

Five Star Bancorp

2024 Quarterly and Annual Results Webcast

January 28, 2025 at 1:00 p.m. Eastern

CORPORATE PARTICIPANTS

James Beckwith - *President and Chief Executive Officer*

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

PRESENTATION

Operator

Welcome to 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. 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 star and then one on your telephone keypad. To withdraw your question, you may press star then two.

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, 2023, and quarterly reports on Form 10-Q for the three months ended March 31, 2024, June 30, 2024 and September 30, 2024, 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, 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. Please also note, today's event is being recorded.

At this time, I'd like to turn the floor 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, 2024. 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.

2024 was another outstanding year of achievement, underpinned by successful continuation of our San Francisco market expansion. In addition to opening a full service office in San Francisco's financial district on September 3, 2024, we added 18 more seasoned professionals during 2024 to support the expansion.

We also continue to add new core deposit accounts and relationships across our full footprint, as seen in the growth of non-wholesale deposits of \$331.3 million during the year ended December 31, 2024. In the fourth quarter, we maintained our ability to conservatively underwrite, as evidenced by our 49.92% LTV on commercial real estate, manage expenses with our 41.21% efficiency ratio and deliver value to shareholders with our \$0.20 per share dividend for each quarter of 2024. Additionally, in the fourth quarter, we were able to maintain our net interest margin, which decreased by only one basis point, and grow our total loans, assets and deposits over prior periods.

Loans held for investment increased during the quarter by \$72.1 million or 2.08% from the prior quarter, and increased \$451 million or 14.63% year-over-year. Average loan yields improved each quarter in both 2023 and 2024. Consumer and other concentrations of the loan portfolio increased most significantly year-over-year from 1.2% as of December 31, 2023 to 7.9% as of December 31, 2024 due to purchased consumer loans.

The commercial real estate concentration of the real estate portfolio decreased year-over-year from 86.76% as of December 31, 2023 to 80.75% as of December 31, 2024. Our commercial real estate concentration is differentiated by diversification within the portfolio and our ability to conservatively underwrite, as evidenced by a 49.92% LTV.

Our pipeline continues to remain solid at the end of 2024 within the verticals in which we have historically operated. Loan originations during the quarter were \$263.3 million, while payoffs and paydowns were \$72.5 million and \$118.7 million, respectively. During 2024, loan originations were \$1.1 billion and payoffs and paydowns were \$263 million and \$423 million, respectively.

Asset quality continues to remain strong. Non-performing loans remained at 0.05% of loans held for investment at period end as compared to 0.05% at the end of the prior quarter and 0.06% at the end of the prior year.

As of December 31, 2024, the allowance for credit losses totaled \$37.8 million. We recorded a \$1.3 million provision for credit losses during the fourth quarter, primarily related to loan growth, for a total provision for credit losses of \$7 million for the year ended December 31, 2024. The ratio of allowance for credit losses to total loans held for investment was 1.07% at year end.

Loans designated as substandard or doubtful totaled \$2.6 million at the end of 2024, representing an increase of approximately \$0.8 million from the prior quarter and an increase of approximately \$0.7 million from the previous year end. During the fourth quarter, deposits increased by \$158 million or 4.65%.

During 2024, deposits increased by \$531.1 million or 17.55%. The year-over-year increase was largely driven by increases in money market, time and non-interest-bearing demand deposits, partially offset by decreases in interest-bearing demand and savings deposits.

Non-interest-bearing deposits as a percent of total deposits decreased to 25.93% at the end of the fourth quarter, from 26.67% at the end of the prior quarter and 27.46% at the end of the prior year. As noted earlier, we are pleased that we had net non-wholesale deposit inflows for the year ended December 31, 2024. 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 on our deposit composition, I want to highlight that the deposit relationships totaling greater than \$5 million constituted 61.13% of our total deposits. And the average age on these accounts was approximately 9.28 years as of December 31, 2024.

Local agency deposits accounted for 23% of deposits as of December 31, 2024. Overall, deposit balances have increased when compared to the prior quarter. Wholesale deposits, which we defined as broker deposits and public time deposits, increased by \$150 million or 36.59% quarter-over-quarter. Non-wholesale deposits increased by \$8 million or 0.27%, driven by a \$15.7 million increase in non-interest-bearing deposits, partially offset by a \$7.7 million decrease in non-wholesale-interest-bearing

deposits compared to the prior quarter. Cost of total deposits was 258 basis points during the fourth quarter of 2024 and 255 basis points for the year.

We continue to be well capitalized, with all capital ratios well above regulatory thresholds for the quarter and the year. Our common equity Tier 1 ratio increased from 10.93% to 11.2% between September 30, 2024 and December 31, 2024.

On January 16, 2025, our Board declared a cash dividend of \$0.20 per share on the company's common voting stock expected to be paid on February 10, 2025 to shareholders of record as of February 3, 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 \$13.3 million. Return on average assets was 1.31%, and return on average equity was 13.48%. Net income for the year was \$45.7 million. Return on average assets was 1.23%, and return on average equity was 12.72%.

Average loan yield for the quarter was 6.01%, representing an increase of 3 basis points over the prior quarter. Average yield on loans for 2024 was 5.89%, representing an increase of 37 basis points over 2023.

Our net interest margin was 3.36% for the quarter, while net interest margin for the prior quarter was 3.37%. Our net interest margin was 3.32% for the year, while net interest margin for the prior year was 3.42%. As a result of changes in interest rates and other factors, our other comprehensive loss was \$2.6 million during the three months ended December 31, 2024, as unrealized losses, net of tax effect, increased on available-for-sale debt securities from \$9.7 million as of September 30, 2024 to \$12.4 million as of December 31, 2024.

Non-interest income increased to \$1.7 million in the fourth quarter, from \$1.4 million in the previous quarter, due primarily to income received on equity investments in venture-backed funds during the three months ended December 31, 2024, combined with a loss from equity investments in venture-backed funds during the three months ended September 30, 2024.

Non-interest income decreased to \$6.5 million in 2024, from \$7.5 million in 2023, due primarily to lower income received on equity investments in venture-backed funds during the year. Non-interest expense increased to \$14.5 million in the fourth quarter, from \$13.8 million in the previous quarter, due primarily to increased commissions related to higher loan production and increased advertising and promotional expenses.

Non-interest expense increased from \$47.8 million in 2023 to \$54.5 million in 2024, due primarily to an increase in salaries and employee benefits related to our expansion in the San Francisco Bay Area.

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 fourth quarter and year end results. Five Star Bank has built a reputation on trust, speed to serve, and certainty of execution, which support our clients' success. Our financial performance is the result of the 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 we serve, including our shareholders.

Looking to 2025, we are confident in the company's resilience in any environment 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 may have.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, those dialed in may press star and one on your telephone keypad. If you are using a speakerphone, we do ask that you please pick up the handset prior to pressing the keys to ensure the best sound quality. To withdraw your question, you may press star and two. Questions will be taken in the order in which they're received.

Our first question today comes from Will Jones from KBW. Please go ahead with your question.

Will Jones

Yes, hey, thanks for the questions. I'm subbing in for Woody Lay this afternoon. I just wanted to start on deposits. Another quarter of really strong growth, though I know it was really kind of a largely wholesale fund quarter. Just hoping you could give us a little bit of the flavor for tender deposits that you brought on, whether it be duration or cost of the incremental deposits this quarter.

James Beckwith

Sure. As we pointed out, and as you referenced, for the most part our deposit growth was on the wholesale side. And what we've chosen to do is to remain pretty short on those certificates of deposits and we've kind of set up, Will, if you can imagine this, kind of a rolling every three months repricing of those deposits when they come due. They're very short-term CDs. And so we think with that structure, with our wholesale deposits, which are CDs, all of them are CDs, Heather, right?

Heather Luck

Yes.

James Beckwith

We think that we'll be able to take advantage of any rate cuts that may occur in 2025, just like we did in the fourth quarter. So that's really kind of how they're set up, Will. And the cost of those deposits, they're probably sitting right on top of treasuries when we did them.

Heather Luck

Yes. So right now the weighted average rate for that portfolio, and there's about \$560 million in there, is 4.59%. And they'll reprice, as James noted, on a three-month basis.

James Beckwith

Right.

Will Jones

Okay, great. That is all very helpful. And then as you just kind of look into 2025 and you think about

your growth plans, how are you thinking about the ability to generate organic core deposits? I feel like there's floating narrative out there that as the industry as a whole kind of reignites itself into a state of growth, that the competition for deposits is only going to increase into the year. So if you can just give me any commentary on how maybe you view the competitive landscape unfolding in 2025? And then what is the ultimate outlook for the ability to grow core deposits?

James Beckwith

Thank you. Sure. This business is always very competitive, so we're not necessarily seeing any great changes. We fight it day in and day out in all the markets and the verticals in which we serve. There's nothing that's easy in terms of attraction of core deposits and it is the most challenging aspect of being in commercial banking right now. As we look to 2025 in terms of our growth, we're targeting about 8% annual growth rate. That might be kind of chunky, but we think that that's probably the best sense of what it might be.

Will Jones

Yes. Okay. That's great. And then just lastly for me. I just wanted to touch on expenses. I know you guys kind of bear one of the best efficiency ratios of the banking.

James Beckwith

Thank you for noticing. Well, thank you for noticing.

Will Jones

It's hard to miss it. But at the same time, you guys are a growth company and operating leverage has been a little bit more challenging to come by, just as you go through this investment period. But as you look to '25 and maybe the margin has more of an upward slope to it and you kind of look behind and see that a lion's share of the investment in San Francisco has been made and is behind you, do you feel like operating leverage could be on the table for 2025?

James Beckwith

Sure. We do see some slight margin expansion in our future. And I think that most of that will drop to the bottom line. We have invested, to your point, in personnel costs and acquisition of personnel costs, which we may not see that to the same degree in 2025. We do expect that group of people, of which number 28 people right now, to really help us drive growth. But we're excited about growth across our entire platform. As I previously mentioned, we think that we can grow 8% on deposits. We also think we can grow loans by 8%. So that's kind of what we're targeting.

We do see some operating leverage for us and some of the investments that we made last year, I think they're beginning to pay off. We did invest in some new technology, which we're very excited about and coming to fruition this year. So, yes, I think your point is well taken. We do expect to have slightly increased margins and with growth, and given where those earning assets will be put on in terms of the yield, we're excited about our future.

Will Jones

Yes, okay. That's great. Well, nice year, guys. Thank you for the time.

James Beckwith

Thanks so much.

Heather Luck

Thank you.

Operator

Our next question comes from David Feaster from Raymond James. Please go ahead with your question.

David Feaster

Good morning, everybody.

James Beckwith

Hey, good morning, David. How are you?

David Feaster

Doing great, doing great. I just wanted to follow up on that loan growth commentary a bit. Look, the increase in originations is very encouraging. How much do you think the increase in originations is a function of improving demand versus market share gains? And then on the other side of the coin, payoffs and paydowns increased too, curious some of the trends you're seeing there. Is that asset sales, competitive dynamics where others might be refinancing debt elsewhere? Just kind of curious some of the dynamics that you're seeing underlying that loan growth.

James Beckwith

Yes, let's just talk about origination side and then we've got some commentary on the payoffs and whatnot. On the origination side, where rates are right now, it's not the most favorable environment. The 5-year and the 10-year have ticked up over the last part of the year. And in terms of one of our businesses, in our Mobile Home Park business, David, it's not the greatest environment. But I will say there's still activity happening and so we're excited about that.

I think our loan growth—well, I don't think. Our loan growth is really driven by, let me use a fishing analogy, how many lines we have in the water. We've got a lot of people that are working that are in business development right now, we've got 31 of them, and given that cadre of professionals that are constantly looking for new relationships and strong relationships while taking care of their existing relationships, we think we have a competitive advantage in terms of growth. And so I think it's really a function of how active we are, how many feet we have on the street.

The environment for growth itself, given the interest rate environment, it's okay. Obviously, people are excited about what's going on in terms of what our President is doing and his administration. There may be some aspect of, what do we call it Heather, animal spirits, that's happening. But on all aspects, it's positive.

Now on the payoff side, David, part of our business is what happens in a lot of our businesses is that folks will take their debt structures they have on their commercial real estate and take them to agency or life companies or some CMBS market. That's okay. That's kind of a planned payoff. And so we saw a fair amount of that in the fourth quarter. We'll probably see a little bit of that in the first quarter here, but that's a natural progression in terms of how our commercial real estate portfolio works. And so that just means we have to run a little harder, be more active in order to stay ahead of the game. But we do expect those things to happen year in and year out.

David Feaster

Okay. That's great color. And maybe following up on your commentary, looking at the breakdown, your point on manufactured housing, maybe it's not the greatest environment right now, where do you expect growth to be driven from? It was very diversified this quarter. Do you expect maybe more diversified CRE production going forward, just again as you have more lines in the water, to use your analogy?

James Beckwith

Yes, I think that's a good point, because of the fact that we've got a lot of people down in the Bay Area looking for deals right now and we expect that to be very active. And so year-over-year or two years ago, same time, we expect our originations to be a lot more diversified, to your point. So it's not that the Mobile Home Park and RV Park activity is dead. In fact, it's not. It still represents a big piece of our pipeline. It's just that we brought on some folks that really will add to their diversification of originations, which is all by design.

David Feaster

That's great. And then you just touched on the Bay Area. I was hoping to get a sense on the pulse there. You've been extremely active, making some market share gains, continuing to hire, already brought on a new person in 2025. Could you just talk about the pulse of that market, what you're seeing there, your ability to continue to gain share and just the plans you have for continued expansion there?

James Beckwith

Sure. First of all, it's a great market and there's still an aspect of, I'm going to say, turmoil and certainly repairing given what happened at Silicon Valley Bank and First Republic Bank and some of the mergers that have happened and what happened to even Signature Bank. We're still very excited about that. We're providing a great platform for experienced bankers to come join us, and so our next expansion efforts, from a physical perspective will probably be in the East Bay, most likely in Walnut Creek as we continue to grow. We're always looking to add talented folks and I think what's important to note is that success breeds success and word-of-mouth, because bankers do like to talk, we've created something down there that really has its own momentum right now in terms of business attraction and also talent attraction.

So that's kind of where we're heading from a geographic perspective, David, down there. But we're interested in the entire Bay Area. The Bay Area is a diverse place. You've got the North Bay. You've got San Francisco Proper. You've got the Peninsula. You've got the South Bay. You've got Silicon Valley. You've got East Bay, Oakland, Alameda. You've got Walnut Creek, Concord. All these places are different. They're all their own economic nodes. And in order to play in that space and do it effectively, you've got to get people who are very experienced and know their markets and know the customers and know the industries that are there.

And so that's what we're trying to accomplish down there. And it's exciting. We're not doing this to diminish what we're doing, certainly up in the Capital region or all the way up into the North State. In fact, we've added a couple of people up in Chico that we're excited about. So we continue to grow and develop, and we're always looking for talent, David. We never stop doing that.

David Feaster

That's great. Good point. Thank you.

Operator

Once again, if you would like to ask a question, please press star and one.

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

Andrew Terrell

Hey, good morning, James. Good morning, Heather.

Heather Luck

Good morning.

James Beckwith

Hey, good morning, Andrew.

Andrew Terrell

Just a few questions here. Anything, James, that seasonally impacted the non-wholesale deposits we saw this quarter? Up a little bit less than maybe I was expecting and just wondering if there was any kind of seasonal impact that we should be aware of for the fourth quarter.

James Beckwith

In terms of deposit flows?

Andrew Terrell

Yes, deposit flows, non-wholesale.

James Beckwith

Yes. I think that we saw some, jeez, in the last week, it probably would have a dramatically different result. I think we saw a lot of distributions being made by our commercial customers coming out in the last two weeks of December and the flows were really quite significant, well over \$50 million. And I think that's normal. People are paying out bonuses. A lot of people like to get that done prior to the end of the year for staff, maybe some of the executives are a little bit later. But that's something that we really picked up on and noticed. No relationships went away. It's rather just people distributed their cash, and so that's what we saw. It was very noticeable.

Andrew Terrell

Got it. Okay. Yes, thank you. I appreciate that. And then when I think about the parameters you're putting around loan and deposit growth next year, I think you said both expected around that 8%. Just within those two figures, would you assume any runoff of the wholesale deposits? Essentially implying the kind of non-wholesale deposit could be better than 8%. And then within loan growth, should we expect any BHG purchases throughout 2025 and were there any in this quarter?

James Beckwith

There were some in this quarter, and so big picture, what we're trying to maintain is about a \$300 million book with BHG, which means we have to be active every quarter to fill up what gets paid off. It's very rapid amortization. So we plan to keep the BHG balances around \$300 million. We also plan to keep our wholesale book pretty consistent throughout the whole year. The strategy there is just to keep rolling those CDs.

Heather Luck

And just to put some context around that, James noted, we're going to stay within that \$300 million concentration. So for comparison purposes, in Q4 we only purchased \$17 million of BHG loans for a total as of year-end at \$270 million. That's compared to \$109 million purchased in Q3. So you can kind of see the level of activity, now that we're almost to that level of typical activity that we'll do.

James Beckwith

So no diminishment of our wholesale deposit book.

Andrew Terrell

Got it. Okay. I appreciate it. And then maybe just one more just going back on, I think it was Will's point around the efficiency. If I look at the expense growth this past year, it was, I think, 14% versus 2023 levels. Heather, how should we be thinking about just overall level of expense growth in 2025?

Heather Luck

Yes. As James mentioned earlier, we have been investing in not only the Bay Area, but also Sacramento and the Valley and in the North State and also in back office support too to help support all of the new activity and new customers coming in. So I expect to have, for the first half of the year, to use Q4's expenses as your proxy. I think that that's a good new baseline for where we expect to be for the first half of this year.

Andrew Terrell

Got it. Okay. So pretty similar 4Q into the first half and then maybe we'll reassess them depending on hiring and future investments?

Heather Luck

Correct.

James Beckwith

Correct. I'm glad you brought that question up because we were just talking about that. We're opportunistic, Andrew. If a team becomes available, we're going to jump on it. These folks aren't cheap, as you know.

Andrew Terrell

Yes. Well, you guys have done a great job in remaining opportunistic, so I appreciate it.

James Beckwith

Thank you.

Heather Luck

Thank you.

CONCLUSION**Operator**

And ladies and gentlemen, at this time, we're going to conclude today's question-and-answer session. I'd like to turn the floor back over to management for closing remarks.

James Beckwith

Great. Thank you. Five Star Bancorp is on a continued 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. Five Star Bank consistently execute on client and community-focused initiatives, and 2024 was no exception. We received a Super Premier rating from Findley Reports, an IDC Superior rating and a Bauer Financial rating of five stars. We were also awarded the prestigious 2023 Raymond James Community Bankers Cup. We were among S&P Global Market Intelligence 2023 Top 20 Best Performing Community Banks in the Nation and we are ranked fifth in the 2024 Bank Director Magazine, Best US Banks With Assets Less Than \$5 billion. We also received the Greater Sacramento Economic Council's Sustainability Award, recognizing a company that has supported industry growth in the Greater Sacramento region.

In 2024, our senior leadership was recognized by the Sacramento Business Journal with the C-Suite Award, a Women Who Mean Business honor, a 40 Under 40 recognition and placement on the Power

100 list. Our senior leadership was also recognized in the San Francisco Business Times' Newsmaker 100 list, as part of the Independent Community Bankers 40 Under 40 Emerging Community Bankers, among the Association of Latino Professionals for America's Top 50 Most Powerful Latinas, and with a National Association of Women Business Owners' Sacramento Valley Outstanding Women Leaders' Executive Woman Award.

Being recognized as community leaders ensures Five Star Bank remains top of mind in the markets we serve, as we continue to build out our market presence. I am humbled and proud of our team's accomplishment and look forward to the future.

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

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.