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KS Bancorp, Inc. (KSBI – OTC BB)

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John A. (Buddy) Howard, CFA
July 19, 2018

Price:	$27.30	**EPS***	**2016A:**	$1.61	**P/E**	**2016A:**	17.0 x
52 Wk. Range:	$23.85 - $34.00	(FY: DEC)	**2017A:**	$2.17 *		**2017A:**	12.6 x
Div/Div Yld:	$0.17 / 0.62%		**2018E:**	$2.70		**2018E:**	10.1 x
Shrs/Mkt Cap:	1.1 mm / $30 mm	**Book Value:**		$17.84	**Price/Book Value:**		1.53 x

* EPS are diluted. 2017 EPS exclude deferred tax asset expense of $0.78 per share.

SYMBOL: KSBI

TOTAL ASSETS: $381 MM

HQ: SMITHFIELD, NC

CONTACT:
HAROLD T. KEEN, PRES.
EARL W. WORLEY, JR., COO
REGINA J. SMITH, CFO
(919) 938-3101

2ND QUARTER HIGHLIGHTS:

SECOND QUARTER EARNINGS INCREASED 33%

EPS: $0.71 VS. $0.51

NET INTEREST INCOME INCREASED 4%

NONINTEREST INCOME SURGED 25% DUE TO SBA RELATED INCOME AND A ONE-TIME INCENTIVE PAYMENT

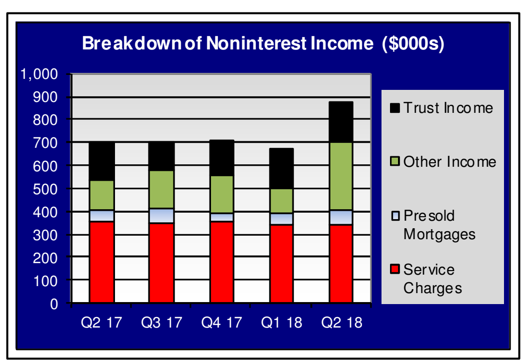
Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately $381 million in assets as of June 30, 2018. 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, as well as a mortgage origination office in Greenville, NC. 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 trust services. 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 (through Flex Pay), merchant card services, cash management and remote deposit. KS Mortgage Services offers competitive mortgage products through a responsive team of mortgage specialists. Finally, the Company has a Trust Services Division, through which it offers a complete line of trust services, such as money management, IRAs, trust administration and estate administration. The Company also helps clients manage, protect and build upon their financial resources through college savings programs, lifetime charitable giving, investments, business succession planning, insurance and risk management. The Company's stock is traded on the over-the-counter bulletin board under the symbol "KSBI."

Second Quarter Results Reflected Strong Earnings Growth; Share Buyback Completed

KS Bancorp reported unusually strong earnings growth in the second quarter of 2018. While some of that growth came from an incentive for converting its debit cards to a different card vendor, profitability was still quite commendable even if we exclude that item. We were also encouraged that the Company sold its first SBA loan in the quarter (booking $50,000 in income in the quarter), which represents an area of potential incremental income going forward. Another major aspect of the quarter was that the Company completed a major stock buyback. This buyback leveraged the Company's capital base and should boost EPS and ROAE going forward. Finally, balance sheet growth was relatively modest, which we expect to persist in coming periods, and asset quality was excellent, with nonperforming assets remaining quite low.

In terms of specific results, net income increased 33% to $887,000, or $0.71 per diluted share, in 2018's second quarter, versus $668,000, or $0.51 per diluted share, in the year-ago quarter. This represents the highest level of profitability in several years, and in fact, the Company's quarterly profitability has not been higher in more than 15 years. Net interest income in 2018's second quarter was up 4% to $3,140,000 from $3,014,000 in the year-ago quarter, with most of that growth coming from higher



NONINTEREST EXPENSE WAS ONLY UP 6%

ANNUALIZED ROAE INCREASED TO 15.62%

average earning assets. Noninterest income was stronger, surging 25% to $882,000 in 2018's second quarter from $708,000 in the year-ago quarter. Included in 2018's second quarter noninterest income were the two previously mentioned items (the debit card incentive was clearly nonrecurring, although the Company expects to earn additional SBA-related income in the future). Excluding the $117,000 incentive, noninterest income was up 8%. Noninterest expense was up 6% to $2,893,000 in 2018's second quarter from $2,718,000 in the year-ago quarter. Annualized return on average equity was 15.62% in the second quarter of 2018, up from 10.51% in the year-ago quarter, while annualized return on average assets was 0.94% versus 0.73% for the same respective periods.

First Half Earnings Were Up 30%

1ST HALF HIGHLIGHTS:

EPS: $1.31 VS. $0.97

NONINTEREST INCOME AND EXPENSE WERE BOTH UP 5%

Earnings were likewise strong in the first half of 2018, as net income for the first six months of 2018 was $1,651,000, or $1.31 per diluted share, versus $1,271,000, or $0.97 per diluted share, in the year-ago period. Net interest income increased 5% to $6,207,000 in the first half of 2018 from $5,937,000 in the year-ago period, while noninterest income, excluding the debit card incentive and modest security losses, was up 5% to $1,443,000 from $1,380,000 over the same respective period. As was the case with the quarterly results, there was no provision for loan losses in either period. Noninterest expense was up 5% to $5,670,000 in 2018's first half, up from $5,422,000 in the year-ago period.

Balance Sheet Growth Has Been Good But Is Likely to Remain Fairly Modest Near Term

BALANCE SHEET GROWTH WAS GENERALLY IN THE MID-SINGLE DIGITS

KS BANCORP'S CONTROLLED BALANCE SHEET GROWTH AND HIGH ROAE SHOULD HELP TO SUSTAIN CAPITAL RATIOS

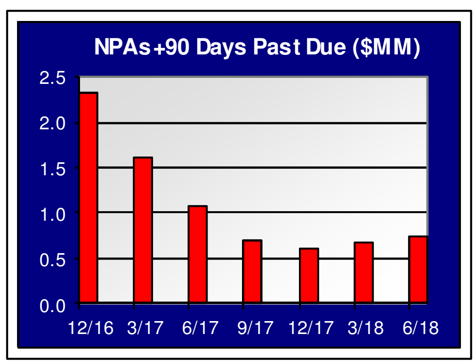
Recent balance sheet growth has been in the low single digits, and is likely to stay in that range, particularly given the Company's more highly leveraged capital structure. The good thing is that the Company still has an ample base of cash and securities (roughly $72 million, or 19% of assets), so if loan demand is strong, the Company can simply redeploy assets from investments without necessarily growing total footings. This would still allow margins to improve but would mitigate the impact of growth on the capital ratios. The other thing to keep in mind as it relates to this buyback and the implications for future growth concerns the equity "build up" rate. Assuming earnings remain high, as they have been so far this year, the capital ratios should build back up pretty nicely. After all, the Company only pays a modest cash dividend, so assuming earnings were $3.2 million or so next year, that would imply an ROAE of 16% or so. Assuming assets grow in the single digits, the high ROE should allow the equity-to-assets ratio (and probably most other capital ratios) to expand. In terms of specific recent balance growth rates, gross loans increased 5% from June 30, 2017 to June 30, 2018, while deposits were up 7% and assets grew 3%. Stockholders' equity at June 30, 2018 was $19.8 million, or 5.2% of total assets.

Asset Quality Remains Stable

NPAS-TO-ASSETS: 0.19% VS. 0.29% AT YEAR-AGO DATE

RESERVES-TO-LOANS: 1.37%

Asset quality has been relatively stable over the past few quarters but remains better than the year-ago level. Nonperforming assets totaled $735,000, or 0.19% of assets, at June 30, 2018, versus $669,000, or 0.18% of total assets, at March 31, 2018 and $1,072,000 or 0.29% of assets, at June 30, 2017. NPAs consisted solely of nonaccrual loans. The allowance for loan losses was $4.1 million, or 1.37% of total loans at June 30, 2018, versus $3.8 million, or 1.34% of total loans, as of June 30, 2017.



Projections

EPS:
2016A: $1.61
2017A: $2.17*
2018E: $2.70

*EXCLUDES $0.78 PER SHARE RELATED TO DEFERRED TAX ASSET EXPENSE

Based on the recent results, we are revising our 2018 earnings estimate to $3.2 million, or $2.70 per diluted share, versus $3.4 million, or $2.60 per share previously. These projections also reflect the lower number of shares outstanding, and could vary widely based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST