Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Harold Keen
Name of the Holding Company Director and Official

CEO/President
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and *individual consent to public release of all details in the report concerning that individual.*

Harold Keen
Signature of Holding Company Director and Official

9/10/19
Date of Signature

For holding companies not *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

KS Bancorp, Inc
Legal Title of Holding Company

P O Box 661
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Smithfield	North Carolir	27577

1031 N Brightleaf Blvd Smithfield NC 27577
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Deborah Whaley	Senior Staff Accountant

919-938-2696
Area Code / Phone Number / Extension

919-938-0569
Area Code / FAX Number

dwhaley@ksbankinc.com
E-mail Address

www.ksbankinc.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

REPORT ITEM #1

KS BANCORP, INC., IS NOT REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION; THEREFORE, WE WILL BE SUBMITTING COPIES OF OUR ANNUAL REPORT UNDER SEPARATE COVER WHEN IT HAS BEEN COMPLETED.

REPORT ITEM #2a

ORGANIZATION CHART

EXHIBIT #1 ORGANIZATION CHART

COMPANIES REPORTABLE ON THE FR Y-10 AND THUS REPORTABLE ON FR Y-6:

1. None
2. None
3. None
4. None
5. None
6. None
7. None

ADDITIONAL COMPANIES REPORTABLE ON THE FR Y-6:

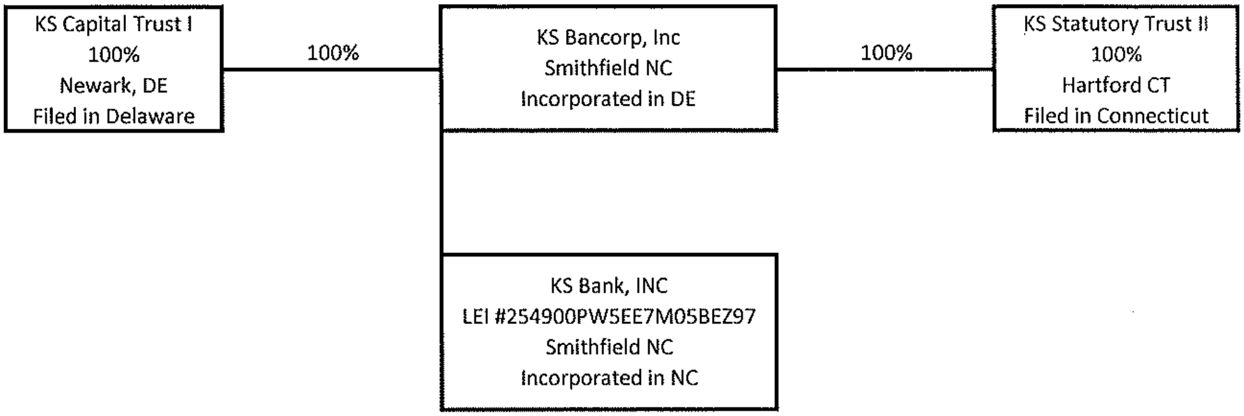
None

COMPANIES NOT REPORTABLE ON THE FR Y-6 ORGANIZATION CHART:

1. None
2. None
3. None
4. None
5. None
6. None
7. None
8. None
9. None
10. None

Exhibit #1

Organization Chart



KS Bancorp, Inc. owns 100% outstanding stock of KS Bank, Inc.

Results: A list of branches for your depository institution: KS BANK, INC. (ID_RSSD: 416674).
This depository institution is held by KS BANCORP, INC. (2155276) of SMITHFIELD, NC.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
Ok		Full Service (Head Office)	416674	KS BANK, INC.	1031 N. BRIGHTLEAF BLVD	SMITHFIELD	NC	27577	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3540114	CLAYTON BRANCH	11591 US HIGHWAY 70 WEST	CLAYTON	NC	27520	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3921629	FOUR OAKS BRANCH	106 WEST WELLONS STREET	FOUR OAKS	NC	27524	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3540123	GARNER BRANCH	920 7TH AVENUE	GARNER	NC	27529	WAKE	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3679368	GOLDSBORO BRANCH	1601 WAYNE MEMORIAL DR	GOLDSBORO	NC	27534	WAYNE	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3540132	KENLY BRANCH	200 NORTH CHURCH STREET	KENLY	NC	27542	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	2441241	SELMA BRANCH	115 WEST ANDERSON STREET	SELMA	NC	27576	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3679340	SMITHFIELD BRANCH	1031 N BRIGHTLEAF BLVD	SMITHFIELD	NC	27577	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	3679359	WENDELL BRANCH	2850 WENDELL BLVD	WENDELL	NC	27591	WAKE	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	
Ok		Full Service	2441250	WILSON BRANCH	101 SOUTHWEST WARD BOULEVARD	WILSON	NC	27893	WILSON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674	

Board of Governors of the Federal Reserve System

FR Y-6 Depository Institution Branch Data Verification

Branches for Selected Institution

Back to Search Results

A list of branches for your depository institution: KS BANK, INC. (ID_RSSD: 416674).
This depository institution is held by KS BANCORP, INC. (2155276) of SMITHFIELD, NC.
The data are as of 12/31/2018.

Save a copy of this list by clicking the download button below. **When asked if you would like to open or save this file, choose the 'Save' button.** Make corrections to your saved copy and then send it to your FRB contact. See the detailed instructions (linked above) for more information.

Download List to Excel

Institutions: 1 to 10 of 10

Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*
Full Service (Head Office)	416674	KS BANK, INC.	1031 N. BRIGHTLEAF BLVD	SMITHFIELD	NC	27577	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
Full Service	3540114	CLAYTON BRANCH	11591 US HIGHWAY 70 WEST	CLAYTON	NC	27520	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
Full Service	3921629	FOUR OAKS BRANCH	106 WEST WELLONS STREET	FOUR OAKS	NC	27524	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
Full Service	3540123	GARNER BRANCH	920 7TH AVENUE	GARNER	NC	27529	WAKE	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
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Full Service	2441241	SELMA BRANCH	115 WEST ANDERSON STREET	SELMA	NC	27576	JOHNSTON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
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Full Service	3679359	WENDELL BRANCH	2850 WENDELL BLVD	WENDELL	NC	27591	WAKE	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674
Full Service	2441250	WILSON BRANCH	101 SOUTHWEST WARD BOULEVARD	WILSON	NC	27893	WILSON	UNITED STATES	Not Required	Not Required	KS BANK, INC.	416674

*FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

REPORT ITEM #3
SECURITIES HOLDERS

1. See Exhibit #2

    (a) See Enclosure

    (b) See Enclosure

    (c) See Enclosure

2. None

    (a) None

    (b) None

    (c) None

EXHIBIT #2

Security Ownership of 5% or Greater Stockholders

Harold T Keen			
Four Oaks, North Carolina 27524	USA	127,033 Shares	11.47%

REPORT ITEM #4

INSIDERS

1. See Exhibit #3

2. See Exhibit #3

3. See Exhibit #3

   (a) All are either directors or executive officers with the BHC.
   (b) None
   (c) None

4. See Exhibit #3

   (a) See Enclosure
   (b) None
   (c) None

Exhibit #3

SECURITY OWNERSHIP OF BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

NAME,CITY,STATE,COUNTRY (1)	PRINCIPAL OCCUPATION, if other than with BHC (2)	TITLE & POSITION WITH BANK HOLDING CO (3a)	TITLE & POSITION WITH BANK (3b)	TITLE OR POSITION WITH OTHER BUSINESSES (3c)	** PERCENTAGE OF VOTING SHARES IN BANK HOLDING CO (4a)	PERCENTAGE OF VOTING SHARES IN BANK (4b)	NAME OF COMPANIES & % OF VOTING SECURITIES IF > 25% (4c)
Roger K Thomas Canton, NC	N/A	KS Bank CWO/Executive VP	KS Bank CWO/Executive VP	N/A	0%	N/A	N/A
Lisa H Brogdon Clayton, NC USA	Owner Children's Therapy Corp	Director	Director	President/Owner **Carolina Children"s Therapy**	< 1%	N/A	Carolina Children's Therapy 100%
April S Culver Smithfield NC	Johnston Health	Director	Director	Vice President/Planning and External Affairs Johnston Health	<1%	N/A	N/A
B Kenneth Jones, II Princeton NC USA	Car Dealership	Director	Director	Partner/President Deacon Jones Auto Park	< 1%	N/A	Deacon Jones Auto Park 34%
Harold T Keen Four Oaks NC USA	N/A	KS Bank CEO/Director	KS Bank CEO/Director	N/A	11.47%	N/A	N/A
H. Geoffrey Kokiko Goldsboro, NC USA	N/A	KS Bank SRO/Executive VP	KS Bank SRO/Executive VP	N/A	< 1%	N/A	N/A
James C Parker Goldsboro NC USA	CPA	Director	Director	Partner Parker & Parker, PA CPA	1.27%	N/A	Parker & Parker, PA,CPA 50%
Sidney E Sauls Angier, NC USA	Insurance Agent	Director	Director	N/A	< 1%	N/A	N/A
R Edward Scott, JR Kenly NC USA	Business Owner	Director	Director	President Ralph E Scott,Jr Farms,Inc	1.57%	N/A	Ralph E Scott,Jr Farms Inc 100%
Regina J Smith Kenly NC USA	N/A	KS Bank CFO/Executive VP	KS Bank CFO/Executive VP	N/A	< 1%	N/A	N/A
Timothy N Taylor Rocky Mount NC USA	N/A	KS Bank CCO/Executive VP	KS Bank CCO/Executive VP	N/A	< 1%	N/A	N/A
Gordon C Woodruff Smithfield NC USA	Attorney	Director	Director	Partner Woodruff & Fortner	< 1%	N/A	Woodruff & Fortner 50%
Earl W Worley, Jr. Princeton NC USA	N/A	KS Bank COO/Director	KS Bank COO/Director	N/A	2.01%	N/A	N/A

* Does not exceed one percent of Common Stock.
**Based upon a total of 1,107,776 shares of common stock outstanding as of the Record Date.

KS BANCORP, INC.

Post Office Box 661
1031 North Brightleaf Blvd.
Smithfield, North Carolina 27577
(919) 938-3101

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 16, 2019

NOTICE IS HEREBY GIVEN that the 2019 Annual Meeting of Shareholders (the “Annual Meeting”) of KS Bancorp, Inc. (the “Company”) will be held on May 16, 2019 at 7:00 p.m. Eastern Time, at the offices of the Company at 1031 North Brightleaf Boulevard, Smithfield, North Carolina.

The Meeting is for the purpose of considering and voting upon the following matters:

1. To elect three persons who will serve as directors of the Company until the 2022 Annual Meeting of Shareholders or until their successors are duly elected and qualify;

2. To ratify the appointment of Dixon Hughes Goodman, LLP as the independent auditor for the Company for the 2019 fiscal year; and

3. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof. The Board of Directors is not aware of any other business to be considered at the Annual Meeting.

The Board of Directors has established March 20, 2019 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof. Only record holders of the common stock of the Company as of the close of business on that date will be entitled to vote at the Annual Meeting or any adjournments thereof. In the event there are not sufficient shares present in person or by proxy to constitute a quorum or to approve any proposal at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by the Company.

By Order of the Board of Directors

Joy B Watson

Joy B. Watson
Secretary

Smithfield, North Carolina
April 12, 2019

A form of proxy is enclosed to enable you to vote your shares at the Annual Meeting. You are urged, regardless of the number of shares you hold, to complete, sign, date and return the proxy promptly. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

KS Bancorp, Inc.

PROXY STATEMENT

2018 ANNUAL MEETING OF SHAREHOLDERS
May16, 2019

SOLICITATION AND VOTING OF PROXIES

General

This Proxy Statement is being furnished to shareholders of KS Bancorp, Inc. (the “Company”) in connection with the solicitation by the board of directors of the Company (the “Board of Directors” or the “Board”) of proxies to be used at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on May 16, 2019 at 7:00 p.m. Eastern Time, at the offices of the Company at 1031 North Brightleaf Boulevard, Smithfield, North Carolina 27577, and at any adjournments thereof. This Proxy Statement and the accompanying form of proxy were first mailed to shareholders on or about April 15, 2019.

Other than the matters listed on the attached Notice of Annual Meeting of Shareholders, the Board of Directors knows of no matters that will be presented for consideration at the Annual Meeting. Execution of a proxy, however, confers on the designated proxyholders discretionary authority to vote the shares in accordance with their best judgment on such other business, if any, that may properly come before the Annual Meeting or any adjournments thereof.

Revocability of Proxy

A proxy may be revoked at any time prior to its exercise by the filing of a written notice of revocation with the Secretary of the Company, by delivering to the Company a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. However, if you are a beneficial owner of shares of the Company’s common stock (the “Common Stock”) that are not registered in your own name, you will need appropriate documentation from the record holder to vote in person at the Annual Meeting.

Solicitation

The Company will pay the cost of preparing, assembling and mailing this Proxy Statement and other proxy solicitation expenses, if any. In addition to the use of the mail, proxies may be solicited personally or by telephone by directors, officers and regular employees of the Company and its wholly-owned savings bank subsidiary, KS Bank, Inc. (the “Bank”), without additional compensation. Brokerage houses and nominees have been requested to forward these proxy materials to the beneficial owners of shares held of record by such persons and, upon request, the Company will reimburse such persons for their reasonable out-of-pocket expenses in doing so.

Voting Securities and Vote Required for Approval

Regardless of the number of shares of Common Stock owned, it is important that shareholders be present in person or represented by proxy at the Annual Meeting. Shareholders are requested to vote by completing, signing, dating and returning the enclosed proxy card in the provided postage-paid envelope. A shareholder may vote for, or withhold his or her vote on the election of a nominee. A shareholder may vote for, against, or abstain from voting on Proposal 2, or any other matter to come before the Annual Meeting. If the enclosed proxy is properly marked, signed, dated and returned, and not revoked, it will be voted in accordance with the instructions therein. If no instructions are given, the proxy will be voted **FOR** the nominees for election to the Board of Directors named in this Proxy Statement (the “Board Nominees”) and **FOR** the ratification of the appointment of Dixon Hughes Goodman, LLP as the Company’s independent auditor for the 2019 fiscal year. If instructions are given with respect to some but not all proposals, such instructions as are given will be followed, and the proxy will be voted **FOR** the proposal(s) described in this Proxy Statement on which no instructions are given. If no instructions are provided with respect to a Board Nominee, the proxy will be voted **FOR** such Board Nominee for whom no instructions are given.

The close of business on March 20, 2019, has been fixed by the Board of Directors as the record date (the "Record Date") for the determination of common shareholders of record entitled to notice of and to vote at the Annual Meeting and any adjournments thereof. As of the Record Date, the Company had 1,107,776 outstanding shares of Common Stock, which is the only class of stock entitled to vote. Each share of Common Stock entitles its owner of record to one vote on each matter calling for a vote by shareholders at the Annual Meeting.

The presence, in person or by proxy, of the holders of at least a majority of shares of the Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. To determine whether a quorum is present, the Company will count all shares of Common Stock present at the Annual Meeting either in person or by proxy, whether or not such shares will be voted for any matter. Since many of our shareholders cannot attend the Annual Meeting, it is necessary that a large number be represented by proxy. Accordingly, the Board of Directors has designated proxies to represent those shareholders who cannot be present in person and who desire to be so represented. In the event there are not sufficient shareholders present or represented by proxy to constitute a quorum or to approve any proposal at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

In order to be elected, a nominee need only receive a plurality of the votes cast in the election of directors. As a result, those three director nominees who receive the largest number of votes will be elected as directors. Abstentions from voting, as well as broker non-votes, if any, are not treated as votes cast and, therefore, will have no effect on the proposal to elect directors.

The proposal to ratify the selection of Dixon Hughes Goodman, LLP as the Company's independent auditor for the 2019 fiscal year will be approved if the votes cast in favor of this proposal exceed the votes cast against this proposal. Abstentions from voting, as well as broker non-votes, if any, are not treated as votes cast and, therefore, will have no effect on the proposal to ratify Dixon Hughes Goodman, LLP as the Company's independent auditor for 2019.

As to any other matters presented for a vote at the Annual Meeting, a proposal will be approved if the votes cast in favor of such proposal exceed the votes against such proposal, unless the Company's Articles of Incorporation or Bylaws, or applicable law imposes a greater voting requirement.

Proxies solicited hereby will be returned to the Board of Directors and will be tabulated by one or more inspectors of election designated by the Board.

SECURITY OWNERSHIP OF BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information as of December 31, 2018 regarding those shares of Common Stock owned beneficially by each of the members of the Board of Directors, certain executive officers of the Company and the Bank, and the directors and executive officers as a group as of that date.

Name and Address	Amount and Nature of Beneficial Ownership[1]	Percentage of Class[2]
Lisa H. Brogdon 135 Middlecrest Way Clayton, NC 27520	1,150	*
April S. Culver 1305 Short Journey Rd Smithfield, NC 27577	675	*

Name and Address	Amount and Nature of Beneficial Ownership[1]	Percentage of Class[2]
B. Kenneth Jones, II 6825 U.S. Hwy 70 Princeton, NC 27569	10,500	*
Harold T. Keen 121 Boyette Road Four Oaks, NC 27524	127,033	11.47%
H. Geoffrey Kokiko 630 Lakeshore Drive Goldsboro, NC 27534	1,750	*
James C. Parker 117 Pineridge Lane Goldsboro, NC 27530	14,035	1.27%
Sidney E. Sauls 10579 NC 50 North Angier, NC 27501	6,637	*
R. Edward Scott, Jr. 8934 Lefty Road Kenly, NC 27542	17,375	1.57%
Regina J. Smith 3370 W Hwy 222 Kenly, NC 27542	1,416	*
Timothy N. Taylor 116 Manchester Court Rocky Mount, NC 27803	2,375	*
Roger K. Thomas 93 Jack Cove Canton, NC 28716	0	*
Gordon C. Woodruff Post Office Box 708 Smithfield, NC 27577	970	*
Earl W. Worley, Jr. 935 Luby Smith Road Princeton, NC 27569	22,237	2.01%
Directors and executive officers as a group (13 person)	206,153	18.61%

* Represents less than one percent of the issued and outstanding Common Stock.

1 Unless otherwise indicated, all shares are owned directly by the named individuals, by their spouses and/or minor children, or by other entities controlled by the named individuals.

2 Based upon a total of 1,107,776 shares of Common Stock issued and outstanding as of the Record Date.

Security Ownership of 5% or Greater Shareholders

As of the Record Date, only Harold T. Keen and Ralph Harold Hinnant are known by the Company to beneficially own 5% or more of our Common Stock. As of the Record Date, Mr. Keen beneficially owned 127,033 shares and Mr. Hinnant owned approximately 62,950 shares.

Director Attendance at Annual Meeting

Although it is customary for all Board members to attend, the Company has no formal policy in place with regard to Board members' attendance at its Annual Meeting of Shareholders. Other than Mr. Parker, all Board members attended the Company's 2018 Annual Meeting of Shareholders.

Report of Audit Committee

The Audit Committee has reviewed and discussed with management the Company's audited financial statements for the fiscal year ended December 31, 2018. The Committee has discussed with the Company's independent auditor the matters required to be discussed by the Statement on Auditing Standards No. 114, The Auditor's Communication with those Charged with Governance, as amended (AICPA, Professional Standards, Vol. 1. AU section 380). The Committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the AICPA regarding the independent auditor's communications with the Committee concerning independence, and has discussed with the independent auditor the independent auditor's independence. Based upon the Committee's review and discussions with management and the independent auditor referenced above, the Committee recommended to the Board that the Company's audited financial statements be included in the Company's annual report. The Committee also reappointed the independent auditor and the Board concurred in such appointment.

Members of the Audit Committee
James C. Parker, Chairman
April S. Culver
B. Kenneth Jones, II
Sidney E. Sauls

PROPOSAL 1
ELECTION OF DIRECTORS

The Company's Articles of Incorporation provide that the number of directors of the Company may not be less than five nor more than 15. The exact number of directors may be fixed or changed from time to time by the Board of Directors. The Board has currently fixed the size of the Board at nine members.

So long as the total number of directors fixed by the Board of Directors is nine or more, the directors are divided into three classes, as nearly equal as possible in number. Each class of directors is elected for a term of three years, or until their earlier death, resignation, retirement, removal or disqualification or until their successors are elected and qualified.

Based upon the recommendation of the Nominating Committee, the Board of Directors has nominated Lisa H. Brogden, April S. Culver and Earl W. Worley, Jr. (sometimes referred to herein as the Board Nominees) for election as directors to serve until the 2022 Annual Meeting of Shareholders or until their earlier death, resignation, retirement, removal or disqualification or until their respective successors are elected and qualified. Each of the Board Nominees currently serves as a director of the Company and the Bank.

The persons named in the accompanying form of proxy intend to vote any shares of Common Stock represented by valid proxies received by them to elect the three Board Nominees, unless authority to vote is withheld or such proxies are revoked. In the event that any of the Board Nominees should become unavailable to accept nomination or election, it is intended that the proxy holders will vote to elect in his stead such other person as the present Board of Directors may recommend. The present Board has no reason to believe that any of the Board Nominees will be unable to serve if elected to office. In order to be elected as a director, a nominee need only receive a plurality of the votes cast. Accordingly, shares not voted for any reason respecting any one or more nominees will not be counted as votes against such nominees. No shareholder has the right to vote his or her shares cumulatively in the election of directors.

Nominees and Continuing Directors

The following table sets forth certain information as to the three Board Nominees and each director continuing in office after the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL OF THE FOLLOWING NOMINEES FOR ELECTION AS DIRECTORS.

Name	Age on December 31, 2018	Principal Occupation During Last Five Years	Director Since	Existing Term Expires
Lisa H. Brogdon	47	Owner and President of Carolina Children's Therapy Corporation	2007	2019
April S. Culver	45	Vice President of Marketing / Communications and Strategy, with Johnston Health in Smithfield, NC	2016	2019
Earl W. Worley, Jr.	54	Executive Vice President of the Company; Executive Vice President and Chief Operating Officer of the Bank	2013	2019
		DIRECTORS CONTINUING IN OFFICE		
Harold T. Keen	70	President of the Company; President and Chief Executive Officer of the Bank	1990[1]	2020
R. Edward Scott, Jr.	66	President of Ralph E Scott, Jr. Farms, Inc.	1987[1]	2020
Gordon C. Woodruff	67	Partner, Woodruff, Reece & Fortner, Attorneys at Law	1999	2020
B. Kenneth Jones, II	55	President of Deacon Jones Auto Park, Inc.	2003	2021
James C. Parker	67	Certified Public Accountant: Partner, Parker & Parker, P.A.	1996	2021
Sidney E. Sauls	71	Retired. Previously, Insurance Agent, North Carolina Farm Bureau Mutual Insurance Company	2000	2021

1 Includes service on the board of directors of the Bank (the "Bank Board") prior to the formation of the Company.

Other than Messrs. Keen and Worley, the Board of Directors has determined that all of the current directors and Board Nominees are "independent" under the rules and listing standards of the NASDAQ Stock Market, LLC, which rules and listing standards require that a majority of the members of the Board be independent (the "NASDAQ Independence Standards"). Although not applicable to the Company, because the Common Stock is not listed on a NASDAQ stock market, the Company satisfies these NASDAQ Independence Standards.

Meetings of the Board and Committees of the Board

The Board of Directors conducts its business through meetings of the Board and through activities of its committees. The Board meets quarterly and may have additional meetings as needed. During 2018, the Board held 14 meetings. All of the current directors attended at least 75% of the aggregate number of meetings of the Board and committees of the Board on which they served during 2018.

Process for Communicating with Board Members

The Company does not have a formal procedure for shareholder communication with the Board of Directors. In general, directors and executive officers are easily accessible by telephone, postal mail or electronic mail. Any matter intended for the attention of the Board, or for any individual member or members of the Board, can be directed to Harold T. Keen, President of the Company, and President and Chief Executive Officer of the Bank, or Earl W. Worley, Jr., Executive Vice President of the Company; Executive Vice President and Chief Operating Officer of the Bank, at the Company's following address with a request to forward the same to the intended recipient: KS Bancorp, Inc., P.O. Box 661, Smithfield, North Carolina 27577. Alternatively, shareholders may direct correspondence to the Board, or any of its members, in care of the Company at the Company's address above. All of these communications received will be forwarded to the intended recipient unopened.

Committees of the Board

The Board of Directors has four standing committees – the Executive Committee, the Audit Committee, the Compensation Committee, and the Nominating Committee. The Board may also establish other committees as the need arises.

The Executive Committee is composed of Gordon C. Woodruff, James C. Parker, R. Edward Scott, Jr., and Harold T. Keen. The Executive Committee has the power to act on behalf of the full Board of Directors on matters that require action between meetings of the full Board.

The Audit Committee (which is a joint committee of the Board of Directors and the Bank Board) is currently composed of April S. Culver, B. Kenneth Jones, II, Sidney E. Sauls, and James C. Parker. The Board has determined that each of the members of the Audit Committee are "independent" as defined under the NASDAQ Independence Standards. In accordance with the Audit Committee's charter, the Audit Committee meets at least quarterly, and more frequently as circumstances dictate, to: (i) oversee the independent auditing of the Company; (ii) arrange for periodic reports from the independent auditors, from the management of the Company, and from the internal auditor of the Company in order to assess the impact of significant regulatory and accounting changes and developments; (iii) advise the Board of Directors regarding significant accounting and regulatory developments; (iv) review the Company's policies regarding compliance with laws and regulations, conflicts of interest and employee misconduct and review situations related thereto; (v) develop and implement the Company's policies regarding internal and external auditing and appoint, meet with and oversee the performance of those employed in connection with both internal and external audits; and (vi) perform such other duties as may be assigned to it by the Board. The Audit Committee met four times during 2018.

The Compensation Committee (which is a joint committee of the Board of Directors and the Bank Board) is composed of Lisa H. Brogdon, James C. Parker and Sidney E. Sauls. The Compensation Committee meets on an as-needed basis to review the Bank's salary program and to make recommendations to the Bank Board regarding compensation of executive officers. The salary of each executive officer is determined based upon the executive officer's contributions to the Bank's overall profitability, maintenance of regulatory compliance standards, professional leadership and management effectiveness in meeting the needs of day-to-day operations. The Bank Board has ultimate authority and responsibility for determining executive compensation. During 2018, the Company and the Bank did not retain any compensation consultants to advise the Board or the Compensation Committee on executive or director compensation. The Compensation Committee met one time during 2018.

The Nominating Committee (which is a joint committee of the Board of Directors and the Bank Board) is composed of B. Kenneth Jones, II, Sidney E. Sauls, and James C. Parker. The Nominating Committee meets on an as-needed basis to review the qualifications of, approve and recommend to the Board of Directors, those individuals to be nominated to serve on the Board and submitted to shareholders for election at each Annual Meeting of Shareholders. The Nominating Committee met one time during 2018. The criteria considered by the Nominating Committee includes the candidate's prior service with the Board, ethics, integrity, involvement and standing in the community, success in business, any relationship with the Bank, any investment in the Company, place of residence and financial expertise. The Committee has no written policy with regard to consideration of director candidates recommended by shareholders. If a shareholder recommends a director candidate to the Nominating Committee, the Committee would consider the candidate and apply the same considerations that it would to its own candidates. Any recommendation by a shareholder should be made in writing, addressed to the attention of the Nominating Committee at the Company's corporate headquarters and include a description of the person's background, qualifications, contact information and any other useful information.

Bank Board

The Bank also has a nine-member board of directors. It is currently composed of the same persons who serve as directors of the Company. The Bank Board meets monthly and may have additional meetings as needed. During 2018, the Bank Board held 13 meetings, including eight joint meetings with the Board of Directors.

Bank Board Committees

The Bank Board has a number of committees, including the ALCO/Risk Committee, the Audit Committee, the Nominating Committee, the Directors Loan Committee, the Investment Committee, the Security Committee and the Trust Committee. As discussed above, the Audit Committee and the Nominating Committee each meet as a joint committee of the Board of Directors and the Bank Board.

The Directors Loan Committee is composed of Lisa H. Brogdon, April S. Culver, R. Edward Scott, Jr., and Earl W. Worley, Jr. The Directors Loan Committee receives regular reports from Bank officers on all commercial loans graded special mention, substandard, doubtful and loss, and in the course of reviewing these reports, reviews and evaluates the Bank's loan portfolio, including the collateral securing the Bank's loans. The Directors Loan Committee met four times during 2018.

Directors' Compensation

Directors' Fees. Members of the Board of Directors receive no fees or compensation for serving on the Board. However, all members of the Board are currently also directors of the Bank. During 2018, each member of the Bank Board received an annual retainer of $7,200 in return for his or her service on the Bank Board. In addition, each member of the Bank Board received $600 for each Bank Board meeting attended, except for the Chairman who received $800 per meeting of the Bank Board. Each member (including the Chairman) also received $200 for each committee meeting attended.

The Company and the Bank have also adopted a Director Emeritus Program, which was amended and restructured effective January 1, 2011 and further amended in November 2011. Under the current Director Emeritus Program, a director will be designated a "Director Emeritus" upon (i) retirement, aged 75 years or older and having served as a director for at least nine years prior to age 75, or (ii) retirement, aged 74 years or younger and having served as a director for at least nine years, but only if his or her retirement is approved by the remaining directors. Under the program, a Director Emeritus is entitled to receive a one-time retirement payment of $20,000 provided the director retires in good standing with the Board of Directors. The Director Emeritus has the option of splitting the payment into two separate payments of $10,000, payable in the year of retirement and the following year.

At December 31, 2018, the Bank had accrued $76,421 in aggregate expenses in connection with the Director Emeritus Program, and during 2018, the Bank accrued $3,840 in expense with respect to deferred compensation to be paid under the Director Emeritus Program. The Director Emeritus Program, including its continued existence, is reviewed and approved by the Board of Directors on a periodic basis.

Executive Officers

The following table sets forth certain information with respect to the executive officers of the Company and/or the Bank.

Name	Age on December 31, 2018	Positions and Occupations During Last Five Years	Employed Since
Harold T. Keen	70	President of the Company; President and Chief Executive Officer of the Bank	1990
Earl W. Worley, Jr.	54	Executive Vice President of the Company; Executive Vice President and Chief Operating Officer of the Bank	1992
Regina J. Smith	51	Executive Vice President of the Company; Executive Vice President and Chief Financial Officer of the Bank	2003
Timothy N. Taylor	57	Executive Vice President of the Bank and Chief Credit Officer	2011
H. Geoffrey Kokiko	57	Executive Vice President of the Bank and Chief Banking Officer	2005
Roger K. Thomas	35	Executive Vice President of the Bank and Chief Wealth Officer. Previously served as Senior Wealth Consultant with KS Bank Trust Department and served as Vice President, Relationship Manager of Wealth Management of New Bridge Bank	2015

Management Compensation

Summary Compensation Table. The executive officers of the Company are not paid any cash compensation by the Company. However, the executive officers of the Company also serve as executive officers of the Bank and receive cash compensation from the Bank.

The following table shows, for the years ending December 31, 2018 and 2017, the cash compensation paid by the Bank to certain executive officers of the Company or the Bank (the "named executive officers").

Name and Principal Position	Year	Salary	Bonus	Equity Compensation	401(k) Match	Total[1]
Harold T. Keen	2018	$267,750	$12,750	---	$12,352	$292,852
President of the Company; President and Chief Executive Officer of the Bank	2017	$255,000	$ 7,500	---	$12,063	$274,563
Earl W. Worley, Jr.	2018	$201,600	$ 9,600	---	$10,560	$221,760
Executive Vice President of the Company; Executive Vice President and Chief Operating Officer of the Bank	2017	$192,000	$ 8,550		$10,028	$210,578

1 See "Directors' Compensation" for additional amounts paid to the named executive officers for service as a director of the Bank. See also "Retirement Agreements" for additional amounts accrued by the Bank in connection with the named executive officers' participation in the Bank's supplemental executive retirement plans.

401(k) Profit Sharing Plan. The Bank maintains a contributory savings plan for substantially all of its employees, which meets the requirements of section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). Employees who have completed 90 days of service and who are least 21 years of age may elect to contribute a portion of their compensation to the plan each year, subject to certain maximums imposed by federal law. The Bank matches employee contributions up to a maximum contribution by the Bank of 5% of the employee's compensation. From time to time, the Bank may also make discretionary profit sharing contributions to the plan. These contributions are allocated among participants' accounts according to their respective levels of compensation. For purposes of the 401(k) profit sharing plan, compensation means a participant's total compensation received from the employer. Participants are fully vested in amounts they contribute to the plan and in all matching contributions made by the Bank.

Retirement Agreements. The Bank sponsors a number of supplemental executive retirement plans (individually a "SERP," and collectively, the "SERPs") for certain executives of the Bank. The SERPs are a deferred compensation plans that pay benefits to participants upon retirement at age 65. Monthly payments are made upon retirement for a period of 10 years. The benefits under the plan vest according to a vesting schedule based upon years of service as follows: 0-5 years of service: 0% vested; each subsequent full year of service: 10% vested, until participant becomes 100% vested upon 15 years of service or upon attaining age 65 (without regard to years of service). If a participant dies after retirement but before all payments have been made under the SERPs, the remaining monthly payments will be made to the participant's designated beneficiary. If a participant is terminated for cause prior to retirement, no payments will be made to the participant. If a participant voluntarily terminates employment or is terminated without cause, he or she will have a vested interest in his or her accrued benefits according to the SERP's vesting schedule, in which case the accrued benefits will be calculated based upon a formula that considers the executive's age and years of service. If a participant dies while employed no payments will be made under the SERPs; however, the participant's beneficiary will be entitled to receive a portion of the death benefit payable to the Bank under any bank-owned life insurance policy in accordance with the terms of any split-dollar agreement between the Bank and the participant. During 2018 and 2017, the Bank accrued $38,147 and $34,792, respectively in expenses related to the named executive officers' participation in the SERPs.

Employment Agreements. The Bank has entered into an employment agreement with each of Harold T. Keen and Earl W. Worley, Jr. in order to establish duties and compensation and to provide for their continued employment with the Bank. Each agreement provides for an initial term of employment of three years. On each anniversary of the commencement date, the term of the agreement is automatically extended for an additional year, unless prior written notice of non-renewal is given by the Bank Board after conducting an evaluation of the employee's performance.

Mr. Keen and Mr. Worley's employment agreements each provide for an annual base salary, which is reviewed by the Board of Directors not less often than annually. In the event of a change in control (as defined below), the employee's base salary must be increased by at least 6% annually. In addition, the employment agreements provide for profitability and discretionary bonuses, which have not been paid during the last three fiscal years. The agreements also provide for participation in other pension, profit-sharing or retirement plans maintained by the Bank and the Company, as well as fringe benefits normally associated with the employee's office. Each employment agreement provides that it may be terminated by the Bank for cause, as defined in the agreements, and that it may otherwise be terminated by the Bank (subject to vested rights) or by the employees.

The employment agreements provide that if employment is terminated in connection with, or within 24 months after, a change in control or if the nature of the employee's compensation, duties or benefits are diminished following a change in control, and the employee terminates his employment, he will be entitled to receive compensation equal to 2.99 times his average annual compensation for income tax purposes for the most recent five tax years prior to the change in control, payable in equal monthly payments. For purposes of the employment agreements, a change in control generally will occur if (i) after the effective date of the employment agreement, any "person" (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934) directly or indirectly, acquires beneficial ownership of voting stock, or acquires irrevocable proxies or acquires any combination of voting stock and irrevocable proxies, representing 25% or more of any class of voting securities of either the Company or the Bank, or acquires in any manner control of the election of a majority of the directors of either the Company or the Bank, (ii) either the Company or the Bank consolidates or merges with or into another corporation, association or entity, or is otherwise reorganized, where neither the Company nor the Bank is the surviving corporation in such transaction, or (iii) all or substantially all of the assets of either the Company or the Bank are sold or otherwise transferred to or are acquired by any other entity or group.

Payments under the employment agreements in the event of a change in control may constitute an excess parachute payment under Section 280G of the Code resulting in the imposition of an excise tax on the recipient and denial of a deduction to the Bank for all amounts in excess of the executive's average annual compensation for the five tax years preceding the change in control. The agreements provide that benefits payable to the officers as a result of a change in control will be modified or reduced to the extent deemed to be necessary by the Bank Board to avoid the imposition of excise taxes on the employee or the disallowance of a deduction to the Company.

Indebtedness of and Transactions with Related Persons

The Bank provides loans and other credit facilities in the ordinary course of its business to Bank directors, director-nominees and employees, including executive officers, and businesses in which the foregoing have direct or indirect interests, as well as the immediate family of the foregoing (together, "Related Persons"). In accordance with Federal Reserve Regulation O, the Bank has adopted a policy which sets forth the requirements applicable to such loans and other credit facilities. These loans and other credit facilities are made using the same credit and underwriting standards as are applicable to the general public, and such loans and other credit facilities do not involve more than the normal risk of collectability or present other unfavorable features. Pursuant to this policy, loans and other credit facilities to Related Persons are made on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with nonaffiliated persons.

During 2018, the Bank had loan commitments totaling $1.9 million to its directors, executive officers and their affiliates as a group.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

Dixon Hughes Goodman, LLP ("Dixon Hughes Goodman"), the Company's independent auditor for the year ended December 31, 2018, has been appointed by the Audit Committee as the Company's independent auditor for the year ending December 31, 2019. This appointment has been ratified by the Board of Directors and is being submitted to the Company's shareholders for further ratification. Representatives of Dixon Hughes Goodman are expected to attend the Annual Meeting of Shareholders and will be afforded an opportunity to make a statement, if they so desire, and to respond to appropriate questions from shareholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE <u>FOR</u> RATIFICATION OF THE APPOINTMENT OF DIXON HUGHES GOODMAN AS INDEPENDENT AUDITOR FOR THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018.

The aggregate fees of Dixon Hughes Goodman (and related out-of-pocket expenses) billed for professional services rendered in connection with the (i) audit of the Company's annual financial statements for the year ending December 31, 2018 and (ii) review of the financial statements prepared by the Company during 2018 was $94,878. In addition, Dixon Hughes Goodman provided services related to the preparation of the Company's annual tax returns. The total amount paid for these additional services was $9,500.

The fees of Dixon Hughes Goodman are pre-approved by the Audit Committee as required by the provisions of the Audit Committee's charter. The Audit Committee charter states that the Audit Committee shall approve, in advance, all audit services and all permitted non-audit services to be provided to the Company by the independent auditors. The committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. For 2018, all of the fees incurred were pre-approved. The Audit Committee has determined that the rendering of non-audit professional services by Dixon Hughes Goodman, as identified above, is compatible with maintaining Dixon Hughes Goodman's independence.

SHAREHOLDERS' PROPOSALS

It is presently anticipated that the 2020 Annual Meeting of Shareholders will be held in May 2020. Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by shareholders may be made at an annual meeting only (a) pursuant to the Company's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board or any authorized committee thereof, or (c) by any shareholder who is entitled to vote at the meeting, who complied with the notice procedures set forth in the Company's Bylaws and who was a shareholder of record at the time such notice is delivered to the Company Secretary. A copy of the Company's Bylaws is available to shareholders upon request from the Secretary of the Company.

OTHER MATTERS

Management knows of no other matters to be presented for consideration at the Annual Meeting or any adjournments thereof. If any other matters shall properly come before the Meeting, it is intended that the proxyholders named in the enclosed form of proxy will vote the shares represented thereby in accordance with their best judgment, pursuant to the discretionary authority granted therein.

MISCELLANEOUS

The Annual Report of the Company for the year ended December 31, 2018, which includes financial statements audited and reported upon by the Company's independent auditor, is being mailed along with this Proxy Statement; however, it is not intended that the Annual Report be a part of this Proxy Statement or a solicitation of proxies.

By Order of the Board of Directors,

Joy B. Watson
Secretary

Smithfield, North Carolina
April 12, 2019

Post Office Box 661
1031 North Brightleaf Blvd.
Smithfield, North Carolina 27577
(919) 938-3101

KS Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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KS Bancorp, Inc. and Subsidiary
Selected Financial Data

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars In Thousands, Except Per Share Amounts)				
Financial Condition Data:					
Total assets	$ 400,258	$ 373,618	$ 359,364	$ 337,434	$ 318,451
Investments [1]	89,020	71,416	76,843	73,512	79,016
Loans receivable, net	295,630	285,969	266,071	247,627	221,401
Deposits	330,423	296,574	285,755	257,514	248,915
FHLB advances/other borrowings	44,255	47,351	46,037	53,935	45,085
Stockholders' equity	22,125	26,303	24,391	22,908	21,768
Book value per common share	19.97	20.09	18.63	17.49	16.62
Operating Data:					
Interest income	$ 16,493	$ 15,278	$ 14,014	$ 13,203	$ 12,663
Interest expense	3,886	3,031	2,789	2,694	2,569
Net interest income	12,607	12,247	11,225	10,509	10,094
Provision (recovery) for loan losses	-	(227)	5	114	-
Noninterest income	3,172	2,789	2,782	2,083	1,981
Noninterest expense	11,290	11,010	10,722	10,345	10,315
Income before income taxes	4,489	4,253	3,280	2,133	1,760
Income tax expense	947	2,194	1,171	717	490
Net income	$ 3,542	$ 2,059	$ 2,109	$ 1,416	$ 1,270
Dividends on preferred stock	-	-	-	-	(246)
Accretion of discount on preferred stock	-	-	-	-	(30)
Net income available to common stockholders	$ 3,542	$ 2,059	$ 2,109	$ 1,416	$ 994
Selected Other Data:					
Basic earnings per share	$ 3.00	$ 1.57	$ 1.61	$ 1.08	$ 0.76
Diluted earnings per share	$ 3.00	$ 1.57	$ 1.61	$ 1.08	$ 0.76
Dividends per common share	$ 0.28	$ 0.12	$ 0.08	$ 0.06	$ -
Return on average assets	0.92%	0.56%	0.60%	0.43%	0.32%
Return on average equity	16.12%	7.93%	8.64%	6.27%	4.20%
Average equity to average assets	5.68%	7.01%	6.93%	6.86%	7.60%

[1] *Includes interest-earning deposits, time deposits, investment securities, and Federal Home Loan Bank stock.*

Independent Auditors' Report

Board of Directors
KS Bancorp, Inc.
Smithfield, North Carolina

We have audited the accompanying consolidated financial statements of KS Bancorp, Inc. and subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KS Bancorp, Inc. and subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Greenville, North Carolina
March 21, 2019

KS Bancorp, Inc. and Subsidiary
Consolidated Statements of Financial Condition
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from banks:		
Interest-earning	$ 21,220,173	$ 4,254,067
Noninterest-earning	2,183,537	2,712,986
Time deposits	100,000	100,000
Investment securities available for sale, at fair value	66,004,382	65,250,573
Federal Home Loan Bank stock, at cost	1,696,100	1,811,100
Loans	299,639,865	290,035,477
Less allowance for loan losses	(4,010,296)	(4,066,088)
Net loans	295,629,569	285,969,389
Accrued interest receivable	1,211,987	1,126,721
Property and equipment, net	7,324,149	7,609,677
Other assets	4,888,427	4,783,186
Total assets	$ 400,258,324	$ 373,617,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 330,422,937	$ 296,574,068
Short-term borrowings	7,313	4,102,943
Long-term borrowings	44,248,000	43,248,000
Accrued interest payable	380,333	323,840
Accrued expenses and other liabilities	3,074,981	3,066,087
Total liabilities	378,133,564	347,314,938
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Common stock, no par value, authorized 20,000,000 shares; 1,107,776 and 1,309,501 shares issued and outstanding at December 31, 2018 and 2017, respectively	1,359,452	1,607,005
Retained earnings, substantially restricted	22,025,946	25,560,878
Accumulated other comprehensive loss	(1,260,638)	(865,122)
Total stockholders' equity	22,124,760	26,302,761
Total liabilities and stockholders’ equity	$ 400,258,324	$ 373,617,699

KS Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017

	2018	2017
Interest and dividend income:		
Loans, including fees	$ 14,880,018	$ 13,825,350
Investment securities:		
Taxable	1,259,829	1,144,606
Tax-exempt	142,255	176,835
Dividends	106,000	85,000
Interest-earning deposits	104,563	46,291
Total interest and dividend income	16,492,665	15,278,082
Interest expense:		
Deposits	2,173,496	1,517,580
Borrowings	1,711,979	1,513,978
Total interest expense	3,885,475	3,031,558
Net interest income	12,607,190	12,246,524
Provision for (recovery of) loan losses	-	(227,500)
Net interest income after provision for (recovery of) loan losses	12,607,190	12,474,024
Noninterest income:		
Service charges on deposit accounts	1,377,720	1,406,265
Fees from Trust services	745,437	685,239
Fees from presold mortgages	210,434	208,909
Loss on sales of investments	-	(4,232)
Income from bank owned life insurance	234,000	202,000
Other	604,892	291,417
Total noninterest income	3,172,483	2,789,598
Noninterest expenses:		
Compensation and benefits	6,917,377	6,714,399
Occupancy and equipment	1,287,184	1,244,619
Data processing	834,520	785,138
Advertising	125,043	78,131
Foreclosed real estate and repossessions, net	(10,168)	68,397
FDIC and other insurance	268,807	256,926
Professional services	620,270	669,492
Telephone and network services	234,739	235,888
Deposit accounts	298,414	321,777
Other	714,695	635,929
Total noninterest expenses	11,290,881	11,010,696
Income before income taxes	4,488,792	4,252,926
Income tax	947,000	2,194,085
Net income	$ 3,541,792	$ 2,058,841
Basic and diluted earnings per share	$ 3.00	$ 1.57

KS Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

	2018	2017
Net income	$ 3,541,792	$ 2,058,841
Other comprehensive income (loss)		
Securities available for sale:		
Unrealized gain (loss) on available for sale securities	(514,794)	10,916
Tax effect	119,278	(3,900)
Reclassification adjustment for losses realized in income	-	4,232
Tax effect	-	(1,552)
Other comprehensive income (loss), net of taxes	(395,516)	9,696
Comprehensive income	$ 3,146,276	$ 2,068,537

KS Bancorp, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018 and 2017

	Common Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Earnings	Loss	Equity
Balance, December 31, 2016	1,309,501	$ 1,607,005	$ 23,513,112	$ (728,753)	$ 24,391,364
Net income	-	-	2,058,841	-	2,058,841
Other comprehensive income, net of taxes	-	-	-	9,696	9,696
Reclassification of income tax effect from accumulated other comprehensive loss	-	-	146,065	(146,065)	-
Cash dividends paid on common stock	-	-	(157,140)	-	(157,140)
Balance, December 31, 2017	1,309,501	$ 1,607,005	$ 25,560,878	$ (865,122)	$ 26,302,761
Net income	-	-	3,541,792		3,541,792
Other comprehensive loss, net of taxes	-	-	-	(395,516)	(395,516)
Redemption of common stock	(201,725)	(247,553)	(6,732,253)	-	(6,979,806)
Cash dividends paid on common stock	-	-	(344,471)	-	(344,471)
Balance, December 31, 2018	1,107,776	$ 1,359,452	$ 22,025,946	$ (1,260,638)	$ 22,124,760

KS Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 3,541,792	$ 2,058,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	475,939	485,950
Net accretion and amortization	186,855	229,935
Deferred income taxes	155,361	1,143,319
Provision for (recovery of) loan losses	-	(227,500)
Loss on sale of available-for-sale securities	-	4,232
Loss on sale of foreclosed real estate and repossessions	-	13,837
Deferred gain on sale of foreclosed real estate and repossessions	(5,064)	(11,262)
Impairment of foreclosed real estate and repossessions	-	34,250
Income from bank owned life insurance	(234,000)	(202,000)
Loss on sale of property and equipment	776	79
Changes in assets and liabilities:		
Decrease (increase) in:		
Other assets	92,676	(34,225)
Accrued interest receivable	(85,266)	(41,173)
Increase in:		
Accrued interest payable	56,493	42,520
Accrued expenses and other liabilities	8,894	166,871
Net cash provided by operating activities	4,194,456	3,663,674
Cash Flows used by Investing Activities:		
Proceeds from maturities, prepayments, and calls of available-for-sale securities	12,491,363	12,451,270
Proceeds from sales of available-for-sale securities	-	938,582
Purchase of available for sale securities	(13,946,821)	(12,651,261)
Sale (purchase) of Federal Home Loan Bank stock	115,000	(20,100)
Net change in loans receivable	(9,655,116)	(19,806,777)
Proceeds from sale of foreclosed real estate and repossessions	-	341,801
Net capital expenditures on foreclosed real estate and repossessions	-	(49,226)
Purchase of property and equipment	(191,187)	(328,422)
Net cash used by investing activities	(11,186,761)	(19,124,133)

	2018	2017
Cash Flows from Financing Activities:		
Net increase in deposits	$ 33,848,869	$ 10,819,146
Repayment of borrowings	(24,595,630)	(12,800,000)
Proceeds from borrowings	17,500,000	14,113,484
Proceeds from the issuance of subordinated debentures	4,000,000	-
Redemption of common stock	(6,979,806)	-
Cash dividends paid	(344,471)	(157,140)
Net cash provided by financing activities	23,428,962	11,975,490
Net increase (decrease) in cash and cash equivalents	16,436,657	(3,484,969)
Cash and cash equivalents:		
Beginning	6,967,053	10,452,022
Ending	$ 23,403,710	$ 6,967,053
Supplemental Disclosure of Cash Flow Information:		
Cash payments for:		
Interest	$ 3,828,982	$ 2,989,038
Income taxes	$ 659,608	$ 1,198,214
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Transfer from loans to real estate acquired in settlement of loans	$ 44,518	$ 141,352
Change in unrealized gains (losses) on available for sale securities, net	$ (395,516)	$ 9,696
Increase in loans receivable through sale of foreclosed real estate	$ 49,582	$ 5,254
Reclassification of income tax effect from accumulated other comprehensive loss	$ -	$ 146,065

Notes to Consolidated Financial Statements

1. Nature of Business and Significant Accounting Policies

Organization and operations

In December 1993, pursuant to a Plan of Conversion approved by its members and regulators, Kenly Savings Bank, Inc., SSB amended and restated its charter to effect its conversion from a North Carolina-chartered mutual savings bank to a North Carolina-chartered stock savings bank and became a wholly owned subsidiary of KS Bancorp, Inc. ("KS Bancorp"), a holding company formed in connection with the conversion. On January 1, 1999, Kenly Savings Bank, Inc., SSB changed its name to KS Bank, Inc. (the "Bank"). On August 17, 2018, the Company changed its corporate charter from a North Carolina corporation to a Delaware corporation. The Bank conducts its operations through nine full service branches in eastern North Carolina, as well as a mortgage servicing office. In addition, the Company has a Trust Services department through which it offers a complete line of trust services, such as money management, IRAs, trust administration and estate administration.

The Bank's operations are primarily retail oriented and directed toward individuals and small to medium-sized businesses located in our banking market. The Bank provides traditional banking services which include taking of demand deposits and the making of consumer and commercial loans. The Bank's primary source of revenue is the interest income derived from its lending activities.

Basis of presentation

The consolidated financial statements include the accounts and transactions of KS Bancorp and its wholly owned subsidiary, KS Bank, Inc. KS Bancorp and the Bank are collectively referred to as the "Company". All significant intercompany transactions have been eliminated. In 2005, the Company formed KS Capital Trust I, a stand-alone trust, to facilitate the issuance of trust preferred securities totaling $5.0 million. In 2006, the Company formed KS Statutory Trust II, a stand-alone trust, to facilitate the issuance of trust preferred securities totaling $3.0 million (collectively, these are referred to as the "Trusts"). The Trusts are not consolidated in these financial statements under generally accepted accounting principles. The junior subordinated debentures issued by the Company to the Trusts are included in long-term obligations, and the Company's equity interests in the Trusts are included in other assets.

Use of estimates

The preparation of consolidated 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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, foreclosed real estate and repossessions, and income taxes.

Cash and cash equivalents

For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, and interest-earning deposits.

Investment securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal, adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are current or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt (as determined by the contractual terms of the note). Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms.

While a loan (including an impaired loan) is classified as nonaccrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding. When the future collectability of the recorded loan balance is not in doubt, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Allowance for loan losses

The allowance for loan losses established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory examiners may require the Bank to recognize adjustments to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Presold mortgages in process of settlement

As a part of normal business operations, the Bank originates residential mortgage loans that have been pre-approved by secondary investors. The terms of the loans are set by the secondary investors and are transferred to them at par within several weeks of the Bank initially funding the loan. The Bank receives origination fees from borrowers and servicing release premiums from the investors that are recognized on the income statement in the line item "fees from presold mortgages." Between the initial funding of the loans by the Bank and the subsequent reimbursement by the investors, the Bank carries the loans on its consolidated statements of financial condition at cost.

Foreclosed real estate and repossessions

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value, less estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management, and the real estate is carried at fair value minus estimated cost to sell the property. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed real estate expense.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated lives for buildings and improvements are 10 to 40 years, and the estimated lives for furniture and equipment range from 3 to 20 years. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any gains or losses are reflected in current operations.

Bank owned life insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance, included in other assets, is recorded at its cash surrender value or the amount that can be realized totaling $1,891,304 and $1,657,304 at December 31, 2018 and 2017, respectively.

Federal Home Loan Bank stock

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta (“FHLB”). These securities can only be redeemed or sold at their par value and only to the respective member institution. The Bank records this investment at cost and periodically evaluates the investment for impairment. Accordingly, when evaluating the investment for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. The Bank determined this investment was not impaired at December 31, 2018.

Income taxes

Income tax expense is based on consolidated net income and generally differs from income taxes paid due to deferred income taxes and benefits arising from income and expenses being recognized in different periods for financial and income tax reporting. The Company uses the asset and liability method to account for deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company’s assets and liabilities at enacted rates expected to be in effect when such amounts are recovered or settled.

The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2018 and 2017. Interest and penalties related to income tax assessments, if any, are reflected in income taxes in the accompanying consolidated statements of income.

Earnings per share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. There were no outstanding dilutive instruments during the years ended December 31, 2018 and 2017.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. These items, along with net income, are included as components of comprehensive income. Unrealized gains and losses on available for sale securities are the Company's only component of accumulated other comprehensive income.

Off-balance-sheet risk

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements and equity lines of credit. Such financial instruments are recorded when they are funded.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 21, 2019, the date the consolidated financial statements were available to be issued.

New accounting standards

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The new guidance requires lessees to recognize assets and liabilities related to certain operating leases on the balance sheet. The guidance also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. This guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2021. The Company is currently evaluating the effect the implementation of the new standard will have on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement – Reporting Comprehensive Income," which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company chose to early adopt the standard for the year ended December 31, 2017. The amount of reclassification for the Company was $146 thousand from accumulated other comprehensive income to retained earnings, as shown in the Consolidated Statements of Stockholders' Equity.

On January 1, 2018, the Company adopted ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). This guidance amends the Accounting Standards Codification 230, "Statement of Cash Flows," to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU addresses cash flow issues including: (i) debt prepayment or debt extinguishment costs, (ii) zero-coupon bonds, (iii) settlement of a contingent consideration liability, (iv) proceeds from the settlement of insurance claims, (v) proceeds from corporate-owned life insurance, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) the "predominance principle." The adoption of this guidance had no material effect on the Company's consolidated financial statements.

On January 1, 2018, the Company adopted ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). This guidance addresses certain aspects of recognition, measurement, presentation and disclosure. The amendments in this guidance (1) require equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair value; (3) require public business entities to use exit prices, rather than entry prices, when measuring fair value of financial instruments for disclosure purposes; (4) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; (5) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (6) require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (7) state that a valuation allowance on deferred tax assets related to available-for-sale securities should be evaluated in combination with other deferred tax assets. The adoption of this guidance had no material effect on the Company's consolidated financial statements.

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customer (Topic 606)" and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, which prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including income from loans and securities. In addition, certain noninterest income streams such as fees assoicated with mortgage servicing rights, finanical guarantees, derivatives and certain credit card fees are also not in the scope of the new guidance. Noninterest revenue streams in scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of insufficient funds fees, account analysis fees (i.e. net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's peformance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit acocunt related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payments for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Trust Services

The Trust Services Division offers a complete line of trust services, including money management, retirement plans, trust administration, and estate administration. The performance obligation for Trust services is the provision of services to place products issued by the counterparty to investors, and the provision of services to manage the client's assets, including brokerage custodial and other management services. Revenue from Trust services is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management. This revenue is either fixed or variable based on account type, or transaction-based.

Other Fees and Income

Other fees and income primarily consist of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income primarily consists of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant service income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exhange, and other service charges are largely satisified, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Other fees and income also includes other recurring revenue streams such as safety deposit rental fees and other miscellaneous revenue streams. Safe deposit boxes rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistent over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Bank's financial position, results of operations and cash flows.

2. Investment Securities

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, follows:

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for sale:				
Municipal securities	$ 4,063,592	$ 3,056	$ (276,573)	$ 3,790,075
Mortgage-backed securities - GSEs	58,499,271	143,392	(1,433,265)	57,209,398
Federal agency securities	5,079,487	2,465	(77,043)	5,004,909
	$ 67,642,350	$ 148,913	$ (1,786,881)	$ 66,004,382

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for sale:				
Municipal securities	$ 5,250,820	$ 44,398	$ (136,946)	$ 5,158,272
Mortgage-backed securities - GSEs	55,238,999	12,819	(982,082)	54,269,736
Federal agency securities	5,883,928	14,433	(75,796)	5,822,565
	$ 66,373,747	$ 71,650	$ (1,194,824)	$ 65,250,573

The amortized cost and estimated market value of investment securities at December 31, 2018 by contractual maturity are as shown below. The amortized cost and estimated market value of mortgage-backed securities by contractual maturities are not reported because the actual maturities may be, and often are, significantly different from contractual maturities.

	Amortized Cost	Estimated Market Value
Available for sale:		
Due after one year through five years	$ 233,136	$ 235,364
Due after five years through ten years	2,981,631	2,801,252
Due after excess of ten years	5,928,312	5,758,368
	$ 9,143,079	$ 8,794,984

For the year ended December 31, 2018, there were no proceeds from sales of securities available for sale. For the year ended December 31, 2017, proceeds from sales of securities available for sale amounted to $938,582, and gross realized gains were $6,608 and losses were $10,840. There were no impairments recognized in 2018 or 2017.

Securities with a carrying value of approximately $27,825,000 and $25,376,000 at December 31, 2018 and 2017, respectively, were pledged to secure public monies on deposit, advances from the Federal Home Loan Bank and to secure the line of credit with the Federal Reserve and to secure a federal funds line of credit.

The following tables show investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2018 and 2017. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since none of the unrealized losses relate to the marketability of the securities or the issuer's ability to honor redemption obligations, and considering that management has the intent and ability to hold these investments until recovery, none of the securities are deemed to be other than temporarily impaired. If management determines that it is not probable that the market value of these securities will recover to the Company's adjusted cost, the Company would record a charge to earnings to reflect the other-than-temporary impairment of the securities. At December 31, 2018, unrealized losses on investment securities relate to sixty-seven mortgage-backed securities, eight municipal securities, and six federal agency securities. At December 31, 2017, unrealized losses on investment securities relate to sixty-six mortgage-backed securities, eight municipal securities, and six federal agency securities.

	2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
Federal agency securities	$ -	$ -	$ 3,174,689	$ (77,043)	$ 3,174,689	$ (77,043)
Municipal securities	-	-	3,153,883	(276,573)	3,153,883	(276,573)
Mortgage-backed securities	60,511	(200)	43,283,248	(1,433,065)	43,343,759	(1,433,265)
Total temporarily impaired securities	$ 60,511	$ (200)	$ 49,611,820	$ (1,786,681)	$ 49,672,331	$ (1,786,881)

	2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
Federal agency securities	$ 636,995	$ (60)	$ 3,064,265	$ (75,736)	$ 3,701,260	$ (75,796)
Municipal securities	-	-	3,298,925	(136,946)	3,298,925	(136,946)
Mortgage-backed securities	28,669,590	(230,652)	25,038,900	(751,430)	53,708,490	(982,082)
Total temporarily impaired securities	$ 29,306,585	$ (230,712)	$ 31,402,090	$ (964,112)	$ 60,708,675	$ (1,194,824)

3. Loans

Loans consist of the following:

	2018	2017
Commercial real estate owner occupied	$ 68,996,732	$ 69,048,971
Commercial real estate non-owner occupied	46,883,461	42,840,917
Other construction, land development, and other land loans	21,112,353	25,741,744
Commercial and industrial	11,428,052	9,922,274
Residential real estate construction	28,161,129	22,175,497
Residential 1-4 family first mortgage	84,195,066	86,102,097
Other loans	38,863,072	34,203,977
	299,639,865	290,035,477
Allowance for loan losses	(4,010,296)	(4,066,088)
	$ 295,629,569	$ 285,969,389

The loans presented above are net of unamortized loan fees of $633,377 and $640,686 at December 31, 2018 and 2017, respectively. Included within loans above are overdraft protection accounts of $231,262 and $239,646 at December 31, 2018 and 2017, respectively.

The following describe the risk characteristics relevant to each of the portfolio segments.

Commercial Real Estate
Commercial real estate loans are extensions of credit secured by both owner and non-owner-occupied collateral. In either case, underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Such repayment of owner-occupied loans is commonly derived from the successful ongoing operations of the business occupying the property. These may include small businesses, professional practices, and religious organizations. Non-owner-occupied loans include those credits financing commercial and multifamily rental properties and, thus, typically present a higher risk than owner-occupied loans. All loans in the commercial real estate category are underwritten and assigned a risk grade at origination. Furthermore, nearly all of these loans carry call features whereby the note matures on regular intervals, prompting full underwriting and risk review based on the borrower's current financial condition.

Other Construction, Land Development and Other Land Loans

Construction and land development loans are short-term structures for the purpose of acquisition and development of land or lots to be improved through the construction of commercial or residential buildings. Such loans are usually paid off through the sale of the subject property upon completion, or converted to permanent financing for the long-term benefit of the borrower's ongoing operations. Underwriting of these loans typically includes analysis of not only the borrower's financial condition and ability to meet the required debt obligations, but also the general market conditions associated with the area and type of project being funded. All loans in this category are underwritten at origination and assigned a risk grade which is generally commensurate with the elevated risks associated with speculative real estate in a fluctuating economic environment. The short-term nature of these loans ultimately results in the opportunity for the Bank to review those credits that are not paid off via disposition or converted to the appropriate permanent loan structure by the maturity of the original note.

Commercial and Industrial

Commercial and industrial loans (C&I) receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow coverage requirements as set forth by Bank policies. C&I loans often require borrowers to produce finished products from raw materials and inventory that are then sold, thus converting the asset into cash for repayment. This asset-conversion cycle itself brings a certain level of risk to the portfolio. In some instances, these loans may carry a higher degree of risk due to a variety of reasons – illiquid collateral, specialized equipment, highly depreciable assets, uncollectable accounts receivable, revolving balances, or simply being unsecured. As a result of this risk, most commercial and industrial loans are extended as part of a larger relationship that may include substantial deposit accounts or additional lending facilities with a borrower or guarantor. These loans are risk graded at inception, and with a typically short-term maturity, re-evaluated at regular intervals for credit-worthiness and collateral evaluation.

Residential Real Estate

Residential real estate loans represent one of the Bank's core lending activities. This portfolio is largely made up of residential real estate construction loans and permanent mortgages to borrowers secured by first lien deeds of trust on 1 to 4 family residences. Residential construction loans are usually converted to permanent financing. Typically referred to as mortgage loans, the Bank underwrites these credits according to established Bank policies similar to those of the "secondary market". Evaluation criteria include but are not limited to the following: debt-to-income ratio, collateral loan-to-value, consumer credit score, consumer credit history, liquid assets, overall net worth, and repayment terms. While these loans are usually made to finance a borrower's primary residence, some credits in this category are extended as 1 to 4 family residential rental loans whereby repayment is derived from the rent or lease income of the subject property. In these instances, borrowers are further analyzed on secondary sources of repayment in addition to substantially more conservative loan terms to account for the non-owner-occupied nature of the collateral.

Similar to loans in the commercial real estate category, all loans in this category are underwritten and assigned a risk grade at origination. In contrast to residential mortgages, the majority of 1 to 4 family rental loans receives periodic reviews and/or is subject to loan call dates whereby the note matures on regular intervals, prompting full underwriting and risk review based on the borrower's current financial condition.

Other Loans

Other loans consist of multifamily loans, home equity loans, 1-4 family junior liens plus consumer loans including overdraft protection and vehicle financing. These loans may fall in either the consumer or commercial portfolio, depending on the purpose of the funds. While multifamily loans are heavily dependent upon cash flows from rental activities, the remainders of these loans are underwritten using basic consumer loan standards – debt-to-income ratio, collateral loan-to-value, consumer credit score, consumer credit history, liquid assets, overall net worth, and repayment terms. Exclusive of the multifamily (commercial) loans, most loans in this category are assigned a risk rating at inception and placed on fully amortizing notes without a call date.

Loans outstanding to the Company's officers and directors (including their affiliates) are shown below. In the opinion of management, these loans were made at lending terms and rates available to the general public and do not involve more than the normal risks of collectability.

	2018	2017
Balance, beginning	$ 2,054,148	$ 2,492,359
Originations and transfers in	55,000	40,000
Repayments	(361,932)	(478,211)
Balance, ending	$ 1,747,216	$ 2,054,148

Loans are monitored for credit quality on a recurring basis, and the composition of the loans outstanding at December 31, 2018 and 2017 by credit quality indicator is provided below. The credit quality indicators used are dependent on the portfolio segment to which the loan relates.

The loan credit quality indicators for residential 1-4 family first mortgage loans are developed based on the past due status of the individual loans. Loan credit quality indicators for all other loans within the portfolio are developed through review of individual borrowers on an ongoing basis. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed.

These credit quality indicators are defined as follows:

Pass (1 to 5) – Within the table below, Pass includes all loans risk graded higher than Special Mention. A pass rated loan is not adversely classified because it does not display any of the characteristics for adverse classification and has little identified risk of collection.

Special mention (6) – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention loans are not adversely classified and do not warrant adverse classification.

Substandard (7) – Within the table below, Substandard includes all loans risk graded lower than Special Mention. A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful (8) – These loans have all the weaknesses of substandard, nonaccruing loans plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values highly questionable and improbable.

Loss (9) – These loans are considered uncollectable and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off these loans even though partial recovery may be affected in the future.

The loan credit quality indicators for each loan class are as follows:

Credit Quality Indicators
As Of December 31, 2018

	Commercial Real Estate		Other Construction, Land Development, and Other Land Loans	Commercial and Industrial	Residential Real Estate Construction	Other Loans	Total
	Owner Occupied	Non-Owner Occupied					
Grade:							
Pass	$ 67,409,198	$ 46,393,222	$ 20,980,658	$ 11,237,108	$ 28,161,129	$ 38,348,531	$ 212,529,846
Special Mention	211,830	490,239	24,944	178,618	-	476,298	1,381,929
Substandard	1,375,704	-	106,751	12,326	-	38,243	1,533,024
Total	$ 68,996,732	$ 46,883,461	$ 21,112,353	$ 11,428,052	$ 28,161,129	$ 38,863,072	$ 215,444,799

Credit Quality Indicators
As Of December 31, 2017

	Commercial Real Estate		Other Construction, Land Development, and Other Land Loans	Commercial and Industrial	Residential Real Estate Construction	Other Loans	Total
	Owner Occupied	Non-Owner Occupied					
Grade:							
Pass	$ 67,535,075	$ 42,128,573	$ 25,591,865	$ 9,687,063	$ 22,175,497	$ 33,807,280	$ 200,925,353
Special Mention	872,116	712,344	36,390	235,211	-	132,570	1,988,631
Substandard	641,780	-	113,489	-	-	264,127	1,019,396
Total	$ 69,048,971	$ 42,840,917	$ 25,741,744	$ 9,922,274	$ 22,175,497	$ 34,203,977	$ 203,933,380

The loan credit quality indicators for residential 1-4 family are as follows:

	Residential 1-4 Family First Mortgage	
	2018	2017
Current	$ 81,790,291	$ 84,670,909
1 - 29 Days Past Due	1,373,847	1,390,784
30 - 59 Days Past Due	876,995	-
60 - 89 Days Past Due	-	-
Greater Than 90 Days	153,933	40,404
	$ 84,195,066	$ 86,102,097

The aging of the outstanding loans by class at December 31, 2018 and 2017 is provided in the table below. The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans less than 30 days past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

December 31, 2018

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial Real Estate:							
Owner Occupied	$ 3,771,283	$ -	$ 225,838	$ 3,997,121	$ 64,999,611	$ 68,996,732	$ -
Nonowner Occupied	394,682	-	-	394,682	46,488,779	46,883,461	-
Other Construction, Land Development, and Other Land Loans	369,482	16,400	-	385,882	20,726,471	21,112,353	-
Commercial and Industrial	39,520	-	35,673	75,193	11,352,859	11,428,052	-
Residential Real Estate Construction	120,900	-	-	120,900	28,040,229	28,161,129	-
Residential 1-4 Family First Mortgage	876,995	-	153,933	1,030,928	83,164,138	84,195,066	27,882
Other Loans	185,912	20,581	1,228	207,721	38,655,351	38,863,072	-
	$ 5,758,774	$ 36,981	$ 416,672	$ 6,212,427	$ 293,427,438	$ 299,639,865	$ 27,882

December 31, 2017

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial Real Estate:							
Owner Occupied	$ -	$ -	$ -	$ -	$ 69,048,971	$ 69,048,971	$ -
Nonowner Occupied	-	-	-	-	42,840,917	42,840,917	-
Other Construction, Land Development, and Other Land Loans	-	-	-	-	25,741,744	25,741,744	-
Commercial and Industrial	11,831	-	-	11,831	9,910,443	9,922,274	-
Residential Real Estate Construction	244,000	-	-	244,000	21,931,497	22,175,497	-
Residential 1-4 Family First Mortgage	-	-	40,404	40,404	86,061,693	86,102,097	-
Other Loans	10,887	41,033	18,406	70,326	34,133,651	34,203,977	-
	$ 266,718	$ 41,033	$ 58,810	$ 366,561	$ 289,668,916	$ 290,035,477	$ -

The following tables provide information on impaired loans at December 31, 2018 and 2017, including interest income recognized in the period during which the loans were considered impaired. The recorded investment balance does not include accrued interest receivable.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)	Interest Income Recognized
2018					
With no related allowance recorded:					
Commercial Real Estate:					
Owner Occupied	$ 2,044,551	$ 2,138,850	$ -	$ 2,133,946	$ 105,915
Nonowner Occupied	1,168,197	1,175,816	-	1,185,610	48,446
Other Construction, Land Development and Other Land Loans	226,515	287,625	-	241,218	-
Commercial and Industrial	336,571	336,571	-	356,725	47,147
Residential Real Estate Construction	-	-	-	-	22,059
Residential 1-4 Family First Mortgage	1,164,605	1,201,736	-	1,193,732	54,505
Other Loans	572,778	607,837	-	605,402	35,150
Total	$ 5,513,217	$ 5,748,435	$ -	$ 5,716,633	$ 313,222
With an allowance recorded:					
Commercial Real Estate:					
Owner Occupied	$ -	$ -	$ -	$ -	$ -
Nonowner Occupied	-	-	-	-	-
Real Estate Construction	-	-	-	-	-
Other Construction, Land Development and Other Land Loans	-	-	-	-	-
Commercial and Industrial	-	-	-	-	-
Residential 1-4 Family First Mortgage	27,063	27,063	1,423	26,858	-
Other Loans	-	-	-	-	-
Total	$ 27,063	$ 27,063	$ 1,423	$ 26,858	$ -
Total:					
Commercial	$ 3,775,834	$ 3,938,862	$ -	$ 3,917,499	$ 223,567
Consumer	572,778	607,837	-	605,402	35,150
Residential	1,191,668	1,228,799	1,423	1,220,590	54,505
Total	$ 5,540,280	$ 5,775,498	$ 1,423	$ 5,743,491	$ 313,222

(1) The average recorded investments represent the average of the recorded investments of impaired loans at December 31, 2018.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)	Interest Income Recognized
2017					
With no related allowance recorded:					
Commercial Real Estate:					
Owner Occupied	$ 1,369,020	$ 1,400,006	$ -	$ 1,398,580	$ 68,018
Nonowner Occupied	1,209,704	1,217,323	-	1,227,767	50,101
Other Construction, Land Development and Other Land Loans	242,493	303,603	-	257,689	21,511
Commercial and Industrial	305,389	305,389	-	311,539	48,455
Residential Real Estate Construction	-	-	-	-	-
Residential 1-4 Family First Mortgage	1,423,653	1,461,111	-	1,492,513	69,347
Other Loans	624,346	659,405	-	674,874	37,133
Total	$ 5,174,605	$ 5,346,837	$ -	$ 5,362,962	$ 294,565
Total:					
Commercial	$ 3,126,606	$ 3,226,321	$ -	$ 3,195,575	$ 188,085
Consumer	624,346	659,405	-	674,874	37,133
Residential	1,423,653	1,461,111	-	1,492,513	69,347
Total	$ 5,174,605	$ 5,346,837	$ -	$ 5,362,962	$ 294,565

(1) The average recorded investments represent the average of the recorded investments of impaired loans at December 31, 2017.

There were no loans modified as troubled debt restructurings during 2018 and 2017.

There was one residential real estate property in the amount of $35,673 in the process of foreclosure at December 31, 2018, and there was one residential real estate property in the amount of $40,518 in the process of foreclosure at December 31, 2017.

The recorded investment, by class, in loans on nonaccrual status at December 31, 2018 and 2017 is as follows:

	2018	2017
Commercial Real Estate:		
Owner Occupied	$ 734,603	$ -
Nonowner Occupied	-	-
Other Construction, Land Development and Other Land Loans	16,400	113,489
Commercial and Industrial	47,999	-
Residential 1-4 family first mortgage	340,655	433,901
Other loans	38,243	70,770
Total	$ 1,177,900	$ 618,160

Interest income that has not been recorded due to these loans being in nonaccrual status for 2018 and 2017 was approximately $5,977 and $186, respectively.

The ending balances of loans and the related allowance presented by portfolio segment and allowance methodology as of December 31, 2018 and 2017 are as follows:

2018	**Commercial Real Estate**		**Other Construction, Land Development, and Other Land Loans**	**Commercial and Industrial**	**Residential Real Estate Construction**	**Residential 1-4 Family First Mortgage**	**Other Loans**	**Total**
	Owner Occupied	**Non-Owner Occupied**						
Allowance for credit losses:								
Beginning balance	$ 790,680	$ 521,247	$ 1,166,748	$ 335,089	$ 236,025	$ 711,881	$ 304,418	$ 4,066,088
Charge-offs	(63,313)	-	-	(20,980)	-	(562)	(1,705)	(86,560)
Recoveries	5,384	1,305	-	22,068	-	332	1,679	30,768
Provision	-	-	-	-	-	-	-	-
Ending balance	$ 732,751	$ 522,552	$ 1,166,748	$ 336,177	$ 236,025	$ 711,651	$ 304,392	$ 4,010,296
Ending balance, individually evaluated for impairment	-	-	-	-	-	1,423	-	1,423
Ending balance, collectively evaluated for impairment	732,751	522,552	1,166,748	336,177	236,025	710,228	304,392	4,008,873
Financing Receivables:								
Ending balance	$ 68,996,732	$ 46,883,461	$ 21,112,353	$ 11,428,052	$ 28,161,129	$ 84,195,066	$ 38,863,072	$ 299,639,865
Ending balance, individually evaluated for impairment	2,044,551	1,168,197	226,515	336,571	-	1,191,668	572,778	5,540,280
Ending balance, collectively evaluated for impairment	$ 66,952,181	$ 45,715,264	$ 20,885,838	$ 11,091,481	$ 28,161,129	$ 83,003,398	$ 38,290,294	$ 294,099,585

2017	**Commercial Real Estate Owner Occupied**	**Commercial Real Estate Non-Owner Occupied**	**Other Construction, Land Development, and Other Land Loans**	**Commercial and Industrial**	**Residential Real Estate Construction**	**Residential 1-4 Family First Mortgage**	**Other Loans**	**Total**
Allowance for credit losses:								
Beginning balance	$ 875,520	$ 518,337	$ 711,360	$ 334,474	$ 236,025	$ 744,182	$ 352,293	$ 3,772,191
Charge-offs	(9,840)	-	-	-	-	(33,436)	(65,053)	(108,329)
Recoveries	-	2,910	607,888	615	-	1,135	17,178	629,726
Provision	(75,000)	-	(152,500)	-	-	-	-	(227,500)
Ending balance	$ 790,680	$ 521,247	$ 1,166,748	$ 335,089	$ 236,025	$ 711,881	$ 304,418	$ 4,066,088
Ending balance, individually evaluated for impairment	-	-	-	-	-	-	-	-
Ending balance, collectively evaluated for impairment	790,680	521,247	1,166,748	335,089	236,025	711,881	304,418	4,066,088
Financing Receivables:								
Ending balance	$ 69,048,971	$ 42,840,917	$ 25,741,744	$ 9,922,274	$ 22,175,497	$ 86,102,097	$ 34,203,977	$ 290,035,477
Ending balance, individually evaluated for impairment	1,369,020	1,209,704	242,493	305,389	-	1,423,653	624,346	5,174,605
Ending balance, collectively evaluated for impairment	$ 67,679,951	$ 41,631,213	$ 25,499,251	$ 9,616,885	$ 22,175,497	$ 84,678,444	$ 33,579,631	$ 284,860,872

4. Property and Equipment

Following is a summary of property and equipment at December 31, 2018 and 2017:

	2018	2017
Land	$ 2,409,885	$ 2,409,885
Buildings and improvements	7,293,682	7,293,682
Leasehold improvements	77,373	77,373
Furniture and equipment	3,337,784	3,458,286
	13,118,724	13,239,226
Accumulated depreciation	(5,794,575)	(5,629,549)
Total	$ 7,324,149	$ 7,609,677

Depreciation and amortization amounting to $475,939 and $485,950 for the years ended December 31, 2018 and 2017, respectively, is included in occupancy and equipment expense.

The Company leases a branch facility located in Wendell, NC under a 2-year lease term that will mature in February 2021. The Company also leases three additional properties: an operation facility located in Smithfield, NC under a 3-year lease term that will mature in June 2020, a property in Greenville, NC leased on an annual contract that renews in February of each year and an office in Asheboro, NC for the Wealth Management group that will mature in May 2019. Lease expense amounted to $91,140 and $77,040 for the years ended December 31, 2018 and 2017, respectively. Future lease expense related to these arrangements totals $88,340 in 2019, $56,240 in 2020, and $2,500 in 2021.

5. Deposits

Deposits consist of the following:

	2018	2017
Regular savings accounts	$ 16,504,294	$ 13,958,443
NOW accounts	55,983,965	48,586,395
Money market deposit accounts	71,655,019	62,625,592
Noninterest-bearing accounts	62,608,875	50,157,191
Time Deposits	123,670,784	121,246,447
	$ 330,422,937	$ 296,574,068

Time deposit accounts are summarized by maturity at December 31, 2018 as follows:

	2019	2020	2021	2022	2023 and Thereafter	Total
Less than $250,000	$39,167,272	$41,608,999	$ 6,258,789	$ 1,432,124	$ 466,109	$ 88,933,293
$250,000 or more	27,065,164	6,497,504	1,174,823	-	-	34,737,491
	$66,232,436	$48,106,503	$ 7,433,612	$ 1,432,124	$ 466,109	$123,670,784

The aggregate amount of time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2018 and 2017 was $34,737,491 and $30,432,520, respectively.

6. Borrowings

A summary of the balances of borrowings follows:

	December 31, 2018	December 31, 2017
Short term:		
Securities sold under agreements to repurchase	$ 7,313	$ 2,749,943
Federal funds purchased	-	1,353,000
Total short term borrowings	7,313	4,102,943
Long term:		
Federal Home Loan Bank advances	30,000,000	33,000,000
Junior subordinated debentures	8,248,000	8,248,000
Subordinated debentures	6,000,000	2,000,000
Total long term borrowings	44,248,000	43,248,000
Total borrowings	$ 44,255,313	$ 47,350,943

The Company may purchase federal funds through a secured and unsecured federal funds line of credit agreement totaling $16.3 million. Additionally, the Company may borrow funds through a secured line of credit totaling $1.8 million from the Federal Reserve discount window and a $3 million loan commitment agreement from Community Bankers' Bank. These lines are intended for short term borrowings and are subject to restrictions limiting the frequency and term of advances. These lines of credit are payable on demand and bear interest based upon the daily federal funds rate. The Company had no federal funds borrowings outstanding as of December 31, 2018 and $1.4 million outstanding at December 31, 2017.

The Bank enters into repurchase agreements on an overnight and continuous basis with customers to transfer excess funds in demand deposit accounts into interests in securities that are direct obligations of the United States Government. The customer's interest in the underlying security shall be repurchased by the Bank at the opening of the next banking day. The rate fluctuates monthly and is generally based on the previous month's 90-day Treasury Bill, less 25 basis points. The carrying value of pledged investments for securities sold under repurchase agreements totaled $475 thousand and $2.7 million at December 31, 2018 and 2017, respectively.

The Company had no short-term advances from the FHLB at December 31, 2018 and 2017. Long-term advances from the FHLB consist of the following:

Type	Maturing in Year Ending	Interest Rate	December 31, 2018	December 31, 2017
Fixed-Hybrid	2018	2.91%	$ -	$ 3,000,000
Fixed-Hybrid	2020	3.33%	2,000,000	2,000,000
Fixed-Hybrid	2021	3.39%	8,000,000	8,000,000
Fixed-Hybrid	2021	3.36%	5,000,000	5,000,000
Fixed-Hybrid	2021	3.35%	5,000,000	5,000,000
Fixed-Hybrid	2021	3.20%	5,000,000	5,000,000
Fixed-Hybrid	2022	4.08%	5,000,000	5,000,000
			$ 30,000,000	$ 33,000,000

Pursuant to collateral agreements with the Federal Home Loan Bank (FHLB), advances are collateralized by all of the Company's FHLB stock, qualifying first mortgage loans, commercial real estate loans pledged in the form of a blanket-floating lien, and investment securities available for sale. The balance of qualifying first mortgage loans and commercial real estate loans as of December 31, 2018 was approximately $105.0 million. This agreement with the FHLB provides for a line of credit up to 25% of the Bank's assets. The maximum amount outstanding under the line of credit at any month-end during 2018 was $36.5 million. Additionally, the Bank has a $13 million standby letter of credit which is used to secure public deposits.

On February 2, 2015, the Bank restructured five fixed rate hybrid advances and one convertible advance into six fixed-hybrid rate advances with lower interest rates. At the time of restructuring, the prepayment penalties associated with the restructured advances were not cash settled, and therefore the interest rates presented for the new fixed-hybrid rate advances represent blended rates that incorporate the coupon rates, as well as a built in spread to amortize the prepayment penalty over the life of the new advances. The actual coupon rate on the fixed-hybrid rate advance maturing in 2020 is 1.69%, the coupon rate on the fixed-hybrid rate advances maturing in 2021 are 1.87%, and the coupon rate on the fixed-hybrid rate advance maturing in 2022 is 2.07%.

In June of 2005 and September 2006, $5.0 million and $3.0 million, respectively, of trust preferred securities were placed through KS Capital Trust I (the “Trust I”) and KS Statutory Trust II (“Trust II”). Trust I and Trust II (collectively, the “Trusts”) were formed for the sole purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in junior subordinated debentures. The debentures held by the Trusts are their sole assets. The Company owns 100% of the Trusts outstanding common securities and unconditionally guarantees the Trusts financial obligations. The debentures and the trust preferred securities of Trust I and Trust II bear an interest rate of LIBOR (London Inter-Bank Offered Rate) plus 1.66% and 1.70%, respectively. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to trust common securities if, and so long as, the Company fails to make principal or interest payment on the debentures. The dividends paid to holders of the trust preferred securities, which are recorded as interest expense, are deductible for income tax purposes. The trust preferred securities of Trust I are redeemable on or after September 15, 2010, in whole or in part, and redemption is mandatory at June 27, 2035. The trust preferred securities of Trust II are redeemable on or after December 15, 2011, in whole or in part, and redemption is mandatory at December 15, 2036. The Company has fully and unconditionally guaranteed the trust preferred securities through the combined operation of the debentures and other related documents. The Company’s obligation under the guarantee is unsecured and subordinate to senior and subordinated indebtedness of the Company.

The trust preferred securities issued by both Trust I and Trust II presently qualify as Tier 1 regulatory capital.

Subordinated debt in the amount of $2.0 million was issued December 19, 2014, the proceeds from which were used to repay Cumulative Perpetual Preferred Stock then outstanding. The subordinated debt pays interest quarterly, at the annual rate of 6% through December 18, 2017, and thereafter at the rate of 7% per annum. Interest is payable on March 15, June 15, September 15, and December 15 of each year commencing March 15, 2015, until the principal hereof is paid. The subordinated debt matures on December 19, 2019 and can be prepaid any time after December 19, 2016.

Subordinated debt in the amount of $4.0 million was issued May 1, 2018, the proceeds from which were used to repurchase common stock. The subordinated debt pays interest quarterly, at the annual rate of 6.25% through April 30, 2023, and thereafter at the rate of LIBOR (to be defined at that time) plus 4%. Interest is payable on March 15, June 15, September 15, and December 15 of each year. The subordinated debt matures on May 16, 2028 and can be prepaid any time.

7. Income Taxes

At December 31, 2018, retained earnings contain certain historical additions to bad debt reserves for income tax purposes in the amount of $2,038,000 for which no deferred taxes have been provided because the Bank does not intend to use these reserves for purposes other than to absorb losses. If amounts which qualified as bad debt deductions are used for purposes other than to absorb bad debt losses or adjustments arising from the carryback of net operating losses, income taxes may be imposed at the then existing rates. In the future, if the Bank does not meet the income tax requirements necessary to permit the deduction of an allowance for bad debts, the Bank's effective tax rate would be increased to the maximum percent under existing law. Unrecorded deferred income taxes on Pre 1988 tax bad debt reserves amounted to approximately $465,000 at December 31, 2018.

Deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 have been established utilizing a 21% effective federal tax rate as enacted under the Tax Cuts and Jobs Act (“Act”). As a consequence of the change in the effective federal tax rate under the Act, net deferred tax assets were revalued, resulting in an approximate $784,000 increase in income tax expense for the year ended 2017. Significant components of deferred taxes at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Allowance for loan losses	$ 754,039	$ 754,039
Deferred compensation and directors' deferred compensation	570,343	535,719
Unrealized losses on securities available for sale	377,330	258,052
AMT credit carry forward	-	204,806
Other	54,444	57,117
Total deferred tax assets	1,756,156	1,809,733
Deferred tax liabilities:		
Accumulated depreciation	157,096	173,185
Federal Home Loan Bank stock	320	486
Total deferred tax liabilities	157,416	173,671
Net deferred tax assets	$ 1,598,740	$ 1,636,062

It is management’s opinion that recognition of net deferred tax assets is more likely than not based on the Company’s history of taxable income and estimates of future taxable income.

The significant components of the provision for income taxes for the years ended December 31, 2018 and 2017 are as follows:

	Years Ended December 31, 2018	Years Ended December 31, 2017
Current tax provision (benefit):		
Federal	$ 639,615	$ 919,735
State	152,024	131,031
	791,639	1,050,766
Deferred tax provision (benefit):		
Federal	160,843	1,114,824
State	(5,482)	28,495
	155,361	1,143,319
Net income tax provision	$ 947,000	$ 2,194,085

The difference between the provision for income taxes and the amounts applied by applying the statutory federal income tax rate of 21% for the year ended 2018 and 34% for the year ended 2017 to income before income taxes is summarized below:

	2018	2017
Expense computed at statutory rate of 21% and 34%	$ 942,646	$ 1,445,996
Effect of state income taxes	115,768	105,287
Tax exempt income	(98,432)	(150,208)
Income tax rate revalue	-	784,085
Other, net	(12,982)	8,925
	$ 947,000	$ 2,194,085

8. Concentration of Credit Risk, Off-Balance-Sheet Risk and Commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and equity lines of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract amount of the Bank's exposure to off-balance-sheet risk is as follows:

	December 31,	
	2018	2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 3,192,100	$ 2,934,080
Undisbursed lines of credit	46,205,018	42,833,383
Standby letters of credit	847,331	396,186

The Bank evaluates each customer's credit worthiness on a case-by-case basis. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. The collateral held is the underlying real estate.

9. Employee Benefits

The Bank has a 401(k) retirement plan which contains provisions for specified matching contributions. The Bank funds contributions as they accrue, and 401(k) expense totaled approximately $190,000 for each of the years ended December 31, 2018 and 2017. During 2018, the plan was amended to allow common stock of the Company available as an investment option.

During 2001, the Company adopted a Supplemental Executive Retirement Plan (SERP) for its senior executives. The Company has purchased life insurance policies in order to provide future funding of benefit payments. Plan benefits will accrue and vest during the period of employment and will be paid in fixed monthly benefit payments over ten years commencing with the officer’s retirement at any time after attainment of age sixty-five. Benefits will accrue based upon the performance of the underlying life insurance policies both during employment and after retirement. The total liability under this plan was approximately $2,406,000 and $2,259,000 at December 31, 2018 and 2017, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition.

In 2004, the Company also enacted additional retirement and life insurance benefits for selected middle management employees. This plan calls for additional contributions to 401(k) accounts for these selected employees. During 2018 and 2017, expenses attributable to these plans amounted to $24,300 and $21,100, respectively.

The Company has entered into employment agreements with several of its senior executive officers in order to attract and retain a competent management team. The employment agreements generally provide for severance payments to be paid to the executive upon termination without cause, termination for good reason, and in the event of a change of control and separation from service. The agreements may also restrict the executive from competing against the Company, or soliciting its customers or employees, for a period of time following a termination of employment.

10. Deferred Compensation for Directors

The Bank has a director's deferred compensation plan, and the retirement benefits vest to each director in amounts ranging from $1,000 to $16,000 depending upon years of service. As of December 31, 2018 and 2017, the Bank had accrued $76,000 and $73,000, respectively, which represents the present value of the respective deferred compensation.

11. Regulatory Matters

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

The Bank is subject to the capital requirements of the Federal Deposit Insurance Corporation (the "FDIC") and the Administrator of the North Carolina Savings Institutions Division.

The FDIC requires the Bank to have a minimum leverage ratio of Tier I Capital (principally consisting of retained earnings and common stockholders' equity, less any intangible assets) to total assets of 4%. The FDIC also requires the Bank to have a ratio of total capital to risk-weighted assets of 8%, of which at least 6% must be in the form of Tier I capital. Effective January 1, 2015 the FDIC requires the Bank to have a minimum common equity Tier 1 to risk-weighted assets of 4.5%. The North Carolina Administrator requires a net worth equal to at least 5% of total assets.

At December 31, 2018 and 2017, the Bank complied with all the capital requirements as shown below:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2018						
Total Capital (to Risk-Weighted Assets)	$ 40,747	13.93%	$ 28,947	9.875%	$ 29,313	10.0%
Tier I Capital (to Risk-Weighted Assets)	37,171	12.68%	23,084	7.875%	23,451	8.0%
Common Equity (to Risk-Weighted Assets)	37,171	12.68%	18,687	6.375%	19,054	6.5%
Tier I Capital (to Average Assets)	37,171	9.52%	15,615	4.000%	19,519	5.0%
December 31, 2017						
Total Capital (to Risk-Weighted Assets)	$ 39,301	14.02%	$ 26,330	9.250%	$ 28,464	10.0%
Tier I Capital (to Risk-Weighted Assets)	36,342	12.77%	20,637	7.250%	22,772	8.0%
Common Equity (to Risk-Weighted Assets)	36,342	12.77%	16,367	5.750%	18,502	6.5%
Tier I Capital (to Average Assets)	36,342	9.79%	14,847	4.000%	18,559	5.0%

Under the FDIC prompt corrective action regulations, a savings institution is considered to be well capitalized if its ratio of total capital to risk-weighted assets is at least 10.0%, its ratio of Tier I capital to risk-weighted assets is at least 8.0%, and its ratio of Tier I capital to total average assets is at least 5.0%.

At the time of its conversion from a mutual to a stock charter, the Bank established a liquidation account in an amount equal to its net worth as of September 30, 1993 for the benefit of all holders of deposit accounts with an aggregate balance in excess of $50 on March 31, 1993. In the unlikely event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to his or her interest in the liquidation account prior to any payments to holders of common stock. An eligible account holder's interest in the liquidation account will be computed on December 31 each year and is reduced, or will cease to exist, if the funds in the related deposit account are withdrawn. The interest of an eligible account holder in the liquidation account will never be increased, even if there is an increase in the related deposit account after March 31, 1993.

During 2018 and 2017, the Bank paid dividends of $3,775,000 and $515,000 to KS Bancorp, respectively. Subject to regulations promulgated by the North Carolina Administrator, the Bank will not be permitted to pay dividends on its common stock if its stockholders' equity would be reduced below the amount required for the liquidation account or its capital requirement.

12. Fair Value of Financial Instruments

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank’s entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Bank’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value estimates are based on pertinent information available to management as of December 31, 2018 and 2017. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and therefore, current estimates of fair value may differ significantly from the amounts presented herein. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Cash and due from banks, time deposits, and accrued interest receivable

The carrying amounts reported in the consolidated statement of financial condition for these instruments approximate their fair values due to their short-term nature.

Investment securities available for sale

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Federal Home Loan Bank stock

The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans

Prior to the adoption of ASU 2016-01, fair value is estimated based on discounted future cash flows using the current interest rates at which loans with similar terms would be made to borrowers of similar credit quality. For 2018, upon adoption of ASU 2016-01, fair value is estimated based on discounted future cash flows, incorporating liquidity and secondary market comparable pricing, in order to estimate an exit price notion.

Deposits

The fair value of deposits with no stated maturities, including transaction accounts and savings accounts, is estimated to be equal to the amount payable on demand as of December 31, 2018 and 2017. The fair value of certificates of deposit is based upon the discounted value of future contractual cash flows. The discount rate is estimated using the rates offered on December 31, 2018 and 2017 for deposits of similar remaining maturities.

Borrowings

The carrying amounts of short-term borrowings approximate their fair value. The fair value of the long term borrowings are estimated based on observable market prices and discounted cash flow analyses using current rates at which borrowings of similar maturity and characteristics could be obtained.

Accrued interest payable

The carrying amount of accrued interest payable approximates its fair value.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2018 and 2017.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 23,403,710	$ 23,403,710	$ 6,967,053	$ 6,967,053
Time deposits	100,000	100,000	100,000	100,000
Investment securities available for sale	66,004,382	66,004,382	65,250,573	65,250,573
Federal Home Loan Bank stock	1,696,100	1,696,100	1,811,100	1,811,100
Loans, net	295,629,569	294,330,247	285,969,389	281,594,000
Accrued interest receivable	1,211,987	1,211,987	1,126,721	1,126,721
Financial liabilities:				
Deposits	330,422,937	309,983,000	296,574,068	287,360,000
Borrowings	44,255,313	40,734,911	47,350,943	45,022,390
Accrued interest payable	380,333	380,333	323,840	323,840

13. Fair Value Measurement

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing 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. The Bank utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Recurring Basis Measurements

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2018 and 2017. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Fair values of assets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

		Fair Value Measurements at December 31,		
Description	Fair Value	(Level 1)	(Level 2)	(Level 3)
2018				
Available for sale:				
Federal agency securities	$ 5,004,909	$ -	$ 5,004,909	$ -
Municipal securities	3,790,075	-	3,790,075	-
Mortgage-backed securities-GSEs	57,209,398	-	57,209,398	-
	$ 66,004,382	$ -	$ 66,004,382	$ -

Description	Fair Value	Fair Value Measurements at December 31, (Level 1)	(Level 2)	(Level 3)
2017				
Available for sale:				
Federal agency securities	$ 5,822,565	$ -	$ 5,822,565	$ -
Municipal securities	5,158,272	-	5,158,272	-
Mortgage-backed securities-GSEs	54,269,736	-	54,269,736	-
	$ 65,250,573	$ -	$ 65,250,573	$ -

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows:

Investment Securities Available for Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets market funds. Level 2 securities include federal agency securities and mortgage-backed securities issued by government sponsored entities, as well as municipal bonds. There were no changes during the years ended December 31, 2018 and 2017 to the Company's valuation techniques used to measure asset fair values on a recurring basis.

Non-Recurring Basis Measurements

Certain other financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Fair values of assets measured on a nonrecurring basis at December 31, 2018 and 2017 are as follows:

Description	Fair Value	Fair Value Measurements at December 31, (Level 1)	(Level 2)	(Level 3)
2018				
Impaired loans(1)	$ 160,522	$ -	$ -	$ 160,522
2017				
Impaired loans(2)	$ 433,851	$ -	$ -	$ 433,851

(1) Consists of $25,640 in impaired loans, net of specific reserves totaling $1,423. Also includes $134,882 impaired loans that incurred partial charge-offs totaling $63,313 during 2018.
(2) Consists of $433,851 impaired loans that incurred partial charge-offs totaling $62,568 during 2017. There were no specific reserves recorded for impaired loans.

The valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis are as follows:

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2018 and 2017, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Foreclosed real estate and repossessions

Foreclosed real estate and repossessions balances are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate asset as nonrecurring Level 3.

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
2018				
Impaired Loans	$ 161	Discounted appraisals (1)	Appraisal adjustments ()	5% to 10%(3)
2017				
Impaired Loans	$ 434	Discounted appraisals (1)	Appraisal adjustments ()	5% to 10%(3)

(1) Fair value is generally based on appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.
(3) Weighted average of the significant unobservable input value is 7% in 2017 and 2018.

Impaired loans and real estate and repossessions acquired in settlement of loans classified as Level 3 are based on management's judgment and estimation.

There was no foreclosed residential real estate at December 31, 2018 and 2017.

14. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) included the following at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Unrealized losses on investment securities available for sale:		
Accumulated other comprehensive loss	$ (1,637,968)	$ (1,123,174)
Deferred tax benefit	377,330	258,052
Accumulated other comprehensive loss, net of tax	$ (1,260,638)	$ (865,122)

The following table highlights changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Accumulated other comprehensive income (loss), beginning	$ (865,122)	$ (728,753)
Unrealized gains (losses) on investment securities available for sale:		
Other comprehensive income (loss) before reclassifications	(395,516)	7,016
Amount reclassified from accumulated other comprehensive income (loss) for losses realized in income, net	-	2,680
Net current period other comprehensive income (loss)	(395,516)	9,696
Amount reclassified from accumulated other comprehensive loss to retained earnings	-	(146,065)
Accumulated other comprehensive loss, ending	$ (1,260,638)	$ (865,122)

15. Parent Company Financial Data

The following is a summary of the condensed financial statements of KS Bancorp, Inc. as of and for the years ended December 31, 2018 and 2017:

Condensed Balance Sheets
December 31, 2018 and 2017

	2018	2017
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 140	$ 233
Investment in subsidiaries	36,004	36,082
Other assets	260	251
	$ 36,404	$ 36,566
Liabilities and Stockholders' Equity		
Liabilities:		
Junior subordinated debentures	$ 8,248	$ 8,248
Subordinated debentures	6,000	2,000
Other liabilities	31	15
Stockholders' equity:		
Common stock	1,360	1,607
Accumulated other comprehensive loss	(1,261)	(865)
Retained earnings, substantially restricted	22,026	25,561
	$ 36,404	$ 36,566

Condensed Statements of Income
Years Ended December 31, 2018 and 2017

	2018	2017
	(Dollars in thousands)	
Equity in earnings of subsidiaries	$ 4,092	$ 2,330
Other expense	(696)	(410)
Income tax benefit	146	139
Net income	$ 3,542	$ 2,059

Condensed Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$ 3,542	$ 2,059
Noncash items included in net income:		
Equity in earnings of subsidiaries	(4,092)	(2,330)
Change in assets and liabilities:		
Decrease (increase) in other assets	(9)	11
Increase (decrease) in other liabilities	16	4
Net cash used by operating activities	(543)	(256)
Cash Flows from Investing Activities:		
Upstream dividends received from subsidiary	3,775	515
Net cash provided by investing activities	3,775	515
Cash Flows from Financing Activities:		
Proceeds from the issuance of subordinated debt	4,000	-
Redemption of common stock	(6,980)	-
Cash dividends paid	(345)	(157)
Net cash used by financing activities	(3,325)	(157)
Net increase in cash:	(93)	102
Beginning	233	131
Ending	$ 140	$ 233