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DELTA REPORT

10-Q

ALRS - ALERUS FINANCIAL CORP

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	6486
CHANGES	225
DELETIONS	5212
ADDITIONS	1049

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION13 OR 15(d)OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2024 September 30, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION13 OR 15(d)OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-39036

ALERUS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**45-0375407**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Demers Avenue	
Grand Forks, ND	58201
(Address of principal executive offices)	(Zip Code)
401 Demers Avenue	
Grand Forks, ND	**58201**
(Address of principal executive offices)	(Zip Code)

((701) 701 795-) 795-3200 3200

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Trading symbol	Trading symbol	Name of each exchange on which registered
Common Stock, par value $1.00 per share	ALRS	ALRS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 12b-2 of the Exchange Act.

Large accelerated filer ☐☐	Accelerated filer ☒☒	Non-accelerated filer ☐☐	Smaller reporting company ☐
			Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 12b-2 of the Act). Yes ☐ No ☒☒

The number of shares of the registrant's common stock outstanding at August 5, 2024 October 29, 2024 was 19,777,796. 25,338,280.

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Alerus Financial Corporation and Subsidiaries

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PART1. FINANCIAL INFORMATION

Item1- Consolidated Financial Statements

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	June 30,	December 31,	September 30,	December 31,
(dollars in thousands, except share and per share data)	2024	2023	2024	2023
Assets	(Unaudited)			
Cash and cash equivalents	$ 438,141	$ 129,893	$ 65,975	$ 129,893
Investment securities				
Trading	2,868	—	2,708	—
Available-for-sale, at fair value (amortized cost of $561,960 and $584,754, respectively)	459,345	486,736		
Held-to-maturity, at amortized cost (fair value of $243,689 and $258,617, respectively, with an allowance for credit losses on investments of $151 and $213, respectively)	286,532	299,515		
Available-for-sale, at fair value (amortized cost of $549,122 and $584,754, respectively)			466,003	486,736
Held-to-maturity, at amortized cost (fair value of $249,862 and $258,617, respectively, with an allowance for credit losses on investments of $137 and $213, respectively)			281,913	299,515
Loans held for sale	38,158	11,497	13,487	11,497
Loans	2,915,792	2,759,583	3,032,343	2,759,583
Allowance for credit losses on loans	(38,332)	(35,843)	(39,142)	(35,843)
Net loans	2,877,460	2,723,740	2,993,201	2,723,740
Land, premises and equipment, net	17,328	17,940	18,790	17,940
Operating lease right-of-use assets	4,871	5,436	9,268	5,436
Accrued interest receivable	16,877	15,700	16,469	15,700
Bank-owned life insurance	35,508	33,236	35,793	33,236
Goodwill	46,783	46,783	46,783	46,783
Other intangible assets, net	14,510	17,158	13,186	17,158
Servicing rights	1,963	2,052	1,874	2,052
Deferred income taxes, net	35,732	34,595	33,054	34,595
Other assets	82,547	83,432	86,136	83,432
Total assets	$ 4,358,623	$ 3,907,713	$ 4,084,640	$ 3,907,713
Liabilities and Stockholders' Equity				
Liabilities				
Deposits				
Noninterest-bearing	$ 701,428	$ 728,082	$ 657,547	$ 728,082
Interest-bearing	2,597,147	2,367,529	2,666,003	2,367,529
Total deposits	3,298,575	3,095,611	3,323,550	3,095,611
Short-term borrowings	555,000	314,170	244,700	314,170
Long-term debt	59,013	58,956	59,041	58,956
Operating lease liabilities	5,197	5,751	9,643	5,751
Accrued expenses and other liabilities	67,612	64,098	61,220	64,098
Total liabilities	3,985,397	3,538,586	3,698,154	3,538,586
Commitments and contingencies (Note 13)				
Stockholders' equity				
Preferred stock, $1 par value, 2,000,000 shares authorized: 0 issued and outstanding	—	—		

Common stock, $1 par value, 30,000,000 shares authorized: 19,777,796 and 19,734,077 issued and outstanding	19,778	19,734		
Preferred stock, $1 par value, 2,000,000 shares authorized: 0 issued and outstanding			—	—
Common stock, $1 par value, 30,000,000 shares authorized: 19,790,005 and 19,734,077 issued and outstanding			19,790	19,734
Additional paid-in capital	150,857	150,343	151,257	150,343
Retained earnings	277,620	272,705	278,863	272,705
Accumulated other comprehensive income (loss)	(75,029)	(73,655)	(63,424)	(73,655)
Total stockholders' equity	373,226	369,127	386,486	369,127
Total liabilities and stockholders' equity	$ 4,358,623	$ 3,907,713	$ 4,084,640	$ 3,907,713

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine Months Ended September 30,	
(dollars and shares in thousands, except per share data)	2024	2023	2024	2023	2024	2023	2024	2023
Interest Income								
Loans, including fees	$ 41,663	$ 33,267	$ 80,958	$ 64,200	$ 42,593	$ 34,986	$ 123,551	$ 99,187
Investment securities								
Taxable	4,845	6,125	9,413	12,076	4,596	6,146	14,008	18,222
Exempt from federal income taxes	170	186	343	376	169	182	512	558
Other	6,344	762	11,346	1,497	4,854	724	16,200	2,221
Total interest income	53,022	40,340	102,060	78,149	52,212	42,038	154,271	120,188
Interest Expense								
Deposits	21,284	12,678	41,436	21,782	22,285	14,436	63,721	36,218
Short-term borrowings	7,053	4,763	13,042	9,156	6,706	6,528	19,748	15,684
Long-term debt	684	665	1,362	1,319	679	679	2,041	1,999
Total interest expense	29,021	18,106	55,840	32,257	29,670	21,643	85,510	53,901
Net interest income	24,001	22,234	46,220	45,892	22,542	20,395	68,761	66,287
Provision for credit losses	4,489	—	4,489	550	1,661	—	6,150	550
Net interest income after provision for credit losses	19,512	22,234	41,731	45,342	20,881	20,395	62,611	65,737
Noninterest Income								
Retirement and benefit services	16,078	15,890	31,733	31,372	16,144	18,605	47,876	49,977
Wealth management	6,360	5,449	12,477	10,644	6,684	5,271	19,161	15,915
Mortgage banking	2,554	2,905	4,224	4,622	2,573	2,510	6,796	7,132
Service charges on deposit accounts	456	311	845	612	488	328	1,333	940
Other	1,923	1,223	3,415	3,781	2,474	1,693	5,891	5,475
Total noninterest income	27,371	25,778	52,694	51,031	28,363	28,407	81,057	79,439
Noninterest Expense								
Compensation	20,265	18,847	39,597	38,005	21,058	19,071	60,655	57,076
Employee taxes and benefits	5,134	4,724	11,322	10,577	5,400	4,895	16,722	15,472
Occupancy and equipment expense	1,815	1,837	3,722	3,736	2,082	1,883	5,803	5,619
Business services, software and technology expense	4,599	5,269	9,944	10,593	4,879	4,774	14,823	15,367
Intangible amortization expense	1,324	1,324	2,648	2,648	1,324	1,324	3,972	3,972
Professional fees and assessments	2,373	1,530	4,366	2,682	4,267	1,716	8,633	4,397

Marketing and business development	651	665	1,436	1,389	764	750	2,200	2,139
Supplies and postage	370	406	898	866	422	410	1,321	1,275
Travel	332	306	624	554	330	322	954	876
Mortgage and lending expenses	467	215	908	712	684	689	1,592	1,401
Other	1,422	1,250	2,306	2,480	1,237	1,426	3,543	3,909
Total noninterest expense	38,752	36,373	77,771	74,242	42,447	37,260	120,218	111,503
Income before income taxes	8,131	11,639	16,654	22,131	6,797	11,542	23,450	33,673
Income tax expense	1,923	2,535	4,014	4,841	1,590	2,381	5,604	7,222
Net income	$ 6,208	$ 9,104	$ 12,640	$ 17,290	$ 5,207	$ 9,161	$ 17,846	$ 26,451
Per Common Share Data								
Basic earnings per common share	$ 0.31	$ 0.45	$ 0.64	$ 0.86	$ 0.26	$ 0.46	$ 0.90	$ 1.31
Diluted earnings per common share	$ 0.31	$ 0.45	$ 0.63	$ 0.85	$ 0.26	$ 0.45	$ 0.89	$ 1.30
Dividends declared per common share	$ 0.20	$ 0.19	$ 0.39	$ 0.37	$ 0.20	$ 0.19	$ 0.59	$ 0.56
Average common shares outstanding	19,777	20,033	19,758	20,030	19,788	19,872	19,768	19,977
Diluted average common shares outstanding	20,050	20,241	20,018	20,243	20,075	20,095	20,037	20,193

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Net Income	$ 6,208	$ 9,104	$ 12,640	$ 17,290
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains (losses) on debt securities	(1,221)	(9,720)	(4,739)	(4,879)
Net change in unrealized gain (losses) on cash flow hedging derivatives	25	—	709	—
Net change in unrealized gain (losses) on other derivatives	164	3,794	2,195	2,069
Total other comprehensive income (loss), before tax	(1,032)	(5,926)	(1,835)	(2,810)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(259)	(1,491)	(461)	(709)
Other comprehensive income (loss), net of tax	(773)	(4,435)	(1,374)	(2,101)
Total comprehensive income (loss)	$ 5,435	$ 4,669	$ 11,266	$ 15,189

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity Comprehensive Income (Unaudited)

	Three months ended				
(dollars and shares in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of March 31, 2023	20,067	$ 154,818	$ 280,540	$ (96,307)	$ 359,118
Net income	—	—	9,104	—	9,104
Other comprehensive income (loss)	—	—	—	(4,435)	(4,435)
Common stock repurchased	(170)	(2,783)	—	—	(2,953)
Common stock dividends	—	—	(3,805)	—	(3,805)
Share-based compensation expense	18	638	—	—	656
Vesting of restricted stock	—	—	—	—	—
Balance as of June 30, 2023	19,915	$ 152,673	$ 285,839	$ (100,742)	$ 357,685
Balance as of March 31, 2024	19,777	$ 150,741	$ 275,374	$ (74,256)	$ 371,636
Net income	—	—	6,208	—	6,208
Other comprehensive income (loss)	—	—	—	(773)	(773)
Common stock repurchased	—	(4)	—	—	(4)
Common stock dividends	—	—	(3,962)	—	(3,962)
Share-based compensation expense	—	121	—	—	121
Vesting of restricted stock	1	(1)	—	—	—
Balance as of June 30, 2024	19,778	$ 150,857	$ 277,620	$ (75,029)	$ 373,226

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
Net Income	$ 5,207	$ 9,161	$ 17,846	$ 26,451
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains (losses) on debt securities	19,431	(19,155)	14,692	(24,033)
Net change in unrealized gain (losses) on cash flow hedging derivatives	(869)	1,011	(160)	1,011
Net change in unrealized gain (losses) on other derivatives	(3,068)	1,133	(872)	3,206
Total other comprehensive income (loss), before tax	15,494	(17,011)	13,660	(19,816)
Income tax expense (benefit) related to items of other comprehensive income (loss)	3,889	(4,270)	3,429	(4,974)
Other comprehensive income (loss), net of tax	11,605	(12,741)	10,231	(14,842)
Total comprehensive income (loss)	$ 16,812	$ (3,580)	$ 28,077	$ 11,609

	Six months ended				
(dollars and shares in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2022	19,992	$ 155,095	$ 280,426	$ (98,641)	$ 356,872
Cumulative effect of change in accounting principles, net of tax	—	—	(4,452)	—	(4,452)
Balance as of January 1, 2023	19,992	155,095	275,974	(98,641)	352,420
Net income	—	—	17,290	—	17,290
Other comprehensive income (loss)	—	—	—	(2,101)	(2,101)
Common stock repurchased	(187)	(3,127)	—	—	(3,314)
Common stock dividends	—	—	(7,425)	—	(7,425)
Share-based compensation expense	18	797	—	—	815

Vesting of restricted stock	92	(92)	—	—	—
Balance as of June 30, 2023	19,915	$ 152,673	$ 285,839	$ (100,742)	$ 357,685
Balance as of December 31, 2023	19,734	$ 150,343	$ 272,705	$ (73,655)	$ 369,127
Net income	—	—	12,640	—	12,640
Other comprehensive income (loss)	—	—	—	(1,374)	(1,374)
Common stock repurchased	(7)	(149)	—	—	(156)
Common stock dividends	—	—	(7,725)	—	(7,725)
Share-based compensation expense	—	714	—	—	714
Vesting of restricted stock	51	(51)	—	—	—
Balance as of June 30, 2024	19,778	$ 150,857	$ 277,620	$ (75,029)	$ 373,226

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Six months ended June 30,	
(dollars in thousands)	2024	2023
Operating Activities		
Net income	$ 12,640	$ 17,290
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Deferred income taxes	(676)	857
Provision for credit losses	4,489	550
Depreciation and amortization	4,271	4,239
Amortization and accretion of premiums/discounts on investment securities	853	1,092
Amortization of operating lease right-of-use assets	11	1,571
Share-based compensation expense	714	815
Originations on loans held for sale	(154,739)	(146,664)
Proceeds on loans held for sale	131,532	138,818
(Increase) in value of bank-owned life insurance	(337)	(434)
Realized loss (gain) on derivative instruments	(913)	1,344
Realized loss (gain) on loans sold	(3,497)	(3,531)
Realized loss (gain) on sale of foreclosed assets	1	5
Realized loss (gain) on BOLI mortality	—	(1,196)
Realized loss (gain) on servicing rights	(134)	(25)
Net change in:		
Accrued interest receivable	(1,177)	(718)
Other assets	(1,335)	1,758
Accrued expenses and other liabilities	8,799	(3,771)
Net cash provided (used) by operating activities	502	12,000
Investing Activities		
Proceeds from sales of trading investment securities	7,443	—

Purchases of trading investment securities	(10,211)	—
Proceeds from maturities of investment securities available-for-sale	22,384	34,549
Proceeds from calls of investment securities held-to-maturity	251	126
Proceeds from maturities and paydowns of investment securities held-to-maturity	12,209	12,492
Net (increase) decrease in loans	(158,937)	(89,295)
Net (increase) decrease in FHLB stock	4,952	(5,020)
Purchases of BOLI	(1,935)	—
Proceeds from BOLI mortality claim	—	2,828
Purchases of premises and equipment	(4,566)	(1,088)
Proceeds from sales of foreclosed assets	36	25
Net cash provided (used) by investing activities	(128,374)	(45,383)
Financing Activities		
Net increase (decrease) in deposits	202,964	(62,629)
Net increase (decrease) in short-term borrowings	240,830	113,980
Repayments of long-term debt	1	—
Cash dividends paid on common stock	(7,519)	(7,425)
Repurchase of common stock	(156)	(3,314)
Net cash provided (used) by financing activities	436,120	40,612
Net change in cash and cash equivalents	308,248	7,229
Cash and cash equivalents at beginning of period	129,893	58,242
Cash and cash equivalents at end of period	$ 438,141	$ 65,471

See accompanying notes to consolidated financial statements (unaudited)

Table Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Contents Changes in Stockholders' Equity (Unaudited)

	Three months ended				
(dollars and shares in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of June 30, 2023	19,915	$ 152,673	$ 285,839	$ (100,742)	$ 357,685
Net income	—	—	9,161	—	9,161
Other comprehensive income (loss)	—	—	—	(12,741)	(12,741)
Common stock repurchased	(70)	(1,172)	—	—	(1,242)
Common stock dividends	—	—	(3,838)	—	(3,838)
Share-based compensation expense	—	377	—	—	377
Vesting of restricted stock	3	(3)	—	—	—
Balance as of September 30, 2023	19,848	$ 151,875	$ 291,162	$ (113,483)	$ 349,402
Balance as of June 30, 2024	19,778	$ 150,857	$ 277,620	$ (75,029)	$ 373,226
Net income	—	—	5,207	—	5,207
Other comprehensive income (loss)	—	—	—	11,605	11,605
Common stock repurchased	—	(76)	—	—	(76)
Common stock dividends	—	—	(3,964)	—	(3,964)
Share-based compensation expense	—	488	—	—	488
Vesting of restricted stock	12	(12)	—	—	—
Balance as of September 30, 2024	19,790	$ 151,257	$ 278,863	$ (63,424)	$ 386,486

	Six months ended June 30, 2024	Six months ended June 30, 2023
Supplemental Cash Flow Disclosures		
Interest paid	$ 47,719	$ 31,723
Income taxes paid	174	3,720
Cash dividends declared, not paid	3,962	3,804
Supplemental Disclosures of Noncash Investing and Financing Activities		
Loan collateral transferred to foreclosed assets	(5)	—
Right-of-use assets obtained in exchange for new operating lease liabilities, net	318	2,286
Change in fair value hedges presented within residential real estate loans and other assets	143	—

(dollars and shares in thousands)	Nine Months Ended Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2022	19,992	$ 155,095	$ 280,426	$ (98,641)	$ 356,872
Cumulative effect of change in accounting principles, net of tax	—	—	(4,452)	—	(4,452)
Balance as of January 1, 2023	19,992	155,095	275,974	(98,641)	352,420
Net income	—	—	26,451	—	26,451
Other comprehensive income (loss)	—	—	—	(14,842)	(14,842)
Common stock repurchased	(257)	(4,299)	—	—	(4,556)
Common stock dividends	—	—	(11,263)	—	(11,263)
Share-based compensation expense	18	1,174	—	—	1,192
Vesting of restricted stock	95	(95)	—	—	—
Balance as of September 30, 2023	19,848	$ 151,875	$ 291,162	$ (113,483)	$ 349,402
Balance as of December 31, 2023	19,734	$ 150,343	$ 272,705	$ (73,655)	$ 369,127
Net income	—	—	17,846	—	17,846
Other comprehensive income (loss)	—	—	—	10,231	10,231
Common stock repurchased	(7)	(225)	—	—	(232)
Common stock dividends	—	—	(11,688)	—	(11,688)
Share-based compensation expense	—	1,202	—	—	1,202
Vesting of restricted stock	63	(63)	—	—	—
Balance as of September 30, 2024	19,790	$ 151,257	$ 278,863	$ (63,424)	$ 386,486

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2024	2023
Operating Activities		

Net income	$ 17,846	$ 26,451
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Deferred income taxes	(1,888)	857
Provision for credit losses	6,150	550
Depreciation and amortization	6,456	6,378
Amortization and accretion of premiums/discounts on investment securities	1,301	1,652
Amortization of operating lease right-of-use assets	60	(372)
Share-based compensation expense	1,202	1,192
Originations on loans held for sale	(233,656)	(239,004)
Proceeds on loans held for sale	238,113	238,028
(Increase) in value of bank-owned life insurance	(622)	(653)
Realized loss (gain) on sale of premises and equipment	(476)	—
Realized loss (gain) on derivative instruments	421	(322)
Realized loss (gain) on loans sold	(6,545)	(5,922)
Realized loss (gain) on sale of foreclosed assets	(1)	(27)
Realized loss (gain) on BOLI mortality	—	(1,196)
Realized loss (gain) on servicing rights	(149)	(28)
Net change in:		
Accrued interest receivable	(769)	(2,692)
Other assets	127	(3,967)
Accrued expenses and other liabilities	(8,129)	3,879
Net cash provided (used) by operating activities	19,441	24,804
Investing Activities		
Proceeds from sales of trading investment securities	8,684	—
Purchases of trading investment securities	(11,220)	—
Proceeds from maturities of investment securities available-for-sale	35,011	52,624
Proceeds from calls of investment securities held-to-maturity	611	242
Proceeds from maturities and paydowns of investment securities held-to-maturity	16,180	17,188
Net (increase) decrease in loans	(275,760)	(162,322)
Net (increase) decrease in FHLB stock	2,809	(5,953)
Purchases of BOLI	(1,935)	—
Proceeds from BOLI mortality claim	—	2,828
Proceeds from sale of premises and equipment	2,799	—
Purchases of premises and equipment	(7,331)	(1,474)
Proceeds from sales of foreclosed assets	37	51
Net cash provided (used) by investing activities	(230,115)	(96,816)
Financing Activities		
Net increase (decrease) in deposits	227,939	(43,300)
Net increase (decrease) in short-term borrowings	(69,470)	137,390
Cash dividends paid on common stock	(11,481)	(11,040)
Repurchase of common stock	(232)	(4,556)
Net cash provided (used) by financing activities	146,756	78,494
Net change in cash and cash equivalents	(63,918)	6,482
Cash and cash equivalents at beginning of period	129,893	58,242
Cash and cash equivalents at end of period	$ 65,975	$ 64,724

See accompanying notes to consolidated financial statements (unaudited)

Nine Months Ended

	September 30,	
	2024	2023
Supplemental Cash Flow Disclosures		
Interest paid	$ 84,700	$ 50,969
Income taxes paid	260	6,637
Cash dividends declared, not paid	3,963	3,838
Supplemental Disclosures of Noncash Investing and Financing Activities		
Loan collateral transferred to foreclosed assets	(5)	3
Premises and equipment transferred to other assets	2,086	—
Right-of-use assets obtained in exchange for new operating lease liabilities, net	5,244	1,938
Change in fair value hedges presented within residential real estate loans and other assets	98	716

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Notesto Consolidated Financial Statements (Unaudited)

NOTE1 Basis of Presentation

The accompanying unaudited consolidated interim financial statements and notes thereto of the Company have been prepared in accordance with instructions for Form 10-Q10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America, or GAAP, for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated balance sheets of Alerus Financial Corporation, or the Company, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, the consolidated statements of income for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023, consolidated statements of comprehensive income (loss) for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023, the consolidated statements of changes in stockholders' equity for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023, and the consolidated statements of cash flows for the sixnine months ended June 30, 2024 September 30, 2024 and 2023.2023.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's principal operating subsidiary is Alerus Financial, National Association, or the Bank. Certain items previously reported have been reclassified to conform to the current period's reporting format. Such reclassifications did not affect net income or stockholders' equity. The results of operations for the interim periods are not necessarily indicative of the results for the full year or any other period. The Company has also evaluated all subsequent events for potential recognition and disclosure through the date of the filing of this Quarterly Report on Form 10-Q.10-Q. These interim unaudited financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2023December 31, 2023, included in the Company's Annual Report on Form 10-K10-K filed with the SEC on March 8, 2024.March 8, 2024.

Emerging Growth Company

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, even if the Company complies with the greater obligations of public companies that are not emerging growth companies, the Company may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as the Company is an emerging growth company. The Company will continue to be an emerging growth company until the earliest to occur of: (1)(1) the end of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities under the Company's Registration Statement on Form S-1,S-1, which was declared effective by the U.S. Securities and Exchange Commission, or SEC, on September 12, 2019; (2)September 12, 2019; (2) the last day of the fiscal year in which the Company has $1.235 billion$1.235 billion or more in annual revenues; (3)(3) the date on which the Company is deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended, or the Exchange Act; or (4)(4) the date on which the Company has, during the previous three-yearthree-year period, issued publicly or privately, more than $1.0 billion$1.0 billion in non-convertible debt securities. Management cannot predict if investors will find the Company's common stock less attractive because it will rely on the exemptions available to emerging growth companies. If some investors find the Company's common stock less attractive as a result, there may be a less active trading market for its common stock and the Company's stock price may be more volatile. The last year the Company qualifies as an emerging growth company is 2024.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company elected to take advantage of the benefits of this extended transition period.

NOTE2 Recent Accounting Pronouncements

The following Financial Accounting Standards Board, or FASB, Accounting Standards Updates, or ASUs, are divided into pronouncements which have been adopted by the Company since January 1, 2024,January 1,2024, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of June 30, 2024September 30, 2024.

Adopted Pronouncements

There have been no new ASUs adopted by the Company since January 1, 2024.January 1, 2024.

Pronouncements Not Yet Effective

In November 2023, the FASB issued guidance within ASU 2023-07,2023-07, Segment Reporting (Topic 280)280). The amendments in this update are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures related to significant segment expenses. The amendments do not change how an entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments, and all existing segment disclosure requirements in ASC 280 and other Codification topics remain unchanged. The amendments in this update are incremental and require public entities that report segment information to disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss as well as other segment items. Annual disclosure of the title and position of the chief operating decision maker and how the reported measures of segment profit or loss are used to assess performance and allocation of resources is also required.

The amendments in this update are effective for fiscal years beginning after December 15, 2023, December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 December 15, 2024, and are applied on a retrospective basis. The Company is currently evaluating the impact these amendments will have on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09,2023-09, Income Taxes (Topic 740)740): Improvements to Income Tax Disclosures. The amendments in this ASU related to the rate reconciliation and income taxes paid disclosures, to improve the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction disclosures. The amendments allow investors to better assess, in their capital allocation decisions, how an entity’s worldwide operations and related tax risks and tax planning and operational opportunities affect its income tax rate and prospects for future cash flows. The other amendments in this ASU improve the effectiveness and comparability of disclosures by adding disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with U.S. Securities and Exchange Commission (“SEC”) Regulation S-X 210.4-08(h) S-X210.4-08(h), Rules of General Application—General Notes to Financial Statements: Income Tax Expense, and removing disclosures that no longer are considered cost beneficial or relevant. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2024. December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this ASU should be applied on a prospective basis. Retrospective application is also permitted.

NOTE3 Business Combinations

On May 15, 2024, October 9, 2024, the Company and completed the acquisition of HMN Financial, Inc. (“HMNF”), the holding company for (Nasdaq: HMNF) and its wholly owned subsidiary, Home Federal Savings Bank jointly announced the signing of (together, “Home Federal”). As a merger agreement pursuant to which the Company will acquire HMNF. Under the terms result of the merger agreement, transaction, HMNF will merge merged with and into the Company Alerus Financial Corporation, and Home Federal Savings Bank will merge merged with and into the Company’s wholly-owned subsidiary, Alerus Financial, National Association, in a Association. The all-stock transaction was valued at approximately $123.7 million. The acquisition will further enhance $128.8 million as of closing, based on the closing price of the Company’s footprint in southern Minnesota.

Under common stock on October 8, 2024, the terms trading day immediately preceding the closing of the merger, agreement, of $22.90.

Founded in 1934, Home Federal had 12 branches in Minnesota and one branch in each of Iowa and Wisconsin. As of June 30, 2024, HMNF had, on a consolidated basis, $1.1 billion in total assets, which included approximately $876.6 million in loans and $199.0 million in investment securities, as well as $983.2 million in total deposits.

The transaction expanded the Company’s franchise into Rochester, Minnesota and represents the largest bank acquisition in the Company’s history. The Company’s acquisition of Home Federal is expected to provide earnings benefit, growth potential, synergies and economies of scale arising from the combination of Home Federal with the Company. With the addition of Home Federal, based on June 30, 2024 amounts, the Company now has approximately $5.5 billion in total assets, $3.8 billion in total loans, $4.3 billion in total deposits, and $43.6 billion in assets under administration/management, with 29 locations across the Midwest, as well as Arizona.

The Company is in the process of determining the value of the acquired assets and liabilities, and, therefore, no estimated fair value adjustments are available as of October 31, 2024.

As a result of the transaction, stockholders of HMNF will receive received 1.25 shares of the Company’s common stock for each share of HMNF common stock, which exchange ratio is subject to potential downward adjustment if certain financial metrics are not met at closing, and resulting in the issuance of 5,547,658 shares of the Company’s common stock. The merger is expected was structured to qualify as a tax-free reorganization for HMNF’s stockholders. Based on Following the closing price of the Company’s common stock on May 14, 2024, the trading day immediately preceding the public announcement of the merger, of $20.69, the implied merger consideration that an HMNF stockholder would be entitled to receive for each share of HMNF common stock owned would be $25.86 with an aggregate transaction, value of approximately $123.7 million. Upon closing of the transaction, former stockholders of HMNF are expected to now hold approximately 22.0% 21.9% of the Company’s outstanding common stock.

The transaction has been unanimously approved by the Boards of Directors of both companies. Completion of the merger is subject to customary closing conditions, including receipt of required regulatory approvals and approval by the stockholders of both the Company and HMNF. Both the Company and HMNF will host special meetings of their respective stockholders on September 12, 2024, in order to seek approval of the transaction. The transaction is expected to close in the fourth quarter of 2024.

During both the three and six nine months ended June 30, 2024 September 30, 2024, the Company incurred $0.6 million $1.7 million and $2.3 million, respectively, in pre-tax acquisition expenses related to the planned acquisition of HMNF, comprised of legal and professional fees included in professional fees and assessments expense in the consolidated statements of income.

NOTE4 Investment Securities

Trading securities are reported on the Company’s consolidated balance sheet at fair value. As of June 30, 2024 September 30, 2024, the fair value of the Company’s trading securities was $2.9 million. $2.7 million. There were no trading securities as of December 31, 2023 December 31, 2023. Changes in fair value of trading securities are recorded in other noninterest income on the Company’s consolidated statements of income. These securities are held in a rabbi trust account and invested in mutual funds. The trading securities will be used for future payments associated with the Company’s deferred compensation plan for eligible employees, executives, and directors.

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The following tables present amortized cost, gross unrealized gains and losses, allowance for credit losses, or ACL, and fair value of the available-for-sale, or AFS, investment securities and the amortized cost, gross unrealized gains and losses and fair value of held-to-maturity, or HTM, securities as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	June 30, 2024					September 30, 2024				
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale										
U.S. Treasury and agencies	$ 765	$ 3	$ (2)	$ —	$ 766	$ 739	$ 2	$ (2)	$ —	$ 739
Mortgage backed securities										
Residential agency	501,718	—	(93,930)	—	407,788	488,915	2	(74,529)	—	414,388
Commercial	1,465	—	(112)	—	1,353	1,460	—	(59)	—	1,401
Asset backed securities	22	—	(1)	—	21	20	—	—	—	20
Corporate bonds	57,990	—	(8,573)	—	49,417	57,988	—	(8,533)	—	49,455
Total available-for-sale investment securities	561,960	3	(102,618)	—	459,345	549,122	4	(83,123)	—	466,003
Held-to-maturity										
Obligations of state and political agencies	123,273	—	(13,320)	94	109,953	122,717	—	(9,124)	81	113,593
Mortgage backed securities										
Residential agency	163,410	—	(29,674)	57	133,736	159,333	—	(23,064)	56	136,269
Total held-to-maturity investment securities	286,683	—	(42,994)	151	243,689	282,050	—	(32,188)	137	249,862
Total investment securities	$ 848,643	$ 3	$ (145,612)	$ 151	$ 703,034	$ 831,172	$ 4	$ (115,311)	$ 137	$ 715,865

	December 31, 2023				
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale					

U.S. Treasury and agencies	$	1,119	$	4	$	(3)	—	$	1,120
Mortgage backed securities									
Residential agency		524,140		1		(88,547)	—		435,594
Commercial		1,476		—		(123)	—		1,353
Asset backed securities		26		—		(1)	—		25
Corporate bonds		57,993		—		(9,349)	—		48,644
Total available-for-sale investment securities		584,754		5		(98,023)	—		486,736
Held-to-maturity									
Obligations of state and political agencies		129,603		—		(12,613)	114		116,990
Mortgage backed securities									
Residential agency		170,125		—		(28,498)	99		141,627
Total held-to-maturity investment securities		299,728		—		(41,111)	213		258,617
Total investment securities	$	884,482	$	5	$	(139,134)	$ 213	$	745,353

	December 31, 2023				
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale					
U.S. Treasury and agencies	$ 1,119	$ 4	$ (3)	—	$ 1,120
Mortgage backed securities					
Residential agency	524,140	1	(88,547)	—	435,594
Commercial	1,476	—	(123)	—	1,353
Asset backed securities	26	—	(1)	—	25
Corporate bonds	57,993	—	(9,349)	—	48,644
Total available-for-sale investment securities	584,754	5	(98,023)	—	486,736
Held-to-maturity					
Obligations of state and political agencies	129,603	—	(12,613)	114	116,990
Mortgage backed securities					
Residential agency	170,125	—	(28,498)	99	141,627
Total held-to-maturity investment securities	299,728	—	(41,111)	213	258,617
Total investment securities	$ 884,482	$ 5	$ (139,134)	$ 213	$ 745,353

The adequacy of the ACL on investment securities is assessed at the end of each quarter. The Company does not believe that the AFS debt securities that were in an unrealized loss position as of June 30, 2024September 30, 2024 represented a credit loss impairment. As of both June 30, 2024September 30, 2024 and December 31, 2023, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Additionally, there were corporate bonds in gross unrealized loss positions as of both June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023; however, all such bonds had an investment grade rating as of both June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

The ACL on HTM debt securities is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Using a probability of default and loss on given default analysis, the ACL on HTM debt securities was $151$137 thousand and $213 thousand as of June 30, 2024September 30, 2024 and December 31, 2023, respectively.

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Accrued interest receivable on AFS investment securities and HTM investment securities is recorded in accrued interest receivable and is excluded from the estimate of credit losses. As of June 30, 2024, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.4 million and $1.3 million, respectively. As of December 31, 2023, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.5 million and $1.4 million, respectively.

The Company had no sales or calls of AFS investment securities for the three and six months ended June 30, 2024 and 2023.

The Company had no sales of HTM investment securities for the three and six months ended June 30, 2024 and 2023.

The following tables present investment securities with gross unrealized losses, for which an ACL has not been recorded at June 30, 2024 and December 31, 2023, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position:

		June 30, 2024					
		Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Number of Holdings	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale							
U.S. Treasury and agencies	1	$ (2)	$ 390	$ —	$ —	$ (2)	$ 390
Mortgage backed securities							
Residential agency	111	—	60	(93,930)	407,712	(93,930)	407,772
Commercial	1	—	—	(112)	1,353	(112)	1,353
Asset backed securities	3	—	—	(1)	21	(1)	21
Corporate bonds	12	—	—	(8,573)	49,417	(8,573)	49,417
Total available-for-sale investment securities	128	$ (2)	$ 450	$ (102,616)	$ 458,503	$ (102,618)	$ 458,953

		December 31, 2023					
		Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Number of Holdings	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale							
U.S. Treasury and agencies	1	$ (3)	$ 489	$ —	$ —	$ (3)	$ 489
Mortgage backed securities							
Residential agency	112	—	43	(88,547)	435,505	(88,547)	435,548
Commercial	1	—	—	(123)	1,353	(123)	1,353
Asset backed securities	3	—	—	(1)	25	(1)	25
Corporate bonds	12	—	—	(9,349)	48,644	(9,349)	48,644
Total available-for-sale investment securities	129	$ (3)	$ 532	$ (98,020)	$ 485,527	$ (98,023)	$ 486,059

The Company determined that the expected credit loss on its HTM portfolio was $151 thousand and $213 thousand as of June 30, 2024, and December 31, 2023December 31, 2023, respectively. The change in the ACL on HTM debt securities was due to a change in the provision for credit losses, with no charge-offs or recoveries for the three and sixnine months ended June 30, 2024September 30, 2024.

Accrued interest receivable on AFS investment securities and HTM investment securities is recorded in accrued interest receivable and is excluded from the estimate of credit losses. As of September 30, 2024, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.6 million and $0.9 million, respectively. As of December 31, 2023, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.5 million and $1.4 million, respectively.

The Company had no sales or calls of AFS investment securities for the three and nine months ended September 30, 2024 and 2023.

The Company had no sales of HTM investment securities for the three and nine months ended September 30, 2024 and 2023.

The following tables present investment securities with gross unrealized losses, for which an ACL was not recorded at September 30, 2024 and December 31, 2023, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position:

		September 30, 2024					
		Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Number of Holdings	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale							
U.S. Treasury and agencies	1	$ (2)	$ 370	$ —	$ —	$ (2)	$ 370
Mortgage backed securities							
Residential agency	108	—	—	(74,529)	414,315	(74,529)	414,315
Commercial	1	—	—	(59)	1,401	(59)	1,401
Asset backed securities	3	—	—	—	20	—	20
Corporate bonds	12	—	—	(8,533)	49,455	(8,533)	49,455
Total available-for-sale investment securities	125	$ (2)	$ 370	$ (83,121)	$ 465,191	$ (83,123)	$ 465,561

		December 31, 2023					
		Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Number of Holdings	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale							
U.S. Treasury and agencies	1	$ (3)	$ 489	$ —	$ —	$ (3)	$ 489
Mortgage backed securities							
Residential agency	112	—	43	(88,547)	435,505	(88,547)	435,548
Commercial	1	—	—	(123)	1,353	(123)	1,353
Asset backed securities	3	—	—	(1)	25	(1)	25
Corporate bonds	12	—	—	(9,349)	48,644	(9,349)	48,644
Total available-for-sale investment securities	129	$ (3)	$ 532	$ (98,020)	$ 485,527	$ (98,023)	$ 486,059

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As of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, none of the Company's HTM debt securities were past due or on nonaccrual status. The Company did not recognize any interest income on nonaccrual HTM debt securities during the three months ended June 30, 2024 September 30, 2024 and 2023.2023.

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The following table presents the carrying value and fair value of HTM investment securities and the amortized cost and fair value of AFS investment securities as of June 30, 2024September 30, 2024, by contractual maturity:

	Held-to-maturity		Available-for-sale		Held-to-maturity		Available-for-sale	
	Carrying	Fair	Amortized	Fair	Carrying	Fair	Amortized	Fair
(dollars in thousands)	Value	Value	Cost	Value	Value	Value	Cost	Value
Due within one year or less	$ 7,992	$ 7,823	$ —	$ —	$ 8,282	$ 8,203	$ —	$ —
Due after one year through five years	51,078	46,779	1,868	1,754	56,385	53,122	1,838	1,778
Due after five years through ten years	52,362	45,159	57,995	49,421	48,042	43,323	57,992	49,460
Due after 10 years	11,841	10,192	379	382	10,008	8,945	377	377
	123,273	109,953	60,242	51,557				
					122,717	113,593	60,207	51,615
Mortgage-backed securities								
Residential agency	163,410	133,736	501,718	407,788	159,333	136,269	488,915	414,388
Total investment securities	$ 286,683	$ 243,689	$ 561,960	$ 459,345	$ 282,050	$ 249,862	$ 549,122	$ 466,003

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment securities with a total carrying value of $525.8 million$335.9 million and $250.0 million were pledged as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively, to secure public deposits and for other purposes required or permitted by law.

As of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, the carrying value of the Company's Federal Reserve stock and Federal Home Loan Bank of Des Moines, or FHLB, stock was as follows:

	June 30,	December 31,	September 30,	December 31,
(dollars in thousands)	2024	2023	2024	2023
Federal Reserve	$ 4,623	$ 4,623	$ 4,623	$ 4,623
FHLB	11,614	16,566	13,757	16,566

These securities can only be redeemed or sold at their par value and only to the respective issuing institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and periodically evaluates these securities for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value.

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which will be indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account be insufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of June 30, 2024September 30, 2024, the conversion ratio was 1.5875. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the 6,924 Class B shares (10,992 Class A equivalents) that the Company owned as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, were carried at a zero cost basis.

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NOTE5 Loans and Allowance for Credit Losses

The following table presents total loans outstanding, by portfolio segment, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Commercial				
Commercial and industrial	$ 591,779	$ 562,180	$ 606,245	$ 562,180
Commercial real estate				
Construction, land and development	161,751	124,034	173,629	124,034
Multifamily	242,041	245,103	275,377	245,103
Non-owner occupied	647,776	569,354	686,071	569,354
Owner occupied	283,356	271,623	296,366	271,623
Total commercial real estate	1,334,924	1,210,114	1,431,443	1,210,114
Agricultural				
Land	41,410	40,832	45,821	40,832
Production	40,549	36,141	39,436	36,141
Total agricultural	81,959	76,973	85,257	76,973
Total commercial	2,008,662	1,849,267	2,122,945	1,849,267
Consumer				
Residential real estate				
First lien	686,286	697,900	690,451	697,900
Construction	22,573	28,979	11,808	28,979
HELOC	126,211	118,315	134,301	118,315
Junior lien	36,323	35,819	36,445	35,819
Total residential real estate	871,393	881,013	873,005	881,013
Other consumer	35,737	29,303	36,393	29,303
Total consumer	907,130	910,316	909,398	910,316
Total loans	$ 2,915,792	$ 2,759,583	$ 3,032,343	$ 2,759,583

Total loans included net deferred loan fees and costs of $264$601 thousand and $248 thousand at June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively. Unearned discounts associated with the acquisition of Metro Phoenix Bank totaled $3.9 million$3.8 million and $5.1 million$5.1 million as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively.

Accrued interest receivable on loans is recorded within accrued interest receivable, and totaled $13.5 million$13.4 million at June 30, 2024September 30, 2024 and $12.2 million$12.2 million at December 31, 2023December 31, 2023.

The Company manages its loan portfolio proactively to effectively identify problem credits and assess trends early, implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Company continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. The Company monitors and manages credit risk through the following governance structure:

- The Credit Risk team, Collection and Special Assets team and the Credit Governance Committee, which is an internal management committee comprised of various executives and senior managers across business lines, including Accounting and Finance, Credit Underwriting, Collections and Special Assets, Risk, and Commercial and Retail Banking, oversee the Company's systems and procedures to monitor the credit quality of its loan portfolio, conduct a loan review program, and maintain the integrity of the loan rating system.

- The Loan Committee is responsible for reviewing and approving all credit requests that exceed individual limits that have not been countersigned by an individual with sufficient assigned authority. This committee has full authority to commit the Bank to any request that fits within its assigned approval authority.

- The adequacy of the ACL is overseen by the ACL Governance Committee, which is an internal management committee comprised of various Company executives and senior managers across business lines, including

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Accounting and Finance, Credit Underwriting, Collections and Special Assets, Risk, and Commercial and Retail Banking. The ACL Governance Committee supports the oversight efforts of the Board of Directors.

- The Board of Directors has approval authority and responsibility for all matters regarding loan policy, reviews all loans approved or declined by the Loan Committee, approves lending authority and monitors asset quality and concentration levels.

- The ACL Governance Committee and Bank Board of Directors has approval authority and oversight responsibility for the ACL adequacy and methodology.

Loans with a carrying value of $2.1 billion $2.1 billion and $1.6 billion as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

ACL on Loans

The following tables present, by loan portfolio segment, a summary of the changes in the ACL on loans for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023:2023:

	Three months ended June 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 9,508	$ (663)	$ (2,730)	$ 119	$ 6,234
Commercial real estate					
Construction, land and development	5,922	4,898	—	—	10,820
Multifamily	2,148	282	—	—	2,430
Non-owner occupied	8,104	668	—	—	8,772
Owner occupied	2,461	(190)	—	9	2,280
Total commercial real estate	18,635	5,658	—	9	24,302
Agricultural					
Land	248	11	—	—	259

Production	219	(34)	—	—	185
Total agricultural	467	(23)	—	—	444
Total commercial	28,610	4,972	(2,730)	128	30,980
Consumer					
Residential real estate					
First lien	6,152	(786)	—	—	5,366
Construction	489	(31)	—	—	458
HELOC	864	22	—	—	886
Junior lien	284	(41)	(3)	74	314
Total residential real estate	7,789	(836)	(3)	74	7,024
Other consumer	185	134	(1)	10	328
Total consumer	7,974	(702)	(4)	84	7,352
Total	$ 36,584	$ 4,270	$ (2,734)	$ 212	$ 38,332

	Three months ended September 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 6,234	$ 660	$ (246)	$ 153	$ 6,801
Commercial real estate					
Construction, land and development	10,820	(447)	—	—	10,373
Multifamily	2,430	161	—	—	2,591
Non-owner occupied	8,772	(260)	—	—	8,512
Owner occupied	2,280	233	(98)	14	2,429
Total commercial real estate	24,302	(313)	(98)	14	23,905
Agricultural					
Land	259	(2)	—	20	277
Production	185	(3)	—	—	182
Total agricultural	444	(5)	—	20	459
Total commercial	30,980	342	(344)	187	31,165
Consumer					
Residential real estate					
First lien	5,366	74	—	—	5,440
Construction	458	(355)	—	—	103
HELOC	886	68	—	—	954
Junior lien	314	807	—	—	1,121
Total residential real estate	7,024	594	—	—	7,618
Other consumer	328	190	(161)	2	359
Total consumer	7,352	784	(161)	2	7,977
Total	$ 38,332	$ 1,126	$ (505)	$ 189	$ 39,142

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of
(1) $549 thousand related to off-balance sheet credit exposure and ($14) thousand related to HTM investment securities.

	Nine Months Ended September 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					

Commercial and industrial	$ 9,705	$ (159)	$ (3,140)	$ 395	$ 6,801
Commercial real estate					
Construction, land and development	6,135	4,238	—	—	10,373
Multifamily	1,776	815	—	—	2,591
Non-owner occupied	7,726	786	—	—	8,512
Owner occupied	2,449	73	(127)	34	2,429
Total commercial real estate	18,086	5,912	(127)	34	23,905
Agricultural					
Land	96	161	—	20	277
Production	84	98	—	—	182
Total agricultural	180	259	—	20	459
Total commercial	27,971	6,012	(3,267)	449	31,165
Consumer					
Residential real estate					
First lien	6,087	(647)	—	—	5,440
Construction	485	(382)	—	—	103
HELOC	835	119	—	—	954
Junior lien	264	786	(3)	74	1,121
Total residential real estate	7,671	(124)	(3)	74	7,618
Other consumer	201	307	(174)	25	359
Total consumer	7,872	183	(177)	99	7,977
Total	$ 35,843	$ 6,195	$ (3,444)	$ 548	$ 39,142

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of $275 $31 thousand related to off-balance sheet credit exposure and $(56) ($76) thousand related to HTM investment securities.

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	Six months ended June 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 9,705	$ (819)	$ (2,894)	$ 242	$ 6,234
Commercial real estate					
Construction, land and development	6,135	4,685	—	—	10,820
Multifamily	1,776	654	—	—	2,430
Non-owner occupied	7,726	1,046	—	—	8,772
Owner occupied	2,449	(160)	(29)	20	2,280
Total commercial real estate	18,086	6,225	(29)	20	24,302
Agricultural					
Land	96	163	—	—	259
Production	84	101	—	—	185

Total agricultural	180	264	—	—	444
Total commercial	27,971	5,670	(2,923)	262	30,980
Consumer					
Residential real estate					
First lien	6,087	(721)	—	—	5,366
Construction	485	(27)	—	—	458
HELOC	835	51	—	—	886
Junior lien	264	(21)	(3)	74	314
Total residential real estate	7,671	(718)	(3)	74	7,024
Other consumer	201	117	(13)	23	328
Total consumer	7,872	(601)	(16)	97	7,352
Total	$ 35,843	$ 5,069	$ (2,939)	$ 359	$ 38,332

	Three months ended September 30, 2023				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 8,170	$ 93	$ (134)	$ 456	$ 8,585
Commercial real estate					
Construction, land and development	3,731	770	—	251	4,752
Multifamily	1,991	(25)	—	—	1,966
Non-owner occupied	8,555	(198)	—	—	8,357
Owner occupied	2,894	(148)	—	11	2,757
Total commercial real estate	17,171	399	—	262	17,832
Agricultural					
Land	138	(22)	—	—	116
Production	103	(5)	—	—	98
Total agricultural	241	(27)	—	—	214
Total commercial	25,582	465	(134)	718	26,631
Consumer					
Residential real estate					
First lien	7,571	(317)	(9)	—	7,245
Construction	785	(22)	—	—	763
HELOC	1,117	(54)	—	3	1,066
Junior lien	330	(6)	—	—	324
Total residential real estate	9,803	(399)	(9)	3	9,398
Other consumer	311	(66)	(8)	24	261
Total consumer	10,114	(465)	(17)	27	9,659
Total	$ 35,696	$ —	$ (151)	$ 745	$ 36,290

	Nine Months Ended September 30, 2023					
(dollars in thousands)	Beginning Balance	Adoption of ASC 326	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial						

Commercial and industrial	$ 8,690	$ (535)	$ (126)	$ (394)	$ 950	$ 8,585
Commercial real estate						
Construction, land and development	1,458	2,551	492	—	251	4,752
Multifamily	1,062	(162)	1,066	—	—	1,966
Non-owner occupied	7,543	1,344	(530)	—	—	8,357
Owner occupied	4,188	(1,324)	(140)	—	33	2,757
Total commercial real estate	14,251	2,409	888	—	284	17,832
Agricultural						
Land	281	(86)	(80)	—	1	116
Production	250	(76)	(76)	—	—	98
Total agricultural	531	(162)	(156)	—	1	214
Total commercial	23,472	1,712	606	(394)	1,235	26,631
Consumer						
Residential real estate						
First lien	5,495	1,800	(43)	(9)	2	7,245
Construction	345	468	(50)	—	—	763
HELOC	951	59	50	—	6	1,066
Junior lien	352	(85)	85	(77)	49	324
Total residential real estate	7,143	2,242	42	(86)	57	9,398
Other consumer	531	(97)	(188)	(36)	51	261
Total consumer	7,674	2,145	(146)	(122)	108	9,659
Total	$ 31,146	$ 3,857	$ 460	$ (516)	$ 1,343	$ 36,290

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of ($518) thousand related to off-balance sheet credit exposure and $(62) thousand related to HTM investment securities.

	Three months ended June 30, 2023				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 7,954	$ (137)	$ (85)	$ 438	$ 8,170
Commercial real estate					
Construction, land and development	4,349	(618)	—	—	3,731
Multifamily	1,562	429	—	—	1,991
Non-owner occupied	8,045	510	—	—	8,555
Owner occupied	2,900	(17)	—	11	2,894
Total commercial real estate	16,856	304	—	11	17,171
Agricultural					
Land	192	(56)	—	1	137
Production	152	(49)	—	—	103
Total agricultural	344	(105)	—	1	240
Total commercial	25,154	62	(85)	450	25,581
Consumer					

Residential real estate					
First lien	7,389	182	—	—	7,571
Construction	908	(123)	—	—	785
HELOC	1,038	79	—	—	1,117
Junior lien	290	(5)	—	46	331
Total residential real estate	9,625	133	—	46	9,804
Other consumer	323	(4)	(23)	15	311
Total consumer	9,948	129	(23)	61	10,115
Total	$ 35,102	$ 191	$ (108)	$ 511	$ 35,696

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of $186 thousand related to off-balance sheet credit exposure and $5 thousand related to HTM investment securities.

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	Six months ended June 30, 2023					
(dollars in thousands)	Beginning Balance	Adoption of ASC 326	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial						
Commercial and industrial	$ 8,690	$ (535)	$ (219)	$ (260)	$ 494	$ 8,170
Commercial real estate						
Construction, land and development	1,458	2,551	(278)	—	—	3,731
Multifamily	1,062	(162)	1,091	—	—	1,991
Non-owner occupied	7,543	1,344	(332)	—	—	8,555
Owner occupied	4,188	(1,324)	8	—	22	2,894
Total commercial real estate	14,251	2,409	489	—	22	17,171
Agricultural						
Land	281	(86)	(59)	—	1	137
Production	250	(76)	(71)	—	—	103
Total agricultural	531	(162)	(130)	—	1	240
Total commercial	23,472	1,712	140	(260)	517	25,581
Consumer						
Residential real estate						
First lien	5,495	1,800	274	—	2	7,571
Construction	345	468	(28)	—	—	785
HELOC	951	59	104	—	3	1,117
Junior lien	352	(85)	92	(77)	49	331
Total residential real estate	7,143	2,242	442	(77)	54	9,804
Other consumer	531	(97)	(122)	(28)	27	311
Total consumer	7,674	2,145	320	(105)	81	10,115
Total	$ 31,146	$ 3,857	$ 460	$ (365)	$ 598	$ 35,696

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of $44 thousand related to off-balance sheet credit exposure and $46 thousand related to HTM investment securities.

The ACL on loans at June 30, 2024September 30, 2024 was $38.3 $39.1 million, an increase of $2.5 $3.3 million, or 6.9% 9.2%, from December 31, 2023December 31, 2023. The increase was primarily due to a combined ACL an increase of $5.7 million $4.2 million in the provision for credit losses on construction, land and development and non-owner occupied commercial real estate ("CRE") loans. This increase was primarily due to organic loan growth and an increased reserve related to an individually evaluated construction, land and development CRE loan. This was partially offset by a decreased ACL for commercial and industrial loans and residential real estate ("RRE") loans. This decrease was primarily driven by a $2.6 million charge-off of one loan. commercial and industrial loan in the second quarter of 2024.

Credit Concentrations

The Company focuses on maintaining a well-balanced and diversified loan portfolio. Despite such efforts, it is recognized that credit concentrations may occasionally emerge as a result of economic conditions, changes in local demand, natural loan growth and runoff. To identify credit concentrations effectively, all commercial and industrial and owner occupied real estate loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes and state and county codes. Property type coding is used for investment real estate. As of June 30, 2024, the Company's total exposure to the general business industry was 10.0% of total loans. There were no other industry concentrations exceeding 10% of the Company's total loan portfolio as of June 30, 2024September 30, 2024.

Credit Quality Indicators

The Company's consumer loan portfolio is primarily comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The Company generally does not risk rate consumer loans unless a default event such as bankruptcy or extended nonperformance takes place. Credit quality for the consumer loan portfolio is measured by delinquency rates, nonaccrual amounts and actual losses incurred. These loans are rated as either performing or nonperforming.

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The Company assigns a risk rating to all commercial loans, except pools of homogeneous loans, and performs detailed internal and external reviews of risk rated loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the estimated fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The Company's ratings are aligned to pass and criticized categories. The criticized category includes special mention, substandard, and doubtful risk ratings. The risk ratings are defined as follows:

- • *Pass:* A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.
- • *Special Mention:* Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

- *Substandard:* Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- *Doubtful:* Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- *Loss:* Loans classified as loss are considered uncollectible and charged off immediately.

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The following tables set forth the amortized cost basis of loans by credit quality indicator and vintage based on the most recent analysis performed, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	
As of June 30, 2024	2024	2023	2022	2021	2020	Prior		Total
Commercial and industrial								
Pass	$ 80,726	$163,047	$ 75,992	$ 51,180	$ 49,204	$ 42,627	$ 109,070	$ 571,846
Special mention	—	534	—	7,634	—	10	3	8,181
Substandard	—	685	—	2,469	3,084	2,158	3,356	11,752
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 80,726	$164,266	$ 75,992	$ 61,283	$ 52,288	$ 44,795	$ 112,429	$ 591,779
Gross charge-offs for the period ended	$ —	$ 85	$ —	$ —	$ 2,566	$ 243	$ —	$ 2,894
CRE − Construction, land and development								
Pass	$ 23,657	$ 40,253	$ 63,103	$ 5,113	$ 17	$ 915	$ 7,218	$ 140,276
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	21,475	—	—	—	—	21,475
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 23,657	$ 40,253	$ 84,578	$ 5,113	$ 17	$ 915	$ 7,218	$ 161,751
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Multifamily								
Pass	$ 22,571	$ 67,366	$ 66,831	$ 19,364	$ 31,879	$ 20,581	$ 261	$ 228,853
Special mention	—	—	—	—	12,884	—	—	12,884
Substandard	—	—	—	—	—	304	—	304
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 22,571	$ 67,366	$ 66,831	$ 19,364	$ 44,763	$ 20,885	$ 261	$ 242,041

Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Non-owner occupied								
Pass	$ 49,799	$161,500	$145,403	$ 64,835	$ 61,646	$139,166	$ 5,179	$ 627,528
Special mention	—	—	—	7,070	—	1,109	—	8,179
Substandard	—	5,717	—	2,592	—	3,760	—	12,069
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 49,799	$167,217	$145,403	$ 74,497	$ 61,646	$144,035	$ 5,179	$ 647,776
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Owner occupied								
Pass	$ 27,824	$ 30,586	$ 52,609	$ 42,915	$ 35,143	$ 82,351	$ 2,523	$ 273,951
Special mention	—	—	—	—	—	339	—	339
Substandard	—	244	97	2,506	—	6,219	—	9,066
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 27,824	$ 30,830	$ 52,706	$ 45,421	$ 35,143	$ 88,909	$ 2,523	$ 283,356
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 29	$ —	$ 29
Agricultural – Land								
Pass	$ 3,308	$ 5,769	$ 12,754	$ 4,581	$ 5,709	$ 6,819	$ —	$ 38,940
Special mention	—	—	—	—	—	—	—	—
Substandard	—	304	2,166	—	—	—	—	2,470
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 3,308	$ 6,073	$ 14,920	$ 4,581	$ 5,709	$ 6,819	$ —	$ 41,410
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Production								
Pass	$ 6,650	$ 6,451	$ 4,868	$ 620	$ 1,513	$ 715	$ 18,385	$ 39,202
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1,347	—	—	—	—	1,347
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 6,650	$ 6,451	$ 6,215	$ 620	$ 1,513	$ 715	$ 18,385	$ 40,549
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – First lien								
Performing	$ 11,419	$ 61,592	$189,493	$210,737	$104,462	$107,778	$ 180	$ 685,661
Nonperforming	—	—	—	7	12	606	—	625
Subtotal	$ 11,419	$ 61,592	$189,493	$210,744	$104,474	$108,384	$ 180	$ 686,286
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – Construction								
Performing	$ 1,162	$ 10,085	$ 10,022	$ 1,304	$ —	$ —	$ —	$ 22,573
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 1,162	$ 10,085	$ 10,022	$ 1,304	$ —	$ —	$ —	$ 22,573
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – HELOC								
Performing	$ 1,505	$ 6,663	$ 6,403	$ 1,245	$ 1,052	$ 1,248	$ 107,932	$ 126,048
Nonperforming	—	—	—	—	—	163	—	163
Subtotal	$ 1,505	$ 6,663	$ 6,403	$ 1,245	$ 1,052	$ 1,411	$ 107,932	$ 126,211
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – Junior lien								

Performing	$ 3,796	$ 9,981	$ 8,277	$ 4,712	$ 3,035	$ 4,596	$ 1,807	$ 36,204
Nonperforming	—	—	—	107	—	12	—	119
Subtotal	$ 3,796	$ 9,981	$ 8,277	$ 4,819	$ 3,035	$ 4,608	$ 1,807	$ 36,323
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 3	$ —	$ 3
Other consumer								
Performing	$ 5,002	$ 4,131	$ 5,415	$ 704	$ 2,807	$ 1,236	$ 16,442	$ 35,737
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 5,002	$ 4,131	$ 5,415	$ 704	$ 2,807	$ 1,236	$ 16,442	$ 35,737
Gross charge-offs for the period ended	$ —	$ —	$ 3	$ —	$ —	$ 10	$ —	$ 13
Total loans	$237,419	$574,908	$666,255	$429,695	$312,447	$422,712	$ 272,356	$2,915,792
Gross charge-offs for the period ended	$ —	$ 85	$ 3	$ —	$ 2,566	$ 285	$ —	$ 2,939

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	
As of September 30, 2024	2024	2023	2022	2021	2020	Prior		Total
Commercial and industrial								
Pass	$ 139,653	$ 147,857	$ 63,749	$ 40,651	$ 50,753	$ 38,881	$ 90,695	$ 572,239
Special mention	—	515	—	9,368	—	6	192	10,081
Substandard	—	4,448	—	4,027	3,062	2,009	10,379	23,925
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 139,653	$ 152,820	$ 63,749	$ 54,046	$ 53,815	$ 40,896	$ 101,266	$ 606,245
Gross charge-offs for the period ended	$ —	$ 191	$ —	$ —	$ 2,668	$ 281	$ —	$ 3,140
CRE – Construction, land and development								
Pass	$ 47,796	$ 58,373	$ 25,508	$ 1,263	$ —	$ 1,652	$ 14,032	$ 148,624
Special mention	—	—	—	—	—	—	—	—
Substandard	1,139	—	23,866	—	—	—	—	25,005
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 48,935	$ 58,373	$ 49,374	$ 1,263	$ —	$ 1,652	$ 14,032	$ 173,629
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Multifamily								
Pass	$ 24,189	$ 57,051	$ 110,246	$ 18,525	$ 31,639	$ 20,484	$ 134	$ 262,268
Special mention	—	—	—	—	12,807	—	—	12,807
Substandard	—	—	—	—	—	302	—	302
Doubtful	—	—	—	—	—	—	—	—

Subtotal	$ 24,189	$ 57,051	$ 110,246	$ 18,525	$ 44,446	$ 20,786	$ 134	$ 275,377
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Non-owner occupied								
Pass	$ 110,526	$ 154,417	$ 146,842	$ 56,666	$ 60,671	$ 132,675	$ 64	$ 661,861
Special mention	—	—	—	7,032	—	1,098	4,578	12,708
Substandard	—	—	—	7,788	—	3,714	—	11,502
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 110,526	$ 154,417	$ 146,842	$ 71,486	$ 60,671	$ 137,487	$ 4,642	$ 686,071
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Owner occupied								
Pass	$ 52,339	$ 32,986	$ 49,367	$ 42,406	$ 28,424	$ 76,053	$ 1,798	$ 283,373
Special mention	—	—	—	944	—	336	—	1,280
Substandard	—	244	2,635	2,437	—	6,397	—	11,713
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 52,339	$ 33,230	$ 52,002	$ 45,787	$ 28,424	$ 82,786	$ 1,798	$ 296,366
Gross charge-offs for the period ended	$ —	$ —	$ 29	$ —	$ —	$ 98	$ —	$ 127
Agricultural – Land								
Pass	$ 8,423	$ 5,653	$ 12,726	$ 4,504	$ 5,461	$ 6,502	$ 82	$ 43,351
Special mention	—	—	—	—	—	—	—	—
Substandard	—	304	2,166	—	—	—	—	2,470
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 8,423	$ 5,957	$ 14,892	$ 4,504	$ 5,461	$ 6,502	$ 82	$ 45,821
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Production								
Pass	$ 6,913	$ 6,178	$ 4,709	$ 493	$ 1,294	$ 599	$ 17,915	$ 38,101
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1,335	—	—	—	—	1,335
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 6,913	$ 6,178	$ 6,044	$ 493	$ 1,294	$ 599	$ 17,915	$ 39,436

Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − First lien								
Performing	$ 17,117	$ 69,102	$ 191,133	$ 204,117	$ 100,781	$ 106,253	$ —	$ 688,503
Nonperforming	—	579	—	301	12	1,056	—	1,948
Subtotal	$ 17,117	$ 69,681	$ 191,133	$ 204,418	$ 100,793	$ 107,309	$ —	$ 690,451
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − Construction								
Performing	$ 4,035	$ 1,796	$ —	$ 1,297	$ —	$ —	$ —	$ 7,128
Nonperforming	—	—	4,680	—	—	—	—	4,680
Subtotal	$ 4,035	$ 1,796	$ 4,680	$ 1,297	$ —	$ —	$ —	$ 11,808
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − HELOC								
Performing	$ 2,712	$ 6,392	$ 6,103	$ 1,199	$ 968	$ 1,398	$ 114,041	$ 132,813
Nonperforming	—	—	—	—	—	138	1,350	1,488
Subtotal	$ 2,712	$ 6,392	$ 6,103	$ 1,199	$ 968	$ 1,536	$ 115,391	$ 134,301
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − Junior lien								
Performing	$ 3,942	$ 9,803	$ 7,643	$ 4,304	$ 2,865	$ 3,937	$ 200	$ 32,694
Nonperforming	1,775	—	300	107	—	1,569	—	3,751
Subtotal	$ 5,717	$ 9,803	$ 7,943	$ 4,411	$ 2,865	$ 5,506	$ 200	$ 36,445
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 3	$ —	$ 3
Other consumer								
Performing	$ 7,452	$ 3,662	$ 4,732	$ 418	$ 2,236	$ 849	$ 16,754	$ 36,103
Nonperforming	—	—	272	—	7	11	—	290
Subtotal	$ 7,452	$ 3,662	$ 5,004	$ 418	$ 2,243	$ 860	$ 16,754	$ 36,393

Gross charge-offs for the period ended	$ —	$ 6	$ 3	$ 150	$ 4	$ 11	$ —	$ 174
Total loans	$ 428,011	$ 559,360	$ 658,012	$ 407,847	$ 300,980	$ 405,919	$ 272,214	$ 3,032,343
Gross charge-offs for the period ended	$ —	$ 197	$ 32	$ 150	$ 2,672	$ 393	$ —	$ 3,444

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	
As of December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial and industrial								
Pass	$ 189,643	$ 83,233	$ 66,837	$ 62,367	$ 31,859	$ 14,879	$ 83,522	$ 532,340
Special mention	—	—	—	—	—	—	—	—
Substandard	464	4,844	236	6,328	94	2,513	15,361	29,840
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 190,107	$ 88,077	$ 67,073	$ 68,695	$ 31,953	$ 17,392	$ 98,883	$ 562,180
Gross charge-offs for the period ended	$ 39	$ —	$ 49	$ 11	$ 247	$ 90	$ —	$ 436
CRE – Construction, land and development								
Pass	$ 29,902	$ 57,944	$ 14,326	$ 122	$ —	$ 952	$ 121	$ 103,367
Special mention	—	—	—	—	—	—	—	—
Substandard	—	20,667	—	—	—	—	—	20,667
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 29,902	$ 78,611	$ 14,326	$ 122	$ —	$ 952	$ 121	$ 124,034
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Multifamily								
Pass	$ 71,994	$ 67,368	$ 16,637	$ 48,643	$ 24,581	$ 15,435	$ 135	$ 244,793
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	310	—	310
Doubtful	—	—	—	—	—	—	—	—

Subtotal	$ 71,994	$ 67,368	$ 16,637	$ 48,643	$ 24,581	$ 15,745	$ 135	$ 245,103
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Non-owner occupied								
Pass	$ 154,813	$ 127,550	$ 79,046	$ 62,857	$ 69,269	$ 69,680	$ 5,121	$ 568,336
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	875	143	—	1,018
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 154,813	$ 127,550	$ 79,046	$ 62,857	$ 70,144	$ 69,823	$ 5,121	$ 569,354
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE – Owner occupied								
Pass	$ 39,030	$ 55,337	$ 41,623	$ 36,339	$ 22,340	$ 66,574	$ 2,538	$ 263,781
Special mention	—	—	—	—	—	262	—	262
Substandard	—	587	2,872	—	2,815	1,306	—	7,580
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 39,030	$ 55,924	$ 44,495	$ 36,339	$ 25,155	$ 68,142	$ 2,538	$ 271,623
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Land								
Pass	$ 6,424	$ 15,294	$ 4,721	$ 5,958	$ 672	$ 7,763	$ —	$ 40,832
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 6,424	$ 15,294	$ 4,721	$ 5,958	$ 672	$ 7,763	$ —	$ 40,832
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Production								
Pass	$ 7,890	$ 5,858	$ 854	$ 1,904	$ 2,744	$ 174	$ 16,717	$ 36,141
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 7,890	$ 5,858	$ 854	$ 1,904	$ 2,744	$ 174	$ 16,717	$ 36,141

Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − First lien								
Performing	$ 61,201	$ 190,749	$ 217,146	$ 108,100	$ 33,102	$ 87,213	$ 284	$ 697,795
Nonperforming	—	—	—	—	—	105	—	105
Subtotal	$ 61,201	$ 190,749	$ 217,146	$ 108,100	$ 33,102	$ 87,318	$ 284	$ 697,900
Gross charge-offs for the period ended	$ —	$ —	$ 9	$ —	$ —	$ —	$ —	$ 9
Residential real estate − Construction								
Performing	$ 10,978	$ 16,428	$ 1,573	$ —	$ —	$ —	$ —	$ 28,979
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 10,978	$ 16,428	$ 1,573	$ —	$ —	$ —	$ —	$ 28,979
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − HELOC								
Performing	$ 7,470	$ 6,835	$ 789	$ 1,184	$ 308	$ 1,341	$ 100,388	$ 118,315
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 7,470	$ 6,835	$ 789	$ 1,184	$ 308	$ 1,341	$ 100,388	$ 118,315
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 40	$ —	$ 40
Residential real estate − Junior lien								
Performing	$ 10,938	$ 8,820	$ 5,157	$ 3,673	$ 1,461	$ 3,939	$ 50	$ 34,038
Nonperforming	—	—	—	—	—	—	1,781	1,781
Subtotal	$ 10,938	$ 8,820	$ 5,157	$ 3,673	$ 1,461	$ 3,939	$ 1,831	$ 35,819
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 77	$ —	$ 77
Other consumer								
Performing	$ 5,320	$ 6,395	$ 980	$ 4,489	$ 1,554	$ 952	$ 9,613	$ 29,303
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 5,320	$ 6,395	$ 980	$ 4,489	$ 1,554	$ 952	$ 9,613	$ 29,303

Gross charge-offs for the period ended	$ 4	$ 2	$ —	$ 31	$ 6	$ 8	$ —	$ 51
Total loans	$ 596,067	$ 667,909	$ 452,797	$ 341,964	$ 191,674	$ 273,541	$ 235,631	$ 2,759,583
Gross charge-offs for the period ended	$ 43	$ 2	$ 58	$ 42	$ 253	$ 215	$ —	$ 613

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(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of December 31, 2023	2023	2022	2021	2020	2019	Prior	Cost Basis	Total
Commercial and industrial								
Pass	$189,643	$ 83,233	$ 66,837	$ 62,367	$ 31,859	$ 14,879	$ 83,522	$ 532,340
Special mention	—	—	—	—	—	—	—	—
Substandard	464	4,844	236	6,328	94	2,513	15,361	29,840
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$190,107	$ 88,077	$ 67,073	$ 68,695	$ 31,953	$ 17,392	$ 98,883	$ 562,180
Gross charge-offs for the period ended	$ 39	$ —	$ 49	$ 11	$ 247	$ 90	$ —	$ 436
CRE − Construction, land and development								
Pass	$ 29,902	$ 57,944	$ 14,326	$ 122	$ —	$ 952	$ 121	$ 103,367
Special mention	—	—	—	—	—	—	—	—
Substandard	—	20,667	—	—	—	—	—	20,667
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 29,902	$ 78,611	$ 14,326	$ 122	$ —	$ 952	$ 121	$ 124,034
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Multifamily								
Pass	$ 71,994	$ 67,368	$ 16,637	$ 48,643	$ 24,581	$ 15,435	$ 135	$ 244,793
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	310	—	310
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 71,994	$ 67,368	$ 16,637	$ 48,643	$ 24,581	$ 15,745	$ 135	$ 245,103
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Non-owner occupied								
Pass	$154,813	$127,550	$ 79,046	$ 62,857	$ 69,269	$ 69,680	$ 5,121	$ 568,336
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	875	143	—	1,018
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$154,813	$127,550	$ 79,046	$ 62,857	$ 70,144	$ 69,823	$ 5,121	$ 569,354
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Owner occupied								
Pass	$ 39,030	$ 55,337	$ 41,623	$ 36,339	$ 22,340	$ 66,574	$ 2,538	$ 263,781
Special mention	—	—	—	—	—	262	—	262
Substandard	—	587	2,872	—	2,815	1,306	—	7,580

Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 39,030	$ 55,924	$ 44,495	$ 36,339	$ 25,155	$ 68,142	$ 2,538	$ 271,623
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Land								
Pass	$ 6,424	$ 15,294	$ 4,721	$ 5,958	$ 672	$ 7,763	$ —	$ 40,832
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 6,424	$ 15,294	$ 4,721	$ 5,958	$ 672	$ 7,763	$ —	$ 40,832
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural – Production								
Pass	$ 7,890	$ 5,858	$ 854	$ 1,904	$ 2,744	$ 174	$ 16,717	$ 36,141
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 7,890	$ 5,858	$ 854	$ 1,904	$ 2,744	$ 174	$ 16,717	$ 36,141
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – First lien								
Performing	$ 61,201	$190,749	$217,146	$108,100	$ 33,102	$ 87,213	$ 284	$ 697,795
Nonperforming	—	—	—	—	—	105	—	105
Subtotal	$ 61,201	$190,749	$217,146	$108,100	$ 33,102	$ 87,318	$ 284	$ 697,900
Gross charge-offs for the period ended	$ —	$ —	$ 9	$ —	$ —	$ —	$ —	$ 9
Residential real estate – Construction								
Performing	$ 10,978	$ 16,428	$ 1,573	$ —	$ —	$ —	$ —	$ 28,979
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 10,978	$ 16,428	$ 1,573	$ —	$ —	$ —	$ —	$ 28,979
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate – HELOC								
Performing	$ 7,470	$ 6,835	$ 789	$ 1,184	$ 308	$ 1,341	$ 100,388	$ 118,315
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 7,470	$ 6,835	$ 789	$ 1,184	$ 308	$ 1,341	$ 100,388	$ 118,315
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 40	$ —	$ 40
Residential real estate – Junior lien								
Performing	$ 10,938	$ 8,820	$ 5,157	$ 3,673	$ 1,461	$ 3,939	$ 50	$ 34,038
Nonperforming	—	—	—	—	—	—	1,781	1,781
Subtotal	$ 10,938	$ 8,820	$ 5,157	$ 3,673	$ 1,461	$ 3,939	$ 1,831	$ 35,819
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 77	$ —	$ 77
Other consumer								
Performing	$ 5,320	$ 6,395	$ 980	$ 4,489	$ 1,554	$ 952	$ 9,613	$ 29,303
Nonperforming	—	—	—	—	—	—	—	—
Subtotal	$ 5,320	$ 6,395	$ 980	$ 4,489	$ 1,554	$ 952	$ 9,613	$ 29,303
Gross charge-offs for the period ended	$ 4	$ 2	$ —	$ 31	$ 6	$ 8	$ —	$ 51
Total loans	$596,067	$667,909	$452,797	$341,964	$191,674	$273,541	$ 235,631	$2,759,583
Gross charge-offs for the period ended	$ 43	$ 2	$ 58	$ 42	$ 253	$ 215	$ —	$ 613

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Past Due and Nonaccrual Loans

The Company closely monitors the performance of its loan portfolio. A loan is placed on nonaccrual status when the financial condition of the borrower is deteriorating, payment in full of both principal and interest is not expected as scheduled or principal or interest has been in default for 90 days or more. Exceptions may be made if the asset is secured by collateral sufficient to satisfy both the principal and accrued interest in full and collection is reasonably assured. When one loan to a borrower is placed on nonaccrual status, all other loans to the borrower are re-evaluated to determine if they should also be placed on nonaccrual status. All previously accrued and unpaid interest is reversed at that time. A loan will return to accrual when collection of principal and interest is assured and the borrower has demonstrated timely payments of principal and interest for a reasonable period, generally at least six months.

The following tables present a past due aging analysis of total loans outstanding, by portfolio segment, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	June 30, 2024						September 30, 2			
	Accruing	30 - 59 Days	60 - 89 Days	90 Days or More		Total	Accruing	30 - 59 Days	60 - 89 Days	90 Days or More
(dollars in thousands)	Current	Past Due	Past Due	Past Due	Nonaccrual	Loans	Current	Past Due	Past Due	Past Due
Commercial										
Commercial and industrial	$ 586,979	$ 1,594	$ 128	$ —	$ 3,078	$ 591,779	$ 600,976	$ 1,807	$ 397	$ —
Commercial real estate										
Construction, land and development	140,276	—	—	—	21,475	161,751	148,624	—	—	—
Multifamily	242,041	—	—	—	—	242,041	275,377	—	—	—

Non-owner occupied	641,975	—	5,801	—	—	647,776	677,266	3,588	—	—
Owner occupied	280,989	279	—	—	2,088	283,356	293,851	3	—	—
Total commercial real estate	1,305,281	279	5,801	—	23,563	1,334,924	1,395,118	3,591	—	—
Agricultural										
Land	41,410	—	—	—	—	41,410	45,821	—	—	—
Production	40,479	—	—	—	70	40,549	39,366	—	—	—
Total agricultural	81,889	—	—	—	70	81,959	85,187	—	—	—
Total commercial	1,974,149	1,873	5,929	—	26,711	2,008,662	2,081,281	5,398	397	—
Consumer										
Residential real estate										
First lien	684,325	877	460	—	624	686,286	687,874	151	478	—
Construction	17,893	—	4,680	—	—	22,573	7,128	—	—	—
HELOC	124,392	274	1,382	—	163	126,211	132,077	655	81	—
Junior lien	35,648	108	447	—	120	36,323	32,653	17	24	—
Total residential real estate	862,258	1,259	6,969	—	907	871,393	859,732	823	583	—
Other consumer	35,309	132	296	—	—	35,737	36,007	88	8	—
Total consumer	897,567	1,391	7,265	—	907	907,130	895,739	911	591	—
Total	$2,871,716	$ 3,264	$ 13,194	$ —	$ 27,618	$2,915,792	$ 2,977,020	$ 6,309	$ 988	$ —

	December 31, 2023					
(dollars in thousands)	Accruing Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial						
Commercial and industrial	$ 554,602	$ 844	$ —	$ 139	$ 6,595	$ 562,180
Commercial real estate						
Construction, land and development	124,034	—	—	—	—	124,034
Multifamily	245,103	—	—	—	—	245,103
Non-owner occupied	569,267	87	—	—	—	569,354
Owner occupied	270,467	41	—	—	1,115	271,623

Total commercial real estate	1,208,871	128	—	—	1,115	1,210,114
Agricultural						
Land	40,832	—	—	—	—	40,832
Production	36,061	80	—	—	—	36,141
Total agricultural	76,893	80	—	—	—	76,973
Total commercial	1,840,366	1,052	—	139	7,710	1,849,267
Consumer						
Residential real estate						
First lien	695,807	901	554	—	638	697,900
Construction	28,979	—	—	—	—	28,979
HELOC	117,540	597	—	—	178	118,315
Junior lien	35,680	69	—	—	70	35,819
Total residential real estate	878,006	1,567	554	—	886	881,013
Other consumer	29,086	170	47	—	—	29,303
Total consumer	907,092	1,737	601	—	886	910,316
Total	$ 2,747,458	$ 2,789	$ 601	$ 139	$ 8,596	$ 2,759,583

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	December 31, 2023					
(dollars in thousands)	Accruing Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial						
Commercial and industrial	$ 554,602	$ 844	$ —	$ 139	$ 6,595	$ 562,180
Commercial real estate						
Construction, land and development	124,034	—	—	—	—	124,034
Multifamily	245,103	—	—	—	—	245,103
Non-owner occupied	569,267	87	—	—	—	569,354
Owner occupied	270,467	41	—	—	1,115	271,623
Total commercial real estate	1,208,871	128	—	—	1,115	1,210,114

Agricultural						
Land	40,832	—	—	—	—	40,832
Production	36,061	80	—	—	—	36,141
Total agricultural	76,893	80	—	—	—	76,973
Total commercial	1,840,366	1,052	—	139	7,710	1,849,267
Consumer						
Residential real estate						
First lien	695,807	901	554	—	638	697,900
Construction	28,979	—	—	—	—	28,979
HELOC	117,540	597	—	—	178	118,315
Junior lien	35,680	69	—	—	70	35,819
Total residential real estate	878,006	1,567	554	—	886	881,013
Other consumer	29,086	170	47	—	—	29,303
Total consumer	907,092	1,737	601	—	886	910,316
Total	$2,747,458	$ 2,789	$ 601	$ 139	$ 8,596	$2,759,583

In calculating expected credit losses, the Company includes loans on nonaccrual status and loans 90 days or more past due and still accruing. The following tables present the amortized cost basis on nonaccrual status loans and loans 90 days or more past due and still accruing as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	As of June 30, 2024			As of September 30, 2024		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing
Commercial						
Commercial and industrial	$ 3,061	$ 3,078	$ —	$ 2,790	$ 3,065	$ —
Commercial real estate						
Construction, land and development	—	21,475	—	—	25,005	—
Multifamily	—	—	—	—	—	—
Non-owner occupied	—	—	—	5,217	5,217	—

Owner occupied	1,446	2,088	—	1,781	2,512	—
Total commercial real estate	1,446	23,563	—	6,998	32,734	—
Agricultural						
Land	—	—	—	—	—	—
Production	70	70	—	70	70	—
Total agricultural	70	70	—	70	70	—
Total commercial	4,577	26,711	—	9,858	35,869	—
Consumer						
Residential real estate						
First lien	618	624	—	1,941	1,948	—
Construction	—	—	—	4,680	4,680	—
HELOC	163	163	—	138	1,488	—
Junior lien	120	120	—	1,894	3,751	—
Total residential real estate	901	907	—	8,653	11,867	—
Other consumer	—	—	—	—	290	—
Total consumer	901	907	—	8,653	12,157	—
Total	$ 5,478	$ 27,618	$ —	$ 18,511	$ 48,026	$ —

	December 31, 2023		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing
Commercial			
Commercial and industrial	$ 79	$ 6,595	$ 139
Commercial real estate			
Construction, land and development	—	—	—
Multifamily	—	—	—
Non-owner occupied	—	—	—
Owner occupied	95	1,115	—
Total commercial real estate	95	1,115	—
Agricultural			
Land	—	—	—
Production	—	—	—
Total agricultural	—	—	—

Total commercial	174	7,710	139
Consumer			
Residential real estate			
First lien	632	638	—
Construction	—	—	—
HELOC	115	178	—
Junior lien	70	70	—
Total residential real estate	817	886	—
Other consumer	—	—	—
Total consumer	817	886	—
Total	$ 991	$ 8,596	$ 139

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	December 31, 2023		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing
Commercial			
Commercial and industrial	$ 79	$ 6,595	$ 139
Commercial real estate			
Construction, land and development	—	—	—
Multifamily	—	—	—
Non-owner occupied	—	—	—
Owner occupied	95	1,115	—
Total commercial real estate	95	1,115	—
Agricultural			
Land	—	—	—
Production	—	—	—
Total agricultural	—	—	—
Total commercial	174	7,710	139
Consumer			

Residential real estate			
First lien	632	638	—
Construction	—	—	—
HELOC	115	178	—
Junior lien	70	70	—
Total residential real estate	817	886	—
Other consumer	—	—	—
Total consumer	817	886	—
Total	$ 991	$ 8,596	$ 139

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the three months ended June 30, 2024 September 30, 2024 and 2023, is estimated to have been $188 $1.9 million and $186 thousand, and $63 thousand, respectively.

The Company's policy is to reverse previously recorded interest income when a loan is placed on nonaccrual status. As a result, the Company did not record any interest income on its nonaccrual loans for the three months ended June 30, 2024September 30, 2024 or 2023.2023. At June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, total accrued interest receivable on loans, which had been excluded from reported amortized cost basis on loans, was $13.5 million $13.4 million and $12.2 million, $12.2 million, respectively, and was reported within accrued interest receivable on the consolidated statements of condition. An allowance was not carried on the accrued interest receivable at either date.

In cases where a borrower experiences financial difficulty, the Company may make certain concessions for which the terms of the loan are modified. Loans experiencing financial difficulty can include modifications for an interest rate reduction below current market rates, a forgiveness of principal balance, an extension of the loan term, an-other than significant payment delay, or some combination of similar types of modifications. During both the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023, the Company did not provide any modifications to loans under these circumstances that were experiencing financial difficulty.

The following tables present the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	As of June 30, 2024					As of September 30, 2024				
	Primary Type of Collateral					Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses	Real estate	Equipment	Other	Total	Allowance for Credit Losses
Commercial										
Commercial and industrial	$ 2,790	$ —	$ —	$ 2,790	$ —	$ 2,790	$ 76	$ —	$ 2,866	$ 76
Commercial real estate										
Construction, land and development	21,475	—	—	21,475	5,756	25,005	—	—	25,005	4,984
Multifamily	—	—	—	—	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	5,217	—	—	5,217	—
Owner occupied	828	—	29	857	328	864	—	—	864	298
Total commercial real estate	22,303	—	29	22,332	6,084	31,086	—	—	31,086	5,282
Agricultural										
Land	—	—	—	—	—	—	—	—	—	—
Production	—	70	—	70	—	—	70	—	70	—
Total agricultural	—	70	—	70	—	—	70	—	70	—
Total commercial	25,093	70	29	25,192	6,084	33,876	146	—	34,022	5,358
Consumer										
Residential real estate										
First lien	624	—	—	624	3	1,948	—	—	1,948	3
Construction	—	—	—	—	—	4,680	—	—	4,680	—
HELOC	163	—	—	163	—	1,529	—	—	1,529	54
Junior lien	107	6	—	113	—	3,745	—	—	3,745	825
Total residential real estate	894	6	—	900	3	11,902	—	—	11,902	882

Other consumer	—	—	—	—	—	—	—	280	280	47
Total consumer	894	6	—	900	3	11,902	—	280	12,182	929
Total	$ 25,987	$ 76	$ 29	$26,092	$ 6,087	$ 45,778	$ 146	$ 280	$ 46,204	$ 6,287

	As of December 31, 2023					As of December 31, 2023				
	Primary Type of Collateral					Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses	Real estate	Equipment	Other	Total	Allowance for Credit Losses
Commercial										
Commercial and industrial	$ 6,124	$ —	$ —	$6,124	$ 2,384	$ 6,124	$ —	$ —	$ 6,124	$ 2,384
Commercial real estate										
Construction, land and development	—	—	—	—	—	—	—	—	—	—
Multifamily	—		—	—	—	—		—	—	—
Non-owner occupied	—		—	—	—	—		—	—	—
Owner occupied	695		96	791	601	695		96	791	601
Total commercial real estate	695	—	96	791	601	695	—	96	791	601
Agricultural										
Land	—	—	—	—	—	—	—	—	—	—
Production	—	—	—	—	—	—	—	—	—	—
Total agricultural	—	—	—	—	—	—	—	—	—	—
Total commercial	6,819	—	96	6,915	2,985	6,819	—	96	6,915	2,985
Consumer										
Residential real estate										
First lien	638	—	—	638	3	638	—	—	638	3
Construction	—		—	—	—	—		—	—	—
HELOC	64	22	—	86	—	64	22	—	86	—
Junior lien	70	—	93	163	6	70	—	93	163	6
Total residential real estate	772	22	93	887	9	772	22	93	887	9
Other consumer	—	—	—	—	—	—	—	—	—	—
Total consumer	772	22	93	887	9	772	22	93	887	9
Total	$ 7,591	$ 22	$ 189	$7,802	$ 2,994	$ 7,591	$ 22	$ 189	$ 7,802	$ 2,994

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Collateral dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and when there are no other available and reliable sources of repayment.

NOTE6 Land, Premises and Equipment, Net

Components of land, premises and equipment at June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023 were as follows:

(dollars in thousands)	June 30, 2024	December 31, 2023
Land (1)	$ 3,036	$ 4,542
Buildings and improvements (1)	23,177	28,172
Leasehold improvements	2,657	2,657
Furniture, fixtures, and equipment	36,136	34,086
	65,006	69,457
Less accumulated depreciation	(47,678)	(51,517)
Total	$ 17,328	$ 17,940

(dollars in thousands)	September 30, 2024	December 31, 2023
Land (1)	$ 2,775	$ 4,542
Buildings and improvements (1)	22,096	28,172
Leasehold improvements	2,657	2,657
Furniture, fixtures, and equipment	36,519	34,086
	64,047	69,457
Less accumulated depreciation	(45,257)	(51,517)
Total	$ 18,790	$ 17,940

(1) Excludes assets held for sale.
(1)

Depreciation expense was $0.7 million$0.7 million and $0.6 million$0.6 million for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively. Depreciation expense was $1.3 million$2.1 million and $1.2 million$1.9 million for the sixnine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

On July 1, 2024, July 1, 2024, the Company entered into a purchase agreement to sell its South Fargo branch in Fargo, North Dakota. At June 30, 2024, June 30, 2024, the facility included assets with a carrying value of approximately $1.7 million. The sale of this facility during 2024 is likely, and the Company expects to record a gain on the sale upon closing, since the offer agreed upon purchase price of $5.3 million $5.1 million is greater than the property's carrying value. On February 6, 2024, the Company entered into a purchase agreement The Company's West Fargo, North Dakota branch is listed for sale for $3.8 million and is expected to sell its branch in Shorewood, Minnesota for $2.8 million within the next 12 months. At September 30, 2024, the facility included assets with a carrying value of approximately $0.4 million. The sale of this facility during 2024 is likely, and the Company expects to record a gain on the sale upon closing, since as the offer of $2.8 million expected sale price is greater than the property's carrying value of $2.1 million. value. Total assets held for sale by the Company at June 30, 2024September 30, 2024 were $3.8 million $2.1 million and were was included in other assets on the Company's consolidated balance sheet and not included in the table above.

NOTE7 Goodwill and Other Intangible Assets

The following table summarizes the carrying amount of goodwill, by segment, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Banking	$35,260	$ 35,260	$ 35,260	$ 35,260
Retirement and benefit services	11,523	11,523	11,523	11,523
Total goodwill	$46,783	$ 46,783	$ 46,783	$ 46,783

Goodwill is evaluated for impairment on an annual basis, at a minimum, and more frequently when the economic environment warrants. The Company determined that there was no goodwill impairment as of June 30, 2024September 30, 2024.

The gross carrying amount and accumulated amortization for each type of identifiable intangible asset, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, were as follows:

(dollars in thousands)	June 30, 2024			December 31, 2023			September 30, 2024		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Identifiable customer intangibles	$41,423	$ (31,974)	$ 9,449	$41,423	$ (29,959)	$11,464	$ 41,423	$ (32,982)	$ 8,441
Core deposit intangible assets	7,592	(2,531)	5,061	7,592	(1,898)	5,694	7,592	(2,847)	4,745
Total intangible assets	$49,015	$ (34,505)	$14,510	$49,015	$ (31,857)	$17,158	$ 49,015	$ (35,829)	$ 13,186

Amortization of intangible assets was $1.3 million$1.3 million for both the three months ended June 30, 2024 September 30, 2024 and 2023.2023. Amortization of intangible assets was $2.6 million$4.0 million for both the sixnine months ended June 30, 2024 September 30, 2024 and 2023.2023.

NOTE8 Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled $184.3$181.8 million and $190.0 million as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and collection and foreclosure processing. Loan servicing income is recorded on an accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees, and is net of fair value adjustments to capitalized mortgage servicing rights.

The following table summarizes the Company's activity related to servicing rights for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023:2023:

(dollars in thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Servicing Assets:				
Balance at beginning of period	$ 1,983	$ 2,421	$ 2,052	$ 2,643
Additions, net of valuation reserve (1)	320	312	341	274
Amortization (2)	(133)	(134)	(223)	(318)
Balance at end of period	2,170	2,599	2,170	2,599
Less valuation reserve (3)	(207)	(248)	(207)	(248)
Balance at end of period, net of valuation reserve	$ 1,963	$ 2,351	$ 1,963	$ 2,351
Fair value, beginning of period	$ 2,083	$ 2,421	$ 2,062	$ 2,643
Fair value, end of period	$ 2,082	$ 2,351	$ 2,082	$ 2,351

(dollars in thousands)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Servicing Assets:				
Balance at beginning of period	$ 1,963	$ 2,351	$ 2,052	$ 2,643
Additions, net of valuation reserve (1)	225	210	358	236
Amortization (2)	(105)	(140)	(327)	(458)
Balance at end of period	2,083	2,421	2,083	2,421
Less valuation reserve (3)	(209)	(207)	(209)	(207)
Balance at end of period, net of valuation reserve	$ 1,874	$ 2,214	$ 1,874	$ 2,214

Fair value, beginning of period	$ 2,082	$ 2,351	$ 2,062	$ 2,643
Fair value, end of period	$ 1,874	$ 2,269	$ 1,874	$ 2,269

(1) (1) Associated income was reported within mortgage banking income, net on the consolidated statements of income.

(2) (2) Associated amortization expense was reported within other noninterest income on the consolidated statements of income.

(3) (3) Associated valuation reserve was reported within mortgage and lending expenses on the consolidated statements of income.

The following is a summary of key data and assumptions used in the valuation of servicing rights as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023. Increases or decreases in any one of these assumptions would result in lower or higher fair value measurements.

	June 30,	December 31,	September 30,	December 31,
(dollars in thousands)	2024	2023	2024	2023
Fair value of servicing rights	$ 2,082	$ 2,062	$ 1,874	$ 2,062
Weighted-average remaining term, years	18.9	18.8	19.1	18.8
Prepayment speeds	6.3 %	6.2 %	10.1 %	6.2 %
Discount rate	11.1 %	11.1 %	10.5 %	11.1 %

NOTE9 Leases

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NOTE 9 Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of

an identified property, plant or equipment for a period of time in exchange for consideration. Substantially all of the leases in which the Company is the lessee are comprised of real property for offices and office equipment rentals with terms extending through 2037. Portions of certain properties are subleased for terms extending through 2024.July 2025. Substantially all of the Company's leases are classified as operating leases. The Company has no existing finance leases.

The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated financial statements. The following table presents the classification of the Company's right-of-use, or ROU, assets and lease liabilities on the consolidated financial statements as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)	Classification	June 30, 2024	December 31, 2023	Classification	September 30, 2024	December 31, 2023
Lease Right-of-Use Assets						
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 4,871	$ 5,436	Operating lease right-of-use assets	$ 9,268	$ 5,436
Lease Liabilities						
Operating lease liabilities	Operating lease liabilities	$ 5,197	$ 5,751	Operating lease liabilities	$ 9,643	$ 5,751

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. The Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term for the discount rate. For the Company's only finance lease, the Company utilized its incremental borrowing rate at lease inception.

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Weighted-average remaining lease term, years				
Operating leases	7.4	7.3	12.1	7.3
Weighted-average discount rate				
Operating leases	3.8 %	3.9 %	4.47 %	3.9 %

As the Company elected, for all classes of underlying assets, not to separate lease and non-lease non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities. Variable lease cost also includes payments for usage or maintenance of those capitalized equipment operating leases.

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The following table presents lease costs and other lease information for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023:2023:

(dollars in thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Lease costs								

Operating lease cost	$ 442	$ 354	$ 903	$ 935	$ 500	$ 503	$ 1,404	$ 1,438
Variable lease cost	206	474	472	699	269	219	741	918
Short-term lease cost	67	39	104	82	54	46	158	128
Finance lease cost								
Interest on lease liabilities	—	—	—	—	—	—	—	—
Amortization of right-of-use assets	—	—	—	—	—	—	—	—
Sublease income	(51)	(60)	(99)	(119)	(47)	(50)	(146)	(169)
Net lease cost	$ 664	$ 807	$ 1,380	$ 1,597	$ 776	$ 718	$ 2,157	$ 2,315
Other information								
Cash paid for amounts included in the measurement of lease liabilities operating cash flows from operating leases	$ 460	$ 474	$ 920	$ 953	$ 549	$ 499	$ 1,469	$ 1,275
Right-of-use assets obtained in exchange for new operating lease liabilities	210	2,029	318	2,286	5,136	(1,240)	5,244	1,938

Future minimum payments for finance and operating leases with initial or remaining terms of one year or more as of June 30, 2024September 30, 2024 were as follows:

(dollars in thousands)	Operating Leases
Twelve months ended	
June 30, 2025	$ 1,664
June 30, 2026	1,313
June 30, 2027	1,135
June 30, 2028	588
June 30, 2029	383
Thereafter	1,845
Total future minimum lease payments	$ 6,928

Amounts representing interest	(1,731)
Total operating lease liabilities	$ 5,197

(dollars in thousands)	Operating Leases
Twelve months ended	
September 30, 2025	$ 1,747
September 30, 2026	1,574
September 30, 2027	1,470
September 30, 2028	970
September 30, 2029	758
Thereafter	8,309
Total future minimum lease payments	$ 14,828
Amounts representing interest	(5,185)
Total operating lease liabilities	$ 9,643

NOTE10 Deposits

NOTE 10 Deposits

The components of deposits in the consolidated balance sheets as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023 were as follows:

(dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Noninterest-bearing	$ 701,428	$ 728,082	$ 657,547	$ 728,082
Interest-bearing				
Interest-bearing demand	1,003,585	840,711	1,034,694	840,711
Savings accounts	79,747	82,485	75,675	82,485
Money market savings	1,022,470	1,032,771	1,067,187	1,032,771
Time deposits	491,345	411,562	488,447	411,562
Total interest-bearing	2,597,147	2,367,529	2,666,003	2,367,529

Total deposits	$3,298,575	$ 3,095,611	$ 3,323,550	$ 3,095,611

Certificates of deposit in excess of $250,000$250,000 totaled $190.8 million$170.9 million and $121.8 million$121.8 million at June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively.

NOTE11 Short-Term Borrowings

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NOTE 11 Short-Term Borrowings

Short-term borrowings at June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023 consisted of the following:

(dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Fed funds purchased	$ —	$ 114,170	$ 44,700	$ 114,170
Bank Term Funding Program (1)	355,000	—		
FHLB short-term advances	200,000	200,000	200,000	200,000
Total	$555,000	$ 314,170	$ 244,700	$ 314,170

(1) In the first quarter of 2024, the Company borrowed $355.0 million from the Bank Term Funding Program, or BTFP, for a period of up to one year at a fixed rate of 4.88%. Under the program, the Company may prepay this borrowing at any time without penalty and the borrowing is secured by the Company's pledged collateral of investment securities.

NOTE12 Long-Term Debt

NOTE 12 Long-Term Debt

Long-term Long-term debt as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023 consisted of the following:

(dollars in thousands)	June 30, 2024						Septe		
	Face Value	Carrying Value	Interest Rate	Period End Interest Rate	Maturity Date	Call Date	Face Value	Carrying Value	Inter Ra
Subordinated notes payable	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026	$ 50,000	$ 50,000	Fixe
Junior subordinated debenture (Trust I)	4,124	3,605	Three-month CME SOFR + 0.26% + 3.10%	8.70 %	6/26/2033	6/26/2008	4,124	3,616	Thre mon CME SOF 0.26 + 3.10
Junior subordinated debenture (Trust II)	6,186	5,408	Three-month CME SOFR + 0.26% + 1.80%	7.40 %	9/15/2036	9/15/2011	6,186	5,425	Thre mon CME SOF 0.26 + 1.80
Total long-term debt	$60,310	$59,013					$ 60,310	$ 59,041	

(dollars in thousands)	December 31, 2023						Dece		
	Face Value	Carrying Value	Interest Rate	Period End Interest Rate	Maturity Date	Call Date	Face Value	Carrying Value	Inter Ra

Subordinated notes payable	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026	$ 50,000	$ 50,000	Fixe
Junior subordinated debenture (Trust I)	4,124	3,583	Three-month CME SOFR + 0.26% + 3.10%	8.72 %	6/26/2033	6/26/2008	4,124	3,583	Thre mon CME SOF 0.26 + 3.10
Junior subordinated debenture (Trust II)	6,186	5,373	Three-month CME SOFR + 0.26% + 1.80%	7.45 %	9/15/2036	9/15/2011	6,186	5,373	Thre mon CME SOF 0.26 + 1.80
Total long-term debt	$60,310	$58,956					$ 60,310	$ 58,956	

NOTE13 Commitments and Contingencies

Commitments

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the statements of financial condition.

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A summary of the contractual amounts of the Company's exposure to off-balance sheet risk as of June 30, 2024September 30, 2024 and

December 31, 2023December 31, 2023, respectively, was as follows:

(dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Commitments to extend credit	$925,260	$ 942,413	$ 927,235	$ 942,413
Standby letters of credit	15,853	10,045	11,231	10,045
Total	$941,113	$ 952,458	$ 938,466	$ 952,458

The Company establishes an ACL on unfunded commitments, except those that are unconditionally cancellable by the Company. As of June 30, 2024both September 30, 2024 and December 31, 2023December 31, 2023, the ACL on unfunded commitments was $6.9 million and $7.4 million, respectively.. The ACL on unfunded commitments was presented within accrued expenses and other liabilities on the consolidated balance sheet. For the sixnine months ended June 30, 2024 September 30, 2024 and 2023, the provision for credit losses on unfunded commitments was ($518)$31 thousand and $44 thousand, respectively.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

The Company was not required to perform on any financial guarantees and did not incur any losses on its commitments during the past two years.

The Company utilizes standby letters of credit issued by either the FHLB or the Bank of North Dakota to secure public unit deposits. The Company had no letters of credit outstanding with the FHLB as of June 30, 2024September 30, 2024 or December 31, 2023December 31, 2023. With the Bank of North Dakota, the Company had letters of credit outstanding in the amount of $200.0 million $150.0 million and $182.0 million as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively. Letters of credit with the Bank of North Dakota were collateralized by loans pledged to the Bank of North Dakota in the amount of $456.8 $469.1 million and $454.6 million as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively.

Legal Contingencies

In the normal course of business, including in connection with business combinations pursued by the Company, the Company and its subsidiaries are subject to pending and threatened litigation, claims investigations and legal and administrative cases and proceedings. Although the Company is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that, based on the information currently available, the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the Company’s consolidated financial statements.

Reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. Assessments of litigation exposure are difficult because they involve inherently unpredictable factors including, but not limited to: whether the proceeding is in the early stages; whether damages are unspecified, unsupported or uncertain; whether there is a potential for punitive

or other pecuniary damages; whether the matter involves legal uncertainties, including novel issues of law; whether the matter involves multiple parties and/or jurisdictions; whether discovery has begun or is not complete; whether meaningful settlement discussions have commenced; and whether the lawsuit involves class allegations. In many lawsuits and arbitrations, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case a reserve will not be recognized until that time. Assessments of class action litigation, which is generally more complex than other types of litigation, are particularly difficult, especially in the early stages of the proceeding when it is not known whether a class will be certified or how a potential class, if certified, will

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be defined. As a result, the Company may be unable to estimate reasonably possible losses with respect to every litigation matter it faces.

The Company did not have any material loss contingencies that were provided for and/or that were required to be disclosed as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively.

NOTE14 Share-Based Compensation

On May 6, 2019,May 6,2019, the Company's stockholders approved the Alerus Financial Corporation 2019 Equity Incentive Plan. This plan allows the compensation committee the ability to grant a wide variety of equity awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, and cash incentive awards in such forms and amounts as it

deems appropriate to accomplish the goals of the plan. Since inception, all awards issued under the plan have been restricted stock and restricted stock units. Any shares subject to an award that is cancelled, forfeited, or expires prior to exercise or realization, either in full or in part, shall again become available for issuance under the plan. However, shares subject to an award shall not again be made available for issuance or delivery under the plan if such shares are (a) tendered in payment of the exercise price of a stock option, (b) delivered to, or withheld by, the Company to satisfy any tax withholding obligation, or (c) covered by a stock-settled stock appreciation right or other awards that were not issued upon the settlement of the award. Restricted stock units issued do not participate in dividends and recipients are not entitled to vote these restricted stock units until shares of the Company's common stock are delivered after vesting of the restricted stock units. Shares vest, become exercisable and contain such other terms and conditions as determined by the compensation committee and set forth in individual agreements with the participant receiving the award. Awards issued to Company directors are not subject to any service requirements and vest immediately. The plan authorizes the issuance of up to 1,100,000 shares of common stock. As of June 30, 2024September 30, 2024, 687,308 669,332 shares of common stock are still available for issuance under the plan.

The compensation expense relating to awards under these plans was $121 $488 thousand and $656 $377 thousand for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively. The compensation expense relating to awards under these plans was $714 thousand and $815 thousand $1.2 million for both the sixnine months ended June 30, 2024 September 30, 2024 and 2023 respectively..

The following table presents the activity in the stock plans for the sixnine months ended June 30, 2024 September 30, 2024 and 2023:2023:

	Six months ended June 30,			
	2024		2023	
	Awards	Weighted-Average Grant Date Fair Value	Awards	Weighted-Average Grant Date Fair Value
Restricted Stock and Restricted Stock Unit Awards				
Outstanding at beginning of period	231,657	$ 22.96	238,929	$ 23.66
Granted	90,585	21.33	82,810	20.85
Vested	(39,335)	25.71	(91,867)	21.29
Forfeited or cancelled	—	—	(22,204)	21.39
Outstanding at end of period	282,907	$ 22.03	207,668	$ 23.83

	Nine Months Ended September 30,			
	2024		2023	
	Awards	Weighted-Average Grant Date Fair Value	Awards	Weighted-Average Grant Date Fair Value
Restricted Stock and Restricted Stock Unit Awards				
Outstanding at beginning of period	231,657	$ 22.96	238,929	$ 23.66
Granted	108,561	20.93	115,174	20.00
Vested	(55,429)	23.87	(93,767)	21.34
Forfeited or cancelled	—	—	(26,840)	21.33
Outstanding at end of period	284,789	$ 22.00	233,496	$ 23.05

As of June 30, 2024September 30, 2024, there was $3.4 million$3.1 million of unrecognized compensation expense related to non-vested awards granted under the plans. The expense is expected to be recognized over a weighted-average period of 2.31.9 years.

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NOTE15 Income Taxes

The components of income tax expense (benefit) for the three and sixnine months ended June 30, 2024

September 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three months ended June 30, 2024 Amount	Three months ended June 30, 2024 Percent of Pretax Income	Three months ended June 30, 2023 Amount	Three months ended June 30, 2023 Percent of Pretax Income	Three months ended September 30, 2024 Amount	Three months ended September 30, 2024 Percent of Pretax Income	Three months ended September 30, 2023 Amount	Three months ended September 30, 2023 Percent of Pretax Income
Taxes at statutory federal income tax rate	$1,708	21.0 %	$2,444	21.0 %	$ 1,427	21.0%	$ 2,424	21.0
Tax effect of:								
Tax exempt income	(239)	(2.9)%	(156)	(1.3)%	(308)	(4.5)%	(189)	(1.6
State income taxes, net of federal benefits	398	4.9 %	485	4.1 %	332	4.9%	499	4.3
Nondeductible items and other	56	0.7 %	(238)	(2.0)%	139	2.0%	(353)	(3.1
Applicable income taxes	$1,923	23.7 %	$2,535	21.8 %	$ 1,590	23.4%	$ 2,381	20.6

(dollars in thousands)	Six months ended June 30, 2024 Amount	Six months ended June 30, 2024 Percent of Pretax Income	Six months ended June 30, 2023 Amount	Six months ended June 30, 2023 Percent of Pretax Income	Nine months ended September 30, 2024 Amount	Nine months ended September 30, 2024 Percent of Pretax Income	Nine months ended September 30, 2023 Amount	Nine months ended September 30, 2023 Percent of Pretax Income
Taxes at statutory federal income tax rate	$3,497	21.0 %	$4,648	21.0 %	$ 4,925	21.0%	$ 7,071	21.0
Tax effect of:								
Tax exempt income	(468)	(2.8)%	(300)	(1.4)%	(776)	(3.3)%	(489)	(1.5
State income taxes, net of federal benefits	812	4.9 %	946	4.3 %	1,143	4.9%	1,445	4.3
Nondeductible items and other	173	1.0 %	(453)	(2.0)%	312	1.3%	(805)	(2.4
Applicable income taxes	$4,014	24.1 %	$4,841	21.9 %	$ 5,604	23.9%	$ 7,222	21.4

It is the opinion of management that, as of September 30, 2024, the Company has had no significant uncertain tax positions that would be subject to change upon examination.

NOTE 16 Tax Credit Investments

The Company invests in qualified affordable housing projects for the purpose of community reinvestment and obtaining tax credits. The Company's tax credit investments are limited to existing lending relationships with well-known developers and projects within the Company's market area.

The following table presents a summary of the Company's investments in qualified affordable housing project tax credits as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)		June 30, 2024		December 31, 2023		
Investment	Accounting Method	Investment	Unfunded Commitment	Investment	Unfunded Commitment	Accounting Method
Low income housing tax credit	Proportional amortization	$ 17,906	$ 7,010	$ 17,906	$ 12,347	Proportional amortization

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The following tables present a summary of the amortization expense and tax benefit recognized for the Company's qualified affordable housing projects for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023:2023:

	Three months ended June 30,			
	2024		2023	
	Amortization	Tax Benefit	Amortization	Tax Benefit

(dollars in thousands)	Expense (1)	Recognized (2)	Expense (1)	Recognized (2)
Low income housing tax credit	$ 432	$ (370)	$ 278	$ (509)

	Three months ended September 30,			
	2024		2023	
(dollars in thousands)	Amortization Expense (1)	Tax Benefit Recognized (2)	Amortization Expense (1)	Tax Benefit Recognized (2)
Low income housing tax credit	$ 432	$ (352)	$ 245	$ (435)

(1) (1) The amortization expense for low income housing tax credits were was included in the income tax expense.

(2) (2) All of the tax benefits recognized were included in income tax expense.

	Six months ended June 30,			
	2024		2023	
	Amortization	Tax Benefit	Amortization	Tax Benefit
(dollars in thousands)	Expense (1)	Recognized (2)	Expense (1)	Recognized (2)
Low income housing tax credit	$ 864	$ (751)	$ 639	$ (735)

	Nine months ended September 30,			
	2024		2023	
(dollars in thousands)	Amortization Expense (1)	Tax Benefit Recognized (2)	Amortization Expense (1)	Tax Benefit Recognized (2)
Low income housing tax credit	$ 1,296	$ (1,103)	$ 884	$ (1,171)

(1) (1) The amortization expense for low income housing tax credits were was included in the income tax expense.

(2) (2) All of the tax benefits recognized were included in income tax expense.

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NOTE17 Segment Reporting

Operating segments are components of an enterprise, which are evaluated regularly by the "chief operating decision maker" in deciding how to allocate resources and assess

performance. The Company's chief operating decision maker is the President and Chief Executive Officer of the Company. Reportable segments are determined based on the services offered, the significance of the services offered, the significance of those services to the Company's financial statements, and management's regular review of the operating results of those services. The Company currently operates through three operating segments: Banking, Retirement and Benefit Services, and Wealth Management. In prior periods, the Company had a fourth operating segment, Mortgage. As of January 1, 2024, January 1, 2024, the Mortgage division was fully integrated into the Banking division by the Company to reflect the way the Company currently manages and views the business. The Company has restated all historical periods presented within these financial statements, and has not included the Mortgage operating segment.

The financial information presented for each segment includes net interest income, provision for credit losses, noninterest income, and direct and indirect noninterest expense. Corporate Administration includes all remaining income and expenses not allocated to the three operating segments.

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The following tables present key metrics related to the Company's segments for the periods presented:

	Three months ended June 30, 2024			
	Retirement and	Wealth	Corporate	
				As of and for the thre
				Retirement and

(dollars in thousands)	Banking	Benefit Services	Management	Administration	Consolidated
Net interest income (loss)	$ 24,684	$ —	$ —	$ (683)	$ 24,001
Provision for credit losses	4,489	—	—	—	4,489
Noninterest income (loss)	4,999	16,078	6,360	(66)	27,371
Noninterest expense	19,165	13,649	3,953	1,985	38,752
Net income (loss) before taxes	$ 6,029	$ 2,429	$ 2,407	$ (2,734)	$ 8,131
Total assets	$4,282,868	$ 34,695	$ 5,125	$ 35,935	$ 4,358,623

	Banking	Benefit Services	M
Net interest income (loss)	$ 23,220	$ —	$
Provision for credit losses	1,661	—	
Noninterest income (loss)	4,940	16,144	
Noninterest expense	20,269	14,154	
Net income (loss) before taxes	$ 6,230	$ 1,990	$
Total assets	$ 4,009,535	$ 32,882	$

	Six months ended June 30, 2024				
		Retirement and	Wealth	Corporate	
(dollars in thousands)	Banking	Benefit Services	Management	Administration	Consolidated
Net interest income (loss)	$ 47,581	$ —	$ —	$ (1,361)	$ 46,220
Provision for credit losses	4,489	—	—	—	4,489
Noninterest income (loss)	8,489	31,733	12,477	(5)	52,694
Noninterest expense	37,831	27,838	7,703	4,399	77,771
Net income (loss) before taxes	$ 13,750	$ 3,895	$ 4,774	$ (5,765)	$ 16,654
Total assets	$4,282,868	$ 34,695	$ 5,125	$ 35,935	$4,358,623

	As of and for the nine mor		
	Banking	Retirement and Benefit Services	Wea Manage
Net interest income (loss)	$ 70,803	$ —	$
Provision for credit losses	6,150	—	
Noninterest income (loss)	13,428	47,876	1
Noninterest expense	57,837	41,757	1
Net income (loss) before taxes	$ 20,244	$ 6,119	$
Total assets	$ 4,009,535	$ 32,882	$

	Three months ended June 30, 2023				
		Retirement and	Wealth	Corporate	
(dollars in thousands)	Banking	Benefit Services	Management	Administration	Consolidated

As of and for the thre		
Banking	Retirement and Benefit Services	M

Net interest income (loss)	$ 22,899	$ —	$ —	$ (665)	$ 22,234	$ 21,073	$ —	$
Provision for credit losses	—	—	—	—	—	—	—	
Noninterest income	4,242	15,890	5,449	197	25,778	4,660	18,605	
Noninterest expense	19,301	12,651	2,990	1,431	36,373	18,881	13,269	
Net income (loss) before taxes	$ 7,840	$ 3,239	$ 2,459	$ (1,899)	$ 11,639	$ 6,852	$ 5,336	$
Total assets	$3,764,246	$ 37,114	$ 4,384	$ 27,234	$ 3,832,978	$ 3,801,230	$ 36,114	$

	Six months ended June 30, 2023					As of and for the nine mor		
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Corporate Administration	Consolidated	Banking	Retirement and Benefit Services	Wea Manage
Net interest income (loss)	$ 47,212	$ —	$ —	$ (1,320)	$ 45,892	$ 68,285	$ —	$
Provision for credit losses	550	—	—	—	550	550	—	
Noninterest income	8,780	31,372	10,644	235	51,031	13,440	49,977	1
Noninterest expense	37,951	26,246	6,352	3,693	74,242	56,832	39,515	
Net income (loss) before taxes	$ 17,491	$ 5,126	$ 4,292	$ (4,778)	$ 22,131	$ 24,343	$ 10,462	$
Total assets	$3,764,246	$ 37,114	$ 4,384	$ 27,234	$3,832,978	$ 3,801,230	$ 36,114	$

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Banking

Banking

The Banking division offers a complete line of loan, deposit, cash management, and treasury services through fourteen offices in North Dakota, Minnesota, and Arizona. After the closing of the HMNF acquisition, the Company added 15 banking offices in Minnesota, Wisconsin, and Iowa. These products and services are supported through web and mobile based applications. The majority of the Company's assets and liabilities are in the Banking segment's balance sheet.

Retirement and Benefit Services

The Retirement and Benefit Services division provides the following services nationally: recordkeeping record-keeping and administration services to qualified retirement plans; recordkeeping and administration services to other types of retirement plans; plans, investment fiduciary services to retirement plans; plans, health savings accounts, flex flexible spending accounts, and COBRA recordkeeping and administration services. The division operates within each of the banking markets, as well as in Lansing, Michigan and Littleton, Colorado.

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Wealth Management

The Wealth Management division provides advisory and planning services, investment management, and trust and fiduciary services to clients across the Company's footprint.

NOTE18 Earnings Per Share

The calculation of basic and diluted earnings per share using the two-classtwo-class method for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023 are presented below:

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars and shares in thousands, except per share data)	2024	2023	2024	2023	2024	2023	2024	2023
Net income	$ 6,208	$ 9,104	$12,640	$17,290	$ 5,207	$ 9,161	$ 17,846	$ 26,451

Dividends and undistributed earnings allocated to participating securities	38	62	78	120	24	67	102	186
Net income available to common stockholders	$ 6,170	$ 9,042	$ 12,562	$ 17,170	$ 5,183	$ 9,094	$ 17,744	$ 26,265
Weighted-average common shares outstanding for basic earnings per share	19,777	20,033	19,758	20,030	19,788	19,872	19,768	19,977
Dilutive effect of stock-based awards	273	208	260	213	287	223	269	216
Weighted-average common shares outstanding for diluted earnings per share	20,050	20,241	20,018	20,243	20,075	20,095	20,037	20,193
Earnings per common share:								
Basic earnings per common share	$ 0.31	$ 0.45	$ 0.64	$ 0.86	$ 0.26	$ 0.46	$ 0.90	$ 1.31
Diluted earnings per common share	$ 0.31	$ 0.45	$ 0.63	$ 0.85	$ 0.26	$ 0.45	$ 0.89	$ 1.30

There were no antidilutive shares for the three and nine months ended September 30, 2024 and 2023.

NOTE19 Derivative Instruments

The company uses a variety of derivative instruments to mitigate exposure to both market and credit risks inherent in its business activities. The Company manages these risks as part of its overall asset and liability management process and through its policies and procedures. Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and an underlying as specified in the contract.

Derivatives are often measured in terms of notional amount, but this amount is generally not exchanged, and it is not recorded on the Company's consolidated balance sheet. The notional amount is the basis to which the underlying is applied to determine required payments under the derivative contract. The underlying is a referenced interest rate, security price, credit spread, or other index. Residential and commercial real estate loan commitments associated with loans to be sold also qualify as derivative instruments.

Derivatives Designated as Hedging Instruments

The Company uses derivative instruments to hedge its exposure to economic risks, including interest rate, liquidity and credit risk. Certain hedging relationships are formally designated and qualify for hedge accounting under GAAP. On the date the Company enters into a derivative contract designated as a hedging instrument, the derivative is designated as either a fair value hedge, cash flow hedge, or a net investment hedge. When a derivative is designated as a fair value, cash flow, or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s). As of June 30, 2024September 30, 2024, the Company only used fair value and cash flow hedges.

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Fair value hedges: These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying mortgage-backed investment securities and mortgage loan pools. The interest rate swaps are carried on the Company's Consolidated Balance Sheet at their fair value in other assets (when the fair value is positive) or in accrued expenses and other liabilities (when the fair value is negative). The changes in fair value of the interest rate swaps are recorded in interest income. The unrealized gains or losses due to changes in fair value of the interest rate swaps due to changes in benchmark interest rates are recorded as an adjustment to the hedged instruments and offset in the same interest income line items.

Cash flow hedges: These derivatives are interest rate swaps the Company uses to hedge the variability of expected future cash flows due to market interest changes. The interest rate swap is carried on the Company's consolidated balance sheet at its fair value in other assets (when the fair value is positive) or in accrued expenses and other liabilities (when the fair value is negative). Changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss), or OCI, until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in OCI is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in OCI is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within accumulated other comprehensive income (loss), or AOCI. The Company estimates that an additional $0.4 million $0.1 million will be reclassified as a decrease an increase to interest expense over the next 12 months. All cash flow hedges were highly effective for the three and sixnine months ended June 30, 2024September 30, 2024. As of June 30, 2024September 30, 2024, the maximum length of time over which forecasted transactions are hedged is 7 16 months.

Derivatives Not Designated as Hedging Instruments

Interest rate swaps: The Company periodically enters into commercial loan interest rate swap agreements in order to provide commercial loan customers with the ability to convert from variable to fixed interest rates. These derivative contracts relate to transactions in which the Company enters into an interest rate swap with a customer, while simultaneously entering into an offsetting interest rate swap with an institutional counterparty.

Interest rate lock commitments, forward loan sales commitments and to be announced (TBA) mortgage backed securities: The Company enters into forward delivery contracts to sell mortgage loans at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage interest rate lock commitments.

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The following table presents the total notional amounts and gross fair values of the Company's derivatives as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

(dollars in thousands)	Derivative Assets (1) Notional Amount	Derivative Assets (1) Fair Value	Derivative Liabilities (2) Notional Amount	Derivative Liabilities (2) Fair Value
June 30, 2024				
Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$600,000	$ 1,975	$ 600,000	$ —
Cash flow hedges:				
Interest rate swaps	200,000	412	200,000	—
Total derivatives designated as hedging instruments	$800,000	$ 2,387	$ 800,000	$ —
Not designated as hedging instruments:				
Interest rate swaps (3)	$154,244	$ 6,773	$ 154,244	$ 6,773
Interest rate lock commitments	27,749	434	—	—
Forward loan sales commitments	8,299	176	—	—
To-be-announced mortgage backed securities	—	—	56,250	25
Total asset derivatives not designated as hedging instruments	$190,292	$ 7,383	$ 210,494	$ 6,798
December 31, 2023				

Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$600,000	$ —	$ 600,000	$ 352
Cash flow hedges:				
Interest rate swaps	200,000	—	200,000	297
Total derivatives designated as hedging instruments	$800,000	$ —	$ 800,000	$ 649
Not designated as hedging instruments:				
Interest rate swaps (3)	$120,671	$ 8,327	$ 120,671	$ 8,348
Interest rate lock commitments	8,126	179	—	—
Forward loan sales commitments	190	6	—	—
To-be-announced mortgage backed securities	—	—	20,500	183
Total asset derivatives not designated as hedging instruments	$128,987	$ 8,512	$ 141,171	$ 8,531

	Derivative Assets (1)		Derivative Liabilities (2)	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
September 30, 2024				
Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$ —	$ —	$ 200,000	$ 1,113
Cash flow hedges:				

Interest rate swaps	—	—	200,000	458
Total derivatives designated as hedging instruments	$ —	$ —	$ 400,000	$ 1,571
Not designated as hedging instruments:				
Interest rate swaps (3)	$ 423,909	$ 11,740	$ 423,909	$ 11,740
Interest rate lock commitments	19,425	377	—	—
Forward loan sales commitments	1,597	60	—	—
To-be-announced mortgage backed securities	—	—	39,250	18
Total asset derivatives not designated as hedging instruments	$ 444,931	$ 12,177	$ 463,159	$ 11,758
December 31, 2023				
Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$ —	$ —	$ 600,000	$ 352
Cash flow hedges:				
Interest rate swaps	—	—	200,000	297
Total derivatives designated as hedging instruments	$ —	$ —	$ 800,000	$ 649
Not designated as hedging instruments:				
Interest rate swaps (3)	$ 120,671	$ 8,327	$ 120,671	$ 8,348
Interest rate lock commitments	8,126	179	—	—

Forward loan sales commitments	190	6	—	—
To-be-announced mortgage backed securities	—	—	20,500	183
Total asset derivatives not designated as hedging instruments	$ 128,987	$ 8,512	$ 141,171	$ 8,531

(1) Derivative assets are included in other assets on the Company's consolidated balance sheet.

(2) Derivative liabilities are included in accrued expenses and other liabilities on the Company's consolidated balance sheet.

(3) Reported fair values include accrued interest receivable and payable.

The following table shows the effective portion of the gains (losses) recognized in other comprehensive income (loss) and the gains (losses), before tax, reclassified from other comprehensive income (loss) into earnings for the periods indicated:

(dollars in thousands)	Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from OCI into Earnings
Derivatives designated as hedging instruments		
For the three months ended June 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ 296	$ 270
For the three months ended June 30, 2023		
Cash flow hedges:		
Interest rate swaps	$ —	$ —
For the six months ended June 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ 1,241	$ 532
For the six months ended June 30, 2023		
Cash flow hedges:		

Interest rate swaps	$ —	$ —

(dollars in thousands)	Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from OCI into Earnings
Derivatives designated as hedging instruments		
For the three months ended September 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ (616)	$ 253
For the three months ended September 30, 2023		
Cash flow hedges:		
Interest rate swaps	$ 1,216	$ (205)
For the nine months ended September 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ 625	$ 785
For the nine months ended September 30, 2023		
Cash flow hedges:		
Interest rate swaps	$ 1,216	$ (205)

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The following table shows the effect of fair value and cash flow hedge accounting on derivatives designated as hedging instruments in the Consolidated Statements of Income:

	Location and Amount of Gains (Losses) Recognized in Income		
	Interest Income		Interest Expense
(dollars in thousands)	Loans, including fees	Investment securities - Taxable	Short-term borrowings
For the three months ended June 30, 2024			
Total amounts in the Consolidated Statements of Income	$ 41,663	$ 4,845	$ 7,053
Fair value hedges:			
Interest rate swaps	168	659	—
Cash flow hedges:			
Interest rate swaps	—	—	(270)
For the three months ended June 30, 2023			
Total amounts in the Consolidated Statements of Income	$ 33,267	$ 6,125	$ 4,763
Fair value hedges:			
Interest rate swaps	—	470	—
Cash flow hedges:			
Interest rate swaps	—	—	—
For the six months ended June 30, 2024			
Total amounts in the Consolidated Statements of Income	$ 80,958	$ 9,413	$ 13,042
Fair value hedges:			
Interest rate swaps	321	1,301	—
Cash flow hedges:			
Interest rate swaps	—	—	(532)
For the six months ended June 30, 2023			
Total amounts in the Consolidated Statements of Income	$ 64,200	$ 12,076	$ 9,156
Fair value hedges:			
Interest rate swaps	—	623	—
Cash flow hedges:			
Interest rate swaps	—	—	—

	Location and Amount of Gains (Losses) Recognized in Income		
	Interest Income		Interest Expense
(dollars in thousands)	Loans, including fees	Investment securities - Taxable	Short-term borrowings
For the three months ended September 30, 2024			
Total amounts in the Consolidated Statements of Income	$ 42,593	$ 4,596	$ 6,706
Fair value hedges:			
Interest rate swaps	46	653	—
Cash flow hedges:			
Interest rate swaps	—	—	(253)
For the three months ended September 30, 2023			
Total amounts in the Consolidated Statements of Income	$ 34,986	$ 6,146	$ 6,528
Fair value hedges:			
Interest rate swaps	71	606	—
Cash flow hedges:			
Interest rate swaps	—	—	(205)

For the nine months ended September 30, 2024					
Total amounts in the Consolidated Statements of Income	$	123,551	$	14,008	$ 19,748
Fair value hedges:					
Interest rate swaps		367		1,954	—
Cash flow hedges:					
Interest rate swaps		—		—	(785)
For the nine months ended September 30, 2023					
Total amounts in the Consolidated Statements of Income	$	99,187	$	18,222	$ 15,684
Fair value hedges:					
Interest rate swaps		71		1,229	—
Cash flow hedges:					
Interest rate swaps		—		—	(205)

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The following tables show the notional amount, carrying amount and associated cumulative basis adjustments related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships at June

30, 2024September 30, 2024 and December 31, 2023December 31, 2023, respectively:

	June 30, 2024		
(dollars in thousands)	Notional Amount	Carrying Amount of Hedged Assets/ Liabilities	Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities			
Residential agency (1)	$200,000	$ 198,046	$ (1,954)
Mortgage loan pools (2)	400,000	399,955	(45)
Total	$600,000	$ 598,001	$ (1,999)

	September 30, 2024		
(dollars in thousands)	Notional Amount	Carrying Amount of Hedged Assets/ Liabilities	Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities			
Residential agency (1)	$ 200,000	$ 201,113	$ 1,113
Total	$ 200,000	$ 201,113	$ 1,113

(1) (1) Includes amounts related to residential agency mortgage-backed securities currently designated as the hedged item in a fair value hedge using the portfolio layer method. At June 30, 2024September 30, 2024, the amortized cost of the closed portfolios used in these hedging relationships was $313.0 million. $304.7 million.

	December 31, 2023
	Cumulative Fair Value Hedging Adjustment in the

(dollars in thousands)	Notional Amount	Carrying Amount of Hedged Assets/ Liabilities	Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities			
Residential agency (1)	**$ 200,000**	**$ 200,241**	**$ 241**
Mortgage loan pools (2)	**400,000**	**400,098**	**98**
Total	**$ 600,000**	**$ 600,339**	**$ 339**

(1) **Includes amounts related to residential agency mortgage-backed securities currently designated as the hedged item in a fair value hedge using the portfolio layer method. At December 31, 2023, the amortized cost of the closed portfolios used in these hedging relationships was $323.4 million.**

(2) (2) These amounts include the amortized cost basis of residential real estate RRE loans that were used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At June 30, 2024December 31, 2023, the amortized cost basis of the residential real estate RRE loans used in these hedging relationships was $644.7 million. $687.5 million.

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	December 31, 2023
	Cumulative Fair Value Hedging Adjustment in the

(dollars in thousands)	Notional Amount	Carrying Amount of Hedged Assets/ Liabilities	Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities			
Residential agency (1)	$200,000	$ 200,241	$ 241
Mortgage loan pools (2)	400,000	400,098	98
Total	$600,000	$ 600,339	$ 339

(1) Includes amounts related to residential agency mortgage-backed securities currently designated as the hedged item in a fair value hedge using the portfolio layer method. At December 31, 2023, the amortized cost of the closed portfolios used in these hedging relationships was $323.4 million.

(2) These amounts include the amortized cost basis of residential real estate loans that were used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At December 31, 2023, the amortized cost basis of the residential real estate loans used in these hedging relationships was $687.5 million.

The gain (loss) recognized on derivatives not designated as hedging relationships for the three and sixnine months ended June 30, 2024 September 30, 2024 and 2023 was as follows:

(dollars in thousands)		Three months ended June 30,	
Derivatives not designated as hedging instruments	Consolidated Statements of Income Location	2024	2023
Interest rate swaps	Other noninterest income	$ —	$ —
Interest rate lock commitments	Mortgage banking	59	89
Forward loan sales commitments	Mortgage banking	176	70
To-be-announced mortgage backed securities	Mortgage banking	84	302

Total gain (loss) from derivatives not designated as hedging instruments	$ 319	$ 461

The Company has third party agreements that require a minimum dollar transfer amount upon a margin call. These requirements are dependent on certain specified credit measures. There was no collateral posted with third parties at June 30, 2024. The amount of collateral posted with third parties was $550 thousand at December 31, 2023. $0.8 million and $0.6 million as of September 30, 2024 and December 31, 2023, respectively. The amount of collateral posted with third parties was deemed to be sufficient as of those dates to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures.

Credit Risk-Related Contingent Features

By using derivatives, the Company is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, where appropriate. As such, management believes the risk of incurring credit losses on derivative contracts with institutional counterparties is remote.

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The Company has agreements with its derivative counterparties that contain a provision where, if the Company defaults on any of its indebtedness, including defaults where repayment of the indebtedness has not been accelerated by the lender, the Company could also be declared in default on its derivative obligations. In addition, the Company also has agreements with certain of its derivative counterparties that contain a provision where, if the Company fails to maintain its status as a well-capitalized institution, the counterparty could terminate the derivative position(s) and the Company could be required to settle its obligations under the agreements.

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As of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, the fair value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for non-performance risk, related to these agreements was $0 $1.6 million and $649 thousand, $0.6 million, respectively. As of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and has posted cash collateral of $0 $0.8 million and $550 thousand, $0.6 million, respectively. If the Company had breached any of these provisions at June 30, 2024September 30, 2024 or December 31, 2023December 31, 2023, it could have been required to settle its obligations under the agreements at their termination value of $0 $1.6 million and $649 thousand, $0.6 million, respectively.

Balance Sheet Offsetting

The following tables present the Company's derivative positions and the potential effect of netting arrangements on its financial position as of the dates indicated:

				Gross Amount Not Offset in the Consolidated Balance Sheets	
(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Cash Collateral Pledged (Received)	Net Amount
June 30, 2024					
Derivative assets:					
Interest rate swaps – Company (1)	$ 2,387	$ —	$ 2,387	$ (2,720)	$ (333)
Interest rate swaps – dealer bank (1)	6,773	—	6,773	(4,620)	2,153
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 9,160	$ —	$ 9,160	$ (7,340)	$ 1,820
Derivative liabilities:					

Interest rate swaps – Company (1)	$ —	$ —	$ —	$ —	$ —
Interest rate swaps – customer (2)	6,773	—	6,773	—	6,773
To-be-announced mortgage backed securities	25	—	25	—	25
Total	$ 6,798	$ —	$ 6,798	$ —	$ 6,798

(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged (Received)	Net Amount
September 30, 2024					
Derivative assets:					
Interest rate swaps – Company (1)	$ —	$ —	$ —	$ —	$ —
Interest rate swaps – dealer bank (1)	11,740	—	11,740	(6,068)	5,672
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 11,740	$ —	$ 11,740	$ (6,068)	$ 5,672
Derivative liabilities:					

Interest rate swaps – Company (1)	$ 1,571	$ —	$ 1,571	$ 752	$ 819
Interest rate swaps – customer (2)	11,740	—	11,740	—	11,740
To-be-announced mortgage backed securities	18	—	18	—	18
Total	$ 13,329	$ —	$ 13,329	$ 752	$ 12,577

(1) The Company maintains a master netting agreement with each counterparty and settles collateral on a net basis for all interest rate swaps with counterparty banks.

(2) The Company manages its net exposure on its customer loan swaps by obtaining collateral as part of the normal loan policy and underwriting practices. The Company does not post collateral to its customers as part of its contract.

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(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets Cash Collateral Pledged (Received)	Net Amount
December 31, 2023					
Derivative assets:					
Interest rate swaps – Company (1)	$ —	$ —	$ —	$ —	$ —

Interest rate swaps – dealer bank (1)	8,327	—	8,327	(1,740)	6,587
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 8,327	$ —	$ 8,327	$ (1,740)	$ 6,587
Derivative liabilities:					
Interest rate swaps – Company (1)	$ 649	$ —	$ 649	$ 550	$ 99
Interest rate swaps – customer (2)	8,348	—	8,348	—	8,348
To-be-announced mortgage backed securities	183	—	183	—	183
Total	$ 9,180	$ —	$ 9,180	$ 550	$ 8,630

				Gross Amount Not Offset in the Consolidated Balance Sheets	
(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Cash Collateral Pledged (Received)	Net Amount
December 31, 2023					
Derivative assets:					
Interest rate swaps – Company (1)	$ —	$ —	$ —	$ —	$ —
Interest rate swaps – dealer bank (1)	8,327	—	8,327	(1,740)	6,587

To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 8,327	$ —	$ 8,327	$ (1,740)	$ 6,587
Derivative liabilities:					
Interest rate swaps – Company (1)	$ 649	$ —	$ 649	$ 550	$ 99
Interest rate swaps – customer (2)	8,348	$ —	8,348	—	8,348
To-be-announced mortgage backed securities	183	—	183	—	183
Total	$ 9,180	$ —	$ 9,180	$ 550	$ 8,630

(1) (1) The Company maintains a master netting agreement with each counterparty and settles collateral on a net basis for all interest rate swaps with counterparty banks.

(2) (2) The Company manages its net exposure on its customer loan swaps by obtaining collateral as part of the normal loan policy and underwriting practices. The Company does not post collateral to its customers as part of its contract.

NOTE20 Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of common equity tier 1, tier 1, and total capital (as defined in the regulations) to risk weighted assets (as defined) and of tier 1 capital (as defined) to average assets (as defined). Management believes that, at June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, each of the Company and the Bank had met all of the capital adequacy requirements to which it was subject.

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The following tables present the Company's and the Bank's actual capital amounts and ratios as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	June 30, 2024					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$391,268	11.66 %	$150,986	4.50 %	$ N/A	N/A
Bank	375,208	11.23 %	150,305	4.50 %	217,108	6.50 %
Tier 1 capital to risk weighted assets					.	
Consolidated (1)	400,281	11.93 %	201,315	6.00 %	N/A	N/A

Bank	375,208	11.23 %	200,407	6.00 %	267,209	8.00 %
Total capital to risk weighted assets						
Consolidated (1)	492,264	14.67 %	268,420	8.00 %	N/A	N/A
Bank	417,004	12.48 %	267,209	8.00 %	334,012	10.00 %
Tier 1 capital to average assets						
Consolidated (1)	400,281	9.44 %	169,612	4.00 %	N/A	N/A
Bank	375,208	9.05 %	165,909	4.00 %	207,386	5.00 %

	September 30, 2024					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$ 394,381	11.12 %	$ 159,542	4.50 %	N/A	N/A
Bank	379,074	10.73 %	158,974	4.50 %	229,629	6.50 %
Tier 1 capital to risk weighted assets						
Consolidated (1)	403,422	11.38 %	212,722	6.00 %	N/A	N/A
Bank	379,074	10.73 %	211,966	6.00 %	282,621	8.00 %
Total capital to risk weighted assets						
Consolidated (1)	497,768	14.04 %	283,629	8.00 %	N/A	N/A
Bank	423,265	11.98 %	282,621	8.00 %	353,276	10.00 %
Tier 1 capital to average assets						
Consolidated (1)	403,422	9.30 %	173,498	4.00 %	N/A	N/A
Bank	379,074	8.90 %	170,336	4.00 %	212,920	5.00 %

(1) (1) "Minimum to be Well Capitalized Under Prompt Corrective Action" is not formally defined under applicable banking regulations for bank holding companies.

	December 31, 2023					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$382,578	11.82 %	$145,605	4.50 %	$ N/A	N/A
Bank	367,445	11.40 %	145,101	4.50 %	209,590	6.50 %
Tier 1 capital to risk weighted assets					.	
Consolidated (1)	391,534	12.10 %	194,139	6.00 %	N/A	N/A
Bank	367,445	11.40 %	193,468	6.00 %	257,957	8.00 %
Total capital to risk weighted assets						
Consolidated (1)	477,590	14.76 %	258,853	8.00 %	N/A	N/A
Bank	403,501	12.51 %	257,957	8.00 %	322,446	10.00 %
Tier 1 capital to average assets						
Consolidated (1)	391,534	10.57 %	148,111	4.00 %	N/A	N/A
Bank	367,445	9.92 %	148,186	4.00 %	185,232	5.00 %

	December 31, 2023					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$ 382,578	11.82 %	$ 145,605	4.50 %	$ N/A	N/A
Bank	367,445	11.40 %	145,101	4.50 %	209,590	6.50 %
Tier 1 capital to risk weighted assets					.	
Consolidated (1)	391,534	12.10 %	194,139	6.00 %	N/A	N/A
Bank	367,445	11.40 %	193,468	6.00 %	257,957	8.00 %

Total capital to risk weighted assets						
Consolidated (1)	477,590	14.76 %	258,853	8.00 %	N/A	N/A
Bank	403,501	12.51 %	257,957	8.00 %	322,446	10.00 %
Tier 1 capital to average assets						
Consolidated (1)	391,534	10.57 %	148,111	4.00 %	N/A	N/A
Bank	367,445	9.92 %	148,186	4.00 %	185,232	5.00 %

(1) (1) "Minimum to be Well Capitalized Under Prompt Corrective Action" is not formally defined under applicable banking regulations for bank holding companies.

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. The Company and the Bank are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act rules. The rules include a 2.5 percent capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. A banking organization with a conservation buffer of less than the required amount will be subject to the limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. As of June 30, 2024September 30, 2024, the capital ratios for the Company and the Bank were sufficient to meet the conservation buffer. In addition, the Company must adhere to various U.S. Department of Housing and Urban Development, or HUD, regulatory guidelines including required minimum capital and liquidity to maintain their Federal Housing Administration approval status. Failure to comply with the HUD guidelines could result in withdrawal of this

certification. As of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, the Company was in compliance with the aforementioned guidelines.

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NOTE21 Other Comprehensive Income (Loss)

The following tables present a reconciliation of the changes in the components of other comprehensive income and loss for the periods indicated, including the amount of tax (expense) benefit allocated to each component:

	For the Three Months Ended					
	June 30, 2024			June 30, 2023		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$(1,153)	$ 290	$ (863)	$(9,636)	$ 2,419	$ (7,217)
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM (1)	68	(17)	51	84	(21)	63
Less: reclassification adjustment for net realized losses (2)	—	—	—	—	—	—
Net change	(1,221)	307	(914)	(9,720)	2,440	(7,280)
Cash Flow Hedges:						
Change in fair value	295	(109)	186	—	—	—
Less: reclassified AOCI gain (loss) into interest expense (3)	270	(68)	202	—	—	—
Net change	25	(41)	(16)	—	—	—
Other Derivatives:						
Change in fair value	164	(7)	157	3,794	(949)	2,845
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	164	(7)	157	3,794	(949)	2,845
Other comprehensive income (loss)	$(1,032)	$ 259	$ (773)	$(5,926)	$ 1,491	$ (4,435)

	For the Three Months Ended	
	September 30, 2024	September 30, 2023
	Tax	Tax

(dollars in thousands)	Pre-Tax Amount	(Expense) Benefit	After-Tax Amount	Pre-Tax Amount	(Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$ 19,497	$ (4,894)	$ 14,603	$ (19,075)	$ 4,789	$ (14,286)
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM (1)	66	(16)	50	80	(20)	60
Less: reclassification adjustment for net realized losses (2)	—	—	—	—	—	—
Net change	19,431	(4,878)	14,553	(19,155)	4,809	(14,346)
Cash Flow Hedges:						
Change in fair value	(616)	706	90	1,216	(305)	911
Less: reclassified AOCI gain (loss) into interest expense (3)	253	(64)	189	205	(51)	154
Net change	(869)	770	(99)	1,011	(254)	757
Other Derivatives:						
Change in fair value	(3,068)	219	(2,849)	1,133	(285)	848
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	(3,068)	219	(2,849)	1,133	(285)	848
Other comprehensive income (loss)	$ 15,494	$ (3,889)	$ 11,605	$ (17,011)	$ 4,270	$ (12,741)

(1) (1) Reclassified into taxable and/or exempt from federal income taxes interest income on investment securities on the consolidated statements of income. Refer to “NOTE 4 Investment Securities” for further details.

(2) (2) Reclassified into net gains (losses) on investment securities in the consolidated statements of income. Refer to “NOTE 4 Investment Securities” for further details.

(3) (3) Reclassified into interest expense on short-term borrowings on the consolidated statements of income. Refer to “NOTE 19 Derivative Instruments” for further details.

(4) (4) Reclassified into interest income on loans, including fees and/or interest income on taxable investment securities on the consolidated statements of income. Refer to "NOTE 19 Derivative Instruments" for further details.

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	For the Six Months Ended					
	June 30, 2024			June 30, 2023		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$(4,597)	$ 1,154	$ (3,443)	$(4,708)	$ 1,182	$ (3,526)
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM	142	(36)	106	171	(43)	128
Less: reclassification adjustment for net realized losses	—	—	—	—	—	—
Net change	(4,739)	1,190	(3,549)	(4,879)	1,225	(3,654)
Cash Flow Hedges:						
Change in fair value	1,241	(685)	556	—	—	—
Less: reclassified AOCI gain (loss) into interest expense (3)	532	(134)	398	—	—	—
Net change	709	(551)	158	—	—	—
Other Derivatives:						
Change in fair value	2,195	(178)	2,017	2,069	(516)	1,553
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	2,195	(178)	2,017	2,069	(516)	1,553
Other comprehensive income (loss)	$(1,835)	$ 461	$ (1,374)	$(2,810)	$ 709	$ (2,101)

	For the Nine Months Ended					
	September 30, 2024			September 30, 2023		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$ 14,899	$ (3,740)	$ 11,159	$ (23,782)	$ 5,970	$ (17,812)

Less: reclassification adjustment from amortization of securities transferred from AFS to HTM	207	(52)	155	251	(63)	188
Less: reclassification adjustment for net realized losses	—	—	—	—	—	—
Net change	14,692	(3,688)	11,004	(24,033)	6,033	(18,000)
Cash Flow Hedges:						
Change in fair value	625	22	647	1,216	(305)	911
Less: reclassified AOCI gain (loss) into interest expense (3)	785	(197)	588	205	(51)	154
Net change	(160)	219	59	1,011	(254)	757
Other Derivatives:						
Change in fair value	(872)	40	(832)	3,206	(805)	2,401
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	(872)	40	(832)	3,206	(805)	2,401
Other comprehensive income (loss)	$ 13,660	$ (3,429)	$ 10,231	$ (19,816)	$ 4,974	$ (14,842)

(1) (1) Reclassified into taxable and/or exempt from federal income taxes interest income on investment securities on the consolidated statements of income. Refer to “NOTE 4 Investment Securities” for further details.

(2) (2) Reclassified into net gains (losses) on investment securities in the consolidated statements of income. Refer to “NOTE 4 Investment Securities” for further details.

(3) (3) Reclassified into interest expense on short-term borrowings on the consolidated statements of income. Refer to “NOTE 19 Derivative Instruments” for further details.

(4) Reclassified into interest income on loans, including fees and/or interest income on taxable investment securities on the consolidated statements of income. Refer to “NOTE 19 Derivative Instruments” for further details.

(dollars in thousands)	Net Unrealized Gains (Losses) on Debt Securities (1)	Net Unrealized Gains (Losses) on Cash Flow Hedges (1)	Net Unrealized Gains (Losses) on Other Derivatives (1)	AOCI (1)
For the Three Months Ended June 30, 2024				
Balance at March 31, 2024	$ (75,793)	$ (63)	$ 1,600	$ (74,256)
Other comprehensive income (loss) before reclassifications	(863)	186	157	(520)
Less: Amounts reclassified from AOCI	51	202	—	253
Other comprehensive income (loss)	(914)	(16)	157	(773)
Balance at June 30, 2024	$ (76,707)	(79)	1,757	(75,029)
For the Six Months Ended June 30, 2024				
Balance at December 31, 2023	$ (73,158)	$ (237)	$ (260)	$ (73,655)
Other comprehensive income (loss) before reclassifications	(3,443)	556	2,017	(870)
Less: Amounts reclassified from AOCI	106	398	—	504
Other comprehensive income (loss)	(3,549)	158	2,017	(1,374)
Balance at June 30, 2024	$ (76,707)	(79)	1,757	(75,029)
For the Three Months Ended June 30, 2023				
Balance at March 31, 2023	$ (94,921)	$ —	$ (1,386)	$ (96,307)
Other comprehensive income (loss) before reclassifications	(7,217)	—	2,845	(4,372)
Less: Amounts reclassified from AOCI	63	—	—	63
Other comprehensive income (loss)	(7,280)	—	2,845	(4,435)
Balance at June 30, 2023	$ (102,201)	—	1,459	(100,742)
For the Six Months Ended June 30, 2023				
Balance at December 31, 2022	$ (98,547)	$ —	$ (94)	$ (98,641)
Other comprehensive income (loss) before reclassifications	(3,526)	—	1,553	(1,973)
Less: Amounts reclassified from AOCI	128	—	—	128
Other comprehensive income (loss)	(3,654)	—	1,553	(2,101)
Balance at June 30, 2023	$ (102,201)	$ —	$ 1,459	$(100,742)

(dollars in thousands)	Net Unrealized Gains (Losses) on Debt Securities (1)	Net Unrealized Gains (Losses) on Cash Flow Hedges (1)	Net Unrealized Gains (Losses) on Other Derivatives (1)	AOCI (1)

For the Three Months Ended September 30, 2024				
Balance at June 30, 2024	$ (76,707)	$ (79)	$ 1,757	$ (75,029)
Other comprehensive income (loss) before reclassifications	14,603	90	(2,849)	11,844
Less: Amounts reclassified from AOCI	50	189	—	239
Other comprehensive income (loss)	14,553	(99)	(2,849)	11,605
Balance at September 30, 2024	$ (62,154)	(178)	(1,092)	(63,424)
For the Nine Months Ended September 30, 2024				
Balance at December 31, 2023	$ (73,158)	$ (237)	$ (260)	$ (73,655)
Other comprehensive income (loss) before reclassifications	11,159	647	(832)	10,974
Less: Amounts reclassified from AOCI	155	588	—	743
Other comprehensive income (loss)	11,004	59	(832)	10,231
Balance at September 30, 2024	$ (62,154)	(178)	(1,092)	(63,424)
For the Three Months Ended September 30, 2023				
Balance at June 30, 2023	$ (102,201)	$ —	$ 1,459	$ (100,742)
Other comprehensive income (loss) before reclassifications	(14,286)	911	848	(12,527)

Less: Amounts reclassified from AOCI	60	154	—	214
Other comprehensive income (loss)	(14,346)	757	848	(12,741)
Balance at September 30, 2023	$ (116,547)	757	2,307	(113,483)
For the Nine Months Ended September 30, 2023				
Balance at December 31, 2022	$ (98,547)	$ —	$ (94)	$ (98,641)
Other comprehensive income (loss) before reclassifications	(17,812)	911	2,401	(14,500)
Less: Amounts reclassified from AOCI	188	154	—	342
Other comprehensive income (loss)	(18,000)	757	2,401	(14,842)
Balance at September 30, 2023	$ (116,547)	$ 757	$ 2,307	$ (113,483)

(1) All amounts net of tax.

(1)

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NOTE22 Stock Repurchase Program

On February 18, 2021, February 18, 2021, the Board of Directors of the Company approved a stock repurchase program, or the Old Stock Repurchase Program, which authorized the Company to repurchase up to 770,000 shares of its common stock subject to certain limitations and conditions. The Old Stock Repurchase Program expired on February 18, 2024.February 18, 2024.

On December 12, 2023, December 12, 2023, the Board of Directors of the Company approved a new stock repurchase program, or the New Stock Repurchase Program, which authorizes the Company to repurchase up to 1,000,000 shares of its common stock subject to certain limitations and conditions. The New Stock Repurchase Program became effective February 18, 2024, on February 18, 2024, and will expire on February 18, 2027. February 18, 2027. On February 18, 2024, February 18, 2024, the New Stock Repurchase Program replaced and superseded the Old Stock Repurchase Program.

The New Stock Repurchase Program does not obligate the Company to repurchase any shares of its common stock and there is no assurance that the Company will do so. For the sixnine months ended June 30, 2024September 30, 2024, there were no the Company had not repurchased any shares repurchased under the Old Stock Repurchase Program or the New Stock Repurchase Program. The Company also repurchases shares to pay withholding taxes on the vesting of

restricted stock awards and units.

NOTE23 Fair Value of Assets and Liabilities

The Company categorizes its assets and liabilities measured at estimated fair value into a three level hierarchy based on the priority of the inputs to the valuation technique used to determine estimated fair value. The estimated fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1)1) and the lowest priority to unobservable inputs (Level 3)3). If the inputs used in the determination of the estimated fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the estimated fair value measurement. Assets and liabilities valued at estimated fair value are categorized based on the following inputs to the valuation techniques as follows:

***Level 1—1* —Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.**

***Level 2—2* —Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are**

observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Estimated fair values for these instruments are estimated using pricing models, quoted prices of investment securities with similar characteristics, or discounted cash flows.

***Level 3—3*—Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. Subsequent to initial recognition, the Company may re-measurere-measure the carrying value of assets and liabilities measured on a nonrecurring basis to estimated fair value. Adjustments to estimated fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their estimated fair value.**

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at estimated fair value for the initial and subsequent measurement on an instrument-by-instrument instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at estimated fair value. The Company has not elected to measure any existing financial instruments at estimated fair value; however, it may elect to measure newly acquired financial instruments at estimated fair value in the future.

Recurring Basis

The Company uses estimated fair value measurements to record estimated fair value adjustments to certain assets and liabilities and to determine estimated fair value disclosures.

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The following tables present the balances of the assets and liabilities measured at estimated fair value on a recurring basis as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023:

	June 30, 2024
	September 30, 2024

(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading	$2,868	$ —	$ —	$ 2,868	$ 2,708	$ —	$ —	$ 2,708
Available-for-sale								
U.S. treasury and government agencies	—	766	—	766	—	739	—	739
Mortgage backed securities								
Residential agency	—	407,788	—	407,788	—	414,388	—	414,388
Commercial	—	1,353	—	1,353	—	1,401	—	1,401
Asset backed securities	—	21	—	21	—	20	—	20
Corporate bonds	—	49,417	—	49,417	—	49,455	—	49,455
Total available-for-sale investment securities	$ —	$459,345	$ —	$459,345	$ —	$ 466,003	$ —	$ 466,003
Other assets								
Derivatives	$ —	$ 9,770	$ —	$ 9,770	$ —	$ 12,177	$ —	$ 12,177
Other liabilities								
Derivatives	$ —	$ 6,798	$ —	$ 6,798	$ —	$ 13,329	$ —	$ 13,329

	December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Available-for-sale				
U.S. treasury and government agencies	$ —	$ 1,120	$ —	$ 1,120
Mortgage backed securities				
Residential agency	—	435,594	—	435,594
Commercial	—	1,353	—	1,353
Asset backed securities	—	25	—	25
Corporate bonds	—	48,644	—	48,644
Total available-for-sale investment securities	$ —	$486,736	$ —	$486,736

Other assets				
Derivatives	$ —	$ 8,512	$ —	$ 8,512
Other liabilities				
Derivatives	$ —	$ 9,180	$ —	$ 9,180

	December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Available-for-sale				
U.S. treasury and government agencies	$ —	$ 1,120	$ —	$ 1,120
Mortgage backed securities				
Residential agency	—	435,594	—	435,594
Commercial	—	1,353	—	1,353
Asset backed securities	—	25	—	25
Corporate bonds	—	48,644	—	48,644
Total available-for-sale investment securities	$ —	$ 486,736	$ —	$ 486,736
Other assets				
Derivatives	$ —	$ 8,512	$ —	$ 8,512
Other liabilities				
Derivatives	$ —	$ 9,180	$ —	$ 9,180

The following is a description of the valuation methodologies used for instruments measured at estimated fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities, Trading for Deferred Compensation

The fair value of trading securities for deferred compensation is reported using market quoted prices as such securities and underlying securities are actively traded and no valuation adjustments have been applied and therefore are classified as Level 1.

Investment Securities, Available-for-Sale

Generally, debt securities are valued using pricing for similar securities, recently executed transactions, and other pricing models utilizing observable inputs and therefore are classified as Level 2.

Derivatives

All of the Company's derivatives are traded in over-the-counter over-the-counter markets where quoted market prices are not readily available. For these derivatives, estimated fair value is measured using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities, and accordingly, classify as Level 2. Examples of Level 2 derivatives are basic interest rate swaps and forward contracts.

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Nonrecurring Basis

Certain assets are measured at estimated fair value on a nonrecurring basis. These assets are not measured at estimated fair value on an ongoing basis; however, they are subject to estimated fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

The estimated fair value of certain assets on a nonrecurring basis as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023 consisted of the following:

	June 30, 2024			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Collateral dependent loans	$ —	$ —	$16,869	$16,869
Servicing rights	—	—	2,082	2,082

	September 30, 2024			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Collateral dependent loans	$ —	$ —	$ 28,930	$ 28,930
Servicing rights	—	—	1,874	1,874

	December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Collateral dependent loans	$ —	$ —	$3,998	$3,998
Foreclosed assets	—	—	32	32
Servicing rights	—	—	2,062	2,062

	December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Collateral dependent loans	$ —	$ —	$ 3,998	$ 3,998
Foreclosed assets	—	—	32	32
Servicing rights	—	—	2,062	2,062

Loans Held for Sale

Loans originated and held for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing financial institutions. Typically, these quotes include a premium on the sale and thus these quotes indicate estimated fair value of the held for sale loans is greater than cost.

Impairment losses for loans held for sale that are carried at the lower of cost or estimated fair value represent additional net write-downs write-downs during the period to record these loans at the lower of cost or estimated fair value, subsequent to their initial classification as loans held for sale.

The valuation techniques and significant unobservable inputs used to measure Level 3 estimated fair values as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, were as follows:

			June 30, 2024				
(dollars in thousands)					Weighted		
Asset Type	Valuation Technique	Unobservable Input	Fair Value	Range	Average	Valuation Technique	Unobser Input
Individually evaluated	Appraisal value	Property specific adjustment	$ 16,869	10.0 %	10.0 %	Appraisal value	Property specific adjustm

Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,082	82-189	105	Discounted cash flows	Prepaym speed assump	
		Discount rate		11.1 %	11.1 %			
							Discoun	

(dollars in thousands)			December 31, 2023		
Asset Type	Valuation Technique	Unobservable Input	Fair Value	Range	Weighted Average
Individually evaluated	Appraisal value	Property specific adjustment	$ 3,998	10.0 %	10.0 %
Foreclosed assets	Appraisal value	Property specific adjustment (1)	32	N/A	N/A
Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,062	85-151	104
		Discount rate		11.1 %	11.1 %

(dollars in thousands)			December 31, 2023		
Asset Type	Valuation Technique	Unobservable Input	Fair Value	Range	Weighted Average
Individually evaluated	Appraisal value	Property specific adjustment	$ 3,998	10.0 %	10.0 %
Foreclosed assets	Appraisal value	Property specific adjustment (1)	32	N/A	N/A
Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,062	85 - 151	104
		Discount rate		11.1 %	11.1 %

(1) (1) There were no discounts taken on the collateral that comprises the balance of foreclosed assets as of December 31, 2023December 31, 2023.

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Disclosure of estimated fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases in which quoted market prices are not available, estimated fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived estimated fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments, with an estimated fair value that is not practicable to estimate and all non-financial non-financial instruments, are excluded from the disclosure requirements. Accordingly, the aggregate estimated fair value amounts

presented do not necessarily represent the underlying value of the Company.

The following disclosures represent financial instruments in for which the ending balances, as of June 30, 2024September 30, 2024 and December 31, 2023December 31, 2023, were not carried at estimated fair value in their entirety on the consolidated balance sheets.

Cash and Cash Equivalents and Accrued Interest

The carrying amounts reported in the consolidated balance sheets approximate those assets and liabilities estimated fair values.

Investment Securities, Held-to-Maturity

The fair values of debt securities held-to-maturity are based on quoted market prices for the same or similar securities, recently executed transactions and pricing models.

Loans

For variable-rate variable-rate loans that reprice frequently and with no significant change in credit risk, estimated fair values are based on carrying values. The estimated fair values of other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Bank-Owned Bank-Owned Life Insurance

Bank-owned Bank-owned life insurance is carried at the amount due upon surrender of the policy, which is also the estimated fair value. This amount was provided by the insurance companies based on the terms of the underlying insurance contract.

Deposits

The estimated fair values of demand deposits are, by definition, equal to the amount payable on demand at the consolidated balance sheet date. The estimated fair values of fixed-rate fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies current incremental interest rates being offered on certificates of deposit to a schedule of aggregated expected monthly maturities of the outstanding certificates of deposit.

Short-Term Short-Term Borrowings and Long-Term Long-Term Debt

For variable-rate variable-rate borrowings that reprice frequently, estimated fair values are based on carrying values. The estimated fair values of fixed-rate fixed-rate borrowings are estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance Off-Balance Sheet Credit-Related Credit-Related Commitments

Off-balance Off-balance sheet credit related commitments are generally of short-term short-term nature. The contract amount of such commitments approximates their estimated fair value since the commitments are comprised primarily of unfunded loan commitments which are generally priced at market at the time of funding.

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The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments at the dates indicated are were as follows:

	June 30, 2024						
	Carrying	Estimated Fair Value				Carrying	
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1
Financial Assets							
Cash and cash equivalents	$ 438,141	$438,141	$ —	$ —	$ 438,141	$ 65,975	$ 65,97
Investment securities held-to-maturity	286,532	—	243,689	—	243,689	281,913	—
Loans, net	2,877,460	—	—	2,753,648	2,753,648	2,993,201	—
Accrued interest receivable	16,877	16,877	—	—	16,877	16,469	16,46
Bank-owned life insurance	35,508	—	35,508	—	35,508	35,793	—
Financial Liabilities							
Noninterest-bearing deposits	$ 701,428	$ —	$ 701,428	$ —	$ 701,428	$ 657,547	$ —
Interest-bearing deposits	2,105,802	—	2,105,802	—	2,105,802	2,177,556	—
Time deposits	491,345	—	496,430	—	496,430	488,447	—
Short-term borrowings	555,000	555,000	—	—	555,000	244,700	244,70
Long-term debt	59,013	—	58,067	—	58,067	59,041	—
Accrued interest payable	14,947	14,947	—	—	14,947	7,636	7,63

	December 31, 2023				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 129,893	$129,893	$ —	$ —	$ 129,893
Investment securities held-to-maturity	299,728	—	258,617	—	258,617
Loans, net	2,723,740	—	—	2,590,535	2,590,535
Accrued interest receivable	15,700	15,700	—	—	15,700
Bank-owned life insurance	33,236	—	33,236	—	33,236
Financial Liabilities					
Noninterest-bearing deposits	$ 728,082	$ —	$ 728,082	$ —	$ 728,082
Interest-bearing deposits	1,955,967	—	1,955,967	—	1,955,967
Time deposits	411,562	—	408,910	—	408,910
Short-term borrowings	314,170	314,170	—	—	314,170
Long-term debt	58,956	—	57,437	—	57,437
Accrued interest payable	6,826	6,826	—	—	6,826

	Carrying	
	Amount	Level 1
Cash and cash equivalents	$ 129,893	$ 129,89
Investment securities held-to-maturity	299,728	–
Loans, net	2,723,740	–
Accrued interest receivable	15,700	15,70
Bank-owned life insurance	33,236	–
Noninterest-bearing deposits	$ 728,082	$ –
Interest-bearing deposits	1,955,967	–
Time deposits	411,562	–
Short-term borrowings	314,170	314,17
Long-term debt	58,956	–
Accrued interest payable	6,826	6,82

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Item2 – Management’s Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion explains the Company’s Company’s financial condition and results of operations as of and for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023. 2023. Annualized results for this interim period may not be indicative of results for the full year or future periods. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report and the Company’s Company’s Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 8, 2024.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within

the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of Alerus Financial Corporation. These statements are often, but not always, identified by words such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "annualized," "target" and "outlook," or the negative version of those words or other comparable words of a future or forward-looking nature. Examples of forward-looking statements include, among others, statements the Company makes regarding the Company's projected growth, anticipated future financial performance, financial condition, credit quality,

management's long-term performance goals and the future plans and prospects of Alerus Financial Corporation.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company's current beliefs, expectations and assumptions regarding the Company's business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. The Company's actual results and financial condition may differ materially from those indicated in forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause the Company's actual results and financial

condition to differ materially from those indicated in forward-looking statements include, among others, the following:

- • **interest rate risk, including the effects of sustained high changes in interest rates;**
- • **the Company's ability to successfully manage credit risk, including in the commercial real estate portfolio, and maintain an adequate level of allowance for credit losses;**
- • **new or revised accounting standards;**

- business and economic conditions generally and in the financial services industry, nationally and within the Company's market areas, including high rates the level and impact of inflation and possible recession;
- the effects of recent developments and events in the financial services industry, including the large-scale deposit withdrawals over a short-period short period of time that resulted in recent bank failures;
  - the Company's ability to raise additional capital to implement its business plan;

- the overall health of the local and national real estate market;
- • concentrations within the Company's loan portfolio;
  - the concentration of large loans to certain borrowers;
- the level of nonperforming assets on the Company's balance sheet;

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- • the Company's ability to implement organic and acquisition growth strategies, including the integration of Metro Phoenix Bank HMNF which the Company acquired in 2022 and the pending acquisition fourth quarter of HMNF; 2024;

- the impact of economic or market conditions on the Company's fee-based services;
- the Company's ability to continue to grow the retirement and benefit services business;
- the Company's ability to continue to originate a sufficient volume of residential mortgages;
- the occurrence of fraudulent activity, breaches or failures of the Company's or the Company's third party vendors' information security controls or cybersecurity-related incidents, including as a result of sophisticated attacks using artificial intelligence and similar tools;
- interruptions involving the Company's information technology and telecommunications systems or third-party servicers;

- • potential losses incurred in connection with mortgage loan repurchases;

- • the composition of the Company’s executive management team and the Company’s ability to attract and retain key personnel;

- • rapid and expensive technological change in the financial services industry;

- • increased competition in the financial services industry, including from non-banks such as credit unions, and Fintech companies including and digital asset service providers;

- the Company's ability to successfully manage liquidity risk, including the Company's need to access higher cost sources of funds such as fed funds purchased and short-term borrowings;
- the concentration of large deposits from certain clients, including those who have balances above current Federal Deposit Insurance Corporation ("FDIC") insurance limits;
- the effectiveness of the Company's risk management framework;

- the commencement and outcome of litigation and other legal proceedings and regulatory actions against the Company or to which the Company may become subject;
- potential impairment to the goodwill the Company recorded in connection with the Company’s past acquisitions, including the acquisition acquisitions of Metro Phoenix Bank and the pending acquisition of HMNF;
- the extensive regulatory framework that applies to the Company;
- the impact of recent and future legislative and regulatory changes, including in response to recent bank failures;

- fluctuations in the values of the securities held in the Company's securities portfolio, including as a result of changes in interest rates;
- governmental monetary, trade and fiscal policies;
- risks related to climate change and the negative impact it may have on the Company's customers and their businesses;

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- severe weather, natural disasters, widespread disease or pandemics;

- acts of war or terrorism, including the ongoing Israeli-Palestinian conflict in the Middle East and the Russian invasion of Ukraine, or other adverse external events;
- any material weaknesses in the Company's internal control over financial reporting;
- changes to U.S. or state tax laws, regulations and guidance;
- potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election;
- talent and labor shortages and employee turnover;

- the Company’s success at managing the risks involved with the foregoing items; and
- any other risks described in the “Risk Factors” section of this report and in other reports filed by Alerus Financial Corporation with the SEC.

Any forward-looking statement made by the Company in this report is based only on information currently available to the Company and speaks only as of the date on which it is made. The Company undertakes no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview

The Company is a commercial wealth bank and national retirement services provider headquartered in Grand Forks, North Dakota. Through the Company’s subsidiary, Alerus

Financial, National Association, the Company provides financial solutions to businesses and consumers through three distinct business lines—banking, retirement and benefit services, and wealth management. These solutions are delivered through a relationship-oriented relationship-oriented primary point of contact along with responsive and client-friendly client-friendly technology.

The Company's business model produces strong financial performance and a diversified revenue stream, which has helped the Company establish a brand and culture yielding both a loyal client base and passionate and dedicated employees. The Company generates a majority of overall revenue from noninterest income, which is driven primarily by the Company's retirement and benefit services and wealth management and mortgage business lines. The remainder of the Company's revenue consists of net interest income, which the Company derives from offering traditional banking products and services.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties and could potentially result in materially different results under different assumptions and conditions. In preparing the Company's consolidated financial statements, management is required to make significant estimates and assumptions that affect assets, liabilities, revenues, and expenses reported. Actual results could differ materially from our current estimates as a result of changing conditions and future events. Several estimates are particularly critical and are susceptible to significant near term change, including (i) the ACL, including the ACL on investment securities, loans, and unfunded commitments; (ii) goodwill and intangible assets impairment; and (iii) fair value measurements.

There have been no material changes to the

Company's critical accounting policies from those disclosed within its Annual Report on Form 10-K for the year ended December 31, 2023. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for a discussion of the Company's critical accounting policies.

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Refer to "NOTE 2 Recent Accounting Pronouncements" of the consolidated financial statements included in this report for a discussion of accounting pronouncements issued but yet to be adopted and implemented.

The JOBS Act permits the Company an extended transition period for complying with new or revised accounting standards affecting public companies. The Company has elected to take advantage of this extended transition period, which means that the financial

statements included in this report, as well as any financial statements filed in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as the Company remains an emerging growth company or until the Company affirmatively and irrevocably opts out of the extended transition period under the JOBS Act.

Recent Developments

Business Combination

On May 15, 2024 October 9, 2024, the Company and HMNF jointly announced completed the signing acquisition of a merger agreement pursuant to which the Company will acquire HMNF and its wholly-owned banking wholly owned subsidiary, Home Federal Savings Bank. Under the terms As a result of the merger agreement, transaction, HMNF will merge merged with and into the Company, Alerus Financial Corporation, and Home Federal Savings Bank will merge merged with and into Alerus Financial, National Association. The all-stock transaction was valued at approximately $128.8 million as of closing, based on the Bank. Under closing price of the terms Company's common stock October 8, 2024, the trading day immediately preceding the closing of the merger, agreement, of $22.90. Former stockholders of HMNF stockholders will receive received 1.25 shares of the Company's common stock for each share of HMNF common stock, which exchange ratio is subject to potential downward adjustment if certain financial metrics resulting in the issuance of HMNF are not met at closing. 5,547,658 shares of the Company's common stock. The merger is expected was structured to qualify as a tax-free reorganization for HMNF's stockholders. Upon closing of Following the transaction, former stockholders of HMNF are expected to now hold approximately 22.0% 21.9% of the Company's outstanding common stock.

During both the three and six nine months ended June 30, 2024 September 30, 2024, the Company incurred $0.6 million $1.7 million and $2.3 million, respectively, in pre-tax acquisition expenses related to the planned acquisition of HMNF, comprised of legal and professional fees included in professional fees and assessments expense in the consolidated statements of income.

Stockholder Dividend

On May 22, 2024 August 20, 2024, the Board of Directors of the Company declared a quarterly cash dividend of $0.20 per common share. This dividend was paid on July 12, 2024 October 11, 2024, to stockholders of record at the close of business on June 14, 2024 September 13, 2024.

Property Sale

On July 1, 2024, the Company entered into a purchase agreement to sell its South Fargo branch in Fargo, North Dakota. The completion of the sale of this facility during 2024 is likely to occur in 2024, and the Company expects to record a gain on the sale upon closing, since the offer purchase price of $5.3 million $5.1 million is greater than the property's carrying value of approximately $1.7 million. The Company's West Fargo, North Dakota branch is listed for sale for $3.8 million and is expected to sell within the next 12 months. At September 30, 2024, the facility included assets with a carrying value of approximately $0.4 million. The Company expects to record a gain on the sale upon closing, as the expected sale price is greater than the property's carrying value.

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Operating Results Overview

The following table summarizes key financial results as of and for the periods indicated:

(dollars and shares in thousands, except per share data)	Three months ended June 30, 2024	March 31, 2024	June 30, 2023	Six months ended June 30, 2024	June 30, 2023
Performance Ratios					
Return on average total assets	0.58 %	0.63 %	0.96 %	0.60 %	0.92 %
Return on average common equity	6.76 %	7.04 %	10.14 %	6.90 %	9.66 %
Return on average tangible common equity (1)	9.40 %	9.78 %	13.71 %	9.58 %	13.15 %

Noninterest income as a % of revenue	53.28 %	53.26 %	53.69 %	53.27 %	52.65 %
Net interest margin (taxable-equivalent basis)	2.39 %	2.30 %	2.52 %	2.35 %	2.61 %
Adjusted net interest margin (tax-equivalent basis) (1)	2.57 %	2.44 %	2.52 %	2.50 %	2.61 %
Efficiency ratio (1)	72.50 %	78.88 %	72.79 %	75.56 %	73.67 %
Average equity to average assets	8.59 %	8.87 %	9.52 %	8.74 %	9.53 %
Net charge-offs/(recoveries) to average loans	0.36 %	0.01 %	(0.07)%	0.19 %	(0.02)%
Dividend payout ratio	64.52 %	59.38 %	42.22 %	61.90 %	43.53 %
Per Common Share					
Earnings (losses) per common share – basic	$ 0.31	$ 0.32	$ 0.45	$ 0.64	$ 0.86
Earnings (losses) per common share – diluted	$ 0.31	$ 0.32	$ 0.45	$ 0.63	$ 0.85
Dividends declared per common share	$ 0.20	$ 0.19	$ 0.19	$ 0.39	$ 0.37
Book value per common share	$ 18.87	$ 18.79	$ 17.96		
Tangible book value per common share (1)	$ 15.77	$ 15.63	$ 14.60		
Average common shares outstanding – basic	19,777	19,739	20,033	19,758	20,030
Average common shares outstanding – diluted	20,050	19,986	20,241	20,018	20,243
Other Data					
Retirement and benefit services assets under administration/management	$39,389,533	$38,488,523	$35,052,652		
Wealth management assets under administration/management	$ 4,172,290	$ 4,242,408	$ 3,857,710		
Mortgage originations	$ 109,254	$ 54,101	$ 111,261	$163,355	$188,989

	Three months ended			Nine Months En	
	September 30,	June 30,	September 30,	September 30,	Sep
(dollars and shares in thousands, except per share data)	2024	2024	2023	2024	2
Performance Ratios					
Return on average total assets	0.48 %	0.58 %	0.95 %	0.56 %	
Adjusted return on average total assets (1)	0.57 %	0.65 %	0.75 %	0.62 %	
Return on average common equity	5.52 %	6.76 %	10.05 %	6.43 %	
Return on average tangible common equity (1)	7.83 %	9.40 %	13.51 %	8.98 %	
Adjusted return on average tangible common equity (1)	9.04 %	10.30 %	10.97 %	9.80 %	

Noninterest income as a % of revenue		55.72 %		53.28 %		58.21 %		54.10 %	
Net interest margin (taxable-equivalent basis)		2.23 %		2.39 %		2.27 %		2.31 %	
Adjusted net interest margin (tax-equivalent basis) (1)		2.35 %		2.47 %		2.24 %		2.41 %	
Efficiency ratio (1)		80.29 %		72.50 %		73.37 %		77.17 %	
Adjusted efficiency ratio (1)		77.71 %		70.80 %		77.03 %		75.50 %	
Average equity to average assets		8.73 %		8.59 %		9.47 %		8.73 %	
Net charge-offs/(recoveries) to average loans		0.04 %		0.36 %		(0.09)%		0.14 %	
Dividend payout ratio		76.92 %		64.52 %		42.22 %		66.29 %	
Per Common Share									
Earnings (losses) per common share – basic	$	0.26	$	0.31	$	0.46	$	0.90	$
Earnings (losses) per common share – diluted	$	0.26	$	0.31	$	0.45	$	0.89	$
Adjusted earnings (losses) per common share – diluted (1)	$	0.31	$	0.34	$	0.36	$	0.98	$
Dividends declared per common share	$	0.20	$	0.20	$	0.19	$	0.59	$
Book value per common share	$	19.53	$	18.87	$	17.60			
Tangible book value per common share (1)	$	16.50	$	15.77	$	14.32			
Average common shares outstanding – basic		19,788		19,777		19,872		19,768	
Average common shares outstanding – diluted		20,075		20,050		20,095		20,037	
Other Data									
Retirement and benefit services assets under administration/management	$	41,249,280	$	39,389,533	$	34,552,569			
Wealth management assets under administration/management	$	4,397,505	$	4,172,290	$	3,724,091			
Mortgage originations	$	82,388	$	109,254	$	109,637	$	245,743	$

(1) Represents a non-GAAP financial measure. See "Non-GAAP to GAAP Reconciliations and Calculation of Non-GAAP Financial Measures."

Selected Financial Data

The following tables summarize selected financial data as of and for the periods indicated:

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,

(dollars in thousands)	2024	2024	2023	2024	2023
Selected Average Balance Sheet Data					
Loans	$2,837,232	$2,768,514	$2,482,413	$2,802,873	$2,469,853
Investment securities	756,413	775,305	1,007,792	765,859	1,020,967
Assets	4,297,294	4,139,054	3,785,487	4,218,443	3,788,494
Deposits	3,230,699	3,163,565	2,940,216	3,197,133	2,936,638
Fed funds purchased and Bank Term Funding Program	366,186	282,614	360,033	324,400	325,303
FHLB short-term advances	200,000	200,000	—	200,000	39,779
Long-term debt	58,999	58,971	58,886	58,985	58,872
Stockholders' equity	369,217	367,249	360,216	368,501	361,032

	Three months ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
(dollars in thousands)	2024	2024	2023	2024	2023
Selected Average Balance Sheet Data					
Loans	$ 2,968,947	$ 2,837,232	$ 2,544,836	$ 2,858,634	$ 2,495,122
Investment securities	749,062	756,413	971,913	760,219	1,004,436
Assets	4,298,080	4,297,294	3,821,601	4,245,181	3,799,645
Deposits	3,264,138	3,230,699	2,844,758	3,219,632	2,905,675
Fed funds purchased and Bank Term Funding Program	327,543	366,186	312,121	325,455	320,861
FHLB short-term advances	200,000	200,000	173,913	200,000	84,982
Long-term debt	59,027	58,999	58,914	58,999	58,886
Stockholders' equity	375,229	369,217	361,735	370,758	361,260
	September 30,	June 30,	December 31,	September 30,	

(dollars in thousands)	2024	2024	2023	2023
Selected Period End Balance Sheet Data				
Loans	$ 3,032,343	$ 2,915,792	$ 2,759,583	$ 2,606,430
Allowance for credit losses on loans	(39,142)	(38,332)	(35,843)	(36,290)
Investment securities	750,624	748,745	786,251	943,269
Assets	4,084,640	4,358,623	3,907,713	3,869,138
Deposits	3,323,550	3,298,575	3,095,611	2,872,184
Long-term debt	59,041	59,013	58,956	58,928
Total stockholders' equity	386,486	373,226	369,127	349,402

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(dollars in thousands)	June 30, 2024	March 31, 2024	December 31, 2023	June 30, 2023
Selected Period End Balance Sheet Data				
Loans	$2,915,792	$2,799,475	$ 2,759,583	$2,533,522
Allowance for credit losses on loans	(38,332)	(36,584)	(35,843)	(35,696)
Investment securities	748,745	768,757	786,251	985,870
Assets	4,358,623	4,338,093	3,907,713	3,832,978
Deposits	3,298,575	3,284,969	3,095,611	2,852,855
Long-term debt	59,013	58,985	58,956	58,900
Total stockholders' equity	373,226	371,635	369,127	357,685

	Three months ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
(dollars in thousands)	2024	2024	2023	2024	2023

Selected Income Statement Data					
Net interest income	$ 22,542	$ 24,001	$ 20,395	$ 68,761	$ 66,287
Provision for credit losses	1,661	4,489	—	6,150	550
Noninterest income	28,363	27,371	28,407	81,057	79,439
Noninterest expense	42,447	38,752	37,260	120,218	111,503
Income before income taxes	6,797	8,131	11,542	23,450	33,673
Income tax expense	1,590	1,923	2,381	5,604	7,222
Net income	$ 5,207	$ 6,208	$ 9,161	$ 17,846	$ 26,451

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(dollars in thousands)	2024	2024	2023	2024	2023
Selected Income Statement Data					
Net interest income	$24,001	$ 22,219	$22,234	$46,220	$45,892
Provision for credit losses	4,489	—	—	4,489	550
Noninterest income	27,371	25,323	25,778	52,694	51,031
Noninterest expense	38,752	39,019	36,373	77,771	74,242
Income before income taxes	8,131	8,523	11,639	16,654	22,131
Income tax expense	1,923	2,091	2,535	4,014	4,841
Net income	$ 6,208	$ 6,432	$ 9,104	$12,640	$17,290

Non-GAAP to GAAP Reconciliations and Calculation of Non-GAAP Financial Measures

In addition to the results presented in accordance with GAAP, the Company routinely supplements its evaluation with an analysis of

certain non-GAAP financial measures. These non-GAAP financial measures include the ratio of tangible common equity to tangible assets, adjusted tangible common equity to tangible assets, tangible book value per common share, return on average tangible common equity, efficiency ratio, pre-provision net revenue, adjusted noninterest income, adjusted noninterest expense, adjusted pre-provision net revenue, adjusted efficiency ratio, adjusted net income, adjusted return on average assets, adjusted return on average tangible common equity, net interest margin (tax-equivalent), and adjusted net interest margin (tax-equivalent). Management uses these non-GAAP financial measures in its analysis of its performance, and believes financial analysts and others frequently use these measures, and other similar measures, to evaluate capital adequacy. Management calculates: (i) tangible common equity as total common stockholders' equity less goodwill and other intangible assets; (ii) adjusted tangible common equity as total common stockholders' equity less goodwill, other intangible assets, and cash proceeds from BTFP; (iii) tangible book value per common share as tangible common equity divided by shares of common stock outstanding; (iv) tangible assets as total assets, less goodwill and other intangible assets; (v) return on average tangible common equity as net income adjusted for intangible amortization net of tax, divided by average tangible common equity; (vi) efficiency ratio as noninterest expense less intangible amortization expense, divided by net interest income plus noninterest income plus a tax-equivalent adjustment; (vii) pre-provision net revenue as net interest income plus noninterest income less noninterest expense; (viii) adjusted noninterest income as noninterest income less BOLI mortality proceeds less gain on sale of ESOP trustee business less net gain on sale of premises and (vii) equipment; (ix) adjusted noninterest expense as noninterest expense less HMNF merger- and acquisition-related expenses less severance and signing bonus; (x) adjusted pre-provision net revenue as net interest income plus adjusted noninterest income less adjusted noninterest expense; (xii) adjusted efficiency ratio as adjusted noninterest expense less intangible amortization expense, divided by net interest income plus adjusted noninterest income plus a tax-equivalent adjustment; (xiii) adjusted net income as net income less adjusted noninterest income items net of tax plus adjusted noninterest expense items net of tax; (xiv) adjusted return on average assets as adjusted net income divided by average total assets; (xv) adjusted return on average tangible common equity

as adjusted net income adjusted for intangible amortization net of tax, divided by average tangible common equity; (xvi) adjusted net interest margin (tax equivalent) as net interest income less cash interest income and interest expense related to BTFP and less purchase accounting net accretion, adjusted for tax equivalent related to loans and securities, and adjust interest earning assets less average cash proceeds balance from BTFP. BTFP and add the change in unearned purchase accounting discount; and (xvii) adjusted earnings per common share - diluted as net income adding back HMNF merger- and acquisition-related expenses adjusted for tax less dividends and undistributed earnings allocated to participating securities, divided by the weighted-average common shares outstanding for diluted earnings per share.

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The following tables present these non-GAAP financial measures along with the most directly comparable financial measures calculated in accordance with GAAP as of and for the periods indicated:

(dollars and shares in thousands, except per share data)	June 30, 2024	March 31, 2024	December 31, 2023	June 30, 2023
Tangible common equity to tangible assets				
Total common stockholders' equity	$ 373,226	$ 371,635	$ 369,127	$ 357,685
Less: Goodwill	46,783	46,783	46,783	47,087
Less: Other intangible assets	14,510	15,834	17,158	19,806
Tangible common equity (a)	311,933	309,018	305,186	290,792
Total assets	4,358,623	4,338,093	3,907,713	3,832,978

Less: Goodwill	46,783	46,783	46,783	47,087
Less: Other intangible assets	14,510	15,834	17,158	19,806
Tangible assets (b)	4,297,330	4,275,476	3,843,772	3,766,085
Tangible common equity to tangible assets (a)/(b)	7.26 %	7.23 %	7.94 %	7.72 %
Adjusted Tangible Common Equity to Tangible Assets				
Tangible assets (b)	$4,297,330	$4,275,476	$ 3,843,772	$3,766,085
Less: Cash proceeds from BTFP	355,000	355,000	—	—
Adjusted tangible assets (c)	3,942,330	3,920,476	3,843,772	3,766,085
Adjusted tangible common equity to tangible assets (a)/(c)	7.91 %	7.88 %	7.94 %	7.72 %
Tangible book value per common share				
Total common stockholders' equity	$ 373,226	$ 371,635	$ 369,127	$ 357,685
Less: Goodwill	46,783	46,783	46,783	47,087
Less: Other intangible assets	14,510	15,834	17,158	19,806
Tangible common equity (d)	311,933	309,018	305,186	290,792
Total common shares issued and outstanding (e)	19,778	19,777	19,734	19,915

Tangible book value per common share (d)/(e)	$ 15.77	$ 15.63	$ 15.46	$ 14.60

(dollars and shares in thousands, except per share data)	September 30, 2024	June 30, 2024	December 31, 2023	September 30, 2023
Tangible common equity to tangible assets				
Total common stockholders' equity	$ 386,486	$ 373,226	$ 369,127	$ 349,402
Less: Goodwill	46,783	46,783	46,783	46,783
Less: Other intangible assets	13,186	14,510	17,158	18,482
Tangible common equity (a)	326,517	311,933	305,186	284,137
Total assets	4,084,640	4,358,623	3,907,713	3,869,138
Less: Goodwill	46,783	46,783	46,783	46,783
Less: Other intangible assets	13,186	14,510	17,158	18,482
Tangible assets (b)	4,024,671	4,297,330	3,843,772	3,803,873
Tangible common equity to tangible assets (a)/(b)	8.11 %	7.26 %	7.94 %	7.47 %
Adjusted Tangible Common Equity to Tangible Assets				
Tangible assets (b)	$ 4,024,671	$ 4,297,330	$ 3,843,772	$ 3,803,873

Less: Cash proceeds from BTFP	—	355,000	—	—
Adjusted tangible assets (c)	4,024,671	3,942,330	3,843,772	3,803,873
Adjusted tangible common equity to tangible assets (a)/(c)	8.11 %	7.91 %	7.94 %	7.47 %
Tangible book value per common share				
Total common stockholders' equity	$ 386,486	$ 373,226	$ 369,127	$ 349,402
Less: Goodwill	46,783	46,783	46,783	46,783
Less: Other intangible assets	13,186	14,510	17,158	18,482
Tangible common equity (d)	326,517	311,933	305,186	284,137
Total common shares issued and outstanding (e)	19,790	19,778	19,734	19,848
Tangible book value per common share (d)/(e)	$ 16.50	$ 15.77	$ 15.46	$ 14.32

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	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(dollars and shares in thousands, except per share data)	2024	2024	2023	2024	2023

Return on average tangible common equity					
Net income	$ 6,208	$ 6,432	$ 9,104	$ 12,640	$ 17,290
Add: Intangible amortization expense (net of tax)	1,046	1,046	1,046	2,092	2,092
Net income, excluding intangible amortization (f)	7,254	7,478	10,150	14,732	19,382
Average total equity	369,217	367,249	360,216	368,501	361,032
Less: Average goodwill	46,783	46,783	47,087	46,783	47,087
Less: Average other intangible assets (net of tax)	11,969	13,018	16,153	12,494	16,678
Average tangible common equity (g)	310,466	307,448	296,976	309,224	297,267
Return on average tangible common equity (f)/(g)	9.40 %	9.78 %	13.71 %	9.58 %	13.15 %
Efficiency ratio					
Noninterest expense	$ 38,752	$ 39,019	$ 36,373	$ 77,771	$ 74,242
Less: Intangible amortization expense	1,324	1,324	1,324	2,648	2,648
Adjusted noninterest expense (h)	37,428	37,695	35,049	75,123	71,594
Net interest income	24,001	22,219	22,234	46,220	45,892
Noninterest income	27,371	25,323	25,778	52,694	51,031
Tax-equivalent adjustment	255	247	140	502	265

Total tax-equivalent revenue (i)	51,627	47,789	48,152	99,416	97,188
Efficiency ratio (h)/(i)	72.50 %	78.88 %	72.79 %	75.56 %	73.67 %
Adjusted Net Interest Margin (Tax-Equivalent)					
Net interest income	$ 24,001	$ 22,219	$ 22,234	$ 46,220	$ 45,892
Less: BTFP cash interest income	4,766	3,615	—	8,381	—
Add: BTFP interest expense	4,307	3,266	—	7,573	—
Net interest income excluding BTFP impact	23,542	21,870	22,234	45,412	45,892
Add: Tax equivalent adjustment for loans and securities	255	247	140	502	265
Adjusted net interest income (j)	$ 23,797	$ 22,117	$ 22,374	$ 45,914	$ 46,157
Interest earning assets	4,075,003	3,921,530	3,564,883	3,998,265	3,566,136
Less: Average cash proceeds balance from BTFP	355,000	269,176	—	312,088	—
Adjusted interest earning assets (k)	$3,720,003	$3,652,354	$3,564,883	$3,686,177	$3,566,136
Adjusted net interest margin (tax-equivalent) (j)/(k)	2.57 %	2.44 %	2.52 %	2.50 %	2.61 %

(dollars and shares in thousands, except per share data)	Three months ended September 30, 2024	Three months ended June 30, 2024	Three months ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Return on Average Tangible Common Equity					
Net income	$ 5,207	$ 6,208	$ 9,161	$ 17,846	$ 26,451
Add: Intangible amortization expense (net of tax) (1)	1,046	1,046	1,046	3,138	3,138
Net income, excluding intangible amortization (f)	6,253	7,254	10,207	20,984	29,589
Average total equity	375,229	369,217	361,735	370,758	361,260
Less: Average goodwill	46,783	46,783	46,882	46,783	47,018
Less: Average other intangible assets (net of tax) (1)	10,933	11,969	15,109	11,969	16,149
Average tangible common equity (g)	317,513	310,465	299,744	312,006	298,093
Return on average tangible common equity (f)/(g)	7.83 %	9.40 %	13.51 %	8.98 %	13.27 %
Efficiency ratio					
Noninterest expense	$ 42,447	$ 38,752	$ 37,260	$ 120,218	$ 111,503
Less: Intangible amortization expense	1,324	1,324	1,324	3,972	3,972
Adjusted noninterest expense (h)	41,123	37,428	35,936	116,246	107,531
Net interest income	22,542	24,001	20,395	68,761	66,287
Noninterest income	28,363	27,371	28,407	81,057	79,439
Tax-equivalent adjustment	314	255	180	816	444

Total tax-equivalent revenue (i)	51,219	51,627	48,982	150,634	146,170
Efficiency ratio (h)/(i)	80.29 %	72.50 %	73.37 %	77.17 %	73.57 %
Pre-Provision Net Revenue					
Net interest income	$ 22,542	$ 24,001	$ 20,395	$ 68,761	$ 66,287
Add: Noninterest income	28,363	27,371	28,407	81,057	79,439
Less: Noninterest expense	42,447	38,752	37,260	120,218	111,503
Pre-provision net revenue	$ 8,458	$ 12,620	$ 11,542	$ 29,600	$ 34,223
Adjusted Noninterest Income					
Noninterest income	$ 28,363	$ 27,371	$ 28,407	$ 81,057	$ 79,439
Less: Adjusted noninterest income items					
BOLI mortality proceeds (non-taxable)	—	—	—	—	1,196
Gain on sale of ESOP trustee business	—	—	2,775	—	2,775
Net gain on sale of premises and equipment	476	—	—	476	—
Total adjusted noninterest income items (j)	476	—	2,775	476	3,971
Adjusted noninterest income (k)	$ 27,887	$ 27,371	$ 25,632	$ 80,581	$ 75,468
Adjusted Noninterest Expense					
Noninterest expense	$ 42,447	$ 38,752	$ 37,260	$ 120,218	$ 111,503
Less: Adjusted noninterest expense items					

HMNF merger- and acquisition-related expenses	1,661	563	—	2,251	—
Severance and signing bonus expense	31	315	343	626	1,475
Total adjusted noninterest expense items (l)	1,692	878	343	2,877	1,475
Adjusted noninterest expense (m)	$ 40,755	$ 37,874	$ 36,917	$ 117,341	$ 110,028
Adjusted Pre-Provision Net Revenue					
Net interest income	$ 22,542	$ 24,001	$ 20,395	$ 68,761	$ 66,287
Add: Adjusted noninterest income (k)	27,887	27,371	25,632	80,581	75,468
Less: Adjusted noninterest expense (m)	40,755	37,874	36,917	117,341	110,028
Adjusted pre-provision net revenue	$ 9,674	$ 13,498	$ 9,110	$ 32,001	$ 31,727
Adjusted Efficiency Ratio					
Adjusted noninterest expense (m)	$ 40,755	$ 37,874	$ 36,917	$ 117,341	$ 110,028
Less: Intangible amortization expense	1,324	1,324	1,324	3,972	3,972
Adjusted noninterest expense for efficiency ratio (n)	39,431	36,550	35,593	113,369	106,056
Tax-equivalent revenue					
Net interest income	22,542	24,001	20,395	68,761	66,287
Add: Adjusted noninterest income (k)	27,887	27,371	25,632	80,581	75,468
Add: Tax-equivalent adjustment	314	255	180	816	444

Total tax-equivalent revenue (o)	50,743	51,627	46,207	150,158	142,199
Adjusted efficiency ratio (n)/(o)	77.71 %	70.80 %	77.03 %	75.50 %	74.58 %

(1) Items calculated after-tax utilizing a marginal income tax rate of 21.0%.

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	Three months ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
(dollars and shares in thousands, except per share data)	2024	2024	2023	2024	2023
Adjusted Net Income					
Net income	$ 5,207	$ 6,208	$ 9,161	$ 17,846	$ 26,451
Less: Adjusted noninterest income items (net of tax) (1) (j)	376	—	2,192	376	3,388
Add: Adjusted noninterest expense items (net of tax) (1) (l)	1,337	694	271	2,273	1,165
Adjusted net income (p)	$ 6,168	$ 6,902	$ 7,240	$ 19,743	$ 24,228
Adjusted Return on Average Assets					
Average total assets (q)	$ 4,298,080	$ 4,297,294	$ 3,821,601	$ 4,245,181	$ 3,799,645
Adjusted return on average assets (p)/(q)	0.57 %	0.65 %	0.75 %	0.62 %	0.85 %
Adjusted Return on Average Tangible Common Equity					
Adjusted net income (p)	$ 6,168	$ 6,902	$ 7,240	$ 19,743	$ 24,228
Add: Intangible amortization expense (net of tax) (1)	1,046	1,046	1,046	3,138	3,138

Adjusted net income, excluding intangible amortization (r)	7,214	7,948	8,286	22,881	27,366
Average total equity	375,229	369,217	361,735	370,758	361,260
Less: Average goodwill	46,783	46,783	46,882	46,783	47,018
Less: Average other intangible assets (net of tax) (1)	10,933	11,969	15,109	11,969	16,149
Average tangible common equity (s)	317,513	310,465	299,744	312,006	298,093
Return on average tangible common equity (r)/(s)	9.04 %	10.30 %	10.97 %	9.80 %	12.27 %
Adjusted Net Interest Margin (Tax-Equivalent)					
Net interest income	$ 22,542	$ 24,001	$ 20,395	$ 68,761	$ 66,287
Less: BTFP cash interest income	4,113	4,766	—	12,494	—
Add: BTFP interest expense	3,717	4,307	—	11,290	—
Less: Purchase accounting net accretion	152	985	294	1,429	969
Net interest income excluding BTFP impact	21,994	22,557	20,101	66,128	65,318
Add: Tax equivalent adjustment for loans and securities	314	255	180	816	444
Adjusted net interest income (t)	$ 22,308	$ 22,812	$ 20,281	$ 66,944	$ 65,762
Interest earning assets	4,077,716	4,075,003	3,591,478	4,024,942	3,574,675

Less: Average cash proceeds balance from BTFP	303,043	355,000	—	309,051	—
Add: Change in unearned purchase accounting discount	152	985	294	1,429	969
Adjusted interest earning assets (u)	$ 3,774,825	$ 3,720,988	$ 3,591,772	$ 3,717,320	$ 3,575,644
Adjusted net interest margin (tax-equivalent) (t)/(u)	2.35 %	2.47 %	2.24 %	2.41 %	2.46 %
Adjusted Earnings Per Common Share − Diluted					
Adjusted net income (p)	$ 6,168	$ 6,902	$ 7,240	$ 19,743	$ 24,228
Less: Dividends and undistributed earnings allocated to participating securities	24	38	67	102	186
Net income available to common stockholders (v)	6,144	6,864	7,173	19,641	24,042
Weighted-average common shares outstanding for diluted earnings per share (w)	20,075	20,050	20,095	20,037	20,193
Adjusted earnings per common share − diluted (v)/(w)	$ 0.31	$ 0.34	$ 0.36	$ 0.98	$ 1.19

(1) Items calculated after-tax utilizing a marginal income tax rate of 21.0%.

Discussion and Analysis of Results of Operations

Net Income

Net income for the three months ended June 30, 2024 September 30, 2024, was $6.2 million, $5.2 million, or $0.31 $0.26 per diluted common share, a $2.9 million, $4.0 million, or 31.8% 43.2%, decrease compared to $9.1 million, $9.2 million, or $0.45 per diluted common share, for the three months ended June

30, 2023 September 30, 2023. Earnings for the second third quarter of 2024 compared to the second third quarter of 2023 decreased primarily due to a $4.5 million $5.2 million increase in noninterest expense and $1.7 million increase in provision for credit losses and $2.4 million increase in noninterest expense. losses. This negative result was partially offset by a $1.8 million $2.1 million increase in net interest income and $1.6 million increase in noninterest income.

Net income for the six nine months ended June 30, 2024 September 30, 2024, was $12.6 million, $17.8 million, or $0.63 $0.89 per diluted common share, a $4.7 million, $8.6 million, or 26.9% 32.5%, decrease compared to $17.3 million, $26.5 million, or $0.85 $1.30 per diluted common share, for the six nine months ended June 30, 2023 September 30, 2023. Earnings for the six nine months ended June 30, 2024 September 30, 2024 compared to the six nine months ended June 30, 2023 September 30, 2023 decreased primarily due to an $8.7 million increase in noninterest expense and a $3.9 million $5.6 million increase in provision for credit losses and $3.5 million increase in noninterest expense. losses. This negative result was partially offset by a $1.7 million $2.5 million increase in net interest income and a $1.6 million increase in noninterest income.

Net Interest Income

Net interest income is the difference between interest income and yield related fees earned on assets and interest expense paid on liabilities. Net interest margin is the difference between the yield on interest earning assets and the cost of interest-bearing liabilities as a percentage of interest earning assets. Net interest margin is presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to a pre-tax-equivalent income, assuming a federal income tax rate of 21% for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.

Net interest income for the three months ended June 30, 2024 September 30, 2024 was $24.0 million, $22.5 million, an increase of $1.8 million, $2.1 million, or 7.9% 10.5%, compared to $22.2 million $20.4 million for the three months ended June 30, 2023 September 30, 2023. Net interest income for the second third quarter of 2024 increased compared to the second third quarter of 2023 primarily due to a $12.7 million $10.2 million increase in interest income, as interest earning assets increased $510.1 million $486.2 million while the average interest earning asset yield increased 71 46 basis points. This was partially offset by the increasing cost of interest-bearing liabilities as interest expense increased $10.9 million $8.0 million, mainly driven by an increase of 88 48 basis points in the average rate paid on interest-bearing liabilities. In addition, the average balance of interest-bearing liabilities increased $579.8 million $525.6 million. The increase in interest earning assets was primarily due to organic loan growth and increased cash balances from deposit growth and BTFP borrowings. The increase in interest-bearing liabilities was due to core deposit growth, a shift from noninterest-bearing deposits to interest-bearing deposits and BTFP borrowings.

Net interest income for the six nine months ended June 30, 2024 September 30, 2024 was $46.2 million, $68.8 million, an increase of $0.3 million, $2.5 million, or 0.7% 3.7%, compared to $45.9 million $66.3 million for the six nine months ended June 30, 2023 September 30, 2023. Net interest income for the first six nine months of 2024 increased compared to the first six nine months of 2023 primarily due to a $23.9 million $34.1 million increase in interest income, as average interest earning assets increased $432.1 million $450.3 million while the average interest earning asset yield increased 73 64 basis points. This was partially offset by the increasing increased cost of interest-bearing liabilities as interest expense increased $23.6 million $31.6 million, mainly driven by an increase of 110 89 basis points in the average rate paid on interest-bearing liabilities. In addition, the average balance of interest-bearing liabilities increased $517.9 million $520.4 million. The increase in interest earning assets was primarily due to organic loan growth and increased cash balances from deposit growth and BTFP borrowings. The increase in interest-bearing liabilities was due to core deposit growth, a shift from noninterest-bearing deposits to interest-bearing deposits and BTFP borrowings.

Net interest margin (on a tax-equivalent basis) for the three months ended June 30, 2024 September 30, 2024 was 2.39% 2.23%, compared to 2.52% 2.27% for the same period in 2023. The decrease in net interest margin (on a tax-equivalent basis) was mainly attributable to higher earning assets at lower yields resulting from the BTFP funding as those proceeds are were held at the Federal Reserve Bank. Adjusted net interest margin (on a tax-equivalent basis) (non-GAAP), which excludes BTFP borrowings and purchase accounting accretion, was 2.57% 2.35% for the second third quarter of 2024, a 5 11 basis point increase from 2.52% 2.24% for the second third quarter of 2023.

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The high target federal funds interest rate continues to pressure funding costs. However, the Company anticipates that net interest income and net interest margin (on an adjusted tax equivalent basis) will continue to recover increase in future periods as the impact of recent and anticipated interest earning assets reprice at higher rates rate cuts lower funding costs and the increases in deposit costs slow. fixed interest rate derivatives mature.

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The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields on assets, average yields earned, and rates paid for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023. The Company derived these yields and rates by dividing income or expense by the average balance of the corresponding assets or liabilities. The Company derived average balances from the daily balances throughout the periods indicated. Average loan balances include loans that have been placed on nonaccrual status, while interest previously accrued on these loans is reversed against interest income. In these tables, adjustments are made to the yields on tax-exempt tax-exempt assets in order to present tax-exempt tax-exempt income and fully taxable income on a fully taxable equivalent (“FTE”) basis.

	Three months ended June 30,					
	2024			2023		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 448,245	$ 5,991	5.38 %	$ 36,418	$ 363	4.00 %
Investment securities (1)	756,413	5,059	2.69	1,007,792	6,360	2.53
Loans held for sale	16,473	365	8.91	14,536	189	5.22
Loans						
Commercial and industrial	578,544	10,628	7.39	516,943	8,925	6.92
CRE − Construction, land and development	126,744	2,524	8.01	87,905	1,629	7.43
CRE − Multifamily	243,076	3,335	5.52	191,100	2,453	5.15
CRE − Non-owner occupied	617,338	9,056	5.90	473,728	6,127	5.19
CRE − Owner occupied	283,754	3,856	5.47	252,320	3,081	4.90
Agricultural − Land	40,932	480	4.72	39,679	479	4.84
Agricultural − Production	38,004	632	6.69	28,415	458	6.47
RRE − First lien	694,866	7,023	4.07	665,519	6,155	3.71
RRE − Construction	21,225	284	5.38	32,769	393	4.81
RRE − HELOC	123,233	2,543	8.30	120,344	2,390	7.97
RRE − Junior lien	36,181	594	6.60	35,932	510	5.69
Other consumer	33,335	553	6.67	37,759	568	6.03
Total loans (1)	2,837,232	41,508	5.88	2,482,413	33,168	5.36
Federal Reserve/FHLB Stock	16,640	353	8.53	23,724	399	6.75
Total interest earning assets	4,075,003	53,276	5.26	3,564,883	40,479	4.55
Noninterest earning assets	222,291			220,604		
Total assets	$ 4,297,294			$ 3,785,487		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 959,119	$ 5,338	2.24 %	$ 775,818	$ 2,431	1.26 %
Money market and savings deposits	1,147,525	10,824	3.79	1,145,335	8,033	2.81
Time deposits	458,125	5,122	4.50	270,121	2,214	3.29
Fed funds purchased and Bank Term Funding Program	366,186	4,463	4.90	360,033	4,763	5.31
FHLB short-term advances	200,000	2,589	5.21	—	—	—
Long-term debt	58,999	684	4.66	58,886	665	4.53
Total interest-bearing liabilities	3,189,954	29,020	3.66	2,610,193	18,106	2.78
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	665,930			748,942		
Other noninterest-bearing liabilities	72,193			66,136		
Stockholders’ equity	369,217			360,216		
Total liabilities and stockholders’ equity	$ 4,297,294			$ 3,785,487		
Net interest income on FTE basis (1)		$ 24,256			$ 22,373	
Net interest rate spread on FTE basis (1)			1.60 %			1.77 %
Net interest margin on FTE basis (1)			2.39 %			2.52 %

	Three months ended September 30,					
	2024			2023		
	Average	Interest Income/	Average Yield/	Average	Interest Income/	Average Yield/

(dollars in thousands)	Balance	Expense	Rate	Balance	Expense	Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 326,350	$ 4,490	5.47 %	$ 29,450	$ 229	3.09
Investment securities (1)	749,062	4,810	2.55	971,913	6,377	2.60
Loans held for sale	15,795	127	3.20	16,518	231	5.55
Loans						
Commercial and industrial	593,685	10,837	7.26	523,263	8,713	6.61
CRE − Construction, land and development	184,611	2,637	5.68	88,450	1,900	8.52
CRE − Multifamily	242,558	3,427	5.62	209,020	2,723	5.17
CRE − Non-owner occupied	663,539	9,799	5.88	491,948	6,618	5.34
CRE − Owner occupied	289,963	3,943	5.41	256,983	3,381	5.22
Agricultural − Land	42,162	522	4.93	40,685	497	4.85
Agricultural − Production	40,964	704	6.84	32,386	545	6.68
RRE − First lien	689,382	6,903	3.98	681,610	6,576	3.83
RRE − Construction	16,792	163	3.86	33,264	431	5.14
RRE − HELOC	130,705	2,627	8.00	118,965	2,470	8.24
RRE − Junior lien	36,818	531	5.74	35,974	534	5.89
Other consumer	37,768	642	6.76	32,288	497	6.11
Total loans (1)	2,968,947	42,735	5.73	2,544,836	34,885	5.44
Federal Reserve/FHLB Stock	17,562	364	8.25	28,761	495	6.83
Total interest earning assets	4,077,716	52,526	5.12	3,591,478	42,217	4.66
Noninterest earning assets	220,364			230,123		
Total assets	$ 4,298,080			$ 3,821,601		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 1,003,595	$ 5,826	2.31 %	$ 751,455	$ 2,534	1.34
Money market and savings deposits	1,146,896	11,020	3.82	1,073,297	8,650	3.20
Time deposits	485,533	5,439	4.46	327,264	3,252	3.94
Fed funds purchased and BTFP	327,543	4,094	4.97	312,121	4,327	5.50
FHLB short-term advances	200,000	2,612	5.20	173,913	2,201	5.02
Long-term debt	59,027	679	4.58	58,914	679	4.57
Total interest-bearing liabilities	3,222,594	29,670	3.66	2,696,964	21,643	3.18
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	628,114			692,742		
Other noninterest-bearing liabilities	72,143			70,160		
Stockholders' equity	375,229			361,735		
Total liabilities and stockholders' equity	$ 4,298,080			$ 3,821,601		
Net interest income on FTE basis (1)		$ 22,856			$ 20,574	
Net interest rate spread on FTE basis (1)			1.46 %			1.48
Net interest margin on FTE basis (1)			2.23 %			2.27

(1) Taxable equivalent adjustment was calculated utilizing a marginal income tax rate of 21.0 percent.

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	Six months ended June 30,					
	2024			2023		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 400,141	$ 10,656	5.36 %	$ 39,167	$ 697	3.59 %
Investment securities (1)	765,859	9,847	2.59	1,020,967	12,552	2.48
Loans held for sale	12,743	492	7.76	12,452	316	5.12
Loans						
Commercial and industrial	571,334	20,391	7.18	524,500	16,913	6.50
CRE – Construction, land and development	127,165	5,073	8.02	95,460	3,297	6.96
CRE – Multifamily	246,794	6,796	5.54	151,740	3,871	5.14
CRE – Non-owner occupied	590,946	17,129	5.83	492,174	12,325	5.05
CRE – Owner occupied	281,459	7,576	5.41	251,669	6,162	4.94
Agricultural – Land	40,621	956	4.73	38,773	908	4.72
Agricultural – Production	36,668	1,193	6.54	27,848	865	6.26
RRE – First lien	698,311	14,024	4.04	659,636	12,109	3.70
RRE – Construction	21,392	564	5.30	33,911	826	4.91
RRE – HELOC	121,095	4,999	8.30	118,459	4,602	7.83
RRE – Junior lien	36,003	1,162	6.49	34,557	959	5.60
Other consumer	31,085	1,015	6.57	41,126	1,211	5.94
Total loans (1)	2,802,873	80,878	5.80	2,469,853	64,048	5.23
Federal Reserve/FHLB Stock	16,649	690	8.33	23,697	801	6.82
Total interest earning assets	3,998,265	102,563	5.16	3,566,136	78,414	4.43
Noninterest earning assets	220,178			222,358		
Total assets	$ 4,218,443			$ 3,788,494		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 914,090	$ 9,587	2.11 %	$ 761,319	$ 4,025	1.07 %
Money market and savings deposits	1,167,213	21,941	3.78	1,155,247	14,265	2.49
Time deposits	444,902	9,909	4.48	251,145	3,492	2.80
Fed funds purchased and Bank Term Funding Program	324,400	7,971	4.94	325,303	8,231	5.10
FHLB short-term advances	200,000	5,071	5.10	39,779	926	4.69
Long-term debt	58,985	1,362	4.64	58,872	1,318	4.51
Total interest-bearing liabilities	3,109,590	55,841	3.61	2,591,665	32,257	2.51
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	670,928			768,927		
Other noninterest-bearing liabilities	69,424			66,870		
Stockholders' equity	368,501			361,032		
Total liabilities and stockholders' equity	$ 4,218,443			$ 3,788,494		

Net interest income on FTE basis (1)		$ 46,722			$ 46,157	
Net interest rate spread on FTE basis (1)			1.55 %			1.92 %
Net interest margin on FTE basis (1)			2.35 %			2.61 %

	Nine Months Ended September 30,					
	2024			2023		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 375,365	$ 15,146	5.39 %	$ 35,892	$ 927	3.45 %
Investment securities (1)	760,219	14,657	2.58	1,004,436	18,928	2.52
Loans held for sale	13,768	619	6.01	13,822	547	5.29
Loans						
Commercial and industrial	578,839	31,228	7.21	524,083	25,627	6.54
CRE − Construction, land and development	146,454	7,710	7.03	93,098	5,197	7.46
CRE − Multifamily	245,372	10,223	5.57	171,043	6,594	5.15
CRE − Non-owner occupied	615,320	26,929	5.85	492,098	18,943	5.15
CRE − Owner occupied	284,315	11,519	5.41	253,460	9,543	5.03
Agricultural − Land	41,138	1,478	4.80	39,417	1,405	4.77
Agricultural − Production	38,110	1,897	6.65	29,377	1,410	6.42
RRE − First lien	695,313	20,927	4.02	667,041	18,685	3.75
RRE − Construction	19,847	727	4.89	33,693	1,257	4.99
RRE − HELOC	124,321	7,626	8.19	118,630	7,071	7.97
RRE − Junior lien	36,276	1,692	6.23	35,034	1,494	5.70
Other consumer	33,329	1,657	6.64	38,148	1,708	5.99
Total loans (1)	2,858,634	123,613	5.78	2,495,122	98,934	5.30
Federal Reserve/FHLB Stock	16,956	1,054	8.30	25,403	1,294	6.81
Total interest earning assets	4,024,942	155,089	5.15	3,574,675	120,630	4.51
Noninterest earning assets	220,239			224,970		
Total assets	$ 4,245,181			$ 3,799,645		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 944,143	$ 15,412	2.18 %	$ 757,995	$ 6,559	1.16 %
Money market and savings deposits	1,160,391	32,961	3.79	1,127,630	22,915	2.72
Time deposits	458,545	15,348	4.47	276,797	6,744	3.26
Fed funds purchased and BTFP	325,455	12,065	4.95	320,861	12,556	5.23
FHLB short-term advances	200,000	7,683	5.13	84,982	3,128	4.92
Long-term debt	58,999	2,041	4.62	58,886	1,999	4.54
Total interest-bearing liabilities	3,147,533	85,510	3.63	2,627,151	53,901	2.74
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	656,553			743,253		
Other noninterest-bearing liabilities	70,337			67,981		
Stockholders’ equity	370,758			361,260		

Total liabilities and stockholders' equity	$ 4,245,181			$ 3,799,645		
Net interest income on FTE basis (1)		$ 69,579			$ 66,729	
Net interest rate spread on FTE basis (1)			1.52 %			1.77 %
Net interest margin on FTE basis (1)			2.31 %			2.50 %

(1) Taxable equivalent adjustment was calculated utilizing a marginal income tax rate of 21.0 percent.

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Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on interest earning assets and the interest incurred on interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume.

	Three Months Ended June 30, 2024 Compared with Three Months Ended June 30, 2023			Six months ended June 30, 2024 Compared with Six months ended June 30, 2023		
	Change due to:		Interest	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance	Volume	Rate	Variance
Interest earning assets						
Interest-bearing deposits with banks	$ 4,096	$ 1,532	$ 5,628	$ 6,444	$ 3,515	$ 9,959
Investment securities	(1,581)	280	(1,301)	(3,146)	441	(2,705)
Loans held for sale	25	151	176	7	169	176
Loans						
Commercial and industrial	1,138	565	1,703	1,514	1,964	3,478
CRE – Construction, land and development	497	398	895	1,097	679	1,776
CRE – Multifamily	671	211	882	2,430	495	2,925
CRE – Non-owner occupied	1,750	1,179	2,929	2,480	2,324	4,804
CRE – Owner occupied	506	269	775	732	682	1,414
Agricultural – Land	20	(19)	1	43	5	48
Agricultural – Production	88	86	174	275	53	328
RRE – First lien	351	517	868	712	1,203	1,915
RRE – Construction	(229)	120	(109)	(306)	44	(262)
RRE – HELOC	41	112	153	103	294	397
RRE – Junior lien	4	80	84	40	163	203
Other consumer	(59)	44	(15)	(297)	101	(196)
Total loans	4,778	3,562	8,340	8,823	8,007	16,830
Federal Reserve/FHLB Stock	(119)	73	(46)	(239)	128	(111)
Total interest income	7,199	5,598	12,797	11,889	12,260	24,149
Interest-bearing liabilities						
Interest-bearing demand deposits	574	2,333	2,907	813	4,749	5,562
Money market and savings deposits	15	2,776	2,791	148	7,528	7,676
Time deposits	1,538	1,370	2,908	2,698	3,719	6,417
Fed funds purchased and Bank Term Funding Program	81	(381)	(300)	(23)	(237)	(260)
FHLB short-term advances	—	2,589	2,589	3,737	408	4,145
Long-term debt	1	18	19	3	41	44

Total interest expense	2,209	8,705	10,914	7,376	16,208	23,584
Change in net interest income	$ 4,990	$ (3,107)	$ 1,883	$ 4,513	$ (3,948)	$ 565

	Three months ended September 30, 2024 Compared with Three months ended September 30, 2023			Nine Months Ended September 30, 2024 Compared with Nine Months Ended September 30, 2023		
	Change due to:		Interest	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance	Volume	Rate	Variance
Interest earning assets						
Interest-bearing deposits with banks	$ 2,306	$ 1,955	$ 4,261	$ 8,768	$ 5,451	$ 14,219
Investment securities	(1,456)	(111)	(1,567)	(4,607)	336	(4,271)
Loans held for sale	(10)	(94)	(104)	(2)	74	72
Loans						
Commercial and industrial	1,508	616	2,124	2,681	2,920	5,601
CRE − Construction, land and development	1,250	(513)	737	2,980	(467)	2,513
CRE − Multifamily	450	254	704	2,866	763	3,629
CRE − Non-owner occupied	2,251	930	3,181	4,751	3,235	7,986
CRE − Owner occupied	554	8	562	1,162	814	1,976
Agricultural − Land	25	—	25	61	12	73
Agricultural − Production	83	76	159	420	67	487
RRE − First lien	100	227	327	794	1,448	2,242
RRE − Construction	(341)	73	(268)	(517)	(13)	(530)
RRE − HELOC	174	(17)	157	340	215	555
RRE − Junior lien	13	(16)	(3)	53	145	198
Other consumer	75	70	145	(216)	165	(51)
Total loans	6,142	1,708	7,850	15,375	9,304	24,679
Federal Reserve/FHLB Stock	(192)	61	(131)	(431)	191	(240)
Total interest income	6,790	3,519	10,309	19,103	15,356	34,459
Interest-bearing liabilities						
Interest-bearing demand deposits	849	2,443	3,292	1,617	7,236	8,853
Money market and savings deposits	592	1,778	2,370	667	9,379	10,046
Time deposits	1,567	620	2,187	4,436	4,168	8,604
Fed funds purchased and BTFP	213	(446)	(233)	180	(671)	(491)
FHLB short-term advances	329	82	411	4,236	319	4,555
Long-term debt	1	(1)	—	4	38	42
Total interest expense	3,551	4,476	8,027	11,140	20,469	31,609
Change in net interest income	$ 3,239	$ (957)	$ 2,282	$ 7,963	$ (5,113)	$ 2,850

Provision for Credit Losses

The provision for credit losses was made up of the following components for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Provision (recovery) for loan losses	$ 4,270	$ 191	$ 5,069	$ 460
Provision (recovery) for credit losses on unfunded commitments	275	(186)	(518)	44
Provision (recovery) for HTM debt securities	(56)	(5)	(62)	46
Provision for credit losses	$ 4,489	$ —	$ 4,489	$ 550

	Three months ended	Nine Months Ended

(dollars in thousands)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Provision (recovery) for loan losses	$ 1,126	$ —	$ 6,195	$ 460
Provision (recovery) for credit losses on unfunded commitments	549	—	31	44
Provision (recovery) for HTM debt securities	(14)	—	(76)	46
Provision for credit losses	$ 1,661	$ —	$ 6,150	$ 550

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The Company recorded a provision for credit losses of $4.5 million $1.7 million for the second third quarter of 2024, compared to no provision for the second third quarter of 2023. The increase in the provision for credit losses was primarily driven by loan growth as well as and an increased reserve related to a $21.5 million construction, land and development loan which moved to increase in nonaccrual status during the second quarter of 2024. loans.

Noninterest Income

The Company's noninterest income is generated from retirement and benefit services, wealth management, mortgage banking, and other general banking services.

The following table presents the Company's noninterest income for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Retirement and benefit services	$ 16,078	$ 15,890	$ 31,733	$ 31,372
Wealth management	6,360	5,449	12,477	10,644
Mortgage banking	2,554	2,905	4,224	4,622
Service charges on deposit accounts	456	311	845	612
Other	1,923	1,223	3,415	3,781
Total noninterest income	$ 27,371	$ 25,778	$ 52,694	$ 51,031
Noninterest income as a % of revenue	53.28 %	53.69 %	53.27 %	52.65 %

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
Retirement and benefit services	$ 16,144	$ 18,605	$ 47,876	$ 49,977
Wealth management	6,684	5,271	19,161	15,915
Mortgage banking	2,573	2,510	6,796	7,132
Service charges on deposit accounts	488	328	1,333	940
Other	2,474	1,693	5,891	5,475
Total noninterest income	$ 28,363	$ 28,407	$ 81,057	$ 79,439
Noninterest income as a % of revenue	55.72 %	58.21 %	54.10 %	54.51 %

Total noninterest income for the three months ended June 30, 2024 September 30, 2024 was $27.4 million $28.4 million, a slight decrease of $44 thousand, or 0.2%, from the three months ended September 30, 2023. The decrease in noninterest income was primarily driven by a $1.6 million decrease of $2.5 million in retirement and benefit services revenue, driven by the divestiture of the Employee Stock Ownership Program ("ESOP") trustee business included in the three months ended September 30, 2023, which resulted in a recognized gain of $2.8 million. This decrease was partially offset by a $1.4 million increase in wealth management revenue, primarily due to assets under administration/management growth as well as a $0.8 million increase in other noninterest income, primarily due to a gain on the sale of fixed assets related to the sale of the Shorewood, Minnesota branch in the western suburbs of the Twin Cities as well as increased client swap fees.

Total noninterest income for the nine months ended September 30, 2024 was $81.1 million, a $1.6 million, or 6.2% 2.0%, increase compared to $25.8 million $79.4 million for the three nine months ended June 30, 2023 September 30, 2023. The increase in noninterest income was primarily driven by an increase of $0.9 million $3.2 million in wealth management revenue due to assets under administration/management growth, primarily driven by improved equity and bond markets, and an increase of $0.7 million in other markets. Other noninterest income due increased $0.4 million, primarily driven by a gain on the sale of fixed assets related to client swap fees in the second quarter sale of 2024. the Shorewood, Minnesota branch. This increase was partially offset by a $0.4 million $2.1 million decrease in mortgage revenue, primarily due to timing differences related to the mortgage pipeline hedging.

Total noninterest income for the six months ended June 30, 2024 was $52.7 million, a $1.7 million, or 3.3%, increase compared to $51.0 million for the six months ended June 30, 2023. The increase in noninterest income was retirement and benefits services, primarily driven by increases the divestiture of $1.8 million the ESOP trustee business included in wealth management revenue and $0.4 million the nine months ended September 30, 2023, which resulted in retirement and benefit services revenue due to assets under administration/management growth, primarily driven by improved equity and bond markets. This increase was partially offset by a $0.4 million decrease in mortgage revenue, primarily due to a decrease in mortgage origination volume and timing differences related to the mortgage pipeline hedging. recognized gain of $2.8 million.

The Company anticipates that noninterest income will continue to be significantly adversely affected in future periods if interest rates remain high higher than in periods prior to the Fed's rate hikes beginning in 2022 and inflationary pressure continues. These factors have adversely affected mortgage originations and mortgage banking revenue in recent periods. The Company believes mortgage revenue will increase in future periods as a result of recent and anticipated interest rate cuts.

See “NOTE 17 Segment Reporting” of the consolidated financial statements and Segment Reporting section below for additional discussion regarding the Company’s business lines.

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Noninterest Expense

The following table presents noninterest expense for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Compensation	$20,265	$ 18,847	$39,597	$ 38,005
Employee taxes and benefits	5,134	4,724	11,322	10,577
Occupancy and equipment expense	1,815	1,837	3,722	3,736
Business services, software and technology expense	4,599	5,269	9,944	10,593
Intangible amortization expense	1,324	1,324	2,648	2,648
Professional fees and assessments	2,373	1,530	4,366	2,682
Marketing and business development	651	665	1,436	1,389
Supplies and postage	370	406	898	866
Travel	332	306	624	554
Mortgage and lending expenses	467	215	908	712
Other	1,422	1,250	2,306	2,480
Total noninterest expense	$38,752	$ 36,373	$77,771	$ 74,242

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023

Compensation	$ 21,058	$ 19,071	$ 60,655	$ 57,076
Employee taxes and benefits	5,400	4,895	16,722	15,472
Occupancy and equipment expense	2,082	1,883	5,803	5,619
Business services, software and technology expense	4,879	4,774	14,823	15,367
Intangible amortization expense	1,324	1,324	3,972	3,972
Professional fees and assessments	4,267	1,716	8,633	4,397
Marketing and business development	764	750	2,200	2,139
Supplies and postage	422	410	1,321	1,275
Travel	330	322	954	876
Mortgage and lending expenses	684	689	1,592	1,401
Other	1,237	1,426	3,543	3,909
Total noninterest expense	$ 42,447	$ 37,260	$ 120,218	$ 111,503

Total noninterest expense for the three months ended June 30, 2024 September 30, 2024 was $38.8 million, $42.4 million, a $2.4 million, $5.2 million, or 6.5% 13.9%, increase compared to $36.4 million $37.3 million for the three months ended June 30, 2023 September 30, 2023. The year over year increase was primarily driven by higher compensation expenses due to labor costs and higher professional fees and assessments, compensation, and employee taxes and benefits expenses. Professional fees and assessments increased primarily due to increased merger-related expenses of $1.7 million in connection with the pending acquisition of HMNF and an increase in FDIC assessments. Compensation expense increased primarily due to increased labor costs. Employee taxes and benefits expense increased primarily due to increased costs related to group insurance.

Total noninterest expense for the six nine months ended June 30, 2024 September 30, 2024 was $77.8 million, $120.2 million, a $3.5 million, $8.7 million, or 4.8% 7.8%, increase compared to $74.2 million $111.5 million for the six nine months ended June 30, 2023 September 30, 2023. The increase was primarily driven by increases of $1.7 million $4.2 million in professional fees and assessments, $1.6 million $3.6 million in compensation, and $0.7 million $1.3 million in employee taxes and benefits. benefits expense. The increase in professional fees and assessments was primarily due to increased merger-related expenses in connection with the pending acquisition of HMNF and an increase in FDIC assessments. The increase in compensation expense was primarily due to rising labor costs. The increase in employee taxes and benefits expense was primarily due to increased costs related to group insurance and payroll taxes. These increases were partially offset by a $0.6 million $0.5 million decrease in business services, software and technology expense primarily due to reduced core processing and computer supplies information technology hardware expenses.

Income Tax Expense

Income tax expense is an estimate based on the amount the Company expects to owe the applicable taxing authorities, plus the impact of deferred tax items. Accrued taxes represent the net estimated amount due, or to be received from, taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions, taking into account statutory, judicial, and regulatory guidance in the context of the Company's tax position. If the final resolution of taxes payable differs from the Company's estimates due to regulatory determination or legislative or judicial actions, adjustments to tax expense may be required.

For the three months ended June 30, 2024 September 30, 2024, the Company recognized income tax expense of $1.9 million $1.6 million on $8.1 million $6.8 million of pre-tax income, resulting in an effective tax rate of 23.7% 23.4%, compared to income tax expense of $2.5 million $2.4 million on $11.6 million $11.5 million of pre-tax income for the three months ended June 30, 2023 September 30, 2023, resulting in an effective tax rate of 21.8% 20.6%.

For the six nine months ended June 30, 2024 September 30, 2024, the Company recognized income tax expense of $4.0 million $5.6 million on $16.7 million $23.5 million of pre-tax income, resulting in an effective tax rate of 24.1% 23.9%, compared to income tax expense of $4.8 million $7.2 million on $22.1 million $33.7 million of pre-tax income for the six nine months ended June 30, 2023 September 30, 2023, resulting in an effective tax rate of 21.9% 21.4%.

Segment Reporting

The Company determined reportable segments based on the significance of the services offered, the significance of those services to the Company's financial condition and operating results, and the Company's regular review of the operating results of those services. The Company has three operating segments—banking, retirement and benefit services, and wealth. These segments are components for which financial information is prepared and evaluated regularly by management in deciding how to allocate resources and assess performance.

The selected financial information presented for each segment sets forth net interest income, provision for loan losses, noninterest income, and direct and indirect noninterest expense overhead allocations. Corporate administration includes all remaining income and expenses not allocated to the three operating segments. Certain reclassification adjustments have been made between corporate administration and the various lines of business for consistency in presentation.

For additional financial information on the Company's segments see "NOTE 17 Segment Reporting" of the Company's consolidated financial statements.

Banking

The banking division offers a complete line of loan, deposit, cash management, and treasury services through fourteen offices in North Dakota, Minnesota, and Arizona. After the closing of the HMNF acquisition, the Company added 15 banking offices in Minnesota, Wisconsin, and Iowa. These products and services are supported through web and mobile based applications. The majority of the Company's assets and liabilities are in the banking segment's balance sheet.

The following table presents the banking segment income statement, net of corporate administration, for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
Net interest income	$ 22,542	$ 20,395	$ 68,761	$ 66,287
Provision for credit losses	1,661	—	6,150	550
Noninterest income	5,535	4,531	14,020	13,547
Total revenue	26,416	24,926	76,631	79,284
Noninterest expense (1)	20,269	18,881	57,837	56,832
Net income before taxes	$ 6,147	$ 6,045	$ 18,794	$ 22,452

(1) Noninterest expenses do not include corporate administration expenses. Corporate administration expenses include executive compensation, premises and fixed assets expenses, and information technology expenses. These expenses are not specific to any specific segment.

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Retirement and Benefits Services

The retirement and benefit services segment provides the following services nationally: record-keeping and administration services to qualified and other types of retirement plans, investment fiduciary services to retirement plans, health savings accounts, flexible spending accounts, and COBRA recordkeeping and administration services.

The following table presents the retirement and benefits services segment income statement for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
Recurring annual income (1)	$ 12,827	$ 12,959	$ 37,935	$ 38,758
Transactional income (2)	3,317	2,871	9,941	8,444
Gain on sale of ESOP trustee business	—	2,775	—	2,775
Total noninterest income	16,144	18,605	47,876	49,977
Noninterest expense	14,154	13,269	41,757	39,515
Net income before taxes	$ 1,990	$ 5,336	$ 6,119	$ 10,462

(1) Recurring annual income primarily includes asset based fees, administration fees, record-keeping fees, trust/custody fees, and health and welfare fees. $6.4 million and $6.2 million for the three months ended September 30, 2024 and 2023, respectively, were due to movements in the market. $18.4 million and $17.4 million for the three and nine months ended September 30, 2024 and 2023, respectively, were due to movements in the market.

(2) Transactional income primarily includes advisory fees and distribution fees.

Wealth

The wealth division provides advisory and planning services, investment management, and trust and fiduciary services to clients across the Company's footprint.

The following table presents the wealth segment income statement for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023

Asset management	$ 5,972	$ 4,726	$ 16,790	$ 13,963
Brokerage	365	391	1,170	1,189
Insurance and advisory	347	154	1,201	763
Total noninterest income	6,684	5,271	19,161	15,915
Noninterest expense	3,838	3,351	11,494	9,703
Net income before taxes	$ 2,846	$ 1,920	$ 7,667	$ 6,212

Financial Condition

Overview

Total assets were $4.4 $4.1 billion as of June 30, 2024 September 30, 2024, an increase of $450.9 million, $176.9 million, or 11.5% 4.5%, compared to December 31, 2023. The increase was primarily due to a $308.2 million increase in cash and cash equivalents and a $156.2 million $272.8 million increase in loans, partially offset by a decrease of $37.5 million in investment securities. The increase $63.9 million in cash and cash equivalents was primarily driven by the net proceeds from BTFP borrowings. and a decrease of $35.6 million in investment securities.

Investment Securities

The following table presents the fair value composition of the Company's investment securities portfolio as of June 30, 2024 September 30, 2024 and December 31, 2023:

	June 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 766	0.1 %	$ 1,120	0.2 %
Mortgage backed securities				
Residential agency	407,788	58.1	435,594	58.4
Commercial	1,353	0.2	1,353	0.2
Asset backed securities	21	—	25	—
Corporate bonds	49,417	7.0	48,644	6.5
Total available-for-sale investment securities	459,345	65.4	486,736	65.3
Held-to-maturity				
Obligations of state and political agencies	109,953	15.6	116,990	15.7
Mortgage backed securities				
Residential agency	133,736	19.0	141,627	19.0
Total held-to-maturity investment securities	243,689	34.6	258,617	34.7
Total investment securities	$ 703,034	100.0 %	$ 745,353	100.0 %

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 739	0.1 %	$ 1,120	0.2 %
Mortgage backed securities				
Residential agency	414,388	57.9	435,594	58.4
Commercial	1,401	0.2	1,353	0.2
Asset backed securities	20	—	25	—
Corporate bonds	49,455	6.9	48,644	6.5
Total available-for-sale investment securities	466,003	65.1	486,736	65.3
Held-to-maturity				
Obligations of state and political agencies	113,593	15.9	116,990	15.7
Mortgage backed securities				
Residential agency	136,269	19.0	141,627	19.0
Total held-to-maturity investment securities	249,862	34.9	258,617	34.7
Total investment securities	$ 715,865	100.0 %	$ 745,353	100.0 %

The composition of the Company’s investment securities portfolio reflects the Company’s investment strategy of maintaining an appropriate level of liquidity for normal operations while providing an additional source of revenue. The investment portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as collateral.

The investment securities presented in the following table are reported at fair value and by contractual maturity as of June 30, 2024September 30, 2024. Actual timing may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Additionally, residential mortgage backed securities and

collateralized mortgage obligations receive monthly principal payments, which are not reflected below. The yields below are calculated on a tax-equivalent basis, assuming a 21.0% income tax rate.

	Maturity as of June 30, 2024							
	One year or less		One to five years		Five to ten years		After ten years	
(dollars in thousands)	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield
Available-for-sale								
U.S. Treasury and agencies	$ —	— %	$ 401	5.87 %	$ —	— %	$ 365	5.94 %
Mortgage backed securities								
Residential agency	6	2.81	2,746	2.48	3,811	3.10	401,225	1.70
Commercial	—	—	1,353	2.40	—	—	—	—
Asset backed securities	—	—	—	—	4	4.37	17	5.03
Corporate bonds	—	—	—	—	49,417	3.69	—	—
Total available-for-sale investment securities	6	2.81	4,500	2.75	53,232	3.65	401,607	1.71
Held-to-maturity								
Obligations of state and political agencies	7,823	1.15	46,779	1.49	45,159	2.06	10,192	2.22
Mortgage backed securities								
Residential agency	—	—	—	—	—	—	133,736	2.20
Total held-to-maturity investment securities	7,823	1.15	46,779	1.49	45,159	2.06	143,928	2.20
Total investment securities	$ 7,829	1.15 %	$ 51,279	1.60 %	$ 98,391	2.92 %	$ 545,535	1.84 %

	Maturity as of September 30, 2024							
	One year or less		One to five years		Five to ten years		After ten years	
(dollars in thousands)	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield
Available-for-sale								
U.S. Treasury and agencies	$ —	— %	$ 377	5.85 %	$ —	— %	$ 362	5.94 %
Mortgage backed securities								
Residential agency	42	2.59	2,382	2.51	3,689	3.11	408,275	1.70

Commercial	—	—	1,401	2.40	—	—	—	—
Asset backed securities	—	—	—	—	4	4.12	16	5.18
Corporate bonds	—	—	—	—	49,455	3.69	—	—
Total available-for-sale investment securities	42	2.59	4,160	2.77	53,148	3.65	408,653	1.70
Held-to-maturity								
Obligations of state and political agencies	8,203	1.14	53,122	1.54	43,323	2.10	8,945	2.22
Mortgage backed securities								
Residential agency	—	—	—	—	—	—	136,269	2.18
Total held-to-maturity investment securities	8,203	1.14	53,122	1.54	43,323	2.10	145,214	2.18
Total investment securities	$ 8,245	1.15 %	$ 57,282	1.63 %	$ 96,471	2.95 %	$ 553,867	1.83 %

Loans

Loans

The loan portfolio represents a broad range of borrowers comprised of commercial and industrial, real estate construction, commercial real estate, (“CRE”), residential real estate, agricultural, and other revolving and installment consumer loans.

Total loans outstanding were $2.9 billion $3.0 billion as of June 30, 2024 September 30, 2024, an increase of $156.2 million, $272.8 million, or 5.7% 9.9%, from December 31, 2023. The increase was primarily driven by a $78.4 million $116.7 million increase in non-owner occupied CRE loans, a $37.7 million $49.6 million increase in construction, land and development CRE loans, and a $29.6 million $44.1 million increase in commercial and industrial loans, a $30.3 million increase in multifamily CRE loans, and a $24.7 million increase in owner occupied CRE loans, partially offset by $11.6 million $7.4 million and $6.4 million $17.2 million decreases in residential real estate first lien and residential real estate construction loans, respectively.

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The Company’s loan portfolio is highly diversified. As of June 30, 2024 September 30, 2024, approximately 20.3% 19.9% of loans outstanding were commercial and industrial, 45.8% 47.3% of loans outstanding were CRE, 2.8 % 2.8% of loans outstanding were agricultural, and 31.1% 30.0% of loans outstanding were consumer.

	June 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Commercial and industrial:				
General business	$ 288,752	10.0 %	$ 258,008	9.3 %
Services	140,562	4.8	146,318	5.3
Retail trade	91,173	3.1	91,216	3.3
Manufacturing	71,292	2.4	66,638	2.4
Total commercial and industrial	591,779	20.3	562,180	20.3
Commercial real estate:				
Construction, land and development	161,751	5.5	124,034	4.5

Multifamily	242,041	8.3	245,103	8.9
Non-owner occupied				
Office	108,082	3.7	124,684	4.5
Industrial	111,603	3.8	104,241	3.8
Retail	112,626	3.9	96,578	3.5
Hotel	112,081	3.8	80,576	2.9
Medical office	110,736	3.8	63,788	2.3
Medical or nursing facility	46,215	1.6	47,625	1.7
Other commercial real estate	46,433	1.7	51,862	1.9
Total non-owner occupied	647,776	22.3	569,354	20.6
Owner occupied	283,356	9.7	271,623	9.8
Total commercial real estate	1,334,924	45.8	1,210,114	43.8
Agricultural:				
Land	41,410	1.4	40,832	1.5
Production	40,549	1.4	36,141	1.3
Total agricultural	81,959	2.8	76,973	2.8
Consumer				
RRE – First lien	686,286	23.6	697,900	25.3
RRE – Construction	22,573	0.8	28,979	1.1
RRE – HELOC	126,211	4.3	118,315	4.3
RRE – Junior lien	36,323	1.2	35,819	1.3
Other consumer	35,737	1.2	29,303	1.1
Total consumer	907,130	31.1	910,316	33.1
Total loans	$ 2,915,792	100.0 %	$ 2,759,583	100.0 %

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Commercial and industrial:				
General business	$ 301,629	9.9 %	$ 258,008	9.3 %
Services	152,354	5.0	146,318	5.3
Retail trade	93,437	3.1	91,216	3.3
Manufacturing	58,825	1.9	66,638	2.4
Total commercial and industrial	606,245	19.9	562,180	20.3
Commercial real estate:				
Construction, land and development	173,629	5.7	124,034	4.5
Multifamily	275,377	9.1	245,103	8.9
Non-owner occupied				
Office	103,422	3.4	124,684	4.5
Industrial	109,904	3.6	104,241	3.8
Retail	117,536	3.9	96,578	3.5
Hotel	125,451	4.1	80,576	2.9
Medical office	106,808	3.5	63,788	2.3
Medical or nursing facility	72,256	2.4	47,625	1.7
Other commercial real estate	50,694	1.8	51,862	1.9
Total non-owner occupied	686,071	22.7	569,354	20.6
Owner occupied	296,366	9.8	271,623	9.8
Total commercial real estate	1,431,443	47.3	1,210,114	43.8
Agricultural:				

Land	45,821	1.5	40,832	1.5
Production	39,436	1.3	36,141	1.3
Total agricultural	85,257	2.8	76,973	2.8
Consumer:				
RRE − First lien	690,451	22.8	697,900	25.3
RRE − Construction	11,808	0.4	28,979	1.1
RRE − HELOC	134,301	4.4	118,315	4.3
RRE − Junior lien	36,445	1.2	35,819	1.3
Other consumer	36,393	1.2	29,303	1.1
Total consumer	909,398	30.0	910,316	33.1
Total loans	$ 3,032,343	100.0 %	$ 2,759,583	100.0 %

Despite headwinds from a higher interest rate environment and competition in the Company's market areas, the Company anticipates continued loan growth in the remainder of 2024 for the commercial and industrial and CRE loan portfolios as a result of recently added production talent.

Commercial and industrial loans represent loans for working capital, purchases of equipment and other needs of commercial customers primarily located within the Bank's geographical footprint. These loans are underwritten individually and represent ongoing relationships based on a thorough knowledge of the customer, the customer's industry and the customer's market. While commercial loans are generally secured by the customer's assets, including real property, inventory, accounts receivable, operating equipment and other property, and may also include personal guarantees of the owners and related parties, the primary source of repayment of the loans is the ongoing cash flow from operations of the customer's business. In addition, revolving lines of credit are generally governed by a borrowing base. Inherent lending risks are monitored on a continuous basis through interim reporting, covenant testing and annual underwriting.

CRE loans consist of term loans secured by a mortgage lien on real property and include both owner occupied CRE loans as well as non-owner occupied loans. Non-owner occupied CRE loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, multi-family, industrial, office, retail and other specific use properties as well as CRE construction loans that are offered to builders and developers generally within the Bank's geographical footprint. The primary risk characteristics in the non-owner occupied portfolio include impacts of overall leasing rates, absorption timelines, levels of vacancy rates and operating expenses. The Company requires collateral values in excess of the loan amounts, cash flows in excess of expected debt service requirements and equity

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investment in the project. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. Inherent lending risks are monitored on a continuous basis through quarterly monitoring and the Bank's annual underwriting process, incorporating an analysis of cash flow, collateral, market conditions and guarantor liquidity, if applicable. CRE loan policies are specific to individual product types and underwriting parameters vary depending on the risk profile of each asset class. CRE loan policies are reviewed no less than semi-annually by management and approved by the Bank's Board of Directors to ensure they align with current market conditions and the Bank's moderate risk appetite. Construction loans are monitored monthly and includes on-site inspections. Management reviews all construction loans quarterly to ensure projects are on time and within budget. CRE concentration limits have been established by product type and are monitored quarterly by the Bank's Credit Governance Committee and Bank Board of Directors.

CRE loans may be adversely affected by conditions in the real estate markets or in the general economy. The Company does not monitor the CRE portfolio for attributes such as loan-to-value ratios, occupancy rates or net operating income, as these characteristics are assessed and evaluated on an individual loan basis. Portfolio stress testing is completed based on property type and takes into consideration changes to net operating income and capitalization rates. The Company does not have exposure to the office building sector in central business districts as the office portfolio is generally diversified in suburban markets with strong occupancy levels.

The following table presents the geographical markets of the collateral related to non-owner occupied and multifamily CRE loans for the periods presented:

(dollars in thousands)	June 30, 2024 Balance	June 30, 2024 Percent of Total	December 31, 2023 Balance	December 31, 2023 Percent of Total
Geographical Market:				
Minnesota	$ 412,907	46.4 %	$ 394,754	48.5 %
North Dakota	211,959	23.8 %	214,884	26.4 %
Arizona	156,154	17.5 %	139,450	17.1 %
Texas	21,892	2.5 %	—	— %
Missouri	16,864	1.9 %	15,969	2.0 %
Kansas	15,247	1.7 %	4,343	0.5 %
Oregon	14,895	1.7 %	14,953	1.8 %
South Dakota	14,661	1.6 %	14,790	1.8 %
Other	25,238	2.8 %	15,314	1.9 %
Total non-owner occupied commercial real estate loans	$ 889,817	100.0 %	$ 814,457	100.0 %

(dollars in thousands)	September 30, 2024 Balance	September 30, 2024 Percent of Total	December 31, 2023 Balance	December 31, 2023 Percent of Total
Geographical Market:				
Minnesota	$ 413,482	43.0 %	$ 394,754	48.5 %
North Dakota	211,022	21.9	214,884	26.4
Arizona	169,947	17.7	139,450	17.1
Texas	34,570	3.6	—	—
Colorado	22,171	2.3	1,246	0.2
Oregon	18,031	1.9	14,953	1.8
Wisconsin	17,446	1.8	502	0.1
Missouri	16,866	1.8	15,969	2.0
Kansas	15,215	1.6	4,343	0.5
South Dakota	14,617	1.5	14,790	1.8
Other	28,081	2.9	13,566	1.7
Total non-owner occupied and multifamily commercial real estate loans	$ 961,448	100.0 %	$ 814,457	100.0 %

The Bank does not currently monitor owner occupied CRE loans based on geographical markets, as the primary source of repayment for these loans is predicated on the cash flow from the underlying operating entity. These loans are generally located within the Company's geographical footprint.

Highly competitive conditions continue to prevail in the small- and middle-market commercial segments in which the Company primarily operates. The Company maintains a commitment to generating growth in the Company's business portfolio in a manner that adheres to its twin goals of maintaining strong asset quality and producing profitable margins. The Company continues to invest in additional personnel, technology and business development resources to further strengthen its capabilities.

Agricultural loans include loans secured by farmland and loans for agricultural production. Farmland includes purposes such as crop and livestock production. Farmland loans are typically written with amortizing payment structures. Collateral values for farmland are determined based upon appraisals and evaluations in accordance with established policy guidelines and maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. Agricultural production loans are for the purpose of financing working capital and/or capital investment for agriculture production activities. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant and equipment, and/or real estate in applicable. Agricultural production loans are primarily paid by the operating cash flow of the borrower. Agricultural production loans may be secured or unsecured.

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Residential real estate or "RRE", loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15- to 30-year term and, in most cases, are extended to borrowers to finance their primary residence with both fixed-rate and adjustable-rate terms. Real estate construction loans are also offered to consumers who wish to build their own homes and are often structured to be converted to permanent loans at the end of the construction phase, which is typically twelve months. RRE loans also include home equity loans and lines of credit that are secured by a first or second lien on the borrower's residence. Home equity lines of credit, or "HELOC", consist mainly of revolving lines of credit secured by residential real estate.

Other consumer loans include loans made to individuals not secured by real estate, including loans secured by automobiles or watercraft, and personal unsecured loans.

The Company originates both fixed and adjustable rate residential real estate loans conforming to the underwriting guidelines of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, as well as home equity loans and lines of credit that are secured by first or junior liens. Most of the Company's fixed rate residential loans, along with some of the Company's adjustable rate mortgages are sold to other financial institutions with which the Company has established a correspondent lending relationship.

The Company's RRE loans have minimal direct exposure to subprime mortgages as the loans are underwritten to conform to secondary market standards. As of June 30, 2024September 30, 2024, the Company's RRE portfolio was $871.4 million,$873.0 million, representing a $9.6 million,$8.0 million, or 1.1%0.9%, decrease from $881.0 million$881.0 million as of December 31, 2023. Market interest rates, expected duration, and the Company's overall interest rate sensitivity profile continue to be the most significant factors in determining whether the Company chooses to retain versus sell portions of new consumer mortgage originations.

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The following table presents the maturities and types of interest rates for the loan portfolio as of June 30, 2024September 30, 2024:

	June 30, 2024				
(dollars in thousands)	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial					
Commercial and industrial	$ 135,722	$ 263,866	$ 192,191	$ —	$ 591,779
Commercial real estate					
Construction, land and development	21,778	128,440	9,072	2,461	161,751
Multifamily	20,399	132,743	87,802	1,097	242,041
Non-owner occupied	67,686	367,001	190,163	22,926	647,776
Owner occupied	26,519	159,110	76,224	21,503	283,356
Total commercial real estate	136,382	787,294	363,261	47,987	1,334,924
Agricultural	—	—	—	—	—
Land	612	10,835	10,665	19,298	41,410
Production	21,925	14,955	3,669	—	40,549
Total agricultural	22,537	25,790	14,334	19,298	81,959
Total commercial	294,641	1,076,950	569,786	67,285	2,008,662
Consumer					
Residential real estate					
First lien	3,952	29,987	41,000	611,347	686,286

Construction	2,272	1,099	—	19,202	22,573
HELOC	4,278	16,277	14,075	91,581	126,211
Junior lien	4,124	5,588	17,461	9,150	36,323
Total residential real estate	14,626	52,951	72,536	731,280	871,393
Other consumer	13,703	19,597	2,437	—	35,737
Total consumer	28,329	72,548	74,973	731,280	907,130
Total loans	$ 322,970	$ 1,149,498	$ 644,759	$ 798,565	$ 2,915,792
Loans with fixed interest rates:					
Commercial					
Commercial and industrial	$ 15,822	$ 205,256	$ 75,563	$ —	$ 296,641
Commercial real estate					
Construction, land and development	10,822	46,369	187	—	57,378
Multifamily	17,236	83,650	66,093	1,097	168,076
Non-owner occupied	55,528	219,833	117,227	447	393,035
Owner occupied	18,246	127,641	34,430	—	180,317
Total commercial real estate	101,832	477,493	217,937	1,544	798,806
Agricultural					
Land	612	10,714	10,593	19,298	41,217
Production	1,150	14,316	2,848	—	18,314
Total agricultural	1,762	25,030	13,441	19,298	59,531
Total commercial	119,416	707,779	306,941	20,842	1,154,978
Consumer					
Residential real estate					
First lien	3,693	27,596	34,396	388,593	454,278
Construction	1,193	1,007	—	14,522	16,722
HELOC	25	2,174	8,331	4,977	15,507
Junior lien	2,367	4,168	13,754	9,150	29,439
Total residential real estate	7,278	34,945	56,481	417,242	515,946
Other consumer	1,714	15,332	2,437	—	19,483
Total consumer	8,992	50,277	58,918	417,242	535,429
Total loans with fixed interest rates	$ 128,408	$ 758,056	$ 365,859	$ 438,084	$ 1,690,407
Loans with floating interest rates:					
Commercial					
Commercial and industrial	$ 119,900	$ 58,610	$ 116,628	$ —	$ 295,138
Commercial real estate					
Construction, land and development	10,956	82,071	8,885	2,461	104,373
Multifamily	3,163	49,093	21,709	—	73,965
Non-owner occupied	12,158	147,168	72,936	22,479	254,741
Owner occupied	8,273	31,469	41,794	21,503	103,039
Total commercial real estate	34,550	309,801	145,324	46,443	536,118
Agricultural					
Land	—	121	72	—	193
Production	20,775	639	821	—	22,235
Total agricultural	20,775	760	893	—	22,428
Total commercial	175,225	369,171	262,845	46,443	853,684
Consumer					
Residential real estate					
First lien	259	2,391	6,604	222,754	232,008
Construction	1,079	92	—	4,680	5,851
HELOC	4,253	14,103	5,744	86,604	110,704
Junior lien	1,757	1,420	3,707	—	6,884

Total residential real estate	7,348	18,006	16,055	314,038	355,447
Other consumer	11,989	4,265	—	—	16,254
Total consumer	19,337	22,271	16,055	314,038	371,701
Total loans with floating interest rates	$ 194,562	$ 391,442	$ 278,900	$ 360,481	$ 1,225,385

	September 30, 2024				
(dollars in thousands)	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial					
Commercial and industrial	$ 107,232	$ 299,211	$ 196,950	$ 2,852	$ 606,245
Commercial real estate					
Construction, land and development	40,774	108,678	23,839	338	173,629
Multifamily	9,230	178,980	86,073	1,094	275,377
Non-owner occupied	92,321	409,055	161,720	22,975	686,071
Owner occupied	27,059	172,076	71,835	25,396	296,366
Total commercial real estate	169,384	868,789	343,467	49,803	1,431,443
Agricultural	—	—	—	—	—
Land	910	12,656	11,669	20,586	45,821
Production	19,795	16,569	3,072	—	39,436
Total agricultural	20,705	29,225	14,741	20,586	85,257
Total commercial	297,321	1,197,225	555,158	73,241	2,122,945
Consumer					
Residential real estate					
First lien	2,531	31,704	39,236	616,980	690,451
Construction	1,625	3,178	—	7,005	11,808
HELOC	3,567	15,767	13,839	101,128	134,301
Junior lien	3,468	6,778	16,365	9,834	36,445
Total residential real estate	11,191	57,427	69,440	734,947	873,005
Other consumer	14,609	19,610	2,174	—	36,393
Total consumer	25,800	77,037	71,614	734,947	909,398
Total loans	$ 323,121	$ 1,274,262	$ 626,772	$ 808,188	$ 3,032,343
Loans with fixed interest rates:					
Commercial					
Commercial and industrial	$ 15,631	$ 210,933	$ 75,291	$ —	$ 301,855
Commercial real estate					
Construction, land and development	15,967	36,615	1,001	—	53,583
Multifamily	4,442	88,147	65,185	1,094	158,868
Non-owner occupied	61,694	233,074	87,830	442	383,040
Owner occupied	22,205	136,978	30,904	—	190,087
Total commercial real estate	104,308	494,814	184,920	1,536	785,578
Agricultural					
Land	828	12,535	11,606	19,189	44,158
Production	1,115	15,979	2,251	—	19,345
Total agricultural	1,943	28,514	13,857	19,189	63,503
Total commercial	121,882	734,261	274,068	20,725	1,150,936
Consumer					
Residential real estate					

First lien	2,279	28,412	32,690	390,755	454,136
Construction	817	662	—	2,325	3,804
HELOC	27	2,239	8,734	4,951	15,951
Junior lien	1,749	4,244	12,924	9,834	28,751
Total residential real estate	4,872	35,557	54,348	407,865	502,642
Other consumer	3,823	13,793	2,174	—	19,790
Total consumer	8,695	49,350	56,522	407,865	522,432
Total loans with fixed interest rates	$ 130,577	$ 783,611	$ 330,590	$ 428,590	$ 1,673,368
Loans with floating interest rates:					
Commercial					
Commercial and industrial	$ 91,601	$ 88,278	$ 121,659	$ 2,852	$ 304,390
Commercial real estate					
Construction, land and development	24,807	72,063	22,838	338	120,046
Multifamily	4,788	90,833	20,888	—	116,509
Non-owner occupied	30,627	175,981	73,890	22,533	303,031
Owner occupied	4,854	35,098	40,931	25,396	106,279
Total commercial real estate	65,076	373,975	158,547	48,267	645,865
Agricultural					
Land	82	121	63	1,397	1,663
Production	18,680	590	821	—	20,091
Total agricultural	18,762	711	884	1,397	21,754
Total commercial	175,439	462,964	281,090	52,516	972,009
Consumer					
Residential real estate					
First lien	252	3,292	6,546	226,225	236,315
Construction	808	2,516	—	4,680	8,004
HELOC	3,540	13,528	5,105	96,177	118,350
Junior lien	1,719	2,534	3,441	—	7,694
Total residential real estate	6,319	21,870	15,092	327,082	370,363
Other consumer	10,786	5,817	—	—	16,603
Total consumer	17,105	27,687	15,092	327,082	386,966
Total loans with floating interest rates	$ 192,544	$ 490,651	$ 296,182	$ 379,598	$ 1,358,975

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The expected life of the Company’s loan portfolio will differ from contractual maturities because borrowers may have the right to curtail or prepay their loans with or without penalties. Consequently, the table above includes information limited to contractual maturities of the underlying loans.

Asset Quality

The Company’s strategy for credit risk management includes well-defined, well-defined, centralized credit policies; uniform underwriting criteria; and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. The strategy also emphasizes diversification on a geographic, industry, and client level; regular credit examinations; and management reviews of loans experiencing deterioration of credit quality. The Company strives to identify potential problem loans early, take necessary charge-offs charge-offs promptly, and maintain adequate reserve levels for credit losses inherent in the portfolio. Management performs ongoing, internal reviews of any problem credits and continually assesses the adequacy of the allowance. The Company utilized utilizes an internal lending division, Special Credit Services, to develop and implement strategies for the management of individual nonperforming loans.

Credit Quality Indicators

Loans are assigned a risk rating and grouped into categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The risk ratings are aligned to pass and criticized categories. The criticized categories include special mention, substandard, and doubtful risk ratings. See “NOTE 5 Loans and Allowance for Credit Losses” of the consolidated financial statements for a definition of each of the risk ratings.

The table below presents criticized loans outstanding by loan portfolio segment as of June 30, 2024 September 30, 2024 and December 31, 2023:

(dollars in thousands)	June 30, 2024	December 31, 2023
Commercial		
Commercial and industrial	$ 19,933	$ 29,840
Commercial real estate		
Construction, land and development	21,475	20,667
Multifamily	13,188	310
Non-owner occupied	20,248	1,018
Owner occupied	9,405	7,842
Total commercial real estate	64,316	29,837
Agricultural		
Land	2,470	—
Production	1,347	—
Total agricultural	3,817	—
Total commercial	88,066	59,677
Consumer		
Residential real estate		
First lien	625	105
Construction	—	—
HELOC	163	—
Junior lien	119	1,781
Total residential real estate	907	1,886
Other consumer	—	—
Total consumer	907	1,886
Total loans	$ 88,973	$ 61,563
Criticized loans as a percent of total loans	3.05 %	2.23 %

(dollars in thousands)	September 30, 2024	December 31, 2023
Commercial		
Commercial and industrial	$ 34,006	$ 29,840
Commercial real estate		
Construction, land and development	25,005	20,667
Multifamily	13,109	310
Non-owner occupied	24,210	1,018
Owner occupied	12,993	7,842
Total commercial real estate	75,317	29,837
Agricultural		
Land	2,470	—
Production	1,335	—
Total agricultural	3,805	—
Total commercial	113,128	59,677
Consumer		
Residential real estate		
First lien	1,948	105
Construction	4,680	—
HELOC	1,488	—
Junior lien	3,751	1,781

Total residential real estate	11,867	1,886
Other consumer	290	—
Total consumer	12,157	1,886
Total loans	$ 125,285	$ 61,563
Criticized loans as a percent of total loans	4.13 %	2.23 %

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The following table presents information regarding nonperforming assets as of June 30, 2024 September 30, 2024 and December 31, 2023:

(dollars in thousands)	June 30, 2024	December 31, 2023
Nonaccrual loans	$ 27,618	$ 8,596
Accruing loans 90+ days past due	—	139
Total nonperforming loans	27,618	8,735
OREO and repossessed assets	—	32
Total nonperforming assets	27,618	8,767
Total restructured accruing loans	—	—
Total nonperforming assets and restructured accruing loans	$ 27,618	$ 8,767
Nonperforming loans to total loans	0.95 %	0.32 %
Nonperforming assets to total assets	0.63 %	0.22 %
ACL on loans to nonperforming loans	139 %	410 %

(dollars in thousands)	September 30, 2024	December 31, 2023
Nonaccrual loans	$ 48,026	$ 8,596
Accruing loans 90+ days past due	—	139
Total nonperforming loans	48,026	8,735
OREO and repossessed assets	—	32
Total nonperforming assets	48,026	8,767
Total restructured accruing loans	—	—
Total nonperforming assets and restructured accruing loans	$ 48,026	$ 8,767
Nonperforming loans to total loans	1.58 %	0.32 %
Nonperforming assets to total assets	1.18 %	0.22 %
ACL on loans to nonperforming loans	82 %	410 %

The $25.0 million of the increase in nonperforming assets nonaccrual loans was driven by one previously identified construction, land and development loan of $21.5 million moving to nonaccrual status. status in the second quarter of 2024 and an additional advance on the same loan in the third quarter of 2024. During the third quarter of 2024, management elected to make protective advances in order for construction to continue on that project. Management is actively working with the borrower on strategies to complete construction, preserve value and support repayment of the loan. A large RRE relationship and one non-owner occupied CRE loan moving to nonaccrual status also contributed $13.6 million to the increase in nonaccrual loans during the third quarter of 2024.

Interest income lost on nonaccrual loans approximated $839 thousand $2.8 million and $101 thousand $0.3 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively. There was no interest income included in net interest income related to nonaccrual loans for the six nine months ended June 30, 2024 September 30, 2024 and 2023.

Allowance for Credit Losses

The allowance for credit losses, or ACL, on loans is maintained at a level management believes is sufficient to absorb expected losses in the loan portfolio over the remaining estimated life of loans in the portfolio. Under the Current Expected Credit Loss accounting standard, the ACL is a valuation estimated at each balance sheet date and deducted from the amortized cost basis of loans held for investment to present the net amount expected to be collected. These evaluations are inherently subjective as they require management to make material estimates, all of which may be susceptible to significant change. The allowance is increased by provisions charged to expense and decreased by actual charge-offs, charge-offs, net of recoveries.

Management estimates the ACL using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loss experience provides the basis for estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as different underwriting standards, portfolio mix, delinquency level, or life of the loan, as well as changes in environmental conditions, levels of economic activity, unemployment rates, property values and other relevant factors. The calculation also contemplates that the Company may not be able to make or obtain such forecasts for the entire life of the financial assets and requires a reversion to historical loss information.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. The ACL on individually evaluated loans is recognized on the basis of the present value of expected future cash flows discounted at the effective interest rate, the fair value of collateral adjusted of estimated costs to sell, or observable market price as of the relevant date.

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The following table presents information concerning the components of the ACL for the periods presented:

	At or for the three months ended June 30,		At or for the six months ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
ACL on loans at the beginning of the period	$ 36,584	$ 35,102	$ 35,843	$ 31,146
Adoption of ASC 326	—	—	—	3,857
(Credit) provision for loan losses	4,270	191	5,069	460
Net charge-offs (recoveries) (1)				
Commercial and industrial	2,611	(353)	2,652	(234)
CRE − Construction, land and development	—	—	—	—
CRE − Multifamily	—	—	—	—
CRE − Non-owner occupied	—	—	—	—
CRE − Owner occupied	(9)	(11)	9	(22)
Agricultural − Land	—	(1)	—	(1)
Agricultural − Production	—	—	—	—
RRE − First lien	—	—	—	(2)
RRE − Construction	—	—	—	—
RRE − HELOC	—	—	—	(3)
RRE − Junior lien	(71)	(46)	(71)	28
Other consumer	(9)	8	(10)	1
Total net charge-offs (recoveries)	2,522	(403)	2,580	(233)
ACL on loans at the end of the period	38,332	35,696	38,332	35,696
Components of ACL:				
ACL on HTM debt securities	151	218	151	218
ACL on loans	38,332	35,696	38,332	35,696
ACL on off-balance sheet credit exposures	6,882	5,202	6,882	5,202

ACL at end of the period	45,365	41,116	45,365	41,116
Total loans	$ 2,915,792	$ 2,533,522	$ 2,915,792	$ 2,533,522
Average total loans	2,837,232	2,482,413	2,802,873	2,469,853
ACL on loans to total loans	1.31 %	1.41 %	1.31 %	1.41 %
ACL on loans to nonaccrual loans	138.79 %	1,598.57 %	138.79 %	1,598.57 %
ACL on loans to nonperforming loans	138.79 %	1,383.57 %	138.79 %	1,383.57 %
Net charge-offs/(recoveries) to average total loans (annualized)	0.36 %	(0.07)%	0.19 %	(0.02) %

	At or for the three months ended September 30,		At or for the nine months ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
ACL on loans at the beginning of the period	$ 38,332	$ 35,696	$ 35,843	$ 31,146
Adoption of ASC 326	—	—	—	3,857
(Credit) provision for loan losses	1,126	—	6,195	460
Net charge-offs (recoveries) (1)				
Commercial and industrial	93	(322)	2,745	(556)
CRE − Construction, land and development	—	(251)	—	(251)
CRE − Multifamily	—	—	—	—
CRE − Non-owner occupied	—	—	—	—
CRE − Owner occupied	84	(11)	93	(33)
Agricultural − Land	(20)	—	(20)	(1)
Agricultural − Production	—	—	—	—
RRE − First lien	—	9	—	7
RRE − Construction	—	—	—	—
RRE − HELOC	—	(3)	—	(6)
RRE − Junior lien	—	—	(71)	28
Other consumer	159	(16)	149	(15)
Total net charge-offs (recoveries)	316	(594)	2,896	(827)
ACL on loans at the end of the period	39,142	36,290	39,142	36,290
Components of ACL:				
ACL on HTM debt securities	137	218	137	218
ACL on loans	39,142	36,290	39,142	36,290
ACL on off-balance sheet credit exposures	7,431	5,202	7,431	5,202
ACL at end of the period	46,710	41,710	46,710	41,710
Total loans	$ 3,032,343	$ 2,606,430	$ 3,032,343	$ 2,606,430
Average total loans	2,968,947	2,544,836	2,858,634	2,495,122
ACL on loans to total loans	1.29 %	1.39 %	1.29 %	1.39 %
ACL on loans to nonaccrual loans	81.50 %	402.91 %	81.50 %	402.91 %
ACL on loans to nonperforming loans	81.50 %	402.91 %	81.50 %	402.91 %
Net charge-offs/(recoveries) to average total loans (annualized)	0.04 %	(0.09)%	0.14 %	(0.04)%

(1) (1) Additional information related to net charge-offs (recoveries) is presented in the following table for the periods indicated:

	Three months ended June 30,				
(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
2024:					
Commercial					
Commercial and industrial	$ 2,730	$ 119	$ 2,611	$ 578,544	1.82 %
Commercial real estate					
Construction, land and development	—	—	—	126,744	—
Multifamily	—	—	—	243,076	—
Non-owner occupied	—	—	—	617,338	—
Owner occupied	—	9	(9)	283,754	(0.01)
Total commercial real estate	—	9	(9)	1,270,912	—
Agricultural					
Land	—	—	—	40,932	—
Production	—	—	—	38,004	—
Total agricultural	—	—	—	78,936	—
Total commercial	2,730	128	2,602	1,928,392	0.54
Consumer					
Residential real estate					
First lien	—	—	—	694,866	—
Construction	—	—	—	21,225	—
HELOC	—	—	—	123,233	—
Junior lien	3	74	(71)	36,181	(0.79)
Total residential real estate	3	74	(71)	875,505	(0.03)
Other consumer	1	10	(9)	33,335	(0.11)
Total consumer	4	84	(80)	908,840	(0.04)
Total loans	$ 2,734	$ 212	$ 2,522	$ 2,837,232	0.36 %
2023:					
Commercial					
Commercial and industrial	$ 85	$ 438	$ (353)	$ 516,943	(0.27)%
Commercial real estate					
Construction, land and development	—	—	—	87,905	—
Multifamily	—	—	—	191,100	—
Non-owner occupied	—	—	—	473,728	—
Owner occupied	—	11	(11)	252,320	(0.02)
Total commercial real estate	—	11	(11)	1,005,053	—
Agricultural					
Land	—	1	(1)	39,679	(0.01)
Production	—	—	—	28,415	—
Total agricultural	—	1	(1)	68,094	(0.01)
Total commercial	85	450	(365)	1,590,090	(0.09)
Consumer					
Residential real estate					
First lien	—	—	—	665,518	—
Construction	—	—	—	32,769	—
HELOC	—	—	—	120,344	—
Junior lien	—	46	(46)	35,932	(0.51)
Total residential real estate	—	46	(46)	854,563	(0.02)
Other consumer	23	15	8	37,759	0.08

Total consumer	23	61	(38)	892,322	(0.02)
Total loans	$ 108	$ 511	$ (403)	$ 2,482,412	(0.07)%

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	Three months ended September 30,				
(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
2024:					
Commercial					
Commercial and industrial	$ 246	$ 153	$ 93	$ 593,685	0.06 %
Commercial real estate					
Construction, land and development	—	—	—	184,611	—
Multifamily	—	—	—	242,558	—
Non-owner occupied	—	—	—	663,539	—
Owner occupied	98	14	84	289,963	0.12
Total commercial real estate	98	14	84	1,380,671	0.02
Agricultural					
Land	—	20	(20)	42,162	(0.19)
Production	—	—	—	40,964	—
Total agricultural	—	20	(20)	83,126	(0)
Total commercial	344	187	157	2,057,482	0.03
Consumer					
Residential real estate					
First lien	—	—	—	689,382	—
Construction	—	—	—	16,792	—
HELOC	—	—	—	130,705	—
Junior lien	—	—	—	36,818	—
Total residential real estate	—	—	—	873,697	—
Other consumer	161	2	159	37,768	1.67
Total consumer	161	2	159	911,465	0.07
Total loans	$ 505	$ 189	$ 316	$ 2,968,947	0.04 %
2023:					
Commercial					
Commercial and industrial	$ 134	$ 456	$ (322)	$ 523,263	(0.24)%
Commercial real estate					
Construction, land and development	—	251	(251)	88,450	(1.13)
Multifamily	—	—	—	209,020	—
Non-owner occupied	—	—	—	491,948	—
Owner occupied	—	11	(11)	256,983	(0.02)
Total commercial real estate	—	262	(262)	1,046,401	(0.10)
Agricultural					
Land	—	—	—	40,685	—

Production	—	—	—	32,386	—
Total agricultural	—	—	—	73,071	—
Total commercial	134	718	(584)	1,642,735	(0.14)
Consumer					
Residential real estate					
First lien	9	—	9	681,610	0.01
Construction	—	—	—	33,264	—
HELOC	—	3	(3)	118,965	(0.01)
Junior lien	—	—	—	35,974	—
Total residential real estate	9	3	6	869,813	—
Other consumer	8	24	(16)	32,288	(0.20)
Total consumer	17	27	(10)	902,101	—
Total loans	$ 151	$ 745	$ (594)	$ 2,544,836	(0.09)%

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	Six months ended June 30,				
(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
2024:					
Commercial					
Commercial and industrial	$ 2,894	$ 242	$ 2,652	$ 571,334	0.93 %
Commercial real estate					
Construction, land and development	—	—	—	127,165	—
Multifamily	—	—	—	246,794	—
Non-owner occupied	—	—	—	590,946	—
Owner occupied	29	20	9	281,459	0.01
Total commercial real estate	29	20	9	1,246,364	—
Agricultural					
Land	—	—	—	40,621	—
Production	—	—	—	36,668	—
Total agricultural	—	—	—	77,289	—
Total commercial	2,923	262	2,661	1,894,987	0.28
Consumer					
Residential real estate					
First lien	—	—	—	698,311	—
Construction	—	—	—	21,392	—
HELOC	—	—	—	121,095	—
Junior lien	3	74	(71)	36,003	(0.40)
Total residential real estate	3	74	(71)	876,801	(0.02)
Other consumer	13	23	(10)	31,085	(0.06)
Total consumer	16	97	(81)	907,886	(0.02)
Total loans	$ 2,939	$ 359	$ 2,580	$ 2,802,873	0.19 %
2023:					
Commercial					
Commercial and industrial	$ 260	$ 494	$ (234)	$ 524,500	(0.09)%
Commercial real estate					

Construction, land and development	—	—	—	95,460	—
Multifamily	—	—	—	151,740	—
Non-owner occupied	—	—	—	492,174	—
Owner occupied	—	22	(22)	251,669	(0.02)
Total commercial real estate	—	22	(22)	991,043	—
Agricultural					
Land	—	1	(1)	38,773	(0.01)
Production	—	—	—	27,848	—
Total agricultural	—	1	(1)	66,621	—
Total commercial	260	517	(257)	1,582,164	(0.03)
Consumer					
Residential real estate					
First lien	—	2	(2)	659,636	—
Construction	—	—	—	33,911	—
HELOC	—	3	(3)	118,460	(0.01)
Junior lien	77	49	28	34,557	0.16
Total residential real estate	77	54	23	846,564	0.01
Other consumer	28	27	1	41,126	—
Total consumer	105	81	24	887,690	0.01
Total loans	$ 365	$ 598	$ (233)	$ 2,469,854	(0.02)%

	Nine Months Ended September 30,				
(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
2024:					
Commercial					
Commercial and industrial	$ 3,140	$ 395	$ 2,745	$ 578,839	0.63 %
Commercial real estate					
Construction, land and development	—	—	—	146,454	—
Multifamily	—	—	—	245,372	—
Non-owner occupied	—	—	—	615,320	—
Owner occupied	127	34	93	284,315	0.04
Total commercial real estate	127	34	93	1,291,461	0.01
Agricultural					
Land	—	20	(20)	41,138	(0.06)
Production	—	—	—	38,110	—
Total agricultural	—	20	(20)	79,248	(0.03)
Total commercial	3,267	449	2,818	1,949,548	0.19
Consumer					
Residential real estate					
First lien	—	—	—	695,313	—
Construction	—	—	—	19,847	—
HELOC	—	—	—	124,321	—
Junior lien	3	74	(71)	36,276	(0.26)

Total residential real estate	3	74	(71)	875,757	(0.01)
Other consumer	174	25	149	33,329	0.60
Total consumer	177	99	78	909,086	0.01
Total loans	$ 3,444	$ 548	$ 2,896	$ 2,858,634	0.14 %
2023:					
Commercial					
Commercial and industrial	$ 394	$ 950	$ (556)	$ 524,083	(0.14)%
Commercial real estate					
Construction, land and development	—	251	(251)	93,098	(0.36)
Multifamily	—	—	—	171,043	—
Non-owner occupied	—	—	—	492,098	—
Owner occupied	—	33	(33)	253,460	(0.02)
Total commercial real estate	—	284	(284)	1,009,699	(0.04)
Agricultural					
Land	—	1	(1)	39,417	—
Production	—	—	—	29,377	—
Total agricultural	—	1	(1)	68,794	—
Total commercial	394	1,235	(841)	1,602,576	(0.07)
Consumer					
Residential real estate					
First lien	9	2	7	667,041	—
Construction	—	—	—	33,693	—
HELOC	—	6	(6)	118,630	(0.01)
Junior lien	77	49	28	35,034	0.11
Total residential real estate	86	57	29	854,398	—
Other consumer	36	51	(15)	38,148	(0.05)
Total consumer	122	108	14	892,546	—
Total loans	$ 516	$ 1,343	$ (827)	$ 2,495,122	(0.04)%

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The following table presents the allocation of the ACL on loans as of the dates presented:

	June 30, 2024		December 31, 2023	
(dollars in thousands)	Allocated Allowance	Percentage of loans to total loans	Allocated Allowance	Percentage of loans to total loans
Commercial and industrial	$ 6,234	20.3 %	$ 9,705	20.4 %
CRE – Construction, land and development	10,820	5.5	6,135	4.5
CRE – Multifamily	2,430	8.3	1,776	8.9
CRE – Non-owner occupied	8,772	22.3	7,726	20.5
CRE – Owner occupied	2,280	9.7	2,449	9.8
Agricultural – Land	259	1.4	96	1.5
Agricultural – Production	185	1.4	84	1.3
RRE – First lien	5,366	23.6	6,087	25.3
RRE – Construction	458	0.8	485	1.1
RRE – HELOC	886	4.3	835	4.3
RRE – Junior lien	314	1.2	264	1.3
Other consumer	328	1.2	201	1.1
Total loans	$ 38,332	100.0 %	$ 35,843	100.0 %

(dollars in thousands)	September 30, 2024 Allocated Allowance	September 30, 2024 Percentage of loans to total loans	December 31, 2023 Allocated Allowance	December 31, 2023 Percentage of loans to total loans
Commercial and industrial	$ 6,801	20.0 %	$ 9,705	20.4 %
CRE − Construction, land and development	10,373	5.7	6,135	4.5
CRE − Multifamily	2,591	9.1	1,776	8.9
CRE − Non-owner occupied	8,512	22.6	7,726	20.5
CRE − Owner occupied	2,429	9.8	2,449	9.8
Agricultural − Land	277	1.5	96	1.5
Agricultural − Production	182	1.3	84	1.3
RRE − First lien	5,440	22.8	6,087	25.3
RRE − Construction	103	0.4	485	1.1
RRE − HELOC	954	4.4	835	4.3
RRE − Junior lien	1,121	1.2	264	1.3
Other consumer	359	1.2	201	1.1
Total loans	$ 39,142	100.0 %	$ 35,843	100.0 %

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In the ordinary course of business, the Company enters into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. An ACL on off-balance sheet credit exposures is measured using similar internal and external assumptions as the ACL on loans. This allowance is located in accrued expenses and other liabilities on the consolidated balance sheets. The ACL for unfunded commitments was $6.9 million $7.4 million and $5.2 million $5.2 million as of June 30, 2024 September 30, 2024 and 2023, respectively.

Deposits

Deposit inflows and outflows are influenced by prevailing market interest rates, competition, local and economic conditions, and fluctuations in the Company's customers' own liquidity needs and may also be influenced by recent developments in the financial services industry, including the large-scale deposit withdrawals over a short period of time that resulted in recent bank failures.

Total deposits were $3.3 billion $3.3 billion as of June 30, 2024 September 30, 2024, an increase of $203.0 million, $227.9 million, or 6.6% 7.4%, from December 31, 2023. Interest-bearing deposits increased $229.6 $300.4 million during this period, while noninterest-bearing deposits decreased $26.7 million $67.9 million. The increase in total deposits was due to both expanded and new commercial deposit relationships, along with time deposit and synergistic deposit growth. Noninterest-bearing deposits decreased from 23.5% of total deposits as of December 31, 2023 to 21.3% 19.8% as of June 30, 2024 September 30, 2024, as higher yields on interest-bearing accounts and other investment alternatives, such as U.S. treasuries, attracted such funds. Time deposit balances increased as higher short-term CD rates attracted both existing non-maturity deposits as well as new deposits to the Company.

The following table presents the composition of the Company's deposit portfolio as of June 30, 2024 September 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023	
	Percent of	Percent of	Change

(dollars in thousands)	Balance	Portfolio	Balance	Portfolio	Amount	Percent
Noninterest-bearing demand	$ 701,428	21.3 %	$ 728,082	23.5 %	$ (26,654)	(3.7)%
Interest-bearing demand	1,003,585	30.4	840,711	27.2	162,874	19.4
Money market and savings	1,102,217	33.4	1,115,256	36.0	(13,039)	(1.2)
Time deposits	491,345	14.9	411,562	13.3	79,783	19.4
Total deposits	$ 3,298,575	100.0 %	$ 3,095,611	100.0 %	$ 202,964	6.6 %

	September 30, 2024		December 31, 2023		Change	
		Percent of		Percent of		
(dollars in thousands)	Balance	Portfolio	Balance	Portfolio	Amount	Percent
Noninterest-bearing demand	$ 657,547	19.8 %	$ 728,082	23.5 %	$ (70,535)	(9.7)%
Interest-bearing demand	1,034,694	31.1	840,711	27.2	193,983	23.1
Money market and savings (1)	1,142,862	34.4	1,115,256	36.0	27,606	2.5
Time deposits	488,447	14.7	411,562	13.3	76,885	18.7
Total deposits	$ 3,323,550	100.0 %	$ 3,095,611	100.0 %	$ 227,939	7.4 %

(1) Money market and savings deposits include health savings account deposits of $186.1 million and $176.7 million as of September 30, 2024 and December 31, 2023, respectively.

The following table presents the average balances and rates of the Company's deposit portfolio for the three months ended June 30, 2024 September 30, 2024 and 2023:

	Three months ended June 30,			
	2024		2023	
	Average	Average	Average	Average
(dollars in thousands)	Balance	Rate	Balance	Rate
Noninterest-bearing demand	$ 670,928	— %	$ 768,927	— %
Interest-bearing demand	914,090	2.24	761,319	1.26
Money market and savings	1,167,213	3.79	1,155,247	2.81
Time deposits	444,902	4.50	251,145	3.29
Total deposits	$ 3,197,133	2.68 %	$ 2,936,638	1.73 %

	Three months ended September 30,			
	2024		2023	
	Average	Average	Average	Average
(dollars in thousands)	Balance	Rate	Balance	Rate
Noninterest-bearing demand	$ 656,553	— %	$ 743,253	— %
Interest-bearing demand	944,143	2.31	757,995	1.34
Money market and savings	1,160,391	3.82	1,127,630	3.20
Time deposits	458,545	4.46	276,797	3.94
Total deposits	$ 3,219,632	2.75 %	$ 2,905,675	1.97 %

Table

The following table presents the composition of Contentsthe Company's deposit portfolio by client segment as of September 30, 2024 and December 31, 2023:

	September 30, 2024		December 31, 2023		Change	
		Percent of		Percent of		
(dollars in thousands)	Balance	Portfolio	Balance	Portfolio	Amount	Percent
Commercial	$ 1,289,693	38.8 %	$ 1,128,152	36.4 %	$ 161,541	14.3 %
Consumer	927,472	27.9	921,650	29.8	5,822	0.6

Public (1)	185,776	5.6	194,265	6.3	(8,489)	(4.4)
Synergistic (2)						
Retirement and benefit services (3)	640,571	19.3	598,160	19.3	42,411	7.1
Wealth (4)	280,038	8.4	253,384	8.2	26,654	10.5
Total synergistic	920,609	27.7	851,544	27.5	69,065	18
Total deposits	$ 3,323,550	100.0 %	$ 3,095,611	100.0 %	$ 227,939	7.4 %

(1) Public deposits primarily represent municipalities, school districts, and other governmental entities that receive public funding.

(2) Synergistic deposits represent the on-balance sheet money market balances that Alerus Retirement and Benefit Services and Alerus Wealth clients hold in proprietary Alerus money market products.

(3) $337.7 million and $288.9 million of retirement and benefit services synergistic deposits were indexed as of September 30, 2024 and December 31, 2023, respectively.

(4) $280.0 million and $253.4 million of wealth synergistic deposits were indexed as of September 30, 2024 and December 31, 2023, respectively.

The following table presents the contractual maturity of time deposits, including certificate of deposit account registry services and IRA deposits of $250,000 and over, that were outstanding as of June 30, 2024 September 30, 2024:

(dollars in thousands)	June 30, 2024
Maturing in:	
3 months or less	$ 126,211
3 months to 6 months	44,144
6 months to 1 year	13,625
1 year or greater	6,834
Total	$ 190,814

(dollars in thousands)	September 30, 2024
Maturing in:	
3 months or less	$ 52,716
3 months to 6 months	94,957
6 months to 1 year	18,627
1 year or greater	4,554
Total	$ 170,854

The Company's total uninsured deposits, which are amounts of deposit accounts that exceed the FDIC insurance limit, currently $250,000, were approximately $1.2 billion $1.3 billion at June 30, 2024 September 30, 2024, and approximately $1.1 billion $1.1 billion at December 31, 2023. These amounts were estimated based on the same methodologies used for regulatory reporting purposes.

Borrowings

Borrowings as of June 30, 2024 September 30, 2024 and December 31, 2023 were as follows:

	June 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Fed funds purchased	$ —	— %	$ 114,170	30.6 %
Bank Term Funding Program (1)	355,000	57.8	—	—
FHLB Short-term advances	200,000	32.6	200,000	53.6
Subordinated notes	50,000	8.1	50,000	13.4
Junior subordinated debentures	9,013	1.5	8,956	2.4
Total borrowed funds	$ 614,013	100.0 %	$ 373,126	100.0 %

(1) In the first quarter of 2024, the Company borrowed $355.0 million from BTFP for a period of up to one year at a fixed rate of 4.88%. Under the program, the Company may prepay these borrowings at any time without penalty and the borrowings are secured by the Company's pledged collateral of investment securities.

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Fed funds purchased	$ 44,700	14.7 %	$ 114,170	30.6 %
FHLB Short-term advances	200,000	65.8	200,000	53.6

Subordinated notes	50,000	16.5	50,000	13.4
Junior subordinated debentures	9,041	3.0	8,956	2.4
Total borrowed funds	$ 303,741	100.0 %	$ 373,126	100.0 %

Capital Resources

Stockholders' equity is influenced primarily by earnings, dividends, the Company's sales and repurchases of its common stock and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized gains or losses, net of taxes, on available-for-sale securities.

Stockholders' equity increased $4.1 million, $17.4 million, or 1.1% 4.7%, to $373.2 million $386.5 million as of June 30, 2024 September 30, 2024, compared to $369.1 million $369.1 million as of December 31, 2023. Tangible common equity to tangible assets, a non-GAAP financial measure, decreased increased to 7.26% 8.11% as of June 30, 2024 September 30, 2024, from 7.94% as of December 31, 2023. Common equity tier 1 capital to risk weighted assets decreased to 11.80% 11.12% as of June 30, 2024 September 30, 2024, from 11.82% as of December 31, 2023.

The Company strives to maintain an adequate capital base to support the Company's activities in a safe and sound manner while at the same time attempting to maximize stockholder value. Capital adequacy is assessed against the risk inherent in the Company's balance sheet, recognizing that unexpected loss is the common denominator of risk, and that common equity has the greatest capacity to absorb unexpected loss.

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The Company is subject to various regulatory capital requirements both at the Company and at the Bank level. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. The Company has consistently maintained regulatory capital ratios at or above the well-capitalized standards.

At June 30, 2024 September 30, 2024 and December 31, 2023, the Company met all the capital adequacy requirements to which the Company was subject. The table below presents the Company's and the Bank's regulatory capital ratios and the Company's tangible common equity to tangible assets ratio as of June 30, 2024 September 30, 2024 and December 31, 2023:

Capital Ratios	June 30, 2024	December 31, 2023
Alerus Financial Corporation Consolidated		
Common equity tier 1 capital to risk weighted assets	11.80 %	11.82 %
Tier 1 capital to risk weighted assets	12.07 %	12.10 %
Total capital to risk weighted assets	14.85 %	14.76 %
Tier 1 capital to average assets	9.60 %	10.57 %
Tangible common equity to tangible assets (1)	7.26 %	7.94 %
Alerus Financial, National Association		
Common equity tier 1 capital to risk weighted assets	11.23 %	11.40 %
Tier 1 capital to risk weighted assets	11.23 %	11.40 %
Total capital to risk weighted assets	12.48 %	12.51 %
Tier 1 capital to average assets	9.05 %	9.92 %

(1) Represents a non-GAAP financial measure. See "Non-GAAP to GAAP Reconciliations and Calculation of Non-GAAP Financial Measures."

Capital Ratios	September 30, 2024	December 31, 2023
Alerus Financial Corporation Consolidated		

Common equity tier 1 capital to risk weighted assets	11.12 %	11.82 %
Tier 1 capital to risk weighted assets	11.38 %	12.10 %
Total capital to risk weighted assets	14.04 %	14.76 %
Tier 1 capital to average assets	9.30 %	10.57 %
Tangible common equity to tangible assets (1)	8.11 %	7.94 %
Alerus Financial, National Association		
Common equity tier 1 capital to risk weighted assets	10.73 %	11.40 %
Tier 1 capital to risk weighted assets	10.73 %	11.40 %
Total capital to risk weighted assets	11.98 %	12.51 %
Tier 1 capital to average assets	8.90 %	9.92 %

(1) Represents a non-GAAP financial measure. See "Non-GAAP to GAAP Reconciliations and Calculation of Non-GAAP Financial Measures."

The regulatory capital ratios for the Company and the Bank, as of June 30, 2024September 30, 2024, as shown in the above table, were at levels above the regulatory minimums to be considered "well capitalized." See "NOTE 20 Regulatory Matters" of the consolidated financial statements for additional information.

Off-Balance

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balanceoff-balance sheet risk in the normal course of business to meet the financing needs of the Company's customers. These financial instruments consist primarily of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. These commitments consist principally of unused commercial and consumer credit lines. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of an underlying contract with a third party. The credit risks associated with commitments to extend credit and standby letters of credit are essentially the same as that involved with extending loans to customers and are subject to normal credit policies. Collateral may be required based on management's assessment of the customer's creditworthiness. The fair value of these commitments is considered immaterial for disclosure purposes.

A summary of the contractual amounts of the Company's exposure to off-balanceoff-balance sheet agreements as of June 30, 2024September 30, 2024 and December 31, 2023, was as follows:

(dollars in thousands)	June 30, 2024	December 31, 2023
Commitments to extend credit	$ 925,260	$ 942,413
Standby letters of credit	15,853	10,045
Total	$ 941,113	$ 952,458

(dollars in thousands)	September 30, 2024	December 31, 2023
Commitments to extend credit	$ 927,235	$ 942,413
Standby letters of credit	11,231	10,045
Total	$ 938,466	$ 952,458

Liquidity

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Liquidity

Liquidity management is the process by which the Company manages the flow of funds necessary to meet the Company's financial commitments on a timely basis and at a reasonable cost and to take advantage of earnings enhancement opportunities.

These financial commitments include withdrawals by depositors, credit commitments to borrowers, expenses of the Company's operations, and capital expenditures. Liquidity is monitored and closely managed by the Company's asset and liability committee, or the ALCO, a group of senior officers from the finance, enterprise risk management, deposit, investment, treasury, and lending areas. It is the ALCO's responsibility to ensure the Company has the necessary level of funds available for normal operations as well as maintain a contingency funding policy to ensure that potential liquidity stress events are planned for, quickly identified, and that management has plans in place to respond. The ALCO has created policies which establish limits and require measurements to monitor liquidity trends, including modeling and management reporting that identifies the amounts and costs of all available funding sources.

As of June 30, 2024 September 30, 2024, the Company had on balance sheet liquidity of $678.0 million, $424.8 million, compared to $668.2 million as of December 31, 2023. On balance sheet liquidity includes cash and cash equivalents, federal funds sold, unencumbered securities available-for-sale, available-for-sale, and over collateralized securities pledging positions available-for-sale.

As of June 30, 2024 September 30, 2024, the Company had off balance sheet liquidity of $1.9 billion, $1.8 billion, compared to $1.6 billion as of December 31, 2023. Off balance sheet liquidity includes FHLB borrowing capacity, federal funds lines, and brokered deposit capacity. There were no brokered deposits as of September 30, 2024 and December 31, 2023.

The Bank is a member of the FHLB, which provides short- short- and long-term long-term funding to its members through advances collateralized by real estate related assets and other select collateral, most typically in the form of debt securities. Actual borrowing capacity is contingent on the amount of collateral available to be pledged to the FHLB. As of June 30, 2024 September 30, 2024, the Company had no $44.7 million in federal funds purchased and $200.0 million in short-term borrowings from the FHLB. As of June 30, 2024 September 30, 2024, the Company had $1.7 $1.1 billion of collateral pledged to the FHLB and, based on this collateral, the Company was eligible to borrow up to an additional $878.5 million $851.4 million from the FHLB. In addition, the Company can borrow up to $107.0 million through the unsecured lines of credit the Company has established with four other correspondent banks.

In addition, because the Bank is "well capitalized," the Company can accept wholesale deposits up to 20.0% of total assets based on current policy limits, or $871.7 million, $816.9 million, as of June 30, 2024 September 30, 2024. Management believed that the Company had adequate resources to fund all of the Company's commitments as of June 30, 2024 September 30, 2024 and December 31, 2023.

The Company's primary sources of liquidity include liquid assets, as well as unencumbered securities that can be used to collateralize additional funding.

Though remote, the possibility of a funding crisis exists at all financial institutions. The economic impact of the recent rise in inflation and rising interest rates could place increased demand on the Company's liquidity if the Company experiences significant credit deterioration and as the Company meets borrowers' needs. Accordingly, management has addressed this issue by formulating a liquidity contingency plan, which has been reviewed and approved by both the Bank's board Board of directors Directors and the ALCO. The plan addresses the actions that the Company would take in response to both a short-term short-term and long-term long-term funding crisis.

A short-term short-term funding crisis would most likely result from a shock to the financial system, either internal or external, which disrupts orderly short-term short-term funding operations. Such a crisis would likely be temporary in nature and would not involve a change in credit ratings. A long-term long-term funding crisis would most likely be the result of both external and internal factors and would most likely result in drastic credit deterioration. Management believes that both potential circumstances have been fully addressed through detailed action plans and the establishment of trigger points for monitoring such events.

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ITEM3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates. Interest rate risk is the risk to earnings and equity value arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of interest earning assets and the amount of interest-bearing interest-bearing liabilities that are prepaid/withdrawn, re-price, re-price, or mature in specified periods. The Company seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates. The ALCO oversees market risk management, monitoring risk measures, limits, and policy guidelines for managing the amount of interest rate risk and its effect on net interest income and capital. The Bank's board Board of directors Directors approves policy limits with respect to interest rate risk.

Interest Rate Risk

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective interest rate risk management begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk position given business activities, management objectives, market expectations and ALCO policy limits and guidelines.

Interest rate risk can come in a variety of forms, including repricing risk, basis risk, yield curve risk and option risk. Repricing risk is the risk of adverse consequences from a change in interest rates that arises because of differences in the timing of when those interest rate changes impact the Company's assets and liabilities. Basis risk is the risk of adverse consequence resulting from unequal change in the spread between two or more rates for different instruments with the same maturity. Yield curve risk is the risk of adverse consequences resulting from unequal changes in the spread between two or more rates for different maturities for the same or different instruments. Option risk in financial instruments arises from embedded options such as options provided to borrowers to make unscheduled loan prepayments, options provided to debt issuers to exercise call options prior to maturity, and depositor options to make withdrawals and early redemptions.

Management regularly reviews the Company's exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest-bearing interest-bearing liabilities, interest rate spreads and repricing periods. The ALCO reviews, on at least a quarterly basis, the interest rate risk position.

The interest-rate interest-rate risk position is measured and monitored at the Bank using net interest income simulation models and economic value of equity sensitivity analysis that capture both short-term short-term and long-term interest-rate long-term interest-rate risk exposure.

Modeling the sensitivity of net interest income and the economic value of equity to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. The models used for these measurements rely on estimates of the potential impact that changes in interest rates may have on the value and prepayment speeds on all components of the Company's loan portfolio, investment portfolio, as well as embedded options and cash flows of other assets and liabilities. The balance sheet composition and size are assumed to remain static in the simulation modeling process. The analysis provides a framework as to what the Company's overall sensitivity position is as of the Company's most recent reported position and the impact that potential changes in interest rates may have on net interest income and the economic value of the Company's equity.

Net interest income simulation involves forecasting net interest income under a variety of interest rate scenarios including instantaneous shocks.

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The estimated impact on the Company's net interest income as of June 30, 2024 September 30, 2024 and December 31, 2023, assuming immediate parallel moves in interest rates, is presented in the table below:

	June 30, 2024		December 31, 2023	
	Following 12 months	Following 24 months	Following 12 months	Following 24 months
+400 basis points	1.6 %	5.8 %	1.0 %	2.4 %
+300 basis points	1.0 %	4.0 %	0.5 %	1.4 %
+200 basis points	1.1 %	3.3 %	0.3 %	0.9 %
+100 basis points	0.7 %	1.9 %	0.4 %	0.9 %
−100 basis points	0.6 %	−2.3 %	−1.0 %	−1.7 %
−200 basis points	1.0 %	−4.9 %	−2.3 %	−4.1 %
−300 basis points	1.2 %	−8.2 %	−4.1 %	−7.2 %
−400 basis points	3.6 %	−8.2 %	−5.0 %	−7.6 %

	September 30, 2024	December 31, 2023

	Following 12 months	Following 24 months	Following 12 months	Following 24 months
+400 basis points	−2.4 %	10.1 %	1.0 %	2.4 %
+300 basis points	−1.8 %	7.4 %	0.5 %	1.4 %
+200 basis points	−0.9 %	5.5 %	0.3 %	0.9 %
+100 basis points	−0.3 %	3.1 %	0.4 %	0.9 %
−100 basis points	0.8 %	−2.7 %	−1.0 %	−1.7 %
−200 basis points	2.1 %	−5.0 %	−2.3 %	−4.1 %
−300 basis points	3.5 %	−7.4 %	−4.1 %	−7.2 %
−400 basis points	8.9 %	−2.1 %	−5.0 %	−7.6 %

Management strategies may impact future reporting periods, as actual results may differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the difference between actual experience and the characteristics assumed, as well as changes in market conditions. Market-based prepayment speeds are factored into the analysis for loan and securities portfolios. Rate sensitivity for transactional deposit accounts is modeled based on both historical experience and external industry studies.

Management uses an economic value of equity sensitivity analysis to understand the impact of interest rate changes on long-term long-term cash flows, income, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest rate scenarios. Deposit premiums are based on external industry studies and utilizing historical experience.

The table below presents the change in the economic value of equity as of June 30, 2024 September 30, 2024 and December 31, 2023, assuming immediate parallel shifts in interest rates:

	June 30, 2024	December 31, 2023
+400 basis points	−9.6 %	−15.5 %
+300 basis points	−7.8 %	−12.6 %
+200 basis points	−4.1 %	−7.7 %
+100 basis points	−1.5 %	−3.1 %
−100 basis points	0.6 %	1.6 %
−200 basis points	0.3 %	2.0 %
−300 basis points	−1.6 %	−0.3 %
−400 basis points	−5.1 %	−5.6 %

	September 30, 2024	December 31, 2023
+400 basis points	−6.1 %	−15.5 %
+300 basis points	−5.0 %	−12.6 %
+200 basis points	−2.1 %	−7.7 %
+100 basis points	−0.6 %	−3.1 %
−100 basis points	−0.8 %	1.6 %
−200 basis points	−3.0 %	2.0 %
−300 basis points	−8.6 %	−0.3 %
−400 basis points	−14.6 %	−5.6 %

Operational Risk

Operational risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, disasters, and security risks. Management continuously strives to strengthen its system of internal controls, enterprise risk management, operating processes and employee awareness to assess the impact on earnings and capital and to improve the oversight of the Company's operational risk.

Compliance Risk

Compliance risk represents the risk of regulatory sanctions, reputational impact or financial loss resulting from failure to comply with rules and regulations issued by the various banking agencies and standards of good banking practice. Activities which may expose the Company to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, community reinvestment initiatives, fair lending challenges resulting from the expansion of the Company's banking center network, employment and tax matters.

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Strategic and/or Reputation Risk

Strategic and/or reputation risk represents the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, failure to assess current and new opportunities in business, markets and products, and any other event not identified in the defined risk types mentioned previously. Mitigation of the various risk elements that represent strategic and/or reputation risk is achieved through initiatives to help management better understand and report on various risks, including those related to the development of new products and business initiatives.

ITEM4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the President and Chief Executive Officer, the Chief Financial Officer, and the Chief Accounting Officer have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, the President and Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer, its Chief Financial Officer and its Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—II—OTHER INFORMATION

Item1 – Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company or its subsidiaries, to which the Company or any of its subsidiaries are a party or to which the Company's Company's property is the subject.

Item1A – Risk Factors

Other than as set forth below, there have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2024.

Risks Related to the Proposed Merger

Litigation may be May Be Filed Against Alerus the Company (directly or HMN Financial, Inc. as successor by merger to HMNF) (or their Respective the Company's or HMNF's Boards of Directors) that Could Prevent or Delay the Consummation of the Merger or Result in the Payment of Damages Following Consummation of the Merger.

It is possible that, in connection with the merger of HMN Financial, Inc. ("HMNF") HMNF with and into Alerus, the Company, stockholders may file demands or putative class action lawsuits against Alerus the Company directly or against the Company as successor by merger to HMNF (or their respective the Company's or HMNF's boards of directors). Two One purported stockholders of the Company, and eight purported stockholders of HMNF, have sent demand letters to HMNF, the companies prior to the closing of the merger, alleging that the joint proxy statement/prospectus filed by Alerus the Company omitted certain material information regarding the merger and

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threatening litigation. Among other remedies, Although the transaction has closed, these stockholders could still pursue litigation against the Company directly against the Company as successor by merger to HMNF to seek financial damages or to enjoin the merger. damages. The outcome of any such litigation is uncertain. Additionally, one The defense or settlement of the conditions to the closing of the merger is any lawsuit or claim that there must be no order, injunction, decree, statute, rule, regulation or other legal restraint or prohibition preventing or making illegal the consummation of the merger or any of the other transactions contemplated by the merger agreement. If a dismissal is not granted or a settlement is not reached and any plaintiff were successful in obtaining an injunction prohibiting Alerus or HMNF results from completing the merger or any of the other transactions contemplated by the merger agreement between Alerus and HMNF (the "merger agreement"), then such injunction may delay or prevent the effectiveness of the merger and could result in significant costs to Alerus or HMNF, these lawsuits, including any cost associated with the indemnification of directors and officers of each company. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is consummated company, may adversely affect the combined company's business, financial condition, results of operations and cash flows and the market price of the combined company.

Issuance of Shares of Alerus Common Stock Pursuant to the Merger Agreement May Adversely Affect the Market Price of Alerus Common Stock.

Pursuant to the merger agreement, Alerus expects to issue approximately 5,578,194 shares of Alerus common stock to HMNF stockholders, which estimate does not include outstanding restricted stock awards and stock options of HMNF that will become fully vested and exercisable immediately prior to the effective time as a result of the merger. Company.
The dilution caused by the issuance of a large number of new shares of Alerus common stock may result in fluctuations in the market price of Alerus common stock, including a potential stock price decrease.

Alerus Company May Fail to Realize the Anticipated Benefits of the Merger.

Alerus The merger of HMNF with and HMNF have operated and, until into the consummation of the merger, will continue to operate, independently. Company closed on October 9, 2024. The success of the merger, including anticipated benefits and cost savings, will depend on, among other things, Alerus' the Company's ability to combine the businesses of Alerus the Company and HMNF in a manner that permits growth opportunities, including, among other things, enhanced revenues and revenue synergies, an expanded market reach and operating efficiencies, and does not materially disrupt the existing customer relationships of Alerus the Company or HMNF nor result in decreased revenues due to any loss of customers. If Alerus the Company is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could have an adverse effect on the surviving corporation's Company's business, financial condition, operating results, prospects and stock price.

While individuals employed by HMNF or Home Federal Savings Bank, price as the wholly-owned banking subsidiary of HMNF, immediately prior to the effective time will automatically become employees of Alerus or Alerus Financial following the merger, certain employees may not be retained by Alerus after the merger. In addition, certain employees that Alerus wishes to retain may elect to terminate their employment as a result of the merger, which could delay or disrupt the integration process. It is possible that the integration process could result in the disruption of Alerus' or HMNF's ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect the ability of Alerus or HMNF to maintain relationships with customers and employees or to achieve the anticipated benefits and cost savings resulting company of the merger.

Among the factors considered by the boards of directors of both Alerus and HMNF in connection with their respective approvals of the merger agreement were the anticipated benefits that could result from the merger. There can be no assurance that these benefits will be realized within the time periods contemplated or at all.

Regulatory Approvals May Not be Received, May Take Longer than Expected or May Impose Conditions that are Not Presently Anticipated or Cannot be Met.

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Before the transactions contemplated in the merger agreement can be consummated, various approvals must be obtained from the bank regulatory and other governmental authorities. In deciding whether to grant regulatory clearances, the relevant governmental entities will consider a variety of factors, including the regulatory standing of each of the parties. An adverse condition or development in either party's regulatory standing or other factors could result in an inability to obtain one or more of the required regulatory approvals, or delay their receipt. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs, or may place restrictions on the conduct of the combined company's business.

Alerus and HMNF believe that the merger should not raise significant regulatory concerns, and that the parties will be able to obtain all requisite regulatory approvals in a timely manner. Despite the parties' commitments to use their reasonable best efforts to comply with conditions imposed by regulatory entities, under the terms of the merger agreement, Alerus and HMNF will not be required to consummate the merger if any such approvals would reasonably be expected to materially restrict or burden Alerus following the merger. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions, or that such conditions, terms, obligations or restrictions will not have the effect of delaying the consummation of the merger, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reduce the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, neither Alerus nor HMNF can provide assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. The consummation of the merger is further conditioned on the absence of certain orders, injunctions or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the consummation of the merger.

Item2 – Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

The following table presents information related to repurchases of shares of the Company's common stock for each calendar month in the second third quarter of 2024:

(dollars in thousands, except per share data)	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plan (2)
April 1-30, 2024	—	$ —	—	1,000,000
May 1-31, 2024	176	20.44	—	1,000,000
June 1-30, 2024	—	—	—	1,000,000
Total	176	$ 20.44	—	1,000,000

(dollars in thousands, except per share data)	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plan (2)
July 1-31, 2024	3,227	$ 19.24	—	1,000,000
August 1-31, 2024	530	20.82	—	1,000,000
September 1-30, 2024	128	21.54	—	1,000,000

Total	3,885	$	19.53	—	1,000,000

(1) Represents shares of the Company's common stock surrendered by employees to the Company to pay withholding taxes on the vesting of restricted stock awards.

(2) On February 18, 2021 December 12, 2023, the Board of Directors of the Company approved a stock repurchase program, or the Existing Program, which authorized the Company to repurchase up to 770,000 shares of its common stock, subject to certain limitations and conditions. The Existing Program was effective immediately and continued until February 18, 2024. On December 12, 2023, the Board approved a new stock repurchase program, or the New Program, which authorized the Company to repurchase up to 1,000,000 shares of its common stock, subject to certain limitations and conditions. The New Program became effective on February 18, 2024, and replaced the Existing Program. an existing stock repurchase program. The New Program will expire on February 18, 2027. Neither the Existing The Program nor the New Program obligates does not obligate the Company to repurchase any shares of its common stock and there is no assurance that the Company will do so. For the three months ended June 30, 2024 September 30, 2024, the Company did not repurchase any shares of common stock under either the Existing Program or the New Program. Does not include shares that may be purchased by the Company's Employee Stock Ownership Plan.

Use of Proceeds from Registered Securities

None.

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Item3 – Defaults Upon Senior Securities

None.

Item4 – Mine Safety Disclosures

Not Applicable.

Item5 – Other Information

During the fiscal quarter ended June 30, 2024September 30, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule10b5-1(c)Rule10b5-1(c) or any non-Rule 10b5-110b5-1 trading arrangement.

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Item 6 – Exhibits

Item6 – Exhibits

ExhibitNo.	Description
2.1	Agreement and Plan of Merger, by and between Alerus Financial Corporation and HMN Financial, Inc., dated May 14, 2024* (incorporated herein by reference to Exhibit 2.1 on Form 8-K filed on May 15, 2024.
3.1	Third Amended and Restated Certificate of Incorporation of Alerus Financial Corporation (incorporated herein by reference to Exhibit 3.1 on Form S-1 filed on August 16, 2019).
3.2	Second Amended and Restated Bylaws of Alerus Financial Corporation (incorporated herein by reference to Exhibit 3.2 on Form S-1 filed on August 16, 2019).

10.1	Voting and Support Agreement, by and among Alerus Financial Corporation and the directors and officers of HMN Financial, Inc. identified therein, dated May 14, 2024 (incorporated herein by reference to Exhibit 10.1 on Form 8-K filed on May 15, 2024.
10.2	Voting and Support Agreement, by and among HMN Financial, Inc. and the directors and officers of Alerus Financial Corporation identified therein, dated May 14, 2024 (incorporated herein by reference to Exhibit 10.2 on Form 8-K filed on May 15, 2024.
10.3	Alerus Financial Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 on Form 8-K filed on May 28, 2024).
10.4	Form of Alerus Financial Corporation Long Term Incentive Plan Award Agreement (incorporated herein by reference to Exhibit 10.2 on Form 8-K filed on May 28, 2024).
10.5	First Amendment to the Alerus Financial Corporation 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.3 on Form 8-K filed on May 28, 2024).
10.6	Executive Severance Agreement, by and between Alerus Financial Corporation and Katie Lorenson, dated May 21, 2024 (incorporated herein by reference to Exhibit 10.4 on Form 8-K filed on May 28, 2024).
31.1	Chief Executive Officer's Officer's Certifications required by Rule13(a)-14(a)-14(a) – filed herewith.
31.2	Chief Financial Officer's Officer's Certifications required by Rule13(a)-14(a)-14(a) – filed herewith.
32.1	Chief Executive Officer Certifications pursuant to 18 U.S.C. Section1350, as adopted pursuant to Section906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
32.2	Chief Financial Officer Certifications pursuant to 18 U.S.C. Section1350, as adopted pursuant to Section906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
101.INS	**iXBRL Instance Document**
101.SCH	**iXBRL Taxonomy Extension Schema**
101.CAL	**iXBRL Taxonomy Extension Calculation Linkbase**
101.DEF	**iXBRL Taxonomy Extension Definition Linkbase**
101.LAB	**iXBRL Taxonomy Extension Label Linkbase**

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101.PRE	iXBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibits 101) Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibits 101)

* The Company has omitted schedules and similar attachments to the subject agreement pursuant to Item 601(b) of Regulation S-K. The Company will furnish a copy of any omitted schedule or similar attachment to the SEC upon request.

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SIGNATURES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALERUS FINANCIAL CORPORATION

Date: August 8, 2024October 31, 2024	By: /s/ /s/ Katie A. Lorenson
	Name: Katie A. Lorenson
	Title: President and Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2024October 31, 2024	By: /s/ /s/ Alan A. Villalon
	Name: Alan A. Villalon
	Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer) Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as
Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Katie A. Lorenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of Alerus Financial Corporation (the “Registrant”);
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Alerus Financial Corporation

August 8,October 31, 2024

/s/ Katie A. Lorenson

Katie A. Lorenson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as
Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan A. Villalon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Alerus Financial Corporation (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. **Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;**
4. **The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:**

   a) **Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;**

   b) **Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;**

   c) **Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and**

   d) **Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and**

5. **The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):**

   a) **All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and**

   b) **Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.**

Alerus Financial Corporation

August 8,October 31, 2024

/s/ Alan A. Villalon

Alan A. Villalon
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Katie A. Lorenson, President and Chief Executive Officer of Alerus Financial Corporation (the "Company") hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2024September 30, 2024 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Alerus Financial Corporation

August 8,October 31, 2024

/s/ Katie A. Lorenson

Katie A. Lorenson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Alan A. Villalon, Executive Vice President and Chief Financial Officer of Alerus Financial Corporation (the "Company") hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2024September 30, 2024 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Alerus Financial Corporation

August 8,October 31, 2024

/s/ Alan A. Villalon

Alan A. Villalon
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

DISCLAIMER

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