MORRIS STATE BANCSHARES, INC.

SHAREHOLDER REPORT

MARCH 31, 2019

Dear Shareholder,

FIRST QUARTER FINANCIAL HIGHLIGHTS			
BANK LEVEL	**3/31/2019**	**3/31/2018**	**Change**
Net Income	4,636,989	3,490,297	32.85%
Net Income (annualized)	18,805,567	14,155,093	32.85%
Total Average Assets	761,016,215	693,978,843	9.66%
Total Average Loans	604,113,884	568,610,597	6.24%
Total Average Deposits	668,380,225	601,271,668	11.16%
Total Average Capital	80,559,096	72,146,244	11.66%
Return on Average Assets	2.47%	2.04%	21.10%
Return on Average Equity	23.35%	19.62%	19.01%
HOLDING COMPANY LEVEL			
Net Income	4,597,026	3,470,640	32.45%
Net Income Per Average Share (annualized)	$9.89	$7.75	27.61%
Book Value Per Share	$45.18	$39.20	15.26%
Return on Average Equity	22.89%	20.18%	13.43%

The new year is off to a good start. We are continuing to prepare for the acquisition of Farmers & Merchants Bank in Statesboro, Georgia. In February, the shareholders voted to covert to C corp tax status to prepare for the merger. Along with the tax status change, we had to make a couple of one-time accounting entries to account for items that are treated differently for tax purposes. The largest accounting entry we had to make during the first quarter created a $1,966M deferred tax asset (DTA). This DTA is a result of the difference between the book and tax basis, and the largest contributor to the DTA is our allowance for loan and lease losses. For book accounting purposes as an S corp, when we set aside reserves to cover potential losses on problem loans, we would take a book charge to our income through our allowance for loan and lease losses. However, these charges were not tax deductible unless all or a portion of the loan was actually deemed uncollectible and ultimately charged off of our books. Hence, we received no tax benefit when setting aside reserves to cover future loan losses. As a result of our converting to a C corp, the reserve we had accumulated became a deferred tax asset as we had incurred reserve charges that we never had the benefit of deducting for tax purposes. This DTA created a $1,966M tax provision, which is essentially a negative income tax expense that substantially enhanced our income and stock book value during the first quarter. As a result of this change along with core earnings, the company's first quarter net income was significantly higher at $4,597M, up 32.45% from the first quarter of 2018. The book value per share was $45.18, which reflects a year-over-year increase of 15.26%, and the return on equity was 22.89%.

As discussed at the shareholders' meeting, the bank will begin paying taxes on the bank's earnings as a C corp versus that liability flowing through to you as a shareholder as a S corp. We will move from paying quarterly dividends to a one-time dividend we expect to pay in the first quarter of each year beginning in 2020. While we had the positive impact of the DTA in the first quarter, we started recognizing income tax expense each month based on the monthly earnings, which negatively affected our net income on the quarter by about $689M. We also expensed over $400M in transaction costs related to the upcoming purchase of FMB during the first quarter.

The bank's balance sheet continued to strengthen with increased liquidity from core deposit growth and reduced brokered funding. On the loan side, total loans were up $24,459M from 3/31/2018 levels but reflected a reduction of $14,842M as compared to year-end 2018. The reduction in loans during the first quarter of 2019 was a result of some larger loan payoffs. The interest-rate environment continues to present challenges in terms of competitive pricing, both on the loan and deposit sides. Deposit repricing is occurring more quickly than our loan repricing, which compresses our margin. Our net interest margin was 4.41% as of 3/31/2019, which represents a reduction of 16 basis points from the 3/31/2018 level of 4.57%. We continue to successfully grow our core deposits. Non-interest-bearing deposits are up $12,052M from year-end 2018, and core money market deposits were up $19,114M from year-end 2018. These areas of increase along with other core deposits allowed for a reduction in brokered money market deposits of $26,788M since 12/31/2018.

As discussed above with our conversion to a C corp, income and expense items have and will fluctuate as we move through the conversion process. Furthermore, as we complete our transaction with FMB, our financials will include additional one-time merger related costs that will affect our earnings and book value negatively in the short term. When we issue approximately $10,000M in subordinated debt along with new shares to complete the FMB merger, our book value will be negatively impacted in the near term. As we discussed at the shareholders' meeting, the negative impact on book value is the cost of doing a transaction, which we believe better positions our bank for the future and will allow us to create more long-term value for you as a shareholder.

We will also be transitioning our stock onto the OTCQX exchange towards the end of the second quarter or beginning of the third quarter. With our stock becoming a "traded" stock on the OTCQX this will provide you as an individual shareholder with a more efficient manner to account for and track your stock. You will be receiving a welcome letter from Computershare, the transfer agent we have selected to handle our stock accounting and financial reporting moving forward. This letter will ask you to verify the tax id number associated with your shares along with other information. Computershare will also allow you to convert your paper certificates into book entry form, which can be held by your investment firm/stockbroker like other individual stocks you may hold. We will be updating you with interim information upon completion of this and our FMB transaction. You will also be receiving information along the way from Computershare in relation to your stock. Going forward, shareholders' letters such as this one along with other financial disclosures will be compiled by us at the bank but distributed via an investor portal through our website, www.morris.bank.

We look forward to closing our merger with FMB on May 1st and growing the BLUE footprint to include Bulloch County. This is a milestone in our bank's history with significant opportunity as we take on over 7,000 new deposit customers and over 700 new loan customers. Your support and confidence in us over the years has gotten us to this point, and for that, we sincerely thank you. We look forward to working with and for you in an extremely bright future as we continue to provide the BEST community banking services throughout Middle and South Georgia.

Best Regards,

Spence Mullis

Spence Mullis
President & CEO