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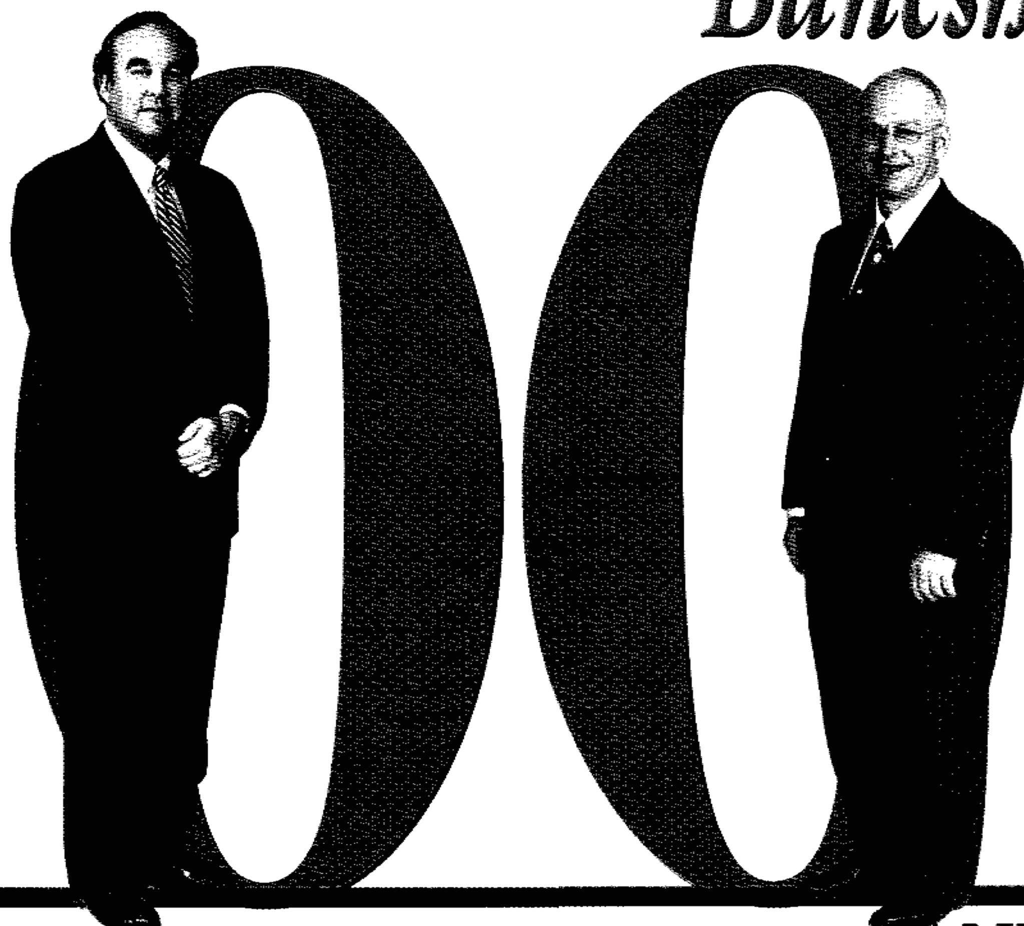
Kentucky Bancshares, Inc.



2006

ANNUAL REPORT

Introduction

Kentucky Bank sponsors and co-sponsors many types of community events throughout our regions. The events in 2006 included the Kentucky Bank High School Basketball Shootout, Big Brothers Big Sisters Duck Race, various community picnics, Chamber of Commerce events, grand openings, Wealth Management's Polo event, and sponsorships at school events in every community.

We are proud to have fifteen banking centers in the eight Kentucky Counties we serve. Cynthiana, Georgetown, Morehead, N. Middletown, Nicholasville, Paris, Versailles, Sandy Hook, Wilmore and Winchester make up the communities Kentucky Bank calls home.

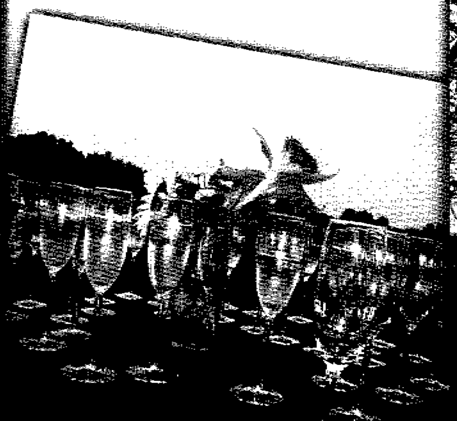
Kentucky Bank increased its service markets by two communities in 2006. Our new East Kentucky Region includes banking offices in Morehead and Sandy Hook. To accommodate our growth in Rowan County, we will begin construction in 2007 on another office to serve our Morehead customers.

During 2006 we purchased an additional building in downtown Paris. We will be remodeling that office and converting it to our downtown lobby to better serve our customers. This will provide our Bourbon County customers with more convenient drive-through and parking facilities.

Technology has changed the manner and speed in which the world conducts its banking. The collection of funds, the movement of actual checks and electronic transmissions, as well as communication with customers, grows faster by the moment. We maintain our commitment to be at the forefront of new opportunities in technology. Online Banking continues to grow as a popular way for our customers to conduct their banking business.

We strongly believe that whether the customer is served directly or indirectly, each of us has an obligation to deliver premier service. Our strategy is such that we want to distinguish ourselves from other financial institutions by providing excellent service. Throughout this annual report you will see photos of our employees and directors, certainly our greatest assets.

At Kentucky Bank we are committed to an ongoing education program. As an organization, we can only reach our goals with a committed, intelligent, and service oriented staff. We have continuing education opportunities readily available to our employees. Whether they are interested in attending a graduate school of banking or simply an online education course, we encourage everyone to gain additional knowledge. By acquiring this knowledge, we feel that our customers can obtain the product that best meets their financial needs and we can provide the best in customer service.



COMMUNITY

Dear Shareholders:

For the year ended December 31, 2006, the assets of your company reached a year-end record high of $629.5 million, which represents a 9.9% increase over last year's total assets of $572.7 million. Loans increased 19.7% to reach $444.1 million; also a new year-end high.

Deposits grew 8.6% over the prior year to reach a record high of $468.8 million. Much of that growth, along with growth in the loan area, can be attributable to not only our natural growth in our current markets, but also to our merger with Peoples Bank of Morehead and Sandy Hook which took place on July 7, 2006. Earnings per share, on a diluted basis, were $2.34, an 8.3% increase over the year ended December 31, 2005. Net income reached a record high of $6.5 million, which represented an 11.4% increase over the prior year-end. Again, these positive results can be traced to not only our natural growth in earnings, but also the addition of the earnings contributed by Peoples Bank. Our net interest margins continue to be compressed not only as a result of the flat, if not inverted, yield curve that exists in today's credit markets, but additionally as a result of the competitive markets in which we operate.

As was mentioned above, one of our most noteworthy events in 2006 was the acquisition of Peoples Bancorp, Inc. of Sandy Hook and Morehead. The consideration of this transaction was $14 million with 40% in the form of Kentucky Bancshares, Inc. stock and 60% in the form of cash. We are very pleased that the accretion to earnings is occurring as anticipated. I want to take this time to thank both our employees in Rowan and Elliott Counties, as well as our operational people here in Paris, for working so hard to make this transition go as smoothly as possible.

Other recent events of import that took place during 2006 consist of the purchasing of a lot in northern Jessamine County, on which we intend to build another full service facility to be operational by the latter part of 2008. Additionally, we purchased the former Fifth-Third Bank building in downtown Paris, and we are undertaking the necessary steps to make that facility fully functional for us in the next few months. We are also in the process of expanding our footprint in Rowan County with an additional location to be added in 2008.

B. Proctor Caudill, Jr., former Chairman and CEO of Peoples Bank, has now become a member of the Kentucky Bank and Kentucky Bancshares, Inc. boards of directors. Also, he has become our Manager of Special Projects, and we look forward to his contribution not only as a board member, but also as an employee of the bank.

We wanted to take this opportunity to also recognize two people who have recently retired from their service at Kentucky Bank. Dr. James Ferrell retired from our Board of Directors at the end of this year. Jim has served on our board since 1980, and his contributions have been significant, and have by no small measure contributed to the success of the bank and your company.

Hugh Crombie, our Director of Operations, after 43 years of service has retired from Kentucky Bank. Hugh started out his work for the bank in 1963 as an assistant installment loan manager and has worked in various areas of the department, including our bookkeeping area. He worked his way up through the organization over the years, and ultimately brought our bank into the age of the computer. There are no words to express Hugh's contribution to the growth and well being of our bank. He will be greatly missed and we wish him nothing but the best in his retirement years.

We are also pleased to announce that Martha W. Woodford, former Assistant Director of Operations, has assumed the responsibilities of Director of Operations. Martha started with the bank in 1980 in our Audit Department, and subsequent to that she has worked in our Loan Center, our Customer Service area, and became manager of our Corporate and Automated Products. In 2004 Martha became the Assistant Director of Operations in anticipation of Hugh's retirement. We are fortunate to have someone with her depth and breadth of experience, and we look forward to her future contributions to Kentucky Bank.

Additionally, we are pleased to announce the directors for our newly created Rowan/Elliott Regional Advisory Board. Madonna Weathers is Vice President of Student Affairs at Morehead State University. G. R. (Sonny) Jones is CFO of St. Claire Regional Medical Center. Tod Barhorst is the owner of Abner Construction Company. Rocky Adkins is Majority Floor Leader of the Kentucky House of Representatives. We are confident that these community leaders will make significant contributions to our ongoing success in the Rowan/Elliott region.

We also want to announce the addition in January 2007 of Edwin S. Saunier, president of Saunier North American, Inc. to both our bank and holding company boards. Ed has been a long time Clark County regional board member, and has a successful moving and storage business located in Winchester. Ed has served on various committees within the bank and we very much look forward to his assuming the duties of bank and holding company director.

After completing two acquisitions within the last five years, we believe that this is an opportune time to look at how our bank operates and delivers customer service. As we continue to grow, a paramount goal of Kentucky Bank is to ensure that we are able to continue to deliver outstanding customer service in the markets we serve. As our mission statement indicates, "Kentucky Bank will be the premier community financial institution in our markets." As a result of that desired goal, we have created a multitude of teams to examine our operating and administrative processes so that we will be able to continue to provide our customers the services and products they deserve, while at the same time providing an appropriate return to our shareholders. We are very encouraged by the progress of these teams and we look forward to the successful implementations of the recommendations they offer.

In closing, we want to thank you for investing in Kentucky Bancshares, Inc. Your confidence in all of us is greatly appreciated, and we will do our best to enhance the value of your investment.

Sincerely,

Louis Prichard
President and CEO
Kentucky Bancshares, Inc.

Sincerely,

Buckner Woodford
Chairman of the Board
Kentucky Bancshares, Inc.

Financial Highlights...

Kentucky Bancshares, Inc.	2006	2005	2004
Assets ($ thousands)	$ 629,542	$ 572,750	$ 528,544
Net Income	$ 6,486	$ 5,820	$ 5,762
Per Share Results			
Earnings (assuming dilution)	$ 2.34	$ 2.16	$ 2.07
Dividend	$ 1.00	$ .92	$ .84

Annual Meeting
The annual meeting of Kentucky Bancshares, Inc. will be held Wednesday, May 9, 2007 at 11:00 in the corporate headquarters.

Investor Information
Any individual requesting a copy of the Corporation's 2006 Form 10-K Report may obtain these by writing to Investor Relations at the Corporate Headquarters.

Shareholder Information...

Corporate Headquarters

Kentucky Bancshares, Inc.
4th and Main Streets
Paris, Kentucky 40361
859-987-1795

Transfer, Registrar and Dividend Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
800-368-5948
rtco.com

Acquiring Stock

Kentucky Bancshares common stock is available through your broker or Kentucky Bank's Wealth Management Department. We are listed on the over-the-counter board. Symbol KTYB.OB

Consolidated Balance Sheets

December 31

	2006	2005
ASSETS		
Cash and due from banks	$ 14,905,672	$ 11,456,496
Federal funds sold	4,106,000	2,708,000
Cash and cash equivalents	19,011,672	14,164,496
Securities available for sale	127,890,612	160,652,346
Loans	444,150,390	370,911,882
Allowance for loan losses	(4,991,277)	(4,309,403)
Net loans	439,159,113	366,602,479
Federal Home Loan Bank stock	6,468,200	5,398,100
Bank premises and equipment, net	14,327,050	10,701,541
Interest receivable	5,653,869	3,719,135
Mortgage servicing rights	745,834	801,501
Goodwill	13,116,710	9,110,524
Other intangible assets	2,058,149	765,885
Other assets	1,111,094	834,288
Total assets	$ 629,542,303	$ 572,750,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 87,503,263	$ 72,192,661
Time deposits, $100,000 and over	67,255,274	61,597,420
Other interest bearing	314,049,382	297,841,297
Total deposits	468,807,919	431,631,378
Repurchase agreements and other borrowings	11,326,913	16,837,573
Federal Home Loan Bank advances	80,030,283	66,748,641
Subordinated debentures	7,217,000	7,217,000
Interest payable	3,682,785	2,714,506
Other liabilities	3,196,604	1,054,954
Total liabilities	574,261,504	526,204,052
Stockholders' equity		
Preferred stock, 300,000 shares authorized and unissued		
Common stock, no par value; 10,000,000 shares authorized; 2,864,586 and 2,666,897 shares issued and outstanding in 2006 and 2005	12,474,039	6,812,805
Additional paid-in capital	59,375	
Retained earnings	44,061,889	40,666,332
Accumulated other comprehensive income (loss)	(1,314,504)	(932,894)
Total stockholders' equity	55,280,799	46,546,243
Total liabilities and stockholders' equity	$ 629,542,303	$ 572,750,295

See Accompanying notes.

Consolidated Statements of Income

December 31	2006	2005	2004
Interest income			
Loans, including fees	$ 29,068,728	$ 23,373,434	$ 20,470,306
Securities			
Taxable	4,395,404	3,388,793	3,574,235
Tax exempt	1,666,382	1,444,090	1,518,275
Other	462,333	690,660	283,196
	35,592,847	28,896,977	25,846,012
Interest expense			
Deposits	12,117,444	8,180,571	5,765,690
Repurchase agreements and other borrowings	1,162,350	603,812	411,492
Federal Home Loan Bank advances	2,944,217	2,487,062	2,395,898
Subordinated debentures	494,197	494,227	494,052
	16,718,208	11,765,672	9,067,132
Net interest income	18,874,639	17,131,305	16,778,880
Provision for loan losses	475,000	508,100	840,000
Net interest income after provision for loan losses	18,399,639	16,623,205	15,938,880
Other income			
Service charges	5,223,973	4,511,270	4,357,658
Loan service fee income, net	33,020	9,023	(2,993)
Trust department income	602,884	458,328	299,448
Securities gains (losses), net	34,259	64,395	288,950
Gain on sale of mortgage loans	290,035	333,742	376,157
Other	1,051,765	1,118,289	1,227,614
	7,235,936	6,495,047	6,546,834
Other expenses			
Salaries and employee benefits	9,612,798	8,547,607	8,053,306
Occupancy expenses	2,320,418	2,194,431	2,255,071
Amortization	184,736	95,736	275,490
Advertising and marketing	519,685	473,848	378,410
Taxes other than payroll, property and income	537,485	547,509	499,251
Other	3,506,589	3,361,280	3,044,294
	16,681,711	15,220,411	14,505,822
Income before income taxes	8,953,864	7,897,841	7,979,892
Provision for income taxes	2,467,810	2,077,741	2,217,783
Net income	$ 6,486,054	$ 5,820,100	$ 5,762,109
Earnings per share:			
Basic	$ 2.35	$ 2.17	$ 2.09
Diluted	2.34	2.16	2.07

See Accompanying notes.

Consolidated Statements of Comprehensive Income

Years Ended December 31

	2006	2005	2004
Net income	$ 6,486,054	$ 5,820,100	$ 5,762,109
Other comprehensive income (loss)			
Unrealized gains (losses) on securities arising during the period	735,236	(1,839,887)	(1,522,118)
Reclassification of realized amount	(34,259)	(64,395)	(288,950)
Net change in unrealized gain (loss) on securities	700,977	(1,904,282)	(1,811,068)
Less: Tax impact	238,332	(647,456)	(615,763)
Comprehensive income	$ 6,948,699	$ 4,563,274	$ 4,566,804

See Accompanying notes.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2006, 2005 and 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances, January 1, 2004	2,799,781	$ 6,984,784	$ -	$ 37,552,620	$ 1,519,237	$ 46,056,641
Common stock issued (including employee gifts of 89 shares)	7,019	131,041	-	-	-	131,041
Common stock purchased	(122,302)	(297,161)	-	(3,127,295)	-	(3,424,456)
Net change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(1,195,305)	(1,195,305)
Net income	-	-	-	5,762,109	-	5,762,109
Dividends declared - $.84 per share	-	-	-	(2,303,219)	-	(2,303,219)
Balances, December 31, 2004	2,684,498	6,818,664	-	37,884,215	323,932	45,026,811
Common stock issued (including employee gifts of 75 shares)	3,375	47,595	-	-	-	47,595
Common stock purchased	(20,976)	(53,454)	-	(575,945)	-	(629,399)
Net change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(1,256,826)	(1,256,826)
Net income	-	-	-	5,820,100	-	5,820,100
Dividends declared - $.92 per share	-	-	-	(2,462,038)	-	(2,462,038)
Balances, December 31, 2005	2,666,897	6,812,805	-	40,666,332	(932,894)	46,546,243
Common stock issued including tax benefit, net (including stock grants of 3,845 shares)	11,754	117,741	-	-	-	117,741
Stock compensation expense	-	-	59,375	-	-	59,375
Common stock purchased	(12,901)	(56,385)	-	(322,069)	-	(378,454)
Common stock issued in connection with Purchase of Peoples Bancorp, Inc.	198,836	5,599,878	-	-	-	5,599,878
Net change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	462,645	462,645
Adjustment to initially apply SFAS No. 158, net of tax (Note 1)	-	-	-	-	(844,255)	(844,255)
Net income	-	-	-	6,486,054	-	6,486,054
Dividends declared - $1.00 per share	-	-	-	(2,768,428)	-	(2,768,428)
Balances, December 31, 2006	2,864,586	$ 12,474,039	$ 59,375	$ 44,061,889	$ (1,314,504)	$ 55,280,799

See Accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31	2006	2005	2004
Cash flows from operating activities			
Net income	$ 6,486,054	$ 5,820,100	$ 5,762,109
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	1,313,476	1,174,954	1,419,794
Provision for loan losses	475,000	508,100	840,000
Securities amortization (accretion), net	(14,717)	331,355	635,725
Securities (gains) losses, net	(34,259)	(64,395)	(288,950)
Originations of loans held for sale	(17,156,711)	(18,036,701)	(22,065,215)
Proceeds from sale of loans	17,446,746	18,454,914	30,024,484
Gain on sale of mortgage loans	(290,035)	(333,742)	(376,157)
Stock based compensation expense	59,375	-	-
Federal Home Loan Bank stock dividends	(342,200)	(261,600)	(206,400)
Losses (gain) on sale of fixed assets	(1,100)	(71,045)	(16,722)
Changes in:			
Interest receivable	(1,318,246)	(492,656)	23,355
Other assets	(1,906,617)	425,569	1,135,547
Interest payable	836,125	865,038	213,684
Other liabilities	723,683	624,374	942,501
Net cash from operating activities	6,276,574	9,035,265	18,043,755
Cash flows from investing activities			
Purchases of securities available for sale	(30,905,332)	(53,539,693)	(70,689,970)
Proceeds from sales of securities available for sale	42,207,571	1,323,500	37,973,553
Proceeds from principal payments and maturities of securities available for sale	53,343,210	16,159,467	32,581,271
Cash paid for bank acquisition	(2,841,873)	-	-
Net change in loans	(22,106,318)	(13,067,340)	(45,775,823)
Purchases of bank premises and equipment	(1,540,977)	(758,929)	(948,546)
Proceeds from sale of bank premises and Equipment	1,100	581,881	199,722
Net cash from investing activities	38,157,381	(49,301,114)	(26,659,793)
Cash flows from financing activities			
Net change in deposits	(35,102,694)	43,676,556	3,356,226
Net change in repurchase agreements and other borrowings	(9,380,282)	(8,755,271)	18,307,586
Advances from Federal Home Loan Bank	90,000,000	15,000,000	25,000,000
Payments on Federal Home Loan Bank advances	(83,074,662)	(7,902,073)	(18,383,678)
Proceeds from note payable	8,000,000	-	-
Payments on note payable	(7,000,000)	- -	
Proceeds from issuance of common stock, including options and grants, including tax benefits	117,741	47,595	131,041
Purchase of common stock	(378,454)	(629,399)	(3,424,456)
Dividends paid	(2,768,428)	(2,462,038)	(2,303,219)
Net cash from financing activities	(39,586,779)	38,975,370	22,683,500

See Accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31		2006		2005		2004
Net change in cash and cash equivalents	$	4,847,176	$	(1,290,479)	$	(5,932,538)
Cash and cash equivalents at beginning of year		14,164,496		15,454,975		21,387,513
Cash and cash equivalents at end of year	$	19,011,672	$	14,164,496	$	15,454,975
Supplemental disclosures of cash flow information						
Cash paid during the year for:						
Interest expense	$	15,749,929	$	10,900,634	$	8,853,448
Income taxes		2,498,021		1,971,443		777,401
Supplemental schedules of non-cash investing activities						
Real estate acquired through foreclosure	$	396,472	$	391,743	$	1,325,942
Common stock issued in connection with purchase of Peoples Bancorp, Inc.		5,599,878		-		-

See Accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of Kentucky Bancshares, Inc. (the Company) and its wholly-owned subsidiary, Kentucky Bank (the Bank). Intercompany transactions and balances have been eliminated in consolidation. On July 7, 2006, the Company acquired 100% of the outstanding shares of Peoples Bancorp of Sandy Hook, Inc. (Peoples), parent of Peoples Bank of Sandy Hook and Morehead in Elliott and Rowan Counties, Kentucky, as discussed in Note 15.

Nature of Operations: The Bank operates under a state bank charter and provides full banking services, including trust services, to customers located in Bourbon, Clark, Elliot, Harrison, Jessamine, Rowan, Scott, Woodford and adjoining counties in Kentucky. As a state bank, the Bank is subject to regulation by the Kentucky Office of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Company, a bank holding company, is regulated by the Federal Reserve.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, mortgage servicing rights and fair value of financial instruments are particularly subject to change.

Cash Flows: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and certain short-term investments with maturities of less than three months. Generally, federal funds are sold for one-day periods. Net cash flows are reported for loan, deposit and short-term borrowing transactions.

Securities: The Company is required to classify its securities portfolio into one of three categories: trading securities, securities available for sale and securities held to maturity. Fair value adjustments are made to the securities based on their classification with the exception of the held to maturity category. The Company has no investments classified as trading securities, or securities held to maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the settlement date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other than temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Loans held for sale are valued at the lower of cost or market as determined by outstanding commitments from investors or current secondary market prices, calculated on the aggregate loan basis. The Company also provides for any losses on uncovered commitments to lend or sell.

Loans: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest income on loans is recognized on the accrual basis except for those loans on a nonaccrual status. The accrual of interest on impaired loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Interest income on mortgage and consumer loans is discontinued at the time the loan is 90 days delinquent, and interest income on commercial loans is discontinued at the time the loan is 120 days delinquent, unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. When interest accrual is discontinued, interest income received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer and credit card loans are typically charged off no later than 120 days past due. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Mortgage Servicing Rights: The Bank has sold certain residential mortgage loans to the Federal Home Loan Mortgage Corporation (FHLMC) while retaining the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. The Bank receives a servicing fee from the FHLMC on each loan sold. Servicing rights represent the allocated value of retained servicing rights on loans sold and the cost of purchased rights. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using interest rates, and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Premises and Equipment: Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight line method with useful lives ranging from 5 to 50 years. Furniture, fixtures and equipment are depreciated using the straight line (or accelerated) method with useful lives ranging from 3 to 10.

Real Estate Acquired Through Foreclosure: Real estate acquired through foreclosure is carried at the lower of the recorded investment in the property or its fair value. The value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged to operating expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Stock Compensation: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-based Payment, using the modified prospective transition method. Accordingly, the Company has recorded stock-based employee compensation cost using the fair value method starting in 2006. For 2006, adopting this standard resulted in a reduction of income before income taxes of $59,375, a reduction in net income of $39,188, a decrease in both basic and diluted earnings per share of $0.02.

Prior to January 1, 2006, employee compensation expense under stock options was reported using the intrinsic value method; therefore, no stock based compensation cost is reflected in net income for the years ending December 31, 2005 and 2004, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock Based Compensation, for the years ending December 31.

	2005	2004
Net income		
As reported	$ 5,820,100	$ 5,762,109
Deduct: Stock-based compensation expense determined under fair value based method	(56,241)	(42,178)
Pro forma	5,763,859	5,719,931
	2005	2004
Basic earnings per share		
As reported	$ 2.17	$ 2.09
Pro forma	2.15	2.07
Diluted earnings per share		
As reported	$ 2.16	$ 2.07
Pro forma	2.14	2.06
Weighted averages		
Fair value of options granted	$ 4.82	$ 5.68
Risk free interest rate	3.98%	3.86%
Expected life	8 years	8 years
Expected volatility	15.11%	13.74%
Expected dividend yield	3.03%	2.47%

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. The Company uses the liability method for computing deferred income taxes. Under the liability method, deferred income taxes are based on the change during the year in the deferred tax liability or asset established for the expected future tax consequences of differences in the financial reporting and tax bases of assets and liabilities.

Retirement Plans: Pension expense is the net of service cost, interest cost, return on plan assets and amortization of gains and losses not immediately recognized. See "Effect of Newly Issued But Not Yet Effective Accounting Standards" below for further discussion of the effect of adopting FASB Statement No. 158. Employee 401(k) and profit sharing plan expense is the amount of matching contributions.

Goodwill: Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Intangible Assets: Intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amotized on either and accelerated or straight-line basis, over ten or fifteen years.

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issuance of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Derivatives: The Company periodically enters into non-exchange traded mandatory forward sales contracts in conjunction with its mortgage banking operation. These contracts, considered derivatives, typically last 60 to 90 days and are used to offset the risk of interest rate changes between the time of the commitment to make a loan to a borrower at a stated rate and when the loan is sold. The Company did not have any mandatory forward sales contracts at December 31, 2006 and 2005.

Adoption of New Accounting Standards: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-based Payment. See "Stock Compensation" above for further discussion of the effect of adopting this standard.

FASB Statement No. 158: In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, beginning with year end 2006, and to recognize changes in the funded status in the year in which the changes occur through comprehensive income beginning in 2007. Additionally, defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008. Adoption had the following effect on individual line items in the 2006 balance sheet:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Liability for pension benefits	$ 460,511	$ 1,279,174	$ 1,739,685
Deferred income taxes	813,410	(434,919)	378,491
Total liabilities	573,417,249	844,255	574,261,504
Accumulated other comprehensive income	(470,249)	(844,255)	(1,314,504)
Total stockholders' equity	56,125,054	(844,255)	55,280,799

SAB 108: In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. Adoption of this statement did not materially affect the Company's consolidated financial position or results of operations.

Newly Issued Not Effective: New accounting standards have been issued that the Company does not expect will have a material effect on the financial statements when adopted in future years or for which the Company has not yet completed its evaluation of the potential effect upon adoption. In general, these standards revise the accounting for derivatives embedded in other financial instruments for 2007, revise the recognition and accounting for servicing of financial assets for 2007, establish a hierarchy about the assumptions used to measure fair value for 2008, change the recognition threshold and measurement guidance for tax positions that contain significant uncertainty in 2007, revise the accrual of post-retirement benefits associated with providing life insurance for 2008, and revise the accounting for cash surrender value for 2007.

Additionally, a new accounting standard will require the company to record servicing assets at fair value instead of at allocated cost, and thereafter will allow the Company to carry new and existing classes of servicing assets at either fair value or amortized original basis, beginning in 2007. Adoption of this standard may increase servicing assets to the extent the Company elects to apply it to existing classes of servicing assets and to the extent fair value of servicing exceeds amortized cost.

Operating Segments: While the Company's chief decision makers monitor the revenue streams of the various Company products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's operations are considered by management to be aggregated into one reportable operating segment.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

Included in cash and due from banks are certain non-interest bearing deposits that are held at the Federal Reserve or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve Board of Governors. The reserve requirement at December 31, 2006 and 2005 was $322,000 and $156,000.

NOTE 3 - SECURITIES

Year-end securities available for sale are as follows:

	Fair Value	Unrealized Gains	Unrealized Losses
2006			
U. S. government agencies	$ 31,492,403	$ 93,134	$ (124,991)
States and municipals	44,129,640	703,114	(181,988)
Mortgage-backed	51,981,681	-	(1,218,655)
Equity securities	286,888	16,888	-
Total	$ 127,890,612	$ 813,136	$ (1,525,634)

	Fair Value	Unrealized Gains	Unrealized Losses
2005			
U. S. Treasury	$ 2,974,354	$ -	$ (32,397)
U. S. government agencies	67,032,587	14,427	(825,849)
States and municipals	37,462,770	756,298	(337,944)
Mortgage-backed	52,340,502	4,150	(1,309,489)
Equity securities	842,133	317,329	-
Total	$ 160,652,346	$ 1,092,204	$ (2,505,679)

The fair value of securities available for sale at December 31, 2006, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity are shown separately.

	Fair Value
Due in one year or less	$ 13,955,375
Due after one year through five years	24,659,350
Due after five years through ten years	21,759,873
Due after ten years	15,247,445
	75,622,043
Mortgage-backed	51,981,681
Equity	286,888
Total	$ 127,890,612

Proceeds from sales of securities during 2006, 2005 and 2004 were $42,207,571, $1,323,500 and $37,973,553. Gross gains of $452,218, $89,943 and $483,888 and gross losses of $417,959, $25,548 and $194,938, were realized on those sales, respectively. The tax provision related to these realized gains and losses was $11,648, $21,894 and $98,243, respectively.

Securities with an approximate carrying value of $108,120,000 and $122,961,000 at December 31, 2006 and 2005, were pledged to secure public deposits, trust funds, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Securities with unrealized losses at year end 2006 and 2005 not recognized in income are as follows:

2006

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
U.S. Government securities	$ 5,115,257	$ (9,164)	$ 9,795,703	$ (115,827)	$14,910,960	$ (124,991)
States and municipals	4,918,106	(15,531)	10,263,653	(166,457)	15,181,759	(181,988)
Mortgage-backed	-	-	40,662,549	(1,218,655)	40,662,549	(1,218,655)
Total temporarily impaired	$ 10,033,363	$ (24,695)	$ 60,721,905	$(1,500,939)	$70,755,268	$(1,525,634)

2005

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
U.S. Treasury	$ -	$ -	$ 2,974,354	$ (32,397)	$ 2,974,354	$ (32,397)
U.S. Government securities	38,032,999	(289,833)	23,442,038	(536,016)	61,475,037	(825,849)
States and municipals	11,774,597	(186,615)	4,210,864	(151,329)	15,985,461	(337,944)
Mortgage-backed	17,876,194	(187,827)	32,745,358	(1,121,662)	50,621,552	(1,309,489)
Total temporarily impaired	$ 67,683,790	$ (664,275)	$ 63,372,614	$(1,841,404)	$131,056,404	$(2,505,679)

The Company evaluates securities for other than temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

At December 31, 2006, eleven mortgage-backed securities have unrealized losses with aggregate depreciation of 3% from their amortized cost basis. The decline in fair value from these and other securities is largely due to changes in interest rates. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

NOTE 4 - LOANS

Loans at year-end were as follows:

	2006	2005
Commercial	$ 29,335,344	$ 27,301,633
Real estate construction	29,033,790	29,822,067
Real estate mortgage	290,068,211	245,138,321
Agricultural	79,627,134	59,327,772
Consumer	15,683,984	8,953,943
Other	401,927	368,146
	$ 444,150,390	$ 370,911,882

Activity in the allowance for loan losses was as follows:

	2006	2005	2004
Beginning balance	$ 4,309,403	$ 4,163,315	$ 3,819,842
Allowance from acquisition	775,913	-	-
Charge-offs	(642,664)	(526,735)	(687,798)
Recoveries	73,625	164,723	191,271
Provision for loan losses	475,000	508,100	840,000
Ending balance	$ 4,991,277	$ 4,309,403	$ 4,163,315

Impaired loans totaled $2,379,000 and $774,000 at December 31, 2006 and 2005. The average recorded investment in impaired loans during 2006, 2005 and 2004 was $1,624,000, $1,547,000 and $1,444,000. The total allowance for loan losses related to these loans was $553,000 and $240,000 at December 31, 2006 and 2005. Interest income on impaired loans of $62,000, $25,000 and $22,000 was recognized for cash payments received in 2006, 2005 and 2004.

Nonperforming loans were as follows:

	2006	2005
Loans past due over 90 days still on accrual	$ 253,000	$ 206,000
Nonaccrual loans	2,379,000	774,000

Nonperforming loans include impaired loans and smaller balance homogeneous loans, such as residential mortgage and consumer loans, that are collectively evaluated for impairment.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately $107,766,000 and $104,575,000 at December 31, 2006 and 2005. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $369,000 and $509,000 at December 31, 2006 and 2005.

Changes in mortgage servicing rights were as follows:

	2006	2005	2004
Beginning balance	$ 801,501	$ 875,633	$ 861,120
Additions	179,507	179,474	263,861
Amortization	(235,174)	(253,606)	(249,348)
Ending balance	$ 745,834	$ 801,501	$ 875,633

Certain directors and executive officers of the Company and companies in which they have beneficial ownership were loan customers of the Bank during 2006 and 2005. An analysis of the activity with respect to all director and executive officer loans is as follows:

	2006
Balance, beginning of year	$ 4,707,000
New loans	1,076,000
Effect of changes in composition of related parties	-
Repayments	(1,110,000)
Balance, end of year	$ 4,673,000

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2006	2005
Land and buildings	$ 16,554,057	$ 12,560,227
Furniture and equipment	11,756,195	10,200,440
Construction projects	217,591	9,500
	28,527,843	22,770,167
Less accumulated depreciation	(14,200,793)	(12,068,626)
	$ 14,327,050	$ 10,701,541

Depreciation expense was $956,221, $924,564 and $993,907 in 2006, 2005, and 2004.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

The change in balance for goodwill during the year is as follows:

	2006	2005
Beginning of year	$ 9,110,524	$ 9,110,524
Acquired goodwill	4,006,186	-
Impairment	-	-
End of year	$ 13,116,710	$ 9,110,524

Goodwill will not be amortized but instead evaluated periodically for impairment.

Acquired intangible assets were as follows at year-end:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$5,133,403	$3,075,254	$3,656,403	$2,890,518

Core deposit intangibles of $1,477,000 were acquired during 2006 in the Peoples acquisition, as further described in Note 15 - Business Combination.

Aggregate amortization expense was $184,736, $95,736 and $275,490 for 2006, 2005 and 2004. The core deposit from the 1994 Clark County branch acquisition was completely amortized in 2004.

Estimated amortization expense for each of the next five years:

2007	$ 270,736
2008	264,736
2009	259,736
2010	253,736
2011	243,736

NOTE 7 - DEPOSITS

At December 31, 2006, the scheduled maturities of time deposits are as follows:

2007	$ 193,732,730
2008	27,425,545
2009	5,953,109
2010	1,271,792
2011	590,105

Certain directors and executive officers of the Company and companies in which they have beneficial ownership are deposit customers of the Bank. The amount of these deposits was approximately $3,994,000 and $1,700,000 at December 31, 2006 and 2005.

NOTE 8 - REPURCHASE AGREEMENTS AND OTHER BORROWINGS

Securities sold under agreements to repurchase are secured by U.S. Government securities with a carrying amount of $23,665,328 and $23,246,420 at year end 2006 and 2005.

Repurchase agreements generally mature within one year from the transaction date and range in maturities from 1 day to 1 year. The securities underlying the agreements are maintained in a third-party custodian's account under a written custodial agreement. Information concerning repurchase agreements for 2006 and 2005 is summarized as follows:

	2006	2005
Average daily balance during the year	$ 15,660,750	$16,014,304
Average interest rate during the year	3.79%	3.19%
Maximum month-end balance during the year	$ 18,372,446	$18,071,544
Weighted average interest rate at year end	3.83%	3.18%

Promissory note payable of $1,000,000 at December 31, 2006 has principal due at July 7, 2009, interest payable quarterly at prime less 1.75% and secured by 100% of the common stock of the bank.

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES

At year end, advances from the Federal Home Loan Bank were as follows:

	2006	2005
Maturities February 2007 through March 2030, fixed rates from 1.00% to 3.08%	$ 17,226,422	$ 19,802,691
Maturities February 2007 through February 2026, fixed rates from 3.55% to 4.43%	36,060,120	30,781,074
Maturities February 2007 through January 2026, fixed rates from 4.77% to 7.55%	26,743,741	16,164,876
Total	$ 80,030,283	$ 66,748,641

Advances are paid either on a monthly basis or at maturity. All advances require a prepayment penalty and certain advances are callable by the FHLB at various call dates throughout the term of the advance. Advances are secured by the FHLB stock and substantially all first mortgage loans.

Scheduled principal payments due on advances during the years subsequent to December 31, 2006 are as follows:

2007	$ 14,556,348
2008	15,268,240
2009	26,759,315
2010	6,250,000
2011	1,480,136
Thereafter	15,716,244
	$ 80,030,283

NOTE 10 - SUBORDINATED DEBENTURES

In August 2003, the Company formed Kentucky Bancshares, Statutory Trust I ("Trust"). The Trust issued $217,000 of common securities to the Company and $7,000,000 of trust preferred securities as part of a pooled offering of such securities. The Company issued $7,217,000 subordinated debentures to the Trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the Trust. The debentures pay interest quarterly at 7.06% for the first 5 years. Starting September 2008, the rate converts to three-month LIBOR plus 3.00 adjusted quarterly. The Company may redeem the subordinated debentures, in whole or in part, beginning September 2008 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2033.

In accordance with FASB Interpretation No. 46, the Trust is not consolidated with the Company. Accordingly, the Company does not report the securities issued by the Trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the Trust, as these are no longer eliminated in consolidation.

NOTE 11 - INCOME TAXES

Income tax expense was as follows:

	2006	2005	2004
Current	$ 2,476,648	$ 1,969,865	$ 2,063,949
Deferred	(8,838)	107,876	153,834
	$ 2,467,810	$ 2,077,741	$ 2,217,783

Year-end deferred tax assets and liabilities were due to the following. No valuation allowance for the realization of deferred tax assets is considered necessary.

	2006	2005
Deferred tax assets		
Allowance for loan losses	$ 1,645,241	$ 1,355,432
Unrealized loss on securities	242,249	480,581
Core deposit intangibles	-	13,753
Adjustment to initially apply SFAS No. 158	434,919	-
Other	327,074	121,049
Deferred tax liabilities		
Bank premises and equipment	(776,157)	(429,886)
FHLB stock	(1,254,026)	(1,018,338)
Mortgage servicing rights	(253,584)	(272,510)
Core deposit intangibles	(491,132)	-
Other	(253,075)	(188,099)
Net deferred tax asset (liability)	$ (378,491)	$ 61,982

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following:

	2006	2005	2004
U. S. federal income tax rate	34.0%	34.0%	34.0%
Changes from the statutory rate			
Tax-exempt investment income	(7.8)	(7.3)	(7.0)
Non-deductible interest expense related to carrying tax-exempt investments	1.1	0.8	0.6
Other	0.3	(1.2)	0.2
	27.6%	26.3%	27.8%

Federal income tax laws provided the Federal Savings Bank, acquired by the Company in 2003, with additional bad debt deductions through 1987, totaling $1.3 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total a $441,000 liability at December 31, 2006. The Company's acquisition of First Federal Savings Bank did not require the recapture of the bad debt reserve. However, if Kentucky Bank was liquidated or otherwise ceased to be a bank, or if tax laws were to change, the $441,000 would be recorded as expense.

NOTE 12 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2006	2005	2004
Basic Earnings Per Share			
Net income	$ 6,486,054	$ 5,820,100	$ 5,762,109
Weighted average common shares outstanding	2,761,826	2,676,890	2,757,233
Basic earnings per share	$ 2.35	$ 2.17	$ 2.09
Diluted Earnings Per Share			
Net income	$ 6,486,054	$ 5,820,100	$ 4,233,377
Weighted average common shares outstanding	2,761,826	2,676,890	2,781,146
Add dilutive effects of assumed exercise of stock options	11,736	14,965	45,640
Weighted average common and dilutive potential common shares outstanding	2,773,562	2,691,855	2,826,786
Diluted earnings per share	$ 2.34	$ 2.16	$ 2.07

Stock options of 11,736 shares common stock from 2006, 31,100 shares common stock from 2005 and 11,350 shares of common stock from 2004 were excluded from diluted earnings per share because their impact was antidilutive.

NOTE 13 - RETIREMENT PLANS

The Company has a defined benefit pension plan covering substantially all of its employees. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Benefits are based on one percent of employee average earnings for the previous five years times years of credited service.

Information about the pension plan was as follows:

	2006	2005
Change in benefit obligation:		
Beginning benefit obligation	$ 6,737,359	$ 5,481,513
Service cost	472,140	432,429
Interest cost	364,248	346,223
Actuarial adjustment	(327,181)	581,964
Benefits paid	(161,825)	(104,770)
Ending benefit obligation	7,084,741	6,737,359
Change in plan assets, at fair value:		
Beginning plan assets	5,071,504	4,795,708
Actual return	378,550	166,535
Employer contribution	-	211,031
Benefits paid	(104,998)	(104,770)
Ending plan assets	5,345,056	5,071,504
Funded status	(1,739,685)	(1,665,855)
Unrecognized net actuarial (gain) loss	-	1,683,609
Unrecognized prior transition asset	-	(1,113)
Net pension prepaid (accrued) benefit	$ (1,739,685)	$ 16,641

Prior to adoption of FAS Statement 158, amounts recognized in the balance sheet at December 31, 2005 consist of:

Prepaid benefit cost	$ 16,641
Intangible assets	-
Accumulated other comprehensive income	-
Net amount recognized	$ 16,641

Amounts recognized in accumulated other comprehensive income at December 31, 2006 consist of:

Net loss (gain)	$ 1,279,916
Transition obligation (asset)	(742)
	$ 1,279,174

The accumulated benefit obligation for defined benefit pension plans was $5,312,906 and $4,973,145 at year-end 2006 and 2005.

Net periodic pension cost include the following components:

	2006	2005	2004
Service cost	$ 472,140	$ 432,429	$ 369,481
Interest cost	364,248	346,223	286,326
Expected return on plan assets	(400,485)	(376,195)	(319,050)
Amortization	41,249	39,818	(372)
Net periodic cost	$ 477,152	$ 442,275	$ 336,385

The estimated net loss and transition obligation for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $33,853 and $(371).

Weighted-average assumptions used to determine pension benefit obligations at year end

	2006	2005	2004
Discount rate on benefit obligation	5.75%	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%	4.00%

Weighted-average assumptions used to determine net periodic net cost

	2006	2005	2004
Discount rate on benefit obligation	5.75%	5.75%	6.00%
Long-term expected rate of return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%	4.00%

The assumptions described above were determined using various factors. Based on the history of domestic investment experience, the expected long-term rate of return on assets for the income segment is assumed to be 6.0%. The expected long-term return on assets for the growth segment is assumed to be 10.0%. Thus, the assumed rate of return on the total portfolio is 8.0% per year. The rate of compensation increase assumption of 4.0% is based upon historical compensation increases at the Bank. The discount rate assumption of 5.75% is based on the expected movements of interest rates from economic forecasts, Federal Reserve monetary actions and commentary, the expected pace of economic activity, the issuance of new debt to finance significant fiscal policy deficits, and the benchmark Moody's AA rated long term corporate bond rate.

The Company's pension plan asset allocation at year-end and expected long-term rate of return by asset category are as follows:

Asset Category	Percentage of Plan Assets at Year-End **2006**	Percentage of Plan Assets at Year-End 2005	Weighted Average Expected Long-Term Rate of Return 2006
Equity securities	63	62	10%
Debt securities	35	36	6
Cash	2	2	4
Total	100	100	

The asset allocation objective for 2006 and thereafter is to be 60% in equity securities and 40% in debt securities. These percentages may vary 5-10 basis points based on market conditions of equity and bond markets. There is no target allocation for cash balances.

The Company expects to contribute $172,604 to its pension plan in 2007.

The following benefit payments, which reflect expected future service, are expected:

	Pension Benefits
2007	$ 167,027
2008	184,078
2009	195,666
2010	245,191
2011	272,934
Years 2012-2016	1,705,178

The Company also has a qualified profit sharing plan which covers substantially all employees and includes a 401(k) provision. Profit sharing contributions, excluding the 401(k) provision, are at the discretion of the Company's Board of Directors. Expense recognized in connection with the plan was $369,847, $320,670 and $309,741 in 2006, 2005 and 2004.

NOTE 14 - STOCK BASED COMPENSATION

The Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was $59,375, $0, and $0 for 2006, 2005 and 2004. The total income tax benefit was $911, $0, and $0.

Stock Option Plan

The Company grants certain officers and key employees stock option awards which vest and become fully exercisable at the end of five years and provides for issue of up to 220,000 options. The Company also grants certain directors stock option awards which vest and become fully exercisable immediately and provides for issue of up to 20,000 options. The exercise price of each option, which has a ten year life, was equal to the market price of the Company's stock on the date of grant.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted average assumptions as of grant date.

	2006	2005	2004
Fair value of options granted	$3.14	$4.82	$5.68
Risk free interest rate	4.59%	3.98%	3.86%
Expected term	8 years	8 years	8 years
Expected stock price volatility	7.99%	15.11%	13.74%
Dividend yield	3.39%	3.03%	2.47%

Summary of activity in the stock option plan for 2006 follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	77,064	$25.32		
Granted	1,300	29.50		
Expired	(300)	29.97		
Exercised	(8,150)	15.22		
Outstanding, end of year	69,914	$26.54	65.8months	$344,090
Exercisable, end of year	44,072	$24.35	52.3 months	$308,190

Options outstanding at year-end 2006 were as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
From $12.50 to $15.50 per share	5,920	10.9	$15.26	5,920	$15.26
From $18.00 to $20.63 per share	11,990	24.0	20.51	11,990	20.51
From $23.50 to $28.00 per share	19,804	63.3	25.38	14,832	25.32
From $29.50 to $30.50 per share	21,050	97.4	30.34	6,210	30.19
From $33.90 to $34.00 per share	11,150	84.3	33.91	5,120	33.92
	69,914			44,072	

Information related to the stock option plan during each year follows:

	2006	2005	2004
Intrinsic value of options exercised	$119,419	$53,586	$121,625
Cash received from option exercises	124,756	43,650	105,223
Tax benefit realized from option exercises	911	-	-
Weighted average fair value of options granted	4,082	89,306	57,486

As of December 31, 2006, there was $89,575 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 5 years.

Stock Grant Plan

On February 15, 2005, the Company's Board of Directors adopted a restricted stock grant plan. Total shares issuable under the plan are 50,000. There were 3,875 shares granted during 2006, and 30 shares were forfeited during 2006.

NOTE 15 - BUSINESS COMBINATION

On July 7, 2006, the Company acquired 100% of the outstanding shares of Peoples Bancorp of Sandy Hook, Inc., parent of Peoples Bank of Sandy Hook. Operating results of Peoples are included in the consolidated financial statements since the date of acquisition. As a result of this acquisition, the Company expects to further solidify its market share in Central Kentucky, expand its customer base to enhance deposit fee income, provide an opportunity to market additional products and services to new customers, and reduce operating costs through economies of scale.

The purchase price of $14 million was 40 percent stock and 60 percent cash. The purchase price resulted in approximately $4,006,000 in goodwill, and

$1,477,000 in core deposit intangible. The core deposit intangible asset will be amortized over 10 years, using an accelerated method. Goodwill will not be amortized but instead evaluated periodically for impairment. Management is still in the process of evaluating the purchase accounting entries, and additional adjustments may be made.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition.

Securities available for sale	$ 31,134,000
Loans	50,925,000
Goodwill	4,006,000
Core deposit intangibles	1,477,000
Market value adjustments	994,000
Other assets	7,844,000
Total assets acquired	96,380,000
Deposits	(72,279,000)
Other liabilities	(10,101,000)
Total liabilities assumed	(82,380,000)
Net assets acquired	$ 14,000,000

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2006 and 2005. The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed dates.

	2006	2005
Net interest income	$ 20,808,000	$ 20,946,000
Net income	6,879,000	6,591,000
Basis earnings per share	2.32	2.29
Diluted earnings per share	2.31	2.28

NOTE 16 - LIMITATION ON BANK DIVIDENDS

The Company's principal source of funds is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid by the Bank without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, as defined, combined with the retained net profits of the preceding two years. During 2007 the Bank could, without prior approval, declare dividends on any 2007 net profits retained to the date of the dividend declaration less $635,000.

NOTE 17 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's financial instruments at December 31, 2006 and 2005 are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets				
Cash and cash equivalents	$ 19,012	$ 19,012	$ 14,164	$ 14,164
Securities	127,891	127,891	160,652	160,652
Loans, net	439,159	433,610	366,602	362,686
FHLB stock	6,468	6,468	5,398	5,398
Interest receivable	5,654	5,654	3,719	3,719
Financial liabilities				
Deposits	$ 468,808	$ 470,799	$ 431,631	$ 432,560
Securities sold under agreements to repurchase and other borrowings	11,327	11,249	16,838	16,612
FHLB advances	80,030	77,711	66,749	64,937
Subordinated debentures	7,217	7,232	7,217	7,328
Interest payable	3,683	3,683	2,715	2,715

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. The fair value of commitments to extend credit and standby letters of credit is not considered material.

NOTE 18 - OFF-BALANCE SHEET ACTIVITIES AND COMMITMENTS

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance sheet risk were as follows at year-end:

	2006	2005
Unused lines of credit	$ 67,921,443	$ 56,354,000
Commitments to make loans	658,000	156,000
Letters of credit	639,538	183,000

Unused lines of credit are substantially all at variable rates. Commitments to make loans are generally made for a period of 60 days or less and are primarily fixed at current market rates ranging from 5.625% to 6.125% with maturities ranging from 15 to 30 years and are intended to be sold.

NOTE 19 - CONTINGENT LIABILITIES

The Bank is a defendant in legal actions arising from normal business activities. Management believes these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Company's consolidated financial position or results of operations.

NOTE 20 - CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and the Bank's actual amounts and ratios are presented in the table below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
2006						
Consolidated						
Total Capital (to Risk-Weighted Assets)	$ 53,491	12.5%	$ 34,181	8%	$ 42,727	N/A
Tier I Capital (to Risk-Weighted Assets)	48,420	11.3	17,091	4	25,636	N/A
Tier I Capital (to Average Assets)	48,420	7.8	24,758	4	30,947	N/A
Bank Only						
Total Capital (to Risk-Weighted Assets)	$ 53,370	12.5%	$ 34,159	8%	$ 42,699	10%
Tier I Capital (to Risk-Weighted Assets)	48,299	11.3	17,079	4	25,619	6
Tier I Capital (to Average Assets)	48,299	7.8	24,723	4	30,904	5
2005						
Consolidated						
Total Capital (to Risk-Weighted Assets)	$ 49,130	13.4%	$ 29,311	8%	$ 36,639	N/A
Tier I Capital (to Risk-Weighted Assets)	44,602	12.2	14,656	4	21,984	N/A
Tier I Capital (to Average Assets)	44,602	8.0	22,342	4	27,928	N/A
Bank Only						
Total Capital (to Risk-Weighted Assets)	$ 47,346	13.0%	$ 29,251	8%	$ 36,564	10%
Tier I Capital (to Risk-Weighted Assets)	42,952	11.8	14,626	4	21,938	6
Tier I Capital (to Average Assets)	42,952	7.7	22,309	4	27,887	5

NOTE 21 - PARENT COMPANY FINANCIAL STATEMENTS

Condensed Balance Sheets
December 31

	2006	2005
	(In Thousands)	
ASSETS		
Cash on deposit with subsidiary	$ 940	$ 1,163
Investment in subsidiary	63,004	51,699
Securities available for sale	20	573
Other assets	412	345
Total assets	$ 64,376	$ 53,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Subordinated debentures	$ 7,217	$ 7,217
Notes payable	1,000	-
Other liabilities	34	17
Stockholders' equity		
Preferred stock	-	-
Common stock	12,587	6,813
Retained earnings	44,008	40,666
Accumulated other comprehensive income (loss)	(470)	(933)
Total liabilities and stockholders' equity	$ 64,376	$ 53,780

Condensed Statements of Income and Comprehensive Income
Years Ended December 31

	2006	2005	2004
	(In Thousands)		
Income			
Dividends from subsidiary	$ 9,800	$ 3,750	$ 3,650
Securities gains (losses), net	409	60	82
Interest income	16	13	24
Total income	10,225	3,823	3,756
Expenses			
Interest expense	577	494	494
Other expenses	250	134	157
Total expenses	827	628	651
Income before income taxes and equity in undistributed income of subsidiary	9,398	3,195	3,105
Applicable income tax (expense) benefits	166	178	177
Income before equity in undistributed income of subsidiary	9,564	3,373	3,282
Equity in undistributed income of subsidiary	(3,078)	2,447	2,480
Net income	6,486	5,820	5,762
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities arising during the period	486	(1,215)	(1,004)
Reclassification of realized amount	(23)	(42)	(191)
Net change in unrealized gain (loss) on securities	463	(1,257)	(1,195)
Comprehensive income	$ 6,949	$ 4,563	$ 4,567

Condensed Statements of Cash Flows
Years Ended December 31

	2006	2005	2004
	(In Thousands)		
Cash flows from operating activities			
Net income	$ 6,486	$ 5,820	$ 5,762
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed earnings of subsidiary	3,083	(2,447)	(2,480)
Securities (gains) losses, net	(409)	(60)	(82)
Change in other assets	43	32	659
Change in other liabilities	18	(3)	-
Net cash from operating activities	9,221	3,342	3,859
Cash flows from investing activities			
Proceeds from sales of securities available for sale	664	143	675
Acquisition of Peoples Bancorp, Inc.	(8,080)	-	-
Net cash from investing activities	(7,416)	143	675
Cash flows from financing activities			
Proceeds from note payable	8,000	-	-
Payments on note payable	(7,000)	-	-
Dividends paid	(2,768)	(2,462)	(2,303)
Proceeds from issuance of common stock	118	48	131
Purchase of common stock	(378)	(629)	(3,424)
Net cash from financing activities	(2,028)	(3,043)	(5,596)
Net change in cash	(223)	442	(1,062)
Cash at beginning of year	1,163	721	1,783
Cash at end of year	$ 940	$ 1,163	$ 721

NOTE 22 - QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income	Earnings Per Share Basic	Earnings Per Share Fully Diluted
2006					
First quarter	$ 8,051	$ 4,476	$ 1,293	$ .48	$ .48
Second quarter	8,245	4,511	1,716	.65	.64
Third quarter	9,493	4,850	1,714	.60	.60
Fourth quarter	9,804	5,038	1,763	.62	.62
2005					
First quarter	$ 6,720	$ 4,221	$ 1,333	$ .50	$ .49
Second quarter	7,033	4,385	1,516	.56	.56
Third quarter	7,321	4,246	1,430	.54	.54
Fourth quarter	7,823	4,279	1,541	.57	.57

Crowe

Crowe Chizek and Company LLC
Member Horwath International

Board of Directors
Kentucky Bancshares, Inc.
Paris, Kentucky

We have audited the accompanying consolidated balance sheets of Kentucky Bancshares, Inc. as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 of the consolidated financial statements, Kentucky Bancshares, Inc. changed its method of accounting for defined benefit pension and other postretirement plans as of December 31, 2006, in accordance with Financial Accounting Standards Board Statement No. 158, Employers' Accounting for Defined Benefit and Other Postretirement Plans.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
February 27, 2007

Officers

Senior Management
Louis Prichard, President & CEO
Brenda Bragonier, VP, Director of Marketing and Human Resources
Hugh Crombie, VP, Director of Operations
Gregory Dawson, VP, Chief Financial Officer
Norman J. Fryman, Sr VP, Director of Sales & Service
Clark Nyberg, VP, Director of Wealth Managemt
Martha Woodford, VP, Asst. Director of Operations

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Wallis Brooks, AVP, Branch Manager/CRA
Rhonda Brown, Sr. Consumer Lender
Lisa Highley, Consumer Lender
Philip Hurst, Asst. Branch Manager
Susan Lemons, AVP, Branch Manager/Consumer Lender

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Kathy Newkirk, Sr. Consumer Lender
Teresa Shimfessel, AVP, Branch Manager/Consumer Lender
Brandon Sumpter, Sr. Consumer Lender

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Benjamin Caudill, Asst. Branch Manager/Consumer Lender
Cynthia Faulkner, AVP, Branch Manager/Consumer Lender
Eulah Gray, Consumer Lender
Sherry Mathis, AVP, Branch Manager/Consumer Lender
Tammy Stegall, Consumer Lender

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Dreama Harris, AVP, Sr. Consumer Lender
Joyce Rainey, Consumer Lender

Jessamine County
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Deborah Hamilton, Consumer Lender

Scott County
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Shane Foley, VP, Mortgage Lender
Sharon Whitlock, Branch Manager/Consumer Lender

Woodford County
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Heather Barger, VP, Director of Risk Management
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Robbie Cox, Senior Auditor
Janice Hash, AVP, Senior Accountant/Purchasing
Lydia Sosby, VP, Compliance Officer

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R. W. Collins, VP, Commercial Lender
Ken Devasher, VP, Commercial Lender
Brandon Eason, VP, Commercial Lender
A. J. Gullett, VP, Commercial Lender
James LeMaster, Business Development Officer
Michael Lovell, VP, Commercial Lender
George Wilder, VP, Commercial Lender

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Christopher J. LeMaster, Director of Training
Judith Taylor, VP, Human Resources Manager

Operations

Hugh Crombie, VP, Director of Operations
Karen Anderson, Electronic Banking Officer
Melinda Biddle, Government Reporting Officer
Cynthia Criswell, Data Processing Officer
Patricia Carpenter, AVP, Data Management Officer
Catherine Hill, VP, Head of Collections
Perry Ingram, AVP, Network Manager
Jane Mogge, Document Management Officer
Donald Roe, AVP, Sr Data Processing Officer
Arnita Willoughby, AVP, Secondary Market Professional
Carolyn Wilkins, AVP, Overdraft Management Officer
Martha Woodford, VP, Asst. Director of Operations

Wealth Management

Clark Nyberg, VP, Director of Wealth Management
Rebecca Combs, Financial Consultant
Dixie Fite, Personal Trust Officer
Jan Worth, AVP, Personal Trust Officer
James Gray, Financial Consultant

COVERAGE AREA

Woodford County Regional Board of Directors
Left to right: James Kay, Businessman, Farmer; Duncan Gardiner, Vice President, Regional Manager, Kentucky Bank; Tricia Kittinger, Woodford County Circuit Clerk; Loren Carl, District Coordinator for Congressman Ben Chandler's Office; Robert Richardson, Farmer

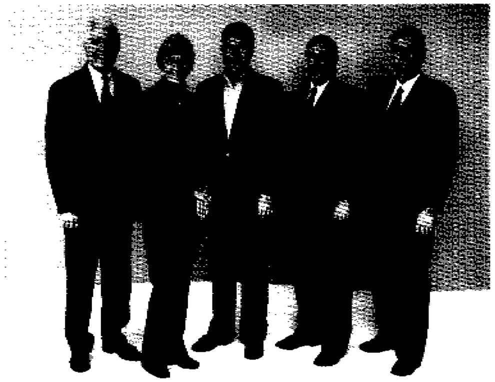
WOODFORD COUNTY

Scott County Regional Board of Directors
Left to Right: George Lusby, County Judge Executive; Pam Jessie, VP, Regional Manager; Everette Varney, former Mayor; Dr. Gus Bynum, Physician; Mike Hockensmith, Hockensmith Agency, Inc.; Not pictured: R. C. Johnson, Jr., Owner, President, Johnson's Funeral Home

SCOTT COUNTY

Harrison County Regional Board of Directors
Left to right: Joel Techau, CEO, Techau, Inc.; Gerry Whalen, Broker, Whalen and Company; Brad Marshall, Farmer, Owner Marshall's Tractor Supply; Betty Long, Retired President, First Federal Savings of Cynthiana; K. Bruce Florence, director, Licking Valley College; David Foster, Vice President, Regional Manager Kentucky Bank

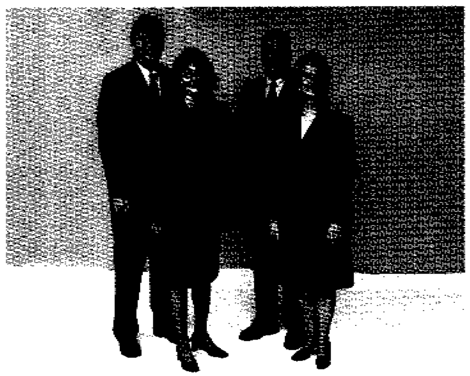
HARRISON COUNTY



Jessamine County Regional Board of Directors
Left to right: Dan Brewer, President and CEO, Blue Grass Energy; Eva McDaniel, Jessamine County Clerk; Jonah Mitchell, President, Jonah Mitchell Real Estate and Auction Company; William M. Arvin, Attorney; Tom Buford, State Senator; absent from photo: Rick Walling, Vice President, Regional Manager, Kentucky Bank

JESSAMINE COUNTY

BOURBON COUNTY



Bourbon County Regional Board of Directors
Left to right: Proctor Blair, Partner, Ludwig, Blair, and Bush, PLLC; Nancye Fightmaster, Vice President, Regional Manager, Kentucky Bank; Lonnie Conley, Businessman; Allyson Eads, Co-owner, Eads Hardware; absent from photo: Rodes Shackelford Parrish, President, Clay Ward Agency

CLARK COUNTY

Clark County Regional Board of Directors
Left to Right: Edwin S. Saunier, President, Saunier North American, Inc.; John Roche, Optician; Donald Pace, Executive Director Central Kentucky Educational Co-op with UK; Mary Beth Hendricks, Director Clark County Child Support Services; and Nick Carter, Vice President, Regional Manager

ELLIOTT & ROWAN COUNTIES

East Kentucky Regional Board of Directors
Left to right: Madonna Weathers, Vice President for Student Life at Morehead State University; Tod Barhorst, President of Abner Construction; William Hough, Vice President, East Kentucky Regional Manager, Kentucky Bank; absent from photo: Rocky Adkins, Majority Floor Leader, House of Representatives; G.R. "Sonny" Jones CPA, VP, CFO, St. Claire Regional Medical Center

BOARD OF DIRECTORS

BOARD OF DIRECTORS

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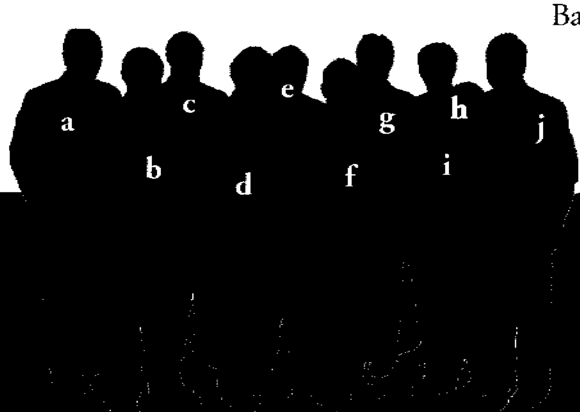

2006 ANNUAL REPORT

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