



FOR IMMEDIATE RELEASE

Morris State Bancshares Announces Quarterly Earnings, Declares Dividend, and Completes Subordinated Notes Offering

DUBLIN, GA. (July 27, 2020) – Morris State Bancshares, Inc. (OTCQX: MBLU) (the “Company”), the parent of Morris Bank, today announced net income of \$3.4 million, or an earnings per share of \$1.61, for the quarter ended June 30, 2020. The earnings represent an increase of approximately \$1.5 million, or 78%, compared to net income of \$1.9 million, or \$0.95 per share, for the quarter ended June 30, 2019. On a pretax basis, the company earned \$4.6 million for the quarter versus \$3.0 million for the prior year quarter, representing a 57% increase. The increase was primarily a result of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan growth and related fees and lower non-interest expense.

“In the second quarter, we experienced strong net interest income, which was up 14% as compared to the first quarter. This growth was driven by loan growth of \$90 million, or 12%, during the quarter with SBA PPP loans representing 90% of that growth,” said Spence Mullis, President and CEO. “In light of the current economic and health situation in our country as well as taking a charge off on a legacy problem credit, we allocated \$2 million to our allowance for loan losses during the quarter. After the charge off and additional reserve, our credit metrics improved markedly. We believe that our healthy reserves, balance sheet position, and capital levels are solid and that we are positioned to support our customers during this crisis, help facilitate economic recovery in our markets, and take advantage of any strategic opportunities that may develop.”

Total assets of the company were up \$200 million, or 22%, from the end of the second quarter of 2019. Over half of this growth occurred in the second quarter of this year as loans increased \$90 million, primarily SBA PPP loans, and interest-bearing deposits and investment securities increased \$11 million. The remaining organic growth was centered in single family mortgages held-for-sale and other real estate secured loans. Total deposits were up \$182 million, or 23%, from June 30, 2019. Noninterest-bearing deposit growth represented a significant portion of total deposit growth as noninterest-bearing deposits increased by \$70 million, or 37%. Management estimates that approximately \$30 million of this growth is unspent SBA PPP funds on deposit by customers. Total shareholders’ equity of the company increased to \$119 million, representing an increase of 16% from June 30, 2019. Tangible book value per share was \$51.07 as of June 30, 2020, an increase of \$3.89, or 8.25%, since December 31, 2019. On July 22, 2020, the board of

directors approved a third quarter dividend of \$0.35 per share payable on or about September 15th to all shareholders of record on August 30, 2020.

Net interest income for quarters ended June 30, 2020 and 2019 was \$12.2 million and \$9.2 million respectively, an increase of \$3.0 million, or 32%. The net interest margin for the said quarters was 4.70% and 4.50%. The margin was bolstered by strong SBA PPP fees recognized on 631 individual PPP loans totaling \$82.9 million in loans booked during the quarter. Mortgage fee income was strong during the quarter as the bank recognized \$708 thousand in secondary mortgage fees as compared to \$297 thousand in the year ago quarter. Service charge revenue declined during the quarter while interchange income increased. As a result, other non-interest income remained flat at \$1.0 million. Efficiency of the bank improved to 50.56% from 57.80% for the quarter ended December 31, 2019, as the bank continued to build revenue and realize cost saves from the FMB Equibanc merger. Total non-interest expense as a percentage of net interest income in the quarter was 54.0% versus 74.3% a year earlier.

The company charged off a legacy credit totaling \$1.6 million in the quarter that had associated specific reserves. This charge off coupled with minimal additional asset deterioration reduced non-performing assets (NPAs). NPAs were down to \$11.7 million on June 30, 2020 versus \$12.4 million at December 31, 2019. After allocating \$2.0 million to the reserve in the second quarter, the allowance as a percentage of total loans was 1.21% as of June 30, 2020 versus 1.31% the same period in the prior year. Management continues to actively review the loan portfolio, stress test certain segments, and ensure lenders are in regular contact with borrowers to monitor any current operating issues, both normal and COVID-related. To this point, credit quality metrics remain strong. With the recent increasing number of COVID cases and in turn certain communities and businesses tightening safety measures, the portfolio could be further impacted. Management continues to monitor the economic situation and is confident that it is well positioned to weather the storm with solid reserves, solid capital levels, and strong core earnings.

Subordinated Notes Offering

On July 22, 2020, the company completed the issuance of a private placement of \$15 million of 5.25% fixed to floating rate subordinated notes due 2030 (the “Notes”) to certain qualified institutional buyers and accredited investors. The Notes are unsecured and have a ten-year term, maturing July 22, 2030, and will bear interest at a fixed annual rate of 5.25%, payable quarterly in arrears, for the first five years of the term. Thereafter, the interest rate will reset quarterly to an interest rate per annum equal to three-month LIBOR plus 492 basis points, payable quarterly in arrears. The Notes have been structured to qualify as Tier 2 capital for MBLU for regulatory capital purposes. MBLU intends to use the net proceeds of the offering to supplement the capital of Morris Bank, its wholly owned subsidiary, and for general corporate purposes.

In connection with the subordinated notes offering, the company was advised by Performance Trust Capital Partners, LLC as financial advisor and Fenimore, Kay, Harrison & Ford, LLP as legal counsel.

Spence Mullis, President and CEO, said, “This private placement will provide our company with strength and flexibility well into the future as we continue to serve and grow in communities throughout Middle and South Georgia.”

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.

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MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income
June 30, 2020



MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income
for the Three Months Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Interest and dividend income:				
Loans, including fees	\$ 12,758,312	\$ 10,288,307	\$ 2,470,005	24.01%
Securities	942,506	762,103	180,403	23.67%
Federal funds sold	8,615	122,624	(114,009)	-92.97%
Interest-bearing deposits in banks	7,766	12,435	(4,669)	-37.55%
FHLB stock	11,692	16,132	(4,440)	-27.52%
Other interest and dividend income	26,666	238,535	(211,869)	-88.82%
Total interest income	<u>13,755,557</u>	<u>11,440,136</u>	<u>2,315,421</u>	<u>20.24%</u>
Interest expense:				
Deposits	1,381,632	2,004,467	(622,835)	-31.07%
Borrowed funds	179,337	204,938	(25,601)	-12.49%
Federal funds purchased	--	--	--	--
Total interest expense	<u>1,560,969</u>	<u>2,209,405</u>	<u>(648,436)</u>	<u>-29.35%</u>
Net interest income	12,194,588	9,230,731	2,963,857	32.11%
Provision for loan losses	<u>2,000,000</u>	<u>450,000</u>	<u>1,550,000</u>	<u>344.44%</u>
Net interest income after provision for loan losses	<u>10,194,588</u>	<u>8,780,731</u>	<u>1,413,857</u>	<u>16.10%</u>
Noninterest income:				
Service charges on deposit accounts	387,440	554,175	(166,735)	-30.09%
Other fees and commissions	544,539	395,303	149,236	37.75%
Gain on sale of loans	--	(7,660)	7,660	-100.00%
Increase in CSV of life insurance	93,136	44,164	48,972	110.89%
Other income	9,742	51,408	(41,666)	-81.05%
Total noninterest income	<u>1,034,857</u>	<u>1,037,390</u>	<u>(2,533)</u>	<u>-0.24%</u>
Noninterest expense:				
Salaries and employee benefits	4,377,552	3,444,846	932,706	27.08%
Occupancy and equipment expenses, net	603,710	552,060	51,650	9.36%
Loss on sales of foreclosed assets	2,240	22,531	(20,291)	-90.06%
Loss on sale of securities available for sale	--	4,623	(4,623)	-100.00%
Other operating	1,601,247	2,834,536	(1,233,289)	-43.51%
Total noninterest expense	<u>6,584,749</u>	<u>6,858,596</u>	<u>(273,847)</u>	<u>-3.99%</u>
Income before Taxes	<u>4,644,696</u>	<u>2,959,525</u>	<u>1,685,171</u>	<u>56.94%</u>
Income Taxes	<u>1,275,320</u>	<u>1,069,500</u>	<u>205,820</u>	<u>19.24%</u>
Net Income	<u>\$ 3,369,376</u>	<u>\$ 1,890,025</u>	<u>\$ 1,479,351</u>	<u>78.27%</u>
Earnings per Share	<u>\$ 1.61</u>	<u>\$ 0.95</u>	<u>\$ 0.66</u>	<u>69.47%</u>
Tangible Book Value per Common Share	<u>\$ 51.07</u>	<u>\$ 43.62</u>	<u>\$ 7.45</u>	<u>17.08%</u>

MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Balance Sheet
June 30, 2020



MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Balance Sheet
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
<u>ASSETS</u>				
Cash and due from banks	\$ 56,702,226	\$ 26,691,267	\$ 30,010,959	112.44%
Federal funds sold	28,826,177	20,699,332	8,126,845	39.26%
Interest bearing time deposits in other banks	1,350,000	2,100,000	(750,000)	-35.71%
Securities available for sale, at fair value	139,789,954	111,125,724	28,664,230	25.79%
Securities held to maturity, at cost	9,983,201	5,567,478	4,415,723	79.31%
Federal Home Loan Bank stock	899,700	842,900	56,800	6.74%
Loans, less allowance for loan losses of \$10,149,609 and \$9,446,751 respectively	837,779,248	714,100,188	123,679,060	17.32%
Premises and equipment, net	16,003,773	16,001,167	2,606	0.02%
Goodwill	9,361,805	9,361,704	101	0.00%
Intangible assets, net	2,891,386	3,242,765	(351,379)	-10.84%
Other real estate and foreclosed assets	645,231	481,056	164,175	34.13%
Accrued interest receivable	3,036,882	2,919,529	117,353	4.02%
Cash surrender value of life insurance	13,434,514	7,122,527	6,311,987	88.62%
Other assets	6,150,284	6,132,264	18,020	0.29%
Total assets	\$ 1,126,854,381	\$ 926,387,901	\$ 200,466,480	21.64%
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
Deposits:				
Non-interest-bearing demand	\$ 261,805,349	\$ 191,359,061	\$ 70,446,288	36.81%
Interest-bearing	723,800,470	612,497,815	111,302,655	18.17%
	985,605,819	803,856,876	181,748,943	22.61%
Other borrowed funds	14,124,000	14,838,286	(714,286)	-4.81%
Accrued interest payable	393,973	536,505	(142,532)	-26.57%
Accrued expenses and other liabilities	7,453,184	4,721,427	2,731,757	57.86%
Total liabilities	1,007,576,976	823,953,094	183,623,882	22.29%
Shareholders' Equity:				
Common stock	2,144,766	2,101,492	43,274	2.06%
Paid in capital surplus	39,292,064	37,459,410	1,832,654	4.89%
Less: treasury stock	(1,564,569)	(1,211,099)	(353,470)	29.19%
Retained earnings	67,336,736	55,916,997	11,419,739	20.42%
Current year earnings	7,407,128	6,487,050	920,078	14.18%
Accumulated other comprehensive income gain	4,661,280	1,680,957	2,980,323	177.30%
Total shareholders' equity	119,277,405	102,434,807	16,842,598	16.44%
Total Liabilities and Shareholders' Equity	\$ 1,126,854,381	\$ 926,387,901	200,466,480	21.64%

MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES

Selected Financial Information



	Quarter Ended		Year Ended
	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)	December 31, 2019
<u>Dollars in thousand, except per share data)</u>			
Per Share Data			
Basic Earnings per Common Share	\$ 1.61	\$ 0.95	\$ 6.82
Diluted Earnings per Common Share	1.61	0.95	6.82
Dividends per Common Share	0.35	0	0.93
Book Value per Common Share	56.92	49.78	53.11
Tangible Book Value per Common Share	51.07	43.62	47.18
Average Diluted Shared Outstanding	2,095,451	1,988,231	1,997,735
End of Period Common Shares Outstanding	2,095,468	2,057,568	2,098,250
Annualized Performance Ratios (Bank Only)			
Return on Average Assets	1.31%	1.03%	1.63%
Return on Average Equity	11.82%	9.52%	14.56%
Equity/Assets	11.31%	12.14%	11.65%
Cost of Funds	0.57%	1.06%	1.02%
Net Interest Margin	4.70%	4.50%	4.65%
Efficiency Ratio	50.56%	64.39%	57.80%