

Five Star Bancorp

First Quarter 2025 Earnings Webcast

Tuesday, April 29, 2025, 1:00 PM Eastern

CORPORATE PARTICIPANTS

James Beckwith – *President and Chief Executive Officer*

Heather Luck – *Senior 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. 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, 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, 2024 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-measure figures are included in the appendix to the 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 2025. Joining me today is Heather Luck, Executive 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.

The first quarter of 2025 was a continuation of building strength in our historical markets, as well as our expansion into the San Francisco Bay Area. We added four more seasoned professionals to support our expansion into the San Francisco Bay Area and continued to add new core deposit accounts and relationships, as seen in the increase of non-wholesale deposits of \$48.4 million during the three months ended March 31st, 2025.

In the first quarter, we maintained our ability to conservatively underwrite, as evidenced by a 50.03 LTV on commercial real estate, manage expenses with our 42.58% efficiency ratio, and deliver value to our shareholders with our \$0.20 per share dividend that declared in the first quarter of

2025. Additionally, in the first quarter, we improved our net interest margin by nine basis points and grew our total loans, assets, and deposits over prior periods.

Total loans held for investment increased during the quarter by \$89.1 million, or 2.52% from the prior quarter. Average loan yields increased by one basis point from the prior quarter to 6.02%.

The commercial real estate segment of the loan portfolio increased most significantly quarter over quarter from 80.75% of our loan portfolio--excuse me, portfolio as of December 31st, 2024, to 81.11% at March 31st, 2025.

Our commercial real estate concentration is set apart by the diversification within the portfolio and our ability to conservatively underwrite, as evidenced by 50.03% LTV. Our pipeline continues to remain solid at the end of the first quarter of 2025, within the verticals in which we have historically operated.

Our loan originations during the first quarter were \$259.3 million, while payoffs and paydowns were \$65.6 million and \$104.6 million, respectively. Asset quality continues to remain strong. Non-performing loans remained at 0.05% of loans held for investment from the end of the prior quarter to the end of the first quarter of 2025.

At the end of the first quarter, the allowance for loan losses totaled \$39.2 million. We recorded a \$1.9 million provision for credit losses during the first quarter of 2025, reflecting adjustments to expectations for credit losses, based upon economic trends and forecasts. The ratio of the allowance for credit losses to loans held for investment was 1.08% at quarter end. Loans designated as substandard or doubtful totaled approximately \$3.7 million at the end of the quarter and an increase from \$2.6 million at the end of the previous quarter.

During the first quarter, deposits increased by \$178.4 million, or 5.0% as compared to the previous quarter. The quarter-over-quarter increase was largely driven by increases in non-interest-bearing demand and substantially all types of interest-bearing deposits, partially offset by a decrease in interest-bearing transaction deposits.

Non-interest-bearing deposits as a percent of total deposits decreased slightly to 24.99% at the end of the first quarter, from 25.93% at the end of the prior quarter. As noted earlier, we are pleased we net non-wholesale deposit inflows for the first three months ended March 2025. Our ability to grow deposit accounts supports our differentiated customer-centric model that our customers trust and value. As seen through the mix of high-dollar accounts and the duration of certain customer relationships, we believe we have a reliable core deposit base.

To offer more detail of our deposit composition, I want to highlight that deposit relationships totaling greater than \$5 million constitutes 60.87% of total deposits, and the average age on these accounts was approximately 8.80 years, as of March 31st, 2025. Local agency deposits accounted for 22.4% of deposits as of March 31st, 2025.

Overall deposit balances have increased, when compared to the prior quarter. Wholesale deposits, which we defined as broker deposits and California time deposit program deposits, increased by \$130 million, or 23.21%, quarter over quarter.

Non-wholesale deposits increased by \$48.4 million, or 1.61%, quarter over quarter, driven by a \$37.4 million increase in non-wholesale interest-bearing deposits and an \$11 million increase in

non-interest-bearing deposits. Cost of total deposits was 248 basis points during the first quarter, a decrease of 10 basis points from the previous quarter.

We continue to be well capitalized, with all capital ratios well above regulatory thresholds for the quarter. Our common equity Tier 1 ratio decreased from 11.02% to 11% between December 31st, 2024 and March 31st, 2025.

On April 17th, our Board declared a cash dividend of \$0.20 per share on the company's voting common stock, expected to be paid on May 12th, 2025, to shareholders of record as of May 5th, 2025.

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 \$13.1 million, return on average assets was 1.3%, and return on average equity was 13.28%. Average loan yield for the quarter was 6.02%, representing an increase of one basis point over the prior quarter.

Our net interest margin was 3.45% for the quarter, while net interest margin for the prior quarter was 3.36%, with lower average cost of deposits as the primary driver.

As a result of changes in interest rates and other factors, our other comprehensive income was \$0.7 million during the three months ended March 31st, 2025, as unreliable losses, net of tax effect, decreased on available for sale debt securities from \$12.4 million as of December 31st, 2024 to \$11.6 million as of March 31st, 2025.

Non-interest income decreased to \$1.4 million in the first quarter from \$1.7 million in the previous quarter, due primarily to a reduction in income received on equity investments and venture-backed funds during the three months ended March 31st, 2025. Non-interest expense grew by \$0.6 million in the three months ended March 31st, 2025, compared to the three months ended December 31st, 2024, primarily due to increases in salaries and employee benefits, partially offset by decreases in advertising, promotional, and other operating expenses during the quarter.

Now that we've discussed the overall results of operations, I will 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 discuss first quarter results.

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

As we move into the second quarter of 2025, we are confident in the company's resilience and demonstrated ability to adapt to changing economic conditions and remain focused on the future and our long-term strategy. We will continue to execute on our organic growth 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 might 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 your telephone keypad. If you are using a speaker phone, please pick up the handset, before pressing the keys. To withdraw your question, please press “*”, then “2”. Questions will be taken in the order received.

Today's first question comes from Andrew Terrell with Stephens. Please go ahead.

Andrew Terrell

Hey, good morning.

James Beckwith

Hey, good morning, Andrew.

Andrew Terrell

Hey, just wanted to, maybe if I could start on loan growth. James, obviously, a very good quarter, especially given the backdrop of maybe some slower growth, right now. I think you're tracking, I think we talked about 8% or so loan growth, last quarter. It looks like you're tracking a little bit above that to start the year. Just, I know you've got some tailwinds from a hiring standpoint. Maybe just refresh us on where you see loan growth shaking out for the year.

James Beckwith

Well, I think we're a little more bullish than the last time we spoke, Andrew. We certainly have seen that in our pipelines and what we've been able to do so far in the second quarter. So, I think you're going to see a 10% to 12% loan growth here on out for the rest of the year. It could be higher.

Andrew, we've got 36 BDOs working for us, right now, 16 in San Francisco and 20 out here in the Capital Region in the North State. So we've got a very experienced and I'm going to say aggressive sales force out there. And I think that's how we have been able to differentiate ourselves in the marketplace. So I'm bullish on growth on both sides of the balance sheet, Andrew, and probably more bullish than I was the last time we spoke.

Andrew Terrell

Yeah, that's great. I appreciate it. And then, if I could tie it into some of the deposit commentary. I maybe just want to understand, if I look at the balance sheet in aggregate, I mean, you've got a really strong cash position, the deposit growth outpaced loan growth this quarter, but some of that was more wholesale and I would presume higher cost in nature. With all of that in context together and you obviously sound bullish on the deposit growth as well, but why bring on the maybe higher costs, more wholesale funding this quarter? And then just overall, outlook for does that wholesale funding stick around, do you expect to work that lower? And core deposit, do you think core deposit growth can match the loan growth?

James Beckwith

Yeah, we think core deposit growth will match the loan growth. So we're not anticipating, as we sit here today, any additional wholesale funding. And we'd like to maintain 10% in cash, okay, and

something less than 100% loan to deposit ratio. So, those are two parameters that I know--I know they're just numbers, okay, but they have some meaning to us as we look at our franchise. And our long term goals in terms of a fortress balance sheet is to bring those numbers down. And I think that each quarter unfurls, and the opportunities to add a new business, new relationships, new loans, sometimes you--it requires us to do spot funded, of which we have the ability to do it.

We're also, Andrew, provides us an opportunity to take advantage of the declining rate environment and we're, Heather, we're pretty tight in terms of our maturity schedules for our wholesale deposits and we keep them pretty, like a 90 days out.

Heather Luck

We are. Yeah. We've been able to, just if you look at the wholesale book compared to last quarter compared to this quarter, just by keeping those deposits short at both the state of California as well as on the broker side, we were able to roll that down by 24 basis points. So, that's been a nice, nice way to provide some liquidity while riding the yield curve down, as well.

James Beckwith

And we expect the beta to be 100%, right?

Heather Luck

Yes.

James Beckwith

And so, that's something we'll look forward to, if and when it happens. And when that happens is, Andrew, I'll leave it up to your crystal ball.

Andrew Terrell

Well, I wouldn't bank too much on that one, James, but I appreciate all the color there. If I could just ask one more question, there's obviously a lot of conversations going on around tariffs and slow down and economic growth. Specifically, some concerns around some of the lower end of the consumer right now, given some of those tariff impacts. Maybe just be helpful to remind us how you think the RV manufactured housing business performs in that type of backdrop. And then more broadly, what kind of work have you guys done in terms of analyzing the portfolio to determine where you could or could not see credit stress? Just any extra thoughts there would be helpful.

James Beckwith

That'd be great. We thought--when this first came up a month or so ago, six weeks ago on, what did President Trump call it, what do you call it?

Heather Luck

Liberation day.

Andrew Terrell

Liberation day.

James Beckwith

We looked at our portfolio and given the concentrations we have in our Mobile Home Park and RV Park, we feel comfortable about that. They operate slightly different, but. If you looked at how those books performed, or those asset classes performed over the last great recession, they were clearly the best performing asset class amongst all CRE. I mean, it wasn't even close. So, we feel

comfortable about where that stands. There are some--if I look at the rest of the portfolio, We do have a consumer book that we bought from BHG.

We like that position that BHG has provided us and we're not overly concerned about it at this particular point. And there is uncertainty with respect to what's out there from the at the consumer level. We don't know how that's going to shake out, but we are a CRE shop. And will tariffs ultimately have some impact on us? Yeah, I mean it would be imprudent to think that they wouldn't but I think relatively speaking, our bank is in a better position, given the construct of our loan portfolio than other shops are.

Andrew Terrell

Yeah, well, I appreciate your perspective. Thanks for taking the questions.

Operator

Next question comes from Gary Tenner with D.A. Davidson. Please go ahead.

Gary Tenner

Thanks, good morning.

James Beckwith

Good morning.

Gary Tenner

So a little bit of a follow-up to that last series of comments. In terms of the allowance and increase this quarter, could you go into a little more color as to kind of changes you made in the model that drove that? Any change in weightings or other factors you used in terms of increasing the allowance?

James Beckwith

Sure. Growth of the portfolio had a significant impact in our model. Given how the ACL works here is that it's extremely sensitive to any movement in terms of GDP, in terms of unemployment. So, Heather?

Heather Luck

Yeah. So really, as to your question there, so we really base our economic forecast model just on the FOMC published models there, and that was refreshed as of February. And so, we do anticipate that we will likely have some more increases in our economic reserve requirements, once we get into Q2 and once we start to see some revisions to the economic model there.

From that perspective, though, like nothing really from a weighting perspective that really drove the increase in the reserve. That really just was a function of the revised forecast from FOMC, the growth as well as the net charge--off of about \$700,000.

James Beckwith

Right. So there is some sensitivity with respect to the numbers based upon what the Federal Reserve is going to tell us. And I don't think we're unlike anybody else. I think a lot of us are using the same construction of ACL. So we anticipate there will be some impact. We'll see what happens, next week, in terms of any model changes they may have that comes out of these meetings. And so we'll just have to see how that goes.

We like how we're positioned right now because of our such our low level of non-performers. So we'll just have to see how that goes. I think I have, Gary, I have seen people writing on sensitivity in our reserving methodologies, too, what the Federal Reserve will come up with. But again, relatively speaking, we're all in the same boat.

Gary Tenner

Great, I appreciate the color on that. And then second question, in terms of the loan production, appreciate the bullish comments on loan growth for the rest of the year. Can you talk a little bit about pricing? We've been hearing a lot over the last several weeks about pretty intent loan pricing competition seems to have picked up. So any comments or thoughts on that would be appreciated.

James Beckwith

Well, I think that we have always worked in a very competitive environment. Spreads have, relatively speaking, have come in a little bit, especially in the multifamily side. You're seeing some pretty tight spreads. We're still able to get decent pricing when you look at our aggregate loan production, anywhere between 185 over the five, all the way to 350 over the five.

So there is a--if you average everything out, we like where our spreads are. There's no shape to the yield curve. That's not ideal for us folks that are in this business. If you look from funds out to the five year, so it's really based upon what spreads are going to tell us. And we're getting them. We're getting something that's pretty decent.

Now, having said that, Gary, we still, we're seeing a lot of repricing that's happened in the portfolio as those credits that we put on five years ago repriced. In fact, we had a pretty big one in April repriced. And that went up about 220 basis points. Now, the client was easily going to handle that. And we obviously underwrite and re-underwrite based upon changes in interest rate environments. And we haven't seen anything that's popped up yet that gives us concern. We are looking at it very intently, as it relates to impact of repricing.

So, right now, where we sit is that we're benefiting from it and with really no actual concerns. Now, we know it's out, there as a risk. But as we sit here right now, we think we're in pretty good shape.

Gary Tenner

Great, appreciate the color.

Operator

Again, if you have a question, you may press "*", then "1". The next question is from David Feaster with Raymond James. Please go ahead.

Liam Coohill

Hi, guys. This is Liam Coohill on for David Feaster. How are you doing today?

James Beckwith

Hey, doing great, Liam. I guess David's flying around someplace.

Liam Coohill

He is. He's always out and about. But I did want to ask on--appreciate all the color on asset quality and on tariff impacts. But kind of on the more forward part of the book, I mean, originations have been really encouraging. But what have you been seeing from customers in the environment? Is there more of a hesitancy to borrow, or is there anything you would note there?

James Beckwith

Well, I think that there's a tremendous amount of economic opportunity that exists in certain asset classes, still. Our basic engine of MHC seems to be going very strong. There's still these underperforming assets that our professional clients are still very active in terms of buying, but we're still seeing a strong environment on purchase financing. And given the depth and breadth of that--that--our penetration in that market, we don't see demand necessarily waning.

But in other aspects, it's--and here's the interesting thing, Liam. We just have a lot of salespeople, okay? And I can't maybe stress that enough in terms of its impact, in terms of our ability to generate new relationships. And very purposefully, we have built that team, if you will. And relative to other folks in our business, I'm going to--and I don't know this empirically, you may, but we just have more people in that function. And so, you ought to expect us to grow at an above average rate, given our intentions in terms of our sales force.

Liam Coohill

Thank you, that makes a lot of sense. And I guess to the point of hiring more people, I mean, it's really encouraging to see the growth in the San Francisco office. Just wondering, have you seen a difference in loan demand, across the footprint? I know, especially, you've been investing in San Francisco recently, but has that market been a little bit more challenging than the capital region? Just curious on some thoughts there.

James Beckwith

No, I wouldn't say it's been more challenging. I think relatively speaking, we've gone up market in terms of the sophistication of clientele in the Bay Area. We've run into some great operators that we're very happy with, whether they're in the student housing business or just as CRE experienced investors. And or they're operators of businesses. So I wouldn't say that we're at all challenged with respect to what's going on in the Bay Area. In fact, those opportunities continue to come up, and we're on top of them. We've got a very, I'm going to say, energetic sales force down there that are not only bringing their book over that they once had at, let's say, at other institutions, but also we're seeing that second derivative of new business that previously were not banked by those individuals coming to us because of the reputation that we're building down there.

And it's exciting to see that. And I think that's just going to continue. And we're out competing, folks, again, because we just have more people. Okay? And we're very niche and very focused down there, as we are across our entire platform. So we're seeing a lot of activity right now, not only in the Bay Area, but also in the Capital Region and in the North State.

Liam Coohill

That's great to hear. There's just one last one for me would be on the small business borrowers. Have you seen--what have you been seeing from them recently in terms of their response to the broader economic environment and uncertainty?

James Beckwith

Well, we touched that, I think, through our SBA book, and that's tough. Frankly, that's tough. They have a high cost of borrowing given the spreads that are on those loans that they have, and given where the yield curve is, that's hard. A lot of them--their businesses are fundamentally driven by selling through, I'm going to say fulfillment platforms, which are fed in a lot of cases by product from not necessarily generated in the United States. So we know that there's issues there. Now,

historically, we've had, always had high degree of reserves against that book. So nothing is surprising us at all.

Heather Luck

Yeah, we're at almost 9% per reserve for that book, so.

James Beckwith

Yeah, but that is, I was going to say that's really principally how we touch small business. So, in terms of some of the ag business we have seen, I think time will tell what that's going to look like on the rice side, on the walnut side, on the almond side, there has been some rebounding on the walnut side. We don't have that big of a book.

And so, we'll see what impact tariffs are going to have on this, and you just don't know how it's going to work out. And I know that that means that everybody's in a wait-and-see mode, right? We're not trying to talk ourselves into a recession. Although there are some media outlets that are trying to talk everybody into recession that we--the only thing we can do is choose not to listen to them.

Liam Coohill

Yeah, that's true. Thank you guys so much for the color on your markets and on some of the subcategories. I'll step back.

James Beckwith

You bet. Thank you, Liam.

CONCLUSION

Operator

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. Five Star Bancorp is expected to continue on our current path of growth as we execute on 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 successes we share with our employees and shareholders. These successes include numerous ratings and awards.

In the first quarter of 2025, Five Star Bancorp was ranked third on the S&P Global Market Intelligence list of best performing community banks in the nation, among banks with assets between \$3 billion and \$10 billion. The company was also listed among the Sacramento Business Journal's fastest growing banks by deposits in the Sacramento area. And bank executives were honored among the Sacramento Business Journal's Power 100 list, Women Who Mean Business, and champions of D, E, and I, as well as the San Francisco Business Times' 40 Under 40 and Newsmaker 100 list.

The company has also an employee named as the Reading Chamber of Commerce Ambassador of the Year. Five Star Bancorp continues to be a driving force for economic development, a trusted resource for our customers and committed advocate for our community.

We look forward to speaking with you again in July to discuss the earnings for the second quarter of 2025. 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 your lines.