

Five Star Bancorp

Second Quarter 2025 Earnings Webcast

Thursday, July 24, 2025, 01:00 PM ET

CORPORATE PARTICIPANTS

James Beckwith--*President and Chief Executive Officer*

Heather Luck-- *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator

Welcome to the Five Star Bancorp Second Quarter Earnings Webcast. Please note, this is a closed conference call, and you are encouraged to listen via the webcast. [Operator Instructions].

Before we get started, we would like to remind you that today's meeting will include some forward-looking statements within the meaning of applicable securities laws. These forward-looking statements relate to, among other things, current plans, expectations, events and industry trends that may affect the company's future operating results and financial position. Such statements involve risks, uncertainties and future activities and results may differ materially from these expectations.

For a more complete discussion of the risks and uncertainties that may cause actual results to differ materially from the company's forward-looking statements, please see the company's annual report on Form 10-K for the year ended December 31, 2024, and the quarterly report on Form 10-Q for the three months ended March 31, 2025 and in particular, the information set forth in Item 1A, Risk Factors in those reports.

Please refer to Slide 2 of the presentation, which includes disclaimers regarding forward-looking statements, industry data, unaudited financial data and non-GAAP financial information included in this presentation. Reconciliations of non-GAAP financial measures to their most directly comparable GAAP figures are included in the appendix to the presentation.

The presentation will be referenced during this call, but not followed exactly and is available for close reviewing on the company's website, under the Investor Relations tab. Please also note today's event is being recorded.

At this time, I'd like to turn the presentation over to James Beckwith, Five Star Bancorp President and CEO. Please go ahead.

James Beckwith

Thank you for joining us to review Five Star Bancorp's financial results for the second quarter of 2025, which were released yesterday. The release is available on our website at fivestarbancorp.com under the Investor Relations tab. Joining me today is Heather Luck, Executive Vice President and Chief Financial Officer.

The strength of our second quarter results is emblematic of our differentiated client experience through our unwavering commitment to clients and community partners throughout Northern California. Financial highlights during the second quarter included \$14.5 million of net income, earnings per share of \$0.68, return on average assets of 1.37% and return on average equity of 14.17%.

Our net interest margin expanded by 8 basis points to 3.53% and our cost of total deposits declined by 2 basis points to 2.46%. Our efficiency ratio was 41.03% for the second quarter. During the second quarter, we saw continued balance sheet growth as loans held for investment grew by \$136.2 million or 15% on an annualized basis. Deposit growth was approximately \$158.3 million or 17% on an annualized basis.

Our asset quality remains strong with nonperforming loans representing only 6 basis points of total loans held for investment. We continue to be well capitalized with all capital ratios well above

regulatory thresholds for the quarter. On July 17, our Board declared a cash dividend of \$0.20 per share on the company's common stock expected to be paid in August. We continue to deliver value to our shareholders.

Our total assets increased during the second quarter by \$168.4 million, largely driven by loan portfolio growth within our commercial real estate portfolio, which grew by \$125.4 million. Our loan pipeline remains strong. The credit quality of our overall loan portfolio remains strong due to our conservative underwriting practices, robust monitoring program throughout the life of a loan and our relationship-based approach to lending.

As a result, we have a very low volume of nonperforming loans despite a \$0.5 million increase during the second quarter. This increase was due to one commercial real estate loan being put on nonaccrual status during the quarter. We recorded a \$2.5 million provision for credit losses during the quarter.

The increase in our total liabilities during the second quarter was primarily the result of increase in both interest-bearing and non-interest-bearing deposits. Interest-bearing deposit growth was largely due to new money market deposit accounts being opened in the quarter, pushing \$87.4 million in new balances.

Non-interest-bearing deposits was mainly driven by the opening of new accounts during the quarter, pushing 68.7 million in new balance. Non-interest-bearing deposits made up 26% of total deposits as of June 30, 2025, an increase from 25% as of the end of the prior quarter. Approximately 59.9% of our deposit relationships totaled more than 5 million. These deposits have a long tenure with the bank with an average age of 8.3 years. We believe our deposit portfolio to be a stable funding base for our future growth. Heather?

Heather Luck

Thank you, James. Net interest income increased \$2.5 million from the previous quarter, primarily due to a \$3.5 million increase in interest income, driven by loan growth and improvement in the average yield on loans. This is partially offset by a \$1 million increase in interest expense related to deposit growth.

Non-interest income increased to 1.8 million in the second quarter from 1.4 million in the previous quarter, primarily due to an overall improvement in the estimated earnings related to investments in venture-backed funds during the three months ended June 30, 2025.

Non-interest expense grew by 700,000 in the three months ended June 30, primarily due to increases in business travel, conferences, training and promotional expenses associated with the expansion of business development teams. This was partially offset by an increase in deferred loan origination costs.

I'll now hand it back to James.

James Beckwith

Thank you, Heather. During the quarter, we announced the expansion of our Food and Agribusiness vertical. We also announced the expected opening of our Walnut Creek office in September of 2025 and added five new business development officers to the team to support these efforts. We continue to grow our presence in the San Francisco Bay Area with 34 employees and 456.9 million in deposits as of June 30, 2025.

Five Star Bank has a reputation built on trust, speed to serve and certainty of execution, all of which support our clients' success. Our financial performance is the result of a truly differentiated client experience, which continues to power the demand for Five Star Bank's relationship-based services. We are proud to have earned the trust and confidence of those we serve, including our shareholders.

As we move into the third quarter of 2025, we are confident in the company's resilience and demonstrated ability to adapt to changing economic conditions while remaining focused on the future and execution of our long-term strategic plan. The beneficiaries of our focused business approach are our clients, employees and community. We believe that if we support these constituents well, our shareholders will realize the benefits. We appreciate your time today. This concludes today's presentation.

Now we will be happy to take any questions you might have.

QUESTION AND ANSWER

Operator

[Operator Instructions]. Our first question today comes from David Feaster from Raymond James. Please go ahead with your question.

David Feaster

Hi. Good morning, everybody.

James Beckwith

Hey, good morning, David.

Heather Luck

Hi, David.

David Feaster

I want to start -- I mean, obviously, you guys have had good loan growth. But to me, the most impressive thing that you guys have been able to do is your core deposit growth. I mean it is extremely impressive, and I know it's not easy to do. Could you just touch on where you're having success? Obviously, some in the Bay Area. Could you just touch on your thoughts on your ability to continue to drive core deposit growth and the ability to reduce deposit costs? I mean, is there much funding cost leverage left?

James Beckwith

Well, let me take the first part of your question first, if I could. So we saw growth across our entire platform, all of our verticals and all of our geographies. And so I think the reason for that, David, is it's fundamentally that we've got a lot of feet on the street. We've got 40 business development officers now that are highly motivated, very experienced and well connected into the communities and the industries they serve. So that's what's really driving this. Everybody is having success. And we're very supportive of those efforts. We spent a lot of time. Personally, I spent a lot of time with them in terms of bringing in new relationships to the bank.

From a funding cost perspective, I think we've kind of seen the end of any effects of any rate cuts. And I know we're all standing around in the kitchen waiting for the Fed to cut again. But we're not really expecting that to happen. And we're not sure when that might happen, and we're not relying

on that happening. I think you're seeing our funding costs will continue to maybe go down just a little bit more, but it's really about the mix.

And to the extent that we have a very successful last half of 2025 in terms of raising noninterest-bearing deposits, which we believe we've got some really great opportunities in our deposit pipeline right now to achieve that. So it's really about fundamental execution, David, and the fact that we just have so many feet on the street.

David Feaster

That's great. And then maybe just touching on the Bay Area maybe a bit more broadly. I mean, you've obviously had a lot of success in San Francisco. It's been really impressive. You've got the Walnut Creek office opening here soon. I'm curious, maybe, first of all, could you maybe touch on the pulse of the Bay Area from your standpoint?

And how much opportunity you see left there in terms of both hiring and expansion in that market? Obviously, it's a huge market, but just kind of curious the opportunities and the potential that you see in the Bay Area.

James Beckwith

Sure. We're excited about the Walnut Creek opening. I was there this week, a couple of days ago. And the business environment in the Bay Area, it's changed in the last couple of years. Just take San Francisco, in particular, there's a new mayor there, very energetic, business minded. I think that city is turning around. It's just -- it's palpable in terms of -- just if you're just downtown in the financial district, you just get that sense. So I'm excited about that.

And Walnut Creek is a beautiful place. It's got a great shopping district, great food scene, and it's growing. And it really has, I think, done well just as a stand-alone area since the pandemic and since what I'll say what happened to San Francisco, you saw -- you've seen some migration out to the East Bay and particularly Walnut Creek. So we're excited about what we're doing in the Bay Area.

Now future expansion in the Bay, I think you would probably expect it to see it down in the South Bay, David. And that's -- those efforts are underway right now. I can't really share any visibility on that with you right now. But certainly, that's where we're headed. But we've got to make sure that our Walnut Creek operations are sound and solid, and we're going to -- and grow robustly.

We've got some great business development people whose focus is Walnut Creek in the East Bay, that have joined us in the last year, in the last 6 months. So -- but anyway, that's how kind of we see it. We're not done expanding in the Bay and the next expansion, but certainly outside of Walnut Creek will probably be somewhere in the South Bay.

David Feaster

That's great. And then maybe last one from me. Your business model is obviously extremely scalable. You've done a great job driving pretty material revenue growth with the infrastructure you've got, still continuing to invest. I mean, we're sitting here with the low 40% efficiency ratio. Look the stage is set for continued outsized loan growth and revenue growth, potential for further margin expansion as we continue to reprice the back book.

Is a sub-40% efficiency ratio in the cards? Or are there other investments or expenses that you maybe accelerate just given the strength you're seeing? Just kind of curious, how do you think about that?

James Beckwith

Well, we're very keen to continue to invest in our business. We did announce in the second quarter that we've -- we are expanding our food and agribusiness business, and we've brought in some very seasoned professionals, very experienced that have great connectivity to the space. And so we're continuing to invest in our business. These folks are in mid-career and not necessarily inexpensive, let me say that much, but we're happy to have them.

And we think we're going to expect great things. I single that out, David, just as an example of how we continuously invest in our business. And we're always looking to add talent. So to achieve something that's sub-40%, it's not necessarily a goal per se, but I could see it happening. We do have a lot of operating leverage in our business right now. So we'll see what the rest of the year looks like.

Heather Luck

Yes. And then, David, just to add on to that, while we have expanded our headcount from a business development and customer-facing side, we have also continued to build out our back-office support teams as well. So in those mixtures, you're seeing not only sales growth, but you are seeing back-office support as well.

So from my perspective, there's no real significant investments that we do need to make to either improve our technology or improve the support side. So really, we're kind of just as we go, adding more headcount to make sure that we're supporting our customers and staff as appropriate.

David Feaster

That's terrific. Thanks everybody, great quarter.

James Beckwith

Thank you so much, David.

Operator

Our next question comes from Woody Lay from KBW. Please go ahead with your question.

Wood Lay

Thanks for taking my question. Maybe just one quick follow-up on expenses. Just how should we think about the run rate in the third quarter with the Walnut Creek office coming online?

Heather Luck

Yes. I would say, add about \$500,000 to about \$750,000 for next quarter. We will have a little bit of increased expense for Walnut Creek. So that should probably bake in enough for your estimate.

Woody Lay

Alright. Very helpful. And then I had a follow-up on deposits as well in the noninterest-bearing segment, saw really strong growth in the quarter. I was just curious how sticky do you view that growth? I know you've got some wealthier clients and wasn't sure if it was kind of just a 1 quarter increase or if you think that the jump up is sustainable from here?

James Beckwith

We believe it -- Woody, we believe it to be sustainable. And as we continue to bring on new relationships that all of which have some degree of some component of noninterest-bearing deposits in those relationships. So we think that will continue to grow. There's nothing that per se

that stands out in terms of an anomaly at all. It's just -- it's growth of accounts, number one, in new accounts.

Woody Lay

Alright. And then last from me. Just looking at the growth in the quarter, it looks like it was mostly driven from the CRE bucket. I was just curious on the sub-verticals where you're seeing the best growth opportunities and vice versa, maybe other verticals where you're not looking to grow at this time?

James Beckwith

I think we're looking to grow all of our verticals across the board. I mean we continue to be very active in the mobile home park and RV park space along with storage. We are looking -- doing pretty well in I'll say, multifamily, student housing, in particular. So those are areas that I think that we've done a decent job on. And we've also financed, I would say some office buildings. Now I don't want you to get all worried or anything Woody, but these are buildings in which there's new capital, fresh capital came to the table.

And along with this massive reset that's going on, new equity comes to the table, price per square foot is now \$250 to \$350 a foot as opposed to \$900 to \$1,000 a foot of what it was 5 years ago. And then we provide an appropriate amount of leverage to that with the 50% to 60%. So we feel those loans are incredibly safe.

And this is about the turnaround that we're seeing in particular, in downtown San Francisco. So those particular categories, I think, kind of make up a lot of the growth that we saw in our CRE portfolio.

Woody Lay

Alright, that's great. Thank you for taking my question.

Operator

Our next question comes from Gary Tenner from D.A. Davidson. Please go ahead with your question.

Ahmad Hasan

Hi, good morning. Ahmad Hasan on for Gary here. Can you talk about -- can you give us a specific number on loan purchases in this quarter? And what's in the docket for the next half of the year?

James Beckwith

On loan purchases?

Ahmad Hasan

Yes.

James Beckwith

See, what we're doing is just maintaining our balances that we've had. I think we established this probably last -- third quarter of last year. So we're running about -- we try to target \$300 million of what we call Bankers Health Group purchases, not purchases, but outstanding balance. And because these loans amortize quickly, we constantly have to...

Heather Luck

Yes. We made during the quarter about \$44 million in purchases, but really, that's just to keep the concentration within that \$300 million range. So you'll see purchases there, but it's just a renewal payoff.

James Beckwith

Yes. So it's -- we're targeting an average outstanding of around \$300 million in that, with those loans.

Ahmad Hasan

Okay. That makes sense. And great NIM expansion this quarter. Anything unusual in the loan yield expansion of 7 bps?

James Beckwith

No. It's just -- it's a combination of a bunch of different things. One, as our loan book continues to reprice, most of the loans that we do are -- have 5-year resets on them in our commercial real estate space. And so these loans that were put on in 2020 are now resetting. So they were resetting at very low -- from very low rates. So you have that impact. But you also have all of our current production, which is a much higher rate.

Heather Luck

Yes. The Q2 production that we did had a weighted average rate of 7.03%. So that was a nice pickup to the NIM.

James Beckwith

So that's how we've been able to expand our yields in our loan portfolio, repricing one. But it's -- but really new production is really driving it.

Ahmad Hasan

That's great to hear. And last one for me. On the tax rate outlook for the remainder of '25 and beyond, with regards to the new California tax law change. Can you give us your outlook on that?

Heather Luck

Yes. For your modeling purposes, I would use a tax rate of like 26.83%. That's our statutory rate. We're forecasting an effective tax rate of about 26.65%. So that tends to fluctuate a little bit depending on permanent items, but within that range should be good for your model.

Ahmad Hasan

Thanks for taking my question.

James Beckwith

We were very happy to see the governor sign that bill, by the way.

Ahmad Hasan

Okay. I'm sure you were. Thank you.

Operator

And our next question comes from Andrew Terrell from Stephens. Please go ahead with your question.

Jackson Laurent

Hey, good morning. This is Jackson Laurent on for Andrew Terrell.

James Beckwith

Hey, Jackson.

Jackson Laurent

Most of my questions have been asked, but if I could just piggyback on loan growth. Obviously, growth was very impressive this quarter. I believe we were talking to a 10% to 12% balance sheet growth number for 2025 last quarter. So I was just wondering if you could kind of give us some updates on how you expect loan growth to trend in the back half of the year. And if you're also still thinking about growth in the 10% to 12% range for the full year?

James Beckwith

Yes. Obviously, we've done a little better than that. But when I look at our pipeline and what I expect to pay off, I still feel kind of comfortable in that particular range. We've got some large construction loans that will probably pay off sometime in the next year, and they're doing quite well.

Lease-up has actually done really well. And so we expect them to probably get put to bed with another shop, probably -- excuse me, with an agency -- excuse me, an agency, not another bank. Heaven forbid.

But -- so we're going to stick with that in terms of guide on both sides of the balance sheet, which we think if we can achieve that low teen growth, we think we're going to do quite well at the bottom line. So our pipelines are good, very strong for loan pipeline in our deposit pipelines. So we're excited about that. But we think that that's a reasonable assumption in terms of growth as we move forward to the last half of 2025.

Jackson Laurent

Got it. That's great color. Thank you. And then just lastly for me, if you could give us a little bit more color on the new food and agribusiness vertical, as well as just a little bit more about the team in place. And I know it's early innings, but would love to get a sense of like growth potential you see from that business and avenue going forward?

James Beckwith

Sure. The group that we hired is led by Cliff Cooper. He's got a very experienced team that he works with. And they're going after large -- initially large processors, all types of ag commodities that exist in the West Coast. So these credits that we're going after are C&I middle market type of credits, companies whose revenue could be \$50 to \$0.5 billion and that have been in business for generations. This particular market, we believe to be underserved by the majors. And so this is why we're stepping in here.

California is a big ag state. And for us being in California, we were doing some ag prior to Cliff and team joining us, but we never felt like we were -- I'm going to say, taking advantage of the opportunity. And with Cliff and his team, we see just a tremendous amount of opportunity. One, in terms of it will help us maybe balance out our loan portfolio, maybe over the long run we'll be able to reduce our concentrations in commercial real estate if Cliff is successful. And we have every reason to believe he will be. And so we're very excited about that.

Jackson Laurent

Great. Thank you for the color. That's all I had. I'll step back.

James Beckwith

Thank you.

Conclusion**Operator**

And ladies and gentlemen, at this time, that will end today's question-and-answer session. I'd like to turn the floor back over to Mr. Beckwith for any closing remarks.

James Beckwith

Thank you. It's with deep appreciation and gratitude that we have advocated for our clients and championed the communities we serve. We always will. As our expansion in the San Francisco Bay Area continues and as we build on the legacy of superior community banking in the capital region and North State, we answer the call of businesses and organizations who desire a time-honored banking partner.

Five Star Bancorp is here to stay. We are proud to have experienced another quarter of significant organic growth built upon a sturdy foundation of client service, expanded relationships and products and the loyalty of our exceptional clients. We will always remember that we exist because of our clients' trust us.

And we believe in them. It's our privilege to continue as a driving force of economic development, a trusted resource for our clients and a committed advocate for our communities.

We look forward to speaking with you again in October to discuss earnings for the third quarter of 2025. Have a great day, and thank you for listening.

Operator

The conference has now concluded. We thank you for attending today's presentation.