

Five Star Bancorp

Fourth Quarter and Year-End Earnings Webcast

Tuesday, January 27, 2026, 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 Fourth Quarter and Year-End 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, 2024, and quarterly reports on Form 10-Q for the 3 months ended March 31, 2025, June 30, 2025, and September 30, 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 measures 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 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 the fourth quarter and year ended December 31, 2025. These results were released yesterday and are available on our website, fivestarbancorp.com, under the Investor Relations section. Joining me today is Heather Luck, Executive Vice President and Chief Financial Officer.

2025 was another outstanding year of achievement underpinned by exceptional growth across all of the markets we serve and consistent strong financial performance. During 2025, we expanded our footprint in the San Francisco Bay Area through the opening of our Walnut Creek office. We expanded our agribusiness vertical, and we also added 10 more seasoned business development professionals to facilitate ongoing organic growth.

In 2025, Five Star Bank achieved year-over-year growth in total loans held for investments of 15%, total deposit growth of 18%, net income growth of 35% and an increase in earnings per share of 28% to \$2.90 a share. Financial highlights for the fourth quarter include \$17.6 million in net income, earnings per share of \$0.83, return on average assets of 1.50% and return on average equity of 15.97%. Our net interest margin expanded 10 basis points to 3.66% and our total cost of deposits declined by 21 basis points to 2.23%.

Our efficiency ratio was 40.62% for the fourth quarter. Financial highlights for the year included a \$61.6 million of net income, earnings per share of \$2.90, return on average assets of 1.41% and return on average equity of 14.74%. Our net interest margin expanded by 23 basis points to 3.55% and our cost of total deposits declined 16 basis points to 2.40%. Our efficiency ratio was 41.03% for the year.

In the fourth quarter, we saw continued balance sheet growth. Loans held for investment grew by \$187.7 million or 19% on an annualized basis and total deposits increased by \$97.6 million or 10% on an annualized basis. Over the course of the year, we experienced outstanding balance sheet growth. Loans held for investment grew by \$542.2 million or 15% and total deposits increased by \$643.1 million or 18%. We successfully reduced our balance of wholesale deposits by \$95 million or 17% in 2025, and we grew our balance of non-wholesale deposits by \$738.1 million or 25%.

Our asset quality continues to remain strong with non-performing loans representing only 8 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 and year. Our strong financial performance and dedication to delivering shareholder value drove an increase to our cash dividend of \$0.05 per share for a total dividend of \$0.25 per share for the quarter. This is the first increase in the dividend since April 2023. The dividend is payable to the company's shareholders of record as of February 2nd, 2026, and is expected to be paid on February 9th, 2026.

Our total assets increased during the fourth quarter and full year by \$113.1 million and \$701.6 million, respectively. This growth was largely driven by loan growth within the commercial real estate portfolio, which increased by \$161.4 million in the fourth quarter and \$448.5 million in the year. Our loan pipeline remains strong. Our prudent underwriting standards, comprehensive loan monitoring and focus on relationship-driven lending have contributed to maintaining the strong quality of our loans.

As a result, we have a very low volume of non-performing loans despite an increase of \$1.0 million during the fourth quarter related to two separate faith-based real estate loans entering non-performing status. We recorded a provision of \$2.8 million for credit losses during the fourth quarter, primarily related to loan growth for the total provision of credit losses of \$9.7 million for the year ended December 31, 2025. Growth in our total liabilities during the fourth quarter and full year was a result of growth in interest-bearing and non-interest-bearing deposits related to both new accounts and inflows from the existing customer base.

Non-wholesale deposits increased \$139.1 million during the quarter and \$738.1 million during the year. Wholesale deposits decreased by \$41.4 million during the quarter and \$95 million during the year. Total noninterest-bearing deposits accounted for 26% of total deposits. Approximately 61% of our deposit relationships totaled more than \$5 million. These deposits have a long tenure with the bank. With an average of eight years, we believe our deposit portfolio to be a stable funding base for future growth.

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

Heather Luck

Thank you, James, and hello, everyone. Net interest income increased \$2.7 million or 7% from the previous quarter, primarily due to a \$1.8 million increase in loan interest income driven by new loan production and a \$1.1 million decrease in interest expense. The decline in interest

expense is primarily related to a 21-basis point decline in the average cost of deposits quarter-over-quarter driven primarily by two rate cuts occurring in the three months ended December 31st, 2025.

The average balance of deposits increased by 4% during the three months ended December 31st, 2025, but the substantial decrease in the cost associated with deposits led to a net reduction in total interest expense. Net interest income increased by \$32.2 million or 27% from 2024, primarily due to a \$35.9 million increase in loan interest income driven by new loan production at higher rates, contributing to overall improvement in the average yield on loans.

This was partially offset by a \$10 million increase in deposit interest expense related to a 19% increase in the average balance of deposits during the year. The average cost of deposits was 2.40% for the year ended December 31st, 2025, a decrease of 16 basis points compared to the prior year, which helped to moderate the increase in interest expense related to deposit growth.

Non-interest income decreased to \$1.4 million in the fourth quarter from \$2 million in the previous quarter, primarily due to an overall decline in earnings related to equity investments and venture-backed funds during the three months ended December 31st, 2025, compared to the prior quarter.

Non-interest income increased by \$100,000 in 2025, primarily due to an increase from fees from swap referrals and income from credit card activity, an improvement in earnings related to equity investments and venture-backed funds and an increase on earnings on bank-owned life insurance related to the purchase of additional policies.

These gains were almost entirely offset by a lower gain on sale of loans, which declined due to the strategic reduction in origination of loans held for sale during the year. For the three months ended December 31st, 2025, there was a \$1.1 million increase in non-interest expense. And for the full year ending that date, the increase amounted to \$10.5 million.

The primary driver for higher non-interest expense was related to an increase in headcount, leading to elevated salaries and benefits. Provision for income taxes for the quarter ended December 31, 2025, decreased by \$500,000 or 9% as compared to the prior quarter due to a \$900,000 benefit recorded during the fourth – recorded during the fourth quarter related to the purchase of transferable tax credits.

This was partially offset by an increase in pretax income recognized during the quarter and an adjustment related to the true-up of amortization expense related to low-income housing tax credits during the 3 months ended December 31, 2025. The provision for income taxes increased by 3.1 million or 16% for the year ended December 31, 2025, as compared to the prior year due to a 29% increase in pretax income recognized during the year. This is partially offset by a \$900,000 benefit recorded during the quarter related to the purchase of tax credits. And now I will hand it back to James for closing remarks. James?

James Beckwith

Thank you, Heather. 2025 was an outstanding year of achievement for Five Star Bank. As we not only celebrated our 25th year in business, but also reflected on a quarter century of growth, innovation and commitment to our core values. Since our founding, Five Star Bank has steadily evolved from a small [inaudible 0:13:48] entrepreneurs into a 4.8 billion financial institution with nine branches and over 230 employees.

This remarkable expansion is a testament to our enduring dedication to authentic relationship-based service, a philosophy that places the needs of our customers, the well-being of our employees and communities and the interest of shareholders at the heart of everything we do. Throughout these 25 years, Five Star Bank has consistently prioritized building deep, meaningful relations with our clients, understanding that true success comes from trust, transparency and mutual benefit.

Our employees play a crucial role in this journey, embodying our values through personalized service, expert financial guidance and active participation in the community initiatives. We take immense pride of our achievements, which include not only financial growth, but also positive impacts on the local economies, support for small business and contributions to the social and environmental causes.

Looking ahead to 2026 and beyond, our vision remains steadfast. We are committed to further developing all of our business verticals while expanding our reach into new markets. It is increasingly -- in an increasingly digital world, we recognize the importance of blending cost-cutting technology with the human touch that defines Five Star Bank's high-tech and high-touch approach to business.

As we move forward, Five Star Bank will remain focused on innovation and service excellence. We are excited about the opportunities ahead and are confident of our proven strategy will drive continued growth, strength in client relations and creating lasting value for our shareholders. 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] And the first question today will come from David Feaster with Raymond James. Please go ahead.

David Feaster

Hi. Good morning, everybody.

James Beckwith

Hi, David. How are you doing?

David Feaster

I am great. I wanted to start on the origination side. You saw a real nice acceleration in originations this quarter. I just wanted to -- I was hoping you could give us maybe a sense of some of the drivers behind it? I know it's hard to peg, but how much of that growth is from new hires versus increasing demand? And then just any thoughts on how pipelines are shaping up heading into the new year and where you're seeing opportunity for growth?

James Beckwith

Sure. We saw all of our verticals perform extremely well in the fourth quarter. Our ag -- our food and ag group did extremely well in terms of on-boarding some clients whose lending cycle, if you will is kind of gears up during the fourth quarter, especially in some of our nut tree processing clients who are paying growers. So that was a significant component. So it's seasonal in nature.

But also some of the deals that we did down in the Bay Area, I think we had a fair amount of volume that came out of that. But across all of our geographies and our verticals, it was a very big quarter for loan production. Now as we enter into 2026, the pipeline looks good. It's been higher, it's been lower, but it looks good as we roll into 2026, David.

David Feaster

Okay. That's great. And maybe just switching to the other side of the balance sheet, your deposit growth has been phenomenal. You've done a great job driving core deposit growth and reducing the wholesale funding and significantly improved your deposit costs. I just wanted to -- I was hoping you could touch on, first, the competitive landscape for deposits from your perspective today? And then just how you think about core deposit growth going forward and your ability to continue to fund your outsized loan growth with core deposits?

James Beckwith

Sure. Well, the markets that we're in right now are very competitive. For the best clients that -- I'm going to see the Tier 1 clients, if you will, or prospects, it's a very competitive space. And it doesn't really matter what geography you're in. It's just competitive. And so, we don't expect that to change. But our secret sauce, David, is the fact that we've got 42 business development folks that -- that's their job is to bring in core deposit and core relationships into the bank. We feel that's our competitive advantage.

We brought some folks in down in Orange County that are deposit gatherers. They're starting to see a fair amount of traction down there. We've got folks that are in the Bay Area that are primarily deposit -- have a deposit orientation, they're doing well. But we also saw great growth in North State in our Redding office and also our Yuba City office.

So, we're excited about what that might mean for 2026. We seem to be doing fine so far. So, we expect that we'll be able to continue to execute. Don't think we're going to be able to do what we did in 2026, what we did in 2025, David. That's just -- that's asking a lot. And a lot of things are in our way. So, we're projecting on both sides of the balance sheet, 10% growth as we roll into 2026.

If we can achieve that, which is really quite substantial, we're happy with that. A couple of drivers of that is that on the loan side, we expect a fair amount of payoffs. We saw a fair amount of payoffs in the fourth quarter. And we expect the same or similar that we're going to see in 2026. So, we're going to have to run that much harder.

And then on the deposit side, we're trying to get rid of all of our wholesale -- excuse me, our broker deposits. And that's 175 million as we ended the year. And so, in order to grow total deposits by 10%, I think what is it, Sarah, we're going to have to grow by 13% or so percent? So, we're going to have to hustle in order to achieve those types of goals for us as we enter into 2026.

David Feaster

Okay. And one of the things that supported your growth has really been your hiring efforts. I mean you talked about adding 10 BDOs this year. You've had a lot of success. I got to imagine what you guys are doing is resonating in the market. I mean it's -- you guys are putting up pretty -- it's just -- it's fun growing like you guys are, and I know you're getting recognized. I'm just curious, there's still a lot of disruption across your footprint in Northern California. How do you think about your ability to continue to recruit bankers and BDOs? And are there any markets or segments that you're notably focused on or expanding into?

James Beckwith

Sure. I think we did a nice job with the East Bay and our Walnut Creek opening. It's a nice office. We expect that to grow. But when you consider about what we're doing down in the Bay Area, we're not yet on the Peninsula or South Bay. So that certainly would be an area from a geographical perspective that's of interest to us, highly competitive in terms of getting qualified bankers to come work for you. And frankly, a lot of those salaries have been bid up. And it's not a bad time to be a business development and a seasoned business development person in the Bay Area. Let me tell you that much.

David Feaster

That's great. Thanks, everybody.

James Beckwith

Thank you, David.

Operator

The next question will come from Andrew Terrell with Stephens. Please go ahead.

Andrew Terrell

Hi. Good morning, James. Good morning, Heather.

James Beckwith

Hi. Good morning, Andrew.

Andrew Terrell

Maybe if I could just start on expenses, Heather, hoping you could help us out with just kind of thoughts on the expense run rate into the first quarter. And if I look back at 2025, you guys grew, I think it was around high teens on overall expenses. You obviously had a pretty tremendous amount of revenue growth as well throughout the year. But just as we look out into 2026, any thoughts on kind of where the expense growth head? Should it moderate from here or stay elevated as you guys keep hiring and continue making investments?

Heather Luck

Yes, sure. So, from a dollars perspective for Q1, you could probably add about \$300,000 to that expense amount. We do have plans that have brought on a few new people into our group. So that will help support that. But if you look at the full year for 2026, I think our target for a range on expenses as a percent of total assets or average assets, should be like 1.48% to 1.55% in that range. And we believe that, that will help accommodate growth as well as regular maintenance on there, too. So I think that range for 2026 would be 148% to 155%.

James Beckwith

I think, Heather, what we end the quarter at or in the year at -- we're right at 1.50%?

Heather Luck

Yes, the quarter was at 1.50% average assets.

James Beckwith

That's something that we think about constantly, Andrew, in just terms of a percentage to total assets. And it's not a bad guide as we continue to grow.

Andrew Terrell

Yes. Okay. Yes, you guys have stayed pretty consistent in that band we've talked about for a while. Okay. James, I wanted to get a sense from you just on competitive dynamics on rate competition on loans specifically. I know you guys do have somewhat of a repricing story as we move forward. Just wanted to get a sense on where new originations are coming at -- coming on that from a yield standpoint. We've heard from several of your peers, just the competition they're seeing on the loan side is impacting spreads. I'm just curious what you're seeing?

James Beckwith

Yes. I think we're seeing the same thing, but we have the -- an ability to generate new credit within our MHC and RV efforts that usually will allow us to get our normal spreads, which could be anywhere between 275 to 350 over the five years. So we have a competitive advantage from that perspective because it's just not a lot of players in that market. But if we're going toe to toe with folks on an owner-occupied real estate and line of credit for an operating entity, it can be very competitive.

And you could see spreads as low as 200 over 205 over and at prime or prime minus 25 even for their operating line. So it's constant. There's a lot of folks that are interested in the -- certainly in the Bay Area that have come in. And so we've -- it's a highly competitive environment and not just in the Bay Area, but up and down the Valley, the capital region. So we recognize this there is pressure.

We do have a lot of refinancings coming up in '26 and those fundamentally from everything that we did in '21 since we have, for the most part our MHC and RV and probably outside of that too, anything with the CRE patina to it, it's a five-year reset, usually a 25- or 30-year ammo due in 10 with one reset after the 60th month. So big years of origination, you're going to have some resets happen.

We don't expect all those loans to stay with us. A lot of those operators are going to take their loans to agency because they can get a better deal, lose the personal guarantees, take cash out. So we just -- it's going to have an impact to us. So a lot of those credits were four handles in terms of interest rates. So we're going to see a lot of that happen in 2026. Hopefully, we can keep up to half of them, okay? But they're going to reset and we'll just see how that goes. We're actively -- I'm going to say, because they have other credits with it. We're actively in those discussions about what they're going to do when their loans reset.

Andrew Terrell

Yes. Got it. Okay. I appreciate all the color there. And if I could just ask one more. You leveraged capital a little bit this quarter with the strong growth. I think your CET1 down around 10.5% now, maybe 10.6%. But I just wanted to get your sense on comfortability with capital as it stands today and kind of the outlook. I'm sure organic earnings can fund kind of 10% growth rate. But just wanted to get your thoughts on the current position and kind of capital expectations? Thanks.

James Beckwith

Sure. We had outside growth in 2025. So you saw a decline in our capital ratios. But as we go forward, we believe that we'll be able to maintain our capital positions with a 10% growth. We do anything like 15% growth. I think that's another matter. But I think we like where we are. We need to be highly profitable so we can fund our growth. And I think we -- we'll be able to do that in terms of what we see in front of us in 2026 from a profitability perspective. So we'll just see how that goes, Andrew. If we have outsized growth that's another conversation.

Heather Luck

Yes. If we stick to that 10% growth rate throughout our entire forecast period, we usually budget on a five-year forecast. We are able to sustain ourselves and fund ourselves through that even with the elevated dividend that we just announced recently. But if we did grow like 15% to 20%, that clearly will accelerate capital needs, and we won't be able to self-generate. So we would likely have to have a capital event sometime in '27 or '28, depending on how fast that growth happens.

Andrew Terrell

Great. Thanks for taking the questions.

James Beckwith

Thank you, Andrew.

Operator

The next question will come from Gary Tenner with DA Davidson. Please go ahead.

Gary Tenner

Thanks, good morning. I just wanted to dig a little bit into kind of the efficiency ratio. I know you talked about the expense-to-asset ratio earlier in the call. But as I'm thinking about the margin expansion kind of outlook, thinking that NII should run somewhat ahead of your loan growth outlook and balance sheet outlook, it seems like it will be kind of in line with the expense side of things. So I'm just wondering, with your efficiency ratio at 40%, down a little bit from a year ago, is there any -- is there much more room to push that lower? Or is it really just making \$1 on every \$0.40 from here?

James Beckwith

Well, I think it's probably more the latter. And we have -- because we're constantly investing in our business. We're constantly growing our front end, adding more business people, and they're expensive. And we're constantly throwing coal into the boiler and trying to maintain our growth rates. As we get bigger and bigger, doing 10% is harder to do, because the numbers are just bigger. But -- so we think that constantly having some form, Gary, of investment in the business in the form of new front-end people, which has a rippling effect across our cost structure because you hired some more biz dev folks, you've got to have some backup from a depository perspective.

And then, of course, you got to have a few more lenders that will be able to underwrite their business. So that's how we think about it. It really starts with the folks that are on the front end. And we're not backing off. If we see a team that we think we can get, Gary, we're going to do it. And I think that's evidenced in what we've been able to do over the last three, four years. So we're reinvesting. We're constantly reinvesting in our business. Imagine -- I think our profitability would be a lot higher if we didn't do that. But this is really a long-term play for our shareholders. And so we're a long-term organic growth shop, and we want to maintain that focus.

Gary Tenner

Appreciate that, James. And then just as it relates to kind of the near-term outlook, the ability to generate that kind of 10% threshold of loan growth or really both sides of the balance sheet, is that -- do you have the headcount to accommodate that or to accomplish that today? Or is there any assumption that there's ads early in the year that help generate some of that growth? Or is it basically kind of -- is it based on the current team, I guess, is the question?

James Beckwith

Kind of based on the current team. Wouldn't you say, Heather?

Heather Luck

Yes, I think so. We really have -- if you think about it, we've -- in the Bay Area specifically, we've been hiring in tranches. And so it started in 2023, but we continue to add headcount as we go. So we have new hires. We hired 12 BDOs in 2025, and it does take some time to really understand our system, our platforms, and our processes to really get their feet under themselves to run hard. And so they'll come online. But really, I think 10% growth is achievable with the current team that we have in place.

Gary Tenner

Yes. Got it. Thank you.

James Beckwith

Thank you.

Conclusion**Operator**

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

James Beckwith

Thank you. We are proud to have achieved another quarter and year of significant organic growth, built on a strong 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. We will continue to answer the call of businesses and organizations who desire a time-honored banking partner through the geographies and verticals we serve.

Five Star Bank is here to stay. It is our privilege 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 April to discuss the earnings for the first quarter of 2026. 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.