

ANNUAL REPORT
2020

Recognizing what's
Really Important.

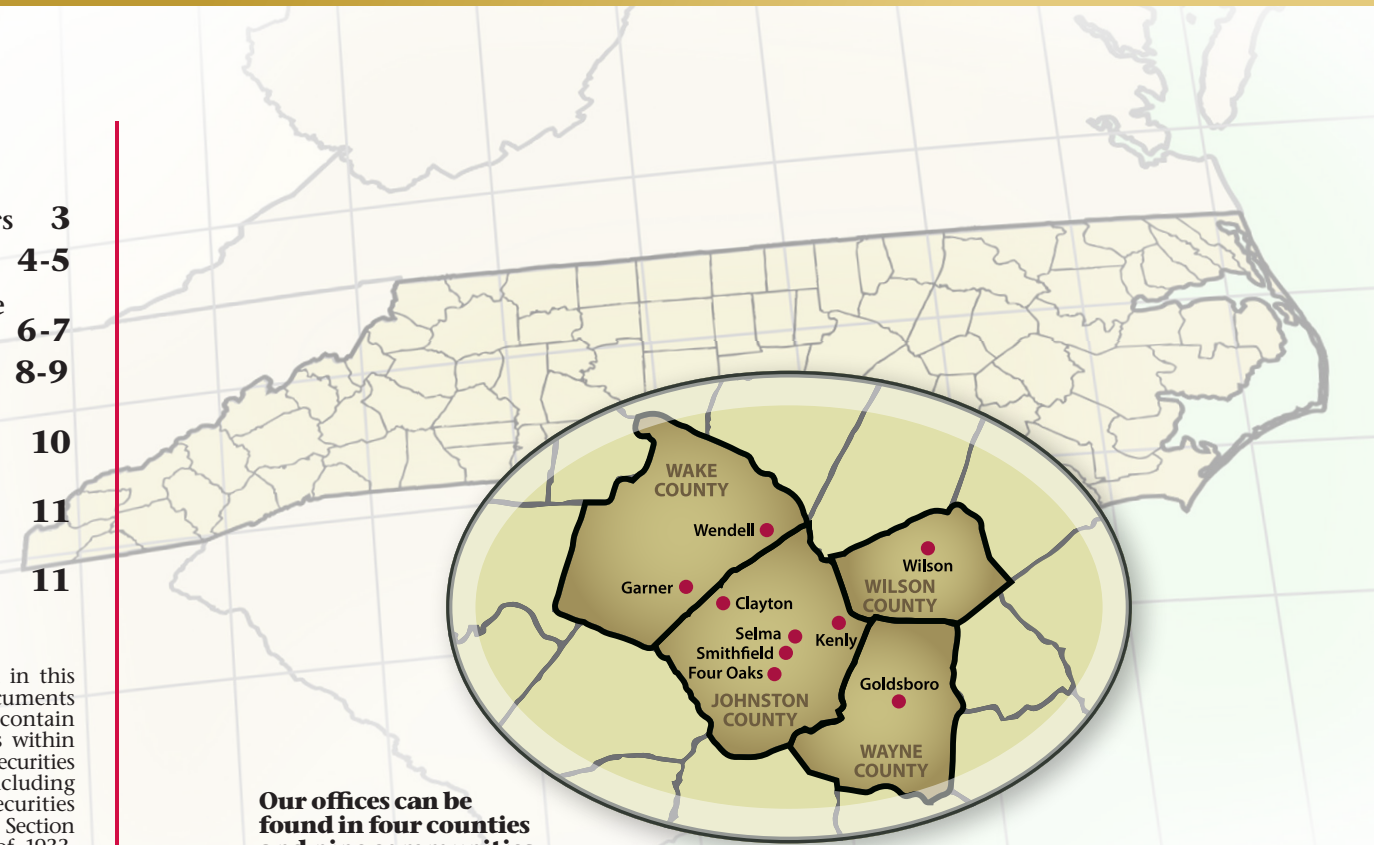


Recognizing what's Really Important.

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The discussions included in this document and the documents referenced herein may contain forward looking statements within the meaning of the Private Securities Litigation Act of 1995, including Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. For the purposes of these discussions, any statements that are not statements of historical fact may be deemed to be forward looking statements. Such statements are often characterized by the use of qualifying words such as “expects,” “anticipates,” “believes,” “estimates,” “plans,” “projects,” or other statements concerning opinions or judgments of the Company and its management about future events. The accuracy of such forward looking statements could be affected by such factors as, including but not limited to, the financial success or changing conditions or strategies of the Company’s customers, fluctuations in interest rates, competitive product and pricing pressures within our markets, technological changes, changes in law and regulations, changes in fiscal, monetary, regulatory and tax policies, monetary fluctuations, actions of government regulators, the availability of capital and personnel and/or general economic or other conditions. You should not place undue reliance on forward looking statements. We undertake no obligation to revise or update these statements following the date of this report.



Our offices can be found in four counties and nine communities.

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$486 million in assets as of December 31, 2020. KS Bank, Inc., a state-chartered savings bank, is KS Bancorp’s sole subsidiary.

The Bank conducts its operations through nine full service branch offices that are located in Kenly, Goldsboro, Wilson, Garner, Selma, Clayton, Wendell, Four Oaks and Smithfield, North Carolina. There are 83 employees at the time of this writing.

The Company emphasizes being a community-oriented financial institution and offers a broad range of personal and business banking products and services, mortgage products and wealth management. KS Personal Services offers a complete suite of deposit and loan products that are tailored to specific needs, while KS Business Services includes not only

deposit and loan products but also payroll services, merchant card services, cash management and remote deposit.

KS Mortgage Services offers competitive mortgage products through a responsive team of mortgage specialists. Finally, KS Trust offers a broad array of services to help clients manage, protect and build upon their financial resources. KS Trust offers a complete line of trust services, such as investment management, IRAs, trust administration, estate planning, charitable giving, business succession, and risk management. Currently, the Company’s stock is traded on the over-the counter bulletin board (www.otcbb.com) and the Pink Sheets (www.pinksheets.com) under the symbol “KSBI.” KS Bancorp had 1,107,776 shares of common stock, which were held by approximately 318 shareholders of record, as of December 31, 2020.



Dear Fellow Shareholders,

For the year ended December 31, 2020, KS Bancorp, Inc. reported net income of \$4.4 million, or \$3.95 per diluted share, an increase in per share earnings of 20%. Dividends paid from earnings were \$.40 per share, compared to \$.34 per share paid in 2019, an increase of 17%.

The statements of financial condition include a temporary increase of \$29 million in Payroll Protection Plan (PPP) loans. Without the PPP loans, assets would have increased to \$457 million, an increase of \$53.5 million, or 13.25% from year end 2019. Likewise, net loans would have been \$340 million, an increase of \$32.2 million or 10.45% from year end 2019. Deposits increased \$75.6 million, or 23% from year end 2019. During 2020, KS Bank met or exceeded projected growth and profit goals without the increases from the PPP loans. To support our business customers the Bank made 340 PPP loans totaling \$29.3 million and helped those employers retain 4,020 jobs. It was a challenging task for our lenders and support teams, but one they took great pride in accomplishing.

The year 2020 will be remembered as the year of COVID-19 and the many ways in which it altered our business and personal lives. KS Bank reacted quickly to separate members of support teams, some working remote from their homes, and others spread among different bank offices. We learned that a virtual meeting is almost the same as face-to-face, whether it is with other employees or customers. Our productivity has increased without the travel time of past years. Throughout 2020, and now into 2021, our focus has been on the safety of bank team members and customers. As we write this in February 2021, we have experienced limited exposure that prevented team members from their normal work assignments.

“Trying times” has a way of confirming who each of us really is and the value we bring each day as we strive to meet the banking needs of businesses and individuals within our areas served. This past year has reaffirmed the value of community banking. Many of our customers have expressed how valuable it has been to have KS Bank on their team during this stressful time.

Our vision continues to be that “Every customer will refer a new customer.” We thank each of you for being a part of helping to make that a reality.

Respectfully,

Harold T. Keen
President/Chief Executive Officer

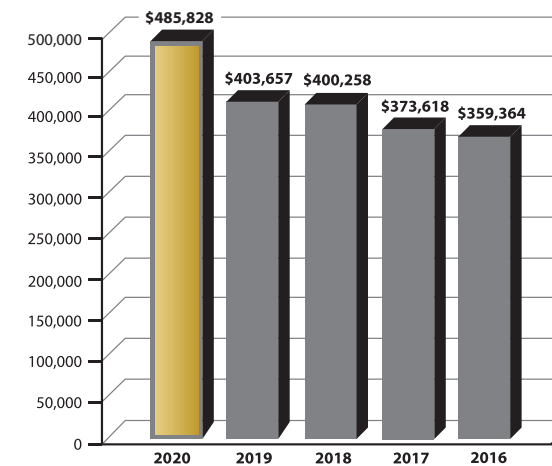
James C. Parker
Chairman of the Board

KS Bancorp, Inc. and Subsidiary

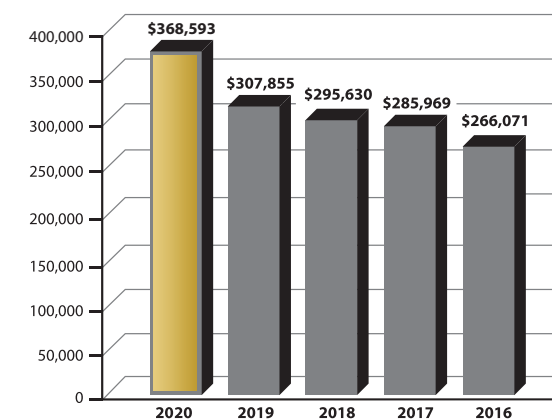
Selected Financial Data

	2020	2019	2018	2017	2016
	(In Thousands, Except Per Share Amounts)				
Financial Condition Data:					
Total assets	\$485,828	\$403,657	\$ 400,258	\$373,618	\$359,364
Investments (1)	71,714	78,330	89,020	71,416	76,843
Loans receivable, net	368,593	307,855	295,630	285,969	266,071
Deposits	402,523	326,919	330,423	296,574	285,755
FHLB advances/other borrowings	47,248	46,248	44,255	47,351	46,037
Stockholders' equity	32,021	26,827	22,125	26,303	24,391
Book value per common share	28.91	24.22	19.97	20.09	18.63
Operating Data:					
Interest income	\$18,997	\$17,665	\$ 16,493	\$15,278	\$14,014
Interest expense	3,588	4,726	3,886	3,031	2,789
Net interest income	15,409	12,939	12,607	12,247	11,225
Provision (recovery) for loan losses	561	25	-	(227)	5
Noninterest income	2,617	2,825	2,874	2,789	2,782
Noninterest expense	11,878	11,112	10,992	11,010	10,722
Income before income taxes	5,587	4,627	4,489	4,253	3,280
Income tax (benefit) expense	1,216	985	947	2,194	1,171
Net Income available to common stockholders	<u>\$4,371</u>	<u>\$3,642</u>	<u>\$ 3,542</u>	<u>\$2,059</u>	<u>\$2,109</u>
Selected Other Data:					
Basic earnings per share	\$3.95	\$3.29	\$3.00	\$1.57	\$1.61
Diluted earnings per share	\$3.95	\$3.29	\$3.00	\$1.57	\$1.61
Dividends per common share	\$0.40	\$0.34	\$0.28	\$0.12	\$0.08
Return on average assets	0.94%	0.91%	0.92%	0.56%	0.60%
Return on average equity	14.49%	14.41%	16.12%	7.93%	8.64%
Avg equity to average assets	6.49%	6.31%	5.68%	7.01%	6.93%
Total risk based capital	13.81%	14.03%	13.93%	14.02%	14.02%

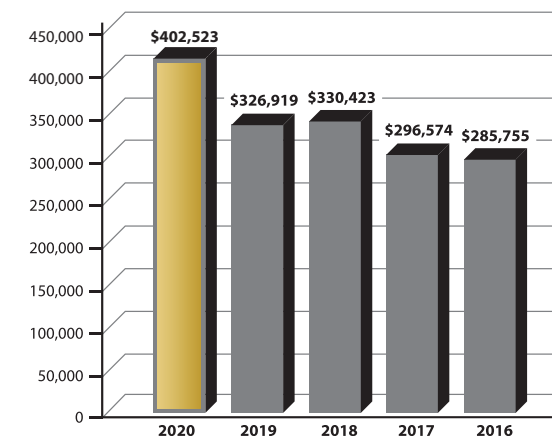
(1) Includes interest-earning deposits, time deposits, investment securities, and Federal Home Loan Bank stock.



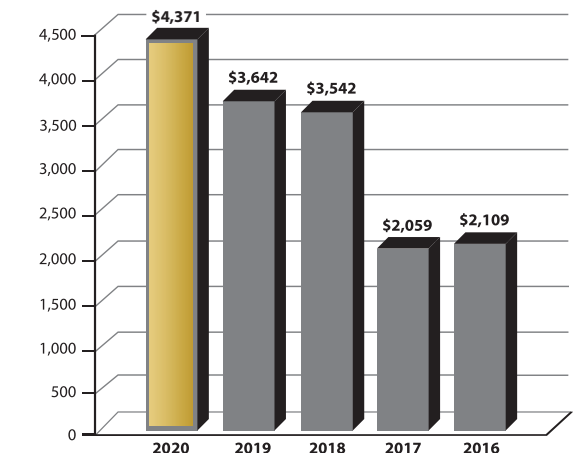
Total Assets



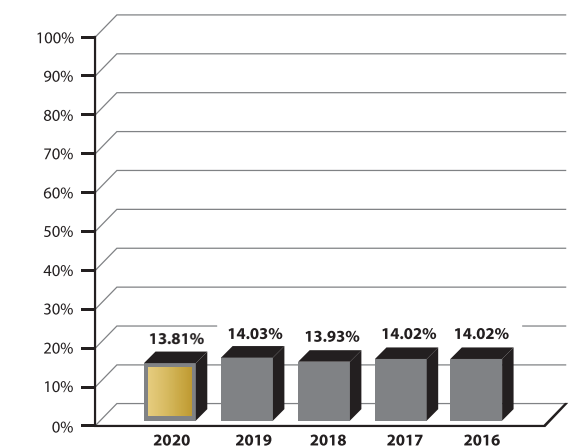
Loans Receivable, Net



Deposits



Net Income Available To Common Stockholders



Total Risk Based Capital

Board of Directors and Executive Management



James C. Parker
Board of Directors
Chairman



Gordon C. Woodruff
Board of Directors
Vice-Chairman



Harold T. Keen
President/CEO
Board of Directors and
Executive Management



Earl W. Worley, Jr.
Chief Operating Officer
Board of Directors and
Executive Management



John A. Parker
Executive Management
Chief Credit Officer



Regina J. Smith
Executive Management
Chief Financial Officer



R. Edward Scott, Jr.
Board of Directors



Lisa H. Brogdon
Board of Directors



Sidney E. Sauls
Board of Directors



April S. Culver
Board of Directors



B. Kenneth Jones II
Board of Directors



H. Geoffrey Kokiko
Executive Management
Chief Banking Officer



Roger K. Thomas
Executive Management
Chief Wealth Officer

OUR RETIREES

KS Bank thanks these three ladies for the significant contributions each one made to KS Bank during their tenures. With a combined total of sixty-three years with KS Bank, Joy, Michele, and Marilyn will be missed. We greatly appreciate their tireless dedication to KS Bank and their unwavering belief in the importance of community banking!



Joy B. Watson joined KS Bank in December of 1992 and retired in June 2020. Joy worked for the bank beginning as Administrative Assistant to the President/CEO and ultimately becoming the bank's Human Resources Generalist and Corporate Secretary. Before pursuing her career with KS Bank, Joy worked with the Department of Social

Services in Wilson, NC and with Bristol-Myers Squibb in Kenly, NC.

Joy was a part of two name changes as well as the opening of six retail locations of which she was an integral part of opening each branch. Joy said, "One of the most significant changes I experienced with the bank was the transition from a savings & loan organization to Kenly Savings Bank with the addition of checking accounts to the bank's products. I appreciate the opportunity to work and grow alongside the bank. We have come a long way from a savings & loan to a full service community bank."

Since her retirement in June, Joy has enjoyed time with her family and additional time at her vacation home near Oriental, NC. She enjoys fishing and traveling and plans to do more of both during her retirement.



Michele M. Grady joined KS Bank in 1997 as the first Marketing Director. After graduating from NC State with a Textile Technology Degree, Michele worked for Burlington Industries as a Product Development Specialist. She also worked for L'eggs, Hanes, Bali in their Direct Marketing Division after receiving her Masters in

Business Administration (MBA) from Wake Forest University.

"Becoming the bank's first marketing director and growing this vital position has been an awesome experience for me," said Michele. "While marketing principles have remained the same throughout the years, the methods of communicating with target audiences have certainly changed with the advent of the internet and social media. Community banks are such an important part of the banking industry and my hope is that KS Bank continues to operate as a locally owned and operated community bank, filling that niche for our friends, family and neighbors," continued Michele.

Michele plans to fill her retirement by spending a lot of time with her family, especially her grandchildren. In addition, she plans to travel both domestically and abroad in addition to spending more time at her vacation home in Oak Island, NC. After completing her first retirement project of organizing a massive number of old photos in albums, she plans to pursue some creative interests such as stained glass design.



Marilyn W. Logan joined KS Bank in February 2007. She has held the positions of Internal Auditor/ Manager, Compliance Officer and Identity Theft Officer during her thirteen plus years with the bank. After working with Centura Insurance Services in an insurance audit role, and while working with Herring-Sutton & Associates in

Wilson as bookkeeper/secretary, Marilyn completed a Bachelor's Degree in Applied Science with a concentration in Accounting from Barton College. Even though she is retiring from the bank, Marilyn, a lifelong learner, is not retiring from professional pursuits! She still plans to pursue and obtain the Institute of Internal Auditors Certified Internal Auditor (CIA) designation.

When asked about significant changes she has seen during her tenure with KS Bank, Marilyn said, "I've seen the bank grow from \$235 Million to over \$400 Million in assets, while reducing staff by 20%. I have witnessed first-hand the effects of the 2008 recession, and the implementation of the Dodd-Frank Act that imposed greater emphasis on consumer protection. I've also seen other banks fail and taken over by regulatory agencies, while their employees stood by in dismay and unemployed."

"KS Bank has created the best working experience for me, and I wish I had been fortunate enough to have joined such a wonderful organization early in life," continued Marilyn. As far as her personal goals during retirement, Marilyn plans to spend time with family and revisit her passion of writing and composing gospel music.

Meet Our New Managers

Lee Byrd

Lee Byrd was appointed Internal Auditor, VP in August. Lee will develop, implement and ensure the successful completion of the bank's annual audit plan. She will conduct reviews of specific areas within the bank to assess the various functions and controls, while assuring assets are properly safeguarded. Byrd will ensure KS Bank's practices follow all applicable Federal and State regulations.



Lee has 10 years of audit experience training, leading and managing teams to complete complex operational, business and compliance audits. Most recently, Byrd served as audit manager for Langdon & Company, LLP. She is a certified public accountant (CPA), earned a Master of Accounting degree and a Bachelor of Science degree in Business Management with a concentration in finance from North Carolina State University.

"I have been a part of the KS Bank family as a customer for over 16 years and I am thankful for the opportunity to continue my audit career with this outstanding organization." Byrd lives in Four Oaks with her husband and two children. She stays active in the Junior Women's League of Smithfield and serves on the Official Board at Hickory Grove Advent Christian Church.

Lisa Markowski

Lisa Markowski joined the KS Bank team in December as Marketing Manager, VP. Lisa is responsible for leading the corporate marketing efforts, accelerating KS Bank's community brand awareness, promoting our products and services, and managing key marketing campaigns.



Lisa brings over 20 years of experience in the marketing industry. Throughout her career, she has focused on the development, implementation and management of comprehensive marketing campaigns which integrate content creation, community and public relations, social media, and more. She is an experienced graphic design artist and has a proven track record of managing online and offline marketing campaigns from inception to completion.

Markowski is a graduate of Clarion University where she majored in Communications with a minor in Information Systems. Lisa, along with her husband and their three children, live in Clayton.

Employee Spotlight



Three Employees Complete Banking Professional Certification

KS Bank proudly announces that three employees have successfully completed the Accredited Banking Professional Certification from the Institute for Extraordinary Banking. From left to right, Rena Wall, Hannah Giddens, and Melissa Kennedy received this Banking Professional designation by completing a rigorous program that teaches participants to be "elite" bankers with the acumen to speak the language of the affluent and businesses.

Twelve core competencies are the cornerstone of the program and participants have to demonstrate both written and oral mastery of all twelve to receive the certification. Roxanne Emmerich, CEO of The Emmerich Group, has dedicated her career to transforming the performance of community banks and she is the driving force behind this training.

We thank all three of these ladies for their dedication and perseverance in accomplishing this goal. KS Bank customers will benefit from their knowledge and experience gained from completing this certification.

KS Bank Impacts Over 4,000 Jobs with Paycheck Protection Loans

KS Bank assisted 327 business customers with funds from the SBA Paycheck Protection Program (PPP). Thirteen KS Bank employees worked diligently to meet the demands of applying for these loans so customers could receive the funds for their employees. As a result, 4,020 jobs were impacted. Approximately \$30 million in PPP funding was received by our business customers which funded an average of 12.29 jobs per loan.

What Our Customers Are Saying...

“I can’t adequately express the overwhelming emotions I experienced when I was told that we were approved for the PPP loan!”

“I literally was planning to let my employees know that very day that I couldn’t keep the restaurant open any longer. The staff at KS Bank has always been there when I needed them and this time was no exception. They are great people who really invest themselves in their customers. They were as overcome with emotion as I was that day.”

Nicholas Hodges, Owner
Boulevard Pizza
Wendell, NC



“Without the exceptional assistance of KS Bank and their staff, CEA would have never been able to secure funding through the PPP Program.”

“Not only did they make the process easy to understand, they stood by our side through the entire process from initial application all the way through final funding. I have been totally surprised when reading stories detailing the difficulties and challenges that other companies have had in getting the funding, especially when compared to the ease that we had using KS Bank.”

Steve Yauch, President
Carolina Electric Assemblers
Smithfield, NC



“It’s pretty simple from my view - without the PPP loan, Double Barley Brewing would not have survived and without KS Bank, we almost certainly would not have received the loan!”

“We have been so happy moving to KS Bank from our previous bank and hadn’t even completed the transition when Kelly Aycoc, Commercial Relationship Manager, started helping us apply and get the loan in place. Thanks to everyone who helped make this happen for us!”

Larry Lane Owner/Brewer
Double Barley Brewing
Clayton, NC



Community banks have always maintained an outstanding record of service to the small businesses on Main Street nationwide. PPP (loans) merely provided another opportunity to demonstrate their capabilities and commitment. They served nearly 50 percent of all small businesses, provided more than 60 percent of PPP loans to underrepresented small-business owners, saved more than 16.5 million jobs in sectors disproportionately affected by the coronavirus pandemic, (and) decreased time to cover small business payrolls by five to ten days...” Independent Community Bankers of America (ICBA), July 22, 2020.

Community Involvement



My Kids Club Contribution



Mask Donations to Local Elementary School Children



Breakfast Before Business Sponsor with Johnston County Partnership for Children and Johnston Community College



Back To School Supply Drive for Local Schools

Corporate Information

CORPORATE OFFICE

1031 N Brightleaf Blvd
Smithfield, NC 27577
919.938.3101
919.938.2681 (Fax)
www.ksbankinc.com

ANNUAL REPORT

A copy of KS Bancorp’s Annual Report can be furnished without a charge by writing to:

Regina J. Smith, CFO/EVP
KS Bank, Inc.
P.O. Box 661
Smithfield, NC 27577

COMMON STOCK

The Company had 1,107,776 shares of Common Stock outstanding, which were held by approximately 318 shareholders of record (excluding shares held in street name), as of December 31, 2020. The Common Stock was listed for quotation on the OTC Bulletin Board and the “Pink Sheets” at www.pinksheets.com and trades under the symbol KSBI.

STOCK TRANSFER AGENT

Shareholders needing information on transfer or lost certificate requirement should contact:

Issuer Direct Corporation
One Glenwood Avenue
Suite 1001
Raleigh, NC 27603
919.481.4000

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 2020

Dixon Hughes Goodman, LLC
1003 Red Banks Rd
P.O. Drawer 20157
Greenville, NC 27858

SPECIAL LEGAL COUNSEL

Brooks, Pierce, McLendon,
Humphrey & Leonard, LLP
P.O. Box 26000
Greensboro, NC 27420

EQUAL OPPORTUNITY EMPLOYER

KS Bank, Inc. is an Equal Opportunity Employer. All matters regarding recruitment, hiring, training, compensation, benefits and personnel policies will remain free from all discriminatory practices.

PHOTOGRAPHY

Tracy McKinley
Smithfield, NC

GRAPHIC DESIGN & LAYOUT

CHO Design Studios
Clint Overby
Four Oaks, NC





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www.ksbankinc.com

