Company Release – 01/30/2024

GBank Financial Holdings Inc. Announces Fourth Quarter 2023 Financial Results

LAS VEGAS, NV, January 30, 2024 -- GBank Financial Holdings Inc. (the "Company") (OTCQX: GBFH), the parent company of GBank (the "Bank") today reported net income for the quarter ended December 31, 2023 of $3.5 million, or $0.27 per diluted share, compared to $3.3 million, or $0.25 per diluted share, for the same period of 2022. Net income was $10.9 million, or $0.84 per diluted share, for each of the twelve months ended December 31, 2023 and 2022.

Click here: Quarterly Detailed Financials and Key Metrics

Financial Highlights

- **Q4 2023 net income of $3.5 million and diluted earnings per share of $0.27**
- **Q4 2023 net interest margin of 5.16%**
- **Q4 2023 gross loan growth of $159 million, or 30% sequentially**
- **Q4 2023 loans sold of $37.0 million, an increase of $14.3 million or 63% compared to the prior quarter**
- **Q4 2023 gain on sale of loans of $1.2 million, an increase of $413 thousand or 54% compared to Q3 2023**
- **Q4 2023 total on-balance sheet guaranteed loans increased by $113.9 million, or 125% compared to the prior quarter**
- **Non-performing assets increased to $6.3 million during the quarter, representing 0.69% of total assets**

Edward M. Nigro, Executive Chairman, stated, "The 'Great Pivot' we announced last quarter is achieving our stated goals and objectives. Our guaranteed loans 'Held for Investment' and 'Held for Sale' increased to $205.0 million, and total loans increased by 30%, quarter-over-quarter. Further, we expect continued strong guaranteed loan growth in the first and second quarters of 2024. Our current focus is directed on core deposit generation and capital – all designed to support continued growth at an elevated, albeit more nominal annual basis."

Financial Results

Operating Highlights

Beginning in third quarter 2023, the Company (i) elected to retain $47.5 million of originated guaranteed loans, and (ii) initiated a program whereby the Bank repurchased $106.1 million of the guaranteed portions of previously sold SBA loans. These combined initiatives resulted in a 125% increase in total retained guaranteed loans during the quarter, from $91.9 million at September 30, 2023, to $205.0 million at December 31, 2023. Total guaranteed loans as a percentage of total loans increased to 30.0% compared to 17.4% for the prior quarter.

The Bank’s program to repurchase previously sold guaranteed SBA loans provided a change in loan terms that converted quarterly variable rate loans to 5-year fixed rate loans while also lowering the current loan rate for the borrower. This program was developed in response to accelerated prepayment activity over the year-to-date period for the Bank’s SBA loan portfolio. These combined measures are anticipated to reduce the Bank’s asset sensitivity as well as generate increased net interest income.

Excluding repurchased loans, for the quarter ended December 31, 2023, loan originations by the Bank's SBA and Commercial Lending divisions were $113.4 million and $21.2 million, respectively, totaling $134.7 million, compared to $91.1 million for the prior quarter. Loan sale volume increased 63% to $37.0 million, compared to $22.7 million for the prior quarter, and decreased 28%, compared to $51.0 million for the same period of 2022. For the fourth quarter, gain on sale of loans increased 54% to $1.2 million, compared to $763 thousand for the prior quarter, and decreased 34% from $1.8 million for the same period of 2022. Average pretax gain on sale of loans margin decreased to 3.18% during the fourth quarter, compared to 3.36% for the prior quarter and 3.51% for the same period of 2022. For the year ended December 31, 2023, loan originations by the Bank's SBA Lending Division increased 10% to $318.1 million, compared to $289.5 million for the year ended December 31, 2022.

Balance Sheet Review

The Company's consolidated liquidity and capital positions remain strong when compared to peers. For the quarter ended December 31, 2023, the Company’s Tangible Common Equity to Tangible Assets ratio was 10.7%. For the quarter ended December 31, 2023, the Bank’s Tier 1 leverage ratio was 14.06%, compared to 15.08% for the quarter ended December 31, 2022. The Bank’s capital increased during the year as a result of both the net income generated and the downstream of $2.0 million in additional capital from the holding company, which was completed during Q3 2023. At December 31, 2023, the Bank had approximately $283 million in available borrowings from the Federal Reserve Bank, Federal Home Loan Bank, and through its various Fed Funds lines.

For the quarter ended December 31, 2023, total assets increased 26% to $917.0 million, compared to $729.3 million for the prior quarter, and increased 35% from $678.7 million for the same period of 2022.

Total gross loans (net of SBA loan sales) increased 30% to $682.9 million, compared to $524.1 million for the prior quarter, and increased 67% from $409.7 million for the same period of 2022. Year-to-date through December 31, 2023, total loan originations, including SBA and non-SBA commercial loans, increased 3% to $393.6 million, compared to $383.6 million for the same period of 2022.

Total deposits increased 26% to $745.7 million, compared to $593.6 million for the prior quarter, and increased 34% from $555.4 million for the same period of 2022. Year-to-date decreases in non-interest bearing deposits were offset by increases in certificates of deposit, money market, and interest-bearing demand deposits. The increase in certificates of deposit includes the addition of approximately $82 million of brokered deposits since December 31, 2022.

Stockholders’ equity increased 4% to $98.4 million, compared to $94.6 million for the prior quarter, and increased 13% from $86.8 million for the same period of 2022.

Net Interest Income and Net Interest Margin

For the quarter ended December 31, 2023, net interest income increased 8% to $10.4 million, compared to $9.6 million for the prior quarter. Year-to-date net interest income increased 50% to $38.1 million, compared to $25.3 million for the same period of 2022. The positive growth within net interest income during both the quarter and year-to-date periods was driven by rate increases on adjustable-rate loans, securities, and other liquid assets, as well as loan growth. Year-to-date yield on the investment securities portfolio increased to 4.16%, compared to 3.03% for the same period of 2022.

Net interest income growth was partially offset by both (i) an increase in interest expense primarily driven by higher rates paid on interest bearing deposits to maintain competitive pricing, and (ii) a short-term borrowing executed in October 2023 of $30 million at a rate of 5.50% to fund GBank's substantial loan growth. The Company's consolidated net interest margin was 5.16% for the fourth quarter of 2023, compared to 5.71% in the prior quarter and 5.30% for the same period in 2022.

Noninterest Income

For the quarter ended December 31, 2023, noninterest income increased 7% to $1.3 million, compared to $1.2 million for the prior quarter, and decreased 51% from $2.7 million for the same period of 2022.

Loan servicing income for the fourth quarter of 2023 reflects a credit balance due to the write-off of certain servicing assets, totaling $605.7 thousand for the quarter, relating to the repurchase of the guaranteed portions of previously sold SBA loans.

Other noninterest income decreased 1% to $207 thousand, compared to $210 thousand for the prior quarter, and decreased 55% from $463 thousand for the same period of 2022. These variances were primarily driven by decreases in certain components of other noninterest income, including service charges on deposits and FinTech revenues, compared to both the prior quarter and same period of 2022.

Noninterest Expense

Noninterest expense decreased 17% to $6.9 million, compared to $8.3 million for the prior quarter, and decreased 3% from $7.1 million for the same period of 2022.

Salaries and other compensation expenses decreased 15% to $4.4 million, compared to $5.2 million for the prior quarter, and decreased 5% from $4.6 million for the same period of 2022. These variances were attributable to increases in the dollar amount and volume of deferred loan origination costs offsetting salary expense. Deferred loan origination costs increased during the quarter due to both (i) an updated assessment of the cost to originate SBA and conventional loans implemented during fourth quarter 2023, (ii) substantial organic loan growth during the quarter, and (iii) deferred loan costs related to modifications under the loan change in terms program.

For the quarter ended December 31, 2023, other operating expenses decreased 21% to $2.1 million, compared to $2.6 million for the prior quarter, and were flat when compared to $2.1 million for the same period of 2022. The decrease quarter-over-quarter was driven by the release of early year accruals relating to certain IT initiatives. The favorable variances were partially offset by merger-related expenses of $223 thousand incurred during the fourth quarter of 2023 related to the potential merger of BankCard Services LLC ("BCS") by the Bank.

Noninterest expenses associated with the Bank's credit card program were approximately $499 thousand during the quarter.

Gaming FinTech Division

GBank's partner, BankCard Services, LLC ("BCS"), has been actively completing development of its Pooled Player and Pooled Consumer Accounts ***"Powered by PIMS and CIMS"™***, and recently received its third patent for this intellectual property. BCS is finding a niche with referrals of startup digital wallet companies in both gaming and consumer programs/apps. Currently, BCS and GBank are in due diligence for four new PPA/PCA clients with anticipated onboarding to occur in the 2nd quarter. While our 4th quarter Gaming FinTech deposits declined to an average of $29.0 million, down from $32.9 million in the prior quarter, we are now seeing average deposits increasing to $32.5 million during January 2024. Our regulatory filing with the FDIC for the GBank/BCS merger has been the center of our attention as finalization of this regulatory approval is an important step in the future success of our Gaming FinTech and payment strategies.

Acquisition Activity

On December 14, 2023, the Company issued a press release announcing the execution of a definitive merger agreement whereby the Bank will acquire BankCard Services, LLC ("BCS") in an all-stock transaction. When completed, BCS will operate as a subsidiary of the Bank, further enhancing its Gaming FinTech Division. BCS patented Pooled Player (PPA™) and Pooled Consumer (PCA™) Programs shall expand cashless payment solutions to a growing network of gaming and payments partners and financial institutions.

As stated in the merger agreement, which has been approved by the disinterested members of the Board of Directors of the Company and the Bank, BCS shareholders will receive an aggregate of $10,000,000 of shares of Company common stock, valued for purposes of the merger at the October 27, 2023 closing price of $14.25 per share (an aggregate of 701,754 shares of the Company's common stock). The transaction is expected to be immediately accretive to the Company's earnings per share. The transaction is subject to regulatory and Company shareholder approval as well as other customary conditions as set forth in the definitive merger agreement. The transaction is anticipated to close in the second quarter of 2024.

Credit Quality

The Bank had no other real estate owned as of December 31, 2023, compared to $1.1 million of other real estate owned as of September 30, 2023. The decrease in other real estate owned is the result of the sale of the properties during the fourth quarter with no additional losses recognized.

The Bank had $2.7 million of loans in nonaccrual status as of December 31, 2023, compared to no loans in nonaccrual status in the prior quarter. The increase in nonaccrual loans is attributable to one loan relationship, of which $2.0 million is guaranteed by the SBA, and one accruing loan that is 90 days past due of $3.6 million, of which $2.7 million is guaranteed by the SBA.

No net charge-offs were recorded during the fourth quarters of 2023 or 2022, compared to $764 thousand during the three months ended September 30, 2023. Net charge-offs during the third quarter of 2023 related to the other real estate owned properties held at September 30, 2023.

For the quarter ended December 31, 2023, the Company recorded a $458 thousand provision for credit losses, compared to $226 thousand for the prior quarter and $60 thousand for the same period of 2022. The allowance for credit losses is $7.0 million, compared to $6.6 million for the prior quarter and $6.9 million for the same period of 2022. The allowance for credit losses to total gross loans was 1.04%, compared to 1.27% for the prior quarter and 1.67% for the same period of 2022, with the decrease reflecting the larger balance of held for investment guaranteed loans when compared to prior periods. The allowance for credit losses to total net loans, excluding guaranteed balances, was 1.48%, compared to 1.54% for the prior quarter and 1.84% for the same period of 2022. The provision for credit losses reflects our current assessment of risks associated with our loan portfolio.

Earnings Call

The Company will host its Q4 2023 quarterly earnings call on Wednesday, January 31, 2024, at 11:00 a.m. PST. Interested parties will be able to listen from any remote location that has Internet connectivity. There will be no physical location for interested parties to attend.

Interested parties may participate online, via the ZOOM app on their smartphones, or by joining by telephone:

The ZOOM video conference ID is 826 3030 7240
Passcode: 549549

Joining by ZOOM Video Conference

Log in on your computer at
https://us02web.zoom.us/j/82630307240?pwd=TU4yZXJqMEc2VGZoUm5rRTl0OVFxdz09
or by using the Zoom app on your smartphone.

Joining by Telephone

Dial (408) 638-0968. The conference ID is 826 3030 7240. Passcode: 549549.

About GBank Financial Holdings Inc.

GBank Financial Holdings Inc. (the "Company") (GBFH), a bank holding company with approximately $917.0 million in assets at December 31, 2023, conducts business through its wholly owned subsidiary, GBank (formerly known as "Bank of George") (the "Bank"). Founded in 2007, the Bank operates two full-service commercial branches in Las Vegas, Nevada, with primary lending activities focused on engaging clients in Nevada, California, Utah, and Arizona. GBank has key businesses in three prominent divisions: SBA Lending, Gaming FinTech, and Commercial Lending. The Bank conducts business nationally through its SBA lending activities (ranked 6th in the nation by the U.S. Small Business Administration for SBA 7(a) dollar loan volume through December 31, 2023) and its BankCard Services, LLC ("BCS") partnership. GBank's Gaming Fintech Division was launched in 2016 with the GBank/BCS Agreement. BCS provides not only Sightline Payments Play+ Prepaid Card Programs for gaming operators, but also prepaid access programs granting GBank use and access to the BCS proprietary Player/Consumer Information Management System ("PIMS/CIMS"). PIMS/CIMS provides custodial accounts for the benefit of the player/consumer managed by GBank and insured by the FDIC. The Bank also provides general commercial banking services with an emphasis on serving the needs of small- and medium-sized businesses, high net worth individuals, professionals, and investors. The Bank offers a full complement of consumer deposit products and is focused on delivering a premium level of service. For more information about GBank, please visit its website at www.g.bank. The Company's Common Stock is quoted on the US OTCQX Market under the symbol GBFH.

Cautionary Notice Regarding Forward-Looking Statements

This Press Release contains forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements include information concerning potential or assumed future results of operations of the Company and its subsidiaries. Such statements are made based on management's beliefs and assumptions, and words like "believes," "expects," "anticipates," or similar terminology indicate forward-looking statements. Factors that could affect the financial performance of the Company include, but are not limited to, ongoing challenges from the COVID-19 pandemic, credit risk, market interest rate changes, competition, economic downturns, or regulatory supervision. GBank Financial Holdings Inc. is under no obligation to revise these forward-looking statements.

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