Company Release – 10/31/2023

GBank Financial Holdings Inc. Announces Third Quarter 2023 Financial Results

LAS VEGAS, NV, October 31, 2023 -- GBank Financial Holdings Inc. (the "Company") (OTCQX: GBFH), the parent company for GBank (the "Bank") today reported net income for the quarter ended September 30, 2023, of $1.8 million, or $0.14 per diluted share, compared to $2.6 million, or $0.20 per diluted share, for the same period of 2022. Net income for the nine months ended September 30, 2023, was $7.4 million, or $0.57 per diluted share, compared to $7.6 million, or $0.59 per diluted share, for the same period of 2022.

Click here: Quarterly Detailed Financials and Key Metrics

Financial Highlights

- **Q3 2023 net income of $1.8 million and diluted earnings per share of $0.14**
- **Q3 2023 net interest margin expanded to 5.69%, a 32 basis point increase from Q2 2023**
- **Q3 2023 gross loan growth of $66 million, or 14%**
- **Q3 2023 gain on sale of loans of $763 thousand, a decrease of 53% compared to the prior linked quarter**
- **Q3 2023 loans sold of $22.7 million, a decrease of 36% compared to the prior linked quarter**
- **Q3 2023 on-balance sheet guaranteed loans increased by $43.5 million, or 91% compared to the prior linked quarter**
- **YTD 2023 gain on sale of loans of $4.4 million, a decrease of $7.4 million, or 63%, compared to the same period of 2022**
- **Non-performing assets decreased to $1.1 million during the quarter and remain low at 0.15% of total assets**

A Word from the Executive Chairman

Edward M. Nigro, Executive Chairman, stated, "We refer to this quarter as the 'Great Pivot' – from previously selling nearly all of our SBA Guaranteed loans to now repurchasing a portion of those SBA Guaranteed loans that were once part of our Servicing Asset – converting a 1% fee into a 5-year fixed loan with rates ranging from 8.50% to 8.75%. We have all witnessed the current meager returns in Gain on Sale of SBA Loans – so, we are pivoting to substantive asset growth with significant increases in interest income in quarters to come, as discussed below."

Financial Results

Operating Highlights

Beginning in the third quarter, the Company (i) elected to retain a larger portion of originated guaranteed loans, and (ii) initiated a program wherein the Bank repurchases the guaranteed portions of previously sold SBA loans. These combined initiatives resulted in an increase of retained guaranteed loans by 91%, or $43.5 million, during the third quarter. Guaranteed loans as a percentage increased to 17.4%, compared to 10.4% for the prior linked quarter.

The Bank's program to repurchase previously sold guaranteed SBA loans provided a change in loan terms that converted quarterly variable loans to a 5-year fixed loan while also lowering the current loan rate for the borrower. This program was 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. As a result, the Company expects to generate higher net interest income during Q4 2023 and throughout 2024.

For the quarter ended September 30, 2023, loan originations by the Bank's SBA and Commercial Lending divisions increased 19% to $81.1 million, compared to $68.0 million for the prior linked quarter. In conjunction with the Bank's increased retention of guaranteed loans, loan sale volume decreased 36% to $22.7 million, compared to $35.7 million for the prior linked quarter, and decreased 69%, compared to $72.7 million for the same period of 2022. For the third quarter, gain on sale of loans decreased 53% to $763 thousand, compared to $1.6 million for the prior linked quarter, and decreased 76% from $3.2 million for the same period of 2022. Average pretax GAAP gain on loan sales decreased to 3.36% during the third quarter, compared to 4.53% for the prior linked quarter and 4.35% for the same period of 2022. Year-to-date through September 30, 2023, loan originations by the Bank's SBA Lending Division decreased 9% to $204.1 million, compared to $224.8 million for the same period of 2022.

Balance Sheet Review

The Company's consolidated liquidity and capital positions continue to perform well compared to its relative peers. For the quarter ended September 30, 2023, the Company's equity to assets ratio was 12.97% and the Bank's Tier 1 leverage ratio was 16.18%. The Bank's capital ratios increased as a result of the downstream of $2.0 million in additional capital from the parent, which was completed during Q3 2023. As of September 30, 2023, the Bank had approximately $244 million in available borrowings from the Federal Reserve Bank, Federal Home Loan Bank, and through its various Fed Funds lines.

For the quarter ended September 30, 2023, the total SBA and USDA guaranteed loans retained on the balance sheet increased 91% to $91.1 million, compared to $47.6 million for the prior linked quarter, and increased 100% from $45.5 million for the same period of 2022. The increase from the prior periods was driven by substantial loan production during the quarter, higher retention of guaranteed balances, and the repurchase of the guaranteed portions of previously sold SBA loans totaling $21.5 million during the quarter.

For the quarter ended September 30, 2023, total assets increased 6% to $729.3 million, compared to $684.9 million for the prior linked quarter, and increased 9% from $667.3 million for the same period of 2022.

For the quarter ended September 30, 2023, total gross loans (net of SBA loan sales) increased 14% to $524.1 million, compared to $458.0 million for the prior linked quarter, and increased 29% from $406.2 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 as well as the repurchase of the guaranteed portions of previously sold SBA loans.

For the quarter ended September 30, 2023, total deposits increased 7% to $593.6 million, compared to $552.5 million for the prior linked quarter, and increased 8% from $547.2 million for the same period of 2022. Decreases in non-maturity deposits were offset by increases in certificates of deposit. The increase in certificates of deposit reflects the addition of approximately $72 million in brokered deposits during the first three quarters of 2023.

For the quarter ended September 30, 2023, shareholders' equity increased 2% to $94.6 million, compared to $92.6 million for the prior linked quarter, and increased 13% from $83.5 million for the same period of 2022. The increase in shareholders' equity was driven by an increase in retained earnings as a result of strong net income.

Net Interest Income and Net Interest Margin

For the quarter ended September 30, 2023, net interest income increased 10% to $9.5 million, compared to $8.7 million for the prior linked quarter. For the three quarters ended September 30, 2023, net interest income increased 66% to $27.6 million, compared to $16.6 million for the same period of 2022. The positive increases were driven by short-term adjustable-rate loans totaling approximately $336.3 million at September 30, 2023, which repriced as a result of the increases in the Wall Street Journal prime rate over the preceding seven quarters. 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 the Bank's securities portfolio, which increased 19% to $101.0 million, compared to $84.7 million for the same period of 2022. Year-to-date yield on the investment securities portfolio increased to 4.11%, compared to 2.63% 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. Additionally, interest income was increased during the quarter by approximately $140 thousand relating to the full accretion of recorded discounts on unguaranteed loans and relating to the repurchase of the guaranteed portions of previously sold SBA loans.

For the quarter ended September 30, 2023, net interest margin for the Bank was 5.86%, compared to 4.70% for the same period of 2022. The Company's consolidated net interest margin was 5.69%, compared to 4.52% 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) 100 basis points during the first three quarters of 2023, and (ii) 225 basis points during the preceding twelve months.

Noninterest Income

For the quarter ended September 30, 2023, noninterest income decreased 48% to $1.2 million, compared to $2.3 million for the prior linked quarter, and decreased 68% from $3.7 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.

For the quarter ended September 30, 2023, gain on sale of loans decreased 53% to $763 thousand, compared to $1.6 million for the prior linked quarter, and decreased 76% from $3.2 million for the same period of 2022. Average pretax GAAP gain on loan sales decreased to 3.36%, compared to 4.53% for the prior linked quarter and 4.35% for the same period of 2022. Both the quarter ended September 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. While the reduction in loan sale pricing has impacted the Bank, the retention of more originated loans, as well as the Company's liquidity position, have supported earnings during the period.

For the quarter ended September 30, 2023, loan servicing income decreased 44% to $234 thousand, compared to $414 thousand for the prior linked quarter, and decreased 20% from $293 thousand for the same period of 2022. The decreases in servicing income compared to prior periods resulted from the write-off of certain servicing assets, totaling $156 thousand for the quarter, relating to the repurchase of the guaranteed portions of previously sold SBA loans.

For the quarter ended September 30, 2023, other noninterest income decreased 26% to $210 thousand, compared to $284 thousand for the prior linked quarter, and decreased 23% from $273 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 linked quarter and same period of 2022.

Noninterest Expense

For the quarter ended September 30, 2023, noninterest expense increased 9% to $8.2 million, compared to $7.6 million for the prior linked quarter, and increased 19% from $6.9 million for the same period of 2022. The increases were primarily driven by employee growth, higher salaries, employee benefits, incentives related to increased loan origination volume, and increases within other expenses.

For the quarter ended September 30, 2023, salaries and other compensation expenses increased 11% to $5.2 million, compared to $4.7 million for the prior linked quarter, driven by an increase in commission expense and other variable pay programs. Year-over-year, salaries and other compensation expenses increased 14% to $5.2 million, compared to $4.6 million for the same period of 2022. The increase was primarily driven by an increase in full-time equivalent employees to 163 on September 30, 2023, compared to 138 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 September 30, 2023, other operating expenses increased 5% to $2.6 million, compared to $2.5 million for the prior linked quarter, and increased 35% from $2.0 million for the same period of 2022. The year-over-year increase was the result of growth within the organization, with increases reflected across several categories of expense including data processing, legal and professional, supplies, insurance, marketing, audit, and other costs.

For the quarter ended September 30, 2023, noninterest expenses for the Bank's credit card program were approximately $435 thousand.

SBA and Commercial Lending Divisions

For the quarter ended September 30, 2023, loan originations by the Bank's SBA and Commercial Lending Divisions increased 19% to $81.1 million, compared to $68.0 million for the prior linked quarter. In conjunction with the Bank's increased retention of guaranteed loans, loan sale volume decreased 36% to $22.7 million, compared to $35.7 million for the prior linked quarter, and decreased 69% compared to $72.7 million for the same period of 2022. Gain on sale of loans decreased 53% to $763 thousand, compared to $1.6 million for the prior linked quarter, and decreased 76% from $3.2 million for the same period of 2022. Average pretax GAAP gain on loan sales decreased to 3.36%, compared to 4.53% for the prior linked quarter and 4.35% for the same period of 2022. Year-to-date through September 30, 2023, loan originations by the Bank's SBA Lending Division decreased 9% to $204.1 million, compared to $224.8 million for the same period of 2022.

Year-to-date through September 30, 2023, total loan originations, including SBA and non-SBA commercial loans, decreased 18% to $257.9 million, compared to $314.4 million for the same period of 2022.

Gaming FinTech Division

The 'Great Pivot' is also at work in our Gaming Fintech Division. Past reports have emphasized the decline in market penetration of one of our primary contract partners - Sightline Payments. As we have reported, Sightline continues to lose Sports Betting market share and is now placing more emphasis on future products for cashless gaming at bricks-and-mortar casinos. However, 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"™*** (its 3rd Patent). The GBank/BCS partnership has opened new gaming client accounts with over $25 million in current deposits. The BCS pipeline has 4 new companies in the vetting process for both gaming and consumer-based businesses.

The Company consistently prioritizes deposit generation as a key strategic focus within its Gaming FinTech Division. In alignment with this objective, GBank and BCS mutually agreed to an amendment of their Sponsorship and Program Management Agreement in the third quarter of 2023. This revision introduces program deposit monthly average minimums, accompanied by a provision for shared fees payable to GBank, should these monthly average balances fall below $30 million in aggregate.

For the quarter ending September 30, 2023, Gaming FinTech deposits averaged $31.6 million, compared to $45.7 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.

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 September 30, 2023, the Company recorded a $226 thousand provision to credit losses, compared to $408 thousand for the prior linked quarter and $464 thousand for the same period of 2022. The Company held $6.6 million in allowance for credit losses, compared to $7.2 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 1.27%, compared to 1.56% for the prior linked quarter and 1.68% for the same period of 2022. The allowance for credit losses to total net loans, excluding PPP and guaranteed balances, was 1.54%, compared to 1.76% for the prior linked quarter and 1.91% 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 September 30, 2023, the Bank holds $1.1 million of other real estate owned, compared to no other real estate owned for the prior linked quarter. The Bank had no loans in nonaccrual status as of September 30, 2023, compared to loans in nonaccrual status of $7.1 million for the prior linked quarter. For the quarter ended September 30, 2023, the Bank had $764 thousand in net charge-offs, compared to $100 thousand in net charge-offs for the prior linked quarter and $446 thousand of net charge-offs for the same period of 2022.

Earnings Call

The Company will host its Q3 2023 quarterly earnings call on Wednesday, November 1, 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.

About GBank Financial Holdings Inc.

GBank Financial Holdings Inc. (the "Company") (GBFH), a bank holding company with approximately $729.3 million in assets at September 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

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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