KENTUCKY BANCSHARES INC /KY/
Form 10-Q
May 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________________ to ___________________

Commission File Number: 000-52598

KENTUCKY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0993464
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 157, Paris, Kentucky	40362-0157
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (859) 987-1795

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes _____ No _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ____
Accelerated filer ____
Non-accelerated filer X (Do not check if a smaller reporting company)
Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X _

Number of shares of Common Stock outstanding as of April 30, 2010: 2,743,187.

KENTUCKY BANCSHARES, INC.

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Item 1 – Financial Statements

KENTUCKY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands)	3/31/2010	12/31/2009
Assets		
Cash and due from banks	$ 16,088	$ 12,387
Federal funds sold	60,619	22,034
Cash and cash equivalents	76,707	34,421
Securities available for sale	191,089	168,411
Mortgage loans held for sale	899	191
Loans	422,270	425,418
Allowance for loan losses	(5,763)	(7,600)
Net loans	416,507	417,818
Federal Home Loan Bank stock	6,731	6,731
Real estate owned	5,739	4,542
Bank premises and equipment, net	17,964	17,610

Interest receivable	4,362	4,620
Mortgage servicing rights	810	822
Goodwill	13,117	13,117
Other intangible assets	1,198	1,263
Other assets	5,467	5,685
Total assets	$ 740,590	$ 675,231
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 118,285	$ 97,005
Time deposits, $100,000 and over	153,358	105,036
Other interest bearing	333,965	334,405
Total deposits	605,608	536,446
Repurchase agreements and other borrowings	6,766	8,226
Federal Home Loan Bank advances	54,497	56,096
Subordinated debentures	7,217	7,217
Interest payable	2,977	2,123
Other liabilities	1,957	4,158
Total liabilities	679,022	614,266
Stockholders' equity		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, no par value; 10,000,000 shares authorized; 2,743,471 and 2,739,511 shares issued and outstanding on March 31, 2010 and December 31, 2009	12,444	12,416
Retained earnings	47,582	47,213
Accumulated other comprehensive income	1,542	1,336
Total stockholders' equity	61,568	60,965
Total liabilities & stockholders' equity	$ 740,590	$ 675,231

See Accompanying Notes

KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (unaudited)

(in thousands, except per share amounts)	Three Months Ending	
	3/31/2010	3/31/2009
INTEREST INCOME:		
Loans, including fees	$ 5,910	$ 6,079
Securities available for sale	1,650	2,108
Other	11	10
Total interest income	7,571	8,197
INTEREST EXPENSE:		
Deposits	2,092	2,533
Other	610	912
Total interest expense	2,702	3,445
Net interest income	4,869	4,752
Loan loss provision	450	450
Net interest income after provision	4,419	4,302
NON-INTEREST INCOME:		
Service charges	1,096	1,146
Loan service fee income	25	27

Trust department income	115	109
Securities available for sale gains, net	3	4
Gain on sale of mortgage loans	126	378
Other	382	337
Total other income	1,747	2,001
NON-INTEREST EXPENSE:		
Salaries and employee benefits	2,449	2,549
Occupancy expenses	688	657
Repossession expenses	336	90
FDIC insurance	242	231
Legal and professional fees	124	47
Data processing	203	202
Debit card expenses	143	139
Amortization	65	66
Advertising and marketing	129	124
Taxes other than payroll, property and income	195	188
Other	598	591
Total other expenses	5,172	4,884
Income before taxes	994	1,419
Income taxes	49	252
Net income	$ 945	$ 1,167
Other Comprehensive Income, net of tax:		
Change in Unrealized Gains on Securities	206	1,036
Comprehensive Income	$ 1,151	$ 2,203
Earnings per share		
Basic	$ 0.35	$ 0.43
Diluted	0.35	0.43
Dividends per share	0.21	0.20

See Accompanying Notes

KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
(in thousands, except share information)

	--Common Stock(1)-- Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	S
Balances, January 1, 2010	2,739,511	$ 12,416	$ 47,213	$ 1,336	
Common stock issued, including tax benefit, net	3,960	-	-	-	
Stock based compensation expense	-	28	-	-	
Net change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	206	

Net income	-	-	945	-
Dividends declared - $0.21 per share	-	-	(576)	-
Balances, March 31, 2010	2,743,471	$ 12,444	$ 47,582	$ 1,542

(1)Common Stock has no par value; amount includes Additional Paid-in Capital

See Accompanying Notes

KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(thousands)	Three Months Ending	
	3/31/2010	3/31/2009
Cash Flows From Operating Activities		
Net Income	$ 945	$ 1,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	394	334
Securities amortization, net	203	200
Stock based compensation expense	28	29
Provision for loan losses	450	450
Securities (gains), net	(3)	(4)
Originations of loans held for sale	(5,179)	(17,678)
Proceeds from sale of loans	4,597	18,056
Losses on sale of fixed assets	1	-
Losses (gains) on other real estate, net	(5)	38
Gain on sale of mortgage loans	(126)	(378)
Changes in:		
Interest receivable	258	651
Real estate owned, net	191	262
Other assets	182	(3,551)
Interest payable	854	842
Other liabilities	(2,307)	(623)
Net cash from operating activities	483	(205)
Cash Flows From Investing Activities		
Purchases of securities	(43,228)	(42,811)
Proceeds from principal payments, maturities and calls of securities	20,662	11,134
Net change in loans	(532)	11,630
Purchases of bank premises and equipment	(647)	(237)
Proceeds from the sale of bank premises and equipment	3	-
Net cash from investing activities	(23,742)	(20,284)
Cash Flows From Financing Activities:		
Net change in deposits	69,162	5,573
Net change repurchase agreements and other borrowings	(1,260)	3,029
Payments on Federal Home Loan Bank advances	(1,581)	(10,560)
Payments on note payable	(200)	(200)
Dividends paid	(576)	(550)
Net cash from financing activities	65,545	(2,708)
Net change in cash and cash equivalents	42,286	(23,197)
Cash and cash equivalents at beginning of period	34,421	37,106

Cash and cash equivalents at end of period	$ 76,707	$ 13,909
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest expense	$ 1,848	$ 2,603
Income taxes	-	-
Supplemental disclosures of non-cash investing activities		
Real estate acquired through foreclosure	$ 1,801	$ 2,890

See Accompanying Notes

KENTUCKY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial information presented as of any date other than December 31 has been prepared from the Company's books and records without audit. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain financial information that is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but is not required for interim reporting purposes, has been condensed or omitted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Basis of Presentation: The consolidated financial statements include the accounts of Kentucky Bancshares, Inc. (the Company), its wholly-owned subsidiary, Kentucky Bank (the Bank), and the Bank's wholly-owned subsidiary, KB Special Assets Unit, LLC. Intercompany transactions and balances have been eliminated in consolidation.

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

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

Adoption of New Accounting Standards

Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures". The Financial Accounting Standards Board issued new accounting guidance under Accounting Standards Update (ASU) No. 2010-06 that requires new disclosures and clarifies existing disclosure requirements about fair value measurement as set forth in ASC Subtopic 820-10. The objective of the new guidance is to improve these disclosures and increase transparency in financial reporting. Specifically, the new guidance requires:

A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and

In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, the guidance clarifies the requirements of the following existing disclosures:

For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and

A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. Additional disclosures have been made.

ASC Topic 860, "Transfers and Servicing". Effective January 1, 2010, the Company adopted new accounting guidance under ASC Topic 860 that requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The guidance eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures about continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial position or results of operations.

ASC Topic 810, "Consolidation". Effective January 1, 2010, the Company adopted new accounting guidance under ASC Topic 810 that amends prior guidance to change how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The new guidance requires a number of new disclosures about an entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will also be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial position or results of operations.

2. SECURITIES AVAILABLE FOR SALE

Period-end securities are as follows:
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
U.S. government agencies	$ 63,705	$ 47	$ (171)	$ 63,581
States and political subdivisions	84,080	1,742	(496)	85,326
Mortgage-backed - residential	40,698	1,294	(105)	41,887
Equity securities	270	25	-	295
Total	$ 188,753	$ 3,108	$ (772)	$ 191,089
December 31, 2009				
U.S. government agencies	$ 45,168	$ 13	$ (448)	$ 44,733
States and political subdivisions	78,794	1,691	(362)	80,123
Mortgage-backed - residential	42,155	1,259	(151)	43,263
Equity securities	270	22	-	292
Total	$ 166,387	$ 2,985	$ (961)	$ 168,411

The amortized cost and fair value of securities at March 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity are shown separately.

(in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,178	$ 1,284
Due after one year through five years	46,820	46,949
Due after five years through ten years	43,371	44,257
Due after ten years	56,416	56,417
	147,785	148,907
Mortgage-backed - residential	40,698	41,887
Equity	270	295
Total	$ 188,753	$ 191,089

Securities with unrealized losses at March 31, 2010 and at December 31, 2009 not recognized in income are as follows:

March 31, 2010

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
U.S. Government agencies	$46,282	$ (171)	$ -	$ -	$46,282	$ (171)
States and municipals	30,233	(484)	761	(12)	30,994	(496)
Mortgage-backed - residential	14,698	(105)	-	-	14,698	(105)
Total temporarily impaired	$91,213	$ (760)	$ 761	$ (12)	$91,974	$ (772)

December 31, 2009

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agencies	$35,216	$ (448)	$ -	$ -	$35,216	$ (448)
States and municipals	25,126	(348)	870	(14)	25,996	(362)
Mortgage-backed - residential	11,930	(151)	-	-	11,930	(151)
Total temporarily impaired	$72,272	$ (947)	$ 870	$ (14)	$73,142	$ (961)

The Company evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Unrealized losses on securities have not been recognized into income because the issues are of high credit quality, management does not intend to sell and it is more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

Management believes the declines in fair value are largely due to changes in interest rates. The Company believes there is no other than temporary impairment and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

3. LOANS

Loans at period-end are as follows:
(in thousands)

	3/31/10	12/31/09
Commercial	$ 27,812	$ 21,933
Real estate construction	15,475	16,865
Real estate mortgage	283,849	287,444
Agricultural	78,836	80,619
Consumer	16,040	18,277
Other	258	280
Total	$ 422,270	$ 425,418

Activity in the allowance for loan losses was as follows:
(in thousands)

	3/31/10	3/31/09

Beginning balance	$ 7,600	$ 5,465
Charge-offs	(2,589)	(328)
Recoveries	302	412
Provision for loan losses	450	450
Ending balance	$ 5,763	$ 5,999

Individually impaired loans were as follows:
(in thousands)

	3/31/10	12/31/09
Period-end loans with no allocated allowance for loan losses	$18,389	$19,206
Period-end loans with allocated Allowance for loan losses	12,045	14,266
Total	$30,434	$33,472
Amount of the allowance for loan losses allocated	$ 2,130	$ 4,064

Nonperforming loans were as follows:

	3/31/10	12/31/09
Loans past due over 90 days still on accrual	$ 121,000	$ 2,526,000
Nonaccrual loans	15,408,000	12,038,000

Nonaccrual loans are included in impaired loans.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The decrease in impaired loans is primarily from $1.2 million transferred to real estate owned and $2.5 million recorded in chargeoffs during the first quarter of 2010. The increase in nonaccrual loans was primarily from various smaller balance loans being added during the first quarter of 2010.

The Company has no troubled debt restructurings as of March 31, 2010 and December 31, 2009.

4. EARNINGS PER SHARE

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

The factors used in the earnings per share computation follow:

(in thousands, except per share information)	Three Months Ended March 31 2010	2009
Basic Earnings Per Share		
Net Income	$ 945	$1,167
Weighted average common shares outstanding	2,732	2,736
Basic earnings per share	$ 0.35	$ 0.43

Diluted Earnings Per Share		
Net Income	$ 945	$1,167
Weighted average common shares outstanding	2,732	2,736
Add dilutive effects of assumed exercise of stock options	-	1
Weighted average common and dilutive potential common shares outstanding	2,732	2,737
Diluted earnings per share	$ 0.35	$ 0.43

Stock options of 33,490 shares common stock for the three month period ended March 31, 2010 and 37,844 shares common stock for the three month period ended March 31, 2009 were excluded from diluted earnings per share because their impact was antidilutive. Stock grants of 21,705 shares common stock for the three month period ended March 31, 2010 and 13,505 shares common stock for the three month period ended March 31, 2009 were excluded from diluted earnings per share because their impact was antidilutive.

5. STOCK COMPENSATION

The Company has four share based compensation plans as described below.

Two Stock Option Plans

Under its expired 1999 Employee Stock Option Plan, the Company has granted certain officers and key employees stock option awards which vest and become fully exercisable at the end of five years and provided for issuance of up to 100,000 options. Under the expired 1993 Non-Employee Directors Stock Ownership Incentive Plan, the Company had also granted certain directors stock option awards which vest and become fully exercisable immediately and provided for issuance of up to 20,000 options. The exercise price of each option, which has a ten year life, was equal to the market price of the Company's stock on the date of grant.

Summary of activity in the stock option plan for 2010 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	36,250	$29.42		
Granted	-	-		
Forfeited or expired	(2,760)	27.93		
Exercised	-	-		
Outstanding, end of period	33,490	$29.54	47.4 months	$ -
Vested and expected to vest	33,490	$29.54	47.4 months	$ -
Exercisable, end of period	33,490	$29.54	47.4 months	$ -

As of March 31, 2010, there was $0 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. Since both stock option plans have expired, as of March 31, 2010 no additional options can be granted.

2005 Restricted Stock Grant Plan

On May 10, 2005, the Company's stockholders approved a restricted stock grant plan. Total shares issuable under the plan are 50,000. There were 4,020 shares issued during 2010 and 4,150 shares issued during 2009. There were 60 shares forfeited during 2010 and 516 shares forfeited during 2009. As of March 31, 2010, the restricted stock grant plan allows for additional restricted stock share awards of up to 29,887 shares.

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2010	10,122	$ 261,033
Granted	4,020	65,928
Vested	(2,740)	(73,936)
Forfeited	(60)	(1,507)
Nonvested at March 31, 2010	11,342	$ 251,518

As of March 31, 2010, there was $264,264 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 5 years.

2009 Stock Award Plan

On May 13, 2009, the Company's stockholders approved a stock award plan that provides for the granting of both incentive and nonqualified stock options and other share based awards. Total shares issuable under the plan are 150,000. As of March 31, 2010 no awards have been granted under the plan and 150,000 shares are still available.

6. FAIR VALUE MEASUREMENTS

ASC Topic 820, "Fair Value Measurements and Disclosures", defines fair value, establishes a framework for measuring fair value, and sets forth disclosures about fair value measurements. ASC Topic 825, "Financial Instruments", allows entities to choose to measure certain financial assets and liabilities at fair value. The Company has not elected the fair value option for any financial assets or liabilities.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This Topic describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value:

Investment Securities: The fair values for available for sale investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income, resulting in a Level 3 classification.

Assets and Liabilities Measured on a Recurring Basis

For this disclosure, the Company only has available for sale investment securities that meet the requirement.

Available for sale investment securities are the Company's only balance sheet item that meet the disclosure requirements for instruments measured at fair value on a recurring basis. Disclosures are as follows in the tables below.

(In thousands)	Fair Value Measurements at March 31, 2010 Using:			
Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. government agencies	$ 63,581	$ -	$ 63,581	$ -
States and municipals	85,326	-	85,326	-
Mortgage-backed - residential	41,887	-	41,887	-
Equity securities	295	295	-	-
Total	$191,089	$ 295	$190,794	$ -

(In thousands) Fair Value Measurements at December 31, 2009 Using:

Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. government agencies	$ 44,733	$ -	$ 44,733	$ -
States and municipals	80,123	-	80,123	-
Mortgage-backed - residential	43,263	-	43,263	-
Equity securities	292	292	-	-
Total	$168,411	$ 292	$168,119	$ -

Assets measured at fair value on a non-recurring basis are summarized below:

(In thousands) Fair Value Measurements at March 31, 2010 Using:

Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 210	$ -	$ -	$ 210
Other real estate Owned	2,553	-	-	2,553

(In thousands) Fair Value Measurements at December 31, 2009 Using:

Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$10,202	$ -	$ -	$ 10,202
Other real estate Owned	68	-	-	68
Mortgage servicing rights	626	-	-	626

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $233 thousand, with a valuation allowance of $23 thousand at March 31, 2010, resulting in an additional provision of $23 thousand for loan losses for the period ending March 31, 2010.

Other real estate owned which is measured at fair value less costs to sell, had a net carrying amount of $2.6 million, which is made up of the outstanding balance of $2.8 million, net of a valuation allowance of $291 thousand at March 31, 2010, resulting in a write-down of $279 thousand for the period ending March 31, 2010.

Fair Value of Financial Instruments

The fair values of the Company's financial instruments at March 31, 2010 and December 31, 2009 are as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets				
Cash and cash equivalents	$ 76,707	$ 76,707	$ 34,421	$ 34,421
Securities	191,089	191,089	168,411	168,411
Mortgage loans held for sale	899	899	191	191
Loans, net	416,507	416,152	417,818	417,759
FHLB stock	6,731	N/A	6,731	N/A
Interest receivable	4,362	4,362	4,620	4,620
Financial liabilities				
Deposits	$ 605,608	$ 609,988	$ 536,446	$ 541,691
Securities sold under agreements to repurchase and other borrowings	6,766	6,792	8,226	8,252
FHLB advances	54,497	56,123	56,096	57,633
Subordinated debentures	7,217	6,566	7,217	6,029
Interest payable	2,977	2,977	2,123	2,123

The methods and assumptions, not previously presented, used to estimate fair value are described as follows: Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk (including consideration of widening credit spreads). Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance sheet items is not considered material.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This discussion contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to: economic conditions (both generally and more specifically in the markets, including the tobacco market and the thoroughbred horse industry, in which the Company and its bank operate); competition for the Company's customers from other providers of financial and mortgage services; government legislation, regulation and monetary policy (which changes from time to time and over which the Company has no control); changes in interest rates (both generally and more specifically mortgage interest rates); material unforeseen changes in the liquidity, results of operations, or financial condition of the Company's customers; and other risks detailed in the Company's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of the Company. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Summary

Kentucky Bancshares, Inc. recorded net income of $945 thousand, or $0.35 basic earnings and diluted earnings per share for the first three months ending March 31, 2010 compared to $1.2 million, or $0.43 basic earnings and diluted earnings per share for the three month period ending March 31, 2009. The first three months earnings reflects a decrease of 19.1% compared to the same time period in 2009, due primarily to a decrease on the gain of sold loans of $252 thousand and an increase in other non-interest expenses of $346 thousand. These reductions to net income were partially offset by an increase in net interest income of $117 thousand, a reduction in employee salaries and benefits of $100 thousand and a reduction in income tax expense of $203 thousand.

Return on average assets was 0.54% for the three months ended March 31, 2010 and 0.68% for the three month period ended March 31, 2009. Return on average equity was 6.1% for the three month period ended March 31, 2010 and 8.1% for the same period in 2009.

Loans decreased $3.1 million from $425.4 million on December 31, 2009 to $422.3 million on March 31, 2010. The overall decrease is attributed to decreases in real estate construction loans, real estate mortgage loans, agricultural and consumer loans. Decreases to these sectors of the loan portfolio were partially offset by an increase of $6.3 million in commercial loans.

Total deposits increased from $536.4 million on December 31, 2009 to $605.6 million on March 31, 2010, an increase of $69.2 million. This increase is primarily the result of an increase in non-interest bearing deposit accounts of $21.3 million and an increase in interest bearing time deposit accounts over $100 thousand of $48.3 million. Deposits are up due to temporary cash influxes in our existing deposit base. Of this increase, $30 million is expected to be withdrawn during the second quarter of 2010, and an additional $18 million is short term and may also be withdrawn.

Net Interest Income

Net interest income was $4.9 million for the three months ended March 31, 2010 compared to $4.8 million for the three months ended March 31, 2009, an increase of 2.5%. The interest spread of 3.02% for the first three months of 2010 is up from 2.95% reported for the same period in 2009, an increase of 7 basis points. Rates have remained fairly low in the past year. In addition to lower rates and tightening margins, the net interest spread for 2010 is affected by an increase in "lost" loan interest during 2010 that can be attributed to an increase in non-performing loans in our loan portfolio.

For the first three months, the yield on assets decreased from 5.18% in 2009 to 4.74% in 2010. The cost of liabilities decreased from 2.23% in 2009 to 1.72% in 2010. Year to date average loans increased $4.4 million, or 1.0% from March 31, 2009 to March 31, 2010. Loan interest income has decreased

$169 thousand for the first three months of 2010 compared to the first three months of 2009. Year to date average deposits increased from March 31, 2009 to March 31, 2010, up $32.2 million or 6.0%. The increase is primarily the result of an increase in non-interest bearing deposits and time deposits with balances greater than $100 thousand. Deposit interest expense has decreased $441 thousand for the first three months of 2010 compared to the same period in 2009.

Non-Interest Income

Non-interest income decreased $254 thousand for the three months ended March 31, 2010 compared to the same period in 2009 to $1.7 million, due primarily to a decrease in the gains on the sale of mortgage loans of $252 thousand and a decrease in service charges of $50 thousand. These reductions to income were partially offset by an increase in other non-interest income of $45 thousand. The decrease in service charges was primarily due to a decrease in fees collected for title insurance of $35 thousand. The increase in other non-interest income was primarily due to an increase of $41 thousand in debit card interchange income.

Gain on sale of mortgage loans decreased from $378 thousand in the first three months of 2009 to $126 thousand during the first three months of 2010. The volume of loans sold during the first three month of 2010 decreased $13 million compared to the same time period in 2009. The volume of mortgage loan originations and sales is generally inverse to rate changes. A change in the mortgage loan rate environment can have a significant impact on the related gain on sale of mortgage loans.

Non-Interest Expense

Total non-interest expenses increased $288 thousand for the three month period ended March 31, 2010 compared to the same period in 2009.

For the comparable three month periods, salaries and benefits decreased $100 thousand, a decrease of 3.9%. The decrease in salaries & benefits is primarily attributed to the company offering voluntary separation options to certain employees during the third and fourth quarters of 2009. The number of full time equivalent employees decreased from 203 at March 31, 2009 to 178 at March 31, 2010.

Occupancy expenses increased $31 thousand to $688 thousand for the first three months of 2010 compared to the same time period in 2009. The increase during 2010 is mainly attributable to an increase in depreciation expense of $51 thousand.

Legal and professional fees increased $77 thousand for the first three months ended March 31, 2010 compared to the same time period in 2009. Repossession expenses increased $246 thousand for the first three months ended March 31, 2010 compared to the same time period in 2009. These increases were partially offset by a decrease in the loss of foreclosed property of $43 thousand. Due to the downturn in the financial industry and related bank failures, the FDIC increased the FDIC insurance premiums.

In February 2009, the FDIC adopted a long-term deposit insurance fund ("DIF") restoration plan as well as an additional emergency assessment for 2009. The restoration plan increases base assessment rates for banks in all risk categories with the goal of raising the DIF reserve ratio from its current 0.40% to 1.15% within seven years. Banks in the best risk category, which include the Company's subsidiary bank, will pay initial base rates ranging from 12 to 16 basis points of assessable deposits beginning April 1, 2009, up from the initial base rate range of 12 to 14 basis points. Additionally, the FDIC approved an interim rule imposing a special emergency assessment to all financial institutions of five basis points as of June 30, 2009. The special assessment amounted to $296 thousand and was paid on September 30, 2009. The FDIC is also permitted to impose an emergency special assessment after June 30, 2009 of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance. On November 12, 2009, the FDIC adopted a final rule requiring insured depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid amount will be amortized over the prepayment period. The Company's prepayment was $3.1 million.

Financing Corporation ("FICO") Assessments. FICO assessment costs were $14 thousand for the three months ended March 31, 2010 and $53 thousand for 2009. FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 possessing assessment powers in addition to the FDIC. The FDIC acts as a collection agent for FICO, whose sole purpose is to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation.

Income Taxes

The effective tax rate for the three months ended March 31, 2010 was 4.9% compared to 17.8% in 2009. These rates are less than the statutory rate as a result of the tax-free securities and loans held by the Company. The rates for 2010 are lower due to the lower level of income for 2010 and increased tax free income. Nontaxable interest income increased $194 thousand for the first three months of 2010 compared to the same time period in 2009.

Liquidity and Funding

Liquidity risk is the possibility that the Company may not be able to meet its cash requirements. Management of liquidity risk includes maintenance of adequate cash and sources of cash to fund operations and to meet the needs of borrowers, depositors and creditors. Excess liquidity has a negative impact on earnings as a result of the lower yields on short-term assets.

Cash and cash equivalents were $76.7 million as of March 31, 2010 compared to $34.4 million at December 31, 2009. The increase in cash and cash equivalents is mainly attributable to an increase in federal funds sold resulting primarily from an increase in the Company's short term deposits. In addition to cash and cash equivalents, the securities portfolio provides an important source of liquidity. Securities available for sale totaled $191.1 million at March 31, 2010 compared to $168.4 million at December 31, 2009. The available for sale securities are available to meet liquidity needs on a continuing basis. The Company expects the customers' deposits to be adequate to meet its funding demands.

Generally, the Company relies upon net cash inflows from financing activities, supplemented by net cash inflows from operating activities, to provide cash used in its investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering and the use of short-term borrowings, such as federal funds purchased and securities sold under repurchase agreements along with long-term debt. The Company's primary investing activities include purchasing investment securities and loan originations.

For the first three months of 2010, deposits have increased $69 million. With loan demand being slow, we have been able to increase our investment portfolio by $23 million and our fed funds sold position by $39 million. And to a lesser degree, we have paid down and will continue to pay down maturing FHLB advances.

Management is aware of the challenge of funding sustained loan growth. Therefore, in addition to deposits, other sources of funds, such as Federal Home Loan Bank (FHLB) advances, may be used. The Company relies on FHLB advances for both liquidity and asset/liability management purposes. These advances are used primarily to fund long-term fixed rate residential mortgage loans. As of March 31, 2010, we have sufficient collateral to borrow an additional $57 million from the FHLB. In addition, as of March 31, 2010, over $33 million is available in overnight borrowing through various correspondent banks. In light of this, management believes there is sufficient liquidity to meet all reasonable borrower, depositor and creditor needs in the present economic environment.

Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of March 31, 2010 and December 31, 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
March 31, 2010						
Consolidated						
Total Capital (to Risk-Weighted Assets)	$ 58,938	12.3%	$ 38,325	8%	$ 47,906	N/A
Tier I Capital (to Risk-Weighted Assets)	53,089	11.1	19,162	4	28,743	N/A

Tier I Capital (to Average Assets)	53,089	7.7	27,541	4	34,427	N/A
Bank Only						
Total Capital (to Risk-Weighted Assets)	$ 61,051	12.8%	$ 38,314	8%	$ 47,893	10%
Tier I Capital (to Risk-Weighted Assets)	55,202	11.5	19,157	4	28,736	6
Tier I Capital (to Average Assets)	55,202	8.0	27,531	4	34,414	5
December 31, 2009						
Consolidated						
Total Capital (to Risk-Weighted Assets)	$ 58,398	12.6%	$ 36,957	8%	$ 46,196	N/A
Tier I Capital (to Risk-Weighted Assets)	52,593	11.4	18,478	4	27,718	N/A
Tier I Capital (to Average Assets)	52,593	8.0	26,201	4	32,752	N/A
Bank Only						
Total Capital (to Risk-Weighted Assets)	$ 60,675	13.1%	$ 36,941	8%	$ 46,177	10%
Tier I Capital (to Risk-Weighted Assets)	54,869	11.9	18,471	4	27,706	6
Tier I Capital (to Average Assets)	54,869	8.4	26,200	4	32,750	5

Non-Performing Assets

As of March 31, 2010, the Company's non-performing assets totaled $21.3 million or 2.87% of assets compared to $19.1 million or 2.83% of assets at December 31, 2009. (See table below) The Company experienced an increase of $3.4 million in non-accrual loans from December 31, 2009 to March 31, 2010, largely due to an increase in non-accrual loans secured by real estate of $3.4 million. As of March 31, 2010, non-accrual loans include $3.0 million in loans secured by 1-4 family residential real estate, $4.2 million in real estate construction and $6.4 million in loans secured by non-farm non-residential properties. Real estate loans composed 99% of the non-performing loans as of March 31, 2010 and 98% as of December 31, 2009. Forgone interest income on the non-accrual loans was $253 thousand for the first three months of 2010 compared to $205 thousand for the same time period in 2009. Accruing loans that are contractually 90 days or more past due as of March 31, 2010 totaled $121 thousand compared to $2.5 million at December 31, 2009, a decrease of $2.4 million. The total nonperforming loans increased $965 thousand from December 31, 2009 to March 31, 2010, resulting in a slight increase in the ratio of nonperforming loans to loans of 26 basis points to 3.68%. In addition, the amount the Company has booked as "Other Real Estate" has increased $1.2 million from December 31, 2009 to March 31, 2010. As of March 31, 2010 the amount booked as "Other Real Estate" totaled $5.7 million compared to $4.5 million at December 31, 2009. The increase is largely attributed to one loan customer who specialized in commercial & land development properties that totaled $1.2 million. The allowance as a percentage of non-performing and restructured loans decreased slightly from 40% at December 31, 2009 to 37% at March 31, 2010.

Nonperforming Assets

	3/31/10	12/31/09
	(in thousands)	
Non-accrual Loans	$ 15,408	$ 12,038
Accruing Loans which are Contractually past due 90 days or more	121	2,526
Total Nonperforming and Restructured Loans	15,529	14,564
Other Real Estate	5,739	4,542
Total Nonperforming and Restructured Loans and Other Real Estate	$ 21,268	$ 19,106
Nonperforming and Restructured Loans as a Percentage of Loans	3.68%	3.42%

Nonperforming and Restructured Loans and Other Real Estate as a Percentage of Total Assets	2.87%	2.83%
Allowance as a Percentage of Period-end Loans	1.36%	1.79%
Allowance as a Percentage of Non-performing and Restructured Loans	37%	40%

The Company maintains a "watch list" of agricultural, commercial, real estate mortgage, and real estate construction loans and reviews those loans on a regular basis. Generally, assets are designated as "watch list" loans to ensure more frequent monitoring. If it is determined that there is serious doubt as to performance in accordance with original terms of the contract, then the loan is generally downgraded and often placed on non-accrual status. We review and evaluate nonaccrual loans, past due loans, and loans graded substandard or worse on a regular basis to determine if specific allocations are needed.

Provision for Loan Losses

The loan loss provision for the first three months was $450 thousand for 2010 and 2009. Management evaluates the loan portfolio by reviewing the historical loss rate for each respective loan type and assigns risk multiples to certain categories to account for qualitative factors including current economic conditions. The average loss rates are reviewed in the analysis, as well as comparisons to peer group loss rates. Management makes allocations within the allowance for loan losses for specifically classified loans regardless of loan amount, collateral or loan type. Loan categories are evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each of those types. As this analysis, or any similar analysis, is an imprecise measure of loss, the allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

Net charge-offs for the three month period ended March 31, 2010 were $2.3 million compared to net recoveries of $84 thousand for the same period in 2009. Based on our internal loan review as of December 31, 2009, an addition of $1.8 million was made to the allowance for loan losses in the fourth quarter of 2009. Many of the charge-off loans recorded in the first quarter of 2010 were directly related to the additional provision in the fourth quarter of 2009. Future levels of charge-offs will be determined by the particular facts and circumstances surrounding individual loans. Based on the above information, Management believes the current loan loss allowance is sufficient to meet probable incurred loan losses.

Loan Losses

	Three Months Ended March 31, 2010 (in thousands)	
	2010	2009
Balance at Beginning of Period	$ 7,600	$ 5,465
Amounts Charged-off:		
Commercial	19	-
Real Estate Construction	547	3
Real Estate Mortgage	1,713	48
Agricultural	74	6
Consumer	236	271
Total Charged-off Loans	2,589	328
Recoveries on Amounts Previously Charged-off:		
Commercial	43	-

Real Estate Mortgage	103	235
Agricultural	8	-
Consumer	148	177
Total Recoveries	302	412
Net Charge-offs	2,287	(84)
Provision for Loan Losses	450	450
Balance at End of Period	$ 5,763	$ 5,999
Loans		
Average	$ 423,164	$ 418,712
At March 31	422,270	415,638
As a Percentage of Average Loans:		
Net Charge-offs	0.54%	-0.02%
Provision for Loan Losses	0.11%	0.11%
Allowance as a Multiple of Net Charge-offs	0.6	(17.9)

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability management control is designed to ensure safety and soundness, maintain liquidity and regulatory capital standards, and achieve acceptable net interest income. Management considers interest rate risk to be the most significant market risk. The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee. Interest rate risk is the potential of 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 loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk, while at the same time, maximize income.

Management realizes certain risks are inherent and that the goal is to identify and minimize the risks. The primary tools used by management are interest rate shock and economic value of equity (EVE) simulations. The Company has no market risk sensitive instruments held for trading purposes.

Using interest rate shock simulations, the following table depicts the change in net interest income resulting from 100 and 300 basis point changes in rates on the Company's interest earning assets and interest bearing liabilities. The projections are based on balance sheet growth assumptions and repricing opportunities for new, maturing and adjustable rate amounts. As of March 31, 2010, the projected percentage changes are within the Board approved limits except when assuming rates declining 100 basis points. Although management does analyze and monitor the projected percentage change in a declining interest rate environment, due to the current rate environment many of the current deposit rates cannot decline an additional 100 basis points. Therefore, management places more emphasis in the rising rate environment scenarios. This period's volatility is higher in each rate shock simulation both in a falling and rising rate environment when compared to the same period a year ago. The projected net interest income report summarizing the Company's interest rate sensitivity as of March 31, 2010 is as follows:

PROJECTED NET INTEREST INCOME
(dollars in thousands)

Change in basis points:	- 300	- 100	Level Rates	+ 100	+ 300
Year One (4/10 - 3/11)					
Net interest income	$22,644	$23,402	$23,808	$24,334	$24,795
Net interest income dollar change	(1,164)	(406)	N/A	526	987
Net interest income percentage change	-4.9%	-1.7%	N/A	2.2%	4.1%

Board approved limit	>-10.0%	>-4.0%	N/A	>-4.0%	>-10.0%

The projected net interest income report summarizing the Company's interest rate sensitivity as March 31, 2009 is as follows:

PROJECTED NET INTEREST INCOME
(dollars in thousands)

Change in basis points:	- 300	- 100	Level Rates	+ 100	+ 300
Year One (4/09 - 3/10)					
Net interest income	$20,351	$21,431	$22,359	$22,901	$23,364
Net interest income dollar change	(2,008)	(928)	N/A	542	1,005
Net interest income percentage change	-8.9%	-4.1%	N/A	2.4%	4.5%
Board approved limit	>-10.0%	>-4.0%	N/A	>-4.0%	>-10.0%

Projections from March 31, 2010, year one reflected a decline in net interest income of 1.7% with a 100 basis point decline compared to the 4.1% decline in 2009. The 100 basis point increase in rates reflected a 2.2% increase in net interest income in 2010 compared to 2.4% in 2009.

EVE applies discounting techniques to future cash flows to determine the present value of assets, liabilities, and therefore equity. Based on applying these techniques to the March 31, 2010 balance sheet, a 100 basis point increase in rates results in an 8.6% decrease in EVE. A 100 basis point decrease in rates results in a 2.2% decrease in EVE. These are within the Board approved limits.

Item 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

The Company also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on this evaluation, there has been no such change during the quarter covered by this report.

Part II - Other Information

Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes in risk factors, as previously disclosed in the December 31, 2009 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans Or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans of Programs
1/1/10 - 1/31/10	-	$ -	-	32,199 shares
2/1/10 - 2/28/10	-	-	-	32,199 shares
3/1/10 - 3/31/10	-	-	-	32,199 shares
Total	-	-	-	32,199 shares

On October 25, 2000, the Company announced that its Board of Directors approved a stock repurchase program and authorized the Company to purchase up to 100,000 shares of its outstanding common stock. On November 11, 2002, the Board of Directors approved and authorized the Company's repurchase of an additional 100,000 shares. On May 20, 2008, the Board of Directors approved and authorized the Company to purchase an additional 100,000 shares. Shares will be purchased from time to time in the open market depending on market prices and other considerations. Through March 31, 2010, 267,801 shares have been purchased.

Item 4. (Removed and Reserved)

Item 6. Exhibits

31.1 Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENTUCKY BANCSHARES, INC.

Date ______5/14/10________ __/s/Louis Prichard________________
Louis Prichard, President and C.E.O.

Date ______5/14/10________ __/s/Gregory J. Dawson____________
Gregory J. Dawson, Chief Financial Officer

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