Five Star Bancorp

First Quarter Earnings Webcast

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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 First 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 and 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, 2025, and in particular, the information set forth in Item 1A, Risk Factors.

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 closer viewing on the company's website and under the Investor Relations tab. Please note, this event is being recorded.

I would now 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 Q1 2026. These results were released yesterday and are available on our website, fivestarbank.com, under the Investor Relations section. Joining me today is Heather Luck, the Executive Vice President and Chief Financial Officer.

Q1 2026 marked another period of outstanding achievement for Five Star Bancorp, underscored by robust growth across all markets we serve and consistent strong performance. During the quarter, we continued to deepen our client relationships and expanded our presence in key geographies while investing in both talent and technology to support ongoing organic growth.

Our commitment to disciplined execution and differentiated customer service was evident in our solid results. Q1 2026 earnings per share increased to $0.87 per share, up $0.04 per share from the prior quarter with annualized growth in loans held for investment of 14% and annualized deposit growth of 26%, we remain well positioned to capitalize on new opportunities and drive sustainable value for our shareholders, customers and communities.

Financial highlights during Q1 2026 include net income of 18.6 million, up 6% from the prior quarter. Return on average assets of 1.55%, an increase of 5 basis points from the prior quarter, return on average equity of 16.73%, an increase of 76 basis points from the prior quarter, net interest margin of 3.70%, an increase of 4 basis points from the prior quarter and average cost of total deposits of 2.13%, a decrease of 10 basis points from the prior quarter.

Our Q1 results were driven by robust loan and deposit growth. Loans held for investment grew by 138.5 million or 14% on an annualized basis. Total deposits grew by 268.3 million or 26% on an annualized basis with non-wholesale deposits up 350.2 million, offsetting an 81.9 million reduction in wholesale deposits. This shift reflects our focus on building stable, relationship-based core deposit funding.

Our asset quality remains strong with nonperforming loans representing just 7 basis points of total loans held for investment, a reflection of our conservative underwriting. We continue to be well capitalized with all capital ratios well above regulatory thresholds for the quarter.

We remain committed to delivering value to our shareholders. In Q1, we paid a cash dividend of $0.25 per share and declared an additional $0.25 dividend expected to be paid in May of 2026. Our total assets increased by $276.9 million during the quarter, largely driven by loan growth within the commercial real estate portfolio, which increased by 116.2 million.

Competition has increased, but our loan pipeline remains strong. Ongoing uncertainty surrounding energy supply chains and global economic consequences of the Iran conflict has triggered volatility in interest rates. We believe we are well-positioned for changes in interest rates, as approximately 75% of our loans held for investment are adjustable or floating. This gives us flexibility to respond to market shifts and helps protect our earnings in a volatile environment.

Our prudent underwriting standards, comprehensive loan monitoring and focus on relationship-driven lending have contributed to maintaining strong credit quality. As a result, we have a very low volume of nonperforming loans, which declined by $280,000 during the quarter. We recorded a $2.7 million provision for credit losses during the quarter, primarily related to loan growth.

The increase in total liabilities during the quarter was the result of growth in interest-bearing and noninterest-bearing deposits related to both new accounts and inflows from existing customers. Non-wholesale deposits increased by $350.2 million, while wholesale deposits decreased by $81.9 million.

Non-interest-bearing deposits accounted for approximately 28% of total deposits and an increase from approximately 26% as of December 31, 2025. Approximately 61% of our total deposit relationships totaled more than $5 million. These deposits have a long tenure with the bank with an average age of approximately 8 years. We believe our deposit portfolio to be a stable funding base for our future growth.

On that note, I will hand it over to Heather to present the results of operations. Heather?

Heather Luck
Thank you, James, and hello, everyone. Net interest income increased to $43.5 million, a 3% increase from Q4 of 2025, supported by both volume and margin expansion. Our net interest margin improved to 3.70 from 3.66 in the prior quarter, reflecting disciplined pricing and favorable mix of assets and liabilities.

Interest income increased by $926,000 from the previous quarter, mainly due to a 4% increase in the average balance of loans. The increase in interest income was augmented by $466,000 decrease in interest expense due to a 10 basis point decline in the average cost of deposits.

While the average balance of deposits increased by 5% during the quarter, a 5% increase in the average balance of noninterest-bearing deposits combined with a decrease in the cost associated with deposits, resulted in a net decrease in total interest expense.

Noninterest income increased to $1.6 million in the first quarter from $1.4 million in the previous quarter, primarily due to an increase in fees from swap referrals and a special FHLB stock dividend recognized during the 3 months ended March 31, 2026, partially offset by an overall decline in earnings related to investments and venture-backed funds.

Noninterest expense decreased by $263,000 in the 3 months ended March 31, 2026. This is primarily due to the release of a $1 million loss contingency on an SBA loan that did not occur during the prior quarter. This was partially offset by an increase in salaries and employee benefits related to increased headcount to support customer-facing and back-office operations.

Our efficiency ratio improved to 38.57% from 40.62% in the prior quarter, primarily driven by the release of the loss contingency. The provision for income taxes for the quarter ended March 31st, 2026, increased by $1 million as compared to the prior year primarily due to an increase in taxable income recognized and a net reduction in transferable tax credits recognized during the quarter of approximately $664,000.

And now I will hand it back to James for closing remarks.

James Beckwith
Thank you, Heather. Five Star Bank success serves a strong testimony to clients who value our team of committed professionals who provide authentic relationship-based service. We continue to ensure our technology stack, operating efficiencies, conservative underwriting practices, exceptional credit quality and prudent approach to portfolio management will benefit our customers, employees, community and shareholders.

As we look to Q2, we remain committed to our disciplined approach to growth, prudent risk management and delivering value to all of our stakeholders. We're excited about the opportunities our markets and confident of our ability to continually executing on our strategic priorities. Our focus will remain on expanding our presence in key geographies, deepening client relationships and investing in technology and talent to support our long-term success.

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] The first question today is from Evan Kwiatkowski with Raymond James. Please go ahead.

Evan Kwiatkowski
Hi. This is Evan on for David Feaster. Good morning, everybody.

James Beckwith
Good morning, Evan. How are you?

Evan Kwiatkowski

I am doing well. I just wanted to start on the SoCal expansion announced earlier. I know it's early innings, but on a high level, I'm just curious what you're most excited about for that market. And how the team down there has been ramping up so far. I also wanted to just gauge your thoughts on potential de novo expansion in Southern California alongside those hires and how you see that market evolving broadly?

James Beckwith
Well, thank you for the question. We're very excited about the team that we brought on. We have four business development officers and two support staff. They're very confident. And so far, deal flow seems to be very, very strong from them. And it's a lot of fun for us engaging with them in a market which is just substantial. Much bigger market than Northern California, as you know. And so the deal flow that we're seeing right now are just rate credits, C&I-based and we're excited about the opportunities that the team is presenting us.

In terms of de novo operations or potentials, we have a team in Newport Beach right now. And then we have a team up in L.A. County, Ventura County. As they continue to mature and develop, the next step for us would be to open a full-service office in those localities. But we want to see a substantial growth coming from those teams. And it will help us get to where we want to be, ultimately, which is to have full service offices.

Evan Kwiatkowski
That's really helpful. I'm excited to see how that develops. And then maybe sticking on the growth side, originations were really strong during the quarter. I'm just curious where that's coming from broadly. Is it more a function of increasing demand in your markets or increasing contribution from existing bankers or new hires? And then maybe just curious where you're seeing the most opportunity for growth within specific segments as well?

James Beckwith
Well, it's coming from a lot of different places. Our existing business development people. We now have 46 of them working for the company. But during the quarter, it was 42. And everybody is producing everybody is doing quite well and across our verticals that we have and also our geographies. So we're seeing substantial growth coming from, all the way up into Redding all the way down to Walnut Creek in the Bay Area, and our ag team also is doing quite well.

So we're hitting on a lot of cylinders right now in terms of deal flow and really good relationships that our seasoned professionals are bringing in. So I couldn't really single out one, but maybe on the depository side, our government book has done quite well on some relationships, growth in relationships. We're excited about that. So in our manufacturing home and RV folks are doing well also. But it's coming from a lot of different sources, which we're all very, very excited about.

Evan Kwiatkowski
That's great to hear. And then maybe on the deposit side. It was good to see the growth during the quarter, which allowed you to pay down some wholesale funding. I'm just curious what was primarily driving that? And if you see any opportunities for additional funding cost leverage from here, especially given the prospect of no Fed cuts this year?

James Beckwith
Right. We're going to continue to focus on reducing our wholesale deposit book with the desire to be out of it by 12/31, hopefully, we'll be able to do that more quickly. That's our plan. So that will provide maybe some relief in our interest cost. And it's really -- it's really going to be dependent upon continuing to push deposits. I mean the value of our franchise, we recognize is

in our deposit base. And we're executing quite well on that in terms of bringing on new relationships, noninterest-bearing deposits saw a substantial growth in Q1.

And so we hope to expect -- we hope and expect to see that growth continue. As I mentioned previously, our government banking team has done quite well. That team really covers the entire state and their focus is on cities and counties. But moreover, their focus is really on special districts, and they've done quite well in that space and their pipelines remain very strong. So we're excited about that.

Evan Kwiatkowski
That’s great. Thanks, guys. Great quarter.

James Beckwith
Thank you.

Operator
The next question is from Woody Lay with KBW. Please go ahead.

Woody Lay
Hey, thank you for taking my question. I had a follow-up on deposits. The focus is continuing to pay down wholesale deposits. But if I look over the past year, I mean, it's pretty incredible, the mix change that's undergone there. And I was just curious, is that being driven by some of these sub-verticals that's allowed you to grow? Core deposits, is it new customers to the bank? Is it expanding the wallet of current customers? Just would kind of love your take on that.

James Beckwith
Well, it's a great mix between deposit flow from existing customers, but also new relationships that we brought on. Often, a deposit relationship or any banking relationship takes a while to mature. And we're seeing some growth coming from the business that we put on in 2025 as those relationships kind of work their way over to us, Woody. And so that's exciting. But also, our first three months have been very strong in terms of new deposit growth in terms of new accounts. So we're excited about that.

And again, it's really -- our government book has done quite well, but it's really our growth in deposits is coming from all different types of verticals. And it is -- it's very -- what we're trying to do is pay down our wholesale book. I mean it's pretty evident what we've been able to do for the last six months with that. And hopefully, we added broker deposits, as I mentioned, by 12/31. And we certainly like to do that more quickly than by the end of the year and we will see how second quarter goes.

Woody Lay
Yes. I appreciate the color there. And I would imagine paying down the broker has been a positive to the net interest margin and we saw the NIM take another step up in the first quarter. How are you all thinking about continued NIM expansion from here, especially if assume cuts are flat and then kind of the incremental impact that rate cuts could provide?

James Beckwith
Yes. We don't know how much juice is left in our -- in terms of the impact of rates I have on our NIM. We're kind of thinking it's settling around -- in around 370, which what it was for the quarter. But we do expect increase in net interest income to come from growth and so that's kind of what our sense of it is right now. NIM, it might move up a couple of basis points, but

nothing substantial like we've seen for the last four quarters. So we're settling in on this NIM range of 3.70 to 3.75. Hopefully, we can maintain it there and just have net interest income being driven by growth.

Woody Lay
Yes. I appreciate the color. Maybe just last for me on the growth. Loan growth remains really strong. It feels like I have heard just an anecdotal commentary across the industry of some increased competition, especially among the bigger banks. Are you seeing that within your footprint?

James Beckwith
Well, we've been doing this for quite some time and competition is always present. And we've mentioned it in the script that competition is out there. And, yes, on good deals, people are fighting for them. And you got to be careful that your growth is spread out a bunch of -- among several relationships and your pricing is something that you can make money on. So we know it's going to be competitive for the best deals. And that's our mindset when we come to work every day.

And so we're winning our fair share. We're not winning everything, okay? If we were winning everything, maybe we're not pricing it right, but we are winning our fair share. And the function of our growth, what's really driving our growth. It's just the number of people we have, the boots on the ground, so to speak, Woody. Relative to our size in total headcount, we just have more people, more Biz/Dev [ph] people. So the opportunities that are coming to us are really being driven by more than anything else, but just by the number of folks we have in the space.

Woody Lay
That all sound good. Thanks for taking my question.

James Beckwith
You bet.

Operator
The next question is from Andrew Terrell with Stephens. Please go ahead.

Andrew Terrell
Hey, good morning.

James Beckwith
Hey, good morning, Andrew.

Andrew Terrell
Wanted to stick on maybe margin and deposits for a bit. Do you have how much of the deposit growth this quarter was related to the government or the special district kind of business line? And I would love to get a sense for where you're bringing on cost-wise, the incremental dollar of core deposits versus what's rolling off that we can see on kind of the wholesale side pricing wise?

James Beckwith
Sure. The growth in our government book in the first quarter was quite substantial, as I mentioned, it's about $190 million. So it's really kind of drove what we're -- the overall increases

in deposits. But other verticals did also quite well, but that one kind of stands out. Now that money that came in is really kind of priced right on top of our broker deposit book.

So there's no really incremental pickup, if you will, Andrew, in terms of cost reduction, if you will, with that money coming in versus having the broker deposits go away. So we're -- that's -- for some of these counties, that's their liquidity and we hope to bring on some non-interest bearing deposits through that process with those – through those relationships. And we have, but a lot of that growth is really coming right at the margin.

Heather Luck
And just for reference, just to compare the two. So our brokered book at the end of the quarter was sitting at about $3.82 for the actual brokered deposits. And then the late freight is about the $3.80 range. So we're pretty much just swapping dollar for dollar.

Andrew Terrell
Yes. Okay. Makes sense. And then on the non-interest bearing deposits, obviously, fantastic growth this quarter. Was there anything in the end-of-period figure for non-interest-bearing that we can see, I think it was $1.23, anything that was elevated, specifically kind of a period end that's normalized in the second quarter so far? Is that kind of a good base to work off of just asking because it's a lot higher than the average?

James Beckwith
Yes. A couple of things really kind of drove non-interest bearing deposits. One, we do have a title company that's doing quite well, pretty big relationship. But also with some of our folks in our Newport Beach office. They're bringing on their customer base, which is escrow companies and all those monies are non-interest bearing. So we expect to continue to see growth with our -- in our Newport Beach office from those two folks that we brought on. So I think in combination of that and then also all the other C&I business that we've been doing up and down the platform and really kind of drove non-interest bearing deposits. But I think those two matters kind of stand out.

Andrew Terrell
Yes. Okay. And I've got to ask, I think last quarter, we talked about kind of 10% growth for the year on both sides of the balance sheet. You're pretty darn close to the deposit side already. Any updated expectations on pace of balance sheet growth or targets for the year?

James Beckwith
Yes. I think we guided pretty consistent with what we planned. Our plan is, and -- but obviously, we exceeded that, which is a good thing. So we could probably see maybe 10% to 12% growth on both sides of the balance sheet, Andrew for the remainder of the year, but we'll just have to see how it goes. We're excited.

Our pipelines are pretty robust right now, frankly. And with the bringing on in this new team in Southern California, we expect to really kind of drive growth on both sides, both deposits and loans. And their book and their client base and prospect base is really very strong C&I operating companies, which will bring in some nice non-interest bearing deposits. So I think that's kind of where we are right now on that 10% to 12% growth, Andrew.

Andrew Terrell
Yes. Okay. And if I could just ask one last one. If I kind of normalize the expense base, it looks like 184 or so for the quarter, just a bit of thoughts on kind of expense run rate going forward?

Heather Luck
Yes. I think you could probably add to the normalized, like add back $1 million to adjust for that release of the accrual. But if you add about 0.5 million to that, we're still consistently kind of fallen in that 148 million to 155 million range. And I think we'll stick to that probably for the next quarter or two.

Andrew Terrell
Great. Thanks so much.

Operator
Next question is from Gary Tenner with DA Davidson. Please go ahead.

Gary Tenner
Thanks. Good morning. I just wanted to ask a follow-up, James, to your comments just a moment ago on the Newport office and bringing escrow comping deposits. Does any of that start leaning into deposits that start showing up on the expense line from any kind of earnings credit or is there anything like that or are these pure non-interest bearing deposits?

James Beckwith
No. I mean, you've got to -- the earnings credits are pretty robust in that space and we -- we're not doing anything in terms of earnings credit rate for those new customers, anything outside of what the market rates are. But there will be some expense associated with that based upon those earnings credits. So we fully expect that and have planned for it. So it's not -- it has a cost, to your point, Gary.

Gary Tenner
Okay. Thanks for that. And then also a follow-up, I guess, on the expenses in general. I mean you've been -- year-over-year expense is up about 20% first quarter to first quarter adjusted for that $1 million SBA liability. Obviously, you're built for growth. Is the pace of investment changing at all on the next 12 months versus the last 12 months in terms of hires, etcetera? Just thinking about it from a different angle, then maybe the last question?

James Beckwith
It's -- we're investing in the business. And we announced this month that we are bringing on. I guess the announcement was five people, but we're actually bringing on six. So that's a substantial cost. These folks aren't cheap. And we'll continue to invest back in the business because take the Bay Area for Gary, we're desirous of being in the South Bay from Palo Alto all the way down to San Jose. So we're obviously looking at opportunities there. So we're going to continue to invest. And your question is, is the pace going to be consistent with what it's been in the past. And the answer, I think, is yes.

Heather Luck
Yes. I think we're following -- what really worked well in the Bay is hiring smaller teams of people and smaller tranches of people and we're starting to do that in Southern California as well. That's worked really well for us, too to integrate them into the company. And so I kind of think you're going to just have some stair-stepping, and we'll have some reset each quarter on what our new expectation for expenses are. But that likely will happen over the next year or two.

James Beckwith
Yes.

Gary Tenner
Yes. I mean you clearly developed a playbook that works for moving to new markets. So I appreciate the thoughts on that.

James Beckwith
Thank you.

Conclusion

Operator
[Operator Instructions] Showing no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

James Beckwith
Thank you. I want to reiterate our appreciation for the trust and support of our shareholders, clients and employees. The results we shared today are a direct reflection of the dedication and hard work of our entire Five Star Bank team as well as the enduring relationships we have built with our customers and communities.

It's our privilege to continue to be 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 July to discuss earnings for Q2. Have a great day and thank you for listening.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.