Company Release – 07/25/2023

GBank Financial Holdings Inc Announces Second Quarter 2023 Financial Results

LAS VEGAS, NV, July 25, 2023 -- GBank Financial Holdings Inc. (the "Company") (OTCQX: GBFH), the parent company for GBank (the "Bank") today reported net income of $5.6 million, or $0.43 per diluted share, for the six months ended June 30, 2023, compared to $5.0 million, or $0.39 per diluted share, for the same period of 2022. Net income for the quarter ended June 30, 2023, was $2.3 million, or $0.18 per diluted share, compared to $1.7 million, or $0.13 per diluted share, for the same period of 2022.

Quarterly Earnings Report – Q2 2023

A copy of the Quarterly Earnings Report published with OTC Markets can be found in the link below:

GBank Financial Holdings Inc. – Quarterly Earnings Report – Q2 2023

Second Quarter Financial Highlights (for the year-to-date and year-over-year quarterly periods ended June 30, 2023)

Year-to-date comparisons:

- Net income increased 13% to $5.6 million, compared to $5.0 million for the same period of 2022.
- Net revenues (net interest income plus noninterest income) increased 18% to $23.2 million, compared to $19.6 million for the same period of 2022.
- Net interest income increased 87% to $17.9 million, compared to $9.6 million for the same period of 2022.
- Net interest margin (bank-level) increased to 5.85%, compared to 3.36% for the same period of 2022.
- Net interest margin (consolidated) increased to 5.67%, compared to 3.22% for the same period of 2022.
- Noninterest income decreased 47% to $5.3 million, compared to $10.0 million for the same period of 2022.
- Noninterest expense increased 29% to $15.9 million, compared to $12.3 million for the same period of 2022.
- SBA Division loan originations decreased 1% to $122.1 million, compared to $123.8 million for the same period of 2022.
- Total assets increased 8% to $684.9 million, compared to $635.1 million at June 30, 2022.
- Total deposits increased 6% to $552.5 million, compared to $519.9 million at June 30, 2022.
- Return on average assets was 1.67%, compared to 1.60% for the same period of 2022.
- Return on average equity was 12.57%, compared to 12.68% for the same period of 2022.
- Book value increased to $7.29 per share, compared to $6.40 per share at June 30, 2022.

Year-over-year quarterly comparisons:

- Net income increased 34% to $2.3 million, compared to $1.7 million for Q2 2022.
- Total net revenues (net interest income plus noninterest income) increased 18% to $11.0 million, compared to $9.3 million for Q2 2022.
- Net interest income increased 66% to $8.6 million, compared to $5.2 million for Q2 2022.
- Net interest margin (bank-level) increased to 5.54%, compared to 3.62% for Q2 2022.
- Net interest margin (consolidated) increased to 5.37%, compared to 3.47% for Q2 2022.
- Noninterest income decreased 43% to $2.4 million, compared to $4.1 million for Q2 2022.
- Noninterest expense increased 20% to $7.6 million, compared to $6.3 million for Q2 2022.
- Return on average assets was 1.34%, compared to 1.09% for Q2 2022.
- Return on average equity was 10.05%, compared to 8.59% for Q2 2022.

Edward M. Nigro, Executive Chairman, stated "While we did see some deposit pressure, we were able to respond with reasonable deposit returns and still maintain a 41% Demand Deposit ratio. So, the GBFH Earnings Release does not discuss any extraordinary measures we implemented to manage our Balance Sheet – simply because there were none. Our management efforts were targeted to accomplish our strategic plan – grow the 'Three Legs' of our Bank's platform: Commercial Banking, SBA Lending, and Gaming FinTech customer expansion, which included our Credit Card launch just last month. We remain focused on pivoting with our Play+ prepaid program while also expanding our Pooled Player and Pooled Consumer (PPA/PCA) banking solutions. As a result of our targeted actions, we believe we are now positioned to substantively grow our Balance Sheet during the second half of 2023."

Operating Results

Operating Highlights

T. Ryan Sullivan, President and CEO, stated "Industry challenges within our markets appear to be stabilizing and our earnings resilience, driven by strong net interest margins, continue to place us in a unique position for future expansion. Our approach towards disciplined growth, both in existing and new business lines, drive our ongoing efforts as we build for our future performance and success."

Year-to-date through June 30, 2023, loan originations by the Bank's SBA Lending Division decreased 1% to $122.1 million, compared to $123.8 million for the same period of 2022. For the quarter ended June 30, 2023, gain on sale of loans decreased 20% to $1.6 million, compared to $2.0 million for the prior linked quarter, and decreased 54% from $3.5 million for the same period of 2022. Average pretax GAAP gain on loan sale prices decreased to 4.53%, compared to 6.86% for the same period of 2022. Loan sale volume decreased 29.7% to $35.7 million, compared to $50.8 million for the same period of 2022. Both the quarter ended June 30, 2023, and the year-over-year decreases are the result of both (i) a reduction in the sale price of U.S. Small Business Administration (SBA) loans that has resulted from the interest rate increases by the Federal Reserve Bank and changing market conditions, and (ii) a decrease in overall loan sales volume. Prior year gain on sale of loans benefitted from the Economic Aid Act, which temporarily increased standard SBA 7(a) guaranties from 75% to 90%.

Year-to-date through June 30, 2023, total loan originations, including SBA and non-SBA commercial loans, decreased 2% to $167.1 million, compared to $171.0 million for the same period of 2022.

Net Interest Income and Net Interest Margin

For the six months ended June 30, 2023, net interest income increased 87% to $17.9 million, compared to $9.6 million for the same period of 2022. The positive increase was driven by short-term adjustable-rate loans totaling approximately $331.5 million at June 30, 2023, which repriced as a result of the increases in the Wall Street Journal prime rate over the preceding twelve months. Market rate increases also contributed to higher interest income on other liquid assets, including cash balances held at the Federal Reserve, as well as volume and rate-related growth within GBank's securities portfolio, which increased 50% to $111.8 million, compared to $74.7 million for the same period of 2022. Yield on the investment securities portfolio increased to 4.04%, compared to 2.13% for the same period of 2022. These positive increases were partially offset by an increase in interest expense primarily driven by higher rates paid on interest-bearing deposits to maintain competitive pricing.

For the quarter ended June 30, 2023, net interest margin for the Bank was 5.54%, compared to 3.62% for the same period of 2022. The Company's consolidated net interest margin was 5.37%, compared to 3.47% for the same period in 2022. The increase was driven by higher loan yields due to increases in the federal funds rate initiated by the Federal Reserve Bank of (i) 75 basis points during the first two quarters of 2023, and (ii) 350 basis points during the preceding twelve months.

Noninterest Income

For the quarter ended June 30, 2023, noninterest income decreased 19% to $2.4 million, compared to $2.9 million for the prior linked quarter, and decreased 43% from $4.1 million for the same period of 2022. The year-over-year decrease in quarterly noninterest income is mainly related to a decrease in gain on sales of SBA 7(a) loans.

As previously reported, year-to-date through June 30, 2023, loan originations by the Bank's SBA Lending Division decreased 1% to $122.1 million, compared to $123.8 million for the same period of 2022. For the quarter ended June 30, 2023, gain on sale of loans decreased 20% to $1.6 million, compared to $2.0 million for the prior linked quarter, and decreased 54% from $3.5 million for the same period of 2022. Average pretax GAAP gain on loan sale prices decreased to 4.53%, compared to 6.86% for the same period of 2022. Loan sale volume decreased 29.7% to $35.7 million, compared to $50.8 million for the same period of 2022. Both the quarter ended June 30, 2023, and the year-over-year decreases are the result of both (i) a reduction in the sale price of SBA loans that has resulted from the interest rate increases from the Federal Reserve Bank and from changing market conditions, and (ii) a decrease in overall loan sales volume. Prior year gain on sale of loans benefitted from the Economic Aid Act, which temporarily increased standard SBA 7(a) guaranties from 75% to 90%. While the reduction in loan sale pricing has impacted the Bank, the natural hedge of retaining significant levels of variable rate loans, as well as the Company's considerable liquidity position, have supported earnings during the period.

For the quarter ended June 30, 2023, loan servicing income increased 34% to $414 thousand, compared to $308 thousand for the same period of 2022, and decreased 21% to $414 thousand, compared to $521 thousand for the prior linked quarter. The positive year-over-year increase was driven by loans serviced for others which increased 19% to $712.3 million, compared to $599.0 million for the same period of 2022.

For the quarter ended June 30, 2023, other noninterest income decreased 15% to $335 thousand, compared to $396 thousand for the prior linked quarter, and increased 4% from $322 thousand for the same period of 2022. The increase during the same period of 2022 was primarily driven by increases in other noninterest income, including service charges on deposits and ATM network fees.

Noninterest Expense

For the quarter ended June 30, 2023, noninterest expense decreased 9% to $7.6 million, compared to $8.3 million for the prior linked quarter, and increased 20% from $6.3 million for the same period of 2022. The increases were primarily driven by employee growth, higher salaries, employee benefits, and increases within other expenses.

For the quarter ended June 30, 2023, salaries and other compensation expenses decreased 14% to $4.7 million, compared to $5.5 million for the prior linked quarter. The decrease was primarily driven by a decrease in commission expense and other variable pay programs. Year-over-year, salaries and other compensation expenses increased 22% to $4.7 million, compared to $3.9 million for the same period of 2022. The increase was primarily driven by an increase in full-time equivalent employees to 158 at June 30, 2023, compared to 129 for the same period of 2022. Staff additions were made to support the Company's future growth in both existing business lines as well as the development and launch of new business lines. Employee growth has been primarily in the following areas: (i) SBA team staff additions to support continued loan growth, (ii) addition of commercial bankers to drive expansion within our conventional lending and deposit portfolios, (iii) staff additions to support the launch of the Bank's credit card program, and (iv) technology employees added to facilitate and maintain technology upgrades implemented in the preceding twelve months.

For the quarter ended June 30, 2023, other operating expenses increased 22% to $2.5 million, compared to $2.1 million for the same period of 2022. These increases are the result of growth within the organization and are reflected across several categories of expense, including: data processing, legal and professional, supplies, insurance, marketing, audit, and other costs.

Balance Sheet Review

The Company's consolidated liquidity and capital positions continue to perform well compared to its relative peers.

For the quarter ended June 30, 2023, total assets were generally flat at $685.0 million, compared to $685.2 million for the prior linked quarter, and increased 8% from $635.1 million for the same period of 2022.

For the quarter ended June 30, 2023, total gross loans (net of SBA loan sales) increased 3% to $458.0 million, compared to $444.9 million for the prior linked quarter, and increased 19% from $383.3 million for the same period of 2022. The increase from the prior linked quarter was driven by substantial loan production in both government guaranteed and conventional loan products.

For the quarter ended June 30, 2023, total deposits decreased 1% to $552.5 million, compared to $556.7 million for the prior linked quarter, and increased 6% from $519.9 million for the same period of 2022. Decreases in noninterest bearing deposits, money market, and savings deposits were offset by increases in interest bearing demand deposits and certificates of deposit. The increase in certificates of deposit reflects the addition of approximately $40 million in brokered deposits during the first and second quarters of 2023.

For the quarter ended June 30, 2023, shareholders' equity increased 3% to $92.6 million, compared to $90.2 million for the prior linked quarter, and increased 15% from $80.7 million for the same period of 2022. The increase in shareholders' equity was driven by an increase in retained earnings resulting from strong earning results.

SBA Division

Year-to-date through June 30, 2023, loan originations by the Bank's SBA Lending Division decreased 1% to $122.1 million, compared to $123.8 million for the same period of 2022. For the quarter ended June 30, 2023, gain on sales of loans decreased 20% to $1.6 million, compared to $2.0 million for the prior linked quarter. The gain on sales of SBA loans has been impacted by the interest rate increases from the Federal Reserve Bank and changing market conditions.

Gaming FinTech Division

For the quarter ended June 30, 2023, the Bank's Gaming FinTech Division experienced overall total load volume of $102.5 million, compared to $179.4 million for the same period of 2022. This decrease was primarily the result of the winddown of the OSL sports wagering accounts and reduced levels of transaction volume in Sightline Play+ loads. The decrease in Play+ load volume has been primarily due to card networks' application of a gaming transaction code (code 7801) to all credit and debit card loads to the GBank-issued Play+ debit card, which has resulted in an elevated denial rate.

As the sports betting and iGaming markets in North America continue to mature, consolidate, move towards profitability, and the marginal cost of payments continues to drift towards zero, the Company's partner, Sightline Payments' Play+ Reloadable Prepaid Card continues to lose market share as a funding vehicle for online gaming apps. The Discover and MasterCard Play+ Prepaid Cards issued by GBank have seen a 38% decrease in year-to-date load volume through June 30, 2023, when compared to the same period of 2022. The Company and Sightline have been anticipating this shift and, among other initiatives, GBank has now been approved as a Visa Prepaid issuer. Sightline has worked diligently towards the development of its "Omni-Channel Wallet" which it believes shall provide players with a seamless experience as they move across an operator's enterprise, from digital to brick-and-mortar and from gaming to non-gaming. The core principles of a gaming centric Omni-Channel Wallet are: (i) safety and security of consumer funds with funds always held at the Bank, (ii) access to consumer funds anywhere and anytime, (iii) earning loyalty for all gaming and non-gaming activity both inside and outside a gaming operators' ecosystem, and (iv) low cost and ease of use. The Company's PPA/PCA business line, which creates FDIC-insured consumer accounts, continues to grow with both gaming and nongaming clients and deposits. These deposits have offset Play+ declines.

For the quarter ending June 30, 2023, Gaming FinTech deposits averaged $45.7 million, compared to $45.0 million for the prior linked quarter.

In its Credit Card Press Release, the Company announced the all new GBank Visa Signature® Card, which officially launched during Q2 2023, and is readily available to all gaming and sports enthusiasts nationwide. For information on benefits, and to apply, please visit https://www.g.bank/loans/credit-cards/visa-signature-card.html.

Subordinated Note Offerings

On December 30, 2020, the Company completed its private placement of $6.5 million of 4.5% fixed-to-floating rate subordinated notes due 2031 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes have been structured to qualify as Tier 2 capital for regulatory capital purposes. The Company intends to use the net proceeds of the offering for general corporate operating purposes, to support organic growth, and to fund potential acquisitions.

On December 14, 2021, the Company completed its private placement of $20 million of 3.875% fixed-to-floating rate subordinated notes due 2031 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes have been structured to qualify as Tier 2 capital for regulatory capital purposes. The Company intends to use the net proceeds of the offering for general corporate operating purposes, to support organic growth, and to fund potential acquisitions.

Credit Quality

During the first quarter of 2023, the Bank adopted ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the Allowance for Credit Losses (ACL) methodology (also known as the Current Expected Credit Losses methodology or "CECL"). The measurement of expected credit losses under the ACL methodology is applicable to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP.

For the quarter ended June 30, 2023, the Company recorded a $408 thousand provision for credit losses, compared to no provision for the prior linked quarter. The Company held $7.2 million in allowance for credit losses, compared to $6.9 million for the prior linked quarter, and $6.8 million for the same period of 2022. The allowance for credit losses to total gross loans was 1.56%, compared to 1.54% for the prior linked quarter, and 1.77% for the same period of 2022. The allowance for credit losses to total net loans, excluding PPP and guaranteed balances, was 1.76%, compared to 1.73% for the prior linked quarter, and 2.09% for the same period of 2022. The provision for credit losses reflects our current assessment of risks associated with our credit portfolios, the COVID-19 pandemic, and general economic conditions.

For the quarter ended June 30, 2023, the Bank holds no balances of other real estate owned, and reports loans in nonaccrual status of $7.1 million, compared to $715 thousand for the prior linked quarter. Non-accrual loans were primarily comprised of two credit relationships, and include government guaranteed balances of approximately $5.3 million. The Bank had $100 thousand net charge-offs or recoveries, compared to no net charge-offs or recoveries for the prior linked quarter, and $82 thousand net charge-offs or recoveries for the same period of 2022.

Earnings Call

The Company will host its Q2 2023 quarterly earnings call on Wednesday, July 26, 2023, at 2:00 p.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.

The Company

GBank Financial Holdings Inc. (the "Company") (GBFH), a bank holding company with approximately $685.0 million in assets at June 30, 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 14th in the nation by the U.S. Small Business Administration for SBA 7(a) dollar loan volume through September 30, 2022) 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

The Company has made forward-looking statements in this Press Release. These forward-looking statements are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations of the Company and its subsidiaries. When words such as "believes," "expects," "anticipates," or similar expressions occur in this Press Release, the Company is making forward-looking statements. Note that many factors could affect the future financial results of the Company and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in the forward-looking statements contained in this Press Release. Those factors include, but are not limited to, the recent and continuing coronavirus (COVID-19) pandemic which poses risks and may harm the Company's business and results of operations in future quarters, credit risk, changes in market interest rates, inability to achieve merger-related synergies, competition, economic downturn or recession, and government regulation and supervision. The Company undertakes no obligation to update or revise any forward-looking statements.

Questions or comments concerning this Press Release should be directed to:

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Source: GBank Financial Holdings Inc.