

AVAILABLE ON THE WEB AT [WWW.EQUITYRESEARCH.COM](http://www.equityresearch.com)

KS Bancorp, Inc. (KSBI – OTC BB)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph

www.equityresearch.com

John A. (Buddy) Howard, CFA
July 27, 2017

Price:	\$31.75	EPS*	2015A:	\$1.08	P/E	2015A:	29.4 x
52 Wk. Range:	\$14.00 - \$33.00	(FY: DEC)	2016A:	\$1.61		2016A:	19.7 x
Div/Div Yld:	\$0.08 / 0.3%		2017E:	\$1.80		2017E:	17.6 x
Shrs/Mkt Cap:	1.3 mm / \$42 mm	Book Value:		\$19.81	Price/Book Value:		1.60 x

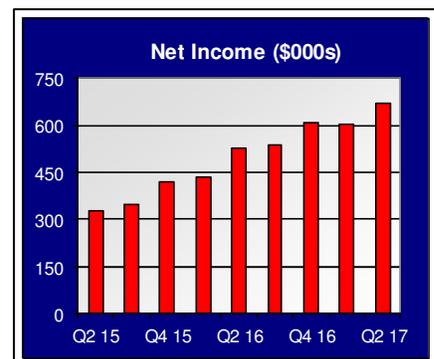
* EPS are diluted.

Background

KS Bancorp, Inc. is a Smithfield, North Carolina-based, single bank holding company with approximately \$369 million in assets as of June 30, 2017. 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 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 (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, KS Wealth Management Services offers a broad array of services to help clients manage, protect and build upon their financial resources. Selected wealth management services include investments, college savings programs, lifetime charitable giving, business succession planning, insurance and risk management. In addition, 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. Currently, the Company's stock is traded on the over-the-counter bulletin board under the symbol "KSBI."

Second Quarter Results Were Better Than Expected

KS Bancorp reported excellent results in the second quarter of 2017. Earnings were higher than the year-ago figures, as well as above our projections. Balance sheet growth was quite good, with solid increases in assets, loans and deposits. Asset quality also continued to improve, as nonperforming assets were at their lowest level in roughly ten years. As can be seen from the attached chart, the increase in earnings represents the continuation of an extended period of improving profitability in which quarterly earnings have more than doubled in the past four years.



In terms of specific results, net income for the second quarter of 2017 was \$668,000, or \$0.62 per diluted share, up from \$527,000, or \$0.40 per diluted share, in the year-ago quarter. We had only projected the Bank would earn \$0.42 per share, so the results were well above our expectations. Most of the earnings increase came from higher net interest income, which increased 9% to \$3,014,000 in the second quarter of 2017 from \$2,773,000 in the year-ago quarter. Margins have been holding relatively steady, so most of the net interest income growth came from higher average earning assets.

SYMBOL: KSBI

TOTAL ASSETS: \$369 MM

HQ: SMITHFIELD, NC

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

2ND QUARTER HIGHLIGHTS:

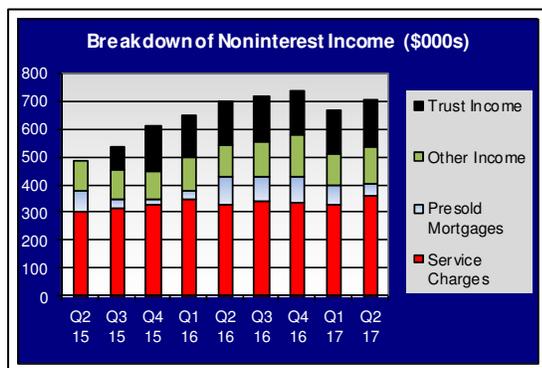
MOMENTUM REMAINS QUITE STRONG; EARNINGS CONTINUED THE ADVANCE BEGUN SEVERAL YEARS AGO

EPS: \$0.62 vs. \$0.40

NET INTEREST INCOME INCREASED 9%

NONINTEREST INCOME WAS STABLE, WHILE NONINTEREST EXPENSE ACTUALLY DECLINED SLIGHTLY

EXCLUDING OREO RELATED CHARGES, NONINTEREST EXPENSE DECLINED



Noninterest income was also fairly stable relative to the year-ago quarter at approximately \$700,000, with higher service charge and Trust income more than offsetting a decline in mortgage banking income. Noninterest expense was up 4% in 2017's second quarter to \$2,718,000 from \$2,622,000 in 2016's second quarter. We would note, however, that excluding OREO related expenses, noninterest expense would have actually *declined* about 2%, reflecting good ongoing cost containment efforts. There was no provision for loan losses in either quarter.

1ST HALF HIGHLIGHTS:

EPS: \$1.08 vs. \$0.73

ANNUALIZED ROAE: 10.1%

ANNUALIZED ROAA: 0.70%

Earnings for the First Half of 2017 Grew 32%

For the first six months of 2017, KS Bancorp had net income of \$1,271,000, or \$1.08 per diluted share, versus \$962,000, or \$0.73 per diluted share, in the year-ago period. Net interest income increased 8% to \$5,937,000 in the first half of 2017 from \$5,517,000 in the year-ago period, while noninterest income, excluding minimal securities gains and losses, was up 2% to \$1,380,000 from \$1,351,000 over this period. Noninterest expense increased 1% to \$5,422,000 in the first six months of 2017 from \$5,358,000 in the year-ago period. There was a no provision in 2017's first half, versus a modest provision of \$5,000 in the first half of 2016. Annualized return on average equity was an impressive 10.1% for the first six months of 2017, while annualized return on average assets was 0.70%.

Balance Sheet Growth Remains Good

As was stated previously, balance sheet growth has been commendable at KS Bancorp. From June 30, 2016 to June 30, 2017, gross loans increased 11%, while deposits were up 4% and assets grew 5%. Stockholders' equity was \$25.9 million, or 7.0% of total assets, at June 30, 2017. All of the Bank's regulatory capital ratios exceed the minimums to be considered "well capitalized."

GROSS LOANS GREW 11% IN THE PAST YEAR

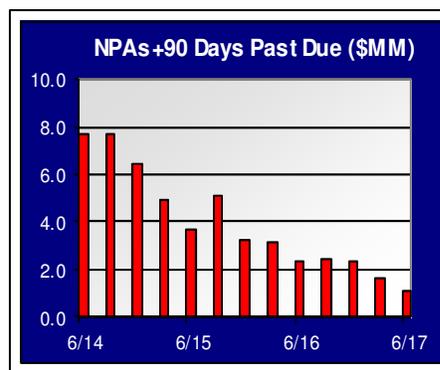
Asset Quality Continues to Improve

Asset quality trends remain excellent, as can be seen from the adjacent chart. Nonperforming assets were \$1.1 million, or 0.29% of assets, at June 30, 2017, versus \$1.6 million, or 0.44% of assets, at March 31, 2017, and \$2.3 million, or 0.65% of total assets, as of June 30, 2016. This is the lowest that NPAs have been in about ten years. NPAs mainly consisted of nonaccrual loans (\$0.9 million), followed by other real estate owned (\$0.2 million). The reserve position is strong as well, as the allowance for loan losses was \$3.8 million, or 1.34% of total loans at June 30, 2017, versus \$3.6 million, or 1.39% of total loans, as of June 30, 2016. Charge-offs have been quite low for the Bank as well.

ASSET QUALITY REMAINS QUITE GOOD, WITH NPAS AT A MULTI-YEAR LOW

NPAS-TO-ASSETS: 0.29% VS. 0.65% AT YEAR-AGO DATE

RESERVES-TO-LOANS: 1.34%



Projections Maintained

Although second quarter earnings were much better than expected, we are, for the time being, leaving our 2017 earnings estimate unchanged at \$2.4 million, or \$1.80 per diluted share, although we will consider revising our estimates after our next report. These projections could vary widely based on changing economic conditions.

EPS:
2015A: \$1.08
2016A: \$1.61
2017E: \$1.80

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2017 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.