



**FREQUENTLY ASKED QUESTIONS (“FAQ”)
CONCERNING THE ADOPTION OF
THE SHAREHOLDER RIGHTS PLAN
ON FEBRUARY 9, 2018**

1. **What is a shareholder rights plan?** A shareholder rights plan is a commonly used anti-takeover device utilized to protect a corporation and its shareholders against unwelcome takeovers. Such plans often provide for the issuance of additional shares to the corporation’s shareholders in order to dilute the ownership of a hostile third party.

2. **Why has KS Bancorp adopted a shareholder rights plan?** Last year, we received informal, non-binding “indications of interest” from First Citizens BancShares (“First Citizens”). Your Board engaged a nationally-recognized investment banking firm to conduct a detailed analysis of the indications of interest and other strategic alternatives. After thorough and extended consideration of the analysis and other relevant information, your Board *unanimously* determined to reject the indications of interest and resolved that the continued independent operation of KS Bancorp is in the best interest of our shareholders. We feel our recently announced yearend results support this decision.

Previously, the indications of interest created significant unrest among our employees and our existing and prospective clients. Notwithstanding our rejection of First Citizens’ indications of interest, we have recently learned that First Citizens’ bank subsidiary (and our direct competitor), First-Citizens Bank & Trust Company, has directly approached certain of our customers and shareholders, expressing its intent to acquire additional shares in KS Bancorp. First Citizens has rejected requests to communicate directly with KS Bancorp. Therefore, your Board has adopted a shareholder rights plan to provide reassurance to our employees and clients, protect the corporation against further disruption, and protect shareholders from potential coercive action by First Citizens and any other third parties who may seek to acquire control of your corporation without negotiating directly with the Board and paying a fair price, including, where appropriate, a control premium.

3. **Why is a shareholder rights plan sometimes referred to as a “poison pill”?** It is sometimes referred to as “poison pill” because once an acquiring shareholder acquires more than a specified percentage of the corporation’s stock (in the case of our rights plan, more than 15%), the corporation may, through a variety of mechanisms, dilute the ownership (and economic value) of such large shareholders in order to protect the corporation and its shareholders.

4. **Will the adoption of the rights plan stop any third party from acquiring control of KS Bancorp?** No. The purpose of the rights plan is not to stop the legitimate sale of the corporation, if it is in the best interests of the corporation and its shareholders. Instead, the purpose of the plan is to insure that in the event a third party seeks to purchase the corporation, it negotiates directly with the Board, which has a fiduciary responsibility to act in the best interest of all shareholders of the corporation. Your Board continues to be of the opinion that First Citizens’ indications of interest undervalue the corporation and are not in the best interest of the corporation and its shareholders.

5. **What advice did the Board receive before adopting the rights plan?** The Board obtained analysis and advice from its independent financial advisors and legal counsel.

6. **Can I sell my preferred stock purchase rights?** No, these rights cannot be separated from your shares of common stock until a “Distribution Date” occurs.

7. **Will the adoption of the rights plan affect the value of my shares of common stock?** Your Board adopted the rights plan in order to protect the long-term value of your shares of common stock. We do not expect the adoption of the plan to adversely affect the value of your common stock; however, as you know, KS Bancorp’s shares are very thinly traded, with the result that the prices quoted on the Pink Sheets fluctuate significantly, often for reasons outside the control of KS Bancorp.