



MORRIS STATE BANCSHARES, INC.

SHAREHOLDER REPORT

JUNE 30, 2019

Dear Shareholder,

It's midway through what has been an extremely busy and exciting year for the bank. We've fully completed our acquisition and systems integration of Farmers & Merchants Bank (FMB) launching the BLUE brand into an exciting new market. Thus far, we've seen great traction in the Bulloch County market. While system conversions can be a sensitive time for customers, transactional account balances in Bulloch County were actually up in our first two months of operation. This is a testament to the hard work of new Bulloch team's leveraging of their new tools and services to their already loyal customers with the full faith and operational support of the whole Morris team.

FINANCIAL HIGHLIGHTS*			
BANK LEVEL	6/30/2019	6/30/2018	Change
Net Income	6,887,872	7,432,176	-7.32%
Net Income (Annualized)	13,889,907	14,987,537	-7.32%
Average Total Assets	817,430,223	698,517,774	17.02%
Average Total Loans	641,931,588	574,234,835	11.79%
Average Total Deposits	718,436,711	611,302,692	17.53%
Average Total Capital	86,974,995	72,626,451	19.76%
Return on Average Assets	1.70%	2.14%	-20.56%
Return on Average Equity	15.97%	20.66%	-22.70%
HOLDING COMPANY LEVEL			
Net Income	6,487,050	7,375,529	-12.05%
Net Income Per Average Share (Annualized)	\$6.68	\$8.16	-18.14%
Book Value Per Share	\$43.62	\$39.52	10.37%
Return on Average Equity	15.55%	21.05%	-26.13%

*based on unaudited numbers

At the holding company level, we've earned \$6,487M through the first six months of the year. Our book value per share was \$43.62, which is up 10.37% from a year ago, but as projected, is down by approximately 3.45% from the first quarter of this year. As discussed in our first quarter shareholder letter, we anticipated a short-term decline in our book value due to the new shares issued in the FMB transaction as well as purchase accounting merger-related adjustments. Our pre-closing modeling projected a tangible book value of \$42.79 post merger transaction. We were very pleased to see an actual value above our projection at \$43.62. Our net income was \$6,487M as of 6/30/2019, which reflects a 12.05% decline from 6/30/2018. Merger-related expenses and slightly higher credit costs accounted for essentially all this decline.

Since year end, the bank's total balance sheet footings are up \$175,679M, or 23.4%. One of the most positive balance sheet changes is the increase in noninterest-bearing deposits from the Bulloch County market. Bank wide, noninterest-bearing deposits were up \$70,223M, or 56% from year-end 2018. Our continued core deposit growth has allowed for a reduction in brokered funding, which has declined by \$44,014M since 12/31/2018. As previously mentioned, we are excited to build the BLUE brand in the Bulloch market and focus on how we can help customers with loan and deposit needs. Long-term, fixed rate mortgages are a new offering for the bank in Bulloch, which we intend to leverage into a more complete relationship with customers in that market just as we have in our others.

We thought that our last letter to you would be our final one issued directly. However, we decided that due to the our OTCQX exchange transition occurring in late third or early fourth quarter, we'd send out one last letter before transitioning to our investor portal. You will not receive future shareholder letters via mail. Going forward, shareholder information will be available through our website, www.morris.bank/investor-relations, within 45 days of each quarter end. Our transfer agent, Computershare, now handles our stock accounting and financial reporting. As we mentioned, you should convert your paper certificates into book entry form, which can be held by your investment firm/stockbroker. If you haven't done so, please execute the necessary paperwork to complete your certificate transfer. Following our entrance onto the OTCQX exchange, Fig Partners will be the primary point of contact for stock transactions.

Thank you for your continued trust and commitment to Morris Bank. Enjoy the rest of your summer.

Best Regards,

Spence Mullis, President & CEO