

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
Kentucky Bancshares, Inc.		61-0993464	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
Gregory J Dawson, CFO	859-987-1795	greg.dawson@kybank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and Zip code of contact	
PO Box 157		Paris, KY 40362-0157	
8 Date of action		9 Classification and description	
7/24/2015		Common Stock	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
491203105		KTYB	

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ On July 24, 2015, Kentucky Bancshares, Inc. acquired Madison Financial Corporation in a tax-free reorganization under section 368(a) of the Internal Revenue Code. In the share exchange, each share of Madison Financial Corporation common stock was exchanged for 1.1927 shares of Kentucky Bancshares, Inc. This exchange will not give rise to gain or loss to the shareholders of Madison Financial Corporation with respect to such exchange (except to the extent of any cash received instead of a fractional share of Kentucky Bancshares, Inc. common stock). A Madison Financial Corporation shareholder who receives cash instead of a fractional share of Kentucky Bancshares, Inc common stock will recognize gain or loss as if such fractional share of Kentucky Bancshares, Inc. common stock was distributed as part of the share exchange and then redeemed by Kentucky Bancshares, Inc. subject to the provisions and limitations of Section 302 of the Code

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ The aggregate tax basis of the Kentucky Bancshares, Inc. common stock received by the Madison Financial Corporation shareholders is generally equal to the basis in the Madison Financial Corporation stock surrendered in the exchange for the Kentucky Bancshares, Inc. common stock. The actual tax basis will differ for each shareholder.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ see response #15 above

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►
The transaction will be treated as a reorganization qualifying under the provisions of Section 368(a) of the Code.
The federal income tax consequences to the Madison Financial Corporation shareholders are determined
under code section 302, 354, 356, 358, 1001 and the Treasury regulations thereunder.

18 Can any resulting loss be recognized? ►
A Madison Financial Corporation shareholder who exchanged Madison Financial Corporatoin common stock solely for
Kentucky Bancshares, Inc. common stock will not recognize any loss on the transaction. Any loss on the receipt of cash
in lieu of fractional shares of Kentucky Bancshares, Inc. common stock may be recognized.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ►
The reportable event occurred on 07/24/2015 and is reportable in the shareholder tax year that includes that date.
Each shareholder should consult their own tax advisor as to the determination of gain or loss and allocation
of basis to any Kentucky Bancshares, Inc. common stock received.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ► *Gregory J Dawson* Date ► 9/3/15

Print your name ► Gregory J Dawson Title ► CFO

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ►				Firm's EIN ►
	Firm's address ►				Phone no.