



FOR IMMEDIATE RELEASE

**Morris State Bancshares Announces Quarterly Earnings
and Declares Fourth Quarter Dividend**

DUBLIN, GA. (October 26, 2022) – Morris State Bancshares, Inc. (OTCQX: MBLU) (the “Company”), the parent of Morris Bank, today announced net income of \$2.1 million for the quarter ended September 30, 2022, representing a decrease of \$4.7 million, or 69.11%, compared to net income of \$6.8 million for the quarter ended June 30, 2022. The company also announced diluted earnings per share of \$0.98 for the quarter, representing a 69.47% decrease from diluted earnings per share of \$3.21 for the prior quarter. Lower quarter over quarter net earnings were a result of higher provision expense centered around one loan relationship that management identified as having significant cash flow and collateral weaknesses. Management was proactive in identifying and charging off all amounts owed under the relationship. The amount of this charge-off was \$3.1 million, which together with additional provision driven by loan growth resulted in total provision expense for the quarter of \$3.8 million versus \$375 thousand in the previous quarter.

“The company’s profitability was impacted during the quarter due to setting aside additional loan loss reserves. Management is confident that this was an isolated incident and is not indicative of weakness in our overall loan portfolio.” said Spence Mullis, CEO and Chairman. “Maintaining strong credit quality, practices, and solid reserves is always front and center for our management team, and we will continue to use this situation as an opportunity to improve. While credit costs were higher during the quarter, the company’s core operating earnings remain solid.”

The bank’s net interest margin compressed slightly to 4.12% at September 30, 2022 from 4.14% at June 30, 2022. Net interest income (before provision) during the quarter ending September 30, 2022 remained strong at \$13.9 million and was in line with that of the prior quarter ending June 30, 2022 of \$14.1 million. Loans grew by \$20.6 million during the quarter, an annualized increase of 8.16%. Management has been pleased at how our lenders have been able to price loans in this rising rate environment. The weighted average yield on new and renewed loans of \$139 million booked during the third quarter was 5.91% compared to the weighted average yield of 4.71% on \$208 million booked in the second quarter of 2022.

Total deposits were relatively unchanged between the second and third quarter. The bank increased deposit rates in July, which resulted in an increase in the cost of funds of 27 basis points for the quarter. Interest bearing demand deposits fell by \$12 million and certificates of deposit fell by \$6 million during the quarter. Management expects increased pressure on the net interest margin in future quarters due to continued competition for deposits in a rising rate environment.

The Company's total shareholders' equity increased 0.44% to \$160 million as of September 30, 2022, as compared to \$159 million as of June 30, 2022. Tangible book value per share increased to \$70.01 as of September 30, 2022, a 0.70% increase from \$69.52 per share on June 30, 2022. On October 19, 2022, the board of directors approved a fourth quarter dividend of \$0.44 per share payable on or about December 15th to all shareholders of record as of November 15th (unchanged from the dividends paid in the first and second quarters).

While the bank had higher credit charges during the quarter, overall asset quality improved as the bank's adversely classified coverage ratio improved to 5.59% as of September 30, 2022, versus 6.82% as of June 30, 2022. Provision for loan losses was \$3.8 million for the quarter ended September 30, 2022 versus \$375 thousand for the quarter ending June 30, 2022. The bank's reserve as a percentage of total loans was 1.27% as of September 30, 2022, versus 1.24% as of June 30, 2022.

"Our team is focused on finishing the year strong. We have invested in and are implementing technology solutions that are targeted at growing core deposits and improving delivery channels in retail lending. We believe these solutions will drive additional success for our customers and the bank." said Mullis.

Forward-looking Statements

Certain statements contained in this release may not be based on historical facts and are forward-looking statements. These forward-looking statements may be identified by their reference to a future period or periods or by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "expect," "may," "might," "will," "would," "could" or "intend." We caution you not to place undue reliance on the forward-looking statements contained in this news release, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors, including, among others, the business and economic conditions; risks related to the integration of acquired businesses and any future acquisitions; changes in management personnel; interest rate risk; ability to execute on planned expansion and organic growth; credit risk and concentrations associated with the Company's loan portfolio; asset quality and loan charge-offs; inaccuracy of the assumptions and estimates management of the Company makes in establishing reserves for probable loan losses and other estimates; lack of liquidity; impairment of investment securities, goodwill or other intangible assets; the Company's risk management strategies; increased competition; system failures or failures to prevent breaches of our network security; changes in federal tax law or policy; the impact of recent and future legislative and regulatory changes; and increases in capital requirements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this news release.

CONTACT:
Morris State Bancshares
Chris Bond
Chief Financial Officer
478-272-5202

MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Balance Sheet September 30, 2022



MORRIS
BANK

	September 30, 2022	June 30, 2022	Change	% Change	September 30, 2021
	<i>(Unaudited)</i>	<i>(Unaudited)</i>			<i>(Unaudited)</i>
ASSETS					
Cash and due from banks	\$ 61,031,336	\$ 74,271,951	\$ (13,240,615)	-17.83%	\$ 98,488,262
Federal funds sold	24,137,905	18,873,609	5,264,296	27.89%	67,966,892
Total cash and cash equivalents	<u>85,169,241</u>	<u>93,145,560</u>	<u>(7,976,319)</u>	<u>-8.56%</u>	<u>166,455,154</u>
Interest-bearing time deposits in other banks	100,000	350,000	(250,000)	(71.43%)	350,000
Securities available for sale, at fair value	--	--	--	--	253,026,739
Securities held to maturity, at cost	266,551,405	275,498,923	(8,947,518)	(3.25%)	13,220,095
Federal Home Loan Bank stock, restricted, at cost	1,494,400	744,500	749,900	100.73%	624,200
Loans, net of unearned income	1,030,422,253	1,009,838,142	20,584,111	2.04%	882,889,280
Less-allowance for loan losses	(13,027,473)	(12,519,189)	(508,284)	4.06%	(12,125,731)
Loans, net	<u>1,017,394,780</u>	<u>997,318,953</u>	<u>20,075,827</u>	<u>2.01%</u>	<u>870,763,549</u>
Bank premises and equipment, net	14,018,310	14,721,005	(702,695)	-4.77%	15,127,699
ROU assets for operating lease, net	1,569,358	1,061,310	508,048	47.87%	420,363
Goodwill	9,361,704	9,361,704	--	--	9,361,770
Intangible assets, net	2,110,003	2,196,485	(86,482)	-3.94%	2,456,370
Other real estate and foreclosed assets	3,774,402	3,751,184	23,218	0.62%	5,470,761
Accrued interest receivable	4,737,122	4,685,278	51,844	1.11%	4,670,208
Cash surrender value of life insurance	14,244,800	14,153,898	90,902	0.64%	13,889,164
Other assets	14,373,367	14,274,462	98,905	0.69%	10,057,607
Total Assets	<u>\$ 1,434,898,892</u>	<u>\$ 1,431,263,262</u>	<u>\$ 3,635,630</u>	<u>0.25%</u>	<u>\$ 1,365,893,679</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits:					
Non-interest bearing	\$ 368,015,994	\$ 367,004,039	\$ 1,011,955	0.28%	\$ 331,663,248
Interest bearing	870,746,377	871,719,946	(973,569)	-0.11%	854,987,023
	<u>1,238,762,371</u>	<u>1,238,723,985</u>	<u>38,386</u>	<u>0.00%</u>	<u>1,186,650,271</u>
Other borrowed funds	28,808,031	28,789,380	18,651	0.06%	28,733,428
Lease liability for operating lease	1,569,358	1,061,310	508,048	47.87%	420,363
Accrued interest payable	306,662	106,192	200,470	188.78%	146,945
Accrued expenses and other liabilities	5,784,488	3,616,439	2,168,049	59.95%	7,137,289
Total liabilities	<u>1,275,230,910</u>	<u>1,272,297,306</u>	<u>2,933,604</u>	<u>0.23%</u>	<u>1,223,088,296</u>
Shareholders' Equity:					
Common stock	2,171,665	2,171,665	-	0.00%	2,151,398
Paid in capital surplus	41,086,276	41,391,867	(305,591)	-0.74%	39,735,842
Retained earnings	100,832,787	101,723,321	(890,534)	-0.88%	80,874,167
Current year earnings	14,464,536	12,363,616	2,100,920	16.99%	16,863,337
Accumulated other comprehensive income (loss)	2,809,715	3,009,031	(199,316)	-6.62%	4,845,836
Treasury Stock, at cost 54,744 shares	(1,696,997)	(1,693,544)	(3,453)	0.20%	(1,665,197)
Total shareholders' equity	<u>159,667,982</u>	<u>158,965,956</u>	<u>702,026</u>	<u>0.44%</u>	<u>142,805,383</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,434,898,892</u>	<u>\$ 1,431,263,262</u>	<u>\$ 3,635,630</u>	<u>0.25%</u>	<u>\$ 1,365,893,679</u>

MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income for the Three Months Ended



	September 30, 2022 <i>(Unaudited)</i>	June 30, 2022 <i>(Unaudited)</i>	Change	% Change	September 30, 2021 <i>(Unaudited)</i>
Interest and Dividend Income:					
Interest and fees on loans	\$ 13,401,241	\$ 12,916,106	\$ 485,135	3.76%	\$ 12,642,615
Interest income on securities	1,882,931	1,809,274	73,657	4.07%	1,580,691
Income on federal funds sold	58,422	18,380	40,042	217.86%	21,720
Income on time deposits held in other banks	284,617	145,381	139,236	95.77%	29,479
Other interest and dividend income	53,095	49,189	3,906	7.94%	51,191
Total interest and dividend income	<u>15,680,306</u>	<u>14,938,330</u>	<u>741,976</u>	<u>4.97%</u>	<u>14,325,696</u>
Interest Expense:					
Deposits	1,298,347	485,077	813,270	167.66%	515,038
Interest on other borrowed funds	433,142	398,866	34,276	8.59%	389,377
Interest on federal funds purchased	2,854	--	2,854		--
Total interest expense	<u>1,734,343</u>	<u>883,943</u>	<u>850,400</u>	<u>96.21%</u>	<u>904,415</u>
Net interest income before provision for loan losses	13,945,963	14,054,387	(108,424)	-0.77%	13,421,281
Less-provision for loan losses	3,750,000	375,000	3,375,000	900.00%	450,000
Net interest income after provision for loan losses	<u>10,195,963</u>	<u>13,679,387</u>	<u>(3,483,424)</u>	<u>-25.46%</u>	<u>12,971,281</u>
Noninterest Income:					
Service charges on deposit accounts	639,971	628,174	11,797	1.88%	517,470
Other service charges, commissions and fees	411,386	472,427	(61,041)	-12.92%	488,866
Gain on sales of foreclosed assets	--	290,564	(290,564)	-100.00%	--
Increase in CS V of life insurance	90,902	88,800	2,102	2.37%	90,712
Other income	70,907	7,992	62,915	787.22%	247,726
Total noninterest income	<u>1,213,166</u>	<u>1,487,957</u>	<u>(274,791)</u>	<u>-18.47%</u>	<u>1,344,774</u>
Noninterest Expense:					
Salaries and employee benefits	4,499,343	4,516,545	(17,202)	-0.38%	4,648,196
Occupancy and equipment expenses, net	618,367	543,815	74,552	13.71%	575,664
Loss (gain) on sales of foreclosed assets and other real estate	995	--	995		4,580
Loss on sales of premises and equipment	220,280	--	220,280		--
Other expenses	3,401,150	2,883,858	517,292	17.94%	2,740,932
Total noninterest expense	<u>8,740,135</u>	<u>7,944,218</u>	<u>795,917</u>	<u>10.02%</u>	<u>7,969,372</u>
Income Before Income Taxes	2,668,994	7,223,126	(4,554,132)	-63.05%	6,346,683
Provision for income taxes	568,076	420,925	147,151	34.96%	163,153
Net Income	<u>\$ 2,100,918</u>	<u>\$ 6,802,201</u>	<u>(4,701,283)</u>	<u>-69.11%</u>	<u>\$ 6,183,530</u>
Earnings per common share:					
Basic	\$ 0.98	\$ 3.21	(2.23)	-69.47%	\$ 2.94
Diluted	\$ 0.98	\$ 3.21	(2.23)	-69.47%	\$ 2.94

MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Selected Financial Information



	September 30, 2022 (Unaudited)	June 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
Dollars in thousand, except per share data			
Per Share Data			
Basic Earnings per Common Share	\$ 0.98	\$ 3.21	\$ 2.93
Diluted Earnings per Common Share	0.98	3.21	2.93
Dividends per Common Share	0.44	0.44	0.38
Book Value per Common Share	75.42	74.97	67.99
Tangible Book Value per Common Share	70.01	69.52	62.36
Average Diluted Share d Outstanding	\$ 2,116,463	\$ 2,112,305	\$ 2,102,876
End of Period Common Shares Outstanding	\$ 2,116,921	\$ 2,120,374	\$ 2,100,471
Annualized Performance Ratios (Bank Only)			
Return on Average Assets	0.80%	2.08%	1.97%
Return on Average Equity	6.34%	16.93%	16.56%
Equity/Assets	12.49%	12.44%	11.77%
Yield on Earning Assets	4.50%	4.29%	4.26%
Cost of Funds	0.43%	0.16%	0.17%
Net Interest Margin	4.12%	4.14%	4.10%
Efficiency Ratio	52.80%	48.06%	52.12%
Credit Metrics			
Allowance for Loan Losses to Total Loans	1.27%	1.24%	1.37%
Allowance for Loan Losses to Total Loans*	1.27%	1.24%	1.41%
Adversely Classified Assets to Tier 1 Capital plus Allowance for Loan Losses	5.59%	6.82%	8.04%

* Excludes PPP Loans