

Five Star Bancorp

First Quarter Earnings Webcast

Tuesday, April 25, 2023, 1:00 PM Eastern

CORPORATE PARTICIPANTS

James Beckwith - *President, Chief Executive Officer*

Heather Luck - *Senior Vice President, Chief Financial Officer*

PRESENTATION

Operator

Good day, and welcome to Five Star Bancorp First Quarter Earnings Webcast. Please note this is a closed conference call, and you're encouraged to listen via the webcast. After today's presentation, there will be an opportunity for those provided with a dial-in number to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" then "2."

Before we get started, let me 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, 2022, and in particular the information set forth in Item 1A Risk Factors therein.

Please refer to slide two of the presentation, which includes disclaimers regarding forward-looking statements, industry data and non-GAAP financial information including in this presentation, as well as reconciliations to non-GAAP financial measures to their most directly comparable GAAP figures, which is included in the appendix to this presentation. 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 the first quarter of 2023.

Joining me today is Heather Luck, Senior Vice President and Chief Financial Officer. Our comments today will refer to the financial information that was included in the earnings announcement released yesterday. To obtain a copy of the release, please visit our website at fivestarbancorp.com and click on the investor relations tab.

In the first quarter, we executed our goal of growing deposits by adding new accounts and new relationships, thereby growing total deposits by 20% on an annualized basis during the first three months of the year, which was above our target annual growth rate of 12%. Additionally, we grew total deposits in the month of March. As our response to the broader sector challenges provided opportunities for new account openings and relationships based upon our offerings, and services.

Despite the disruption and challenges affecting the banking sector as a whole, we substantially maintained and grew our customer base. We credit this to the dialogue, openness and trust that we have in our relationship focused business. I'm pleased with these results as the first quarter is generally slower...a generally slower period of growth. And I'm also pleased,

considering the current backdrop of intense competition on rates from other financial institutions and customers.

In response to recent events, we strengthened our liquidity position as our cash and cash equivalents to deposit ratio reached approximately 11.9% as of March 31, 2023. I'm pleased to note the stability of our net interest margin, which was 3.75% for the three months ended March 31, 2023.

Additionally, our consistent, disciplined management of expenses is seen in our efficiency ratio of approximately 36%. We are carefully and purposefully adding to our deposit portfolio faster than our loan portfolio. This focus on deposits is integral to our priority of long-term growth.

Net loans held for investment grew by approximately 3% or 12% annualized. As of March 31, 2023, the accumulated other comprehensive income as a proportion of total equity was 4.58%. AFS debt securities constitute only 3.58% of interest earning assets, held to maturity securities constituted only 0.11% as a proportion of interest earning assets.

In the company overview section, we have provided a brief overview of our geographic footprint and executive management team. In the first quarter of 2023, exhibited continued execution of our growth strategy, as evidenced by our earnings, expense management, balance sheet trends during the quarter. Additionally, loans, deposits and total assets have consistently grown since prior periods.

Our pipeline continues to remain solid at the end of the first quarter of 2023, within verticals we have historically operated in, as presented in the loan portfolio diversification slide.

Loans held for investment increased during the quarter by \$78.5 million or 2.81% from the prior quarter, primarily within the commercial real estate concentration of the loan portfolio. Loan originations during the quarter were approximately \$135 million and payoffs were \$56.5 million. Asset quality continues to remain strong with non-performing loans representing only 0.01% of the portfolio, remaining largely unchanged from the last several quarters.

At the end of the first quarter, the allowance for credit losses totaled \$34.2 million. On January 1, 2023, we adopted ASC 326 and recorded an adjustment to the allowance for credit losses of approximately \$5.3 million for the day one entry. We recorded a \$0.9 million provision for credit losses during the quarter, primarily related to loan growth. The ratio of the allowance for credit losses to total loans held for investment was 1.19% at quarter end.

Loans designated as substandard totaled approximately \$0.4 million at the end of the quarter, which was largely unchanged from the previous quarter. Now that we have discussed the loan portfolio, I will continue onto deposits and capital.

During the first quarter, deposits increased by \$138.4 million or 4.97% as compared to with the previous quarter. Non-interest bearing deposits as a percent of total deposits at the end of the first quarter decreased to 28.6% from 34.9% at the end of the previous quarter.

To offer a more detail on our deposit composition, I want to highlight that deposit accounts totaling at least \$5 million, constituted approximately 64% of total deposits, and the average age of these accounts was approximately 10 years. Local agency depositors accounted for approximately 25% of all deposits, and the average deposit account balance was approximately \$280,000 at March 31st, 2023.

As highlighted earlier, we are pleased we've had net deposit inflows for the three months of March 30...ended March 31, 2023, including inflows during the month of March, being able to hold and grow deposit account supports our differentiated customer-centric model that customers trust and value. As seen through the mix of high dollar accounts and the length of time we've had certain customer relationships. We believe we have a reliable core deposit base.

We've had strong deposit growth over the last several quarters with deposit balances increasing when compared to the prior quarter. Non-interest bearing deposits decreased by 136 million, while interest bearing deposits increased by 270 million. The cost of total deposits was 135 basis points during the first quarter.

We continue to be well capitalized with all capital ratios well above regulatory thresholds for the quarter. Our CET1 ratio increased from 8.99% to 9.02% between December 31st, 2022 and March 31st, 2023. This change includes the effect of the adoption of ASC326 on January 1st, 2023, which resulted in a day one decrease to retained earnings of approximately 4.5 million, net of the tax effect, where the day one impact is phased into regulatory capital over three years. Our CET1 also includes the effect of continuing to make dividend payments, which reduces CET1.

On Friday, April 21, we announced a declaration by our board of a cash dividend of \$0.20 per share on the company's voting common stock expected to be paid on May 15th, 2023 to shareholders of record as of May 08, 2023.

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

Heather Luck

Thank you, James. And hello everyone. Net income for the quarter was \$13.2 million, return on average assets was 1.65%, and return on average equity was 20.94%. Average loan yield for the quarter was 5.36%, representing an increase of 24 basis points over the prior quarter, as driven by the rate increases that have continued for the last 12 months.

Our net interest margin was 3.75% for the quarter, while net interest margin for the prior quarter was 3.83%, consistent with expectations, we have held net interest margin despite pressure from deposit costs.

As a result of changes, in interest rate and other factors, our other comprehensive income improved by \$1.5 million during the three months ended March 31, 2023 as unrealized losses, net of tax effect declined on available-for-sale debt securities from \$13.4 million as of December 31, 2022 to \$11.9 million as of March 31, 2023.

Non-interest income decreased to \$1.4 million in the first quarter from \$1.6 million in the previous quarter, due primarily to a \$1.1 million decrease in loan related fees on SBA loans due to fluctuations in volume and a \$0.1 million decrease in other income due to a one-time distribution received on an investment in a venture-backed fund in the three months ended December 31, 2022.

Non-interest expense grew by \$0.4 million in three months ended March 31, 2023, as compared to the three months ended December 31, 2022, primarily due to a \$0.9 million increase largely related to increased employee compensation expense and lower loan origination costs, partially

offset by a decrease in other operating expenses of approximately \$0.5 million, mainly due to a non-cash charge on deferred financing costs of \$0.3 million on redemption of the subordinated debt in December 2022.

Now, that we have discussed the overall results of operations, I will now hand it back to James to provide some closing remarks.

James Beckwith

Thank you, Heather. I want to thank everyone for joining us, as we discussed first quarter results. The strength of the bank's first quarter 2023, financial results is emblematic of a reputation built on trust, speed to serve and certainty of execution, which supports our client success.

Our financial results are also the result of a truly differentiated customer experience, which powers the demand for Five Star Bank's relationship-based services. We attribute sustained success to our prudent business model and treating customers with an empathetic spirit, understanding and care. We are very proud to have earned the trust of those we serve, including our shareholders.

Looking to the remainder of 2023, we will be guided by a focus on shareholder value as we monitor market conditions. We are confident in the company's resilience in any environment, and will continue to execute on our organic growth strategy and disciplined business practices, which we believe will benefit our customers, employees, community and shareholders.

We appreciate your time today. This concludes today's presentation. Now, Heather and I will be happy to take any questions that you may have.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session, to ask a question those dialed in may press "*" then "1" on the telephone keypad, if you are using a speakerphone please pick up your handset before pressing the keys. If you wish to withdraw your question please press "*" then "2." Questions will be taken in the order that they are received. And again, press "*", "1" to ask a question.

With no questions being presented, this concludes the session I would like to turn the conference back over to THE management for any closing remarks. Thank you.

CONCLUSION

James Beckwith

Well, we were hoping and anticipating of some questions and some dialogue, but I know it's a busy time for everybody, and just wanted to make sure everybody knew that we are open for questions. And happy to take them offline also. So anyway thank you everybody.

Five Star Bancorp, is on a continued path of growth as we execute our strategic initiatives, which include growing our verticals and geographies while attracting and retaining talent. Our people, technology, operating efficiencies, conservative underwriting practices and expense management have also contributed to the success we share with employees and shareholders.

Recent successes include the company earning the number one ranking on the S&P Global Market Intelligence, annual rankings of 2022 best performing community banks in the nation with assets between \$3 billion and \$10 billion. We are very pleased to be recognized and believe this ranking builds on the trust we have created with our customers and community. The company also has a power financial superior rating of five out of five stars and IDC Superior rating of 300 out of 300. The company is also a super premier performing bank with the Finlay reports.

We are a driving force for economic development, a trusted resource for our customers, and a committed advocate of our communities. We look forward to speaking with you again in July to discuss earnings for the second quarter of 2023. Have a great day and thank you for listening.