GBank Financial Holdings Inc. and Subsidiary

Consolidated Financial Report

December 31, 2022

Contents

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RSM US LLP

Independent Auditor's Report

Audit Committee
GBank Financial Holdings Inc. and Subsidiary

Opinion
We have audited the consolidated financial statements of GBank Financial Holdings Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

Las Vegas, Nevada
March 29, 2023

Gbank Financial Holdings Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2022 and 2021

(Dollars in thousands, except per share data)		
ASSETS	December 31, 2022	December 31, 2021
Cash and due from banks	$ 5,656	$ 5,012
Interest-bearing deposits with other financial institutions	130,780	231,384
Total cash and cash equivalents	136,436	236,396
Investment securities available for sale, at fair value	2,978	3,719
Investment securities held to maturity, at amortized cost	104,543	-
Loans held for sale	37,439	38,744
Loans, net	361,147	311,339
Premises and equipment, net	908	957
Operating lease right of use asset	2,911	1,877
Bank-owned life insurance	13,453	13,097
Other intangible assets, net	9,359	8,162
Other assets	9,528	6,010
Total Assets	$ 678,702	$ 620,301
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing demand	$ 304,950	$ 233,266
Interest-bearing demand	56,995	53,890
Savings	139,727	164,288
Time	53,761	58,119
Total deposits	555,433	509,563
Subordinated debt	25,939	25,876
Operating lease liability	2,981	1,919
Other liabilities	7,553	7,148
Total liabilities	36,473	34,943
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Common stock, par value $0.0001; 50,000,000 shares authorized; 12,691,119 (2022) and 12,252,678 (2021) shares issued and outstanding	1	1
Additional paid-in capital	52,124	51,768
Retained earnings	34,881	24,013
Accumulated other comprehensive (loss) income	(210)	13
Total Stockholders' Equity	86,796	75,795
Total Liabilities and Stockholders' Equity	$ 678,702	$ 620,301

See Notes to Consolidated Financial Statements.

Gbank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

(Dollars in thousands, except per share data)	Years Ended December 31,	
	2022	2021
INTEREST INCOME		
Interest and fees on loans	$ 24,096	$ 18,822
Interest on federal funds sold and other	2,690	249
Interest and dividends on investment securities	1,892	23
Total interest income	28,678	19,094
INTEREST EXPENSE		
Interest on deposits	2,278	1,054
Interest on subordinated debt	1,196	416
Total interest expense	3,474	1,470
Net Interest Income	25,204	17,624
PROVISION FOR LOAN LOSSES	1,347	1,081
Net interest income after provision for loan losses	23,857	16,543
NONINTEREST INCOME		
Gain on sale of loans held for sale	13,546	17,097
Loan servicing fee income	1,295	1,091
Service charges and fees	250	317
Other income	1,471	901
Total noninterest income	16,562	19,406
NONINTEREST EXPENSE		
Salaries and employee benefits	16,870	13,362
Data processing	3,329	2,097
Occupancy expense	1,519	1,594
Legal and professional fees	1,480	1,663
Audits and exams	220	317
FDIC insurance	167	133
Other	2,801	2,341
Total noninterest expense	26,386	21,507
INCOME BEFORE PROVISION FOR INCOME TAXES	14,033	14,442
Provision for income taxes	3,165	3,466
NET INCOME	$ 10,868	$ 10,976
PER COMMON SHARE DATA		
Basic earnings per common share	$ 0.87	$ 0.90
Diluted earnings per common share	$ 0.84	$ 0.85

See Notes to Consolidated Financial Statements.

Gbank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

(Dollars in thousands)	December 31, 2022	December 31, 2021
Net income	$ 10,868	$ 10,976
Other comprehensive (loss), before tax:		
Unrealized (losses) on securities available for sale	(282)	-
Income tax benefit related to unrealized losses on securities available for sale	59	-
Total other comprehensive (loss), net of tax	(223)	-
Comprehensive income	$ 10,645	$ 10,976

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2022 and 2021

(Dollars and shares in thousands)	Common Shares Number	Common Shares Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	12,181	$ 1	$ 51,567	$ 13,037	$ 13	$ 64,618
Net income	-	-	-	10,976	-	10,976
Stock compensation expense	-	-	144	-	-	144
Issuance of 38 shares of common stock upon the exercise of stock options	38	-	57	-	-	57
Restricted stock awards	34	-	-	-	-	-
Balance, December 31, 2021	12,253	1	51,768	24,013	13	75,795
Net income	-	-	-	10,868	-	10,868
Other comprehensive loss, net of tax	-	-	-	-	(223)	(223)
Stock compensation expense	-	-	227	-	-	227
Issuance of 424 shares of common stock upon the exercise of stock options	424	-	686	-	-	686
Restricted stock awards	39	-	-	-	-	-
Stock option loans and other	(25)	-	(557)	-	-	(557)
Balance, December 31, 2022	12,691	$ 1	$ 52,124	$ 34,881	$ (210)	$ 86,796

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	Years Ended December 31,	
(Dollars in thousands)	**2022**	**2021**
Cash flows from operating activities:		
Net income	$ 10,868	$ 10,976
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,347	1,081
Depreciation	365	419
Amortization of intangibles	4,579	3,327
Amortization of operating lease right of use assets	939	936
Amortization of subordinated debt issuance costs	63	-
Net (accretion) amortization of investment security (discount) premium	(170)	6
Stock compensation expense	227	144
Gain on sale of loans	(13,546)	(17,097)
Gross originations of loans held for sale	(245,405)	(214,333)
Proceeds from sale of loans held for sale	254,480	201,565
Income from bank owned life insurance	(356)	(100)
Net change in deferred income taxes	(448)	(294)
(Increase) decrease in accrued interest receivable	(1,773)	101
(Increase) decrease in other assets	(895)	279
Net change in operating lease liability	(911)	(894)
Increase in accrued interest payable and other liabilities	405	1,737
Net cash provided by (used in) operating activities	9,769	(12,147)
Cash flows from investing activities:		
Purchases of premises and equipment	(316)	(107)
Purchase of bank owned life insurance	-	(10,000)
Purchase of securities available for sale	-	(1,385)
Proceeds from principal paydowns on securities available for sale	440	511
Purchases of held to maturity securities	(104,444)	-
Proceeds from principal paydowns on securities held to maturity	78	-
Purchase of FHLB stock	(331)	(289)
Net change in loans	(51,155)	(25,457)
Net cash used in investing activities	(155,728)	(36,727)
Cash flows from financing activities:		
Net increase in deposits	45,870	120,262
FHLB advance repayments	-	(5,000)
Subordinated debt advances, net	-	19,567
Net proceeds from restricted stock award and option exercises	129	57
Net cash provided by financing activities	45,999	134,886
Net (decrease) increase in cash and cash equivalents	(99,960)	86,012
Cash and cash equivalents:		
Beginning of year	$ 236,396	$ 150,384
End of year	$ 136,436	$ 236,396
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 3,371	$ 1,291
Cash payments for income tax	$ 3,723	$ 2,075
Supplemental schedule of noncash investing and financing activities		
Right of use asset and lease liabilities	$ 1,973	$ 2,813
Capitalized mortgage servicing rights	5,776	4,407
Stock option loans	557	-

See Notes to Consolidated Financial Statements.

Note 1 - Nature of Business

These financial statements are prepared on a consolidated basis for GBank Financial Holdings Inc. ("GBFH") and its wholly owned subsidiary, GBank (the "Bank"), formerly known as Bank of George. References herein to "Company" refer to the consolidated entity and its financial statements.

GBFH is a bank holding company whose subsidiary, GBank, provides banking services to commercial and consumer customers. GBFH is subject to regulation by the Federal Reserve Bank of San Francisco, California ("FRB") and the State of Nevada Department of Business and Industry, Financial Institutions Division ("NFID"). As a state-chartered bank, GBank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC") and the NFID.

GBFH was formed in 2017 to become the parent bank holding company for GBank. In 2017 the stockholders of GBank exchanged their common stock in GBank for common stock in GBFH. The transaction was accounted for at historical cost, similar to that in pooling-of-interests accounting.

GBank was incorporated on May 11, 2007 and commenced operations on September 24, 2007. GBank's business is concentrated in the Las Vegas, Nevada area and is subject to the general economic conditions of that area. GBank's primary market for deposit customers is in Las Vegas and Clark County, Nevada, although GBank accepts deposits from deposit listing services as needed to support its funding needs. GBank's lending operations are carried out in two distinct departments:

- "Local Market" Department, which originates conventional and Small Business Administration ("SBA") 504 loans in Nevada, California, Utah and Arizona, and

- "National Market" Department, which originates, sells and services loans guaranteed by the SBA and the United States Department of Agriculture ("USDA") in thirty-nine states. In addition, the Department originates conventional loans, but these are not significant in relation to the overall National Market loan portfolio.

Concentration of credit risk: Most of the Company's activities are with customers located in approximately thirty-nine states, with the largest concentration in the state of Nevada, with approximately 38% of all loans and loan commitments to borrowers or for collateral located in Nevada. Note 2 discusses the types of loans in which the Company invests and the geographic dispersion of the loans.

Note 2 - Summary of Significant Accounting Policies

The accounting and reporting policies followed by the Company are in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP") and conform to practices within the financial services industry.

Principles of consolidation: The consolidated financial statements as of and for the years ended December 31, 2022 and 2021 include the accounts of GBFH and GBank. All significant intercompany balances and transactions were eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the financial statements, and (iii) the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the fair value of securities, the impairment of the servicing asset and the realization of deferred tax assets.

Reclassifications: Certain amounts reported in prior periods may have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on previously reported net income or stockholders' equity.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, the Company considers cash on hand, amounts due from banks, and interest-bearing deposits at other financial institutions that have original maturities of three months or less to be cash and cash equivalents. Cash flows from loans originated by the Company and deposits are reported net.

The Company maintains amounts due from banks which, at times, may exceed federally insured limits. No losses have been experienced in such accounts.

Investment Securities: Securities classified as available-for-sale are those debt securities that the Company intends to hold for an indefinite period, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive income (loss). The amortization of premiums and accretion of discounts are recognized in interest income over their contractual lives. Realized gains or losses, determined based on the cost of specific securities sold, are included in earnings.

Securities to be held to maturity are carried at amortized cost. Unrealized holding gains and losses on held-to-maturity securities are excluded from earnings and are not a component of other comprehensive income (loss) within stockholders' equity.

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, including an evaluation of credit ratings, (iii) the impact of changes in market interest rates, (iv) the intent of the Company to sell a security, and (v) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis.

If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income (loss).

Equity securities: During the second quarter of 2022, the Company entered into a Limited Partnership Agreement with a venture capital fund under which the Company has committed up to $2,000,000 in capital contributions to the partnership. The Company is a limited partner of the partnership with no controlling financial interests. In accordance with ASC Topic 321, The Company is reporting this investment as an equity security without a readily determinable fair value at cost, less impairment. The carrying amount of the investment at December 31, 2022 was $300,000 and is included in other assets on the consolidated balance sheets. No impairment was recognized related to this investment during the year ended December 31, 2022.

Loans held for sale: Loans held for sale are those loans that the Company has the intent to sell in the foreseeable future. The Company's loans held for sale consist of the portions of commercial and industrial, commercial real estate, and construction and land development loans that are guaranteed by the Small Business Administration. These loans may be fully funded or in an open funding status. The time frame for a loan to be fully funded can range from immediately upon closing to over a year, as in the case of a loan that includes loan proceeds for additional construction or improvements to the property securing the loan.

Upon full funding, the Company will generally sell the guaranteed portion of the loan and retain the unguaranteed portion as a loan held for investment. The Company also retains the right to service the loans that are sold. The Company issues various representations and warranties associated with the sale of loans. No losses have been incurred resulting from these provisions.

Loans held for sale are recorded at the lower of cost or market value, which is computed by the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on the sale of loans are recognized pursuant to Accounting Standards Codification 860, *Transfers and Servicing*.

Interest income on these loans is accrued daily. Loan origination fees and costs and origination fees and income on loans held for sale are amortized over the estimated life of the loan until the loan is sold.

Loans held for investment: The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Net loans are stated at the amount of unpaid principal, adjusted for net unamortized deferred fees and costs, unamortized discount and an allowance for loan losses.

Loan types are determined based on the nature of the loan and the collateral securing the loan. The types of loans are as follows:

- *Commercial and industrial loans:* Commercial and industrial loans are loans for commercial, corporate and business purposes, including issuing letters of credit. Repayment of these loans is generally largely dependent on the successful operations of the business. The Company's commercial business loan portfolio comprises loans for a variety of purposes and is generally secured by equipment, machinery and other business assets. Commercial business loans generally have terms of five years or less and interest rates that float in accordance with a designated published index. Substantially all such loans are secured and backed by the personal guarantees of the owners of the business.

- *Commercial real estate loans:* Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping centers and various special-purpose properties, including hotels and restaurants. These include loans made in the Company's local market as well as SBA and USDA loans made in other states. Repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Although terms vary, commercial real estate loans generally have amortizations of fifteen to twenty-five years, as well as balloon payments of two to five years, and terms which provide that the interest rates thereon may be adjusted annually at the Company's discretion, based on a designated index.

- *Construction and land development loans:* Construction and land development loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of twelve to eighteen months during the construction period and interest rates based on a designated index.

- *Residential real estate loans:* Residential one to four family loans, including home equity lines of credit are generally smaller in size and are homogenous because they exhibit similar characteristics. Repayment for residential single-family loans is largely dependent upon the personal cash flow of the individual borrowers. Residential multifamily loans generally involve a greater degree of credit risk than residential single-family loans as repayment is dependent on the successful operation of the project. This loan type is sensitive to adverse economic conditions.

- *Consumer and other loans:* Consumer and other loans are not significant.

Allowance for loan and lease losses: The allowance for loan and lease losses (“ALLL”) is maintained at a balance that management has determined to be sufficient to absorb the losses inherent in the loan portfolio. The ALLL consists of specific and general components. The specific component relates to loans that are classified as impaired and determined to have a measurable impairment. The general component relates to all other loans.

A loan is identified as impaired when it is no longer probable that interest and principal will be collected according to the contractual terms of the original loan agreement. Impaired loans are measured for reserve requirements in accordance with ASC 310, *Receivables*, based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral less applicable disposition costs if the loan is collateral dependent. The amount of an impairment reserve, if any, and any subsequent changes are recorded as a provision for credit losses. Losses are recorded as a charge-off when losses are confirmed. In addition to Management’s internal loan review process, regulators may from time to time direct the Company to modify loan grades, loan impairment calculations, or loan impairment methodology.

The valuations for impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, is the deficit between the carrying value of the impaired loan and the valuation of the impaired loan. This amount is added to the ALLL as a specific component.

Loans that are not identified as impaired are collectively evaluated by loan type for inherent loss based on the Company’s historical loan losses and peer bank loss experience, adjusted for qualitative and environmental factors.

The ALLL is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when Management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The ALLL is maintained at an amount that Management believes will be adequate to absorb probable losses on existing loans that may become uncollectable, based on an evaluation of the collectability of loans and the Company’s historical loan losses and peer bank loss experience. While Management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and may require the Company to make additions to the ALLL based on their judgment about information available to them at the time of their examinations.

Troubled debt restructured loan: A loan is defined as a troubled debt restructured (“TDR”) when a borrower is experiencing financial difficulties that leads to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as TDR in the year subsequent to the restructuring if it is in compliance with the modified terms. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

Interest and fees on loans: Interest on loans is recognized over the terms of the loans and is generally calculated using the effective interest method. The accrual of interest on impaired loans is discontinued when, in Management’s opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Cash collections on impaired loans are generally credited to the loan receivable balance and no interest income is recognized on these loans until the principal balance has been collected.

Delinquent loans: The Company determines a loan to be delinquent when payments have not been made according to the contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 180 days delinquent.

Non-accrual loans: When a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. The Company ceases accruing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if the loans are well secured by collateral and in the process of collection. For all loan types, when a loan is placed on non-accrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed, and the Company makes a loan-level decision to apply either the cash basis or cost recovery method. The Company recognizes income on a cash basis only for those non-accrual loans for which the collection of the remaining principal balance is not in doubt. Under the cost recovery method, subsequent payments received from the customer are applied to principal and generally no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required.

Loan origination and commitment fees, certain direct loan origination costs and discounts on the retained portions of USDA and SBA loans are deferred and the net amounts amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts over the estimated life of the loan. Commitment fees based upon a percentage of a customer's unused line of credit and fees related to standby letters of credit are generally recognized over the commitment period.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of a "participating interest" in order to account for the transfer as a sale. The characteristics of a participating interest are as follows:

- Pro rata ownership in an entire financial asset.
- From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.
- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Premises and equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives: leasehold improvements, ten to fifteen years and equipment, furniture and automobiles, three to seven years. Leasehold improvements are depreciated over the shorter of the term of the lease or life of the improvements.

Operating leases: The Company leases real estate for its operations, and as of January 1, 2021, for all leases in effect upon adoption of Accounting Standards Update 2016-02, *Leases (Topic 842)*, as well as any lease commencing thereafter, the Company has recognized a right-of-use asset and a related lease liability for each distinct lease agreement. Upon adoption, the Company elected a practical expedient which allowed existing leases to retain their classification as operating leases. The Company also elected the option to account for lease and related non-lease components as a single lease component, as well as the option not to recognize right-of-use assets and lease liabilities arising from short-term leases, defined as leases with terms of twelve months or less. Lease liabilities are measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. The right-of-use asset is measured at the amount of the lease liability adjusted for any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term.

Operating lease expense, recognized as a component of occupancy expense on the Consolidated Statements of Income, consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis. Operating lease expense also includes variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. None of GBFH's lease agreements include residual value guarantees or material variable lease payments. The Company does not have material restrictions or covenants imposed by leases that would impact the Company's ability to pay dividends or cause the Company to incur additional financial obligations. Refer to Note 6 for additional information regarding operating leases.

Other real estate owned: Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, valuations are periodically performed by Management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan and lease losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Net revenues from the operations of foreclosed assets are included in noninterest income. Changes in the valuation allowance are included in other expenses. At December 31, 2022 and 2021, the Company had no other real estate owned and, accordingly, had no valuation allowance charged against the carrying value of such assets. There were no residential loans for which formal foreclosure proceedings were in place at December 31, 2022 and 2021.

Bank-owned life insurance: Bank-owned life insurance is stated at its cash surrender value with changes recorded in other noninterest income in the consolidated statement of income. The face amount of the underlying policies, including death benefits, was approximately $26,842,000 and $26,913,000, with cash surrender value of approximately $13,453,000 and $13,097,000 included in other assets on the consolidated balance sheets as of December 31, 2022 and 2021, respectively.

Federal Home Loan Bank stock: The Company is a member of the Federal Home Loan Bank ("FHLB") system and is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its Membership Asset Value or 4.7% of advances from the FHLB. The stock is recorded at cost, which is also the redemption value. FHLB stock is bought from and sold to the FHLB at its $100 par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in values. The FHLB of San Francisco capital ratios exceeded the required ratios as of December 31, 2022; consequently, the Company does not believe that its investment in the FHLB stock is impaired as of this date.

Intangible assets—loan servicing rights: The Company's intangible assets consist primarily of the right to service the guaranteed portion of SBA and USDA loans sold to others. The fair value of the servicing asset is essentially a valuation of the net future income stream, which is based on the rate of the fee, the estimated repayment speed of the loan and the estimated cost to service the loan.

The amount allocated to the loan servicing rights is recorded at fair value at the time of sale, as calculated by a third-party consulting firm specializing in government guaranteed loan matters.

The fair value of the servicing asset is calculated for each loan using the following valuation variables:

- *Servicing fee:* This is the amount of the fee charged to a third-party buyer to service the loan. It is generally one percent (1%) of the loan balance on a declining basis as the loan repays principal.

- *Prepayment assumption:* This is an estimate of the repayment speed of the loan using a constant prepayment rate ("CPR") based on pools of similar SBA loans.

- *Servicing costs:* This is an estimate of the cost of servicing a loan which is established at 0.40%, based on information from industry experts and a cost study performed by the National Association of Government Guaranteed Lenders.

- *Internal rate of return:* The internal rates of return (IRR) are the pre-tax yield rates used to discount the expected future cash flow stream from servicing the SBA loan portfolio.

The loan servicing asset is being amortized over the period of estimated servicing income, with the amortization being recorded against loan servicing fee income.

The balance of loans owned by third parties that are being serviced by the Company was $678,700,000 and $516,994,000 as of December 31, 2022 and 2021, respectively.

The following table presents a reconciliation of loan servicing rights:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Balance, beginning of year	$ 8,162	$ 7,082
Additions - servicing rights related to loans sold	5,776	4,407
Reductions - amortization and early payoff	(4,579)	(3,327)
Balance, end of year	$ 9,359	$ 8,162

In the event of an early repayment of a serviced loan, the unamortized balance of the loan servicing asset for that loan is charged off against loan servicing fee income.

The aggregate balance of loan servicing rights is evaluated annually for impairment to ensure that the recorded balance is at the lower of amortized cost or fair value. The fair value of the servicing asset is essentially a valuation of the net future income stream. Significant inputs to the valuation as of December 31, 2022 include (i) the rate of the servicing fee, estimated at one percent, (ii) the estimated repayment speed of the loans, estimated to be fifteen percent, and (iii) the estimated cost to service the loans, estimated to be 0.40%. The fair value of servicing rights at December 31, 2022 and 2021 was determined by an independent consultant to be $13,671,000 and $11,961,000, respectively. Accordingly, the Company's servicing assets were not impaired as of December 31, 2022 and 2021.

Revenue recognition: The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer.

Services within the scope of ASC 606 and a description of the revenue recognition policy are as follows:

- *Service charges on deposit accounts:* Income from service charges on deposit accounts are recognized when an account is subject to a charge, as in the case of an overdraft or a balance falling below the level required for a maintenance fee waiver.

- *Interchange fees:* Interchange fees represent fees charged for the electronic transfer of funds between a customer and a third party. Fees are recognized when an interchange transaction is posted in accordance with the agreement with the customer.

- *Wire transfer fees:* Income from wire transfer fees are recognized when a fee is charged to a customer's account, which occurs at the time a wire transfer is processed.

- *Miscellaneous fees:* Miscellaneous fees for services such as account balancing assistance, response to a customer request for copies, etc. are charged when the services are performed.

Advertising costs: Advertising costs are expensed as incurred and were $129,000 and $91,000 for the years ended December 31, 2022 and 2021, respectively.

Income taxes: The Company files a consolidated federal income tax return. Income tax expense is generally allocated as if the Company and its subsidiary file separate income tax returns. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, capital losses and net operating losses, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

When tax returns are filed, it is highly certain that some tax positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the positions taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and is not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. Management does not believe the Company has any material uncertain tax positions to disclose.

Interest and penalties, if any, related to income taxes are recorded within the provision for income taxes on the consolidated income statements in the year assessed.

Stock option plan: As further described in Note 15, the Company grants stock options to its employees and directors. Pursuant to accounting guidance, the Company records compensation expense based upon the grant-date fair value of option awards. Such values are expensed over the requisite service period using the straight-line method. Forfeitures are recognized as they occur.

Equity incentive plan: As further described in Note 16, the Company grants restricted stock to its employees and directors. Pursuant to accounting guidance, the Company records compensation expense based upon the grant-date fair value of restricted stock awards. Such values are expensed over the requisite service period using the straight-line method. Forfeitures are recognized as they occur.

Off-balance-sheet instruments: In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Earnings Per Share: Basic earnings per share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each of the years presented. Diluted earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding plus common shares that would have been outstanding if dilutive potential common shares, consisting of unvested restricted stock and outstanding stock options, had been issued.

The computation of net income per share for the years ended December 31, 2022 and 2021 is provided in the table below.

(Dollars in thousands, except per share data)	December 31, 2022	December 31, 2021
Net income available to common shareholders	$ 10,868	$ 10,976
Weighted average shares outstanding (basic)	12,490,052	12,201,923
Effect of dilutive stock options	280,823	550,456
Effect of dilutive restricted stock	113,602	119,798
Weighted average shares outstanding (diluted)	12,884,477	12,872,177
Basic earnings per share	$ 0.87	$ 0.90
Diluted earnings per share	$ 0.84	$ 0.85
Anti-dilutive stock options excluded from the computation of earnings per share	41,803	-

Recent accounting pronouncements: In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The updated standard applies to all entities. The updated standard is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Subsequent to issuance, ASU 2016-13 was amended to by the following: ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11, ASU 2020-02, and ASU 2022-02. These amendments were issued to clarify, improve, or defer the adoption of ASU 2016-13. The updated standard and all related amendments will be effective for fiscal years beginning after December 15, 2022. Early application is permitted for fiscal years beginning after December 15, 2018.

The Company will adopt ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after December 31, 2022, will be presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. As of the date of this filing, the Company is finalizing review of the ASC 326 model validation support, while completing development of related internal controls, policy documentation, and support.

Any change in the quantitative credit loss estimate along with supplemental qualitative credit loss estimates for the pooled loan portfolio will be reflected in the Allowance for Credit Losses (ACL). Qualitative adjustments are judgmental and are based upon management's knowledge of the portfolio, the markets in which the Company operates and differences between the portfolio and peer bank data utilized in the quantitative calculations. Loans evaluated individually for expected credit losses will continue to have specific allocations of ACL assigned if the measured value is less than its current carrying value based on the allowable techniques. This reserve is determined by estimating future draws and applying expected credit loss rates to those estimated draws.

COVID-19 pandemic: During the first quarter of 2020, the World Health Organization declared a global health pandemic due to the spread of the COVID-19 virus. During 2020, the pandemic caused broad adverse economic impacts across many industries in the United States, resulting in a severe contraction in business activity along with a spike in the unemployment rate.

The fiscal intervention by the federal government included the following major components that had a significant positive impact on the public and on the Company's customers as follows:

- *Paycheck Protection Program ("PPP"):* Pursuant to this program, the Small Business Administration ("SBA") authorized financial institutions to make fully guaranteed loans to small businesses who were to use the proceeds to continue paying employees and certain other allowable costs necessary to keep the business open. The Company originated approximately $85 million in PPP loans over the course of the program. Included in total loans as of December 31, 2022 and 2021 are $135,000 and $11,344,000 of PPP loans, respectively.

- *SBA Debt Relief Program:* As a part of the CARES Act, the SBA Debt Relief Program authorized the SBA to pay six months of principal, interest, and any associated fees owed by borrowers for all 7(a), 504, and Microloans reported in regular servicing status (excluding PPP loans). Virtually all of the Company's SBA loan customers were able to qualify for this debt relief program. As of December 31, 2022, the Company no longer had any loan relationships receiving support under this program. As of December 31, 2021 there were 29 loans with $16.9 million in principal balance outstanding under this program.

- *SBA Deferrals:* The SBA continued its pre-existing program of support for performing borrowers who request a short-term deferral of payments, generally not to exceed six months. Following the end of the SBA Debt Relief Program, the Company's SBA borrowers made the required loan payments in October 2020, and thirty-four of the borrowers then requested to participate in the SBA Deferral program. As of December 31, 2022, the Company no longer had any loan relationships receiving support under this program. As of December 31, 2021 the balance of loans owed to the Company in an active deferral status under this program was $472,000.

- *Company Deferrals*: To both support the borrowers and to mitigate any risk of loss on loans, on March 17, 2020, the Company implemented a voluntary loan payment deferral program wherein performing borrowers could request a deferment of loan payments for a period of up to ninety days, renewable at the option of the Bank. At the end of the deferral period, the regularly scheduled loan payments will resume. The loan deferral program will not reduce the interest rate or forgive any principal or interest on the loan. All deferred interest amounts will be payable at the maturity of the loan. As of December 31, 2022, the Company no longer had any loan relationships receiving support under this program. At December 31, 2021, the balance of loans owed to the Company (excluding sold portions) in an active deferral status (i.e. not making the scheduled loan payments) was $774,000. The total interest that was deferred for the Company's conventional borrowers (including borrowers no longer in an active deferral status) was $1,143,000 as of December 31, 2021.

The Coronavirus Aid, and Economic Security ("CARES") Act provided financial institutions the option to temporarily suspend certain requirements under U.S. GAAP related to troubled debt restructurings in certain circumstances. This temporary suspension only applied to modifications of loans that were not more than 30 days past due as of December 31, 2019 and could not be applied to modifications unrelated to the COVID-19 pandemic. The temporary suspension was permitted for modifications executed during the period beginning on March 1, 2020, and, as extended by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, ended on the earlier of January 1, 2022, or 60 days after the termination of the COVID-19 national emergency.

In 2020, federal banking regulators, in consultation with the Financial Accounting Standards Board ("FASB"), issued interagency statements that included similar guidance on their approach for the accounting of loan modifications considering the economic impact of the COVID-19 pandemic that provide that short-term modifications and additional accommodations made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. The Bank elected to apply these provisions, as such, these short-term loan modifications made on a good faith basis in response to COVID-19 were not classified as troubled debt restructurings.

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through March 28, 2023, the date the financial statements were available to be issued.

Note 3. Investment Securities

The amortized cost, unrealized gains and losses, and estimated fair values of investment securities are summarized as follows:

(Dollars in thousands)	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
Residential mortgage-backed securities	3,255	-	277	2,978
Total available for sale securities	$ 3,255	$ -	$ 277	$ 2,978

(Dollars in thousands)	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held to maturity securities:				
U.S. Treasury	64,202	60	1,171	63,091
Residential mortgage-backed securities	40,341	56	842	39,555
Total held to maturity securities	$ 104,543	$ 116	$ 2,013	$ 102,646

(Dollars in thousands)	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale securities:				
Residential mortgage-backed securities	3,702	17	-	3,719
Total available for sale securities	$ 3,702	$ 17	$ -	$ 3,719

The Company had no held to maturity securities as of December 31, 2021.

There were no gross realized gains or losses from the sale of securities available-for-sale during the years ended December 31, 2022 or 2021.

As of December 31, 2022 and 2021, the Company's securities with an approximate market value of $95,964,000 and $386,000, respectively, were pledged as collateral for potential borrowing purposes (see Note 8).

The following tables present gross unrealized losses and fair value of debt security investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. As of December 31, 2022, all securities in an unrealized loss position had been in that position continuously for less than six months. No securities were in an unrealized loss position for twelve months or more.

(Dollars in thousands)	December 31, 2022		
	Number of Securities	Fair Value	Gross Unrealized Losses
Available for sale securities:			
Residential mortgage-backed securities	8	$ 2,978	$ 277
Total temporarily impaired available for sale securities	8	2,978	277
Held to maturity securities:			
U.S. Treasury	10	$ 48,419	$ 1,171
Residential mortgage-backed securities	6	31,512	842
Total temporarily impaired held to maturity securities	16	79,931	2,013
Total	24	$ 82,909	$ 2,290

No securities were in an unrealized loss position as of December 31, 2021.

The unrealized losses as of December 31, 2022 relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, Management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred, and various industry analysis reports. There were no Company securities downgraded during 2022 or 2021. Management has determined that no declines are deemed to be other-than-temporarily impaired as of December 31, 2022. Management has both the intent and ability to hold the securities in an unrealized loss position until the anticipated recovery of the security's fair value.

The table below illustrates the maturity distribution of investment securities at amortized cost and fair value at December 31, 2022.

(Dollars in thousands)	December 31, 2022			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ 9,904	$ 9,812
Due after one but within five years	-	-	54,298	53,279
Due after five years but within ten years	-	-	-	-
Due after ten years	-	-	-	-
	-	-	64,202	63,091
Residential mortgage-backed securities	3,255	2,978	40,341	39,555
Total	$ 3,255	$ 2,978	$ 104,543	$ 102,646

The actual maturities of mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, maturity schedules are not presented for mortgage-backed securities.

Note 4. Loans

The principal balances of the loans held for investment are listed below as of December 31, 2022:

(Dollars in thousands)	December 31, 2022		
	Local Market Loans	National Market Loans	Total Loans
Commercial and industrial	$ 26,924	$ 3,064	$ 29,988
Commercial real estate	123,581	191,893	315,474
Construction and land development	-	400	400
Residential real estate	25,879	-	25,879
Consumer	519	-	519
Gross loans	176,903	195,357	372,260
Net deferred loan costs	(231)	4,627	4,396
Unamortized discount	-	(8,649)	(8,649)
Net investment	176,672	191,335	368,007
Allowance for loan losses	(2,672)	(4,188)	(6,860)
Loans, net of allowance	$ 174,000	$ 187,147	$ 361,147

As of December 31, 2022, PPP loans totaling $135,000 were included in the Commercial and Industrial category and are fully guaranteed by the SBA. There is no allowance for loan loss allocated to PPP loan balances.

The principal balances of the loans held for investment are listed below as of December 31, 2021:

(Dollars in thousands)	December 31, 2021 Local Market Loans	National Market Loans	Total Loans
Commercial and industrial	$ 21,593	$ 13,767	$ 35,360
Commercial real estate	68,970	183,234	252,204
Construction and land development	8,843	-	8,843
Residential real estate	23,184	-	23,184
Consumer	1,186	-	1,186
Gross loans	123,776	197,001	320,777
Net deferred loan costs	(128)	4,672	4,544
Unamortized discount	-	(7,832)	(7,832)
Net investment	123,648	193,841	317,489
Allowance for loan losses	(2,170)	(3,980)	(6,150)
Loans, net of allowance	$ 121,478	$ 189,861	$ 311,339

As of December 31, 2021, PPP loans totaling $11,344,000 were included in the Commercial and Industrial category and are fully guaranteed by the SBA. There is no allowance for loan loss allocated to PPP loan balances.

Loan costs represent the costs incurred to originate the loans, net of fees paid by the borrower, which are measured and recorded at the date the loan is originated. The discount represents the discount on the retained portion of SBA and USDA loans whose government guaranteed portions are sold is measured at the date the guaranteed portion of the loan is sold, based on the relative fair value of the retained loan as calculated by an independent consulting firm. Loan costs and discount are amortized over the life of the loan and are recorded as an adjustment to interest income on the loan.

Loans held for sale consisted of commercial real estate, commercial and industrial, and construction and land development loans as of December 31, 2022. The balance of unguaranteed portions to be retained are reported as held for investment. The principal balances of loans held for sale as of December 31, 2022 and 2021 are as listed below:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Gross loan balances	$ 48,226	$ 45,543
Less: Unguaranteed portions to be retained	10,787	6,799
Amounts held for sale, net	$ 37,439	$ 38,744

As of December 31, 2022 and 2021, Company loans with a carrying value of $16,328,000 and $19,060,000, respectively, were pledged as collateral for potential borrowing purposes (see Note 8).

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of December 31, 2022 and 2021 are summarized as follows:

(Dollars in thousands)	December 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 29,988	$ 29,988
Commercial real estate	-	-	-	598	598	314,876	315,474
Construction and land development	-	-	-	-	-	400	400
Residential real estate	-	-	-	-	-	25,879	25,879
Consumer	-	-	-	-	-	519	519
Total	$ -	$ -	$ -	$ 598	$ 598	$ 371,662	$ 372,260

(Dollars in thousands)	December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 35,360	$ 35,360
Commercial real estate	-	-	-	321	321	251,883	252,204
Construction and land development	-	-	-	-	-	8,843	8,843
Residential real estate	-	-	-	-	-	23,184	23,184
Consumer	-	-	-	-	-	1,186	1,186
Total	$ -	$ -	$ -	$ 321	$ 321	$ 320,456	$ 320,777

Management regularly reviews the problem loans in the Company's portfolio to determine whether any assets require classification in accordance with the Company's policy and applicable regulations. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements. The Company's internal credit risk-grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

- *Pass:* Loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Loans in this grade are further broken down into sub-grades ranging from A to E in order to provide for additional granularity in the analyses that are performed.

- *Special Mention:* Loans where a potential weakness or risk exists that could cause a more serious problem if not corrected.

- *Substandard:* Loans that have a well-defined weakness based on objective evidence and can be characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- *Doubtful:* Loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make full collection or liquidation highly questionable and improbable, based upon the existing circumstances.

- *Loss:* Loans classified as a loss are considered uncollectable, or of such value that continuance as an asset is not warranted.

The following table represents credit exposures by internally assigned grades for the years ended December 31:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
	December 31, 2022					
Pass	$ 29,988	$ 310,075	$ 400	$ 25,879	$ 519	$ 366,861
Special mention	-	3,702	-	-	-	3,702
Substandard	-	1,099	-	-	-	1,099
Doubtful	-	598	-	-	-	598
Loss	-	-	-	-	-	-
Total	$ 29,988	$ 315,474	$ 400	$ 25,879	$ 519	$ 372,260

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
	December 31, 2021					
Pass	$ 35,278	$ 249,446	$ 8,843	$ 23,184	$ 1,186	$ 317,937
Special mention	-	-	-	-	-	-
Substandard	82	2,437	-	-	-	2,519
Doubtful	-	321	-	-	-	321
Loss	-	-	-	-	-	-
Total	$ 35,360	$ 252,204	$ 8,843	$ 23,184	$ 1,186	$ 320,777

The Bank had one impaired loan relationship consisting of two loans totaling $598,000 at December 31, 2022 and one impaired loan as of December 31, 2021 of $321,000.

Impaired loans by loan portfolio class as of December 31, 2022 and 2021 are summarized as follows:

(Dollars in thousands)	December 31, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate	598	598	-	-	-	-
Construction and land development	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
With an allowance recorded:						
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	321	321	109
Construction and land development	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-

The average recorded investment of impaired loans and related interest income recognized for the years ended December 31, 2022, and 2021 are summarized as follows:

(Dollars in thousands)	December 31, 2022 Average Recorded Investment	December 31, 2022 Interest Income Recognized	December 31, 2021 Average Recorded Investment	December 31, 2021 Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$ 16	$ -	$ -	$ -
Commercial real estate	2,056	-	-	-
Construction and land development	-	-	-	-
Residential real estate	-	-	-	-
Consumer	-	-	-	-
With an allowance recorded:				
Commercial and industrial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	815	-
Construction and land development	-	-	-	-
Residential real estate	-	-	-	-
Consumer	-	-	-	-

There was no interest income recognized on a cash basis relating to impaired loans during the years ended December 31, 2022 or 2021. As of December 31, 2022 and 2021, the Company was not committed to lend additional funds on any impaired loans.

The level of the allowance reflects management's continuing evaluation of product and industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off.

The following is a summary of activity for the allowance for loan losses for the years ended December 31, 2022 and 2021:

(Dollars in thousands)	For the years ended December 31, 2022	For the years ended December 31, 2021
Balance, beginning of year	$ 6,150	$ 5,069
Provision for loan losses	1,347	1,081
Amounts recovered	-	-
Amounts charged off	(637)	-
Balance, end of year	$ 6,860	$ 6,150

The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended December 31, 2022 and 2021:

	December 31, 2022					
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 347	$ 5,299	$ 146	$ 356	$ 2	$ 6,150
Provision (credits)	85	1,410	(136)	(10)	(2)	1,347
Amounts recovered	-	-	-	-	-	-
Amounts charged off	-	(637)	-	-	-	(637)
Ending balance	$ 432	$ 6,072	$ 10	$ 346	$ -	$ 6,860
Balance allocated to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	432	6,072	10	346	-	6,860
Ending balance	$ 432	$ 6,072	$ 10	$ 346	$ -	$ 6,860
Loans receivable:						
Individually evaluated for impairment	$ -	$ 598	$ -	$ -	$ -	$ 598
Collectively evaluated for impairment	29,988	314,876	400	25,879	519	371,662
Ending balance	$ 29,988	$ 315,474	$ 400	$ 25,879	$ 519	$ 372,260

	December 31, 2021					
(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 256	$ 4,286	$ 98	$ 428	$ 1	$ 5,069
Provision for loan losses	91	1,013	48	(72)	1	$ 1,081
Amounts recovered	-	-	-	-	-	-
Amounts charged off	-	-	-	-	-	-
Ending balance	$ 347	$ 5,299	$ 146	$ 356	$ 2	$ 6,150
Balance allocated to:						
Individually evaluated for impairment	$ -	$ 109	$ -	$ -	$ -	$ 109
Collectively evaluated for impairment	347	5,190	146	356	2	6,041
Ending balance	$ 347	$ 5,299	$ 146	$ 356	$ 2	$ 6,150
Loans receivable:						
Individually evaluated for impairment	$ -	$ 321	$ -	$ -	$ -	$ 321
Collectively evaluated for impairment	35,360	251,883	8,843	23,184	1,186	320,456
Ending balance	$ 35,360	$ 252,204	$ 8,843	$ 23,184	$ 1,186	$ 320,777

As of and for the years ended December 31, 2022 and 2021, there were no loans modified that resulted in troubled debt restructurings and no troubled debt restructured loans outstanding. There were no defaulted troubled debt restructured loans, nor were there any defaults on troubled debt restructured loans within twelve months of restructure during the years ended December 31, 2022 and 2021.

Note 5 - Premises and Equipment

The following table presents a summary of premises and equipment:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Leasehold Improvements	$ 3,245	$ 3,207
Furniture, fixtures, and equipment	2,441	2,163
Total cost	5,686	5,370
Accumulated depreciation	(4,778)	(4,413)
Net premises and equipment	$ 908	$ 957

Depreciation expense was $365,000 in 2022 and $419,000 in 2021.

Note 6 - Operating Leases

The Company leases real estate for its main office, two branch offices as well as office space for operations departments under various operating lease agreements. The lease agreements have maturity dates ranging from April 2024 to September 2027, some of which include options to renew at the Company's discretion. At lease inception, if the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the measurement of the right-of-use asset and lease liability.

The lease liability is equal to the present value of the future lease payments, discounted using the rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Given that the rate implicit in the lease is rarely available, lease liability amounts were calculated using the Company's incremental borrowing rate at lease inception, on a collateralized basis, for a similar term. For leases in existence as of the January 1, 2021 adoption date, the discount rate used was the FHLB fixed advance rate which corresponded with the remaining lease term.

Operating lease right-of-use assets, as well as operating lease liabilities, are presented as separate line items on the Consolidated Balance Sheet. The Company has elected not to report short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheet.

There were no sale and leaseback transactions or leveraged leases as of December 31, 2022. There were no leases that had not commenced as of December 31, 2022.

Below is a summary of the operating lease right-of-use asset and related lease liability, as well as the weighted average lease term (in years), weighted average discount rate and total rent expense as of and for the years ended December 31, 2022 and December 31, 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Right of use asset	$ 2,911	$ 1,877
Lease liability	$ 2,981	$ 1,919
Weighted average remaining lease term (in years)	3.7	2.7
Weighted average discount rate	2.01%	1.83%
Rent expense	$ 939	$ 955

Total estimated rental commitments for the operating leases were as follows as of December 31, 2021.

(Dollars in thousands)		
Years ending December 31:		
2023	$	1,013
2024		815
2025		624
2026		400
2027		306
Total lease payments	$	3,158
Less: present value discount		(177)
Present value of lease liability	$	2,981

Note 7 - Deposits

At December 31, 2022 and 2021, time deposits amounted to $53,761,000 and $58,119,000, respectively. Interest expense on time deposit amounted to $725,000 and $431,000 for the years ended December 31, 2022 and 2021, respectively.

The scheduled maturities of time deposits at December 31, 2022, are as follows:

(Dollars in thousands)	Time Deposits			
	Less Than $250,000		$250,000 or more	
Maturing in 2023	$	30,549	$	10,107
Maturing in 2024		1,893		1,400
Maturing in 2025		6,969		250
Maturing in 2026		1,596		250
Maturing in 2027		747		-
Maturing thereafter		-		-
Total time deposits	$	41,754	$	12,007

At December 31, 2022, one deposit relationship consisting of fifteen accounts totaling $39,447,000 exceeded five percent of the Company's total deposits. Comparatively, no depositors exceeded five percent of the Company's total deposits at December 31, 2021. The aggregate amount of demand deposit overdrafts that were reclassified as loans were $10,000 at December 31, 2022, compared to $11,000 as of December 31, 2021.

Note 8 - Subordinated Debt, Other Borrowings, and Available Lines of Credit

The Company had no long-term debt or short-term borrowings as of December 31, 2022. During 2021, the Company had one FHLB borrowing of $5,000,000 which was paid off in May 2021 and had no long-term debt or short-term borrowings outstanding as of December 31, 2021.

Subordinated Debt Issued 2021

On December 15, 2021, the Company completed a $20,000,000 private placement of fixed-to-floating rate subordinated notes (the "2021 Notes"). The 2021 Notes are subordinate and junior in right of payment to the prior payment in full of all existing claims of creditors of the Company whether now outstanding or subsequently created, assumed, guaranteed, or incurred (collectively, "Senior Indebtedness"). The 2021 Notes are not secured by any assets of the Company or its sole existing subsidiary company, GBank.

The 2021 Notes have a maturity date of December 15, 2031 and carry a fixed interest rate of 3.875% for the first five years through December 15, 2026. Thereafter, the 2021 Notes will pay interest at a quarterly adjustable rate equal to the then-current three-month term Secured Overnight Financing Rate ("SOFR") as published by the Federal Reserve Bank of New York, plus two hundred and eighty-nine (289) basis points.

Interest on the 2021 Notes is payable quarterly in arrears semiannually on December 15 and June 15. The 2021 Notes are redeemable by the Company in whole or in part on any interest payment date beginning with the interest payment date of December 15, 2026. The net proceeds of the 2021 Notes was $19,567,000 which includes $558,000 of debt issuance costs that are being amortized over the expected life of the 2021 Notes.

The 2021 Notes qualify as Tier II capital for the Company for regulatory capital purposes. At the closing of the private placement, the Company invested $18,000,000 into the Company's wholly owned subsidiary, GBank. The funds invested into GBank are treated as Tier I capital.

Subordinated Debt Issued 2020

On December 30, 2020, the Company completed a $6,500,000 private placement of fixed-to-floating rate subordinated notes (the "2020 Notes"). The 2020 Notes are subordinate and junior in right of payment to the prior payment in full of all existing claims of creditors of the Company whether now outstanding or subsequently created, assumed, guaranteed, or incurred (collectively, "Senior Indebtedness"). The 2020 Notes are not secured by any assets of the Company or its sole existing subsidiary company, GBank.

The 2020 Notes have a maturity date of January 15, 2031 and carry a fixed interest rate of 4.50% for the first five years through January 14, 2026. Thereafter, the 2021 Notes will pay interest at a quarterly adjustable rate equal to the then-current three-month term Secured Overnight Financing Rate ("SOFR") as published by the Federal Reserve Bank of New York, plus four hundred twenty-three (423) basis points.

Interest on the 2020 Notes is payable quarterly in arrears semiannually on January and July 15. The 2020 Notes are redeemable by the Company in whole or in part on any interest payment date beginning with the interest payment date of January 15, 2026. The net proceeds of the 2020 Notes was $6,293,000 which includes $207,000 of debt issuance costs that are being amortized over the expected life of the 2020 Notes.

The 2020 Notes qualify as Tier II capital for the Company for regulatory capital purposes. At the closing of the private placement, the Company invested $6,000,000 into the Company's wholly owned subsidiary, GBank. The funds invested into GBank are treated as Tier I capital.

During the years ended December 31, 2022 and 2021, the Company recorded interest expense on subordinated debt issuances totaling $1,144,000 and $373,000, respectively, of which $192,000 was accrued as of both December 31, 2022 and 2021.

Line of Credit

The Company has a line of credit available from the FHLB of San Francisco. Pursuant to collateral agreements with the FHLB of San Francisco, the arrangement is collateralized by qualifying securities and pledged loans with approximate market values of $14,897,000 and $19,861,000 as of December 31, 2022 and 2021, respectively. The unused borrowing capacity at December 31, 2022 and 2021 with the FHLB of San Francisco, as collateralized by qualifying securities and pledged loans, was approximately $102,658,000 and $15,963,000, respectively. No draws have been made on the line and on December 31, 2022 and 2021 the balance was zero.

Note 9 - Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and in several states in which the Company originates loans. The Company identifies its federal tax return as its major tax jurisdiction. The periods subject to examination for the Company's federal tax return are 2020, 2021 and 2022. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to applicable guidance.

From time to time, the Company may be assessed interest or penalties by tax jurisdictions, although the Company has had no such significant assessments historically. The Company's policy is to include interest and penalties related to income taxes as a component of income tax expense.

Significant components of the Company's deferred tax asset, included in other assets on the consolidated balance sheets, are shown in the following table:

(Dollars in thousands)		December 31, 2022		December 31, 2021
Deferred tax assets:				
Allowance for loan losses	$	1,583	$	1,419
Depreciation		243		241
Organization and startup costs		-		9
Deferred compensation		787		806
Unrealized losses on securities available for sale		64		-
Lease adjustments		15		-
Other		513		92
Total deferred tax assets		3,205		2,567
Deferred tax liabilities:				
Capitalized loan costs		(1,208)		(1,250)
Unrealized gains on securities available for sale		-		(4)
Other		(323)		(158)
Total deferred tax liabilities		(1,531)		(1,412)
Net deferred tax asset	$	1,674	$	1,155

The Company has no valuation allowance as of December 31, 2022 or 2021.

The following table presents the components of the provision for income taxes as of December 31, 2022 and 2021:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Current tax provision (benefit):		
Federal	$ 2,630	$ 3,572
State	560	188
Total current tax provision (benefit)	3,190	3,760
Deferred tax expense (benefit):		
Federal	(15)	(274)
State	(10)	(20)
Total deferred tax expense (benefit)	(25)	(294)
Total provision for income taxes	$ 3,165	$ 3,466

For the years ended December 31, 2022 and 2021, the Company's effective tax rate was 23% and 24%, respectively, as compared to the statutory federal income tax rate of 21%. The difference is attributable to income tax rates for the states in which the Company has operations. The effective rates for 2022 and 2021 differ from the expected statutory rate due to permanent differences and state taxes.

A reconciliation of the federal income tax provision at the statutory rate to GBank's actual federal income tax provision at its effective rate is as follows:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Provision at the expected statutory rate	$ 2,947	$ 3,033
State income taxes, net of federal tax benefit	442	149
Effect of investment in life insurance	(75)	(21)
Effect of stock-based compensation	(160)	(39)
Other items	11	344
Total provision for income taxes	$ 3,165	$ 3,466

Note 10 - Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for these commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contractual amounts of the Company's exposure to off-balance-sheet risk as of December 31, 2022 and 2021 is as follows:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Commitments to extend credit (1)	$ 28,489	$ 22,247
Standby letters of credit (2)	1,018	418
	$ 29,507	$ 22,665

(1) Includes unsecured commitments of $3,677,000 and $1,289,000 as of December 31, 2022 and 2021, respectively.
(2) Includes cash secured standby letters of credit of $248,000 and $418,000 as of December 31, 2022 and 2021, respectively.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee since many of the commitments are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based upon Management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; income-producing commercial properties; and land loans.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required as the Company deems necessary.

Financial Instruments with Concentrations of Credit Risk

The Company's loan portfolio is concentrated in commercial real estate loans. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 80%. Commercial real estate loans accounted for approximately 85% and 79% of the total gross loans at December 31, 2022 and 2021, respectively. Commercial and Industrial loans accounted for approximately 8% and 11% of the total gross loans at December 31, 2022 and 2021, respectively. PPP loans extended to commercial loan customers and included in the category of commercial and industrial loans accounted for less than 1% and 4% of the total gross loans at December 31, 2022 and 2021, respectively. Residential loans, including multifamily, accounted for approximately 7% of the total gross loans at both December 31, 2022 and 2021. No other loan classification exceeded 10% of the loan portfolio at December 31, 2022 or 2021.

The Company makes commercial, commercial real estate, residential real estate and consumer loans to customers in its Local Market and to customers located throughout the United States through the Company's nationwide SBA and USDA Loan programs.

The Company's loans are expected to be repaid from cash flow or from proceeds from the sale of selected assets of the borrowers. Unsecured loans accounted for 1% of total loans at December 31, 2022 and less than 1% of total loans as of December 31, 2021.

At December 31, 2022, the Company's loan portfolio included loans and loan commitments in thirty-nine states. The following table sets forth the dispersion of loan commitments (balances and undisbursed loan proceeds) with amounts and the percentage of the total commitments in the states with five percent of the total loan commitments:

(Dollars in thousands)	December 31, 2022	
	Amounts	**Percentage**
Nevada	$ 165,695	37.72%
California	46,190	10.52%
North Carolina	42,854	9.76%
Other	184,528	42.01%
Total Loan Commitments	$ 439,267	100.00%

Legal Contingencies

The Company is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in Management's opinion, would not have a material adverse effect on the Company's financial statements. In the opinion of Management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

GBank was a party to a lawsuit brought about by a former employee alleging wrongdoing on the part of GBank which ultimately resulted in the wrongful termination of the former employee. GBank was being defended by its insurance carrier and its retained legal counsel. The case was settled during 2022.

Executive Agreements

The Company has entered into agreements with its key employees stating that, in the event the Company terminates the employment of these officers without cause or upon change in control of the Company, the Company may be liable for the employees' salary for a period of time as outlined in the agreements.

Other Commitments

During the second quarter of 2022 the Company entered into a Limited Partnership Agreement with a venture capital fund under which the Company has committed up to $2,000,000 in capital contributions to the partnership. The Company is a limited partner of the partnership with no controlling financial interests. Capital contributions are expected to be made through 2027. As of December 31, 2022, the Company had made capital contributions to the venture capital fund totaling $300,000 with this balance included in other assets on the Consolidated Balance Sheet.

Note 11 - Related-Party Transactions

In the course of ordinary business, the Company has granted loans to officers, directors and their affiliates ("related parties"). The following table presents a summary of the loan activity to related parties:

(Dollars in thousands)	December 31, 2022	December 31, 2021
Beginning Balance	$ 12,340	$ 7,110
Advances	637	6,993
Repayments	(885)	(1,763)
Ending Balance	$ 12,092	$ 12,340

Undisbursed loan commitments with related parties totaled approximately $1,927,000 and $2,508,000 at December 31, 2022 and 2021, respectively.

In April 2015, the Company originally entered into a sponsorship and program management agreement with BankCard Services, LLC ("BCS"), a newly formed entity that is related by common ownership to the Company. The agreement was amended and restated in June 2022. Under this agreement, the Company issues prepaid debit cards through its memberships in the Discover, MasterCard, VISA, and various other networks and BCS serves as the program manager for the cards. In addition to card issuance, the Company provides settlement accounts and receives a percentage of BCS's gross revenues as compensation for these services. The Bank recognized $610,000 and $434,000 in revenue associated with this arrangement during the years ended December 31, 2022 and 2021.

On December 31, 2018, the Company entered into a Stock Exchange Agreement and Plan (the "Agreement") with BCS. Under the terms of the Agreement, ownership interests in BCS would have been exchanged for shares of the Company and cash, and BCS would have become a wholly owned subsidiary of the Company. During 2021 this agreement was mutually terminated by both parties.

Deposits from related parties in the normal course of business totaled approximately $41,177,000 and $57,332,000 at December 31, 2022 and 2021, respectively.

The Bank leases its headquarters location, as well as two branch locations, from related parties. Rent paid to related parties was $647,000 in 2022 and $628,000 in 2021. The future minimum payments to related parties are $666,000 (2023), $478,000 (2024), $388,000 (2025), $400,000 (2026), and $306,000 (2027).

Note 12 - Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

On November 4, 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio ("CBLR") framework, for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule was effective on January 1, 2020 and allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. Banks opting into the CBLR framework are not required to calculate or report risk-based capital. The Company adopted the CBLR standards with its Call Report filed with the federal banking agencies for the quarter ended September 30, 2020.

Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule. Additionally, such insured depository institutions are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The main components and requirements of the community bank leverage ratio framework are as follows:

- Tier 1 Capital Leverage ratio greater than 9 percent
- Less than $10 billion in average total consolidated assets
- Off-balance-sheet exposures of 25 percent or less of total consolidated assets
- Trading assets plus trading liabilities of 5 percent or less of total consolidated assets
- Not an advanced approaches banking organization

At December 31, 2022 and 2021, the Company and GBank were in compliance with the CBLR requirements. The table below presents a summary of the main components and requirements of the CBLR for the periods ending December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Bank Tier 1 Capital Leverage Ratio	15.08%	15.71%
Average Total Consolidated Assets	$ 681,525	$ 574,939
Off-Balance-Sheet Exposures	$ 20,045	$ 17,505
Ratio of Off-Balance-Sheet Exposures to Total Assets	2.94%	2.82%
Trading Assets	None	None
Advances Approaching Banking Organization	No	No

Additionally, State of Nevada banking regulations restrict distribution of the net assets of the Company. These regulations require the sum of the Company's stockholders' equity and allowance for loan losses to be at least six percent of the average of the Company's total daily deposit liabilities for the preceding sixty days. As a result of these regulations, approximately $34,706,000 and $29,863,000 of the Company's stockholders' equity was restricted at December 31, 2022 and 2021, respectively.

Note 13 - Fair Value Accounting

The Company uses a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain unobservable assumptions and projections in determining the fair value assigned to such assets.

There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2022 and 2021.

Assets Measured at Fair Value on a Recurring Basis

Securities Available for Sale: The fair value of investment securities classified as available for sale is measured using information from a third-party pricing service. The pricing service uses quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

The table below presents the balance of financial assets measured at fair value on a recurring basis by level within the fair value hierarchy:

(Dollars in thousands)	Carrying Value at December 31, 2022	Fair Value Measurements at December 31, 2022 Using: Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale debt securities:				
U.S. government agencies	$ 2,978	$ -	$ 2,978	$ -

(Dollars in thousands)	Carrying Value at December 31, 2021	Fair Value Measurements at December 31, 2021 Using: Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale debt securities:				
Mortgage-backed U.S. government agencies	$ 3,719	$ -	$ 3,719	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on a recurring basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired Loans: Impaired loans are those that are accounted for under FASB ASC Topic 310, in which the Company has measured impairment generally based on the fair value of the loan's collateral, generally determined based upon independent third-party appraisals of the properties. These loans are included as Level 3 fair values, based on the lowest level of input that is significant to the fair value measurements.

Loan Servicing Rights: Loan servicing rights consist primarily of the right to service the guaranteed portion of SBA and USDA loans sold to others. The fair value of the servicing asset is essentially a valuation of the net future income stream. Significant inputs to the valuation include the rate of the servicing fee, the estimated repayment speed of the loan, and the estimated cost to service the loan.

The table below presents the balance of financial assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy:

(Dollars in thousands)	Carrying Value at December 31, 2022	Fair Value Measurements at December 31, 2022 Using: Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loan servicing asset	$ 9,359	$ -	$ -	$ 13,671

(Dollars in thousands)	Carrying Value at December 31, 2021	Fair Value Measurements at December 31, 2021 Using: Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loan servicing asset	$ 8,162	$ -	$ -	$ 11,961
Impaired loans	212	-	-	212

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine the fair value.

(Dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements				
December 31, 2022	**Fair Value Estimate**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
Assets:					
Loan servicing asset	13,671	Multiple of annual service fee	Estimated prepayment speed based on rate and term	14%-15%	15%

(Dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements				
December 31, 2021	**Fair Value Estimate**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
Assets:					
Loan servicing asset	11,961	Multiple of annual service fee	Estimated prepayment speed based on rate and term	11-14%	14%
Impaired loans	212	Third-party appraisal (1)	Appraisal adjustments (2)	34-34%	34%

(1) Fair value is generally determined through independent appraisals which generally include various level 3 inputs that are not identifiable.
(2) Appraisal amounts may be adjusted downward management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other adjustments are presented as a percent of the appraisal or financial statement book value.

<u>Note 14 – Equity Award Plans</u>

The 2007 Long-Term Stock Option Plan. The Company's 2007 Long-Term Stock Option Plan (the "2007 Plan") was for the benefit of organizers, directors, and key employees of the Company and all of its subsidiaries, including the Bank. The 2007 Plan was authorized to issue up to 700,000 shares of Common Stock-V, of which 688,650 had been granted and 11,350 were unawarded and forfeited by plan expiration. Of the Common Stock-V shares granted, 492,775 had been issued, 94,000 had been cancelled and forfeited by plan expiration, and 101,875 are outstanding as of December 31, 2022. The 2007 Plan required that the exercise price be equal to the fair market value of the Company's Common Stock-V at the date of grant. Currently granted and outstanding stock options have an exercise price of $1.50 per share. Generally, all options granted had a five-year vesting at 20% per year with a ten-year life. The 2007 Plan contains a provision allowing the primary federal regulator to direct the institution to require plan participants to exercise or forfeit their stock rights if the institution's capital falls below the minimum requirements as determined by its state or primary federal regulator. Stock rights are not transferable by participants. Due to scheduled expiration of the 2007 Plan, no further grants will be made under said Plan. The Company also has the 2016 Incentive Plan (the "Incentive Plan").

The 2016 Equity Incentive Plan. The Incentive Plan is intended to assist the Company in aligning the interests of the Company's directors and employees with the interests of the shareholders. The Incentive Plan supplemented the 2007 Plan and continued the compensation policies and practices through the issuance of a wide scope of products and incentives. The Company, through the Incentive Plan has the ability to grant equity-based incentives to eligible participants through the issuance of long-term incentive compensation such as stock options, stock appreciation rights, restricted stock units, restricted stock, stock awards and other awards based on, or related to, shares of the Common Stock-V (together with incentive stock options, collectively referred to as "Incentive Awards"). As approved by the shareholders at its 2021 Annual Meeting, the maximum total number of shares available for Incentive Awards under the Incentive Plan is 500,000 shares of Common Stock-V, plus all shares subject to Incentive Awards that are canceled, surrendered, modified, exchanged for substitute Incentive Awards or that expire or terminate prior to the exercise or vesting of the Incentive Awards in full, plus shares that are surrendered to the Company in connection with the exercise or vesting of Incentive Awards, whether previously owned or otherwise subject to such Incentive Awards. Such shares shall be authorized and may be unissued shares, shares issued and repurchased by the Company, shares issued and otherwise reacquired by the Company and shares otherwise held by the Company. As of December 31, 2022, the Company has granted 388,240 Incentive Awards under the Incentive Plan, of which 42,646 have been cancelled, 143,694 have been issued, and 201,900 are outstanding.

The following table presents the number of options that have been granted, exercised, cancelled or forfeited over the life of the 2007 Plan and the total awards outstanding as of December 31, 2022:

	Activity As of December 31, 2022
Awards granted	688,650
Exercises	(492,775)
Cancellations / forfeitures	(94,000)
Awards outstanding	101,875

The following table presents the number of Incentive Awards that have been granted, exercised, cancelled, or forfeited over the life of the Incentive Plan, as well as activity within the Incentive Plan during the year ended:

	December 31, 2022	December 31, 2021
Outstanding, beginning of year	115,404	121,828
Awards granted	132,100	38,800
Vested	(39,116)	(33,576)
Cancellations / forfeitures	(6,488)	(11,648)
Outstanding, end of year	201,900	115,404

	December 31, 2022
Total shares available for grant under the Equity Plan	500,000
Awards granted	(388,240)
Cancellations / forfeitures	42,646
Remaining shares available for grant	154,406

The following provides activities of outstanding options under both the 2016 Plan and Incentive Plan for the year ended December 31, 2022:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2022	526,300	$ 1.60	4.4	$ 839
Granted	100,000	10.80		
Exercised	(424,325)	1.62		
Cancelled/Forfeited	(100)	1.50		
Expired	-	0.00		
Outstanding at December 31, 2022	201,875	$ 6.11	5.8	$ 1,180
Vested and exercisable at December 31, 2022	101,875	$ 1.50	2.1	$ 153

Stock options exercised were 424,325 and 37,975 in 2022 and 2021, respectively.

The following table presents information about stock options exercised for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	2022	2021
Total intrinsic value of options exercised	$ 686	$ 403
Cash received from options exercised	$ 129	$ 57
Tax deduction realized from options exercised	$ 719	$ 146

During the second quarter of 2022, the Company approved a Stock Option Loan program (the "Program"). Current employees and directors of the Company or GBank having vested stock options are eligible to participate. Under this program, the Company makes a secured loan to the option holder, who then uses the proceeds of that loan to pay the exercise price of the stock options. The collateral for the loan is the shares that the option holder obtains upon exercise of the option using the loan proceeds, and the option holder enters into a pledge agreement in that regard. In addition, the stock option loans are 100% recourse to the borrowers. Option holders must use the proceeds of the stock option loan to exercise the options before the expiration date, and thereby acquire the underlying common stock.

The stock option loans have a term of nine years with an option to extend for an additional one-year term. The stock option loans have annual interest-only payments for the duration of the note term, with the principal amount being due in full (to the extent not paid in full by that time) at maturity. The stock option loans have a fixed interest rate equal to the most recent IRS Applicable Federal Rate for the term of the loan. Borrowers may prepay principal on the stock option loans at any time without penalty. In addition, if the participant terminates employment with the Company or GBank while the loan is outstanding for any reason (other than disability or retirement), the Company has the right to repurchase the stock acquired through the stock option loan at a price equal to the daily volume weighted average price per share of the Company's common stock on the OTCQX for the twenty most recent trading days, ending on and including the business day immediately before the repurchase date.

During the second quarter of 2022, $557,000 of stock option loans were extended to certain employees and directors of the Company and GBank, resulting in the exercise of 338,200 stock options.

There were 32,100 and 38,800 shares of restricted stock granted to employees and directors under the Incentive Plan during the years ended December 31, 2022 and 2021, respectively. Shares granted under the plan vest over a period of five years, beginning on the first anniversary following the award date.

The Company recognizes compensation expense resulting from the award of the restricted shares based on the grant date fair value of the award. The grant date fair value of the awards granted during 2022 was $9.70 and $9.95 for awards granted during 2021. The compensation expense is recognized ratably over the vesting period of the award. The Company recognizes forfeitures in the period in which the forfeiture occurs.

The following table presents compensation expense and related tax benefits for restricted stock awards recognized on the Consolidated Statements of Income.

(Dollars in thousands)	2022	2021
Compensation expense	$ 227	$ 144
Tax benefit	(48)	(30)
Net income effect	$ 179	$ 114

As of December 31, 2022, there was approximately $832,000 of total unrecognized compensation cost associated with nonvested restricted stock awards. The remaining cost is expected to be recognized over a weighted average period of approximately 47 months.

The following table presents information regarding the non-vested restricted stock as of December 31, 2022.

	Shares		Weighted Average Grant Date Fair Value
Non-vested at January 1, 2022	115,404	$	6.66
Vested	(39,116)		5.14
Cancelled/Forfeited	(6,488)		7.13
Granted	32,100		9.70
Non-vested at December 31, 2022	101,900	$	8.17

As of December 31, 2022, there was approximately $181,000 of total unrecognized compensation cost associated with nonvested stock option awards. The remaining cost is expected to be recognized over a weighted average period of approximately 56 months.

The following table presents information regarding the non-vested stock option awards as of December 31, 2022.

	Options		Weighted Average Exercise Price Per Share
Non-vested at January 1, 2022	-	$	0.00
Vested	-		0.00
Cancelled/Forfeited	-		0.00
Granted	100,000		10.80
Non-vested at December 31, 2022	100,000	$	10.80

Note 15 - Employee Benefit Plans

401(k) plan: The Company has a qualified 401(k) employee benefit plan ("EBP") that covers substantially all full-time employees. Participants can defer up to 96% of their annual compensation in accordance with statutory limits. Additionally, the Company can make a discretionary contribution to the EBP on an annual basis. For the years ended December 31, 2022 and 2021, the Company contributed approximately $452,000 and $374,000 to the EBP, which are included in noninterest expense on the consolidated statements of income, respectively.

Effective January 1, 2017, the Company elected a Safe Harbor matching contribution wherein the Company matches 100% of the first 4% of employee contributions.

Deferred incentive compensation plan: On December 15, 2016, the Company adopted an unfunded nonqualified deferred incentive compensation plan (the Plan) primarily to provide supplemental retirement benefits and incentive compensation for selected employees. The Company contributes to the Plan in the amounts determined according to the terms of each participant's agreement. Each participant shall vest in an amount of one-third of each contribution each Plan year until age 65 then all contributions will be fully vested at inception. Each year, contributions and deferrals are to be distributed for each of the three immediately preceding years, plus related interest. The accrued liability for the Plan is included in other liabilities on the consolidated balance sheets and totaled $3,411,000 at December 31, 2022 and $3,495,000 as of December 31, 2021. The expense related to the plan was $19,000 in 2022 and $84,000 in 2021 and is included as a component of noninterest expense on the consolidated statements of income.