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**2017**

ANNUAL REPORT

**Kentucky**  
 *Bancshares, Inc.*



## TO OUR SHAREHOLDERS

The year of 2017 was a productive and successful year for your company. We attained record earnings of \$10.7 million, a 25.1% increase over 2016, and also record earnings per share, on a diluted basis, of \$3.61. This was a 25.8% improvement over the previous year. Total assets as of December 31, 2017 were \$1.05 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 securities balances, a decrease in provision for loan loss expense due to declining loan balances and stable asset quality, along with an increase in other income largely due to a gain on the sale of a building located in Winchester, Kentucky. These increases in income were partially offset by an increase in tax expense due to higher income and the signing of the Tax Cuts and Jobs Act on December 22, 2017. The new tax bill resulted in a deferred tax asset adjustment and an adjustment to tax credit investments. Both of those adjustments resulted in a slight, one time lowering of net income for 2017. Going forward, the tax bill, as it is currently written, will reduce our statutory tax rate starting in 2018. We look forward to identifying ways to invest those savings in our four main stakeholder groups – shareholders, customers, employees, and communities.

During 2017, we increased the breadth of our services by launching two new products - Positive Pay to our commercial customers and Card Valet to our consumer and small business customers. We also worked successfully to improve asset quality while focusing on cost management and efficiency enhancement.

While we are pleased with the results of 2017, we remain focused on the future. Our goal is a strategy of disciplined and profitable growth. As we continue that strategy for 2018, I would like to highlight some of our upcoming efforts.

- We are expanding our customer service by offering 24 x 7 x 365 call center support for our debit

### NET INCOME



and credit card holders. We are working on the final stages of the set-up and anticipate offering that service to our customers by the end of March, 2018.

- We are currently investing in our Clark County market by building a new branch which will include a more efficient design. We expect the new branch to be open in the second quarter of 2018.
- We are increasing our customer service availability by adding additional offices to our Lexington, Kentucky branch. We anticipate the expanded space to be open in the second quarter of 2018.
- We are increasing our mobile representation by offering digital wallet services including ApplePay®. We expect the service to be available to customers by mid-2018.
- We are enhancing customer security by expanding our fraud notification capabilities through text messaging alerts. We expect the service to be available to customers by mid-2018.
- We are increasing our digital service by offering online mortgage applications. We expect the service to be available to customers by the third quarter of 2018.

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. Those 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, and look forward to continuing to grow with our communities.

As always, we appreciate your support.

*Jamie Pritchard*  
President and Chief Executive Officer



## ANNUAL MEETING

The annual meeting of Kentucky Bancshares, Inc. will be held **Tuesday, May 22, 2018 at 11:00 a.m.** in the Corporate Headquarters.

## TOTAL ASSETS



## INVESTOR RELATIONS

For more information about your investment in Kentucky Bancshares, Inc., please visit [www.kybank.com](http://www.kybank.com). Here 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 and public announcements.



## 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.

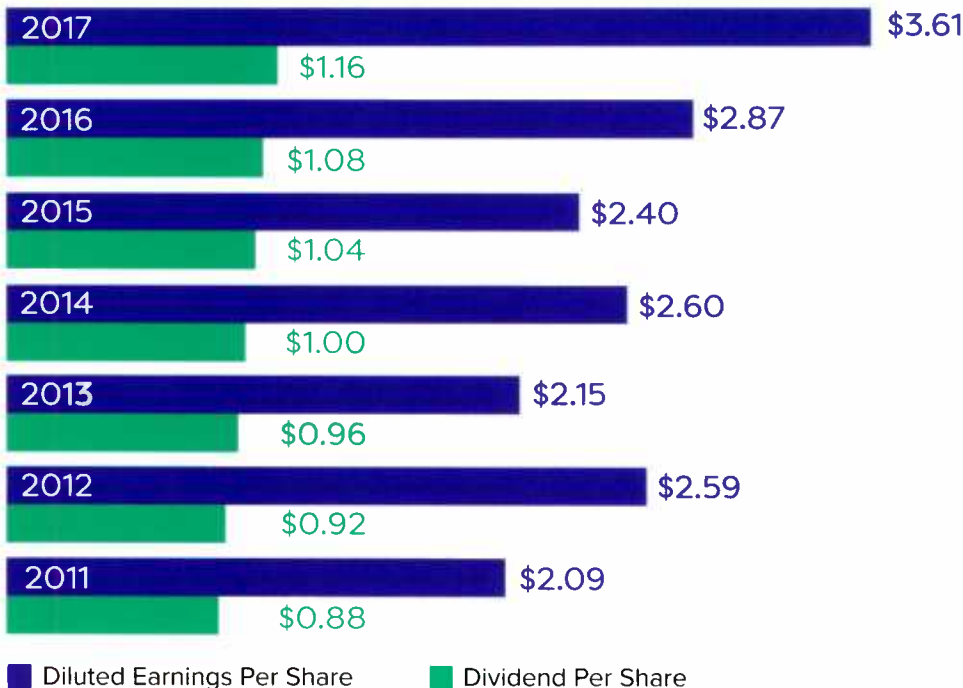
## INVESTOR INFORMATION

You may obtain a copy of the Corporation's 2017 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.

## 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.

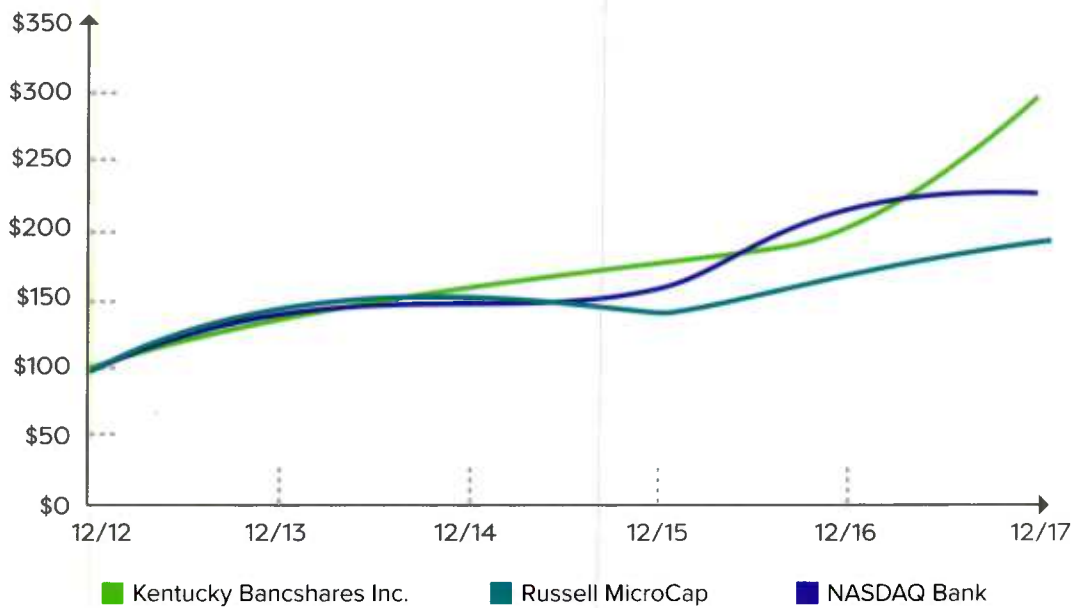
Please contact our Wealth Management Department at (800) 467-1939 for more information concerning Kentucky Bancshares, Inc.



## PER SHARE DATA

# COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

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

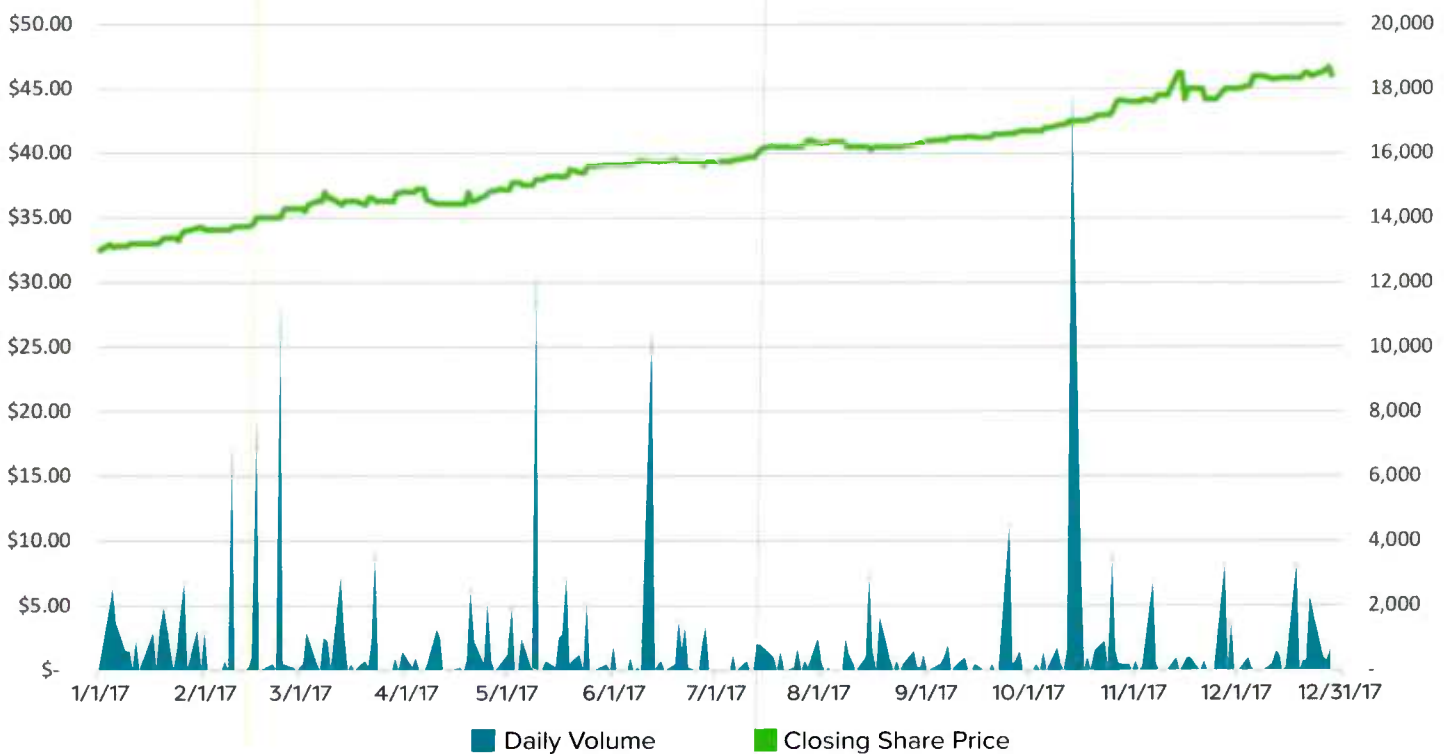


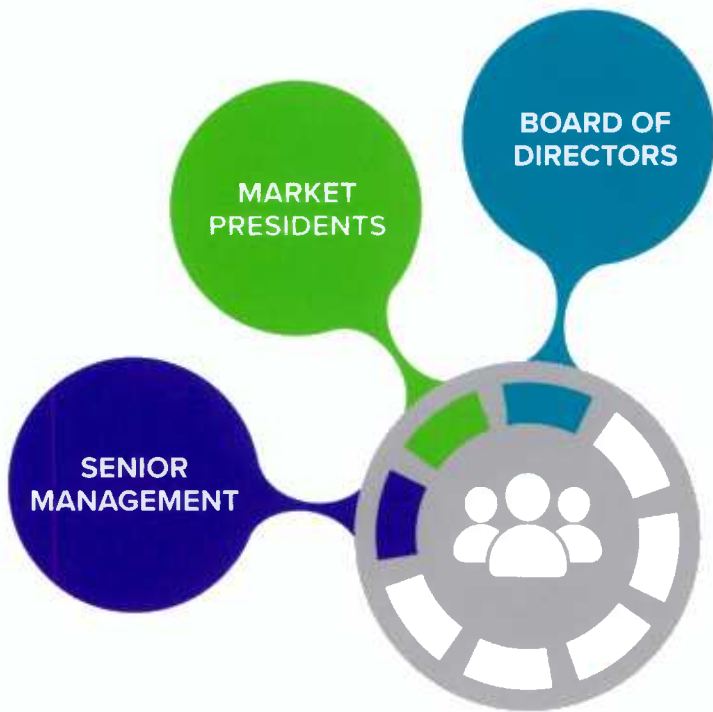
	12/12	12/13	12/14	12/15	12/16	12/17
Kentucky Bancshares Inc.	100.00	136.12	159.48	179.00	203.67	296.98
Russell MicroCap	100.00	145.62	150.93	143.15	172.30	194.99
NASDAQ Bank	100.00	140.76	146.90	157.63	216.24	227.94

\*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31, 2017.  
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## SHARE PRICE AND VOLUME

(January 2017 - December 2017)





## 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

**WILLIAM H. HOUGH**  
Executive Vice President  
Director of Retail Banking

## 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

**BETTY J. LONG**  
President, Retired  
First Federal Savings of Cynthiana

**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

## MARKET PRESIDENTS

**BRANDON EASON**  
Bourbon County Market President

**JOHN HAMILTON**  
Madison County Market President

**ALLEN JOHNSON**  
Harrison County Market President

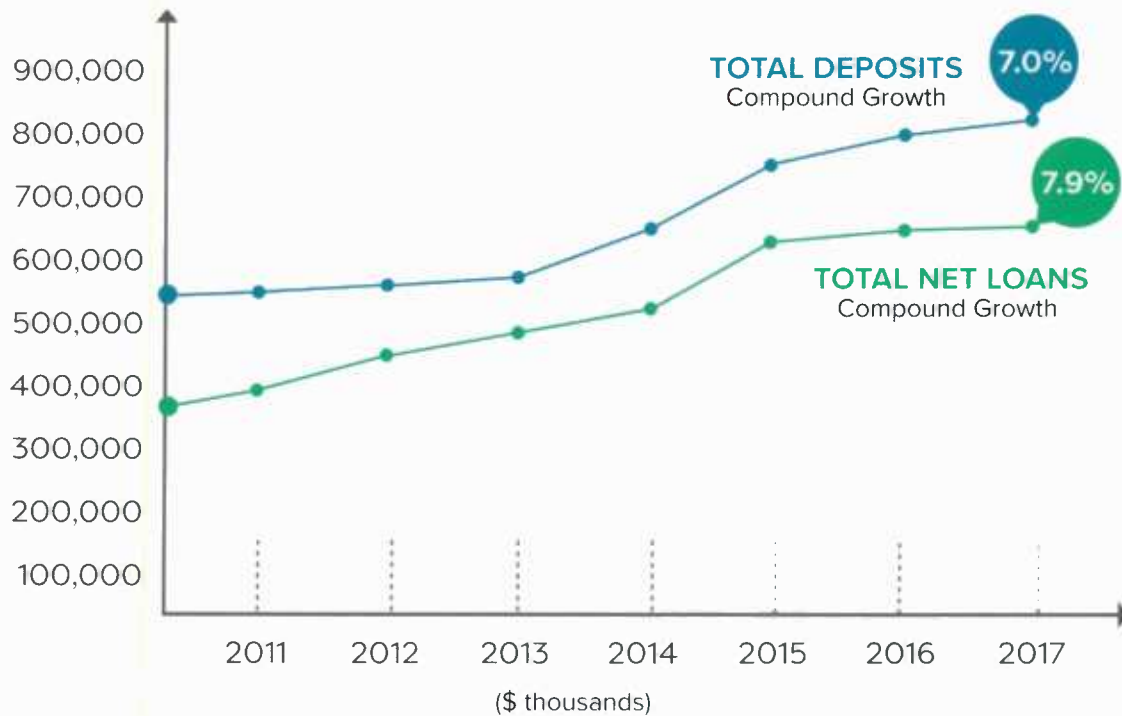
**ALEX LYTTLE**  
Jessamine County Market President

**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, Jessamine, and  
Woodford Counties

## TOTAL NET LOANS AND DEPOSITS



## TANGIBLE BOOK VALUE/SHARE



Kentucky Bank and its tributaries began their commitment to community banking in 1851 in Paris, Kentucky. Since its founding, the bank has grown to over \$1 billion in assets and employs over 250 people in 17 locations, while the location of the headquarters remains on the corner of 4th and Main in Paris.



PO Box 157 | Paris, KY 40362-0157 | (800) 467-1939 | [www.kybank.com](http://www.kybank.com)

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, 2017. The Form 10-K will be available through the Bank's website at [www.kybank.com](http://www.kybank.com) on or about March 16, 2018, 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. You should call 1-800-SEC-0330 for more information on the public reference room.