

THE BANK OF KENTUCKY FINANCIAL CORPORATION

2005 Annual Report

BUILT
FOR **SUCCESS**



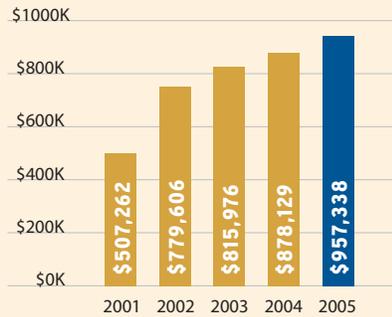
FINANCIAL HIGHLIGHTS

The Bank of Boone County was created in 1990. In 1995, it acquired Burnett Federal Savings Bank and changed its name to The Bank of Kentucky. It has since acquired Ft. Thomas Savings Bank in 2000 and purchased the selected assets and deposits of Peoples Bank of Northern Kentucky in 2002.

Today, The Bank of Kentucky Financial Corporation (OTC/BB: BKYF) is a Crestview Hills, Kentucky-based financial institution with \$957 million in assets and is the holding company for its lead bank, The Bank of Kentucky. With 27 branch offices and 39 ATMs, The Bank of Kentucky is a full-service commercial bank that offers banking and related financial services to both individuals and business customers in the fast growing Boone, Campbell, Grant and Kenton counties of Northern Kentucky. More information about The Bank of Kentucky can be found at www.bankofky.com.

Mission Statement:
To deliver superior customer service every day to every person we serve.

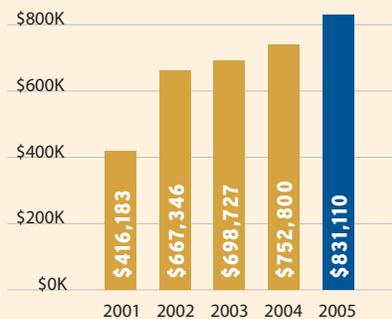
ASSET GROWTH



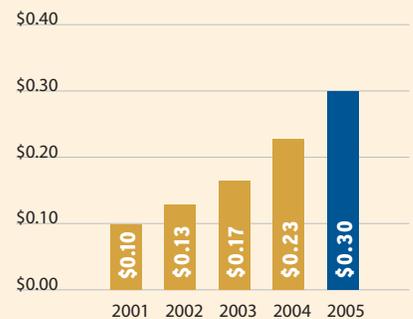
BASIC EARNINGS PER SHARE



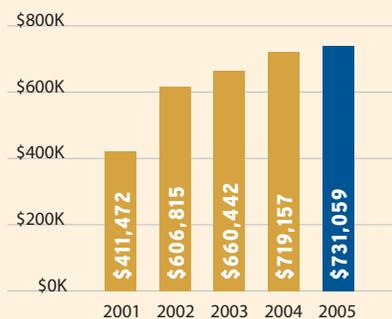
DEPOSIT GROWTH



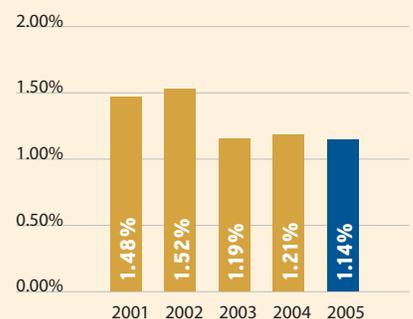
DIVIDENDS PER SHARE



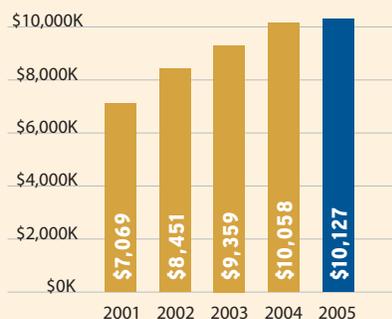
LOAN GROWTH



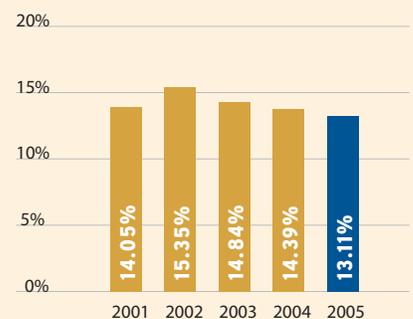
RETURN ON ASSETS



NET INCOME



RETURN ON EQUITY



BUILT FOR SUCCESS IS A POWERFUL STATEMENT,

yet it accurately describes the mindset we have at The Bank of Kentucky.

While every company will tell you they strive to be successful, their definition of success may vary from ours.

THE BANK OF KENTUCKY VIEWS SUCCESS FROM A LONG-TERM PERSPECTIVE.

Since our creation in 1990, we have tried to leverage our investments in technology, risk management and product development to build an institution that will survive an environment of changing rates, changing delivery models and changing competition. In fact, we invested more money in 2005 than in any previous year, and our challenge going forward is to make sure we continue to leverage these investments in the most efficient and effective manner possible.

TECHNOLOGY - from the very beginning, we've felt the added expenses necessary to keep up with the changes in technology weren't really "expenses", rather investments in our future. Allowing our customers to bank with us using the latest technological advances is essential. What some banks call "bells and whistles" we view as "bricks and mortar".

RISK MANAGEMENT - protecting our customers' money and our shareholders' investment is a discipline we embrace at The Bank of Kentucky. In addition to maintaining an autonomous Credit department and Audit department, we've recently created a new Risk Management function to better address issues of regulatory management and compliance.

PRODUCT DEVELOPMENT - continually adding the new products and services our customers need also keeps us ahead of other community banks. By providing products such as credit cards, consolidated returns, health savings accounts and merchant banking, we keep our customers *our customers*.

BUILDING ON A FIRM FOUNDATION

We all know the story of the Three Little Pigs. We have taken it to heart. Our "house built of bricks" is based upon four principles, providing great customer service, delivering the physical and electronic distribution network our customers demand, identifying and developing sources of non-interest rate sensitive income, and becoming an integral part of each community in which we operate.

Customer service is the first, and perhaps most important principle upon which we are building our bank. New products, new locations and new technology are what we use to attract new customers, but it is our great customer service that keeps them coming back.

Allowing customers to bank on their own terms is another principle of success. In 2005, we added another new branch in downtown Newport and upgraded the look and functionality of our website and our online banking product.

Our sources of non-interest rate sensitive income include two that most community banks don't offer, Trust and Treasury Management.

Our Trust Department continues to grow and deliver profits. Trust assets under management grew to \$261 million in 2005, as we added both new customers and two new trust officers. We recently signed an agreement that will allow us to trade securities and sell annuities in 2006.

More importantly, though, our Trust Department provides a necessary product offering that more and more of our customers want. Simply put, without a Trust Department, these customers may take their business elsewhere.

Treasury Services is another area that is exploding with new customers and is a continuing and growing source of fee income. Helping companies across the region and across the country process payments and consolidate returned checks is technology driven. Our investment in 2005 for the necessary capital equipment to excel in this line of business is producing staggering results; more than 100 new customers and more than \$700,000 in fee income in less than one year. The best part – we now have the technology in place to dramatically increase the amount of items we process without hiring more people or upgrading our equipment.

I am always proud of our investment in the community. In addition to the personal hours our employees donate to worthy causes in those communities in which they work and live, the Bank, its employees and directors

donated nearly \$250,000 to nearly 100 different charitable, non-profit and community organizations in 2005.

As you will read later in this year's report, we made additional contributions that fall in line with the Community Reinvestment Act. These initiatives encompassed down payment and closing cost assistance, mortgage education, and other types of housing assistance geared to low-to-moderate income and handicapped individuals.

I would like to add one more brick to our foundation, management strength. The retired Chairman of General Electric, Jack Welch, suggests that the second most important thing any CEO can do is to identify a successor. In our own way, we started this process in 2005, as we created four new Executive Vice President positions, each with direct reporting lines into me. In essence, we are creating the successor generation of leadership for The Bank of Kentucky.

DELIVERING RESULTS TODAY AND INVESTING FOR TOMORROW

Investing in technology takes various forms. In 2005, we spent hundreds of thousands of dollars to create enhanced technology offerings for our retail customers and valuable service offerings for our commercial customers. In addition, we opened a new operations center and hired new employees to drive our Treasury Management function. Yet, in spite of these investments in technology and people (and continued investments in Sarbanes-Oxley compliance), we were still able to deliver another year of record income and dividends to our shareholders.

This is the fine line we walk as a community bank. Investing in people, technology and risk management will help ensure our success as a

BUILT
FOR **SUCCESS**

INVESTING
IN PEOPLE,
technology and
risk management
will help ensure our
success as a bank



bank. But, it is the delivery of solid financial results that will ensure our ability to remain as an independent community resource.

As of December 31, 2005:

Assets - stood at \$957 million, up 9%

Deposits - grew to \$831 million, up 10%

Net Income - rose to a record \$10.1 million

Earnings Per Share - rose to a record
\$1.70 per diluted share

Dividends - increased to \$.30 per share,
up 30%

Shareholders' Equity - stood at \$80.4 million,
up 9%

AN ONGOING AGENDA

In some ways, the theme "Built for Success" is somewhat misleading. I think **Building** for Success is more accurate, as it implies a process that is ongoing and continuous. This

is certainly our view. The business principles and moral values that created The Bank of Kentucky 15 years ago are still present today. And, as I reflect on the next generation of leadership currently in place, I am confident they will continue for decades.

As always, in closing, I want to thank the 300 employees who serve our retail and commercial customers. We strive to hire quality individuals, provide them with the training and resources necessary to provide great service and financial product advice. They are truly the foundation upon which we are building the best community bank in Kentucky.

Robert W. Zapp
President and CEO
The Bank of Kentucky, Inc.

BUILDING A SUCCESSFUL BANK,

in its most literal sense, involves new brick and mortar and new products and services. This is best demonstrated through our retail banking business.

PUTTING THE NEW IN NEWPORT

In November 2005, we opened our 27th community banking location and our 39th ATM at the corner of Fifth and Monmouth in downtown Newport. With two drive-up lanes, a drive-up ATM, 2,200 square feet of space and a conference room, this is the first structure built in downtown Newport to be used exclusively as a bank in nearly 70 years. With the growing business climate and renewed community vitality as a result of Newport on the Levee, we have high expectations for our newest branch.

NEW PRODUCTS LEAD THE WAY

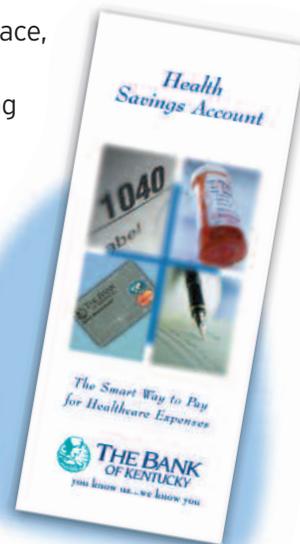
The Bank introduced three new products in 2005 that helped grow its deposit and lending base.

ACCEL-A-RATE CD - our customers were concerned about tying up their money in a long-term CD and then watching interest rates rise. So we introduced the Accel-A-Rate CD, which gives our customers the one-time option of transferring their funds to another certificate with a higher interest rate. During the rising rate environment of 2005, our customers felt confident they were receiving the best rate available.

HEALTH SAVINGS ACCOUNTS - allow our customers to reduce the burden of escalating health care costs. HSAs are tax-advantaged savings accounts that allow participants to pay for eligible medical expenses with pre-tax dollars that can earn interest and accumulate from year to year. Most of these HSAs are offered by large, impersonal, out-of-town institutions, giving The Bank of Kentucky a distinct advantage when approaching local businesses and individuals. After opening hundreds of HSAs in 2005, this is a product we expect will take off in 2006.

"FIXED RATE" HOME EQUITY LINE OF CREDIT

- to respond to changes in the marketplace, we introduced our own "fixed rate" option during the fourth quarter of 2005. Preliminary results of this new product are encouraging and our consumer loan portfolio (home equity loans and lines of credit) will be an area of increased emphasis in 2006.



**BUILT
FOR
SUCCESS**



The Bank of Kentucky returns to downtown Newport with a new banking office built from the ground up.

Our business development area continued to be a successful contributor in 2005 through its Group Banking product and Business Blitz initiative.

GROUP BANKING - the number of Group Banking customer relationships grew by 447 in 2005. The results are impressive: \$2.8 million in new deposits and \$3.7 million in new loan balances.

BUSINESS BLITZES - we continue to build our book of business through the concentrated and consistent efforts on our Blitz initiative. Each month, we target a certain area in Northern Kentucky. Then, approximately 15 two-person teams call on 10-12 business each that day to introduce them to the Bank. As a result of our Blitz program, we made 1,579 Blitz calls in 2005, resulting in 73 new business and individual customer savings, checking and lending accounts.

INTERNAL INITIATIVES TO ENSURE SUCCESS

While building new branches and creating new products and new services are vital to attracting new customers, providing knowledgeable advice and great customer service is a direct result of successful hiring and training initiatives.

Currently, 13 of our managers or assistant managers are graduates of the Management Trainee Program that we established in 1996. While other banks are reducing their commitment to trainee programs, or ending them altogether, we have found ours to be an efficient way to teach young people how to become bankers. In an industry like banking, where employee turnover is a continual challenge, "growing our own talent" has proven to provide the best results.

To help keep our retail staff focused on great service, we introduced two new internal programs in 2005 - Mystery Shopper and Service Makes an Impression Leading to Excellence (SMILE). Both of these new programs focus on the day-to-day details of our jobs.

SMILE is there to remind, recognize and reward individual employees for great customer service. We instituted monthly and annual rewards to help encourage all of us to provide that level of service our customers expect.

The Mystery Shopper program was designed to benchmark and evaluate our efforts to ensure a consistent level of quality customer service throughout our entire retail organization. The information they gather is invaluable as we look for ways to improve our employee performance and our service to customers.

TECHNOLOGY IS OUR STRENGTH

Investing in the technology necessary to attract new customers and keep current ones has always been a priority for us. This gives us an edge over other community banks and is a real source of strength for us

ONLINE BANKING/ONLINE BILL PAYMENT

Several enhancements were made to our online banking product in 2005 resulting in a 55% increase in users while our online bill payments users increased 56%. Some of the new features and functionality include: scheduled transfers between our customers' accounts, email notifications for account balance alerts, payments due, and personal financial reminders. We also invested in a new functionality to allow our customers to export their account data directly into their personal financial management software or to request downloads of account transaction data from within their personal financial management software.

NEW WEB SITE We completely redesigned our web site in 2005 giving it a fresh new look and feel. The new web site has improved navigation and added functionality, including more than 25 financial calculators and additional online applications available for our customers. The new web site has attracted a 40% increase in new visitors.

TREASURY SERVICES We invested several hundred thousand dollars in software and equipment in our new operations center including high speed reader/sorters and a high speed mail extractor that can process 15,000 pieces of mail per hour. This equipment will allow the Bank to venture into new lines of business and gives it



excess capacity to grow our existing lines of business while increasing non-interest income. At the end of 2005, the Bank was processing more than 800,000 items per month, making money on each item it processes.

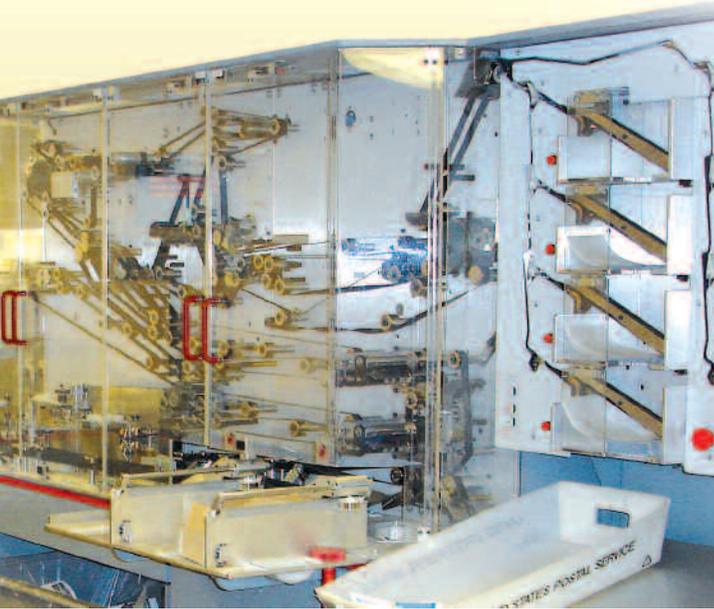
This investment allowed us to enter a new line of business, **Consolidated Returns**, which is offered by only a handful of banks nationwide. In fact, we're the only community bank in the nation to offer this service. This is an area where we can compete with anyone in the country... and do. Last year we signed on the nation's second largest grocery chain and approximately 100 other local and regional companies and are now processing a large volume of return items each month.

With the additional capacity available at our new operations center, **Retail Lockbox** volume increased from 110,000 items per month to more than 650,000 items, a 450% increase.

Wholesale Lockbox volume more than doubled in 2005, while **ACH – automated clearing house** items rose dramatically in 2005 with a 400% increase in volume.

In March, we moved into our new operations center and have approximately 8,000 square feet of new office space. We now have the people and technology in place to significantly increase the amount of items we process each month without the need for additional overhead.

**BUILT
FOR
SUCCESS**



Investing in state-of-the-art technology, such as our new Opex 150, keeps us ahead of the competition.

The Bank of Kentucky Center on the campus of NKU will be an asset for the entire Northern Kentucky community.

COMMUNITY INVOLVEMENT IS A KEY TO OUR SUCCESS

As a community bank, it is vitally important for us to place emphasis on community involvement. In addition to the numerous individual community fairs, parades and fund raisers in which the Bank and its employees are active participants, we also provided financial resources to nearly 100 different non-profit organizations during 2005, including:

United Way and Fine Arts Fund - the Bank's employees and directors donated more than \$100,000 to these two organizations in 2005. For a company of our size, this is an outstanding effort. Each year, the generosity of our employees is a source of pride.

Family Nurturing Center - in April, the Bank helped to raise the awareness of child abuse through the selling of blue ribbons in all of our branches. Last year, our employees and customers contributed more than \$12,500 through the sale of these blue ribbons. THAT'S A LOT OF RIBBONS!

We also support our community through our partnerships with community resources that

help improve the quality of life and spur economic development in Northern Kentucky. For instance:

The Bank of Kentucky Center at NKU - we agreed to donate up to 10% of the cost (a maximum of \$6 million) to build the new special events center on the campus of Northern Kentucky University. In return, we receive naming rights for 20 years, on-floor signage, on-site ATMs, information kiosks, and audio and video message boards. This building will serve as a magnet for the entire Northern Kentucky area.

The Florence Freedom - your bank has become the "official bank" of the Florence

Freedom, Northern Kentucky's representative in the Frontier League. This agreement will result in the team's gift shop becoming The Bank of Kentucky Freedom Gift Shop. In addition, The Bank of Kentucky will be featured on the major league caliber video scoreboard, have an ATM on-site and sponsor several events throughout the season.



ENSURING CREDIT NEEDS ARE MET IN ALL COMMUNITIES

The Community Reinvestment Act requires all banks to meet certain lending performance criteria within the geographic areas in which they operate, especially when it pertains to low-to-moderate income residents. During 2005, we were involved in dozens of CRA-related activities. Some of the larger ones are listed below:

Erlanger Ashwood Low Income Apartment Project - the Bank provided \$4.3 million in financing for the purchase and rehabilitation of a run down apartment complex. Now complete, the apartments are rented to those families earning less than 60% of the median Standard Metropolitan Statistical Area income.

Renters to Owners Grant - in conjunction with the Brighton Center, the bank applied for and received \$50,000 in grant funds to help minority and disabled borrowers with down payment and closing cost expenses. These funds, targeted to those individuals living in Section 8 apartments, are available to help them move into permanent housing.

Brighton Yes You Can Program - we also contributed \$1,000 to help fund a mortgage education program administered through the Brighton Center.

Hope Six Program - we helped low income residents qualify for up to \$35,000 in grants to reduce the purchase price for homes on Liberty Street in Newport.



The Bank of Kentucky provided the financing to restore and revive this apartment community.

Welcome Home Program - we qualified for \$200,000 in grant money from the Federal Home Loan Bank to help low-to-moderate income families with down payment and closing cost assistance. If the borrower remains in the home for five full years, the entire grant is forgiven.

Centro de Amistad of Cristo Rey - we donated \$1,000 to sponsor events held by the organization that serves the social service needs of the Latino/Hispanic community. In addition, we have begun translating our product and service literature into Spanish.

**WE ARE CONFIDENT
THE BANK OF KENTUCKY CAN
SURVIVE AN ENVIRONMENT OF
CHANGING RATES, CHANGING
DELIVERY MODELS AND
CHANGING COMPETITION.**

Providing great customer service, delivering the physical and electronic distribution network our customers demand, identifying and developing sources of fee income, and becoming an integral part of each community in which we operate; these are the cornerstones upon which we are building a successful bank.

**BUILT
FOR
SUCCESS**

OFFICERS OF THE BANK OF KENTUCKY

Robert W. Zapp President & CEO	Yvette M. Carter Vice President	Craig W. Pietrosky Vice President	William A. Harding Assistant Vice President	Linda G. Stapleton Assistant Vice President
Donald G. Bahr Executive Vice President	Kathy L. Conover Vice President	R. Todd Slagle Vice President	Lisa D. Hedrick Assistant Vice President	Diana R. Webster Assistant Vice President
Andrew C. Collins Executive Vice President	William D. Dern Vice President	Mark A. Tranbarger Vice President	Julia A. Kearns Assistant Vice President	Joy S. Wilson Assistant Vice President
Robert D. Fulkerson Executive Vice President	Dennis Gabbard Vice President	Jim R. Uebel Vice President	Casey P. McEvoy Assistant Vice President	Mark A. Yelton Assistant Vice President
Martin J. Gerrety Executive Vice President	Steven P. Gillespie Vice President	John G. Wilson Vice President	Frederick A. McGarry Assistant Vice President	Brad D. Hungler Assistant Cashier
Donald G. Benzinger Senior Vice President	Kathleen S. Haines Vice President	Paul M. Wray Vice President	Kevin R. Mooney Assistant Vice President	Dan B. Lindeman III Assistant Cashier
Mark G. Exterkamp Senior Vice President	Cynthia E. Hamm Vice President	Melissa K. Ziegelmeyer Vice President	Mary Ann Pfetzer Assistant Vice President	Jennifer K. Lonkard Assistant Cashier
Gary J. Menne Senior Vice President	Diane M. Kent Vice President	Mark D. Brock Assistant Vice President	Cadie Ponchot Assistant Vice President	Sherry J. Sandusky Assistant Cashier
Jerry H. Meyer Senior Vice President	Gregory A. Kirst Vice President	Andrew M. Bucher Assistant Vice President	Sharon K. Rogers Assistant Vice President	William J. Santos Assistant Cashier
Martha A. Snider Senior Vice President	Joseph P. Mayer Vice President	M. Renee Cain Assistant Vice President	Kay L. Romes Assistant Vice President	Laura L. Scroggin Assistant Cashier
Charles J. Snyder Senior Vice President	Katina L. McCandless Vice President	Todd S. Cooney Assistant Vice President	Corey B. Sidebottom Assistant Vice President	
Dottie G. Barnett Vice President	Patricia B. McDermott Vice President	Troy M. Fedders Assistant Vice President	W. Neil Spencer Assistant Vice President	
Melissa A. Behler Vice President	David R. Pierce Vice President	Susan C. Griffith Assistant Vice President	Phylliss J. Stamper Assistant Vice President	

OFFICERS OF THE BANK OF KENTUCKY FINANCIAL CORPORATION

Rodney S. Cain Chairman of the Board Chairman, Wiseway Plumbing & Electrical	Robert W. Zapp President & CEO, The Bank of Kentucky, Inc.	Herbert H. Works Secretary President, Boone-Kenton Lumber	Martin J. Gerrety Treasurer, Assistant Secretary Executive Vice President, The Bank of Kentucky, Inc.
---	---	---	--

BOARD OF DIRECTORS OF THE BANK OF KENTUCKY, INC. AND THE BANK OF KENTUCKY FINANCIAL CORPORATION

Charles M. Berger President, Biltz Insurance	Ruth Seligman Doering President & CEO, Charles Seligman Distributing Company, Inc.	Harry J. Humpert President, Humpert Enterprises, Inc.	Mary Sue Rudicill Chairman, Bellevue Sand & Gravel	Herbert H. Works President, Boone-Kenton Lumber Co.
Rodney S. Cain Chairman, Wiseway Plumbing & Electrical	R.C. Durr Chairman Emeritus, The Bank of Kentucky, Inc. President, R.C. Durr Company, Inc.	David E. Meyer President, Wolfpen Associates	John P. Williams, Jr. Retired President, Greater Cincinnati Chamber of Commerce	Robert W. Zapp President & CEO, The Bank of Kentucky, Inc.



THE BANK OF KENTUCKY

Headquarters
111 Lookout Farm Drive
Crestview Hills, KY 41017
(859) 372-9740

LOCATIONS

1065 Burlington Pike
Florence, KY 41042
(859) 371-2340

1831 Madison Avenue
Covington, KY 41014
(859) 581-6400

3950-A Turkeyfoot Road
(inside Remke)
Erlanger, KY 41018
(859) 282-3255

8660 Haines Drive
Florence, KY 41042
(859) 384-5500

12 Taft Highway
Dry Ridge, KY 41035
(859) 824-7444

118 Sixth Avenue
(inside Riverside SuperValu)
Dayton, KY 41074
(859) 491-2700

12020 Madison Pike
Independence, KY 41051
(859) 356-0700

1850 Ashwood Circle
Ft. Wright, KY 41011
(859) 578-2099

320 Richwood Road
Walton, KY 41094
(859) 485-4910

116 Stephenson Mill Road
Walton, KY 41094
(859) 485-9595

6710 McVillie Road
Bellevue, KY 41005
(859) 586-9870

3133 Dixie Highway
Erlanger, KY 41018
(859) 578-6100

231 Scott Boulevard
Covington, KY 41011
(859) 655-8600

25 N. Ft. Thomas Avenue
Ft. Thomas, KY 41075
(859) 441-3302

82 Carothers Road
(inside Remke)
Newport, KY 41074
(859) 292-0028

2446 Anderson Road
Crescent Springs, KY 41017
(859) 578-2499

2110 North Bend Road
Hebron, KY 41048
(859) 334-3399

3435 Valley Plaza Pkwy
Ft. Wright, KY 41011
(859) 578-6820

330 Mt. Zion Road
Florence, KY 41042
(859) 282-2810

4748 Houston Road
Florence, KY 41042
(859) 282-2820

1900 Declaration Drive
(inside Kroger)
Independence, KY 41051
(859) 363-4500

111 Lookout Farm Drive
Crestview Hills, KY 41017
(859) 372-9740

7612 Alexandria Pike
Alexandria, KY 41001
(859) 635-4117

20 Ferguson Boulevard
(inside Wal-Mart)
Dry Ridge, KY 41035
(859) 824-7181

591 Freedom Park
Edgewood, KY 41017
(859) 578-2599

2800 Alexandria Pike
Highland Heights, KY 41076
(859) 442-4200

501 Monmouth Street
Newport, KY 41071
(859) 655-3100

FINANCIAL TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION	10
CONSOLIDATED FINANCIAL STATEMENTS	
SELECTED FINANCIAL DATA	22
CONSOLIDATED BALANCE SHEETS	23
CONSOLIDATED STATEMENTS OF INCOME	24
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	25
CONSOLIDATED STATEMENTS OF CASH FLOWS	26
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	27
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS	46
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING	46
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING	47

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND THE RESULTS OF OPERATIONS

December 31, 2005

Forward Looking Statements

This report includes forward-looking statements by the Corporation relating to such matters as anticipated operating results, credit quality expectations, prospects for new lines of business, technological developments, economic trends (including interest rates) and similar matters. Such statements are based upon the current beliefs and expectations of the Corporation's management and are subject to risks and uncertainties. While the Corporation believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could prove to be inaccurate, and accordingly, actual results and experience could differ materially from the anticipated results or other expectations expressed by the Corporation in its forward-looking statements. Factors that could cause actual results or experience to differ from results discussed in the forward-looking statements include, but are not limited to: economic conditions; volatility and direction of market interest rates; governmental legislation and regulation, including changes in accounting regulation or standards; material unforeseen changes in the financial condition or results of operations of the Corporation's clients; and other risks identified from time-to-time in the Corporation's other public documents on file with the Securities and Exchange Commission, including those described in Item 1A of the Corporation's annual report on Form 10-K. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements, and the purpose of this paragraph is to secure the use of the safe harbor provisions.

Management Overview

The business of The Bank of Kentucky Financial Corporation ("BKFC" or the "Corporation") consists of holding and administering its interest in The Bank of Kentucky, Inc. (the "Bank"). The Bank conducts basic banking operations from locations in Boone, Kenton, Campbell, and Grant Counties in Northern Kentucky. The majority of the Corporation's revenue is derived from the Bank's loan portfolio. The loan portfolio is diversified and the ability of borrowers to repay their loans is not dependent upon any single industry. Commercial or residential real estate or other business and consumer assets secure the majority of the Bank's loans.

The Corporation produced record earnings of \$10,127,000 in 2005, which was a slight increase of \$69,000 or 1% over 2004. The financial results of the Corporation for 2005 were affected primarily by two factors. Growth in the balance sheet and higher levels of earning assets, drove net interest income up \$2,630,000, or 9%, for the year, while the investments the Bank made in infrastructure contributed to the increase in expenses of \$3,559,000 or 16% over 2004. A third factor affecting the financial results of 2005 was a \$617,000 increase in service charges, which helped non-interest income grow 10% from 2004.

The driving force for the growth in the Corporation's balance sheet in 2005 was deposit growth, which increased \$78,310,000, or 10% from 2004. This deposit growth funded the increases in loans of 2%, securities of 47%, and allowed for an investment in federal funds sold of \$30,658,000. The Corporation's net interest margin, on a tax equivalent basis, increased 3 basis points to 4.06% in 2005. Contributing to the improvement in the net interest margin was lower cash reserve requirements, which were invested in earning assets, and the growth in demand deposit balances. While the net interest margin increased in 2005, it was negatively impacted by the mix of assets added, and the higher level of nonperforming assets. Of the additional \$61,130,000 of average earning assets added in 2005, \$34,729,000 consisted of higher yielding loans and \$26,401,000 consisted of lower yielding overnight investments and securities. This was particularly evident in the fourth quarter of 2005, when net interest income growth slowed to 4% and the net interest margin fell 23 basis points from 2004. Non-performing assets grew \$7,529,000 or 114% from \$6,579,000 at the end of 2004 to \$14,108,000 at the end of 2005, as a result of two borrowers adding a total of \$7,986,000 in non-performing loans and other real estate property. The non-performing assets at year-end 2005 consisted of \$9,045,000 in non-performing loans and \$5,063,000 in other real estate owned.

The Bank made significant investments in staff and equipment in 2005 to take advantage of new revenue sources, to strengthen the Bank and to meet growing challenges in the regulatory environment. The largest investment made in 2005 was the opening of Bank's cash management operations center in February of 2005. This center was opened to increase the Bank's capacity in existing lines of business and to offer new cash management products. The investment in this center included over \$700,000 in new equipment and software, 8,750 square feet of office space and 25 additional employees. This investment contributed to the strong growth in service charge revenue, which was up 17% from 2004. This revenue stream is expected to continue to grow in 2006. Other investments of additional employees in 2005, were made in the information technology area, credit, commercial and consumer lending, auditing and accounting in 2005.

Increased impaired loans and higher credit losses in 2005 drove the provision for loan losses to an increase of \$150,000 or 9% from 2004. Net charge offs for 2005 were \$1,458,000 or .20% of average loans compared to the \$1,316,000 or .19% in 2004.

The following sections provide more detail on subjects presented in the overview.

Critical Accounting Policies

BKFC has prepared all of the consolidated financial information in this report in accordance with accounting principles generally

accepted in the United States of America (U.S. GAAP). In preparing the consolidated financial statements in accordance with U.S. GAAP, BKFC makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurances that actual results will not differ from those estimates.

We have identified the accounting policy related to the allowance for loan losses as critical to the understanding of BKFC's results of operations, since the application of this policy requires significant management assumptions and estimates that could result in materially different amounts to be reported if conditions or underlying circumstances were to change.

The Bank maintains an allowance to absorb probable, incurred loan losses inherent in the loan portfolio. The allowance for loan losses is maintained at a level the Bank considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectibility and historical loss experience of loans. Loan losses are charged and recoveries are credited to the allowance for loan losses. Provisions for loan losses are based on the Bank's review of the historical loan loss experience and such factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable loan losses. The Bank's strategy for credit risk management includes a combination of conservative underwriting, documentation and collections standards and quarterly management reviews of large loan exposures and loans experiencing deterioration of loan quality.

Larger commercial loans that exhibit probable or observed loan weaknesses are subject to individual review. Where appropriate, specific portions of the allowance are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Bank. The review of individual loans includes those loans that are impaired as provided in SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The Bank evaluates the collectibility of both principal and interest when assessing the need for loans being placed on non-accrual status. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations. The loss rates applied to commercial loans are derived from analyzing a range of the loss experience sustained on loans according to their internal risk grade. These loss rates may be adjusted to account for environmental factors if warranted.

Homogenous loans, such as consumer installment, residential mortgage loans and home equity loans are not individually risk

graded. Rather, a range of historic loss experience of the portfolio is used to determine the appropriate allowance for the portfolios. Allocations for the allowance are established for each pool of loans based on the expected net charge-offs for one year

A high and low range of reserve percentages is calculated to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans. The position of the allowance for loan losses within the computed range may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions of credit quality. Factors that management considers in the analysis include the effects of the local economy, trends in the nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix of loans, asset quality trends, risk management and loan administration, changes in the internal lending policies and credit standards, and examination results from bank regulatory agencies and internal review by the credit department.

Reserves on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

Financial Condition

Total assets at December 31, 2005 were \$957,338,000 compared to \$878,129,000 at December 31, 2004, an increase of \$79,209,000 (9%). Driving the Corporation's balance sheet growth was an increase of \$78,310,000 (10%) in total Bank deposits to \$831,110,000 at December 31, 2005, compared to \$752,800,000 at December 31, 2004. Contributing to the growth in deposits were increases in certificates of deposits and individual retirement accounts (up \$49,011,000 or 19%), money market accounts (up \$14,930,000 or 17%) and demand deposit accounts (up \$14,159,000 or 12%). The growth in certificates of deposits and individual retirement accounts benefited from the rising rate environment as the yields on these accounts increased significantly from the historic low yields of the preceding years. Growth in money market accounts benefited from the growth in the Bank's Money Market Plus account and the Money Market Index account. The largest other funding source for asset growth was shareholders' equity, which increased \$6,783,000 (9%) to \$80,447,000 at December 31, 2005, compared to \$73,664,000 at December 31, 2004. The growth in deposits and shareholders equity was offset by other borrowings, which decreased \$8,218,000 to \$38,516,000 at December 31, 2005 compared to \$46,734,000 at December 31, 2004.

On the asset side of the Bank's balance sheet, growth came from federal funds sold (up \$30,658,000 or 100%), securities (up

Table 1 - Average Assets 2005, 2004 and 2003

Average Assets:	As a % of		As a % of		As a % of	
	2005	total assets	2004	total assets	2003	total assets
Cash and Due from banks	\$ 34,654	3.9%	\$ 42,364	5.1%	\$ 37,098	4.7%
Short term Investments	13,339	1.5%	2,355	.3%	35,480	4.5%
Other interest-earning assets	4,236	.5%	4,157	.5%	5,757	.8%
Securities	67,062	7.5%	51,724	6.2%	48,103	6.1%
Loans(net of allowance for loan losses)	720,528	80.9%	686,016	82.2%	615,814	78.5%
Premises and Equipment	17,163	1.9%	16,589	2.0%	16,394	2.1%
Goodwill and Acquisition intangibles	13,080	1.5%	13,296	1.6%	13,926	1.8%
Cash Surrender Value of life insurance	12,786	1.4%	11,869	1.4%	5,497	.7%
Other Assets	8,019	.9%	6,283	.7%	6,176	.8%
Total Average Assets	\$ 890,867	100.0%	\$ 834,653	100.0%	\$ 784,245	100.0%

\$30,109,000 or 47%) and loans (up \$11,535,000 or 2%). Contributing to the growth in the loan portfolio were increases in the commercial and commercial real estate loan portfolios (up \$10,575,000 or 3%). Contributing to the growth in the securities portfolio was \$26,000,000 invested in the fourth quarter of 2005 in short term discount notes. These notes are a form of short-term investment, which the Bank pledges for collateralization of public fund deposits.

As discussed in the Management Overview section above, the table above illustrates the change in the mix of average earning assets in 2005 as compared to 2004. The table shows that loans as a percentage of average earning assets dropped to 80.9% of the average earning assets in 2005, compared to 82.2% in 2004 while short-term investments and securities increased to 9.0% of average earning assets in 2005 compared to 6.5% in 2004. These changes to the mix of earning assets had a negative effect on net interest income, with lower yielding short-term investments and securities growth outpacing higher yielding loan growth.

Results of Operations

Summary

Net income was \$10,127,000 for the year ended December 31, 2005, compared to \$10,058,000 in 2004, an increase of \$69,000 (1%). Net income for the year ended December 31, 2004 increased \$699,000 (7%) from the \$9,359,000 recorded in 2003. Driven by the growth in the balance sheet and an increase in the effect of net free funds(non-interest bearing liabilities funding earning assets), net interest income increased \$2,630,000 or 9% in 2005 which helped offset the \$3,559,000 (16%) increase in non-interest expense. Also helping to offset the increase in non-interest expense was non-interest income, which increased \$814,000. While deposit growth fueled balance sheet growth, increasing demand deposit accounts and the deposit reclassification process, described in the net interest section below, positively impacted the net free funds.

Contributing to the higher expenses in 2005 was the opening of the Bank's cash management operations center in February of 2005. Revenues from the increased volume of cash management activities and new products contributed to the \$617,000 increase in service charges from 2004. The 2004 results reflected a \$3,314,000 or 12% increase in the net interest income, which was offset with a \$1,643,000 or 56% reduction in gains on loans sold from 2003.

Net Interest Income

Net interest income grew to \$32,623,000 in 2005, an increase of \$2,630,000 (9%) over the \$29,993,000 earned in 2004. The increase was driven by the growth in the balance sheet and an increase in the effect of net free funds, and drove the increase in the net interest margin from 4.03% in 2004 to 4.06% in 2005. As illustrated in Table 3, net interest income was positively impacted by the volume additions, which includes the effect of net free funds, to the balance sheet by \$2,440,000 in 2005, and was helped to a smaller degree by the rate variance, which had a \$256,000 positive impact on net interest income. While the general increase in short-term interest rates throughout 2005 enhanced loan and security yields, deposit rates increase as well. Also, longer-term rates did not increase at the same levels as short-term rates, somewhat diminishing the positive impact of the increasing rate environment on the Corporation's net interest margin. As illustrated in Table 2, lower cash reserve requirements and growing demand deposit balances, coupled with rising rates, nearly doubled the contribution of net free funds to the net interest margin, from 22 basis points in 2004 to 39 basis points in 2005.

As allowed by the Federal Reserve Bank, in the first quarter of 2005, the Bank completed a process to reclassify a portion of its transaction deposits (primarily demand deposits and interest bearing checking accounts) to savings deposits. The effect of this process was a reduction in the amount of cash (approximately \$21,000,000)

that the Bank was required to hold with the Federal Reserve Bank. The reduction of cash held in reserve was in full effect by the end of April of 2005. The cash balances reduced at the Federal Reserve Bank as a result of the lower reserve requirement contributed in 2005 to both reduce short-term borrowing and increase short-term investments. At year end 2005, short-term borrowings had

decreased \$4,936,000 and short-term investments had increased \$30,658,000 from year end 2004. The lower cash reserve requirement contributed to the increase in the effect of net free funds from .22% in 2004 to .39% in 2005 that can be seen in Table 2. Rising rates also contribute positively to the effect of net free funds. The lower reserve requirement also contributed to the

Table 2 - Average Balance Sheet Rates 2005, 2004 and 2003

(presented on a tax equivalent basis in thousands)

	Year ended December 31,								
	2005			2004			2003		
	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate
(Dollars in thousands)									
Interest-earning assets:									
Loans receivable (1)(2)	\$ 727,924	\$ 47,944	6.59%	\$ 693,195	\$ 39,969	5.77%	\$ 622,346	\$ 37,288	5.99%
Securities (2)	67,062	2,436	3.63	51,724	1,686	3.26	48,103	1,826	3.80
Other interest-earning assets	17,575	709	4.03	6,512	204	3.15	41,237	560	1.36
Total interest-earning assets	812,561	51,089	6.29	751,431	41,859	5.57	711,686	39,674	5.57
Non-interest-earning assets	78,306			83,222			72,559		
Total assets	\$ 890,867			\$ 834,653			\$ 784,245		
Interest-bearing liabilities:									
Transaction accounts	\$ 360,492	6,780	1.88	\$ 346,940	3,153	.91	\$ 323,837	3,276	1.01
Time deposits	285,305	9,255	3.24	259,072	6,660	2.57	264,056	7,831	2.97
Borrowings	47,028	2,097	4.46	53,694	1,785	3.32	44,148	1,583	3.59
Total interest-bearing liabilities	692,825	18,132	2.62	659,706	11,598	1.76	632,041	12,690	2.01
Non-interest-bearing liabilities	120,780			105,030			89,117		
Total liabilities	813,605			764,736			721,158		
Shareholders' equity	77,262			69,917			63,087		
Total liabilities and shareholders' equity	\$ 890,867			\$ 834,653			\$ 784,245		
Net interest income	\$ 32,957			\$ 30,261			\$ 26,984		
Interest rate spread			3.67%			3.81%			3.56%
Net interest margin (net interest income as a percent of average interest-earning assets)			4.06%			4.03%			3.79%
Effect of Net Free Funds (earning assets funded by non interest bearing liabilities)			.39%			.22%			.23%
Average interest-earning assets to interest-bearing liabilities	117.28%			113.90%			112.60%		

(1) Includes non-accrual loans.

(2) Income presented on a tax equivalent basis using a 35% tax rate. The tax equivalent adjustment was \$334,000, \$268,000, and \$305,000, in 2005, 2004, and 2003 respectively.

Bank's percentage of average interest-earning assets to interest-bearing liabilities improving to 117.28% in 2005 from 113.90% in 2004. This improved interest-earning assets to interest-bearing liabilities ratio was the result of earning assets increasing \$61,130,000 or 8% and interest bearing liabilities rising only \$33,119,000 or 5%. These results are also illustrated in Table 2.

Net interest income grew to \$29,993,000 in 2004, an increase of \$3,314,000 (12%) over the \$26,679,000 earned in 2003. The increase was driven by the growth in loans and an improved mix of earning assets. These balance sheet changes help produce the increase in the net interest margin from 3.79% in 2003 to 4.03% in 2004. As illustrated in Table 3, net interest income was positively impacted by

Table 3 - Volume/Rate Analysis (in thousands)

	Year ended December 31,					
	2005 vs. 2004			2004 vs. 2003		
	Increase (Decrease)			Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
(Dollars in thousands)						
Interest income attributable to:						
Loans receivable	\$ 2,077	\$ 5,898	\$ 7,975	\$ 4,125	\$ (1,444)	\$ 2,681
Securities	541	209	750	131	(271)	(140)
Other interest-earning assets(1)	432	73	505	(713)	357	(356)
Total interest-earning assets	3,050	6,180	9,230	3,543	(1,358)	2,185
Interest expense attributable to:						
Transaction accounts	128	3,499	3,627	224	(347)	(123)
Time deposits	724	1,871	2,595	(145)	(1,026)	(1,171)
Borrowings	(242)	554	312	324	(122)	202
Total interest-bearing liabilities	610	5,924	6,534	403	(1,495)	(1,092)
Increase (decrease) in net interest income	\$ 2,440	\$ 256	\$ 2,696	\$ 3,140	\$ 137	\$ 3,277

(1) Includes short-term investments and interest-bearing deposits in other financial institutions.

the volume additions and mix improvements to the balance sheet by \$3,140,000 in 2004, and was helped to a smaller degree by the rate variance, which had a \$137,000 positive impact on net interest income. The Bank's ratio of interest-earning assets to interest-bearing liabilities was 113.90% for 2004, which was an increase, or improvement, from the 112.60% in 2003.

Table 2 illustrates the Bank's average balance sheet information and reflects the average yield on interest-earning assets, on a tax equivalent basis, and the average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of interest-earning assets or interest-bearing liabilities, respectively, for the years presented. Average balances are daily averages for the Bank and include nonaccruing loans in the loan portfolio, net of the allowance for loan losses.

Table 3 illustrates the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing

liabilities have affected the Bank's interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume) and (iii) total changes in rate and volume. The combined effects of changes in both volume and rate, which cannot be separately identified, have been allocated proportionately to the change due to volume and the change due to rate.

Provision for Loan Losses

The provision for loan losses was \$1,825,000 for the year ended December 31, 2005, compared to \$1,675,000 for 2004. The increase of \$150,000 (9%) reflected a higher level of losses in the loan portfolio in 2005. For the year ended December 31, 2005, net charge offs were \$1,458,000 or .20% of average loan balances compared to 2004 figures of \$1,316,000 or .19% of average loan balances. Total non-accrual loans and loans past due 90 days or more were \$9,045,000 (1.24% of loans outstanding) at December 31, 2005

compared to \$5,145,000 (.72% of loans outstanding) at December 31, 2004. As the non-performing loan balances increased, the ratio of the allowance to nonperforming loans (coverage ratio) decreased from 140% at the end of 2004 to 84% at the end of 2005. The increase in non-performing loans and the decrease in the coverage ratio were the result of two commercial loan relationships, one for

\$2,400,000, that is collateralized with business assets, was placed on non-accrual status in the third quarter of 2005, and the second for \$2,600,000, that is collateralized with commercial real estate, was placed on non-accrual status in the fourth quarter of 2005. Management continues to monitor these relationships and has established appropriate reserves.

Table 4 - analysis of the allowance for losses for the periods indicated:

	Year ended at December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands)				
Balance of allowance at beginning of period	\$ 7,214	\$ 6,855	\$ 6,408	\$ 4,244	\$ 3,806
Recoveries of loans previously charged off:					
Commercial loans	67	8	5	10	49
Consumer loans	11	2	26	9	10
Mortgage loans	0	0	1	6	2
Total recoveries	78	10	32	25	61
Loans charged off:					
Commercial loans	1,127	936	335	152	242
Consumer loans	277	360	226	211	69
Mortgage loans	132	30	114	115	93
Total charge-offs	1,536	1,326	675	478	404
Net charge-offs	(1,458)	(1,316)	(643)	(453)	(343)
Provision for loan losses	1,825	1,675	1,090	1,235	781
Merger adjustment	0	0	0	1,382	0
Balance of allowance at end of period	\$ 7,581	\$ 7,214	\$ 6,855	\$ 6,408	\$ 4,244
Net charge-offs to average loans					
outstanding for period	.20%	.19%	.10%	.10%	.09%
Allowance at end of period to loans					
at end of period	1.04%	1.00%	1.04%	1.06%	1.02%
Allowance to nonperforming loans					
at end of period	83.81%	140.21%	197.38%	153.60%	134.60%

Non-performing assets, which include non-performing loans, other real estate owned and repossessed assets, totaled \$14,108,000 at December 31, 2005 and \$6,579,000 at December 31, 2004. This represents 1.47% of total assets at December 31, 2005 compared to .75% at December 31, 2004. The largest increases in other real estate owned in 2005 were two pieces of commercial real estate totaling approximately \$3,000,000, that were added to other real estate owned as a result of deeds to the Bank in lieu of foreclosure. These properties were part of the same relationship as the \$2,400,000 in commercial loans that were added to non-accrual loans.

The provision for loan losses was \$1,675,000 for the year ended December 31, 2004, compared to \$1,090,000 for 2003. The increase

of \$585,000 (54%) reflected a higher level of losses in the loan portfolio in 2004. For the year 2004, net charge offs were \$1,316,000 or .19% of average loan balances compared to 2003 figures of \$643,000 or .10% of average loan balances. Total non-accrual loans and loans past due 90 days or more were \$5,145,000 (.72% of loans outstanding) at December 31, 2004 compared to \$3,473,000 (.53% of loans outstanding) at December 31, 2003. As the non-performing loan balances increased, the ratio of the allowance to nonperforming loans (coverage ratio) decreased from 197% at the end of 2003 to 140% at the end of 2004.

The allowance for loan losses as a percentage of total assets was 1.04% on December 31, 2005, which was up from the 1.00% at

December 31, 2004. Management believes the current level of the allowance for loan losses is sufficient to absorb probable incurred losses in the loan portfolio. Management continues to monitor the loan portfolio closely and believes the increase in the provision for loan losses is directionally consistent with the increase in losses in the loan portfolio and the higher level of non-performing loans.

Monitoring loan quality and maintaining an adequate allowance is an ongoing process overseen by senior management and the loan review function. On at least a quarterly basis, a formal analysis of

the adequacy of the allowance is prepared and reviewed by management and the Board of Directors. This analysis serves as a point in time assessment of the level of the allowance and serves as a basis for provisions for loan losses. The loan quality monitoring process includes assigning loan grades and the use of a watch list to identify loans of concern.

For additional information on the allowance for loan losses see the critical accounting policies section of this discussion.

Table 5 - Major Components of non-interest income (in thousands)

Non-interest income:	Year ended December 31,			Percentage Increase/(Decrease)	
	2005	2004	2003	2005/2004	2004/2003
Service charges and fees	\$ 4,297	\$ 3,680	\$ 3,502	17%	5%
Gain on sale of securities	0	10	0	(100)	100
Gains on sale of real estate loans	965	1,281	2,924	(25)	(56)
Trust fee income	928	779	622	19	25
Bankcard transaction revenue	1,050	812	669	29	21
Company owned life insurance earnings	472	485	224	(3)	116
Other	1,373	1,224	999	12	23
Total non-interest income	\$ 9,085	\$ 8,271	\$ 8,940	10%	(7)%

Non-interest Income

Total non-interest income increased \$814,000 (10%) in 2005 from \$8,271,000 in 2004 to \$9,085,000 in 2005. Increases for 2005 included service charges and fees (up \$617,000, 17%) bankcard transaction revenue (up \$238,000, 29%), standby letters of credit fees (up \$193,000, 76%), trust fee income (up \$149,000, 19%), and were offset by lower gains on the sale of real estate loans (down \$316,000, 25%).

Contributing to the increase in service charges was lockbox revenue and fees from the Bank's consolidated returns product, which offset the effects that rising interest rates had on service charges. Rising interest rates reduce service charges and fees, as the earnings credit rate used to offset service charges increased. Service charges in 2005 included the earnings from several new large lockbox customers. The volume of lockbox items processed increased 400% in March of 2005 compared to February of 2005 as a result of these customers. In 2005, the Bank began to provide a new cash management product by offering the service of consolidating returned checks for specific customers. The related fees from the new lockbox customers and the consolidated returns were approximately \$716,000 in 2005. The consolidating of returns helps national and regional retailers save money by routing the

returned checks of their customers to one financial institution, versus through multiple local depository banks.

The increase in bankcard transaction revenue reflects consumers continued acceptance of electronic forms of payments and the resulting growth in usage of the Bank's debit and credit card products.

The decrease in gains on the sale of real estate loans was a continued slowdown in the refinancing market. The Bank originates fixed rate first mortgage loans and sells them, servicing released, into the secondary market. For the twelve months ended December 31, 2005, \$81,000,000 of loans were sold compared to \$94,000,000 sold during the same period in 2004. Loans held for sale at December 31, 2005 increased to \$1,609,000 from \$1,391,000 at December 31, 2004. These loans have been approved by the secondary market buyer and closed by the Bank. The Bank is awaiting settlement, but is not exposed to significant interest rate or pricing risk during the period between closing the loan and settlement. The level of the refinancing business is dependent upon rates, and with rates staying relatively flat on fixed rate mortgage loans in 2005, the refinancing slowed appreciably from the preceding years. Likewise, if rates remain stable or rise in 2006,

the result will likely be a relatively low level of refinancing in 2006.

The increase in trust fee income was a result of continued new business development and equity market advances. At year-end 2005, total trust assets stood at \$269,000,000 compared to \$244,000,000 at the end of 2004.

Total non-interest income decreased \$669,000 (7%) in 2004 from \$8,940,000 in 2003 to \$8,271,000 in 2004. The largest decrease in non-interest income for 2004, was in gains on the sale of mortgage loans, which decreased \$1,643,000 (56%) in 2004 from \$2,924,000 in

2003 to \$1,281,000 in 2004. The decrease was due to the slowdown in refinancing activity as a result of rising mortgage rates and a saturated refinancing market. For the twelve months ended December 31, 2004, \$94,000,000 of loans were sold compared to \$263,000,000 sold during the same period in 2003. Loans held for sale at December 31, 2004 increased to \$1,391,000 from \$1,017,000 at December 31, 2003.

Service charges and fees on deposit accounts increased by \$178,000 (5%) from \$3,502,000 in 2003, to \$3,680,000 in 2004. Fee increases

Table 6 - Major Components of non-interest expense (in thousands)

Non-interest expense:	Year ended December 31,			Percentage Increase/(Decrease)	
	2005	2004	2003	2005/2004	2004/2003
Salaries and employee benefits	\$ 12,228	\$ 10,386	\$ 9,445	18%	10%
Occupancy and equipment	3,881	3,357	3,387	16	(1)
Data processing	1,393	1,278	1,278	9	0
Advertising	618	630	525	(2)	20
ATM processing fees	674	572	845	18	(32)
Outside service fees	828	734	644	13	14
State bank taxes	1,007	870	763	16	14
Amortization of intangible assets	646	645	645	0	0
Other	3,886	3,130	2,952	24	6
Total non-interest expense	\$ 25,161	\$ 21,602	\$ 20,484	16%	5%

associated with higher volume of accounts was partially offset by higher earnings credit rates. Earnings credit rates are tied to short-term rates and rose steadily in 2004. The Bank had \$10,000 in gains from the sale of investment securities in 2004 versus \$0 in 2003. Trust fee income increased \$157,000 (25%) in 2004 compared to 2003 as a result of business development efforts and market value increases. As of December 31, 2004, total trust assets stood at \$244,000,000 compared to \$197,000,000 at the end of 2003. Bankcard transactions, which are the fees received from vendors when the Bank's debit cards and credit cards are used, increased by \$143,000 (21%) from \$669,000 in 2003 to \$812,000 in 2004, reflecting the added cards and increased volume. The growth in the bankcard transactions fees from 2003 levels were slowed somewhat as a result of an industry wide legal settlement which effectively reduced the fee percentage that Banks may receive from customers using the bank's debit and credit cards in mid-year of 2003.

Non-interest Expense

Non-interest expense increased \$3,559,000 (16%) to \$25,161,000 for 2005, compared to \$21,602,000 in 2004. The largest increases in non-interest expense were in salaries and benefits and occupancy

and equipment, which increased \$1,842,000 (18%) and \$524,000(16%) respectively in 2005 compared to the same period in 2004. The Bank made significant investments in staff and equipment in 2005 to take advantage of new revenue sources, to strengthen the Bank and to meet growing challenges in the regulatory environment. The largest investment made in 2005 was the opening of Bank's cash management operations center in February of 2005. This center was opened to increase the Bank's capacity in existing lines of business and to offer new cash management products. The investment in this center included over \$700,000 in new equipment and software, 8,750 square feet of office space and 25 additional employees. Other areas where additional staff was added included commercial and consumer lending, credit review, information technology, human resources, audit and accounting. Other expenses in 2005 also included for the first time a \$143,000 expense for the Bank's investment in a low-income housing project. This before tax expense was offset with the reduction of Federal income tax expense resulting from recognition of a \$133,000 low-income housing tax credit.

Non-interest expense increased \$1,118,000 (5%) to \$21,602,000 for 2004, compared to \$20,484,000 in 2003. The largest increase in

non-interest expense was in salaries and benefits, which increased \$941,000 (10%) in 2004 compared to the same period in 2003. The increase in salaries and benefits was the result of annual merit increases, staff additions and added employee benefit plans related to the investments in Company owned life insurance policies. Contributing to the decreases in occupancy and equipment, \$30,000 (1%), and the flat data processing expense in 2004, was the elimination of certain conversion expenses and temporary redundancies in 2003 associated with the PBNK transaction of 2002. The \$273,000 (32%) reduction in ATM processing fees was the result of a change in the processor for the Bank's debit cards and ATM machines.

Tax Expense

Federal income tax expense decreased \$334,000 (7%) to \$4,595,000 for 2005 compared to \$4,929,000 for 2004, due to a \$133,000 low-income housing tax credit and a lower effective tax rate. The effective tax rate was 31.2% for 2005, which was a decrease of 1.7% from 32.9% in 2003. In addition to the low income tax credit, higher level of tax free income contributed to the decrease in the effective rate.

Federal income tax expense increased \$243,000 (5%) to \$4,929,000 for 2004 compared to \$4,686,000 for 2003, due to the increase in earnings. The effective tax rate was 32.9% for 2004, which was a

Table 7- Contractual obligations (in thousands)

	Total	Maturity by period			
		Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
FHLB advances	\$ 16,460	-	-	\$ 10,000	\$ 6,460
Subordinated debentures	17,526	-	-	-	17,526
Other notes payable	305	34	30	37	204
Northern Kentucky University arena naming rights	6,000	-	6,000	-	-
Lease commitments	3,992	788	1,226	857	1,121
Total	\$ 44,283	\$ 822	\$ 7,256	\$ 10,894	\$ 25,311

decrease of .5% from 33.4% in 2003. The decrease in the effective rate was primarily the result of a higher level of tax-free income from the Company owned life insurance policies.

Contractual Obligations and Off-Balance Sheet Arrangements

The Bank enters into certain contractual obligations in the ordinary course of operations. Table 7 presents, as of December 31, 2005, the Bank's significant fixed and determinable contractual obligations by payment date. The required payments under these contacts represent future cash requirements of the Bank. The payment amounts represent those amounts due to the recipient plus the unamortized premium on the FHLB advances.

In order to meet the financing needs of its customers, the Bank is also a party to certain financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the Corporation's consolidated balance sheets. Table 8 presents, as of December 31, 2005, the Bank's significant off-balance sheet commitments.

Lease commitments represent the total minimum lease payments under noncancelable leases.

Unused lines of credit and loan commitments assure a borrower of financing for a specified period of time at a specified rate. The risk to the Bank under such commitments is limited to the terms of the contracts. For example, the Bank may not be obligated to advance funds if the customer's financial condition deteriorates or if the customer fails to meet specific covenants. An approved, but unfunded, loan commitment represents a potential credit risk once the funds are advanced to the customer. The unused lines of credit and loan commitments also represent a future cash requirement, but this cash requirement will be limited since many commitments are expected to expire or only be used partially.

Stand-by letters of credit represent commitments by the Bank to repay a third-party beneficiary when a customer fails to repay a loan or debt instrument. The terms and risk of loss involved in issuing stand-by letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the letters of credit could present an immediate cash requirement if the obligations require funding.

Table 8 - Significant Off-Balance Sheet Commitments (in thousands)

	Maturity by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Unused lines of credit and loan commitments	\$ 212,588	\$ 132,825	\$19,807	\$ 12,771	\$ 47,185
Standby letters of credit	64,453	30,280	16,179	12,317	5,677
FHLB letters of credit	86,300	86,300	-	-	-

The Bank maintains letters of credit from the FHLB to collateralize public funds deposits. These letters of credit reduce the Bank's available borrowing line at the FHLB.

On February 16, 2005, the Bank entered into an agreement to lease space for its cash management operation center. The lease has a term of five years with an annual cost which escalates from \$79,000 for the first year to \$89,000 by the fifth year.

On March 3, 2005, the Bank entered into an agreement with Northern Kentucky University whereby the University will grant to the Bank the naming rights for the new Northern Kentucky University Arena to be constructed on the campus of the University for a term commencing immediately upon execution of the document and expiring twenty years after the opening of the Arena. In consideration therefore the Bank will pay the lesser of 10% of the total construction cost of the Arena or \$6,000,000, such sum to be paid in seven equal annual installments beginning after substantial completion and opening of the Arena. The cost of the naming rights will be amortized over the life of the contract commencing on the opening of the Arena.

Further discussion of the Bank's contractual obligations and off-balance sheet activities is included in Note 14 of the Corporation's consolidated financial statements.

Asset/Liability Management and Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to interest rate risk, exchange rate risk, equity price risk or commodity price risk. The Bank does not maintain a trading account for any class of financial instrument and is not currently subject to foreign currency exchange rate risk, equity price risk or commodity price risk. The Bank's market risk is composed primarily of interest rate risk.

The Bank utilizes an earnings simulation model to measure and define the amount of interest rate risk it assumes. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future

net interest income and /or a decline in fair market values. Interest rate risk results from the fact that the interest sensitive assets and liabilities can adjust their rates at different times and by different amounts. The goal of asset/liability management is to maintain a high, yet stable, net interest margin and to manage the effect that changes in market interest rates will have on net interest income. A common measure of interest rate risk is interest rate "gap" measurement. The gap is the difference, in dollars, between the amount of interest-earning assets and interest-bearing liabilities that will reprice within a certain time frame. Repricing can occur when an asset or liability matures or, if an adjustable rate instrument, when it can be adjusted. Typically, the measurement will focus on the interest rate gap position over the next twelve months. An institution is said to have a negative gap position when more interest-bearing liabilities reprice within a certain period than do interest-earning assets, and a positive gap position when more interest-earning assets reprice than interest-bearing liabilities. Interest rate gap is considered an indicator of the effect that changing rates may have on net interest income. Generally, an institution with a negative gap will benefit from declining market interest rates and be negatively impacted by rising interest rates. The Bank currently is in a positive gap position, \$89,512,000 (9.35%), and as a result would benefit from higher rates and would be negatively impacted by lower interest rates.

At December 31, 2005, BKFC's twelve-month interest rate gap position, as measured by the bank's asset/liability model, was positive. Over the succeeding twelve months, interest rate sensitive assets exceed interest rate sensitive liabilities by \$89,512,000 (9.35% of total assets). At December 31, 2004, the one-year interest rate gap was positive \$59,763,000 (6.81% of total assets). An assumption, based on historical behavior, contributing to the positive gap is that the balances in NOW and Savings accounts react within a two-year timeframe to market rate changes, rather than reacting immediately. These instruments are not tied to specific indices and are only influenced by market conditions and other factors. The Bank's experience with NOW and Savings accounts has been that they have repriced at a pace equal to approximately 25% of a prime change. Accordingly, a general

movement in interest rates may not have any immediate effect on the rates paid on those deposit accounts.

The Bank's asset/liability management policy establishes guidelines governing the amount of interest income at risk, market value at risk and parameters for the gap position. Management continually monitors these risks through the use of gap analysis and the earnings simulation model. The simulation model is used to estimate and evaluate the impact of changing interest rates on earnings and market value. The model projects the effect of instantaneous movements in interest rates of both 100 and 200 basis points. The changes in market values for these rate assumptions are within the Bank's acceptable ranges. The assumptions used in the simulation are inherently uncertain and, as a result, the model cannot precisely measure future net interest income. Actual results will differ from the model's simulated results due to timing,

frequency of interest rate changes as well as changes in changes in various management strategies. Additionally, as seen in 2005, actual results can differ materially from the model if interest rates do not move equally across the yield curve. To illustrate, yields on loans tied to the prime rate and deposits tied to short-term indices rose dramatically in 2005, while yields on loans tied to longer-term indices rose only modestly in 2005.

Net interest income estimates are summarized below.

	Net Interest Income Change	
	2005	2004
Increase 200 bp	5.33%	4.94%
Increase 100 bp	3.03	2.83
Decrease 100 bp	(3.15)	(3.51)
Decrease 200 bp	(7.16)	(10.00)

The table below provides information about the quantitative market risk of interest sensitive instruments at December 31, 2005 (dollars in thousands) and shows the contractually repricing intervals, and related average interest rates, for each of the next five years and thereafter. As discussed above, while this table uses the contractual repricing intervals for NOW and Savings accounts and therefore reflects the Bank's ability to adjust rates on those accounts at any time, the Bank's interest rate risk model incorporates assumptions based on historical behavior to determine the expected repricing of these deposits:

Table 9-Balance sheet repricing data (in thousands)

Repricing in:	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Federal Funds Sold	30,658	-	-	-	-	-	30,658	30,658
Average Interest Rate	4.09%	-	-	-	-	-	-	-
Interest Bearing Deposits	100	-	-	-	-	-	100	100
Average Interest Rate	3.40%	-	-	-	-	-	-	-
Securities	40,491	25,123	11,037	3,331	4,324	10,069	94,375	94,103
Average Interest Rate	3.76%	3.33%	3.56%	4.61%	4.98%	3.68%	-	-
FHLB Stock	4,283	-	-	-	-	-	4,283	4,283
Average Interest Rate	5.75%	-	-	-	-	-	-	-
Loans	474,020	103,904	104,447	15,012	27,198	4,641	729,222	720,399
Average Interest Rate	7.16%	5.99%	6.54%	6.67%	6.70%	6.89%	-	-
Liabilities								
Savings, NOW, MMA	384,148	-	-	-	-	-	384,148	384,148
Average Interest Rate	2.68%	-	-	-	-	-	-	-
CD's and IRA's	169,574	123,256	14,260	2,914	669	669	311,342	311,267
Average Interest Rate	3.52%	4.04%	3.83%	3.84%	4.23%	4.68%	-	-
Borrowings	4,225	-	-	-	-	-	4,225	4,225
Average Interest Rate	3.20%	-	-	-	-	-	-	-
Notes Payable	17,000	-	4,000	-	6,230	7,061	34,291	34,022
Average Interest Rate	7.69%	-	4.82%	-	3.09%	2.61%	-	-

Liquidity and Capital Resources

Liquidity refers to the availability of funds to meet deposit withdrawals, fund loan commitments and pay expenses. BKFC will need to have funds available to meet its quarterly payment obligations under the subordinated debentures. The source of the funds for BKFC's debt obligations is dependent on the Bank and BKFC's line of credit. During 2005, the Bank funded its loan growth with growth in deposits and equity. At December 31, 2005, the Bank's customers have available \$240,771,000 in unused lines and letters of credit, and the Bank has further extended loan commitments totaling \$36,270,000. Historically, many such commitments have expired without being drawn and, accordingly, do not represent future cash commitments.

If needed, the Bank has the ability to borrow term and overnight funds from the Federal Home Loan Bank or other financial intermediaries. In addition BKFC has a \$10,000,000 line of credit with U.S. Bank that had \$0 outstanding at December 31, 2005. Further, the Bank has \$79,552,000 of securities designated as available-for-sale and an additional \$1,138,000 of held-to-maturity securities that mature within one year that can serve as sources of funds. Management is satisfied that BKFC's liquidity is sufficient at December 31, 2005 to meet known and potential obligations.

As illustrated in the Company's statement of cash flows, the net change in cash and cash equivalents was an increase of \$23,938,000. Net income provided \$10,127,000 of the \$10,308,000 in the Bank cash flows from operating activities, while the largest cash outflow from investing activities was in the form of an increase in net securities of \$30,764,000. The largest source of cash from financing activities came from the increase of \$78,327,000 in deposits.

Both BKFC and the Bank are required to comply with capital requirements promulgated by their primary regulators. These regulations and other regulatory requirements limit the amount of dividends that may be paid by the Bank to BKFC and by BKFC to its shareholders. In 2005, BKFC paid cash dividends of \$.30 per share totaling \$1,772,000.

The FDIC has issued regulations that relate a bank's deposit insurance assessment and certain aspects of its operations to specified capital levels. A "well-capitalized" bank, one with a leverage ratio of 5% or more and a total risk-based capital ratio of 10% or more, and no particular areas of supervisory concern, pays the lowest premium and is subject to the fewest restrictions. The Bank's capital levels and ratios exceed the regulatory definitions of well-capitalized institutions. At December 31, 2005, BKFC's leverage and total risk-based capital ratios were 9.21% and 10.56%, respectively, which exceed all required ratios established for bank holding companies.

Effect of Newly Issued But Not Yet Effective Accounting Standards

Statement of Financial Accounting Standards 123, Revised, requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after the first quarter beginning after December 15, 2005. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately \$434, \$395, \$282 and \$139 during 2006, 2007, 2008 and 2009. There will be no significant effect on financial position as total equity will not change.

Statement of Position 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made. This requirement would only have an impact if loans were acquired, and currently there are no loan acquisitions pending.

SELECTED FINANCIAL DATA

The following is a summary of selected consolidated financial data for The Bank of Kentucky Financial Corporation for the five years ended December 31, 2005. The summary should be read in conjunction with the Financial Statements and Notes to Consolidated Financial Statements.

(Dollars In Thousands Except Per Share Amounts)	For Year Ended December 31st				
	2005	2004	2003	2002	2001
Earnings:					
Total Interest Income	\$ 50,755	\$ 41,591	\$ 39,369	\$ 33,959	\$ 36,083
Total Interest Expense	18,132	11,598	12,690	12,120	17,415
Net Interest Income	32,623	29,993	26,679	21,839	18,668
Provision for Loan Losses	1,825	1,675	1,090	1,235	781
Noninterest Income	9,085	8,271	8,940	5,515	4,346
Noninterest Expense	25,161	21,602	20,484	13,583	11,854
Income Before Income Taxes	14,722	14,987	14,045	12,536	10,379
Federal Income Taxes	4,595	4,929	4,686	4,085	3,310
Net Income	\$ 10,127	\$ 10,058	\$ 9,359	\$ 8,451	\$ 7,069
Per Common Share Data:					
Basic Earnings	\$ 1.71	\$ 1.69	\$ 1.57	\$ 1.42	\$ 1.16
Diluted Earnings	1.70	1.68	1.55	1.41	1.15
Dividends Paid	0.30	0.23	0.17	0.13	0.10
Balances at December 31:					
Total Investment Securities	\$ 94,375	\$ 64,266	\$ 59,535	\$ 59,464	\$ 52,298
Total Loans	731,059	719,157	660,442	606,815	411,472
Allowance for Loan Losses	7,581	7,214	6,855	6,408	4,244
Total Assets	957,338	878,129	815,976	779,606	507,262
Noninterest Bearing Deposits	135,620	121,454	106,451	91,787	55,763
Interest Bearing Deposits	695,490	631,346	592,276	575,559	360,420
Total Deposits	831,110	752,800	698,727	667,346	416,183
Notes payable	34,291	37,573	37,850	43,125	9,449
Total Shareholders' Equity	80,447	73,664	66,689	58,423	51,521
Other Statistical Information:					
Return on Average Assets	1.14%	1.21%	1.19%	1.52%	1.48%
Return on Average Equity	13.11%	14.39%	14.84%	15.35%	14.05%
Dividend Payout Ratio	17.54%	13.61%	10.83%	9.15%	8.62%
Capital Ratios at December 31:					
Total Equity to Total Assets	8.40%	8.39%	8.17%	7.50%	10.16%
Average Equity to Average Assets	8.67%	8.38%	8.04%	9.93%	10.50%
Tier 1 Leverage Ratio	9.21%	9.08%	8.87%	9.57%	10.46%
Tier 1 Capital to Risk-Weighted Assets	9.79%	9.50%	9.60%	9.40%	10.46%
Total Risk-Based Capital to					
Risk-Weighted Assets	10.66%	10.38%	10.54%	10.39%	12.12%
Loan Quality Ratios at December 31:					
Allowance for Loan Losses					
To Total Loans	1.04%	1.00%	1.04%	1.06%	1.02%
Allowance for Loan Losses					
To Nonperforming Loans	83.81%	140.21%	197.38%	153.60%	134.60%
Net Charge-Offs to Average Net Loans	0.20%	0.19%	0.10%	0.10%	0.09%

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

(Dollar amounts in thousands, except per share amounts)

	2005	2004
ASSETS		
Cash and due from banks	\$ 40,686	\$ 47,406
Federal funds sold and other short-term investments	30,658	-
Total cash and cash equivalents	71,344	47,406
Interest bearing deposits with banks	100	-
Available-for-sale securities	79,552	52,204
Held-to-maturity securities (Fair value of \$14,551 and \$12,129)	14,823	12,062
Loans held for sale	1,609	1,391
Loans, net of allowance (\$7,581 and \$7,214)	723,478	711,943
Premises and equipment - net	17,479	16,465
Federal Home Loan Bank stock, at cost	4,283	4,075
Goodwill	9,867	9,867
Acquisition intangibles	2,935	3,581
Cash surrender value of life insurance	19,078	12,106
Accrued interest receivable and other assets	12,790	7,029
	\$ 957,338	\$ 878,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing deposits	\$ 135,620	\$ 121,454
Interest bearing deposits	695,490	631,346
Total deposits	831,110	752,800
Short-term borrowings	4,225	9,161
Notes payable	34,291	37,573
Accrued expenses and other liabilities	7,265	4,931
	876,891	804,465
Commitments and contingent liabilities	-	-
Shareholders' equity		
Common stock, no par value, 15,000,000 shares authorized, 5,884,079 (2005) and 5,927,979 (2004) shares issued	3,098	3,098
Additional paid-in capital	7,888	9,050
Retained earnings	69,969	61,614
Accumulated other comprehensive income (loss)	(508)	(98)
	80,447	73,664
	\$ 957,338	\$ 878,129

*see accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2005, 2004 and 2003

(Dollar amounts in thousands, except per share amounts)

	2005	2004	2003
Interest income			
Loans, including related fees	\$ 47,836	\$ 39,896	\$ 37,218
Securities			
Taxable	1,790	1,129	1,155
Tax exempt	420	362	436
Other	709	204	560
	50,755	41,591	39,369
Interest expense			
Deposits	16,035	9,813	11,107
Borrowings	2,097	1,785	1,583
	18,132	11,598	12,690
Net interest income	32,623	29,993	26,679
Provision for loan losses	1,825	1,675	1,090
Net interest income after provision for loan losses	30,798	28,318	25,589
Non-interest income			
Service charges and fees	4,297	3,680	3,502
Gain on sale of real estate loans	965	1,281	2,924
Gain on sale of securities	-	10	-
Trust fee income	928	779	622
Bankcard transaction revenue	1,050	812	669
Other	1,845	1,709	1,223
	9,085	8,271	8,940
Non-interest expense			
Salaries and employee benefits	12,228	10,386	9,445
Occupancy and equipment	3,881	3,357	3,387
Data processing	1,393	1,278	1,278
Advertising	618	630	525
ATM processing fees	674	572	845
Outside service fees	828	734	644
State bank taxes	1,007	870	763
Amortization of intangible assets	646	645	645
Other	3,886	3,130	2,952
	25,161	21,602	20,484
Income before income taxes	14,722	14,987	14,045
Federal income taxes	4,595	4,929	4,686
Net income	\$ 10,127	\$ 10,058	\$ 9,359
Per share data			
Earnings per share	\$ 1.71	\$ 1.69	\$ 1.57
Earnings per share, assuming dilution	\$ 1.70	\$ 1.68	\$ 1.55

*see accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2005, 2004 and 2003

(Dollar amounts in thousands, except per share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2003	5,953,849	\$ 3,098	\$10,379	\$ 44,582	\$ 364	\$ 58,423
Comprehensive income						
Net income	-	-	-	9,359	-	9,359
Change in net unrealized gain (loss), net of tax	-	-	-	-	(227)	(227)
Total comprehensive income						9,132
Cash dividends - \$.17 per share	-	-	-	(1,015)	-	(1,015)
Exercise of stock options	31,200	-	559	-	-	559
Repurchase and retirement of common shares	(13,000)	-	(410)	-	-	(410)
Balance December 31, 2003	5,972,049	3,098	10,528	52,926	137	66,689
Comprehensive income						
Net income	-	-	-	10,058	-	10,058
Change in net unrealized gain (loss), net of tax	-	-	-	-	(235)	(235)
Total comprehensive income						9,823
Cash dividends - \$.23 per share	-	-	-	(1,370)	-	(1,370)
Exercise of stock options	30,930	-	701	-	-	701
Repurchase and retirement of common shares	(75,000)	-	(2,179)	-	-	(2,179)
Balance December 31, 2004	5,927,979	3,098	9,050	61,614	(98)	73,664
Comprehensive income						
Net income	-	-	-	10,127	-	10,127
Change in net unrealized gain (loss), net of tax	-	-	-	-	(410)	(410)
Total comprehensive income						9,717
Cash dividends - \$.30 per share	-	-	-	(1,772)	-	(1,772)
Exercise of stock options	5,800	-	126	-	-	126
Repurchase and retirement of common shares	(49,700)	-	(1,288)	-	-	(1,288)
Balance December 31, 2005	5,884,079	\$ 3,098	\$ 7,888	\$ 69,969	\$ (508)	\$ 80,447

*see accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005, 2004 and 2003

(Dollar amounts in thousands)

	2005	2004	2003
Cash flows from operating activities			
Net income	\$ 10,127	\$ 10,058	\$ 9,359
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	1,390	1,304	1,243
Net amortization on securities	25	173	150
Provision for loan losses	1,825	1,675	1,090
Federal Home Loan Bank stock dividend	(208)	(163)	(153)
Securities gains	-	(10)	-
Amortization of acquisition intangibles	646	645	645
Earnings on life insurance	(472)	(485)	(223)
Loss on sale/write-down of other real estate	123	51	195
Gains on sales of loans	(965)	(1,281)	(2,924)
Proceeds from loans sold	81,356	93,934	262,742
Origination of loans held for sale	(80,609)	(93,027)	(250,036)
Net change in:			
Accrued interest receivable and other assets	(1,903)	84	527
Accrued expenses and other liabilities	2,334	568	(469)
Net cash from operating activities	13,669	13,526	22,146
Cash flows from investing activities			
Net change in interest-bearing deposits with banks	(100)	1,935	80
Proceeds from maturities and principal reductions of held-to-maturity securities	4,100	3,900	6,499
Purchase of held-to-maturity securities	(6,883)	(865)	(5,926)
Proceeds from maturities and sales of available-for-sale securities	28,902	48,371	42,570
Purchase of available-for-sale securities	(56,883)	(56,661)	(53,709)
Loans made to customers, net of principal collections	(17,987)	(60,790)	(55,842)
Property and equipment expenditures, net	(2,850)	(1,471)	(1,290)
Purchase of Company owned life insurance	(6,500)	-	(10,024)
Proceeds from the sale of other real estate	1,064	95	1,257
Net payments in acquisition	-	-	(68)
Net cash from investing activities	(57,137)	(65,486)	(76,453)
Cash flows from financing activities			
Net change in deposits	78,327	54,200	31,819
Net change in short-term borrowings	(4,936)	814	2,467
Payments on notes payable	(3,042)	(37)	(5,035)
Dividends paid on common stock	(1,772)	(1,370)	(1,015)
Stock repurchase and retirement	(1,288)	(2,179)	(410)
Proceeds from exercise of stock options	117	617	484
Net cash from financing activities	67,406	52,045	28,310
Net change in cash and cash equivalents	23,938	85	(25,997)
Cash and cash equivalents at beginning of year	47,406	47,321	73,318
Cash and cash equivalents at end of year	\$ 71,344	\$ 47,406	\$ 47,321
Supplemental cash flow information:			
Cash paid for interest	\$ 16,550	\$ 11,389	\$ 13,262
Cash paid for income taxes	4,920	4,638	4,245
Supplemental noncash disclosures:			
Transfers from loans to other real estate	\$ 4,416	\$ 340	\$ 937
Transfers from property and equipment to other real estate	400	-	-

*see accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Dollar amounts in thousands, except per share amounts)

Basis of Presentation: The consolidated financial statements include the accounts of The Bank of Kentucky Financial Corporation (the Company) and its wholly owned subsidiary, The Bank of Kentucky (the Bank). Intercompany transactions are eliminated in consolidation.

Description of Business: The Company provides financial services through its subsidiary, which operates primarily in Boone, Campbell, Grant and Kenton counties in northern Kentucky. Operations consist of generating commercial, mortgage and consumer loans and accepting deposits from customers. The loan portfolio is diversified and the ability of debtors to repay loans is not dependent upon any single industry. The majority of the institution's loans are secured by specific items of collateral including business assets, real property and consumer assets.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses and the fair values of financial instruments are particularly subject to change.

Securities: Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Other securities such as Federal Home Loan Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

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 of securities have been below their 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: The Bank originates loans for sale, servicing released, to secondary market brokers. Loans held for sale are loans which have been closed and are awaiting delivery to these brokers. They are reported at the lower of cost or market, on an aggregate basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. All loans are sold servicing released such that there would be no servicing asset recognized upon the sale.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Deferred loan fees and cost are amortized on the level-yield method without anticipating prepayments. Interest income on commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are significantly past due.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest 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.

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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(Dollar amounts in thousands, except per share amounts)

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. 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. 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.

Premises and Equipment: Land is carried at cost. 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 10 to 25 years. Leasehold improvements are depreciated using the straight-line method over the lesser of the useful life of the asset or the length of the lease. Furniture, fixtures and equipment are depreciated using the straight line method with useful lives ranging from 3 to 10 years.

Other Real Estate: Other real estate acquired through or instead of foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. Expenses incurred in carrying other real estate are charged to operations as incurred. A total of \$5,063 and \$1,434 of other real estate was owned on December 31, 2005 and 2004 and included in other assets.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned

life insurance is recorded at its cash surrender value, or the amount that can be realized.

Goodwill and Other Intangible Assets: Goodwill results from 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.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives of eight years for the core deposit intangible and seven years for the customer relationship intangible.

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: Employee compensation expense under stock options is reported using the intrinsic value method. No stock based compensation cost is reflected in net income, 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.

	2005	2004	2003
Net income as reported	\$ 10,127	\$ 10,058	\$ 9,359
Deduct: Stock based compensation expense			
determined under fair value based method	575	546	526
Pro forma net income	\$ 9,552	\$ 9,512	\$ 8,833
Basic earnings per share as reported	\$ 1.71	\$ 1.69	\$ 1.57
Pro forma basic earnings per share	1.62	1.60	1.48
Diluted earnings per share as reported	1.70	1.68	1.55
Pro forma diluted earnings per share	1.61	1.58	1.46

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(Dollar amounts in thousands, except per share amounts)

The pro forma effects are computed using option pricing models, using the following weighted average assumptions as of grant date.

	2005	2004	2003
Risk free interest rate	3.89%	3.60%	2.72%
Expected option life	6.7yrs	6.8 yrs	5.2 yrs
Expected stock price volatility	27.52%	37.27%	31.40%
Dividend yield	.85%	.80%	.48%

Income Taxes: Income tax expense is the amount of taxes payable for the current year plus or minus the change in deferred taxes. Deferred tax liabilities and assets are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Recognition of deferred tax assets is limited by the establishment of a valuation allowance unless management concludes that they are more likely than not to result in future tax benefits to the Company.

Financial Instruments: Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount of these items represents the exposure to loss, before considering customer collateral or ability to repay.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Cash Flows: Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. The Company reports net cash flows for customer loan and deposit transactions, interest-bearing balances with banks and short-term borrowings with maturities of 90 days or less.

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 separate components of equity.

Dividend Restriction: Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends which may be paid by the Bank to the Company or by the Company to its shareholders. See Note 14 for further discussion.

Long-term Assets: These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Share Data: Earnings, dividends and stock option related per share data are restated for the effect of stock splits and dividends. Outstanding share data is not restated.

Business Segment: Internal financial information is reported and aggregated in one line of business, banking. While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Adoption of New Accounting Standards: No new accounting policies were adopted in 2005 which had a significant impact on the financial statements.

Effect of Newly Issued But Not Yet Effective Accounting Standards: Statement of Financial Accounting Standards 123, Revised, requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(Dollar amounts in thousands, except per share amounts)

period, which is normally the vesting period of the options. This will apply to awards granted or modified after the first quarter beginning after December 15, 2005. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately \$434, \$395, \$282 and \$139 during

2006, 2007, 2008 and 2009. There will be no significant effect on financial position as total equity will not change.

Statement of Position 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made. This requirement would only have an impact if loans were acquired, and currently there are no loan acquisitions pending.

NOTE 2 - SECURITIES

(Dollar amounts in thousands, except per share amounts)

The fair value of available for sale securities and the related gains and losses recognized in accumulated other comprehensive income (loss) was as follows:

Available-for-Sale	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2005			
U.S. Government, federal agencies and			
Government sponsored enterprises	\$ 72,709	\$ 4	\$ (666)
Mortgage-backed	5,438	20	(142)
Corporate	1,405	-	-
	\$ 79,552	\$ 24	\$ (808)
2004			
U.S. Government, federal agencies and			
Government sponsored enterprises	\$ 43,447	\$ 41	\$ (163)
Mortgage-backed	7,302	74	(106)
Corporate	1,455	-	-
	\$ 52,204	\$ 115	\$ (269)

NOTE 2 - SECURITIES (continued)

(Dollar amounts in thousands, except per share amounts)

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

Held-to-Maturity	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2005				
Municipal and other obligations	\$ 14,823	\$ 16	\$ (288)	\$ 14,551
	\$ 14,823	\$ 16	\$ (288)	\$ 14,551
2004				
Municipal and other obligations	\$ 12,062	\$ 107	\$ (40)	\$ 12,129
	\$ 12,062	\$ 107	\$ (40)	\$ 12,129

The fair value of debt securities and carrying amount, if different, at year-end 2005 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage backed securities, are shown separately.

	Available-for-Sale Fair Value	Held-to-Maturity Carrying Value	Held-to-Maturity Fair Value
Due in one year or less	\$ 37,928	\$ 1,138	\$ 1,135
Due after one year through five years	34,781	8,580	8,461
Due after five years through ten years	-	5,105	4,955
Due after ten years	1,405	-	-
Mortgage-backed	5,438	-	-
	\$ 79,552	\$ 14,823	\$ 14,551

Sales of available for sale securities were as follows:

	2005	2004	2003
Proceeds	\$ -	\$ 3,016	\$ -
Gross gains	-	15	-
Gross losses	-	(5)	-

The tax benefit (provision) related to these net realized gains and losses was \$0, \$3 and \$0, respectively.

At December 31, 2005 and 2004, securities with a carrying value of \$90,478 and \$57,303 were pledged to secure public deposits and repurchase agreements.

NOTE 2 - SECURITIES (continued)

(Dollar amounts in thousands, except per share amounts)

Securities with unrealized losses at year-end 2005 and 2004, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

2005

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government, federal agencies and government sponsored enterprises	\$ 32,548	\$ (232)	\$ 23,686	\$ (434)	\$ 56,234	\$ (666)
Mortgage-backed	243	(0)	3,669	(142)	3,912	(142)
Municipal & other obligations	8,554	(151)	3,427	(137)	11,981	(288)
Total temporarily impaired	\$ 41,345	\$ (383)	\$ 30,782	\$ (713)	\$ 72,127	\$ (1,096)

Securities with unrealized losses at year end 2004 not recognized in income are as follows:

2004

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government, federal agencies and government sponsored enterprises	\$ 25,960	\$ (149)	\$ 986	\$ (14)	\$ 26,946	\$ (163)
Mortgage-backed	2,585	(67)	2,105	(39)	4,690	(106)
Municipal & other obligations	266	(5)	3,848	(35)	4,114	(40)
Total temporarily impaired	\$ 28,811	\$ (221)	\$ 6,939	\$ (88)	\$ 35,750	\$ (309)

Unrealized losses on these securities have not been recognized into income because the issuers bonds are of high credit quality (US government agencies and government sponsored enterprises and "A" rated or better Kentucky municipalities), management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the bonds approach their maturity date and/or market rates decline.

NOTE 3 - LOANS

(Dollar amounts in thousands, except per share amounts)

Year-end loans are as follows:

	2005	2004
Commercial	\$ 136,693	\$ 130,760
Residential real estate	183,644	188,140
Nonresidential real estate	295,326	290,684
Construction	89,847	84,690
Consumer	20,046	20,606
Municipal obligations	6,171	5,074
Gross loans	731,727	719,954
Less: Deferred loan origination fees	(668)	(797)
Allowance for loan losses	(7,581)	(7,214)
Net loans	\$ 723,478	\$ 711,943

Certain of the Company's directors were loan customers of the Bank. A schedule of the aggregate activity in these loans follows:

	2005
Beginning balance	\$ 12,260
New loans and advances on lines of credit	14,914
Loan reductions	14,285
Other changes, net	-
Ending balance	\$ 12,889

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

(Dollar amounts in thousands, except per share amounts)

Activity in the allowance for loan losses is as follows:

	2005	2004	2003
Beginning balance	\$ 7,214	\$ 6,855	\$ 6,408
Provision charged to operations	1,825	1,675	1,090
Loans charged off	(1,536)	(1,326)	(676)
Recoveries	78	10	33
Ending balance	\$ 7,581	\$ 7,214	\$ 6,855

Nonperforming and impaired loans are as follows

	2005	2004	2003
Nonaccrual loans at year end	\$ 6,696	\$ 3,487	\$ 1,466
Loans past due over 90 days, still accruing at year-end	2,349	1,658	2,007
Average impaired loans during the year	10,318	4,138	1,909
Interest income recognized during impairment	669	162	74
Interest income received during impairment	675	133	77
Loans designated as impaired at year end	8,925	6,024	1,659
Allowance allocated to impaired loans at year end	3,136	2,550	575

There were no loans designated as impaired for which there was no allowance for loan losses allocated. Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE 5 - PREMISES AND EQUIPMENT

(Dollar amounts in thousands, except per share amounts)

	2005	2004
Land and improvements	\$ 5,087	\$ 4,817
Leasehold improvements	1,521	1,458
Buildings	11,585	10,954
Furniture, fixtures and equipment	8,194	6,708
Total	26,387	23,937
Accumulated depreciation	(8,908)	(7,472)
Net premises and equipment	\$ 17,479	\$ 16,465

Depreciation expense was \$1,436, \$1,252 and \$1,286 for 2005, 2004, and 2003.

NOTE 6 - GOODWILL AND ACQUISITION INTANGIBLES

(Dollar amounts in thousands, except per share amounts)

Goodwill

There was no goodwill activity in any period presented.

Acquisition Intangibles

Acquisition intangibles were as follows as of year-end:

	2005	2004
Core deposit intangibles	\$ 2,863	\$ 2,863
Other customer relationship intangibles	2,045	2,045
Total	4,908	4,908
Accumulated amortization	1,973	1,327
Net	\$ 2,935	\$ 3,581

Aggregate amortization expense was \$646, \$645 and \$645 for 2005, 2004 and 2003.

Estimated amortization expense for each of the next five years:

2006	\$ 645
2007	645
2008	645
2009	645
2010	353

NOTE 7 - INTEREST BEARING DEPOSITS

(Dollar amounts in thousands, except per share amounts)

Time deposits of \$100 or more were \$105,369 and \$81,629 at year-end 2005 and 2004.

Scheduled maturities of time deposits are as follows:

2006	\$ 170,215
2007	123,256
2008	14,260
2009	2,914
2010	669
Thereafter	28
	\$ 311,342

Deposits from directors, and their affiliates at year-end 2005 and 2004 were \$13,056 and \$13,404, comprising 1.57% and 1.78% of total deposits at those dates.

NOTE 8 - SHORT-TERM BORROWINGS

(Dollar amounts in thousands, except per share amounts)

Short-term borrowings consisted of daily federal funds purchased and retail repurchase agreements of \$0 and \$4,225, and \$3,922 and \$5,239 at year-end 2005 and 2004. Repurchase agreements outstanding at year-end 2005 had remaining maturities ranging from one day up to one year.

Information regarding repurchase agreements for the years ended December 31, 2005 and 2004 is presented below:

	2005	2004
Average balance during the year	\$ 4,632	\$ 4,802
Maximum month end balance during the year	5,884	6,150
Average rate paid during the year	2.46%	1.54%

NOTE 9 - NOTES PAYABLE

(Dollar amounts in thousands, except per share amounts)

Notes payable consist of the following:

	2005	2004
FHLB advances	\$ 16,460	\$ 19,700
Subordinated debentures	17,526	17,526
Other notes payable	305	347
	\$ 34,291	\$ 37,573

NOTE 9 - NOTES PAYABLE (continued)

The FHLB advances are secured by a blanket pledge of eligible loans and securities and require monthly interest payments. The following advances were outstanding as of December 31:

	2005	2004
Convertible fixed rate advances with maturity dates ranging from 2008 to 2011 with interest rates ranging from 4.22% to 5.01%, averaging 4.74%.	\$ 16,000	\$ 19,000
Remaining premium reflecting market rate adjustment of assumed advances.	460	700
	\$ 16,460	\$ 19,700

Principal payments on FHLB advances for the next five years consist of \$4,000 due in 2008, and \$6,000 due in 2010.

In November 2002, The Bank of Kentucky Capital Trust I (Trust), a wholly-owned unconsolidated subsidiary of the Company, issued \$17,000 of LIBOR plus 3.35% floating rate redeemable preferred securities (Trust Preferred Securities) as part of a pooled offering. The Trust may redeem the securities, in whole but not in part, any time after November 2007 at face value. Final maturity is November of 2032. The sole asset of the Trust represents the proceeds of the offering loaned to the Company in exchange for subordinated debentures which have terms that are virtually identical to the Trust Preferred Securities. The subordinated debentures are classified as liabilities on the balance sheet and count as Tier 1 capital for regulatory capital purposes, subject to certain limitations. These limitations do not restrict the Company's ability to use the entire amount as Tier 1 capital.

Other notes payable include a mortgage payable secured by a branch building and a capitalized lease obligation.

The Bank maintains a \$100,000 letter of credit from the Federal Home Loan Bank of Cincinnati. The letter is pledged to secure public funds deposit accounts and is secured by a blanket pledge of the Bank's residential and commercial real estate loans.

The Company maintains a \$10,000 revolving credit line from US Bank. The credit line is secured with 100% of the voting shares of the Bank. The Company is not restricted on the use of the funds from the credit line. The balance on the line of credit was \$0 at December 31, 2005.

NOTE 10 - EMPLOYEE BENEFITS

(Dollar amounts in thousands, except per share amounts)

The Bank maintains an employee profit sharing plan covering substantially all employees. Contributions are at the discretion of the Board of Directors. Profit sharing expense totaled \$432, \$480 and \$393 for the years ended December 31, 2005, 2004 and 2003.

In 2003, the Company adopted a benefit program for certain officers to encourage long-term retention. The program consists principally of a defined benefit component, providing each officer with payments equal to 30% of final average pay for 10 years after retirement, and a deferral component, permitting each officer the ability to defer a portion of their current compensation and earn pre-tax returns on such deferred amounts. The accrued liability under the defined benefit component was \$511 and \$294 at December 31, 2005 and 2004. Expense related to the program was \$217 and \$226 for the years ended December 31, 2005 and 2004.

Options to buy stock are granted to directors, officers and employees under the Company's stock option and incentive plan which provide for the issuance of up to 1,080,000 shares. The specific terms of each option agreement are determined by the Compensation Committee at the date of the grant. For current options outstanding, options granted to directors vest immediately and options granted to employees generally vest evenly over a five-year period.

NOTE 10 - EMPLOYEE BENEFITS (continued)

(Dollar amounts in thousands, except per share amounts)

A summary of the Company's stock option activity and related per share information follows. All data is restated for stock splits.

	2005		2004		2003	
	Options	Weighted-Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding beginning of year	393,863	\$ 25.58	343,208	\$ 23.89	278,058	\$ 20.63
Granted	108,300	26.28	102,150	29.88	100,600	30.25
Exercised	(5,800)	20.13	(30,930)	20.06	(31,200)	15.49
Forfeited	(7,490)	26.74	(20,565)	27.46	(4,250)	22.79
Expired	(20,250)	27.83	-	-	-	-
Outstanding at end of year	468,623	\$ 25.69	393,863	\$ 25.58	343,208	\$ 23.89
Exercisable at end of year	302,151	\$ 24.92	255,960	\$ 24.66	220,853	\$ 23.43
Weighted average contractual remaining life of outstanding	5.15 years		5.09 years		5.35 years	
Weighted average fair value of options granted during the year	\$ 8.81		\$ 11.64		\$ 9.00	

The following table details total options outstanding and exercisable at December 31, 2005.

Range of Exercise Prices	Outstanding			Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$8-\$9	15,948	2.09	8.17	15,948	8.17
\$19-\$23	136,460	3.44	20.25	117,178	20.38
\$25-\$27	107,500	7.44	26.28	36,750	26.07
\$29-\$32	208,715	5.36	30.28	132,275	30.63
Outstanding at year end	468,623			302,151	

Proceeds recorded upon exercise of the stock options include cash received from the option holder and the tax benefit derived by the Company. During 2005, 2004 and 2003, proceeds from the exercise of stock options totaled \$117, \$617 and \$484. The tax benefit recognized was \$9, \$84 and \$75.

NOTE 11 - FEDERAL INCOME TAXES

(Dollar amounts in thousands, except per share amounts)

Federal income taxes consist of the following components:

	2005	2004	2003
Income tax/(benefit)			
Currently payable	\$ 4,863	\$ 4,901	\$ 4,240
Deferred	(268)	28	446
	\$ 4,595	\$ 4,929	\$ 4,686

The following is a reconciliation of income tax expense and the amount computed by applying the effective federal income tax rate of 35% to income before income taxes:

	2005	2004	2003
Statutory rate applied to income			
before income taxes	\$ 5,153	\$ 5,245	\$ 4,915
Tax exempt income	(188)	(158)	(176)
Company owned life insurance income	(159)	(163)	(69)
Low-income housing tax credit	(133)	-	-
Other	(78)	5	16
	\$ 4,595	\$ 4,929	\$ 4,686

Year-end deferred tax assets and liabilities were due to the following factors:

	2005	2004
Deferred tax assets from:		
Allowance for loan losses	\$ 2,600	\$ 2,525
Benefit plans	293	243
Net unrealized loss on available for sale		
securities	276	56
Other	80	73
	3,249	2,897
Deferred tax liabilities for:		
FHLB stock dividends	(775)	(718)
Premises and equipment	(13)	(190)
Acquisition intangibles	(949)	(894)
Other	(3)	(74)
	(1,740)	(1,876)
Net deferred tax asset	\$ 1,509	\$ 1,021

NOTE 12 - EARNINGS PER SHARE

(Dollar amounts in thousands, except per share amounts)

Earnings per share are computed based upon the weighted average number of shares outstanding during the period which were 5,909,087 for 2005, 5,950,508 for 2004 and 5,969,118 for 2003. Diluted earnings per share are computed assuming that the stock options outstanding are exercised and the proceeds used entirely to reacquire shares at the year's average price. For 2005, 2004 and 2003 this would result in an additional 37,814, 52,214 and 72,931 shares outstanding. For 2005, 2004 and 2003, 290,970, 225,315 and 71,025 options were not considered, as they were not dilutive.

NOTE 13 - COMMITMENTS AND OFF BALANCE SHEET ACTIVITIES

(Dollar amounts in thousands, except per share amounts)

The Bank leases branch facilities and sites and is committed under various non-cancelable lease contracts that expire at various dates through the year 2017. Most of these leases are with members of the Bank's Board of Directors or companies they control. Expense for leased premises was \$914, \$822 and \$818 for 2005, 2004 and 2003. Minimum lease payments at December 31, 2005 for all non-cancelable leases are as follows:

2006	\$ 788
2007	627
2008	599
2009	520
2010	337
Thereafter	1,121
Total minimum lease payments	\$ 3,992

On February 16, 2005, the Bank entered into an agreement to lease space for its cash management operation center. The lease has a term of five years with an annual cost which escalates from \$79 for the first year to \$89 by the fifth year. The expense for this lease is included in the preceding minimum lease payments.

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.

	2005		2004	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans				
(at market rates)	\$ 1,177	\$ 35,093	\$ 3,163	\$ 6,498
Unused lines of credit	\$ -	\$ 176,318	\$ -	\$ 171,655
Unused letters of credit	\$ -	\$ 66,453	\$ -	\$ 60,668

The loan commitments are generally extended for terms of up to 60 days and, in many cases, allow the customer to select from one of several financing options offered. For the fixed rate commitments, the interest range was 6.00% to 6.50% in 2005 and 4.88% to 6.25% in 2004.

NOTE 13 - COMMITMENTS AND OFF BALANCE SHEET ACTIVITIES (continued)

(Dollar amounts in thousands, except per share amounts)

At December 31, 2005 and 2004, the Bank was required to have \$4,296 and \$29,976, respectively, on deposit with the Federal Reserve or as cash on hand as reserve.

On March 3, 2005, the Bank entered into an agreement with Northern Kentucky University whereby the University will grant to the Bank the naming rights for the new Northern Kentucky University Arena to be constructed on the campus of the University for a term commencing immediately upon execution of the document and expiring twenty years after the opening of the Arena. In consideration the Bank will pay the lesser of 10% of the total construction cost of the Arena or \$6,000, such sum to be paid in seven equal annual installments beginning after substantial completion and opening of the Arena. The cost of the naming rights will be amortized over the life of the contract commencing on the opening of the Arena.

NOTE 14 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

(Dollar amounts in thousands, except per share amounts)

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 result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. These guidelines and the regulatory framework for prompt corrective action involve quantitative measures of capital, assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices as well as qualitative judgments by the regulators about components, risk weightings, and other factors.

Compliance with these regulations can limit dividends paid by either entity. Both entities must comply with regulations that establish minimum levels of capital adequacy. The Bank must also comply with capital requirements promulgated by the FDIC under its "prompt corrective action" rules. The Bank's deposit insurance assessment rate is based, in part, on these measurements. At December 31, 2005 and 2004, the Bank's capital levels result in it being designated "well capitalized" under these guidelines. There are no conditions or events since that notification that management believes have changed the institution's category.

The consolidated and the Bank's capital amounts and ratios, at December 31, 2005 and 2004 are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2005						
Total Capital to risk weighted assets						
Consolidated	\$ 92,734	10.66%	\$ 69,568	8.00%	N/A	N/A
Bank	91,650	10.56%	69,463	8.00%	86,829	10.00%
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	\$ 85,153	9.79%	\$ 34,784	4.00%	N/A	N/A
Bank	84,069	9.68%	34,731	4.00%	52,097	6.00%
Tier 1 (Core) Capital to average assets						
Consolidated	\$ 85,153	9.21%	\$ 36,984	4.00%	N/A	N/A
Bank	84,069	9.10%	36,943	4.00%	46,178	5.00%

NOTE 14 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (continued)

(Dollar amounts in thousands, except per share amounts)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2004						
Total Capital to risk weighted assets						
Consolidated	\$ 84,998	10.38%	\$ 65,520	8.00%	N/A	N/A
Bank	83,838	10.25%	65,418	8.00%	81,772	10.00%
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	\$ 77,784	9.50%	\$ 32,760	4.00%	N/A	N/A
Bank	76,624	9.37%	32,709	4.00%	49,063	6.00%
Tier 1 (Core) Capital to average assets						
Consolidated	\$ 77,784	9.08%	\$ 34,278	4.00%	N/A	N/A
Bank	76,624	8.96%	34,225	4.00%	42,781	5.00%

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid 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, combined with the retained net profits of the preceding two years, subject to the capital requirements described above.

During 2006, the Bank could, without prior approval, declare dividends of approximately \$15 million plus any 2006 net profits retained to the date of the dividend declaration.

On November 29, 2004, the Company's Board of Directors approved the extension of the share repurchase program it previously approved in June of 2003. This repurchase program, which was scheduled to expire on December 31, 2004, expired on December 31, 2005. The repurchase program authorized the repurchase up to 200,000 shares of the Company's outstanding common shares in the over-the-counter market from time to time. At December 31, 2005 a total of 135,000 of the 200,000 shares had been repurchased.

On December 16, 2005, the Company's Board of Directors approved a new share repurchase program. The repurchase program will begin January 1, 2006 and expire on December 31, 2006. The repurchase program authorized the repurchase up to 200,000 shares of the Company's outstanding common shares in the over-the-counter market from time to time. Any repurchases will be funded, as needed, by dividends from the Bank, or from the Company's revolving line of credit.

NOTE 15 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollar amounts in thousands, except per share amounts)

Financial instruments at year-end are as follows at December 31:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	\$ 71,344	\$ 71,344	\$ 47,406	\$ 47,406
Interest-bearing deposits with banks	100	100	-	-
Available-for-sale securities	79,552	79,552	52,204	52,204
Held-to-maturity securities	14,823	14,551	12,062	12,129
Loans held for sale	1,609	1,630	1,391	1,408
Loans (net)	723,478	713,392	711,943	707,291
Federal Home Loan Bank stock	4,283	4,283	4,075	4,075
Accrued interest receivable	3,811	3,811	3,065	3,065
Financial liabilities				
Deposits	(831,110)	(831,036)	(752,800)	(752,776)
Short-term borrowings	(4,225)	(4,225)	(9,161)	(9,161)
Notes payable	(34,291)	(34,022)	(37,573)	(37,729)
Accrued interest payable	(3,917)	(3,917)	(2,216)	(2,216)

The estimated fair value approximates carrying amount for all items except those described below. Estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. Estimated fair value of loans held for sale is based on market quotes. Estimated fair value for loans is based on the rates charged at year-end for new loans with similar maturities, applied until the loan is assumed to reprice or be paid. Estimated fair value for time deposits is based on the rates paid at year-end for new deposits, applied until maturity. Estimated fair value of debt is based on current rates for similar financing. Estimated fair value for off-balance-sheet loan commitments are considered nominal.

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

Presented below are condensed balance sheets and the related statements of income and cash flows for the parent company:

CONDENSED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
Assets		
Cash	\$ 460	\$ 466
Investment in bank subsidiary	96,363	89,503
Investment in trust	526	526
Other assets	791	818
	\$ 98,140	\$ 91,313
Liabilities and shareholders' equity		
Subordinated debentures	\$ 17,526	\$ 17,526
Other liabilities	167	123
Total liabilities	17,693	17,649
Shareholders' equity	80,447	73,664
	\$ 98,140	\$ 91,313

CONDENSED STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

	2005	2004	2003
Dividends from subsidiary	\$ 3,700	\$ 3,000	\$ 1,300
Interest expense	(1,146)	(830)	(795)
Operating expenses	(137)	(175)	(155)
Tax benefit	440	352	333
Income before equity in undistributed			
income of the Bank	2,857	2,347	683
Equity in undistributed income of the Bank	7,270	7,711	8,676
Net income	\$ 10,127	\$ 10,058	\$ 9,359

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share amounts)

CONDENSED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Cash flows from operating activities			
Net income	\$ 10,127	\$ 10,058	\$ 9,359
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed income of the Bank	(7,270)	(7,711)	(8,676)
Change in other assets and other liabilities	80	225	222
Net cash from operating activities	2,937	2,572	905
Cash flows from investing activities	-	-	-
Cash flows from financing activities			
Dividends paid	(1,772)	(1,370)	(1,015)
Exercise of stock options	117	617	484
Stock repurchase and retirement	(1,288)	(2,179)	(410)
Net cash from financing activities	(2,943)	(2,932)	(941)
Net change in cash	(6)	(360)	(36)
Cash at beginning of year	466	826	862
Cash at end of year	\$ 460	\$ 466	\$ 826

NOTE 17 - OTHER COMPREHENSIVE INCOME (LOSS)

(Dollar amounts in thousands, except per share amounts)

Other comprehensive income (loss) components and related tax effects were as follows:

	2005	2004	2003
Unrealized holding gains (losses) on available for sale securities	\$ (630)	\$ (351)	\$ (345)
Reclassification adjustment for losses (gains) realized in income	-	(10)	-
Net unrealized gains (losses)	(630)	(361)	(345)
Tax effect	220	126	118
	\$ (410)	\$ (235)	\$ (227)

NOTE 18 - SELECTED QUARTERLY DATA (Unaudited)

(Dollar amounts in thousands, except per share amounts)

Presented below is a summary of the consolidated quarterly financial data for the years ended December 31, 2005 and 2004.

2005							
Quarter ended	Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Earnings Per Share Basic Diluted	
March 31	\$ 11,436	\$ 3,525	\$ 7,911	\$ 350	\$ 2,545	\$.43	\$.43
June 30	12,289	4,052	8,237	475	2,615	.44	.44
September 30	13,089	4,773	8,316	650	2,468	.42	.42
December 31	13,941	5,782	8,159	350	2,499	.42	.42

2004							
Quarter ended	Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Earnings Per Share Basic Diluted	
March 31	\$ 9,777	\$ 2,713	\$ 7,064	\$ 325	\$ 2,311	\$.39	\$.38
June 30	10,041	2,707	7,334	350	2,602	.44	.43
September 30	10,632	2,918	7,714	500	2,465	.42	.41
December 31	11,141	3,260	7,881	500	2,680	.45	.45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

Board of Directors and Shareholders The Bank of Kentucky Financial Corporation Crestview Hills, Kentucky

We have audited the accompanying consolidated balance sheets of The Bank of Kentucky Financial Corporation as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Kentucky Financial Corporation as of December 31, 2005 and 2004, and the

results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Bank of Kentucky Financial Corporation's internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 11, 2006 expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC
Columbus, Ohio
February 11, 2006

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of The Bank of Kentucky Financial Corporation has prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles and is responsible for its accuracy. The financial statements necessarily include amounts that are based on management's best estimates and judgments.

The Bank of Kentucky Financial Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including The Bank of Kentucky Financial Corporation's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our evaluation

included a review of the documentation of controls, evaluations of the design of the internal control system, and tests of the effectiveness of internal controls.

Based on The Bank of Kentucky Financial Corporation's evaluation under the framework in Internal Control - Integrated Framework, management concluded that internal control over financial reporting was effective as of December 31, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Crowe Chizek and Company LLC, an independent registered public accounting firm, as stated in their report which is contained herein.

Robert W. Zapp
President & CEO

Martin J. Gerrety
Treasurer and Assistant Secretary

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders The Bank of Kentucky Financial Corporation Crestview Hills, Kentucky

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that The Bank of Kentucky Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank of Kentucky Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of

any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that The Bank of Kentucky Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, The Bank of Kentucky Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Bank of Kentucky Financial Corporation as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005, and our report dated February 11, 2006 expressed an unqualified opinion on those consolidated financial statements.

Crowe Chizek and Company LLC
Columbus, Ohio
February 11, 2006

Stockholder Services

Computershare Investor Services serves as transfer agent for The Bank of Kentucky Financial Corporation's shares. Communications regarding change of address, transfer of shares, lost certificates, and dividends should be sent to:

Computershare Investor Services LLC

P O Box 2388

Chicago, IL 60690-2388

You can also submit your inquiries online through www.computershare.com/contactus a secure section of the Computershare Web site.

Legal Counsel

The Bank of Kentucky Financial Corporation's legal counsel is:

Ziegler & Schneider, PSC

541 Buttermilk Pike

Covington, Kentucky 41017

Annual Meeting

The Annual Meeting of Stockholders of The Bank of Kentucky Financial Corporation will be held on April 21, 2006, at 5:00 p.m., local time, at the Hilton Hotel, 7373 Turfway Road, Florence, Kentucky, 41042.

Annual Report On Form 10-K

A copy of The Bank of Kentucky Financial Corporation's Annual Report on Form 10 - K for fiscal year 2005, as filed with the Securities and Exchange Commission, will be available at no charge to stockholders upon request to:

The Bank of Kentucky

111 Lookout Farm Drive

Crestview Hills, KY 41017

Attention: Chief Financial Officer

It's also available on our website:

https://www.bankofkyhb.com/site/aboutus_sec.html

Market Price of the Company's Common Stock and Dividends Declared

There were 5,884,079 of common stock of the Company outstanding on December 31, 2005, which were held of record by 1,012 shareholders. The Board of Directors declared cash dividends of \$.08 per share in March 2003, \$.09 per share in September 2003 and \$.11 per share in March 2004, \$.12 per share in September 2004, \$.14 per share in March 2005, and \$.16 per share in September 2005.

The Company's common stock is quoted on the OTC Bulletin Board Quarterly high and low prices (which reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions), are show below.

Fiscal Year 2005	High	Low
First Quarter	\$26.45	\$25.50
Second Quarter	26.00	25.75
Third Quarter	26.50	25.75
Fourth Quarter	26.25	25.75

Fiscal Year 2004	High	Low
First Quarter	\$30.50	\$30.00
Second Quarter	30.30	28.75
Third Quarter	29.25	26.00
Fourth Quarter	26.85	25.75

The following brokerage firms trade the Company's common stock:

Gradison/McDonald

580 Walnut Street

Cincinnati, OH 45202

Jim Williams (513) 579-5000

Morgan Keegan & Co. Incorporated

100 East Rivercenter Boulevard, Ste. 400

Covington, KY 41011

John Ryan (859) 392-2948

Robert W. Baird & Co. Incorporated

4030 Smith Road, Ste. 100

Cincinnati, OH 45209

John Adams 1-888-784-4856