

**Quarterly Report
Fourth Quarter 2008**

During the most challenging economic times in over 75 years, Kentucky Bancshares, Inc was able to report positive earnings for the year 2008. However, we did sustain a loss for the last quarter. Earnings for the fourth quarter of 2008 were (\$322,000) or (\$0.11) per share assuming dilution. For the same period in 2007, earnings were \$1,436,000 or \$0.51 assuming dilution. For the twelve months ended December 31, 2008, we reported a 44% decrease in earnings compared to December 31, 2007. Earnings were \$3,713,000 for 2008, or earnings per share of \$1.33, assuming dilution.

Total assets increased 7.6% from \$630.9 million to \$678.8 million. Total loans increased 1.7% from \$417.4 million to \$424.3 million. Our securities portfolio, however, increased 17.0% from \$147.7 million to \$172.8 million. We are also pleased to announce that total deposits increased 7.2% over the previous year end from \$486.0 million to \$520.8 million.

As has been said in our earlier quarterly reports, 2008 has been one of the most economically challenging years for our nation, state, and the regions we serve. Unemployment, both nationally and on the state level, is on a dramatic increase, existing home sales are at a 30 year low, foreclosures have risen 81% over the last year, and economists are predicting a record number of business failures in 2009. As a result of the decline in the economy, as well as decisions made by Management and the Board of Directors, the following significant events took place in the fourth quarter of 2008:

- \$2.2 million contribution to the allowance for loan loss reserve.
- One-time termination expense of the Defined Benefit Plan, \$563,000.
- Devaluation of secondary market servicing rights, \$213,000.
- \$182,000 increase in FDIC insurance premium as a result of the Federal Deposit Insurance Corporation's need to meet regulatory requirement for the Bank Insurance Fund.
- \$30 million security transaction, which provided a one time gain of \$637,000.

The decision by Bank Management and the Board of Directors to increase the loan loss reserve and to terminate the Defined Benefit Plan, will help us address today's severe economic conditions as well as help us prepare for the uncertainties that exist for the upcoming year.

With the Federal Reserve's efforts to push down rates dramatically, our mortgage servicing rights were significantly devalued. Beyond that, because the Federal Deposit Insurance Corporation needed to meet the regulatory requirements for the Bank Insurance Fund, all banks' deposit insurance premiums did increase in the latter part of 2008, and will continue to rise in the year 2009. Fortunately, with the previously mentioned securities' transaction, we were able to offset some of these one time expenses.

Kentucky Bancshares, Inc. decided not to take any of the money available to it through the Capital Purchase Program under the Troubled Asset Relief Program approved by Congress in the latter part of 2008. While Kentucky Bank did apply for the funds as a precautionary measure, and was approved for the maximum amount available to it, our management and Board of Directors determined (partially in light of the terms and conditions imposed in connection with such funds) that it was not in either the short-term or the long-term interests of Kentucky Bank customers and our shareholders to participate in this program.

I am pleased to report that at the date of this letter the construction on our new Nicholasville office is nearly complete, and we came in on budget. We believe with this new location along with the wonderful staff that will be operating there, we will have an excellent opportunity to increase our market presence in Jessamine County.

Also, by the time this letter is received, we will have enjoyed the celebration recognizing the employment of Chairman Buckner Woodford IV. Buck has been an outstanding leader of the bank for 37 years and has contributed greatly to the success of Kentucky Bank.

These are indeed challenging times for our country and our markets, as there is no sector of the economy that has not been impacted in some way by the negative trends that are occurring in today's world. Our primary goal is to prepare the bank to meet these challenges head on.

As always, we appreciate your support and involvement in your company.

/s/Louis Prichard
Louis Prichard
President, CEO

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CONSOLIDATED BALANCE SHEET

	12/31/2008	12/31/2007	Percentage Change
<s>	<c>	<c>	<c>
Assets			
Cash & Due From Banks	\$ 16,410,988	\$ 15,445,596	6.3%
Securities	172,833,766	147,749,546	17.0
Loans	424,276,517	417,388,048	1.7
Reserve for Loan Losses	5,464,864	4,878,732	12.0
Net Loans	418,811,653	412,509,316	1.5
Federal Funds Sold	20,695,000	10,361,000	99.7
Other Assets	50,023,821	44,873,383	11.5
Total Assets	\$ 678,775,228	\$ 630,938,841	7.6%
Liabilities & Stockholders' Equity			
Deposits			
Demand	\$ 90,479,772	\$ 88,520,944	2.2%
Savings & Interest Checking	158,418,572	158,228,869	0.1
Certificates of Deposit	271,909,885	239,255,404	13.6
Total Deposits	520,808,229	486,005,217	7.2
Repurchase Agreements	6,617,276	5,976,986	10.7
Other Borrowed Funds	88,617,932	71,968,116	23.1
Other Liabilities	5,691,235	8,318,665	-31.6
Total Liabilities	621,734,672	572,268,984	8.6
Stockholders' Equity	57,040,556	58,669,857	-2.8
Total Liabilities & Stockholders' Equity	\$ 678,775,228	\$ 630,938,841	7.6%

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CONSOLIDATED INCOME STATEMENT

	Twelve Months Ending			Three Months Ending		
	12/31/2008	12/31/2007	Percentage Change	12/31/2008	12/31/2007	Percentage Change
<s>	<c>	<c>	<c>	<c>	<c>	<c>
Interest Income	\$ 35,128,861	\$ 39,219,086	-10.4%	\$ 8,412,412	\$ 9,577,575	-12.2%
Interest Expense	15,359,148	19,034,105	-19.3	3,676,268	4,659,213	-21.1
Net Interest Income	19,769,713	20,184,981	-2.1	4,736,144	4,918,362	-3.7
Loan Loss Provision	3,700,000	1,000,000	270.0	2,200,000	350,000	528.6
Net Interest Income After Provision	16,069,713	19,184,981	-16.2	2,536,144	4,568,362	-44.5
Other Income	8,354,483	7,936,058	5.3	2,343,458	1,954,840	19.9
Other Expenses	20,027,060	18,130,955	10.5	5,674,712	4,591,809	23.6
Income Before Taxes	4,397,136	8,990,084	-51.1	(795,110)	1,931,393	-141.2
Income Taxes	684,074	2,404,132	-71.5	(473,234)	495,094	-195.6
Net Income	3,713,062	6,585,952	-43.6	(321,876)	1,436,299	-122.4
Net Change in Unrealized Gain (loss)						
on Securities	(80,385)	564,706	-114.2	1,509,442	676,705	123.1
Comprehensive Income	\$ 3,632,677	\$ 7,150,658	-49.2%	\$ 1,187,566	\$ 2,113,004	43.8%

Selected Ratios

Return on Average Assets	0.58%	1.04%	(0.23)%	1.00%
Return on Average Equity	6.5	11.6	(2.0)	11.0
Earnings Per Share	\$ 1.34	\$ 2.31	(0.10)	\$ 0.51
Earnings Per Share - assuming dilution	1.33	2.30	(0.11)	0.51
Cash Dividends Per Share	1.12	1.08	0.28	0.27
Book Value Per Share	20.77	20.59		

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Market Price	High	Low	Close
Fourth Quarter '08	\$26.50	\$15.75	\$17.15
Third Quarter '08	\$27.25	\$24.00	\$26.00