

# Kentucky

*Bancshares, Inc.*

2018 ANNUAL REPORT



WE ARE KENTUCKY BANK





The year of 2018 was a productive and successful year for your company. We attained record earnings of \$12.4 million, a 16% increase over 2017, and also record earnings per share, on a diluted basis, of \$2.09. This was a 15.5% improvement over the previous year. As a reminder, in December we completed a two-for-one stock split in an effort to improve the liquidity for our stock by making more shares available in the marketplace and continuing to make our stock affordable and attractive to investors of all sizes. The above referenced earnings per share are split adjusted. Total assets as of December 31, 2018 were \$1.09 billion which was another record high for your company.

The increase in year-to-date net income from prior year was driven by the following factors: an increase in net interest income primarily due to higher loan balances, combined with lower tax expense due to the Tax Cuts and Jobs Act. In addition, stable asset quality and recoveries on previously charged off loans contributed to the increase in net income.

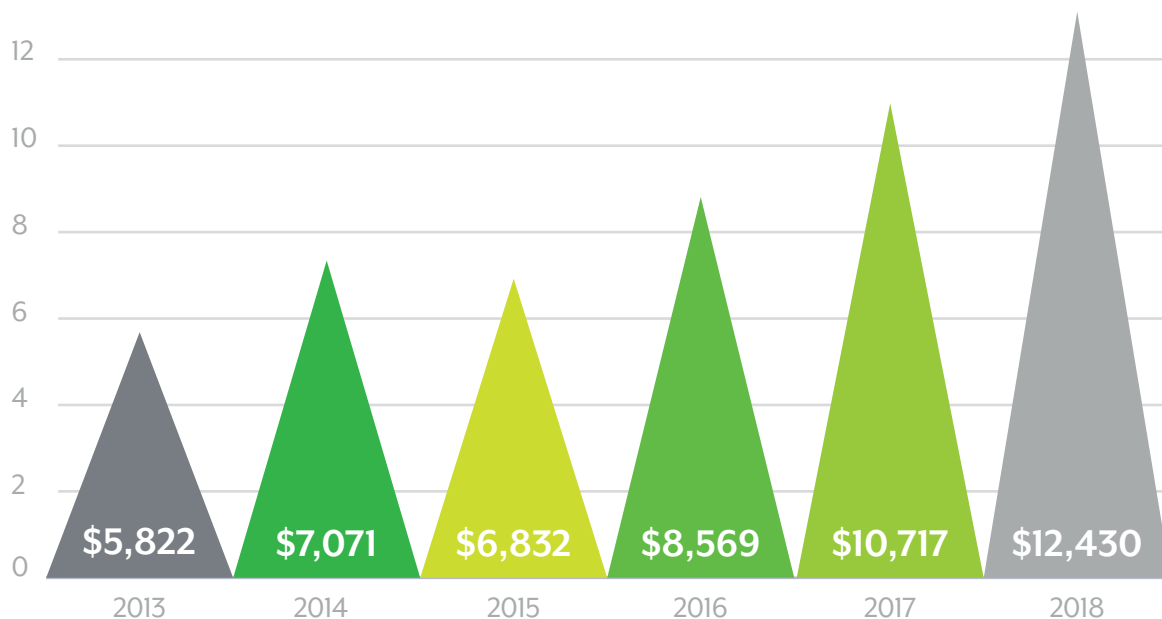
As indicated above, the tax changes reduced our effective tax rate and provided an opportunity to invest for continued growth. Examples of our investment in 2018 include our expansion of debit and credit card customer service call support to 24 hours a day, expanding our office at our Lexington Vine Street branch to accommodate more business development officers, a fraud text alert service to improve customer security, and a reduction of certain fees to improve customer convenience and experience.

While we are pleased with the results of 2018, we remain focused on the future. Our goal is a strategy of disciplined and profitable growth. As we continue that strategy for 2019, I would like to highlight some of our recent and upcoming efforts.

- We launched our online mortgage application in February of 2019 and anticipate launching our improved deposit application by the end of March 2019. These two services expand our ever growing list of digital offerings.
- We are increasing our customer service availability by constructing a new branch in Lexington on the corner

## NET INCOME

(\$ thousands)

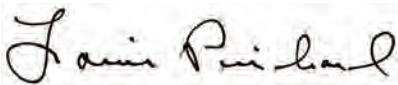


of Man-O-War Boulevard and Polo Club Boulevard. We believe this location to be a key position given its proximity to new households and an ever expanding retail district. We anticipate the new branch to be open by the end of 2019 or early 2020.

Over the past few years, we have expanded our geographic footprint and enhanced our market penetration, in spite of increasing regulatory burden and rising business costs. These successes would not have been possible without the great team we have at Kentucky Bank and the strong communities which we serve.

We remain optimistic about our ability to prevail over the persistent challenges in our industry. However, we recognize there are global economic weaknesses starting to develop, as well as looming geopolitical issues, that could negatively impact growth rates for the country, state, and ultimately the communities in which we operate. We will continue to focus on meeting our customers' loan demand needs while paying attention to those uncertainties which could lead to an economic contraction. At the same time, we will continue to pursue opportunities for profitable growth, strategic expansion, and improved efficiency to accomplish what is in the long term best interest of our shareholders, customers, and employees.

As always, thank you for your continued support.



Louis Prichard  
President and Chief Executive Officer



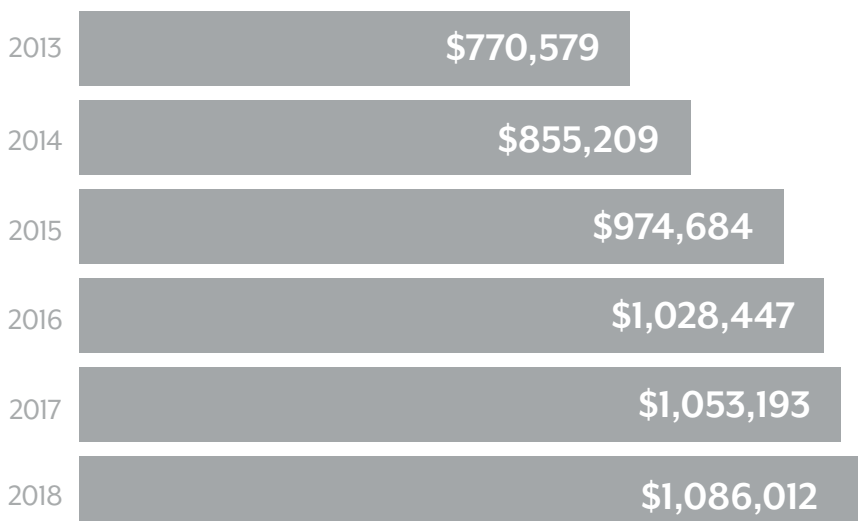
## Annual Meeting

The annual meeting of Kentucky Bancshares, Inc. will be held at the corporate headquarters on the following date and time

**Tuesday**  
**May 21, 2019**  
**11:00 a.m.**

## TOTAL ASSETS

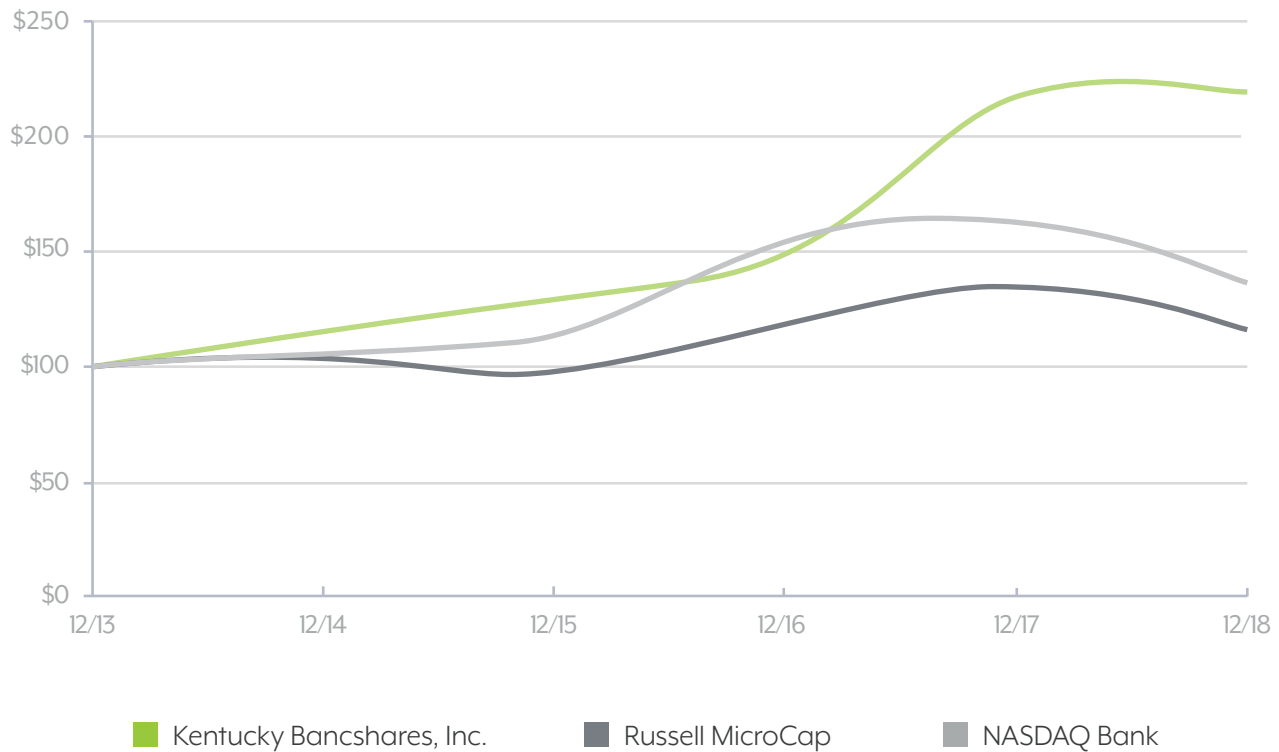
(\$ thousands)



We are proud to have been voted one of Kentucky's Best Places to Work for the 8th year in a row!

# COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

(Among Kentucky Bancshares, Inc., the Russell MicroCap Index, and the NASDAQ Bank Index)



	12/13	12/14	12/15	12/16	12/17	12/18
Kentucky Bancshares, Inc.	100.00	117.16	131.50	149.63	218.17	220.55
Russell MicroCap	100.00	103.65	98.30	118.32	133.90	116.39
NASDAQ Bank	100.00	104.89	113.29	155.71	164.24	136.99

\*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.

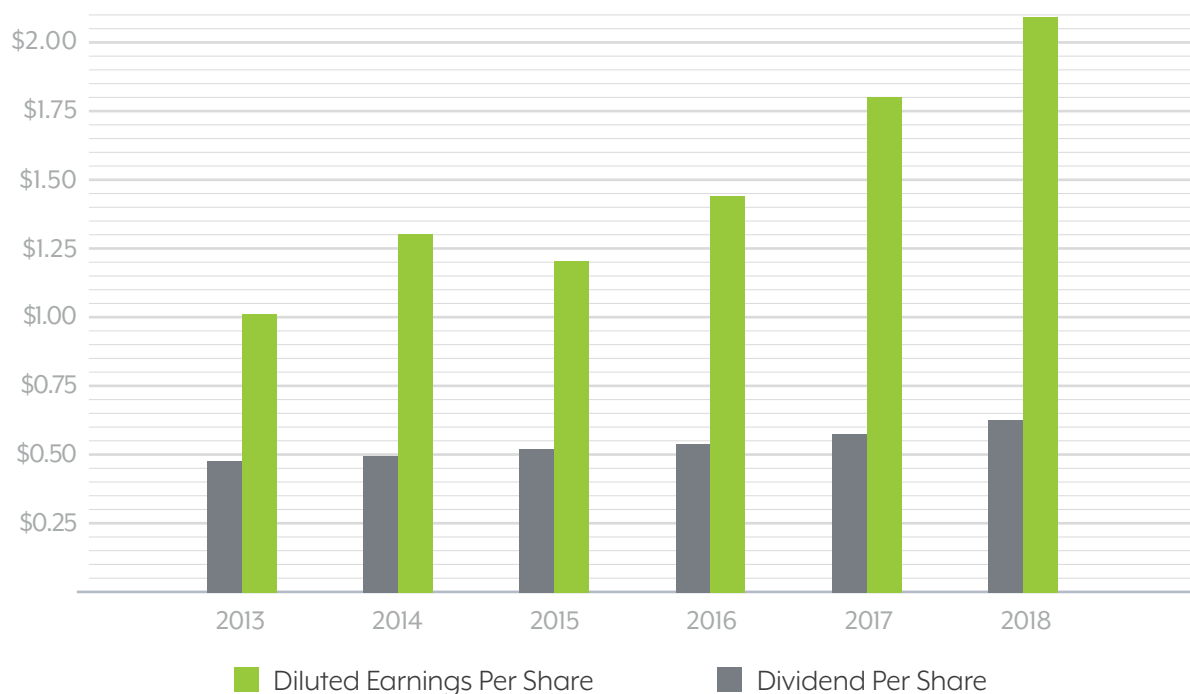
Fiscal year ending December 31.

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## Kentucky Bancshares, Inc. (KTYB) Stock Activity

Since January of 2016, we have experienced an increased volume of stock trades, along with an increased price per share. Much of this activity is a result of our increased profitability, our increased dividends, our asset size, and the market capitalization of your company. The benefit is that there appears to be more demand for our stock, which creates a more liquid and orderly market for both larger and smaller blocks of shares.

## PER SHARE DATA



	2013	2014	2015	2016	2017	2018
Diluted EPS	1.08	1.30	1.20	1.43	1.81	2.09
Cash Dividends Declared	0.480	0.500	0.520	0.540	0.580	0.625

### INVESTOR INFORMATION

You may obtain a copy of the Corporation's 2018 Form 10-K Report by visiting our website at [www.kybank.com](http://www.kybank.com) or writing to Investor Relations at the Corporate Headquarters.

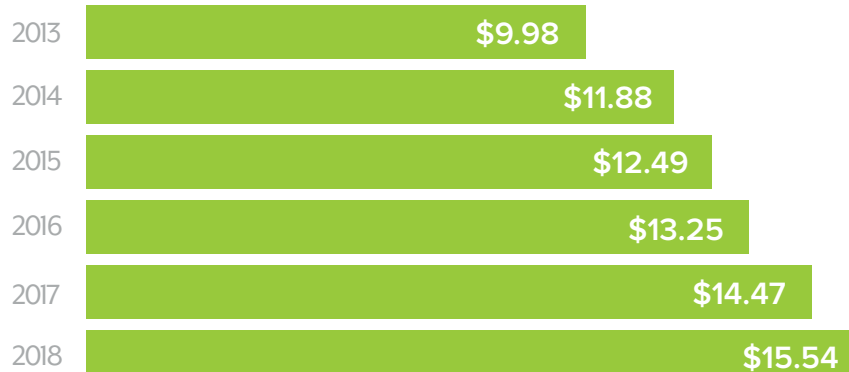
### INVESTOR RELATIONS

For more information about your investment in Kentucky Bancshares, Inc., please visit [www.kybank.com](http://www.kybank.com). You will find company highlights, dividend history, SEC filings, historical graphs, and other helpful information related to your company and your stock. In addition, you can sign up for email alerts of daily stock updates, public announcements or sign up to receive your dividends via automatic deposit.

### TRADING STOCK

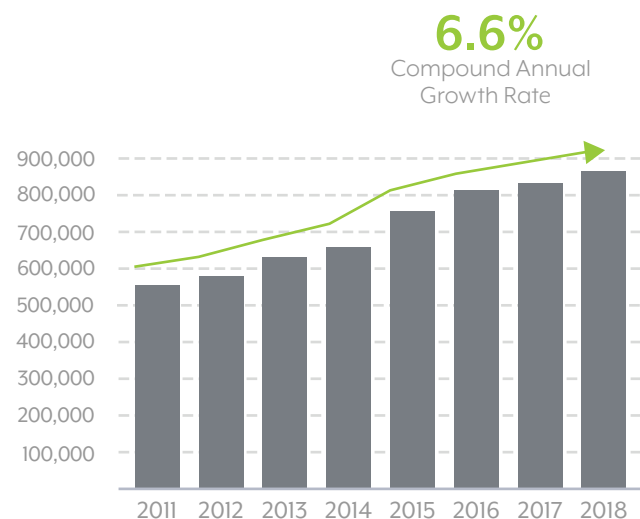
Kentucky Bancshares, Inc. common stock is publicly traded and is available for purchase through your broker or Kentucky Bank's Wealth Management Department at (800) 467-1939.

## TANGIBLE BOOK VALUE / SHARE: KTYB



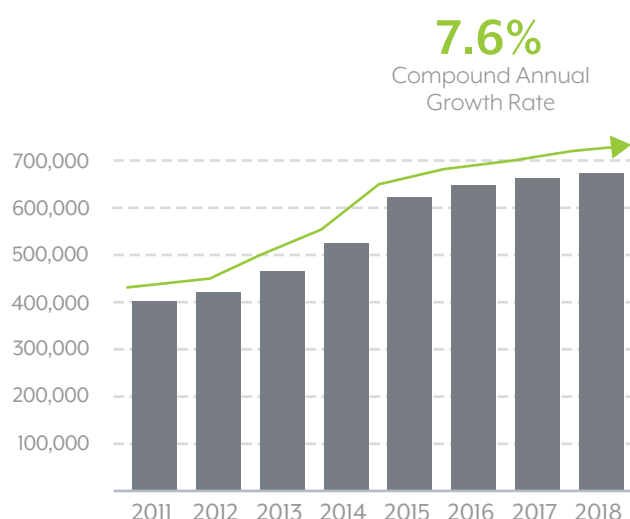
## TOTAL DEPOSITS

(\$ thousands)



## TOTAL NET LOANS

(\$ thousands)



### New Lexington Branch Construction Underway

We look forward to opening our newest branch office, which is being built in Lexington on the corner of Man-O-War Boulevard and Polo Club Boulevard. We believe this location to be a key position given its proximity to new households and an ever expanding retail district. We anticipate the new branch to be open by the end of 2019 or early 2020.

**Coming soon!**

The annual report contains various “forward-looking statements” within the meaning of that term as set forth in Rule 175 of the Securities Act of 1933 and Rule 3b-6 of the Securities Exchange Act of 1934. Such statements are generally contained in sentences including the words “may” or “expect” or “could” or “should” or “would” or “believe” or “anticipate.” The Company cautions that these forward-looking statements are subject to numerous assumptions, risks, and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, changing economic conditions; legislative and regulatory changes; monetary and fiscal policies of the federal government; changes in interest rates; deposit flows and the cost of funds; demand for loan products; competition; changes in management’s business strategies; changes in accounting principles, policies, or guidelines; changes in real estate values; and other factors discussed in the “risk factors” section of the Company’s filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this annual report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements. For more detailed financial information please see the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. The Form 10-K will be available through the Bank’s website at [www.kybank.com](http://www.kybank.com) on or about March 15, 2019, after it is electronically filed with the Securities and Exchange Commission (“SEC”). Our SEC filings are also available on the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Please call 1-800-SEC-0330 for more information on the public reference room.

## BOARD OF DIRECTORS

### BUCKNER WOODFORD IV

Chairman, Kentucky Bank  
Kentucky Bancshares, Inc.

### LOUIS PRICHARD

President and Chief Executive Officer  
Kentucky Bank, Kentucky Bancshares, Inc.

### B. PROCTOR CAUDILL, JR.

Special Projects Manager  
Kentucky Bank

### HENRY HINKLE

Chief Executive Officer  
Hinkle Holding Company, LLC

### TED MCCLAIN

President, Hopewell Insurance Company

### WES OMOHUNDRO

Secretary/Treasurer, The Allen Company, Inc.

### EDWIN S. SAUNIER

President, Saunier North American, Inc.

### ROBERT G. THOMPSON

Farmer, Thoroughbred Breeder  
Snowhill Farm

### WOODFORD S. VAN METER, MD

Professor of Ophthalmology  
University of Kentucky

## SENIOR MANAGEMENT

### LOUIS PRICHARD

President and Chief Executive Officer

### JAMES BRADEN

Executive Vice President  
Chief Operating Officer

### BRENDA BRAGONIER

Senior Vice President  
Director of Marketing  
Customer Service Center

### CAROL CASKEY

Senior Vice President  
Director of Human Resources

### GREGORY J. DAWSON

Senior Vice President  
Chief Financial Officer

### JAMES L. ELLIOTT

Senior Vice President  
Director of Wealth Management

### NORMAN J. FRYMAN

Executive Vice President  
Chief Credit Officer

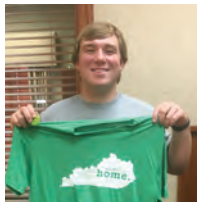
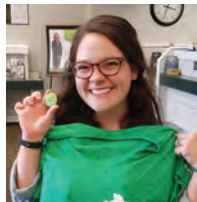
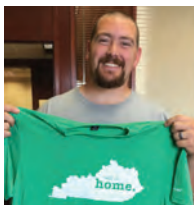
### CHRIS GORLEY

Senior Vice President  
Director of Operations

### SHANE FOLEY

Executive Vice President  
Director of Retail Banking

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Kentucky green.



## MARKET PRESIDENTS

### BRANDON EASON

Bourbon County Market President

### ALAN LUNSFORD

Madison County Market President

### ALLEN JOHNSON

Harrison County Market President

### ALEX LYTTLE

Jessamine County Market President

### SHERRY MATHIS

East Kentucky Market President  
Elliott and Rowan Counties

### MARK SULSKI

Scott County Market President

### DARRYL M. TERRY

Central Kentucky Regional President  
Clark, Fayette, and Woodford Counties

