GBank Financial Holdings Inc. and Subsidiary

Consolidated Financial Report

December 31, 2023

Contents

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, 2023 and 2022, the related consolidated statements of income, comprehensive income, 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, 2023 and 2022, 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.

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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

Champaign, Illinois
March 27, 2024

GBank Financial Holdings Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

(Dollars in thousands, except per share data)				
ASSETS		December 31, 2023		December 31, 2022
Cash and due from banks	$	5,227	$	5,656
Interest-bearing deposits with other financial institutions		92,706		130,780
Total cash and cash equivalents		97,933		136,436
Investment securities available for sale, at fair value (amortized cost $2,992 net of allowance for credit losses of $0)		2,660		2,978
Investment securities held to maturity, at amortized cost		97,719		104,543
Loans held for sale		89,362		37,439
Loans, net of deferred fees and costs		594,360		368,007
Less: Allowance for credit losses		(7,088)		(6,860)
Loans, net		587,272		361,147
Premises and equipment, net		895		908
Operating lease right of use asset		5,334		2,911
Bank-owned life insurance		13,831		13,453
Other intangible assets, net		7,053		9,359
Other assets		16,321		9,528
Total Assets	$	918,380	$	678,702
LIABILITIES AND STOCKHOLDERS EQUITY				
Deposits:				
Noninterest-bearing demand	$	216,900	$	304,950
Interest-bearing demand		78,961		56,995
Savings		175,097		139,727
Time		274,742		53,761
Total deposits		745,700		555,433
Short-term borrowings		30,000		-
Subordinated debt		26,013		25,939
Operating lease liability		5,497		2,981
Other liabilities		12,743		7,553
Total liabilities		819,953		591,906
Commitments and Contingencies (Note 10)				
Stockholders' Equity:				
Common stock, par value $0.0001; 50,000,000 shares authorized; 12,746,649 (2023) and 12,691,119 (2022) shares issued and outstanding		1		1
Additional paid-in capital		52,877		52,124
Retained earnings		45,801		34,881
Accumulated other comprehensive loss		(252)		(210)
Total Stockholders' Equity		98,427		86,796
Total Liabilities and Stockholders' Equity	$	918,380	$	678,702

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

(Dollars in thousands, except per share data)	Years Ended December 31,			
	2023		2022	
INTEREST INCOME				
Interest and fees on loans	$	42,143	$	24,096
Interest on federal funds sold and other		4,705		2,783
Interest and dividends on investment securities		4,435		1,892
Total interest income		51,283		28,771
INTEREST EXPENSE				
Interest on deposits		11,707		2,278
Interest on short-term borrowings		339		-
Interest on subordinated debt		1,142		1,145
Total interest expense		13,188		3,423
Net Interest Income		38,095		25,348
PROVISION FOR CREDIT LOSSES		1,092		1,347
Net interest income after provision for credit losses		37,003		24,001
NONINTEREST INCOME				
Gain on sale of loans held for sale		5,568		13,546
Loan servicing fee income		1,081		1,295
Service charges and fees		164		250
Other income		866		1,377
Total noninterest income		7,679		16,468
NONINTEREST EXPENSE				
Salaries and employee benefits		19,797		16,870
Data processing		3,077		3,329
Occupancy expense		1,636		1,572
Legal and professional fees		2,112		1,480
Audits and exams		536		220
FDIC insurance		291		167
Other		3,707		2,798
Total noninterest expense		31,156		26,436
INCOME BEFORE PROVISION FOR INCOME TAXES		13,526		14,033
Provision for income taxes		2,606		3,165
NET INCOME	$	10,920	$	10,868
PER COMMON SHARE DATA				
Basic earnings per common share	$	0.86	$	0.87
Diluted earnings per common share	$	0.84	$	0.84

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

(Dollars in thousands)	December 31, 2023	December 31, 2022
Net income	$ 10,920	$ 10,868
Other comprehensive (loss), before tax:		
Unrealized (losses) on securities available for sale	(55)	(282)
Income tax benefit related to unrealized losses on securities available for sale	13	59
Total other comprehensive (loss), net of tax	(42)	(223)
Comprehensive income	$ 10,878	$ 10,645

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

(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	12,253	$ 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 activity	39	-	-	-	-	-
Stock option loans and other	(25)	-	(557)	-	-	(557)
Balance, December 31, 2022	12,691	1	52,124	34,881	(210)	86,796
Net income	-	-	-	10,920	-	10,920
Other comprehensive loss, net of tax	-	-	-	-	(42)	(42)
Stock compensation expense	-	-	746	-	-	746
Issuance of 3 shares of common stock upon the exercise of stock options	3	-	4	-	-	4
Issuance of 21 shares of common stock under the Director Compensation Plan	21	-	-	-	-	-
Restricted stock activity	32	-	-	-	-	-
Stock option loans and other	-	-	3	-	-	3
Balance, December 31, 2023	12,747	$ 1	$ 52,877	$ 45,801	$ (252)	$ 98,427

See Notes to Consolidated Financial Statements.

GBank Financial Holdings Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(Dollars in thousands)	Years Ended December 31, 2023	Years Ended December 31, 2022
Cash flows from operating activities:		
Net income	$ 10,920	$ 10,868
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for credit losses	1,092	1,347
Depreciation	341	365
Amortization and writeoff of intangibles	5,551	4,579
Amortization of operating lease right of use assets	1,317	939
Amortization of subordinated debt issuance costs	74	63
Net accretion of investment security discount	(599)	(170)
Stock compensation expense	746	227
Gain on sale of loans	(5,568)	(13,546)
Gross originations of loans held for sale	(202,101)	(245,405)
Proceeds from sale of loans held for sale	152,501	254,480
Income from bank owned life insurance	(378)	(356)
Net change in deferred income taxes	1,331	(448)
Increase in accrued interest receivable	(1,916)	(1,773)
Increase in other assets	(4,863)	(895)
Net change in operating lease liability	(1,224)	(911)
Increase in accrued interest payable and other liabilities	5,190	405
Net cash (used in) provided by operating activities	(37,586)	9,769
Cash flows from investing activities:		
Purchases of premises and equipment	(328)	(316)
Maturities and repayments of investment securities available for sale	259	440
Purchases of held to maturity securities	(4,786)	(104,444)
Maturities and repayments of investment securities held to maturity	12,213	78
Purchase of FHLB stock	(1,332)	(331)
Purchased loans	(106,105)	-
Net change in loans	(121,112)	(51,155)
Net cash used in investing activities	(221,191)	(155,728)
Cash flows from financing activities:		
Net increase in deposits	190,267	45,870
Net change in short-term borrowings	30,000	-
Repayment of stock option loans	3	-
Net proceeds from restricted stock award and option exercises	4	129
Net cash provided by financing activities	220,274	45,999
Net decrease in cash and cash equivalents	(38,503)	(99,960)
Cash and cash equivalents:		
Beginning of year	$ 136,436	$ 236,396
End of year	$ 97,933	$ 136,436
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 11,794	$ 3,371
Cash payments for income tax	$ 3,016	$ 3,723
Supplemental schedule of noncash investing and financing activities		
Right of use asset and lease liabilities	$ 3,740	$ 1,937
Capitalized mortgage servicing rights	3,245	5,776
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 29% 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, 2023 and 2022 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 credit 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 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.

Recent accounting pronouncements: The following paragraphs discuss recently adopted accounting pronouncements as well as accounting pronouncements pending adoption.

Accounting Pronouncements Adopted in 2023

During the first quarter of 2023, the Bank adopted *Accounting Standards Update ("ASU") No. 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326")*, and all related amendments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the Allowance for Credit Losses methodology (also known as the Current Expected Credit Losses methodology or "CECL"). The measurement of expected credit losses under the allowance for credit losses methodology is applicable to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of ASC 326 did not have a material impact on the Company's consolidated financial statements with no cumulative effect adjustment required as of January 1, 2023.

The Company has made an accounting policy election to exclude accrued interest receivables on financial instruments from the calculation of the allowance for credit losses under ASC 326-20-30-5A as the Company writes off uncollectable accrued interest in a timely manner, generally ninety days.

In connection with the adoption of ASU 2016-13, the Company also adopted *ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs"), while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Pending Adoption

ASU No. 2023-09, Income Taxes (Topic 740) - Improvements to Income Tax Disclosures ("ASU 2023-09"), was issued in December 2023 to enhance income tax disclosures primarily through the disaggregation of the rate reconciliation and disclosure of income taxes paid to each federal and state jurisdiction (net of refunds). ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2025, with early adoption permitted. The provisions under ASU 2023-09 should be applied on a prospective basis, however retrospective application is also permitted. ASU 2023-09 is not expected to have a material impact on the Company's financial statements.

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 are reported as a separate component of other comprehensive income, while unrealized losses are assessed under ASC 326-13 as discussed in more detail under the heading "Allowance for credit losses – available for sale securities" below. 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.

Allowance for credit losses – available for sale securities: Beginning January 1, 2023, in accordance with the adoption of ASC 326-13, the Company began to evaluate available for sale securities in an unrealized loss position on an individual basis to determine whether (i) the Company intends to sell the security, or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding a potential sale of the security is met, the security's amortized cost basis is written down to fair value through income.

For available for sale securities that do not meet the potential sale criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for credit loss expense (or reversal). Losses are charged against the allowance for credit losses when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable totaling $6,000 as of December 31, 2023 is excluded from the estimate of credit losses for available for sale securities and is reported in other assets on the consolidated balance sheets. No interest receivable was written off related to available for sale securities during the year ended December 31, 2023.

Allowance for credit losses – held to maturity securities: Beginning January 1, 2023, in accordance with the adoption of ASC 326-13, the Company began to evaluate held to maturity securities on a collective (pooled) basis when similar risk characteristics exist. GBank had the following held-to-maturity investment portfolio segments as of December 31, 2023: (i) U.S. Treasury securities, (ii) GNMA MBS securities, and (ii) Investment Grade CMO securities.

Management believes that, based on historical credit loss information, adjusted for current conditions, the expectation of nonpayment of the amortized cost basis of the Company's held to maturity US Treasury and GNMA securities is zero. These security classes are widely recognized as "risk-free" with high credit ratings and are guaranteed by the US government.

The probability of default/loss given default method is used to determine the credit loss for Investment Grade CMO securities, and as of December 31, 2023, no credit loss allowance was warranted related to these securities.

Accrued interest receivable totaling $420,000 as of December 31, 2023 and is excluded from the estimate of credit losses for held to maturity securities and is reported in other assets on the consolidated balance sheets. No interest receivable was written off related to held to maturity securities during the year ended December 31, 2023.

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 was $360,000 and $300,000 as December 31, 2023 and 2022, respectively, and is included in other assets on the consolidated balance sheets. No impairment was recognized related to this investment during the years ended December 31, 2023 or 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 and retains servicing rights on the sold portion of the loan. The Company issues various representations and warranties associated with the sale of loans. No losses have been incurred relating to 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 credit losses.

Loan types are determined based on the nature of the loan and the collateral securing the loan. The segments of loans identified by the Company and used in the determination of the allowance for credit losses 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. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and positive cash flow. Factors that may influence a borrower's ability to repay their loan include demand for the business' products or services, the quality and depth of management, the degree of competition, regulatory changes, and general economic conditions. The ability of the Company to foreclose and realize sufficient value from business assets securing these loans is often uncertain. To mitigate the risk characteristics of commercial and industrial loans, commercial real estate may be included as a secondary source of collateral. The Company will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

- *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 at the Company's discretion, based on a designated index. Commercial real estate loans are generally considered to have a higher degree of credit risk as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to economic conditions.

- *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. The primary risk characteristics are specific to the uncertainty on whether the construction will be completed according to the specifications and schedules. Factors that may influence the completion of construction may be customer specific, such as the quality and depth of property management, or related to changes in general economic conditions.

- *MultiFamily:* Multifamily loans are expected to be repaid from the cash flows of the underlying property so the collective amount of rents must be sufficient to cover all operating expenses, property management and maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can have an impact on the borrower and its ability to repay the loan.

- *Single Family Sr. Lien:* These loans are secured by first liens on a primary residence or investment property. The primary risk characteristics associated with residential mortgage loans typically involve major changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as major medical expenses, catastrophic events, divorce or death. Residential mortgage loans that have adjustable rates could expose the borrower to higher payments in a rising interest rate environment. Real estate values could decrease and cause the value of the underlying property to fall below the loan amount, creating additional potential loss exposure for the Company.

- *Single Family Jr. Lien*: Loans secured by junior liens are primarily in the form of an amortizing home equity loan. These loans are subordinate to a first mortgage which may be from another lending institution. The primary risk characteristics associated with loans secured by junior liens typically involve major changes to the borrower, including unemployment or other loss of income, unexpected significant expenses, such as for major medical expenses, catastrophic events, divorce or death. Real estate values could decrease and cause the value of the property to fall below the loan amount, creating additional potential loss exposure for the Company.

- *Single Family HELOC:* The primary risk characteristics associated with home equity lines of credit typically involve changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as major medical expenses, catastrophic events, divorce and death. Home equity lines of credit are typically originated with variable or floating interest rates, which could expose the borrower to higher payments in a rising interest rate environment. Real estate values could decrease and cause the value of the underlying property to fall below the loan amount, creating additional potential loss exposure for the Company.

- *Consumer:* The Bank originates loans to individuals for household, family, and other personal expenditures. During 2023, the Bank began a credit card program which is included in the consumer category. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral. The primary risk characteristics associated with consumer loans typically involve major changes to the borrower, including unemployment or other loss of income, unexpected significant expenses, such as for major medical expenses, catastrophic events, divorce or death.

Allowance for credit losses - loans: The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. GBank has segregated its held-for-investment loan portfolio into segments based on federal call report codes which classify loans based on the primary collateral supporting the loan. The segments are reviewed by management no less than annually to ensure instruments are properly segregated into groups having similar risk characteristics and new segments may be required as Company offers new loan products.

The Company's loan portfolio includes certain loans which are partially guaranteed by the U.S. Small Business Administration ("SBA"). CECL does not require an entity to measure expected credit losses on an instrument, or pool of instruments, if historical information adjusted for current conditions and reasonable and supportable forecasts result in zero expected credit losses in all scenarios. The guaranteed portion of the SBA guaranteed loan pools range from 75 percent to 90 percent. For purposes of the assessment of credit losses, Company management ascertains the guaranteed portion of these loans has zero repayment risk due to the full guarantee of the U.S. government.

The Company measures the allowance for credit losses using the average charge-off method and calculates an estimate of expected credit losses based on actual losses incurred during a historic look-back period. The Company has chosen to use the historic losses of similarly insured institutions for each of its loan segments with the exception of commercial real estate loans for which Company management has defined a custom peer group of institutions having a large focus on SBA lending.

The historic loss reserve rate is adjusted to reflect the impact of differences in various quantitative or qualitative factors. Qualitative factor adjustments are defined for each segment in percentage format and include the following:

1. Changes in lending policies, procedures, underwriting standards, and collection practices.
2. Changes in economic and business conditions.
3. Changes in the volume and severity of past due and adversely classified loans and trends in the volume of non-accrual loans, modifications to borrowers experiencing financial difficulty, and other loan modifications.
4. Changes in nature, volume, and terms of loans.
5. Changes in the experience, ability, depth of lending management and staff.
6. Changes in underlying collateral values.
7. Effect of concentrations (loan types) as a percentage of capital.
8. Changes in the quality of the loan review system.
9. Effects of other factors (unemployment, loss of benefits, depreciation, loss of net worth, etc.)

GBank also considers reasonable and supportable forecasts in its assessment and calculation of credit losses by evaluating how historical data differs from current and future economic conditions relating to specific benchmarks. GBank has chosen to use national unemployment rates and the Federal Open Market Committee ("FOMC") quarterly economic projections for change in real gross domestic product ("GDP") in the determination of forward looking adjustments. GBank management believes that a forecast period of twelve months is reasonable as unemployment and GDP forecasts beyond one year may greatly deviate from actual results thus adding more volatility to the modeling. After the twelve-month period, loss estimates revert to historic credit loss information.

GBank considers financial assets on an individual basis when the financial asset has unusual risk characteristics not matching an existing segment and may assign a specific reserve to the financial asset having unusual risk characteristics. The specific reserve component is calculated as the Company's evaluation of credit loss on individually evaluated loans based on the fair value of the collateral less estimated selling costs if collateral dependent or based on the present value of expected future cash flows discounted at the loan's initial effective interest rate if not collateral dependent. The majority of the Company's loans subject to individual evaluation are considered collateral dependent.

The Company uses the practical expedient as permitted under ASC 326 to measure individually evaluated loans as collateral dependent and/or when repayment is expected to be provided substantially through the operation or sale of the collateral. Expected credit losses are based on the fair value at the reporting date, adjusted for selling costs as appropriate. For collateral dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

Accrued interest receivable on loans totaling $5,088,000 at December 31, 2023 is reported in other assets on the consolidated balance sheets and is excluded from the estimate of credit losses.

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

The allowance for credit losses is maintained at an amount that Management believes will be adequate to absorb expected 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 for credit losses 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 credit losses and may require the Company to make additions to the allowance for credit losses based on their judgment about information available to them at the time of their examinations.

Modifications to Borrowers Experiencing Financial Difficulty: The Company may modify certain loans when a borrower is experiencing financial difficulties and the Company grants concessions to the borrower 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 a modification to a borrower experiencing financial difficulty in the year subsequent to the modification if the loan is in compliance with the modified terms. Performance prior to the modification 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 modification 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 loans is discontinued when, in Management's opinion, the borrower may be unable to make payments as they become due.

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 generally discontinued at the time the loan is ninety 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 ninety 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 ninety 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. Loan interest receivable totaling $308,000 was written off by reversing interest income during the year ended December 31, 2023. The Company makes a loan-level decision to apply either the cash basis or cost recovery method to future cash receipts. 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 in accordance with Accounting Standards Update 2016-02, *Leases (Topic 842)*, the Company has recognized a right-of-use asset and a related lease liability for each distinct lease agreement. The Company has elected to account for lease and related non-lease components as a single lease component and has elected to expense, rather than capitalize, 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 the Company’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 credit 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, 2023 and 2022, 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, 2023 and 2022.

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 $27,081,000 and $26,842,000, with cash surrender value of approximately $13,831,000 and $13,453,000 included in other assets on the consolidated balance sheets as of December 31, 2023 and 2022, respectively.

Federal Home Loan Bank stock: The Company is a member of the Federal Home Loan Bank of San Francisco (“FHLB”) and is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of (i) 1% of its Membership Asset Value, or (ii) 2.7% of the Company’s outstanding advances and 0.10% of outstanding letters of credit. 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's capital ratios exceeded the required ratios as of December 31, 2023; 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 for SBA loans and two percent (2%) for USDA loans 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 $590,536,000 and $678,700,000 as of December 31, 2023 and 2022, respectively.

The following table presents a reconciliation of loan servicing rights:

(Dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Balance, beginning of year	$ 9,359	$ 8,162
Additions - servicing rights related to loans sold	3,245	5,776
Reductions - write-off of servicing assets	(762)	-
Reductions - amortization and early payoff	(4,789)	(4,579)
Balance, end of year	$ 7,053	$ 9,359

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 loan servicing asset was impacted by the write-off of certain servicing assets totaling $762,000 relating to the repurchase of the guaranteed portions of previously sold SBA loans during the year ended December 31, 2023.

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, 2023 include (i) the rate of the servicing fee, estimated at one percent for SBA loans and two percent for USDA loans, (ii) the estimated repayment speed of the loans, estimated to be 15.4% percent, and (iii) the estimated cost to service the loans, estimated to be 0.40%. The fair value of servicing rights at December 31, 2023 and 2022 was determined by an independent consultant to be $11,632,000 and $13,671,000, respectively. Accordingly, the Company's servicing assets were not impaired as of December 31, 2023 and 2022.

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 $344,000 and $129,000 for the years ended December 31, 2023 and 2022, 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 14, 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 14, 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.

Director compensation plan: In October 2022, the members of the Bank and GBFH Boards of Directors agreed to receive their respective compensation in the form of shares of Common Stock-V in lieu of cash payments.

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.

In accordance with the adoption of ASC Topic 326 in 2023, GBank began calculating estimated credit losses for off-balance-sheet credit exposures which are not unconditionally cancellable. The allowance for credit losses relating to off-balance-sheet exposures is measured on a collective (pool) basis, with these pools mirroring the segments used for the calculation of the allowance for credit losses for loans, as these unfunded commitments share similar risk characteristics with the loan portfolio segments. The allowance for credit losses related to off-balance-sheet commitments was $20,000 at both December 31, 2023 and 2022 and is recorded in other liabilities on the consolidated balance sheets.

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 earnings per share for the years ended December 31, 2023 and 2022 is provided in the table below.

(Dollars in thousands, except per share data)	**December 31, 2023**	**December 31, 2022**
Net income available to common shareholders	$ 10,920	$ 10,868
Weighted average shares outstanding (basic)	12,708,282	12,490,052
Effect of dilutive stock options	210,238	280,823
Effect of dilutive restricted stock	123,896	113,602
Weighted average shares outstanding (diluted)	13,042,416	12,884,477
Basic earnings per share	$ 0.86	$ 0.87
Diluted earnings per share	$ 0.84	$ 0.84
Anti-dilutive stock options excluded from the computation of earnings per share	-	41,803

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through March 27, 2024, 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, 2023 Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Residential mortgage-backed securities	2,992	-	332	-	2,660
Total available for sale securities	$ 2,992	$ -	$ 332	$ -	$ 2,660

(Dollars in thousands)	December 31, 2023 Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Held to maturity securities:					
U.S. Treasury	54,762	-	462	-	54,300
Residential mortgage-backed securities	42,957	20	874	-	42,103
Total held to maturity securities	$ 97,719	$ 20	$ 1,336	$ -	$ 96,403

(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

There were no gross realized gains or losses from the sale of securities available-for-sale during the years ended December 31, 2023 or 2022.

As of December 31, 2023 and 2022, the Company’s securities with an approximate market value of $88,866,000 and $95,964,000, respectively, were pledged as collateral for potential borrowing purposes (see Note 8).

The table below illustrates the maturity distribution of investment securities at amortized cost and fair value at December 31, 2023.

(Dollars in thousands)	December 31, 2023 Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due in one year or less	$ -	$ -	$ 54,762	$ 54,300
Due after one but within five years	-	-	-	-
Due after five years but within ten years	-	-	-	-
Due after ten years	-	-	-	-
	-	-	54,762	54,300
Residential mortgage-backed securities	2,992	2,660	42,957	42,103
Total	$ 2,992	$ 2,660	$ 97,719	$ 96,403

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.

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.

	December 31, 2023								
	Less Than 12 Months			12 Months or More			Total		
(Dollars in thousands)	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Available for sale securities:									
Residential mortgage-backed securities	1	$ 96	$ 1	7	$ 2,564	$ 331	8	$ 2,660	$ 332
Total temporarily impaired available for sale securities	1	96	1	7	2,564	331	8	2,660	332
Held to maturity securities:									
U.S. Treasury	3	$ 14,778	$ 60	8	$ 39,522	$ 402	11	$ 54,300	$ 462
Residential mortgage-backed securities	4	18,131	300	4	21,211	574	8	39,342	874
Total temporarily impaired held to maturity securities	7	32,909	360	12	60,733	976	19	93,642	1,336
Total	8	$ 33,005	$ 361	19	$ 63,297	$ 1,307	27	$ 96,302	$ 1,668

	December 31, 2022								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Available for sale securities:									
Residential mortgage-backed securities	8	$ 2,978	$ 277	0	$ -	$ -	8	$ 2,978	$ 277
Total temporarily impaired available for sale securities	8	2,978	277	0	-	-	8	2,978	277
Held to maturity securities:									
U.S. Treasury	10	$ 48,419	$ 1,171	0	$ -	$ -	10	$ 48,419	$ 1,171
Residential mortgage-backed securities	6	31,512	842	0	-	-	6	31,512	842
Total temporarily impaired held to maturity securities	16	79,931	2,013	0	-	-	16	79,931	2,013
Total	24	$ 82,909	$ 2,290	0	$ -	$ -	24	$ 82,909	$ 2,290

Management believes the unrealized losses related to available for sale securities as of December 31, 2023 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 2023 or 2022. Management has no near-term intentions to sell the available for sale securities in an unrealized loss position, and management believes the unrealized losses are not credit-related, therefore no allowance for credit losses was recorded related to available for sale securities as of December 31, 2023.

Held to maturity Investment Grade CMO securities are evaluated for credit losses using the probability of default/loss model, and as of December 31, 2023, no credit loss allowance was warranted related to these securities.

Note 4. Loans and Allowance for Credit Losses - Loans

Comparability of the allowance for credit losses and provisions for credit losses for the periods presented has been impacted by the January 1, 2023 adoption of ASC 326. Results for the reporting period beginning January 1, 2023 are presented using the CECL methodology, while comparative prior period information continues to be reported in accordance with the incurred loss methodology under previously applicable GAAP. See Note 2, "Summary of Significant Accounting Policies," for details regarding the adoption of ASC 326.

Loan Portfolio Composition

The principal balances of the loans held for investment are listed below. In accordance with ASC 326, as of December 31, 2023, GBank has segregated its held for investment loan portfolio into segments characterized by similar risk characteristics, primarily the collateral supporting the loan.

	December 31, 2023		
(Dollars in thousands)	**Local Market Loans**	**National Market Loans**	**Total Loans**
Commercial and industrial	$ 33,229	$ 7,947	$ 41,176
Commercial real estate	181,529	340,113	521,642
Construction and land development	-	398	398
Multifamily	17,069	-	17,069
Single Family Sr. Lien	9,159	-	9,159
Single Family Jr. Lien	3,212	-	3,212
Single Family HELOC	409	-	409
Consumer	422	-	422
Gross loans	245,029	348,458	593,487
Net deferred loan costs	(231)	7,379	7,148
Unamortized discount	-	(6,275)	(6,275)
Net investment	244,798	349,562	594,360
Allowance for credit losses	(2,307)	(4,781)	(7,088)
Loans, net of allowance	$ 242,491	$ 344,781	$ 587,272

Beginning in the third quarter of 2023, the Company began to repurchase previously sold guaranteed SBA loans by initiating a change in loan terms with certain borrowers, at the borrowers' option, to convert variable loans to five-year fixed loans at lower current interest rates. This activity resulted in the repurchase of $106,105,000 US government guaranteed loan balances within the commercial and industrial and commercial real estate segments during the year ended December 31, 2023.

As of December 31, 2023, Paycheck Protection Program ("PPP") loans totaling $105,000 were included in the Commercial and Industrial category and are fully guaranteed by the SBA. There is no allowance for credit loss allocated to PPP loan balances.

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

	December 31, 2022		
(Dollars in thousands)	**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 credit 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 and commercial and industrial loans as of December 31, 2023. 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, 2023 and 2022 are as listed below:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Gross loan balances	$ 119,125	$ 48,226
Less: Unguaranteed portions to be retained	29,763	10,787
Amounts held for sale, net	$ 89,362	$ 37,439

As of December 31, 2023 and 2022, Company loans with a carrying value of $469,839,000 and $16,328,000, respectively, were pledged as collateral for potential borrowing purposes (see Note 8).

Past Due and Non-accrual Loans

The performance and credit quality of the loan portfolio is monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. A loan's past due or delinquent status is based on the contractual term specified in each loan agreement. The classes of the loan portfolio summarized by the past due status as of December 31, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	December 31, 2023						
	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	$ 172	$ -	$ -	$ -	$ 172	$ 41,004	$ 41,176
Commercial real estate	2,310	-	3,610	2,688	8,608	513,034	521,642
Construction and land	-	-	-	-	-		
development	-	-	-	-	-	398	398
Multifamily	-	-	-	-	-	17,069	17,069
Single Family Sr. Lien	-	-	-	-	-	9,159	9,159
Single Family Jr. Lien	-	-	-	-	-	3,212	3,212
Single Family HELOC	-	-	-	-	-	409	409
Consumer	3	8	-	-	11	411	422
Total	$ 2,485	$ 8	$ 3,610	$ 2,688	$ 8,791	$ 584,696	$ 593,487

(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

Generally, a loan becomes non-accrual, meaning the Company ceases accruing interest income, when either (i) a loan has become delinquent by more than ninety days, or (ii) when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely. The Company had one commercial real estate loan in non-accrual status totaling $2,688,000 as of December 31, 2023. The Company had two non-accrual commercial real estate loans totaling $598,000 as of December 31, 2022.

Additional information relating to non-accrual loans as of December 31, 2023 is presented in the table below:

(Dollars in thousands)	December 31, 2023			
	Non-Accrual Loans			
	With a Related Allowance	Without a Related Allowance	Related Allowance	Year to Date Interest Income
Commercial and industrial	$ -	$ -	$ -	$ -
Commercial real estate	2,688	-	504	111
Construction and land development	-	-	-	-
Multifamily	-	-	-	-
Single Family Sr. Lien	-	-	-	-
Single Family Jr. Lien	-	-	-	-
Single Family HELOC	-	-	-	-
Consumer	-	-	-	-

The following table presents the most comparable required information in accordance with previously applicable GAAP for non-accrual loans, consisting of recorded investment, unpaid principal balance, related allowance for credit losses, average recorded investment, and interest income recognized as of December 31, 2022:

(Dollars in thousands)	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ 16	$ -
Commercial real estate	598	598	-	2,056	-
Construction and land development	-	-	-	-	-
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-

Credit Quality Indicators

Management reviews the Company’s loan portfolio monthly 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 details the amortized cost of loans receivable, by year of origination (for term loans) and by risk grade within each portfolio segment as of December 31, 2023. The current period originations may include modifications, extensions and renewals.

	Term Loans Amortized Cost Basis by Original Year					
(Dollars in thousands)	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial and industrial						
Risk rating						
Pass	$ 8,684	$ 9,510	$ 1,122	$ 4,377	$ 17,483	$ 41,176
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 8,684	$ 9,510	$ 1,122	$ 4,377	$ 17,483	$ 41,176
Commercial real estate						
Risk rating						
Pass	$ 143,637	$ 109,757	$ 87,042	$ 173,814	$ -	$ 514,250
Special mention	-	-	-	-	-	-
Substandard	2,688	-	-	4,704	-	7,392
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 146,325	$ 109,757	$ 87,042	$ 178,518	$ -	$ 521,642
Construction and land development						
Risk rating						
Pass	$ -	$ 398	$ -	$ -	$ -	$ 398
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ 398	$ -	$ -	$ -	$ 398
Multifamily						
Risk rating						
Pass	$ -	$ -	$ -	$ 17,069	$ -	$ 17,069
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ 17,069	$ -	$ 17,069
Single family Sr. Lien						
Risk rating						
Pass	$ 838	$ -	$ 1,878	$ 2,971	$ 3,472	$ 9,159
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 838	$ -	$ 1,878	$ 2,971	$ 3,472	$ 9,159
Single family Jr. Lien						
Risk rating						
Pass	$ -	$ 2,500	$ -	$ 712	$ -	$ 3,212
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ 2,500	$ -	$ 712	$ -	$ 3,212
Single family HELOC						
Risk rating						
Pass	$ -	$ -	$ -	$ -	$ 409	$ 409
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 409	$ 409
Consumer						
Risk rating						
Pass	$ -	$ -	$ -	$ -	$ 422	$ 422
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 422	$ 422
Total Loans						
Risk rating						
Pass	$ 153,159	$ 122,165	$ 90,042	$ 198,943	$ 21,786	$ 586,095
Special mention	-	-	-	-	-	-
Substandard	2,688	-	-	4,704	-	7,392
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 155,847	$ 122,165	$ 90,042	$ 203,647	$ 21,786	$ 593,487

The following table presents the most comparable required information in accordance with previously applicable GAAP for the indicated loan portfolio segments by internal credit risk-grading as of December 31, 2022:

(Dollars in thousands)	December 31, 2022 Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Total
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

Collateral Dependent Loans

GBank has elected to apply the practical expedient under ASC 326 which permits an entity to estimate credit losses based on the fair value of collateral when either applies: (i) the borrower is experiencing financial difficulty, or (ii) repayment is expected to be provided substantially through the sale or operating of the collateral. If repayment is dependent on the sale of the collateral, then the fair value used to measure the allowance for credit losses is adjusted for the costs to sell. GBank held $2,688,000 of collateral dependent loans at December 31, 2023.

Allowance for Credit Losses

The level of the allowance for credit losses 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 expected in the current loan portfolio. Portions of the allowance for credit losses may be allocated for specific credits; however, the entire allowance for credit losses is available for any credit that, in management's judgment, should be charged off.

The following table presents, by portfolio segment, the changes in the allowance for credit losses for the year ended December 31, 2023:

(Dollars in thousands)	Allowance for Credit Losses Balance, January 1 2023	Impact of Adopting ASC 326	Provision for Credit Losses	Amounts Charged Off	Amounts Recovered	Balance, December 31 2023
Commercial and industrial	$ 432	$ -	$ 62	$ (199)	$ -	$ 295
Commercial real estate	6,072	-	1,151	(665)	-	6,558
Construction and land development	10	-	3	-	-	13
Multifamily	212	-	(110)	-	-	102
Single Family Sr. Lien	86	-	(45)	-	-	41
Single Family Jr. Lien	40	-	(7)	-	-	33
Single Family HELOC	8	-	(2)	-	-	6
Consumer	-	-	40	-	-	40
	$ 6,860	$ -	$ 1,092	$ (864)	$ -	$ 7,088

The following table presents the most comparable required information in accordance with previously applicable GAAP regarding activity in and the composition of the allowance for credit losses by portfolio segment for the year ended December 31, 2022.

(Dollars in thousands)	December 31, 2022 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

Modifications to Borrowers Experiencing Financial Difficulty

The Company may modify certain loans when a borrower is experiencing financial difficulties and the Company grants concessions to the borrower 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. As of and for the years ended December 31, 2023 and 2022, there were no loans modifications to borrowers experiencing financial difficulty. There were no defaulted modified loans, nor were there any defaults on modified loans within twelve months of modification during the year ended December 31, 2023.

Note 5 - Premises and Equipment

The following table presents a summary of premises and equipment:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Leasehold Improvements	$ 3,393	$ 3,245
Furniture, fixtures, and equipment	2,620	2,441
Total cost	6,013	5,686
Accumulated depreciation	(5,118)	(4,778)
Net premises and equipment	$ 895	$ 908

Depreciation expense was $341,000 in 2023 and $365,000 in 2022.

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 September 2025 to October 2032, 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.

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 for the years ended December 31, 2023 and 2022. There were no leases that had not commenced as of December 31, 2023.

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, 2023 and 2022.

(Dollars in thousands)	December 31, 2023		December 31, 2022	
Right of use asset	$	5,334	$	2,911
Lease liability	$	5,497	$	2,981
Weighted average remaining lease term (in years)		8.0		3.7
Weighted average discount rate		4.24%		2.01%
Rent expense	$	876	$	939

At December 31, 2023, future minimum payments for operating leases are payable as follows:

(Dollars in thousands)		
Years ending December 31:		
2024	$	986
2025		907
2026		649
2027		669
2028		738
Thereafter		2,795
Total lease payments	$	6,744
Less: imputed interest		(1,247)
Present value of lease liability	$	5,497

Note 7 - Deposits

At December 31, 2023 and 2022, time deposits amounted to $274,742,000 and $53,761,000, respectively. Interest expense on time deposit amounted to $5,623,000 and $725,000 for the years ended December 31, 2023 and 2022, respectively.

The scheduled maturities of time deposits at December 31, 2023, are as follows:

(Dollars in thousands)	Time Deposits	
	Less Than $250,000	**$250,000 or more**
Maturing in 2024	$ 160,684	$ 24,301
Maturing in 2025	32,165	11,853
Maturing in 2026	18,126	2,312
Maturing in 2027	2,748	-
Maturing in 2028	22,553	-
Maturing thereafter	-	-
Total time deposits	$ 236,276	$ 38,466

GBank had $82,006,000 of brokered certificates of deposit as of December 31, 2023, having terms between six months and five years. Brokered certificates of deposits having a term greater than four years are callable as of December 31, 2023. GBank held no brokered certificates of deposit as of December 31, 2022.

No deposit relationships exceeded five percent of the Company's total deposits as of December 31, 2023. Comparatively, as of December 31, 2022, one deposit relationship consisting of fifteen accounts totaling $39,447,000 exceeded five percent of the Company's total deposits.

The aggregate amount of demand deposit overdrafts that were reclassified as loans were $7,000 at December 31, 2023, compared to $10,000 as of December 31, 2022.

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

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 were $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 were $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, 2023 and 2022, the Company recorded interest expense on subordinated debt issuances totaling $1,142,000 and $1,144,000, respectively, of which $192,000 was accrued as of both December 31, 2023 and 2022.

Lines 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 having a market value of $87,530,000 and pledged loans having a carrying value of $47,407,000 at December 31, 2023. Comparatively, the arrangement was collateralized by qualifying securities pledged loans having approximate market values of $14,897,000 at December 31, 2023.

The unused borrowing capacity at December 31, 2023 and 2022 with the FHLB of San Francisco, as collateralized by qualifying securities and pledged loans, was approximately $117,753,000 and $102,658,000, respectively. No draws have been made on the line and on December 31, 2023 and 2022 the balance was zero.

Other Borrowing Arrangements

During 2023, GBank was approved to pledge loans under the Federal Reserve Bank's Borrower-In-Custody ("BIC") Program. As of December 31, 2023, the Company had pledged loans with an approximate carrying value of $422,432,000 to the BIC Program and had unused borrowing capacity of $164,495,000.

As of December 31, 2023, the Company had one short-term FRB borrowing of $30,000,000 executed under the BIC Program in October 2023 having a fixed interest rate of 5.5% maturing in January 2024. The average balance of short-term borrowings was $6,166,000 and the weighted average interest rate was 5.5% during the year ended December 31, 2023.

The Company had no long-term debt outstanding during the year ended December 31, 2023.

Comparatively, the Company had no long-term debt or short-term borrowings outstanding during the year ended December 31, 2022.

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 2021, 2022 and 2023. 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, 2023**	**December 31, 2022**
Deferred tax assets:		
Allowance for credit losses	$ 1,635	$ 1,583
Depreciation	254	243
Deferred compensation	846	787
Unrealized losses on securities available for sale	80	67
Lease adjustments	38	15
Other	17	513
Total deferred tax assets	2,870	3,208
Deferred tax liabilities:		
Capitalized loan costs	(1,923)	(1,208)
Other	(591)	(326)
Total deferred tax liabilities	(2,514)	(1,534)
Net deferred tax asset	$ 356	$ 1,674

The Company has no valuation allowance as of December 31, 2023 or 2022.

The following table presents the components of the provision for income taxes as of December 31, 2023 and 2022:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Current tax provision (benefit):		
Federal	$ 1,634	$ 2,630
State	150	560
Total current tax provision (benefit)	1,784	3,190
Deferred tax expense (benefit):		
Federal	758	(15)
State	64	(10)
Total deferred tax expense (benefit)	822	(25)
Total provision for income taxes	$ 2,606	$ 3,165

For the years ended December 31, 2023 and 2022, the Company's effective tax rate was 19% and 23%, 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 2023 and 2022 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, 2023	December 31, 2022
Provision at the expected statutory rate	$ 2,840	$ 2,947
State income taxes, net of federal tax benefit	406	442
Effect of investment in life insurance	(68)	(75)
Effect of merger-related expenses	49	-
Effect of stock-based compensation	(17)	(160)
Other items	(604)	11
Total provision for income taxes	$ 2,606	$ 3,165

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, 2023 and 2022 is as follows:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Commitments to extend credit (1)	$ 33,450	$ 28,489
Standby letters of credit (2)	967	1,018
	$ 34,417	$ 29,507

(1) Includes unsecured commitments of $4,573,000 and $3,677,000 as of December 31, 2023 and 2022, respectively.
(2) Includes cash secured standby letters of credit of $967,000 and $248,000 as of December 31, 2023 and 2022, 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.

In accordance with the adoption of ASC Topic 326 in 2023, GBank began calculating estimated credit losses for off-balance-sheet credit exposures which are not unconditionally cancellable. The allowance for credit losses relating to off-balance-sheet exposures is measured on a collective (pool) basis, with these pools mirroring the segments used for the calculation of the allowance for credit losses for loans, as these unfunded commitments share similar risk characteristics with the loan portfolio segments. The allowance for credit losses related to off-balance-sheet commitments was $20,000 at both December 31, 2023 and 2022 and is recorded in other liabilities on the consolidated balance sheets.

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 88% and 85% of the total gross loans at December 31, 2023 and 2022, respectively. No other loan classification exceeded 10% of the loan portfolio at December 31, 2023 or 2022.

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 less than 1% of total gross loans at December 31, 2023, compared to 1% of total gross loans at December 31, 2022.

At December 31, 2023, 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, 2023	
	Amounts	**Percentage**
Nevada	$ 209,117	29.27%
California	47,892	6.70%
Illinois	50,824	7.11%
North Carolina	94,628	13.25%
Ohio	38,849	5.44%
Texas	38,531	5.39%
Virginia	36,692	5.14%
Other	197,811	27.70%
Total Loan Commitments	$ 714,344	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. The Company had made capital contributions to the venture capital fund totaling $360,000 and $300,000 as of December 31, 2023 and 2022, respectively, 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, 2023	December 31, 2022
Beginning Balance	$ 12,092	$ 12,340
Advances	865	637
Repayments	(471)	(885)
Ending Balance	$ 12,486	$ 12,092

Undisbursed loan commitments with related parties totaled approximately $1,766,000 and $1,927,000 as of December 31, 2023 and 2022, respectively.

In April 2015, the Company 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 $243,000 and $610,000 in revenue associated with this arrangement during the years ended December 31, 2023 and 2022. This agreement was amended and restated in May 2023.

On December 14, 2023, the Company issued a press release announcing the execution of a definitive merger agreement whereby the Bank will acquire BCS in an all-stock transaction. See Note 16 – Agreement and Plan of Merger for more information.

Deposits from related parties in the normal course of business totaled approximately $54,006,000 and $41,177,000 as of December 31, 2023 and 2022, respectively.

The Bank leases its headquarters location, as well as two branch locations, from related parties. Rent paid to related parties was $649,000 in 2023 and $647,000 in 2022. The future minimum payments to related parties are $649,000 (2024), $649,000 (2025), $649,000 (2026), $669,000 (2027), $738,000 (2028) and $2,795,000 thereafter.

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

As of December 31, 2023 and 2022, 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, 2023 and 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Bank Tier 1 Capital Leverage Ratio	14.06%	15.08%
Average Total Consolidated Assets	$ 835,610	$ 681,525
Off-Balance-Sheet Exposures	$ 26,823	$ 20,045
Ratio of Off-Balance-Sheet Exposures to Total Assets	2.93%	2.94%
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 credit 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 $42,501,000 and $34,706,000 of the Company's stockholders' equity was restricted as of December 31, 2023 and 2022, 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, 2023 and 2022.

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:

		Fair Value Measurements at December 31, 2023 Using:		
(Dollars in thousands)	Carrying Value at December 31, 2023	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	$ 2,660	$ -	$ 2,660	$ -

		Fair Value Measurements at December 31, 2022 Using:		
(Dollars in thousands)	Carrying Value at December 31, 2022	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	$ 2,978	$ -	$ 2,978	$ -

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).

Individually Evaluated Loans, Net of Allowance for Credit Losses: Individually evaluated loans, net of allowance for credit losses, are valued 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. These characteristics classify loan servicing rights as Level 3.

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, 2023	Fair Value Measurements at December 31, 2023 Using: Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually evaluated loans	$ 2,184	$ -	$ -	$ 2,184
Loan servicing asset	7,053	-	-	11,632

(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

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) December 31, 2023	Quantitative Information About Level 3 Fair Value Measurements: Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Loan servicing asset	11,632	Multiple of annual service fee	Estimated prepayment speed based on rate and term	15%-16%	15%
Individually evaluated loans	2,184	Appraisal (1)	Appraisal adjustments (2)	13%-13%	13%

(Dollars in thousands) December 31, 2022	Quantitative Information About Level 3 Fair Value Measurements: 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%

(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 by 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.

Note 14 – Equity Award Plans

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, 495,775 had been issued, 94,000 had been cancelled and forfeited by plan expiration, and 98,875 are outstanding as of December 31, 2023. 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, the options granted under the 2007 Plan 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 the 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 and 2023 Annual Meetings, the maximum total number of shares available for Incentive Awards under the Incentive Plan is 1,000,000 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, 2023, the Company has granted 620,940 Incentive Awards under the Incentive Plan, of which 42,646 have been cancelled, 196,224 have been issued, and 382,070 are outstanding.

On October 25, 2022, and effective January 1, 2023, the members of the Boards for both the Company and the Bank agreed to receive their respective compensation in the form of shares of Common Stock-V in lieu of cash payments with the price per share based on the closing price of the Common Stock-V as quoted on the OTCQX.

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, 2023:

	Activity As of December 31, 2023
Awards granted	688,650
Exercises	(495,775)
Cancellations / forfeitures	(94,000)
Awards outstanding	98,875

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, 2023	December 31, 2022
Outstanding, beginning of year	201,900	115,404
Awards granted	232,700	132,100
Vested	(52,530)	(39,116)
Cancellations / forfeitures	-	(6,488)
Outstanding, end of year	382,070	201,900

	December 31, 2023
Total shares available for grant under the Equity Plan	1,000,000
Awards granted	(620,940)
Cancellations / forfeitures	42,646
Remaining shares available for grant	421,706

The following provides activities of outstanding options under both the 2016 Plan and Incentive Plan for the year ended December 31, 2023:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2023	201,875	$ 6.11	5.8	$ 1,180
Granted	65,000	12.37		
Exercised	(3,000)	1.50		
Cancelled/Forfeited	-	0.00		
Expired	-	0.00		
Outstanding at December 31, 2023	263,875	$ 7.70	6.1	$ 3,710
Vested and exercisable at December 31, 2023	118,875	$ 3.06	2.4	$ 1,671

Stock options exercised were 3,000 and 424,325 in 2023 and 2022, respectively.

The following table presents information about stock options exercised for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	2023	2022
Total intrinsic value of options exercised	$ 37	$ 686
Cash received from options exercised	$ 4	$ 129
Tax deduction realized from options exercised	$ -	$ 719

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 147,150 and 32,100 shares of restricted stock granted to employees and directors under the Incentive Plan during the years ended December 31, 2023 and 2022, respectively. Shares granted under the plan in 2023 vest over a period of three years, beginning on the first anniversary following the award date. Shares granted under the plan prior to 2023 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 2023 was $13.50 and $9.70 for awards granted during 2022. 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)	2023	2022
Compensation expense	$ 746	$ 227
Tax benefit	(157)	(48)
Net income effect	$ 589	$ 179

The following table presents information regarding non-vested restricted stock as of December 31, 2023.

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2023	101,900	$ 8.17
Vested	(31,980)	7.07
Cancelled/Forfeited	-	0.00
Granted	147,150	13.50
Non-vested at December 31, 2023	217,070	$ 11.94

As of December 31, 2023, there was approximately $2,593,000 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 34 months.

The following table presents information regarding the non-vested stock option awards as of December 31, 2023.

	Options	Weighted Average Exercise Price Per Share
Non-vested at January 1, 2023	100,000	$ 10.80
Vested	(20,000)	10.80
Cancelled/Forfeited	-	0.00
Granted	65,000	12.37
Non-vested at December 31, 2023	145,000	$ 11.50

As of December 31, 2023, there was approximately $325,000 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 51 months.

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, 2023 and 2022, the Company contributed approximately $602,000 and $452,000 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 $3,643,000 as of December 31, 2023 and $3,411,000 as of December 31, 2022. The expense related to the plan was $37,000 in 2023 and $19,000 in 2022 and is included as a component of noninterest expense on the consolidated statements of income.

Note 16 – Agreement and Plan of Merger

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

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

Merger-related expenses totaled $203,000 for the year ended December 31, 2023, and consisted of legal and professional fees associated with the due diligence, fairness opinion, and other costs related to the planned BCS acquisition.