1		7.6	6.1	
Earnings Per Share	\$ 0.78	\$ 0.76		\$ 0.43	\$ 0.33	
Earnings Per Share - assuming dilution	0.78	0.76		0.43	0.33	
Cash Dividends Per Share	0.42	0.40		0.21	0.20	
Book Value Per Share	22.93	21.43				

Market Price	High	Low	Close
Second Quarter '10	\$18.00	\$15.75	\$15.75
First Quarter '10	\$18.00	\$16.00	\$17.50