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DELTA REPORT

10-Q

ALRS - ALERUS FINANCIAL CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1724
CHANGES	300
DELETIONS	631
ADDITIONS	793

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023 March 31, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 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)

(701) 795-3200

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value $1.00 per share	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 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 of the Act). Yes ☐ No ☒

The number of shares of the registrant's common stock outstanding at October 31, 2023 April 30, 2024 was 19,776,006. 19,776,786.

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Alerus Financial Corporation and Subsidiaries

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PART 1. FINANCIAL INFORMATION

Item 1 - Consolidated Financial Statements

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share and per share data)	September 30, 2023	December 31, 2022
Assets	(Unaudited)	(Audited)
Cash and cash equivalents	$ 64,724	$ 58,242
Investment securities		
Available-for-sale, at fair value	640,001	717,324
Held-to-maturity, at carrying value (allowance for credit losses on investments of $218 September 30, 2023)	303,268	321,902
Loans held for sale	16,346	9,488
Loans	2,606,430	2,443,994
Allowance for credit losses on loans	(36,290)	(31,146)
Net loans	2,570,140	2,412,848
Land, premises and equipment, net	17,182	17,288
Operating lease right-of-use assets	5,986	5,419
Accrued interest receivable	15,561	12,869
Bank-owned life insurance	33,012	33,991
Goodwill	46,783	47,087
Other intangible assets	18,482	22,455
Servicing rights	2,214	2,643
Deferred income taxes, net	47,978	42,369
Other assets	87,461	75,712
Total assets	$ 3,869,138	$ 3,779,637
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 717,990	$ 860,987
Interest-bearing	2,154,194	2,054,497
Total deposits	2,872,184	2,915,484
Short-term borrowings	515,470	378,080
Long-term debt	58,928	58,843
Operating lease liabilities	6,286	5,902
Accrued expenses and other liabilities	66,868	64,456
Total liabilities	3,519,736	3,422,765
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: 19,847,706 and 19,991,681 issued and outstanding	19,848	19,992
Additional paid-in capital	151,875	155,095
Retained earnings	291,162	280,426
Accumulated other comprehensive income (loss)	(113,483)	(98,641)
Total stockholders' equity	349,402	356,872
Total liabilities and stockholders' equity	$ 3,869,138	$ 3,779,637

(dollars in thousands, except share and per share data)	March 31, 2024	December 31, 2023
Assets	(Unaudited)	(Unaudited)
Cash and cash equivalents	$ 545,772	$ 129,893

Investment securities		
Trading	4,553	—
Available-for-sale, at fair value (amortized cost of $573,733 and $584,754, respectively)	472,272	486,736
Held-to-maturity, at amortized cost (fair value of $249,807 and $258,617, respectively, with an allowance for credit losses on investments of $207 and $213, respectively)	291,932	299,515
Loans held for sale	10,625	11,497
Loans	2,799,475	2,759,583
Allowance for credit losses on loans	(36,584)	(35,843)
Net loans	2,762,891	2,723,740
Land, premises and equipment, net	18,162	17,940
Operating lease right-of-use assets	5,112	5,436
Accrued interest receivable	16,149	15,700
Bank-owned life insurance	33,396	33,236
Goodwill	46,783	46,783
Other intangible assets, net	15,834	17,158
Servicing rights	1,983	2,052
Deferred income taxes, net	34,796	34,595
Other assets	77,833	83,432
Total assets	$ 4,338,093	$ 3,907,713
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 692,500	$ 728,082
Interest-bearing	2,592,469	2,367,529
Total deposits	3,284,969	3,095,611
Short-term borrowings	555,000	314,170
Long-term debt	58,985	58,956
Operating lease liabilities	5,420	5,751
Accrued expenses and other liabilities	62,084	64,098
Total liabilities	3,966,458	3,538,586
Commitments and contingencies (Note 11)		
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: 19,776,786 and 19,734,077 issued and outstanding	19,777	19,734
Additional paid-in capital	150,740	150,343
Retained earnings	275,374	272,705
Accumulated other comprehensive income (loss)	(74,256)	(73,655)
Total stockholders' equity	371,635	369,127
Total liabilities and stockholders' equity	$ 4,338,093	$ 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)

(dollars and shares in thousands, except per share data)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022	Three months ended March 31, 2024	2023
Interest Income						
Loans, including fees	$ 34,986	$ 25,379	$ 99,187	$ 60,659	$39,294	$30,933
Investment securities						
Taxable	6,146	5,939	18,222	17,447	4,568	5,951
Exempt from federal income taxes	182	209	558	638	174	190
Other	724	748	2,221	1,021	5,002	735
Total interest income	42,038	32,275	120,188	79,765	49,038	37,809
Interest Expense						
Deposits	14,436	1,852	36,218	3,494	20,152	9,104
Short-term borrowings	6,528	1,516	15,684	1,794	5,989	4,393
Long-term debt	679	591	1,999	1,712	678	654
Total interest expense	21,643	3,959	53,901	7,000	26,819	14,151
Net interest income	20,395	28,316	66,287	72,765	22,219	23,658
Provision for credit losses	—	—	550	—	—	550
Net interest income after provision for credit losses	20,395	28,316	65,737	72,765	22,219	23,108
Noninterest Income						
Retirement and benefit services	18,605	16,597	49,977	50,536	15,655	15,482
Wealth management	5,271	4,852	15,915	15,726	6,118	5,194
Mortgage banking	2,510	3,782	7,132	14,751	1,670	1,717
Service charges on deposit accounts	328	377	940	1,152	389	301
Other	1,693	1,402	5,475	3,541	1,491	2,559
Total noninterest income	28,407	27,010	79,439	85,706	25,323	25,253
Noninterest Expense						
Compensation	19,071	21,168	57,076	61,467	19,332	19,158
Employee taxes and benefits	4,895	5,079	15,472	17,028	6,188	5,853
Occupancy and equipment expense	1,883	1,925	5,619	5,713	1,906	1,899
Business services, software and technology expense	4,774	5,373	15,367	15,082	5,345	5,324
Intangible amortization expense	1,324	1,324	3,972	3,430	1,324	1,324
Professional fees and assessments	1,716	3,126	4,397	6,913	1,993	1,152
Marketing and business development	692	890	2,026	2,304	685	686
Supplies and postage	410	588	1,275	1,806	528	460
Travel	322	291	876	826	292	248
Mortgage and lending expenses	689	409	1,401	1,577	441	497
Other	1,484	2,594	4,022	4,676	985	1,268
Total noninterest expense	37,260	42,767	111,503	120,822	39,019	37,869
Income before income taxes	11,542	12,559	33,673	37,649	8,523	10,492
Income tax expense	2,381	2,940	7,222	8,553	2,091	2,306
Net income	$ 9,161	$ 9,619	$ 26,451	$ 29,096	$ 6,432	$ 8,186
Per Common Share Data						
Basic earnings per common share	$ 0.46	$ 0.48	$ 1.31	$ 1.58	$ 0.32	$ 0.41
Diluted earnings per common share	$ 0.45	$ 0.47	$ 1.30	$ 1.56	$ 0.32	$ 0.40
Dividends declared per common share	$ 0.19	$ 0.18	$ 0.56	$ 0.52	$ 0.19	$ 0.18
Average common shares outstanding	19,872	19,987	19,977	18,186	19,739	20,028
Diluted average common shares outstanding	20,095	20,230	20,193	18,431	19,986	20,246

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Net Income	$ 9,161	$ 9,619	$ 26,451	$ 29,096	$ 6,432	$ 8,186
Other Comprehensive Income (Loss), Net of Tax						
Net change in unrealized gains (losses) on available-for-sale securities	(19,074)	(43,305)	(23,782)	(131,424)		
Accretion of losses on debt securities reclassified to held-to-maturity	(80)	(91)	(251)	(290)		
Net change in unrealized gains (losses) on debt securities					(3,517)	4,841
Net change in unrealized gain (losses) on cash flow hedging derivatives	1,216	—	1,216	—	684	—
Reclassification adjustment for losses (gains) realized in income	(205)	—	(205)	—		
Net change in unrealized gain (losses) on other derivatives	1,132	—	3,206	—	2,031	(1,725)
Total other comprehensive income (loss), before tax	(17,011)	(43,396)	(19,816)	(131,714)	(802)	3,116
Income tax expense (benefit) related to items of other comprehensive income (loss)	(4,270)	(10,892)	(4,974)	(33,060)	(201)	782
Other comprehensive income (loss), net of tax	(12,741)	(32,504)	(14,842)	(98,654)	(601)	2,334
Total comprehensive income (loss)	$ (3,580)	$ (22,885)	$ 11,609	$ (69,558)	$ 5,831	$10,520

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Three months ended September 30, 2023				
(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

	Nine months ended September 30, 2023				
(dollars 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	—	—	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

	Three months ended September 30, 2022				
(dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of June 30, 2022	$ 17,306	$ 93,129	$ 267,128	$ (70,405)	$ 307,158
Net income	—	—	9,619	—	9,619
Other comprehensive income (loss)	—	—	—	(32,504)	(32,504)
Common stock repurchased	—	—	—	—	—
Common stock dividends	—	—	(3,615)	—	(3,615)
Stock issuance from the acquisition of Metro Phoenix Bank	2,681	61,149	—	—	63,830
Share-based compensation expense	—	351	—	—	351
Vesting of restricted stock	—	—	—	—	—
Balance as of September 30, 2022	$ 19,987	$ 154,629	$ 273,132	$ (102,909)	$ 344,839

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	Nine months ended September 30, 2022					Three months ended				
(dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive	
Balance as of December 31, 2021	$ 17,213	$ 92,878	$ 253,567	$ (4,255)	$ 359,403					
(dollars and shares in thousands)						Stock	Capital	Earnings	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	—	—	29,096	—	29,096	—	—	8,186	—	8,186
Other comprehensive income (loss)	—	—	—	(98,654)	(98,654)	—	—	—	2,334	2,334
Common stock repurchased	(24)	(673)	—	—	(697)	(17)	(344)	—	—	(361)
Common stock dividends	—	—	(9,531)	—	(9,531)	—	—	(3,620)	—	(3,620)
Stock issuance from the acquisition of Metro Phoenix Bank	2,681	61,149	—	—	63,830					
Share-based compensation expense	10	1,382	—	—	1,392	—	159	—	—	159
Vesting of restricted stock	107	(107)	—	—	—	92	(92)	—	—	—
Balance as of September 30, 2022	$ 19,987	$ 154,629	$ 273,132	$ (102,909)	$ 344,839					
Balance as of March 31, 2023						20,067	$154,818	$280,540	$ (96,307)	$359,118
Balance as of December 31, 2023						19,734	$150,343	$272,705	$ (73,655)	$369,127
Net income						—	—	6,432	—	6,432
Other comprehensive income (loss)						—	—	—	(601)	(601)
Common stock repurchased						(7)	(146)	—	—	(153)
Common stock dividends						—	—	(3,763)	—	(3,763)
Share-based compensation expense						—	593	—	—	593
Vesting of restricted stock						50	(50)	—	—	—
Balance as of March 31, 2024						19,777	$150,740	$275,374	$ (74,256)	$371,635

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, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Operating Activities				
Net income	$ 26,451	$ 29,096	$ 6,432	$ 8,186
Adjustments to reconcile net income to net cash provided (used) by operating activities				
Deferred income taxes	857	(1,215)	—	1,459
Provision for credit losses	550	—	—	550
Depreciation and amortization	6,378	6,116	2,100	2,130
Amortization and accretion of premiums/discounts on investment securities	1,652	2,778	424	527
Amortization of operating lease right-of-use assets	1,756	(65)	(8)	(43)
Share-based compensation expense	1,192	1,392	593	159
Originations on loans held for sale	(239,004)	(353,547)	(53,129)	(56,347)
Proceeds on loans held for sale	238,028	383,740	55,362	50,381
(Increase) in value of bank-owned life insurance	(653)	(621)	(160)	(224)
Realized loss (gain) on sale of fixed assets	(71)	(33)		
Realized loss (gain) on derivative instruments	531	1,031	(678)	(253)
Realized loss (gain) on loans sold	(5,922)	(10,062)	(1,438)	(1,344)
Realized loss (gain) on sale of foreclosed assets	(27)	(9)	—	8
Realized loss (gain) on BOLI mortality	(1,196)	—	—	(1,196)
Realized loss (gain) on servicing rights	(28)	(683)	(20)	38
Net change in:				
Accrued interest receivable	(2,692)	(1,628)	(449)	(114)
Other assets	4,784	(13,903)	(1,071)	2,052
Accrued expenses and other liabilities	(1,986)	12,348	4,031	(8,352)
Net cash provided (used) by operating activities	30,600	54,735	11,989	(2,383)
Investing Activities				
Proceeds from sales of trading investment securities			5,502	—
Purchases of trading investment securities			(10,008)	—
Proceeds from maturities of investment securities available-for-sale	46,655	88,417	10,818	16,139
Purchases of investment securities available-for-sale	—	(96,968)		
Proceeds from calls of investment securities held-to-maturity	242	827	251	126
Proceeds from maturities and paydowns of investment securities held-to-maturity	17,125	23,422	7,043	7,578
Net (increase) decrease in loans	(161,606)	(290,565)	(40,223)	(42,801)
Net (increase) decrease in FHLB stock	(5,953)	—	5,075	(225)
Net cash received (paid) for business combinations	—	101,585		
Proceeds from BOLI mortality claim	2,828	—	—	2,828
Purchases of premises and equipment	(1,731)	(1,081)	(881)	(923)
Proceeds from sales of foreclosed assets	51	143	34	22
Net cash provided (used) by investing activities	(102,389)	(174,220)	(22,389)	(17,256)
Financing Activities				
Net increase (decrease) in deposits	(43,300)	(312,425)	189,358	116,494
Net increase (decrease) in short-term borrowings	137,390	253,830	240,830	(5,935)
Repayments of long-term debt	—	(182)	1	—
Cash dividends paid on common stock	(11,263)	(9,185)	(3,757)	(3,620)
Repurchase of common stock	(4,556)	(697)	(153)	(361)
Net cash provided (used) by financing activities	78,271	(68,659)	426,279	106,578

Net change in cash and cash equivalents	6,482	(188,144)	415,879	86,939
Cash and cash equivalents at beginning of period	58,242	242,311	129,893	58,242
Cash and cash equivalents at end of period	$ 64,724	$ 54,167	$545,772	$145,181

See accompanying notes to consolidated financial statements (unaudited)

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	Nine months ended September 30,	
	2023	2022
Supplemental Cash Flow Disclosures		
Interest paid	$ 50,969	$ 7,269
Income taxes paid	6,637	8,713
Cash dividends declared, not paid	3,838	3,615
Supplemental Disclosures of Noncash Investing and Financing Activities		
Loan collateral transferred to foreclosed assets	3	153
Right-of-use assets obtained in exchange for new operating lease liabilities, net	1,938	1,452
Change in fair value hedges presented within residential real estate loans and other assets	3,206	—

	Three months ended March 31,	
	2024	2023
Supplemental Cash Flow Disclosures		
Interest paid	$ 22,339	$ 15,167
Income taxes paid	1	—
Cash dividends declared, not paid	3,763	3,620
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	108	257
Change in fair value hedges presented within residential real estate loans and other assets	268	—

See accompanying notes to consolidated financial statements (unaudited)

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Alerus Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 Significant Accounting Policies

Organization

Alerus Financial Corporation, or the Company, is a financial holding company organized under the laws of the state of Delaware. The Company and its subsidiaries operate as a diversified financial services company headquartered in Grand Forks, North Dakota. Through its subsidiary, Alerus Financial, National Association, or the Bank, the Company provides financial solutions to businesses and consumers through four distinct business lines—banking, retirement and benefit services, wealth management, and mortgage.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements and notes thereto of the Company have been prepared in accordance with the rules instructions for Form 10-Q and, regulations of the Securities and Exchange Commission, or SEC, and conform to practices within the banking industry and therefore, do not include all of the information and disclosures required by accounting principles generally accepted accounting principles in the United States of America, or GAAP, for interim complete presentation of financial reporting. The accompanying unaudited statements. In the opinion of management, the consolidated financial statements reflect contain all adjustments (consisting only of normal recurring adjustments) that are accruals) necessary for a fair presentation to present fairly the consolidated balance sheets of financial results Alerus Financial Corporation, or the Company, as of March 31, 2024 and December 31, 2023, the consolidated statements of income for the interim periods presented. three months ended March 31, 2024 and 2023, consolidated statements of comprehensive income (loss) for the three months ended March 31, 2024 and 2023, the consolidated statements of changes in stockholders' equity for the three months ended March 31, 2024 and 2023, and the consolidated statements of cash flows for the three months ended March 31, 2024 and 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 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. 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, 2022 December 31, 2023, included in the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2023 March 8, 2024.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's principal operating subsidiary is the Bank.

In the normal course of business, the Company may enter into a transaction with a variable interest entity or VIE. VIE's are legal entities whose investors lack the ability to make decisions about the entity's activities, or whose equity investors do not have the right to receive the residual returns of the entity. The applicable accounting guidance requires the Company to perform ongoing quantitative and qualitative analysis to determine whether it must consolidate any VIE. The Company does not have any ownership interest in, or exert any control, over any VIE, and thus no VIE's are included in the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of investment securities, determination of the allowance for credit losses, valuation of reporting units for the purpose of testing goodwill and other intangible assets for impairment, valuation of deferred tax assets, and fair values of financial instruments.

Reclassifications

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.

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 shareholder 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) 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, which was declared effective by the U.S. Securities and Exchange Commission, or SEC, on September 12, 2019; (2) the last day of the fiscal year in which the Company has $1.235 billion or more in annual revenues; (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) the date on which the Company has, during the previous three-year period, issued publicly or privately, more than $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)(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.

Allowance for credit losses

Investment securities available-for-sale. For available-for-sale investment securities in an unrealized loss position, the Company evaluates the securities to determine whether the decline in fair value below the amortized cost basis, or impairment, is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income (loss), net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses, or ACL, related to investment securities available-for-sale on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available-for-sale investment security or is required to sell such a security before recovering its amortized cost basis, the entire impairment amount must be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in this situation.

In evaluating available-for-sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors.

Accrued interest receivable is excluded from the estimate of credit losses.

Investment securities held-to-maturity. Management measures expected credit losses on held-to-maturity investment securities on a collective basis by major security type. The Company evaluates held-to-maturity investment

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securities by credit rating and an external study, updated annually, that includes historical information such as probability of default and loss going back several years. Accrued interest receivable on held-to-maturity investment securities is excluded from the estimate of credit losses.

Loans held for investment. Under the current expected credit loss, or CECL, 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.

The Company estimates the ACL based on the underlying assets' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for collection of cash and charge-offs, as well as applicable accretion or amortization of premium, discount and net deferred fees or costs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made the policy election to exclude accrued interest from the measurement of ACL.

Expected credit losses are reflected in the ACL through a charge to provision for credit losses when the Company deems all or a portion of the financial asset will be uncollectible; the appropriate amount is written off and the ACL is reduced by the same amount. The Company applies judgement to determine when a financial asset is deemed uncollectible; however, generally, an asset will be considered uncollectible no later than when all efforts of collection have been exhausted. Subsequent recoveries, if any, are credited to the ACL when received.

Upon the adoption of the CECL accounting standard, the Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. Upon the adoption of the CECL accounting standard, the ACL was determined for each pool and added to the pools' carrying amount to establish a new amortized cost basis. Loans that do not share similar risk characteristics are evaluated on an individual basis.

Management estimates the ACL using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable 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.

Ongoing impacts of the CECL accounting standard will be dependent upon changes in economic conditions and forecasts, originated and acquired loan portfolio composition, credit performance trends, portfolio duration and other forecasts.

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.

Reserve for off-balance sheet credit exposures. In estimating expected credit losses for off-balance sheet credit exposures, the Company is required to estimate expected credit losses over the contractual period in which it is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the issuer. To be considered unconditionally cancellable for accounting purposes, the Company must have the ability to, at any time, with or without cause, refuse to extend credit under the commitment. Off-balance sheet credit exposure segments share the same risk characteristics as portfolio loans. The Company incorporates a probability of funding and utilizes the ACL loss rates to calculate the reserve. The reserve for off-balance sheet credit exposure is carried on the balance sheet in accrued expenses and other liabilities rather than as a component of the allowance. The reserve for off-balance sheet credit exposure is adjusted as a provision for off-balance sheet credit exposure reported as a component of the provision for credit loss expense in the accompanying unaudited Consolidated Statements of Income.

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NOTE 2 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, 2023 January 1, 2024, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of September 30, 2023 March 31, 2024.

Adopted Pronouncements

On January 1, 2023, There have been no new ASUs adopted by the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The measurement of expected credit losses under the CECL accounting standard is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar agreements) since January 1, 2024. In addition, ASC 326 made changes to the accounting for held-to-maturity debt securities. One such change is to require credit losses to be presented as an allowance, rather than as a write-down.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, off-balance sheet credit exposures, and held-to-maturity securities. Results for reporting periods beginning after December 31, 2022, are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $4.5 million as of January 1, 2023, for the cumulative effect of adopting ASC 326.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration previously classified as purchased credit impaired and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether purchased credit impaired, or PCI, assets met the criteria of purchased credit deteriorated, or PCD, assets as of the date of adoption.

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The following table illustrates the impact of ASC 326:

	January 1, 2023

(dollars in thousands) Assets:	As reported under ASC 326	Pre-ASC 326 Adoption	Pre-tax impact of ASC 326 Adoption
Investments			
Held-to-maturity			
Obligations of state and political agencies	$ 110	$ —	$ 110
Mortgage backed securities			
Residential agency	62	—	62
Total allowance for held-to-maturity investment securities	172	—	172
Loans			
Commercial			
Commercial and industrial	8,296	9,158	(862)
Real estate construction	3,964	1,446	2,518
Commercial real estate	12,264	12,688	(424)
Total commercial	24,524	23,292	1,232
Consumer			
Residential real estate first mortgage	7,849	5,769	2,080
Residential real estate junior lien	1,222	1,289	(67)
Other revolving and installment	424	528	(104)
Total consumer	9,495	7,586	1,909
Unallocated	984	268	716
Total allowance for loans	35,003	31,146	3,857
Allowance for credit losses on loans and investments securities	$ 35,175	$ 31,146	$ 4,029
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 5,159	$ 3,244	$ 1,915

Pronouncements Not Yet Effective

In March 2022, November 2023, the FASB issued guidance within ASU No. 2022-01, Derivatives 2023-07, Segment Reporting (Topic 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 Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method, which clarifies 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 guidance on fair value hedge accounting chief operating decision maker and included within each reported measure of interest rate risk portfolios of financial assets. ASU 2022-01 updates guidance in Topic 815, to expand the scope segment profit or loss as well as other segment items. Annual disclosure of the current last-of-layer method title and position of the chief operating decision maker and how the reported measures of segment profit or loss are used to allow multiple hedged layers to be designated for a single closed portfolio assess performance and allocation of financial assets or one or more beneficial interests secured by a portfolio of financial instruments on a prospective basis. Additionally, ASU 2022-01 clarifies that basis adjustments related to existing portfolio layer hedge relationships should not be considered when measuring credit losses on the financial assets included resources is also required.

The amendments in the closed portfolio. Further, ASU 2022-01 clarifies that any reversal of fair value hedge basis adjustments associated with an actual breach should be recognized in interest income immediately. ASU 2022-01 was this update are effective for fiscal years beginning after December 15, 2022 December 15, 2023, with early adoption permitted. and interim periods within fiscal years beginning after December 15, 2024 and are applied on a retrospective basis. The Company adopted ASU 2022-01 effective January 1, 2023, and entered into a fair value hedge agreement is currently evaluating the impact these amendments will have on February 10, 2023 and adopted the portfolio layer method of accounting for this transaction. This adoption had no impact on our its consolidated financial statements as the Company did not have any hedged assets using the last-of-layer hedge accounting method. statements.

In March 2022, December 2023, the FASB issued ASU No. 2022-02, Financial Instruments – Credit Losses Troubled Debt Restructurings and Vintage 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments in this update eliminate ASU related to the accounting guidance 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 Troubled Debt Restructurings, 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), Rules of General Application—General Notes to Financial Statements: Income Tax Expense, and removing disclosures that no longer are considered cost beneficial or TDRs, by creditors in Subtopic 310-40. Receivables – Troubled Debt Restructurings by Creditors, while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. relevant. For public business entities, this amendment also has vintage disclosures that require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20 Financial Instruments – Credit Losses – Measured at Amortized Cost. For entities that had not yet adopted the amendment in ASU 2016-13, the effective date for the amendments in this update ASU are same as the effective date for ASU 2016-13. annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company adopted amendments in this ASU should be applied on January 1, 2023, and had no loans experience financial difficulty in the current period. a prospective basis. Retrospective application is also permitted.

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NOTE 3 Investment Securities

Trading securities are reported on the Company's consolidated balance sheet at fair value. As of March 31, 2024, the fair value of the Company's trading securities was $4.6 million. There were no trading securities as of 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.

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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023					March 31, 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	$ 2,679	$ 9	$ (23)	$ —	$ 2,665	$ 839	$ 2	$ (3)	$ —	$ 838
Mortgage backed securities										
Residential agency	656,845	—	(135,222)	—	521,623	513,409	—	(92,516)	—	420,893
Commercial	66,980	—	(8,295)	—	58,685	1,471	—	(120)	—	1,351
Asset backed securities	27	—	—	—	27	23	—	(1)	—	22
Corporate bonds	69,495	—	(12,494)	—	57,001	57,991	—	(8,823)	—	49,168

Total available-for-sale investment securities	796,026	9	(156,034)	—	640,001	573,733	2	(101,463)	—	472,272
Held-to-maturity										
Obligations of state and political agencies	130,088	—	(18,651)	115	111,437	124,971	—	(12,985)	110	111,986
Mortgage backed securities										
Residential agency	173,398	—	(36,596)	103	136,802	167,168	—	(29,347)	97	137,821
Total held-to-maturity investment securities	303,486	—	(55,247)	218	248,239	292,139	—	(42,332)	207	249,807
Total investment securities	$ 1,099,512	$ 9	$ (211,281)	$ 218	$ 888,240	$865,872	$ 2	$(143,795)	$ 207	$722,079

	December 31, 2022					December 31, 2023				
(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	$ 3,518	$ 19	$ (17)	N/A	$ 3,520	$ 1,119	$ 4	$ (3)	—	$ 1,120
Mortgage backed securities										
Residential agency	705,845	2	(118,168)	N/A	587,679	524,140	1	(88,547)	—	435,594
Commercial	70,669	—	(7,111)	N/A	63,558	1,476	—	(123)	—	1,353
Asset backed securities	34	—	—	N/A	34	26	—	(1)	—	25
Corporate bonds	69,501	—	(6,968)	N/A	62,533	57,993	—	(9,349)	—	48,644
Total available-for-sale investment securities	849,567	21	(132,264)	N/A	717,324	584,754	5	(98,023)	—	486,736
Held-to-maturity										
Obligations of state and political agencies	137,787	—	(17,736)	N/A	120,051	129,603	—	(12,613)	114	116,990
Mortgage backed securities										
Residential agency	184,115	—	(33,254)	N/A	150,861	170,125	—	(28,498)	99	141,627
Total held-to-maturity investment securities	321,902	—	(50,990)	N/A	270,912	299,728	—	(41,111)	213	258,617
Total investment securities	$ 1,171,469	$ 21	$ (183,254)	N/A	$ 988,236	$884,482	$ 5	$(139,134)	$ 213	$745,353

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The adequacy of the allowance for credit losses ACL on investment securities is assessed at the end of each quarter. The Company does not believe that the available-for-sale AFS debt securities that were in an unrealized loss position as of September 30, 2023 March 31, 2024, represent a credit loss impairment. As of September 30, 2023, March 31, 2024 and December 31, 2022, 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; however, all bonds had an investment grade rating as of March 31, 2024 and December 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 allowance for credit losses ACL on held-to-maturity HTM debt securities is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable supportable forecasts. Using a probability of default and loss on given default analysis, an allowance for credit losses the ACL on HTM debt securities was established in the amount of $218 $207 thousand and $213 thousand as of September 30, 2023. March 31, 2024 and December 31, 2023, respectively.

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 March 31, 2024, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.6 million and $1.0 million, respectively. As of December 31, 2023, the accrued interest receivable on available-for-sale investment securities and held-to-maturity 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 months ended March 31, 2024 and 2023.

The Company had no sales of HTM investment securities for the three months ended March 31, 2024 and 2023.

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

		March 31, 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	$ (3)	$ 454	$ —	$ —	$ (3)	$ 454
Mortgage backed securities							
Residential agency	111	—	35	(92,516)	420,815	(92,516)	420,850
Commercial	1	—	—	(120)	1,351	(120)	1,351
Asset backed securities	3	—	—	(1)	22	(1)	22
Corporate bonds	12	—	—	(8,823)	49,168	(8,823)	49,168
Total available-for-sale investment securities	128	$ (3)	$ 489	$ (101,460)	$ 471,356	$ (101,463)	$ 471,845

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		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

Accrued interest receivable The Company determined that the expected credit loss on available-for-sale investment securities its HTM portfolio was $207 thousand and held-to-maturity investment securities is recorded in accrued interest receivable $213 thousand as of March 31, 2024, and is excluded from the estimate of credit losses. As of September 30, 2023, the accrued interest receivable on available-for-sale investment securities and held-to-maturity investment securities totaled $2.4 million and $1.0 million December 31, 2023, respectively. As of December 31, 2022, The change in the accrued interest receivable ACL on available-for-sale investment HTM debt securities and held-to-maturity investment securities totaled $1.9 million and $1.5 million, respectively.

The following table presents investment securities available-for-sale was due to a change in an unrealized loss position for which an allowance the provision for credit losses, has with no charge-offs or recoveries for the three months ended March 31, 2024.

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

	September 30, 2023					
	Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale						
U.S. Treasury and agencies	$ —	$ —	$ (23)	$ 389	$ (23)	$ 389
Mortgage backed securities						
Residential agency	(9)	577	(135,213)	484,451	(135,222)	485,028
Commercial	—	—	(8,295)	58,684	(8,295)	58,684
Asset backed securities	—	7	—	19	—	26
Corporate bonds	—	—	(12,494)	57,001	(12,494)	57,001
Total available-for-sale investment securities	$ (9)	$ 584	$ (156,025)	$ 600,544	$ (156,034)	$ 601,128

Gross unrealized losses on investment securities and the fair value of the related securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2022, were as follows:

	December 31, 2022					
	Less than 12 Months		Over 12 Months		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale						
U.S. Treasury and agencies	$ (17)	$ 509	$ —	$ —	$ (17)	$ 509
Mortgage backed securities						
Residential agency	(10,457)	79,693	(107,711)	507,418	(118,168)	587,111
Commercial	(4,835)	50,437	(2,276)	13,120	(7,111)	63,557
Asset backed securities	—	32	—	2	—	34
Corporate bonds	(4,452)	48,048	(2,516)	14,484	(6,968)	62,532
Total available-for-sale investment securities	(19,761)	178,719	(112,503)	535,024	(132,264)	713,743
Held-to-maturity						
Obligations of state and political agencies	(3,336)	18,788	(14,400)	98,762	(17,736)	117,550
Mortgage backed securities						
Residential agency	—	—	(33,254)	150,861	(33,254)	150,861
Total held-to-maturity investment securities	(3,336)	18,788	(47,654)	249,623	(50,990)	268,411

Total investment securities	$ (23,097)	$ 197,507	$ (160,157)	$ 784,647	$ (183,254)	$ 982,154

Unrealized losses on available-for-sale investment securities have not been recognized into income because the issuers' bonds are of high credit quality. Furthermore, the Company does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The issuers continue to make timely principal and interest payments on their bonds. The Company expects that it could see a continued increase in unrealized losses if the Federal Reserve continues to raise interest rates.

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The following table presents amortized cost and fair value of available-for-sale AFS investment securities and the carrying value and fair value of held-to-maturity HTM investment securities as of September 30, 2023 March 31, 2024, by contractual maturity:

	Held-to-maturity		Available-for-sale		Held-to-maturity		Available-for-sale	
	Carrying Value	Fair Value	Amortized Cost	Fair Value	Carrying Value	Fair Value	Amortized Cost	Fair Value
(dollars in thousands)								
Due within one year or less	$ 5,981	$ 5,875	$ —	$ —	$ 8,161	$ 7,974	$ —	$ —
Due after one year through five years	51,009	45,878	17,119	15,706	47,376	43,614	473	470
Due after five years through ten years	60,325	49,427	80,670	66,779	57,248	49,662	59,467	50,524
Due after 10 years	12,773	10,257	41,392	35,893	12,186	10,736	384	385
	130,088	111,437	139,181	118,378	124,971	111,986	60,324	51,379
Mortgage-backed securities								
Residential agency	173,398	136,802	656,845	521,623	167,168	137,821	513,409	420,893
Total investment securities	$ 303,486	$ 248,239	$ 796,026	$ 640,001	$292,139	$249,807	$573,733	$472,272

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 $381.4 million $559.1 million and $260.7 $250.0 million were pledged as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, to secure public deposits and for other purposes required or permitted by law.

The company had no sales or calls of available-for-sale investment securities, for the three and nine months ended September 30, 2023 and 2022.

Proceeds from the call of held-to-maturity investment securities, for the three and nine months ended September 30, 2023 and 2022, are displayed in the table below:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Proceeds	$ 116	$ 101	$ 242	$ 827
Realized gains	—	—	—	—
Realized losses	—	—	—	—

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 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:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Federal Reserve	$ 4,623	$ 4,595	$ 4,623	$ 4,623
FHLB	25,316	19,362	11,491	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 September 30, 2023 March 31, 2024, the conversion ratio was 1.5902. 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 (11,010 (10,992 Class A equivalents) that the Company owned as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, were carried at a zero cost basis.

NOTE 4 Loans and Allowance for Credit Losses

The following table presents total loans outstanding, by portfolio segment, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commercial				
Commercial and industrial	$ 582,387	$ 583,876	$ 611,695	$ 598,321
Real estate construction	97,742	97,810	125,966	124,034

Commercial real estate	1,025,014	881,670	1,152,948	1,126,912
Total commercial	1,705,143	1,563,356	1,890,609	1,849,267
Consumer				
Residential real estate first mortgage	717,793	679,551	722,151	726,879
Residential real estate junior lien	152,677	150,479	156,882	154,134
Other revolving and installment	30,817	50,608	29,833	29,303
Total consumer	901,287	880,638	908,866	910,316
Total loans	$ 2,606,430	$ 2,443,994	$2,799,475	$ 2,759,583

Total loans included net deferred loan fees and costs of $0.5 million $46 thousand and $0.9 million $248 thousand at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Unearned discounts associated with the acquisition of Metro Phoenix Bank totaled $5.2 million $4.7 million and $5.1 million as of September 30, 2023. March 31, 2024 and December 31, 2023, respectively.

Accrued interest receivable on loans is recorded within accrued interest receivable, and totaled $11.5 million $12.3 million at September 30, 2023 March 31, 2024 and $9.2 million $12.2 million at December 31, 2022 December 31, 2023.

Management monitors the credit quality of 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.

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- 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 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 $1.6 billion as of March 31, 2024 and December 31, 2023, were pledged to secure public deposits, and for other purposes required or permitted by law.

ACL on an ongoing basis. Measurements of delinquency and past due status are based on the contractual terms of each loan. Past due loans are reviewed regularly to identify loans for nonaccrual status. Loans

The following tables present, a past due aging analysis of total loans outstanding, by loan portfolio segment, as a summary of September 30, 2023 the changes in the allowance for credit losses on loans for the three months ended March 31, 2024 and December 31, 2022: 2023:

(dollars in thousands)	September 30, 2023 Accruing Current	30 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans	Three months ended March 31, 2024 Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial										
Commercial and industrial	$ 572,898	$ 2,929	$ —	$ 6,560	$ 582,387	$ 9,894	$ 122	$ (164)	$ 123	$ 9,975
Real estate construction	97,627	—	—	115	97,742	6,111	(189)	—	—	5,922
Commercial real estate	1,024,118	—	—	896	1,025,014	11,897	834	(29)	11	12,713
Total commercial	1,694,643	2,929	—	7,571	1,705,143	27,902	767	(193)	134	28,610
Consumer										
Residential real estate first mortgage	716,799	108	—	886	717,793	6,578	63	—	—	6,641
Residential real estate junior lien	151,593	538	—	546	152,677	1,151	(3)	—	—	1,148
Other revolving and installment	30,635	178	—	4	30,817	212	(28)	(12)	13	185
Total consumer	899,027	824	—	1,436	901,287	7,941	32	(12)	13	7,974
Total loans	$ 2,593,670	$ 3,753	$ —	$ 9,007	$2,606,430					
Total						$ 35,843	$ 799	$ (205)	$ 147	$36,584

(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 ($793) thousand related to off-balance sheet credit exposure and $(6) thousand related to investment securities held-to-maturity.

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(dollars in thousands)	December 31, 2022 Accruing Current	30 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans	Three months ended March 31, 2023 Beginning Balance	Adoption of ASC 326	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial											
Commercial and industrial	$ 580,288	$ 2,426	$ —	$ 1,162	$ 583,876	$ 9,233	$ (707)	$ (395)	$ (175)	$ 56	$ 8,012
Real estate construction	97,370	—	—	440	97,810	1,437	2,549	439	—	—	4,425

Commercial real estate	879,830	368	—	1,472	881,670	12,761	(131)	35	—	11	12,676
Total commercial	1,557,488	2,794	—	3,074	1,563,356	23,431	1,711	79	(175)	67	25,113
Consumer											
Residential real estate first mortgage	677,471	1,545	—	535	679,551	5,858	2,269	187	—	2	8,316
Residential real estate junior lien	149,918	377	—	184	150,479	1,317	(27)	121	(77)	6	1,340
Other revolving and installment	50,360	247	—	1	50,608	540	(96)	(118)	(5)	12	333
Total consumer	877,749	2,169	—	720	880,638	7,715	2,146	190	(82)	20	9,989
Total loans	$2,435,237	$ 4,963	$ —	$ 3,794	$2,443,994						
Unallocated						—	—	—	—	—	—
Total						$ 31,146	$ 3,857	$ 269	$ (257)	$ 87	$35,102

(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 $230 thousand related to off-balance sheet credit exposure and $51 thousand related to investment securities held-to-maturity.

In calculating expected The ACL on loans at March 31, 2024, was $36.6 million, an increase of $0.7 million, or 2.1%, since December 31, 2023. The increase was primarily due to a combined ACL increase of $1.0 million provision for credit losses in commercial and industrial and commercial real estate loans. This increase was primarily due to recent downgrades in the related loan pools.

Credit Concentrations

The Company includes 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 on nonaccrual status are assigned Standard Industrial Classification codes, North American Industry Classification System codes and loans 90 days or more past due state and still accruing. The following table presents county codes. Property type coding is used for investment real estate. As of March 31, 2024, the amortized cost basis on nonaccrual status loans Company's total exposure to the general business industry and loans 90 days or more past due owner occupied real estate was 11.3% and still accruing 10.2%, respectively, of total loans. There were no other industry concentrations exceeding 10% of the Company's total loan portfolio as of September 30, 2023 and December 31, 2022: March 31, 2024.

	As of September 30, 2023		
(dollars in thousands)	**Nonaccrual with no Allowance for Credit Losses**	**Nonaccrual**	**90 Days or More Past Due**
Commercial			
Commercial and industrial	$ —	$ 6,560	$ —
Real estate construction	115	115	—
Commercial real estate	—	896	—
Total commercial	115	7,571	—
Consumer			
Residential real estate first mortgage	880	886	—
Residential real estate junior lien	46	546	—
Other revolving and installment	—	4	—
Total consumer	926	1,436	—
Total loans	$ 1,041	$ 9,007	$ —

(dollars in thousands)	December 31, 2022 Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due
Commercial			
Commercial and industrial	$ 638	$ 1,162	$ —
Real estate construction	—	440	—
Commercial real estate	576	1,472	—
Total commercial	1,214	3,074	—
Consumer			
Residential real estate first mortgage	535	535	—
Residential real estate junior lien	184	184	—
Other revolving and installment	1	1	—
Total consumer	720	720	—
Total loans	$ 1,934	$ 3,794	$ —

Loans with a carrying value of $1.9 billion as of September 30, 2023 and $1.5 billion as of December 31, 2022, were pledged to secure public deposits, and for other purposes required or permitted by law.

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A loan for which the terms have been modified resulting in a concession represents a loan experiencing financial difficulty. 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 the three and nine months ended September 30, 2023, the Company did not provide any modifications to loans under these circumstances that were experiencing financial difficulty. 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.

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 14

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of 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 classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. 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.

- *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, this potential weakness may result in deterioration of the repayment prospects for the loan or of 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 classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. 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.

The following table sets forth the amortized cost basis of loans by credit quality indicator and vintage based on the most recent analysis performed, as of September 30, 2023:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of September 30, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Cost Basis**	**Total**
Commercial and industrial								
Pass	$ 104,091	$ 107,346	$ 75,494	$ 67,184	$ 37,877	$ 50,189	$ 108,524	$ 550,705
Special mention	—	—	—	—	—	—	273	273
Substandard	117	5,052	377	8,064	104	2,214	15,481	31,409

Doubtful	—	—	—	—	—	—	—	—
Subtotal	104,208	112,398	75,871	75,248	37,981	52,403	124,278	582,387
Real estate construction								
Pass	14,284	39,029	18,594	144	9,506	1,054	—	82,611
Special mention	—	15,131	—	—	—	—	—	15,131
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	14,284	54,160	18,594	144	9,506	1,054	—	97,742
Commercial real estate								
Pass	151,721	277,347	140,323	158,590	108,798	164,538	16,765	1,018,082
Special mention	—	—	—	—	—	—	—	—
Substandard	—	97	886	—	4,157	1,792	—	6,932
Doubtful	—	—	—	—	—	—	—	—
Subtotal	151,721	277,444	141,209	158,590	112,955	166,330	16,765	1,025,014
Residential real estate first mortgage								
Pass	58,972	203,782	222,783	109,029	33,356	89,480	284	717,686
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	107	—	107
Doubtful	—	—	—	—	—	—	—	—
Subtotal	58,972	203,782	222,783	109,029	33,356	89,587	284	717,793
Residential real estate junior lien								
Pass	17,021	16,755	6,452	4,908	1,779	6,299	97,541	150,755
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	331	1,591	1,922
Doubtful	—	—	—	—	—	—	—	—
Subtotal	17,021	16,755	6,452	4,908	1,779	6,630	99,132	152,677
Other revolving and installment								
Pass	5,786	6,936	1,319	5,159	2,000	1,442	8,175	30,817
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Subtotal	5,786	6,936	1,319	5,159	2,000	1,442	8,175	30,817
Total Loans								
Pass	351,875	651,195	464,965	345,014	193,316	313,002	231,289	2,550,656
Special mention	—	15,131	—	—	—	—	273	15,404
Substandard	117	5,149	1,263	8,064	4,261	4,444	17,072	40,370
Doubtful	—	—	—	—	—	—	—	—
Total loans	$ 351,992	$ 671,475	$ 466,228	$ 353,078	$ 197,577	$ 317,446	$ 248,634	$ 2,606,430

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The following table sets forth the risk category of loans by class of loans and credit quality indicator used on the most recent analysis performed as of December 31, 2022:

	December 31, 2022				
		Criticized			
(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial and industrial	$ 558,694	$ 21,969	$ 3,213	$ —	$ 583,876
Real estate construction	97,548	—	262	—	97,810
Commercial real estate	873,270	—	8,400	—	881,670
Total commercial	1,529,512	21,969	11,875	—	1,563,356
Consumer					
Residential real estate first mortgage	678,743	63	745	—	679,551
Residential real estate junior lien	149,847	—	632	—	150,479
Other revolving and installment	50,607	—	1	—	50,608
Total consumer	879,197	63	1,378	—	880,638
Total loans	$ 2,408,709	$ 22,032	$ 13,253	$ —	$ 2,443,994

The adequacy of the allowance for credit losses on loans is assessed at the end of each quarter. The allowance for credit losses is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable supportable forecasts. Historical data is evaluated in multiple components of the expected credit loss, including the reasonable and supportable forecast of each loan segment. Historical experience is used to infer probability of default and loss given the reasonable and supportable forecast period. Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate.

The following tables present, by loan portfolio segment, a summary of the changes in the allowance for credit losses on loans for the three and nine months ended September 30, 2023 and 2022:

	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	$ 7,813	$ 442	$ (134)	$ 456	$ 8,577
Real estate construction	3,646	1,063	—	—	4,709
Commercial real estate	12,965	(270)	—	11	12,706
Total commercial	24,424	1,235	(134)	467	25,992
Consumer					
Residential real estate first mortgage	7,901	(389)	(9)	254	7,757
Residential real estate junior lien	1,351	(14)	—	—	1,337
Other revolving and installment	293	(58)	(8)	24	251
Total consumer	9,545	(461)	(17)	278	9,345
Unallocated	1,727	(774)	—	—	953
Total	$ 35,696	$ —	$ (151)	$ 745	$ 36,290

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 March 31, 2024 and December 31, 2023:

	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	$ 9,158	$ (862)	$ (275)	$ (394)	$ 950	$ 8,577
Real estate construction	1,446	2,518	745	—	—	4,709
Commercial real estate	12,688	(424)	408	—	34	12,706
Total commercial	23,292	1,232	878	(394)	984	25,992
Consumer						
Residential real estate first mortgage	5,769	2,080	(339)	(9)	256	7,757
Residential real estate junior lien	1,289	(67)	140	(77)	52	1,337
Other revolving and installment	528	(104)	(188)	(36)	51	251
Total consumer	7,586	1,909	(387)	(122)	359	9,345
Unallocated	268	716	(31)	—	—	953
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 $44 thousand related to off-balance sheet credit exposures and $46 thousand related to investment securities held-to-maturity.

	Three months ended September 30, 2022				
(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 10,333	$ (845)	$ (672)	$ 105	$ 8,921
Real estate construction	878	378	—	76	1,332
Commercial real estate	10,834	1,335	—	101	12,270
Total commercial	22,045	868	(672)	282	22,523
Consumer					
Residential real estate first mortgage	6,175	(584)	—	—	5,591
Residential real estate junior lien	1,467	(109)	—	7	1,365
Other revolving and installment	634	(75)	(75)	53	537
Total consumer	8,276	(768)	(75)	60	7,493
Unallocated	1,052	(100)	—	—	952
Total	$ 31,373	$ —	$ (747)	$ 342	$ 30,968

	Nine months ended September 30, 2022				
(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 8,925	$ 1,011	$ (1,336)	$ 321	$ 8,921

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of March 31, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Cost Basis**	**Total**
Pass	$ 41,962	$ 183,564	$ 82,980	$ 56,800	$ 60,343	$ 48,218	$ 95,175	$ 569,042
Special mention	—	553	—	7,810	—	14	1,878	10,255
Substandard	—	446	4,960	1,543	5,487	2,976	16,986	32,398
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 41,962	$ 184,563	$ 87,940	$ 66,153	$ 65,830	$ 51,208	$ 114,039	$ 611,695

Gross charge-offs for the period ended						$ —	$ —	$ —	$ —	$ —	$ 164	$ —	$ 164
Real estate construction	783	473	—	76	1,332								
Pass						$ 1,851	$ 26,751	$ 70,126	$ 5,154	$ 100	$ 929	$ —	$ 104,911
Special mention						—	—	—	—	—	—	—	—
Substandard						—	—	21,055	—	—	—	—	21,055
Doubtful						—	—	—	—	—	—	—	—
Subtotal						$ 1,851	$ 26,751	$ 91,181	$ 5,154	$ 100	$ 929	$ —	$ 125,966
Gross charge-offs for the period ended						$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	12,376	(229)	—	123	12,270								
Total commercial	22,084	1,255	(1,336)	520	22,523								
Consumer													
Pass						$29,459	$272,847	$262,017	$140,221	$139,105	$267,003	$ 7,854	$1,118,506
Special mention						—	—	—	—	12,957	1,972	—	14,929
Substandard						—	6,020	2,261	5,187	—	5,397	648	19,513
Doubtful						—	—	—	—	—	—	—	—
Subtotal						$29,459	$278,867	$264,278	$145,408	$152,062	$274,372	$ 8,502	$1,152,948
Gross charge-offs for the period ended						$ —	$ —	$ —	$ —	$ —	$ 29	$ —	$ 29
Residential real estate first mortgage	6,532	(941)	—	—	5,591								
Performing						$ 5,538	$ 71,933	$199,111	$216,774	$106,562	$116,181	$ 751	$ 716,850
Nonperforming						—	—	4,361	7	12	921	—	5,301
Subtotal						$ 5,538	$ 71,933	$203,472	$216,781	$106,574	$117,102	$ 751	$ 722,151
Gross charge-offs for the period ended						$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate junior lien	1,295	(151)	—	221	1,365								
Performing						$ 2,059	$ 17,642	$ 15,169	$ 5,872	$ 4,528	$ 6,394	$ 102,630	$ 154,294
Nonperforming						244	—	—	111	—	317	1,916	2,588
Subtotal						$ 2,303	$ 17,642	$ 15,169	$ 5,983	$ 4,528	$ 6,711	$ 104,546	$ 156,882
Gross charge-offs for the period ended						$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other revolving and installment	481	65	(130)	121	537								
Total consumer	8,308	(1,027)	(130)	342	7,493								
Unallocated	1,180	(228)	—	—	952								
Total	$ 31,572	$ —	$ (1,466)	$ 862	$30,968								
Performing						$ 880	$ 4,633	$ 5,786	$ 828	$ 3,449	$ 1,747	$ 12,509	$ 29,832

Nonperforming	—	—	—	—	—	1	—	1
Subtotal	$ 880	$ 4,633	$ 5,786	$ 828	$ 3,449	$ 1,748	$ 12,509	$ 29,833
Gross charge-offs for the period ended	$ —	$ —	$ 3	$ —	$ —	$ 9	$ —	$ 12
Total loans	$ 81,993	$ 584,389	$ 667,826	$ 440,307	$ 332,543	$ 452,070	$ 240,347	$ 2,799,475
Gross charge-offs for the period ended	$ —	$ —	$ 3	$ —	$ —	$ 202	$ —	$ 205

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The following table presents, by loan portfolio segment, a summary of charge-offs, by vintage, for the nine months ended September 30, 2023:

	Gross Charge-offs for nine months ended September 30, 2023						
(dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Total**
Commercial							
Commercial and industrial	$ 39	$ —	$ 28	$ 11	$ 247	$ 69	$ 394
Real estate construction	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—
Total commercial	39	—	28	11	247	69	394
Consumer							
Residential real estate first mortgage	—	—	9	—	—	—	9
Residential real estate junior lien	—	—	—	—	—	77	77
Other revolving and installment	—	2	—	27	4	3	36
Total consumer	—	2	9	27	4	80	122
Total loans	$ 39	$ 2	$ 37	$ 38	$ 251	$ 149	$ 516

(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	$ 197,533	$ 89,090	$ 67,691	$ 64,272	$ 34,603	$ 15,053	$ 100,239	$ 568,481
Special mention	—	—	—	—	—	—	—	—
Substandard	464	4,844	236	6,328	94	2,513	15,361	29,840
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 197,997	$ 93,934	$ 67,927	$ 70,600	$ 34,697	$ 17,566	$ 115,600	$ 598,321
Gross charge-offs for the period ended	$ 39	$ —	$ 49	$ 11	$ 247	$ 90	$ —	$ 436
Real estate construction								
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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate								
Pass	$ 272,261	$ 265,549	$ 142,027	$ 153,796	$ 116,861	$ 159,454	$ 7,794	$ 1,117,742
Special mention	—	—	—	—	—	262	—	262
Substandard	—	587	2,872	—	3,690	1,759	—	8,908
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 272,261	$ 266,136	$ 144,899	$ 153,796	$ 120,551	$ 161,475	$ 7,794	$ 1,126,912
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate first mortgage								
Performing	$ 72,180	$ 207,177	$ 218,719	$ 108,100	$ 33,102	$ 87,212	$ 284	$ 726,774
Nonperforming	—	—	—	—	—	105	—	105
Subtotal	$ 72,180	$ 207,177	$ 218,719	$ 108,100	$ 33,102	$ 87,317	$ 284	$ 726,879
Gross charge-offs for the period ended	$ —	$ —	$ 9	$ —	$ —	$ 40	$ —	$ 49
Residential real estate junior lien								
Performing	$ 18,408	$ 15,655	$ 5,946	$ 4,857	$ 1,769	$ 5,280	$ 100,438	$ 152,353
Nonperforming	—	—	—	—	—	—	1,781	1,781
Subtotal	$ 18,408	$ 15,655	$ 5,946	$ 4,857	$ 1,769	$ 5,280	$ 102,219	$ 154,134
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 77	$ —	$ 77
Other revolving and installment								
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	$ 596,068	$ 667,908	$ 452,797	$ 341,964	$ 191,673	$ 273,542	$ 235,631	$ 2,759,583
Gross charge-offs for the period ended	$ 43	$ 2	$ 58	$ 42	$ 253	$ 215	$ —	$ 613

Past Due and Nonaccrual Loans

The following tables present Company closely monitors the amortized cost 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 related allowance interest is not expected as scheduled or principal or interest has been in default for credit losses 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 by portfolio segment, as 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 September 30, 2023 principal and December 31, 2022: interest is assured and the borrower has demonstrated timely payments of principal and interest for a reasonable period, generally at least six months.

	September 30, 2023					
	Amortized Cost			Allowance for Credit Losses on Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial						
Commercial and industrial	$ 6,559	$ 575,828	$ 582,387	$ 1,352	$ 7,225	$ 8,577
Real estate construction	115	97,627	97,742	—	4,709	4,709
Commercial real estate	896	1,024,118	1,025,014	—	12,706	12,706
Total commercial	7,570	1,697,573	1,705,143	1,352	24,640	25,992
Consumer						
Residential real estate first mortgage	886	716,907	717,793	—	7,757	7,757
Residential real estate junior lien	547	152,130	152,677	—	1,337	1,337

Other revolving and installment	4	30,813	30,817	—	251	251
Total consumer	1,437	899,850	901,287	—	9,345	9,345
Unallocated	—	—	—	—	—	953
Total loans	$ 9,007	$ 2,597,423	$ 2,606,430	$ 1,352	$ 33,985	$ 36,290

	December 31, 2022					
	Recorded Investment			Allowance for Loan Losses		
(dollars in thousands)	Individually Evaluated	Collectively Evaluated	Total	Individually Evaluated	Collectively Evaluated	Total
Commercial						
Commercial and industrial	$ 1,313	$ 582,563	$ 583,876	$ 275	$ 8,883	$ 9,158
Real estate construction	262	97,548	97,810	97	1,349	1,446
Commercial real estate	1,472	880,198	881,670	582	12,106	12,688
Total commercial	3,047	1,560,309	1,563,356	954	22,338	23,292
Consumer						
Residential real estate first mortgage	535	679,016	679,551	—	5,769	5,769
Residential real estate junior lien	184	150,295	150,479	—	1,289	1,289
Other revolving and installment	1	50,607	50,608	—	528	528
Total consumer	720	879,918	880,638	—	7,586	7,586
Unallocated	—	—	—	—	—	268
Total loans	$ 3,767	$ 2,440,227	$ 2,443,994	$ 954	$ 29,924	$ 31,146

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

	March 31, 2024					
(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	$ 605,573	$ 593	$ 43	$ —	$ 5,486	$ 611,695
Real estate construction	125,966	—	—	—	—	125,966
Commercial real estate	1,151,672	474	—	—	802	1,152,948
Total commercial	1,883,211	1,067	43	—	6,288	1,890,609
Consumer						
Residential real estate first mortgage	717,046	4,478	—	—	627	722,151
Residential real estate junior lien	155,919	509	25	—	429	156,882
Other revolving and installment	29,735	64	33	—	1	29,833
Total consumer	902,700	5,051	58	—	1,057	908,866
Total loans	$ 2,785,911	$ 6,118	$ 101	$ —	$ 7,345	$ 2,799,475

	December 31, 2023					
				90 Days		
	Accruing	30 - 59 Days	60 - 89 Days	or More		Total
(dollars in thousands)	Current	Past Due	Past Due	Past Due	Nonaccrual	Loans
Commercial						
Commercial and industrial	$ 590,663	$ 924	$ —	$ 139	$ 6,595	$ 598,321
Real estate construction	124,034	—	—	—	—	124,034
Commercial real estate	1,125,669	128	—	—	1,115	1,126,912
Total commercial	1,840,366	1,052	—	139	7,710	1,849,267
Consumer						
Residential real estate first mortgage	724,786	901	554	—	638	726,879
Residential real estate junior lien	153,220	666	—	—	248	154,134
Other revolving and installment	29,086	170	47	—	—	29,303
Total consumer	907,092	1,737	601	—	886	910,316
Total loans	$ 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 table presents the amortized cost basis of collateral dependent on nonaccrual status loans by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans 90 days or more past due and still accruing as of September 30, 2023 March 31, 2024 and December 31, 2023:

	As of September 30, 2023					As of March 31, 2024		
	Primary Type of Collateral							90 Days
						Nonaccrual		or More
					Allowance for	with no Allowance		Past Due
(dollars in thousands)	Real estate	Equipment	Other	Total	Credit Losses	for Credit Losses	Nonaccrual	and Accruing
Commercial								
Commercial and industrial	$ —	$ —	$ —	$ —	$ —	$ 69	$ 5,486	$ —
Real estate construction						—	—	—
Commercial real estate	572	—	—	572	572	95	802	—
Total commercial	572	—	—	572	572	164	6,288	—
Consumer								
Residential real estate first mortgage	886	—	—	886	3	621	627	—
Residential real estate junior lien	46	—	—	46	—	429	429	—
Other revolving and installment	—	—	4	4	2	—	1	—
Total consumer	932	—	4	936	5	1,050	1,057	—
Total loans	$ 1,504	$ —	$ 4	$ 1,508	$ 577	$ 1,214	$ 7,345	$ —

Pre-ASC 326 Adoption impaired loan disclosures

The table below summarizes key information on impaired loans as of December 31, 2022:

	December 31, 2022		
	Recorded	Unpaid	Related
(dollars in thousands)	Investment	Principal	Allowance
Impaired loans with a valuation allowance			
Commercial and industrial	$ 675	$ 711	$ 275
Real estate construction	262	440	97
Commercial real estate	896	900	582
Residential real estate first mortgage	—	—	—
Total impaired loans with a valuation allowance	1,833	2,051	954

Impaired loans without a valuation allowance			
Commercial and industrial	638	767	—
Real estate construction	—	—	—
Commercial real estate	576	660	—
Residential real estate first mortgage	535	573	—
Residential real estate junior lien	184	218	—
Other revolving and installment	1	1	—
Total impaired loans without a valuation allowance	1,934	2,219	—
Total impaired loans			
Commercial and industrial	1,313	1,478	275
Real estate construction	262	440	97
Commercial real estate	1,472	1,560	582
Residential real estate first mortgage	535	573	—
Residential real estate junior lien	184	218	—
Other revolving and installment	1	1	—
Total impaired loans	$ 3,767	$ 4,270	$ 954

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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
Real estate construction	—	—	—
Commercial real estate	95	1,115	—
Total commercial	174	7,710	139
Consumer			
Residential real estate first mortgage	632	638	—
Residential real estate junior lien	185	248	—
Other revolving and installment	—	—	—
Total consumer	817	886	—
Total loans	$ 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 March 31, 2024 and 2023, is estimated to have been $651 thousand and $38 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 March 31, 2024 and 2023. At March 31, 2024 and December 31, 2023, total accrued interest receivable on loans, which had been excluded from reported amortized cost basis on loans, was $12.3 million and $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 the three months ended March 31, 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 March 31, 2024 and December 31, 2023:

	As of March 31, 2024				
	Primary Type of Collateral				
(dollars in thousands)	**Real estate**	**Equipment**	**Other**	**Total**	**Allowance for Credit Losses**
Commercial					
Commercial and industrial	$ 5,070	$ —	$ —	$ 5,070	$ 2,280
Commercial real estate	515	—	40	555	366
Total commercial	5,585	—	40	5,625	2,646
Consumer					
Residential real estate first mortgage	627	—	—	627	3
Residential real estate junior lien	429	—	1	430	—
Total consumer	1,056	—	1	1,057	3
Total loans	$ 6,641	$ —	$ 41	$ 6,682	$ 2,649

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The table below presents the average recorded investment in impaired loans and interest income for the three and nine months ended September 30, 2022:

	Three months ended September 30, 2022	
(dollars in thousands)	**Average Recorded Investment**	**Interest Income**
Impaired loans with a valuation allowance		
Commercial and industrial	$ 722	$ 3
Commercial real estate	—	—
Residential real estate first mortgage	—	—
Residential real estate junior lien	—	—
Other revolving and installment	—	—
Total impaired loans with a valuation allowance	722	3
Impaired loans without a valuation allowance		
Commercial and industrial	1,371	7
Commercial real estate	801	2
Residential real estate first mortgage	2,032	—

Residential real estate junior lien	189	—
Other revolving and installment	8	—
Total impaired loans without a valuation allowance	4,401	9
Total impaired loans		
Commercial and industrial	2,093	10
Commercial real estate	801	2
Residential real estate first mortgage	2,032	—
Residential real estate junior lien	189	—
Other revolving and installment	8	—
Total impaired loans	$ 5,123	$ 12

	Nine Months Ended September 30, 2022	
(dollars in thousands)	Average Recorded Investment	Interest Income
Impaired loans with a valuation allowance		
Commercial and industrial	$ 833	$ 8
Commercial real estate	—	—
Residential real estate first mortgage	—	—
Residential real estate junior lien	—	—
Other revolving and installment	—	—
Total impaired loans with a valuation allowance	833	8
Impaired loans without a valuation allowance		
Commercial and industrial	1,291	21
Commercial real estate	805	5
Residential real estate first mortgage	2,108	—
Residential real estate junior lien	193	—
Other revolving and installment	11	—
Total impaired loans without a valuation allowance	4,408	26
Total impaired loans		
Commercial and industrial	2,124	29
Commercial real estate	805	5
Residential real estate first mortgage	2,108	—
Residential real estate junior lien	193	—
Other revolving and installment	11	—
Total impaired loans	$ 5,241	$ 34

	As of December 31, 2023				
	Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses
Commercial					

Commercial and industrial	$ 6,124	$ —	$ —	$ 6,124	$ 2,384
Real estate construction	—	—	—	—	—
Commercial real estate	695	—	96	791	601
Total commercial	6,819	—	96	6,915	2,985
Consumer					
Residential real estate first mortgage	638	—	—	638	3
Residential real estate junior lien	134	22	93	249	6
Other revolving and installment	—	—	—	—	—
Total consumer	772	22	93	887	9
Total loans	$ 7,591	$ 22	$ 189	$ 7,802	$ 2,994

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

NOTE 5 Goodwill and Other Intangible Assets

The following table summarizes the carrying amount of goodwill, by segment, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Banking	$ 35,260	$ 35,260	$ 35,260	$ 35,260
Retirement and benefit services	11,523	11,827	11,523	11,523
Total goodwill	$ 46,783	$ 47,087	$ 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 September 30, 2023 March 31, 2024.

The gross carrying amount and accumulated amortization for each type of identifiable intangible asset, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, were as follows:

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Identifiable customer intangibles	$41,423	$ (28,951)	$12,472	$41,423	$ (25,927)	$15,496	$41,423	$ (30,967)	$10,456	$41,423	$ (29,959)	$11,464
Core deposit intangible assets	7,592	(1,582)	6,010	7,592	(633)	6,959	7,592	(2,214)	5,378	7,592	(1,898)	5,694
Total intangible assets	$49,015	$ (30,533)	$18,482	$49,015	$ (26,560)	$22,455	$49,015	$ (33,181)	$15,834	$49,015	$ (31,857)	$17,158

Amortization of intangible assets was $1.3 million for both the three months ended September 30, 2023 March 31, 2024 and 2022. Amortization of intangible assets was $4.0 million and $3.4 million for the nine months ended September 30, 2023 and 2022, respectively. 2023.

NOTE 6 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 $373.8$185.7 million and $357.2$190.0 million as of September 30, 2023March 31, 2024 and December 31, 2022December 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 nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Balance, beginning of period	$ 2,351	$ 2,064	$ 2,643	$ 1,880
Additions	—	604	23	622
Amortization	(140)	(110)	(458)	(367)
Fair value adjustments	3	222	6	645
Balance, end of period	$ 2,214	$ 2,780	$ 2,214	$ 2,780

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The following is a summary of key data and assumptions used in the valuation of servicing rights as of September 30, 2023 and December 31, 2022. Increases or decreases in any one of these assumptions would result in lower or higher fair value measurements.

(dollars in thousands)	**September 30, 2023**	**December 31, 2022**
Fair value of servicing rights	$ 2,214	$ 2,643
Weighted-average remaining term, years	18.8	20.5
Prepayment speeds	5.9 %	6.9 %
Discount rate	11.1 %	10.5 %

The following table summarizes the Company's activity related to servicing rights for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
(dollars in thousands)	**2024**	**2023**
Servicing Assets:		
Balance at beginning of year	$ 2,052	$ 2,643
Additions (1)	260	261
Amortization (2)	(89)	(183)
Balance at end of year	2,223	2,721

Less valuation reserve (3)	(240)	(300)
Balance at end of year, net of valuation reserve	$ 1,983	$ 2,421
Fair value, beginning of year	$ 2,062	$ 2,314
Fair value, end of year	$ 2,083	$ 2,236

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

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

(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 March 31, 2024 and December 31, 2023. Increases or decreases in any one of these assumptions would result in lower or higher fair value measurements.

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Fair value of servicing rights	$ 2,083	$ 2,062
Weighted-average remaining term, years	18.8	18.8
Prepayment speeds	6.2 %	6.2 %
Discount rate	11.1 %	11.1 %

NOTE 7 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. Substantially all of the Company's leases are classified as operating leases. The Company has no existing finance leases.

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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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(dollars in thousands)		**September 30, 2023**	**December 31, 2022**		**March 31, 2024**	**December 31, 2023**
Lease Right-of-Use Assets	**Classification**			**Classification**		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 5,986	$ 5,419	Operating lease right-of-use assets	$ 5,112	$ 5,436
Lease Liabilities						
Operating lease liabilities	Operating lease liabilities	$ 6,286	$ 5,902	Operating lease liabilities	$ 5,420	$ 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.

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Weighted-average remaining lease term, years				
Operating leases	7.2	5.0	7.4	7.3
Weighted-average discount rate				
Operating leases	3.9 %	3.1 %	3.8 %	3.9 %

As the Company elected, for all classes of underlying assets, not to separate lease and 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.

The following table presents lease costs and other lease information for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
(dollars in thousands)	2024	2023
Lease costs		
Operating lease cost	$ 461	$ 581
Variable lease cost	266	225
Short-term lease cost	36	43
Finance lease cost		
Interest on lease liabilities	—	—
Amortization of right-of-use assets	—	—
Sublease income	(48)	(60)
Net lease cost	$ 715	$ 789
Other information		
Cash paid for amounts included in the measurement of lease liabilities operating cash flows from operating leases	$ 460	$ 479
Right-of-use assets obtained in exchange for new operating lease liabilities	108	257

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The following table presents lease costs and other lease information for the three and nine months ended September 30, 2023 and 2022:

(dollars in thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Lease costs				
Operating lease cost	$ 503	$ 425	$ 1,438	$ 1,250
Variable lease cost	219	187	918	550
Short-term lease cost	46	188	128	276
Finance lease cost				
Interest on lease liabilities	—	2	—	7
Amortization of right-of-use assets	—	29	—	87
Sublease income	(50)	(63)	(169)	(179)
Net lease cost	$ 718	$ 768	$ 2,315	$ 1,991
Other information				
Cash paid for amounts included in the measurement of lease liabilities operating cash flows from operating leases	$ 499	$ 400	$ 1,275	$ 1,184
Right-of-use assets obtained in exchange for new operating lease liabilities	(1,240)	1,065	1,938	1,452

Future minimum payments for finance and operating leases with initial or remaining terms of one year or more as of September 30, 2023 March 31, 2024 were as follows:

(dollars in thousands)	Operating Leases	Operating Leases
Twelve months ended		
September 30, 2024	$ 1,667	
September 30, 2025	1,278	
September 30, 2026	1,064	
September 30, 2027	516	
September 30, 2028	311	
March 31, 2025		$ 1,641
March 31, 2025		1,267
March 31, 2026		1,088
March 31, 2027		540
March 31, 2028		335
Thereafter	1,830	1,832
Total future minimum lease payments	$ 6,666	$ 6,703
Amounts representing interest	(380)	(1,283)
Total operating lease liabilities	$ 6,286	$ 5,420

NOTE 8 Deposits

The components of deposits in the consolidated balance sheets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Noninterest-bearing	$ 717,990	$ 860,987	$ 692,500	$ 728,082
Interest-bearing				
Interest-bearing demand	759,812	706,275	938,751	840,711
Savings accounts	88,341	99,882	82,727	82,485
Money market savings	959,106	1,035,981	1,114,262	1,032,771
Time deposits	346,935	212,359	456,729	411,562

Total interest-bearing	2,154,194	2,054,497	2,592,469	2,367,529
Total deposits	$ 2,872,184	$ 2,915,484	$3,284,969	$ 3,095,611

Certificates of deposit in excess of $250,000 totaled $98.7 million$150.8 million and $51.1 million$121.8 million at September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, respectively.

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NOTE 9 Short-Term Borrowings

Short-term borrowings at September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023 consisted of the following:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Fed funds purchased	$ 315,470	$ 153,080	$ —	$ 114,170
Bank Term Funding Program (1)			355,000	—
FHLB short-term advances	200,000	225,000	200,000	200,000
Total	$ 515,470	$ 378,080	$555,000	$ 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.

The following table presents information related to short-term borrowings for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,	
(dollars in thousands)	2023	2022
Fed funds purchased		
Balance as of end of period	$ 315,470	$ 53,830
Average daily balance	312,121	84,149
Maximum month-end balance	315,470	78,015
Weighted-average rate		
During period	5.50 %	3.71 %
End of period	5.53 %	3.25 %
FHLB short-term advances		
Balance as of end of period	$ 200,000	$ 200,000
Average daily balance	173,913	168,750
Maximum month-end balance	200,000	200,000
Weighted-average rate		
During period	5.46 %	1.71 %
End of period	5.50 %	3.20 %

(dollars in thousands)	Nine months ended September 30, 2023	2022
Fed funds purchased		
Balance as of end of period	$ 315,470	$ 53,830
Average daily balance	320,861	55,527
Maximum month-end balance	492,060	117,350
Weighted-average rate		
During period	5.23 %	2.47 %
End of period	5.53 %	3.25 %
FHLB short-term advances		
Balance as of end of period	$ 200,000	$ 200,000
Average daily balance	84,982	60,073
Maximum month-end balance	225,000	200,000
Weighted-average rate		
During period	5.22 %	1.71 %
End of period	5.50 %	3.20 %

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NOTE 10 Long-Term Debt

Long-term debt as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 consisted of the following:

(dollars in thousands)	September 30, 2023 Face Value	Carrying Value	Interest Rate	Period End Interest Rate	Maturity Date	Call Date	March 31, 2024 Face Value	Carrying Value	Interest Rate	Period End Interest Rate	Maturity Date	Call Date
Subordinated notes payable	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026
Junior subordinated debenture (Trust I)	4,124	3,571	Three-month CME SOFR + 0.26% + 3.10%	8.76 %	6/26/2033	6/26/2008	4,124	3,594	Three-month CME SOFR + 0.26% + 3.10%	8.67 %	6/26/2033	6/26/2008
Junior subordinated debenture (Trust II)	6,186	5,357	Three-month CME SOFR + 0.26% + 1.80%	7.47 %	9/15/2036	9/15/2011	6,186	5,391	Three-month CME SOFR + 0.26% + 1.80%	7.39 %	9/15/2036	9/15/2011
Total long-term debt	$60,310	$58,928					$60,310	$58,985				

	December 31, 2022	December 31, 2023
	Period End	Period End

(dollars in thousands)	Face Value	Carrying Value	Interest Rate	Interest Rate	Maturity Date	Call Date	Face Value	Carrying Value	Interest Rate	Interest Rate	Maturity Date	Call Date
Subordinated notes payable	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026	$50,000	$50,000	Fixed	3.50 %	3/30/2031	3/31/2026
Junior subordinated debenture (Trust I)	4,124	3,537	Three-month LIBOR + 3.10%	7.82 %	6/26/2033	6/26/2008	4,124	3,583	Three-month CME SOFR + 0.26% + 3.10%	8.72 %	6/26/2033	6/26/2008
Junior subordinated debenture (Trust II)	6,186	5,306	Three-month LIBOR + 1.80%	6.57 %	9/15/2036	9/15/2011	6,186	5,373	Three-month CME SOFR + 0.26% + 1.80%	7.45 %	9/15/2036	9/15/2011
Total long-term debt	$60,310	$58,843					$60,310	$58,956				

NOTE 11 Financial Instruments with Off-Balance Sheet Risk 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 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.

A summary of the contractual amounts of the Company's exposure to off-balance sheet risk as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, was as follows:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 786,233	$ 806,431	$916,200	$ 942,413
Standby letters of credit	9,734	13,089	12,755	10,045
Total	$ 795,967	$ 819,520	$928,955	$ 952,458

The Company had establishes an allowance for loan losses ACL on unfunded commitments, except those that are unconditionally cancellable by the Company. As of $3.2 million as of December 31, 2022. Upon March 31, 2024 and December 31, 2023, the adoption of ACL on unfunded commitments was $6.6 million and $7.4 million, respectively. The ACL on unfunded commitments was presented within accrued expenses and other liabilities on the CECL accounting standard, the Company recorded an additional $1.9 million reserve for unfunded commitments. consolidated balance sheet. For the nine three months ending September 30, 2023, ended March 31, 2024 and 2023, the Company recorded an additional $304 thousand in provision (recovery) for credit losses on unfunded commitments for a total was ($794) thousand and $230 thousand, respectively.

Table of $5.2 million of allowance for credit losses on unfunded commitments as of September 30, 2023. Contents

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

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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 September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023. With the Bank of North Dakota, the Company had a no letters of credit outstanding in the amount of $200.0 million and $182.0 million as of September 30, 2023 March 31, 2024 and December 31, 2022. December 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 $400.3 $460.9 million and $215.5 $454.6 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Legal Contingencies

In the normal course of business, 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 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 are required to be disclosed as of March 31, 2024 and December 31, 2023, respectively.

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NOTE 12 Share-Based Compensation

On May 6, 2019, the Company's stockholders approved the Alerus Financial Corporation 2019 Equity Incentive Plan. This plan gives 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 and 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 September 30, 2023 March 31, 2024, 781,839 716,917 shares of common stock are still available for issuance under the plan.

The compensation expense relating to awards under these plans was $377 $593 thousand and $351 $159 thousand for the three months ended September 30, 2023 March 31, 2024 and 2022. The compensation expense relating to awards under these plans was $1.2 million and $1.4 million for the nine months ended September 30, 2023 and 2022, 2023, respectively.

The following table presents the activity in the stock plans for the nine three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	Nine months ended September 30,				Three months ended March 31,			
	2023		2022		2024		2023	
	Awards	Weighted-Average Grant Date Fair Value	Awards	Weighted-Average Grant Date Fair Value	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	238,929	$ 23.66	260,850	$ 21.04	231,657	$ 22.96	238,929	$ 23.66
Granted	115,174	20.00	102,265	25.44	60,976	21.83	82,810	20.85
Vested	(93,767)	21.34	(107,370)	19.19	(38,149)	26.05	(91,867)	21.29
Forfeited or cancelled	(26,840)	21.33	(10,624)	23.71	—	—	(22,204)	21.39
Outstanding at end of period	233,496	$ 23.05	245,121	$ 23.57	254,484	$ 22.18	207,668	$ 23.83

As of September 30, 2023 March 31, 2024, there was $3.0 million $3.6 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 2.4 years.

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NOTE 13 Income Taxes

The components of income tax expense (benefit) for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows:

	Three months ended September 30,				Three months ended March 31,			
	2023		2022		2024		2023	
(dollars in thousands)	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Taxes at statutory federal income tax rate	$ 2,424	21.0 %	$ 2,637	21.0 %	$1,790	21.0 %	$2,203	21.0 %
Tax effect of:								
Tax exempt income	(189)	(1.6)%	(133)	(1.1)%	(229)	(2.7)%	(144)	(1.4)%
State income taxes, net of federal benefits	499	4.3 %	406	3.2 %	413	4.8 %	461	4.4 %
Nondeductible items and other	(353)	(3.1)%	30	0.2 %	117	1.4 %	(214)	(2.0)%
Applicable income taxes	$ 2,381	20.6 %	$ 2,940	23.3 %	$2,091	24.5 %	$2,306	22.0 %

	Nine months ended September 30,			
	2023		2022	
(dollars in thousands)	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Taxes at statutory federal income tax rate	$ 7,071	21.0 %	$ 7,906	21.0 %
Tax effect of:				
Tax exempt income	(489)	(1.5)%	(372)	(1.0)%
State income taxes, net of federal benefits	1,445	4.3 %	1,515	4.0 %
Nondeductible items and other	(805)	(2.4)%	(496)	(1.3)%
Applicable income taxes	$ 7,222	21.4 %	$ 8,553	22.7 %

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It is the opinion of management that the Company has no significant uncertain tax positions that would be subject to change upon examination.

NOTE 14 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(dollars in thousands)		September 30, 2023		December 31, 2022			March 31, 2024		De
		Investment	Unfunded Commitment	Investment	Unfunded Commitment		Investment	Unfunded Commitment	Investmen
Investment	**Accounting Method**					**Accounting Method**			

Low income housing tax credit	Proportional amortization	$ 17,906	$ 12,719	$ 17,906	$ 15,559	Proportional amortization	$ 17,906	$ 7,466	$ 17,906
Total		$ 17,906	$ 12,719	$ 17,906	$ 15,559		$ 17,906	$ 7,466	$ 17,906

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The following table presents a summary of the amortization expense and tax benefit recognized for the Company's qualified affordable housing projects for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(dollars in thousands)	Three months ended September 30, 2023 Amortization Expense (1)	2023 Tax Benefit Recognized (2)	2022 Amortization Expense (1)	2022 Tax Benefit Recognized (2)	Three months ended March 31, 2024 Amortization Expense (1)	2024 Tax Benefit Recognized (2)	2023 Amortization Expense (1)	2023 Tax Benefit Recognized (2)
Low income housing tax credit	$ 245	$ (435)	$ 109	$ (146)	$ 432	$ (381)	$ 360	$ (227)
Total	$ 245	$ (435)	$ 109	$ (146)	$ 432	$ (381)	$ 360	$ (227)

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

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

(dollars in thousands)	Nine months ended September 30, 2023 Amortization Expense (1)	2023 Tax Benefit Recognized (2)	2022 Amortization Expense (1)	2022 Tax Benefit Recognized (2)
Low income housing tax credit	$ 884	$ (1,171)	$ 220	$ (303)
Total	$ 884	$ (1,171)	$ 220	$ (303)

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

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

NOTE 15 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 four three operating segments: Banking, Retirement and Benefit Services, and Wealth Management, Management. In prior periods, the Company had a fourth operating segment, Mortgage. As of 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 Mortgage. 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, direct noninterest income, and direct and indirect noninterest expense, before indirect allocations. expense. Corporate Administration includes the indirect overhead all remaining income and is set forth in the table below. The segment net income before taxes represents direct revenue and expense before indirect allocations and income taxes.

The following table presents key metrics related expenses not allocated to the Company's segments for the periods presented: three operating segments.

	Three months ended September 30, 2023					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated
Net interest income (loss)	$ 20,818	$ —	$ —	$ 255	$ (678)	$ 20,395
Provision for credit losses	—	—	—	—	—	—
Noninterest income (loss)	2,150	18,605	5,271	2,510	(129)	28,407
Intercompany revenue (expense)	(9,371)	4,264	4,624	483	—	—
Noninterest expense	10,728	9,354	2,722	3,245	11,211	37,260
Net income (loss) before taxes	$ 2,869	$ 13,515	$ 7,173	$ 3	$ (12,018)	$ 11,542

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	Nine months ended September 30, 2023					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated
Net interest income (loss)	$ 67,650	$ —	$ —	$ 635	$ (1,998)	$ 66,287
Provision for credit losses	550	—	—	—	—	550
Noninterest income	6,308	49,977	15,915	7,132	107	79,439
Intercompany revenue (expense)	(15,351)	6,936	4,200	994	3,221	—
Noninterest expense	36,231	24,954	6,335	9,912	34,071	111,503
Net income (loss) before taxes	$ 21,826	$ 31,959	$ 13,780	$ (1,151)	$ (32,741)	$ 33,673

The following table presents key metrics related to the Company's segments for the periods presented:

	Three months ended September 30, 2022						Three months ended March 31, 2024				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated	Banking	Retirement and Benefit Services	Wealth Management	Corporate Administration	Consolidated
Net interest income (loss)	$28,512	$ —	$ —	$ 393	$ (589)	$ 28,316	$ 22,897	$ —	$ —	$ (678)	$ 22,219
Provision for credit losses	—	—	—	—	—	—	—	—	—	—	—
Noninterest income	1,723	16,597	4,852	3,782	56	27,010					
Intercompany revenue (expense)	(4,562)	1,868	(170)	1,386	1,478	—					
Noninterest income (loss)							3,490	15,655	6,118	60	25,323

Noninterest expense	15,428	7,998	1,406	5,869	12,066	42,767	18,666	14,189	3,750	2,414	39,019
Net income (loss) before taxes	$10,245	$ 10,467	$ 3,276	$ (308)	$ (11,121)	$ 12,559	$ 7,721	$ 1,466	$ 2,368	$ (3,032)	$ 8,523
Total assets							$4,262,600	$ 33,636	$ 4,787	$ 37,070	$ 4,338,093

	Nine months ended September 30, 2022					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated
Net interest income (loss)	$ 72,816	$ —	$ —	$ 1,660	$ (1,711)	$ 72,765
Provision for credit losses	—	—	—	—	—	—
Noninterest income	4,602	50,536	15,726	14,751	91	85,706
Intercompany revenue (expense)	(8,664)	2,695	(1,028)	3,214	3,783	—
Noninterest expense	39,639	23,855	4,034	17,926	35,368	120,822
Net income (loss) before taxes	$ 29,115	$ 29,376	$ 10,664	$ 1,699	$ (33,205)	$ 37,649

	Three months ended March 31, 2023				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Corporate Administration	Consolidated
Net interest income (loss)	$ 24,312	$ —	$ —	$ (654)	$ 23,658
Provision for credit losses	550	—	—	—	550
Noninterest income	4,539	15,482	5,194	38	25,253
Noninterest expense	18,650	13,595	3,362	2,262	37,869
Net income (loss) before taxes	$ 9,651	$ 1,887	$ 1,832	$ (2,878)	$ 10,492
Total assets	$ 3,818,449	$ 38,419	$ 4,111	$ 25,794	$ 3,886,773

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. 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

Retirement and Benefit Services provides the following services nationally: recordkeeping and administration services to qualified retirement plans; recordkeeping and administration services to other types of retirement plans; investment fiduciary services to retirement plans; health savings accounts, flex 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.

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.

Mortgage

The Mortgage division offers first and second mortgage loans through a centralized mortgage unit in Minneapolis, Minnesota, as well as through the Banking office locations.

NOTE 16 Earnings Per Share

The calculation of basic and diluted earnings per share using the two-class method for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 are presented below:

(dollars and shares in thousands, except per share data)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Net income	$ 9,161	$ 9,619	$26,451	$29,096	$ 6,432	$ 8,186
Dividends and undistributed earnings allocated to participating securities	67	90	186	312	40	57
Net income available to common shareholders	$ 9,094	$ 9,529	$26,265	$28,784		
Net income available to common stockholders					$ 6,392	$ 8,129
Weighted-average common shares outstanding for basic earnings per share	19,872	19,987	19,977	18,186	19,739	20,028
Dilutive effect of stock-based awards	223	243	216	245	247	218
Weighted-average common shares outstanding for diluted earnings per share	20,095	20,230	20,193	18,431	19,986	20,246
Earnings per common share:						
Basic earnings per common share	$ 0.46	$ 0.48	$ 1.31	$ 1.58	$ 0.32	$ 0.41
Diluted earnings per common share	$ 0.45	$ 0.47	$ 1.30	$ 1.56	$ 0.32	$ 0.40

NOTE 17 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 September 30, 2023 March 31, 2024, the Company only uses fair value and cash flow hedges.

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

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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 other comprehensive income (loss) 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 other comprehensive income (loss) 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). There were no cash flow hedges at December 31, 2022. , or AOCI. The Company estimates that an additional $1.0 million $0.4 million will be reclassified as a decrease to interest expense over the next 12 months. All cash flow hedges were highly effective for the three months ended September 30, 2023 March 31, 2024. As of September 30, 2023 March 31, 2024, the maximum length of time over which forecasted transactions are hedged is 15 12 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.

The following table presents the total notional amounts and gross fair values of the Company's derivatives as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

		September 30, 2023		December 31, 2022	
(dollars in thousands)		Fair Value	Notional Amount	Fair Value	Notional Amount
Designated as hedging instruments:	**Consolidated Balance Sheet Location**				
Fair value hedges:					
Interest rate swaps	Other assets	$ 3,899	$ 600,000	$ —	$ —
Cash flow hedges:					
Interest rate swaps	Other assets	1,011	200,000	—	—
Total derivatives designated as hedging instruments		$ 4,910	$ 800,000	$ —	$ —
Not designated as hedging instruments:					
Asset Derivatives					
Interest rate swaps	Other assets	$ 6,819	$ 67,716	$ 6,277	$ 43,430
Interest rate lock commitments	Other assets	247	23,352	121	10,462
Forward loan sales commitments	Other assets	62	3,467	7	351
To-be-announced mortgage backed securities	Other assets	155	41,250	—	—
Total asset derivatives not designated as hedging instruments		$ 7,283	$ 135,785	$ 6,405	$ 54,243

Liability Derivatives					
Interest rate swaps	Accrued expenses and other liabilities	$ 6,820	$ 67,716	$ 6,277	$ 43,430
To-be-announced mortgage backed securities	Accrued expenses and other liabilities	—	—	26	25,750
Total liability derivatives not designated as hedging instruments		$ 6,820	$ 67,716	$ 6,303	$ 69,180

	Derivative Assets			Derivative Liabilities		
(dollars in thousands)	Notional Amount	Location	Fair Value	Notional Amount	Location	Fair Value
March 31, 2024						
Designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps	$ 600,000	Other Assets	$ 1,938	$ 600,000	Accrued expenses and other liabilities	$ —
Cash flow hedges:						
Interest rate swaps	200,000	Other Assets	386	200,000	Accrued expenses and other liabilities	—
Total derivatives designated as hedging instruments	$ 800,000		$ 2,324	$ 800,000		$ —
Not designated as hedging instruments:						
Interest rate swaps (1)	$ 120,304	Other Assets	$ 6,294	$ 120,304	Accrued expenses and other liabilities	$ 6,294
Interest rate lock commitments	24,426	Other Assets	409	—	Accrued expenses and other liabilities	—
Forward loan sales commitments	—	Other Assets	—	—	Accrued expenses and other liabilities	—
To-be-announced mortgage backed securities	—	Other Assets	—	46,000	Accrued expenses and other liabilities	24
Total asset derivatives not designated as hedging instruments	$ 144,730		$ 6,703	$ 166,304		$ 6,318
December 31, 2023						
Designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps	$ 600,000	Other Assets	$ —	$ 600,000	Accrued expenses and other liabilities	$ 352
Cash flow hedges:		Other Assets				
Interest rate swaps	200,000	Other Assets	—	200,000	Accrued expenses and other liabilities	297
Total derivatives designated as hedging instruments	$ 800,000		$ —	$ 800,000		$ 649
Not designated as hedging instruments:						
Interest rate swaps (1)	$ 120,671	Other Assets	$ 8,327	$ 120,671	Accrued expenses and other liabilities	$ 8,348
Interest rate lock commitments	8,126	Other Assets	179	—	Accrued expenses and other liabilities	—
Forward loan sales commitments	190	Other Assets	6	—	Accrued expenses and other liabilities	—
To-be-announced mortgage backed securities	—		—	20,500	Accrued expenses and other liabilities	183
Total asset derivatives not designated as hedging instruments	$ 128,987		$ 8,512	$ 141,171		$ 8,531

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

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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:

	Three months ended September 30,	Nine months ended September 30,

(dollars in thousands)	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Reclassified from Other Comprehensive Income (Loss) into Earnings	Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from OCI into Earnings
Derivatives designated as hedging instruments	**2023**	**2023**	**2023**	**2023**		
For the three months ended March 31, 2024						
Cash flow hedges:						
Interest rate swaps	$ 1,216	$ 205	$ 1,216	$ 205	$ 946	$ 262
For the three months ended March 31, 2023						
Cash flow hedges:						
Interest rate swaps					$ —	$ —

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			Location and Amount of Gains (Losses) Recognized in Income		
	Interest Income		Interest Expense	Interest Income		Interest Expense
(dollars in thousands)	Loans, including fees	Investment securities - Taxable	Short-term borrowings	Loans, including fees	Investment securities - Taxable	Short-term borrowings
Three months ended September 30, 2023						
For the three months ended March 31, 2024						
Total amounts in the Consolidated Statements of Income	$ 34,986	$ 6,146	$ 6,528	$ 39,294	$ 4,568	$ 5,989
Fair value hedges:						
Interest rate swaps	71	606	—	153	642	—
Cash flow hedges:						
Interest rate swaps	—	—	(205)	—	—	262
Nine months ended September 30, 2023						
For the three months ended March 31, 2023						
Total amounts in the Consolidated Statements of Income	$ 99,187	$ 18,222	$ 15,684	$ 30,933	$ 5,951	$ 4,393
Fair value hedges:						
Interest rate swaps	71	1,229	—	—	153	—
Cash flow hedges:						
Interest rate swaps	—	—	(205)	—	—	—

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The following table shows 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

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

(dollars in thousands)	September 30, 2023 Notional Amount	September 30, 2023 Carrying Amount of Hedged Assets/ Liabilities	September 30, 2023 Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities	March 31, 2024 Notional Amount	March 31, 2024 Carrying Amount of Hedged Assets/ Liabilities	March 31, 2024 Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities						
Residential agency (1)	$ 200,000	$ 196,793	$ (3,207)	$200,000	$ 198,210	$ (1,790)
Mortgage loan pools (2)	400,000	399,284	(716)	400,000	399,830	(170)
Total	$ 600,000	$ 596,077	$ (3,923)	$600,000	$ 598,040	$ (1,960)

(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 September 30, 2023 March 31, 2024, the amortized cost of the closed portfolios used in these hedging relationships was $331 million $320.7 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 September 30, 2023 March 31, 2024, the amortized cost basis of the residential real estate loans used in these hedging relationships was $706.8 million $664.1 million.

(dollars in thousands)	December 31, 2023 Notional Amount	December 31, 2023 Carrying Amount of Hedged Assets/ Liabilities	December 31, 2023 Cumulative Fair Value Hedging Adjustment in the 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 nine months ended September 30, 2023 March 31, 2024 and 2022 2023 was as follows:

(dollars in thousands)		Three months ended September 30,		Nine months ende
Derivatives not designated as hedging instruments	Consolidated Statements of Income Location	2023	2022	2023
Interest rate swaps	Other noninterest income	$ 121	$ 1	$ 121
Interest rate lock commitments	Mortgage banking	(342)	(1,724)	87
Forward loan sales commitments	Mortgage banking	(9)	(532)	55
To-be-announced mortgage backed securities	Mortgage banking	221	1,317	350
Total gain (loss) from derivatives not designated as hedging instruments		$ (9)	$ (938)	$ 613

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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 March 31, 2024. The amount of collateral posted with third parties was $290 $550 thousand at September 30, 2023 and $309 thousand at December 31, 2022 December 31, 2023. 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.

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.

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

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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
March 31, 2024					
Derivative assets:					
Interest rate swaps − Company (1)	$ 2,324	$ —	$ 2,324	$ (2,459)	$ (135)
Interest rate swaps − dealer bank (1)	6,294	—	6,294	(4,681)	1,613
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 8,618	$ —	$ 8,618	$ (7,140)	$ 1,478
Derivative liabilities:					
Interest rate swaps − Company (1)	$ —	$ —	$ —	$ —	$ —
Interest rate swaps − customer (2)	6,294	—	6,294	—	6,294
To-be-announced mortgage backed securities	24	—	24	—	24
Total	$ 6,318	$ —	$ 6,318	$ —	$ 6,318

(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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The following table presents 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
September 30, 2023					
Derivative assets:					
Interest rate swaps - Company (1)	$ 4,910	$ —	$ 4,910	$ (10,150)	$ (5,240)
Interest rate swaps - customer (1)	6,819	—	6,819	—	6,819
To-be-announced mortgage backed securities	155	—	155	—	155
Total	$ 11,884	$ —	$ 11,884	$ (10,150)	$ 1,734
Derivative liabilities:					
Interest rate swaps - customer (1)	$ 6,820	$ —	$ 6,820	$ —	$ 6,820
To-be-announced mortgage backed securities	—	—	—	290	(290)
Total	$ 6,820	$ —	$ 6,820	$ 290	$ 6,530
December 31, 2022					
Derivative assets:					
Interest rate swaps - Company (1)	$ —	$ —	$ —	$ —	$ —

Interest rate swaps - customer (1)	6,277	—	6,277	(6,030)	247
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 6,277	$ —	$ 6,277	$ (6,030)	$ 247
Derivative liabilities:					
Interest rate swaps - customer (1)	$ 6,277	$ —	$ 6,277	$ —	$ 6,277
To-be-announced mortgage backed securities	26	—	26	309	(283)
Total	$ 6,303	$ —	$ 6,303	$ 309	$ 5,994

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

NOTE 18 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 at September 30, 2023 March 31, 2024 and December 31, 2022 December 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 table presents the Company's and the Bank's actual capital amounts and ratios as of September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023:

	September 30, 2023						March 31, 2024					
	Actual		Requirements for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action		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	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets												
Consolidated	$ 402,118	13.01 %	$ 139,056	4.50 %	$ N/A	N/A						
Consolidated (1)							$387,012	11.87 %	$146,733	4.50 %	$ N/A	N/A
Bank	391,239	12.68 %	138,838	4.50 %	200,544	6.50 %	371,632	11.73 %	142,616	4.50 %	206,001	6.50 %
Tier 1 capital to risk weighted assets					.						.	
Consolidated	411,046	13.30 %	185,408	6.00 %	N/A	N/A						
Consolidated (1)							395,997	12.14 %	195,644	6.00 %	N/A	N/A
Bank	391,239	12.68 %	185,117	6.00 %	246,823	8.00 %	371,632	11.73 %	190,155	6.00 %	253,540	8.00 %
Total capital to risk weighted assets												
Consolidated	497,554	16.10 %	247,210	8.00 %	N/A	N/A						
Consolidated (1)							486,789	14.93 %	260,858	8.00 %	N/A	N/A
Bank	427,747	13.86 %	246,823	8.00 %	308,529	10.00 %	411,294	12.98 %	253,540	8.00 %	316,925	10.00 %
Tier 1 capital to average assets												
Consolidated	411,046	11.14 %	147,625	4.00 %	N/A	N/A						
Consolidated (1)							395,997	9.89 %	160,216	4.00 %	N/A	N/A
Bank	391,239	10.72 %	146,043	4.00 %	182,554	5.00 %	371,632	9.30 %	159,882	4.00 %	199,852	5.00 %

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

	December 31, 2022						December 31, 2023					
	Actual		Requirements for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action		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	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets												
Consolidated	$ 389,335	13.39 %	$ 130,862	4.50 %	$ N/A	N/A						
Consolidated (1)							$382,578	11.82 %	$145,605	4.50 %	$ N/A	N/A

Bank	370,749	12.76 %	130,791	4.50 %	188,920	6.50 %	367,445	11.40 %	145,101	4.50 %	209,590	6.50 %
Tier 1 capital to risk weighted assets					.						.	
Consolidated	398,179	13.69 %	174,482	6.00 %	N/A	N/A						
Consolidated (1)							391,534	12.10 %	194,139	6.00 %	N/A	N/A
Bank	370,749	12.76 %	174,388	6.00 %	232,517	8.00 %	367,445	11.40 %	193,468	6.00 %	257,957	8.00 %
Total capital to risk weighted assets												
Consolidated	479,325	16.48 %	232,643	8.00 %	N/A	N/A						
Consolidated (1)							477,590	14.76 %	258,853	8.00 %	N/A	N/A
Bank	401,895	13.83 %	232,517	8.00 %	290,646	10.00 %	403,501	12.51 %	257,957	8.00 %	322,446	10.00 %
Tier 1 capital to average assets												
Consolidated	398,179	11.25 %	141,514	4.00 %	N/A	N/A						
Consolidated (1)							391,534	10.57 %	148,111	4.00 %	N/A	N/A
Bank	370,749	10.48 %	141,440	4.00 %	176,800	5.00 %	367,445	9.92 %	148,186	4.00 %	185,232	5.00 %

(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 September 30, 2023 March 31, 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company was in compliance with the aforementioned guidelines.

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NOTE 19 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					
	March 31, 2024			March 31, 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	$ (3,443)	$ 864	$ (2,579)	$ 4,754	$ (1,193)	$ 3,561
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM (1)	74	(18)	56	(87)	22	(65)
Less: reclassification adjustment for net realized losses (2)	—	—	—	—	—	—
Net change	(3,517)	882	(2,635)	4,841	(1,215)	3,626
Cash Flow Hedges:						
Change in fair value	946	(576)	370	—	—	—
Less: reclassified AOCI gain (loss) into interest expense (3)	262	(66)	196	—	—	—
Net change	684	(510)	174	—	—	—
Other Derivatives:						
Change in fair value	2,031	(171)	1,860	(1,725)	433	(1,292)
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	2,031	(171)	1,860	(1,725)	433	(1,292)
Other comprehensive income (loss)	$ (802)	$ 201	$ (601)	$ 3,116	$ (782)	$ 2,334

(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 3 Investment Securities" for further details.

(2) Reclassified into net gains (losses) on investment securities in the consolidated statements of income. Refer to "NOTE 3 Investment Securities" for further details.

(3) Reclassified into interest expense on short-term borrowings on the consolidated statements of income. Refer to "NOTE 17 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 17 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)**
Balance at December 31, 2023	$ (73,158)	$ (237)	$ (260)	$ (73,655)
Other comprehensive income (loss) before reclassifications	(2,579)	370	1,860	(349)
Less: Amounts reclassified from AOCI	56	196	—	252
Other comprehensive income (loss)	(2,635)	174	1,860	(601)
Balance at March 31, 2024	$ (75,793)	(63)	1,600	(74,256)
Balance at December 31, 2022	$ (98,547)	$ —	$ (94)	$ (98,641)
Other comprehensive income (loss) before reclassifications	3,561	—	(1,292)	2,269
Less: Amounts reclassified from AOCI	(65)	—	—	(65)
Other comprehensive income (loss)	3,626	—	(1,292)	2,334
Balance at March 31, 2023	(94,921)	—	(1,386)	(96,307)

(1) All amounts net of tax.

NOTE 20 Stock Repurchase Program

On February 18, 2021, the Board of Directors of the Company approved a stock repurchase program, or the Old Stock Repurchase Program, which authorizes 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 was effective immediately and will continue for a period of 36 months, until expired on February 18, 2024.

February 28, 2024. On 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, and will expire on February 18, 2027. On 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 nine three months ended September 30, 2023 March 31, 2024, the Company there were no shares repurchased 238,474 shares of common stock 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.

NOTE 20 21 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) and the lowest priority to unobservable inputs (Level 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—Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 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—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-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 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023	March 31, 2024

(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading					$4,553	$ —	$ —	$ 4,553
Available-for-sale								
U.S. treasury and government agencies	$ —	$ 2,665	$ —	$ 2,665	—	838	—	838
Mortgage backed securities								
Residential agency	—	521,623	—	521,623	—	420,893	—	420,893
Commercial	—	58,685	—	58,685	—	1,351	—	1,351
Asset backed securities	—	27	—	27	—	22	—	22
Corporate bonds	—	57,001	—	57,001	—	49,168	—	49,168
Total available-for-sale investment securities	$ —	$ 640,001	$ —	$ 640,001	$ —	$472,272	$ —	$472,272
Other assets								
Derivatives	$ —	$ 12,193	$ —	$ 12,193	$ —	$ 9,027	$ —	$ 9,027
Other liabilities								
Derivatives	$ —	$ 6,820	$ —	$ 6,820	$ —	$ 6,318	$ —	$ 6,318

	December 31, 2022				December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale								
U.S. treasury and government agencies	$ —	$ 3,520	$ —	$ 3,520	$ —	$ 1,120	$ —	$ 1,120
Mortgage backed securities								
Residential agency	—	587,679	—	587,679	—	435,594	—	435,594
Commercial	—	63,558	—	63,558	—	1,353	—	1,353
Asset backed securities	—	34	—	34	—	25	—	25
Corporate bonds	—	62,533	—	62,533	—	48,644	—	48,644
Total available-for-sale investment securities	$ —	$ 717,324	$ —	$ 717,324	$ —	$486,736	$ —	$486,736
Other assets								
Derivatives	$ —	$ 6,405	$ —	$ 6,405	$ —	$ 8,512	$ —	$ 8,512
Other liabilities								
Derivatives	$ —	$ 6,303	$ —	$ 6,303	$ —	$ 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 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.

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.

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Net impairment related to nonrecurring The estimated fair value measurements of certain assets on a nonrecurring basis as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 consisted of the following:

	September 30, 2023					March 31, 2024			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Impairment	Level 1	Level 2	Level 3	Total
Loans held for sale	$ —	$ 16,346	$ —	$ 16,346	$ —				
Individually evaluated	—	—	2,390	2,390	288				
Collateral dependent loans						$ —	$ —	$4,033	$4,033
Foreclosed assets						—	—	3	3
Servicing rights	—	—	2,214	2,214	—	—	—	1,983	1,983

	December 31, 2022					December 31, 2023			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Impairment	Level 1	Level 2	Level 3	Total
Loans held for sale	$ —	$ 9,488	$ —	$ 9,488	$ —				
Individually evaluated	—	—	2,813	2,813	954				
Collateral dependent loans						$ —	$ —	$3,998	$3,998
Foreclosed assets	—	—	30	30	—	—	—	32	32
Servicing rights	—	—	2,643	2,643	—	—	—	2,052	2,052

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 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, were as follows:

(dollars in thousands)	September 30, 2023					March 31, 2024				
Asset Type	Valuation Technique	Unobservable Input	Fair Value	Range	Weighted Average	Valuation Technique	Unobservable Input	Fair Value	Range	Weighted Average
Individually evaluated	Appraisal value	Property specific adjustment	$ 2,390	N/A	N/A	Appraisal value	Property specific adjustment	$ 4,033	10.0 %	10.0 %

Foreclosed assets	Appraisal value	Property specific adjustment	3	N/A	N/A	Appraisal value	Property specific adjustment (1)	3	N/A	N/A
Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,214	84-125	101	Discounted cash flows	Prepayment speed assumptions	1,983	82-172	103
		Discount rate		11.1 %	11.1 %		Discount rate		11.1 %	11.1 %

(1) There were no discounts taken on the collateral that comprises the balance of foreclosed assets as of March 31, 2024.

(dollars in thousands)			December 31, 2022		
Asset Type	**Valuation Technique**	**Unobservable Input**	**Fair Value**	**Range**	**Weighted Average**
Individually evaluated	Appraisal value	Property specific adjustment	$ 2,813	N/A	N/A
Foreclosed assets	Appraisal value	Property specific adjustment	30	N/A	N/A
Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,643	103-137	115
		Discount rate		10.5 %	10.5 %

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(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	2,052	85-151	104
		Discount rate		11.1 %	11.1 %

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

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

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financial instruments, with an estimated fair value that is not practicable to estimate and all 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 which the ending balances, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 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 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 Life Insurance

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 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 Borrowings and Long-Term Debt

For variable-rate borrowings that reprice frequently, estimated fair values are based on carrying values. The estimated fair values of 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 Sheet Credit-Related Commitments

Off-balance sheet credit related commitments are generally of 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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Short-Term Borrowings and Long-Term Debt

For variable-rate borrowings that reprice frequently, estimated fair values are based on carrying values. The estimated fair values of 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 Sheet Credit-Related Commitments

Off-balance sheet credit related commitments are generally of 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.

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

	September 30, 2023					March 31, 2024				
	Carrying	Estimated Fair Value				Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
Financial Assets										
Cash and cash equivalents	$ 64,724	$ 64,724	$ —	$ —	$ 64,724	$ 545,772	$545,772	$ —	$ —	$ 545,772
Investment securities held-to-maturity	303,268	—	248,239	—	248,239	291,932	—	249,807	—	249,807
Loans, net	2,570,140	—	—	2,451,993	2,451,993	2,762,891	—	—	2,623,566	2,623,566
Accrued interest receivable	15,561	15,561	—	—	15,561	16,149	16,149	—	—	16,149
Bank-owned life insurance	33,012	—	33,012	—	33,012	33,396	—	33,396	—	33,396
Financial Liabilities										
Noninterest-bearing deposits	$ 717,990	$ —	$ 717,990	$ —	$ 717,990	$ 692,500	$ —	$ 692,500	$ —	$ 692,500
Interest-bearing deposits	1,807,259	—	1,807,259	—	1,807,259	2,135,740	—	2,135,740	—	2,135,740
Time deposits	346,935	—	—	343,600	343,600	456,729	—	454,272	—	454,272
Short-term borrowings	515,470	515,470	—	—	515,470	555,000	555,000	—	—	555,000
Long-term debt	58,928	—	55,076	—	55,076	58,985	—	57,983	—	57,983
Accrued interest payable	5,358	5,358	—	—	5,358	11,304	11,304	—	—	11,304

	December 31, 2022					December 31, 2023				
	Carrying	Estimated Fair Value				Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
Financial Assets										
Cash and cash equivalents	$ 58,242	$ 58,242	$ —	$ —	$ 58,242	$ 129,893	$129,893	$ —	$ —	$ 129,893

Investment securities held-to-maturity	321,902	—	270,912	—	270,912	299,728	—	258,617	—	258,617
Loans, net	2,412,848	—	—	2,311,956	2,311,956	2,723,740	—	—	2,590,535	2,590,535
Accrued interest receivable	12,869	12,869	—	—	12,869	15,700	15,700	—	—	15,700
Bank-owned life insurance	33,991	—	33,991	—	33,991	33,236	—	33,236	—	33,236
Financial Liabilities										
Noninterest-bearing deposits	$ 860,987	$ —	$ 860,987	$ —	$ 860,987	$ 728,082	$ —	$ 728,082	$ —	$ 728,082
Interest-bearing deposits	1,842,138	—	1,842,138	—	1,842,138	1,955,967	—	1,955,967	—	1,955,967
Time deposits	212,359	—	—	208,550	208,550	411,562	—	408,910	—	408,910
Short-term borrowings	378,080	378,080	—	—	378,080	314,170	314,170	—	—	314,170
Long-term debt	58,843	—	56,116	—	56,116	58,956	—	57,437	—	57,437
Accrued interest payable	2,426	2,426	—	—	2,426	6,826	6,826	—	—	6,826

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Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion explains the Company's financial condition and results of operations as of and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 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 Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, filed with the Securities and Exchange Commission SEC on March 13, 2023 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", "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "annualized," "target" and "outlook", "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 make regarding the Company's projected growth, anticipated future financial performance, financial condition, credit quality and 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 risks, risk, including the effects of recent and potential additional significant rate increases by the Federal Reserve; Reserve since 2020;
- 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, including as a result of the implementation of the new CECL accounting standard; standards;
- business and economic conditions generally and in the financial services industry, nationally and within the Company's market areas, including continued rising high rates of inflation and possible recession, 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 at Silicon Valley Bank, Signature Bank and First Republic Bank that resulted in the failure of those institutions; recent bank failures;
- the overall health of the local and national real estate market;
- concentrations within the Company's loan portfolio;
- the level of nonperforming assets on the Company's balance sheet;
- the Company's ability to implement organic and acquisition growth strategies;

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- 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 for the mortgage division to be profitable;
- 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 from non-banks such as credit unions and Fintech companies, including non-bank lending companies;
- 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;

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- the concentration of large deposits from certain clients, who have balances above current Federal Deposit Insurance Corporation or FDIC, ("FDIC") insurance limits;
- fluctuations in the values of securities held in the Company's securities portfolio, including as a result of changes in interest rates;
- the overall health of the local and national real estate market;
- concentrations within the Company's loan portfolio;
- the level of nonperforming assets on the Company's balance sheet;
- the Company's ability to implement organic and acquisition growth strategies, including the integration of Metro Phoenix Bank which the Company acquired in 2022;
- the impact of economic or market conditions on the Company's fee-based services;
- the Company's ability to continue to grow 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 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;
- the rapid technological change in the financial services industry;
- increased competition in the financial services industry from non-banks such as credit unions and Fintech companies, including digital asset service providers;
- 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 of Metro Phoenix Bank;
- the extensive regulatory framework that applies to us; the Company;
- the impact of recent and future legislative and regulatory changes, including in response to the recent failures of Silicon Valley Bank, Signature Bank and First Republic Bank; 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;

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- risks related to climate change and the negative impact it may have on the Company's customers and their businesses;
- severe weather, natural disasters, widespread disease or pandemics, such as the COVID-19 global pandemic; pandemics;

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- acts of war or terrorism, including the ongoing Israeli-Palestinian conflict 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, including the new 1.0% excise tax on stock buybacks to by publicly traded companies;
- 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 in with the foregoing items; and
- any other risks described in the "Risk Factors" sections section of the this report and in other reports filed by Alerus Financial Corporation with the Securities and Exchange Commission. 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 diversified financial commercial wealth bank and national retirement services company provider headquartered in Grand Forks, North Dakota. Through the Company's subsidiary, Alerus Financial, National Association, or the Bank, the Company provides financial solutions to businesses and consumers through four three distinct business lines—banking, retirement and benefit services, and wealth management and mortgage. management. These solutions are delivered through a relationship-oriented primary point of contact along with responsive and 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, 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

The Company's consolidated financial statements are prepared based on the application of Critical accounting policies generally accepted are defined as those that are reflective of significant judgements and uncertainties and could potentially result in the United States, or GAAP. The preparation of materially different results under different assumptions and conditions. In preparing the Company's consolidated financial statements, requires management is required to make significant estimates and judgments assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These expenses reported. Actual results could differ materially from our current estimates as a result of changing conditions and future events. Several estimates are based upon historical experience particularly critical and are susceptible to significant near term change, including (i) the ACL, including the ACL on various other assumptions that management believes are reasonable under current circumstances. These estimates form the basis for making judgments about the carrying investment securities, loans, and unfunded commitments; (ii) goodwill and intangible assets impairment; and (iii) fair value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes measurements.

There have the most effect on been no material changes to the Company's reported financial position and results of operations are set forth in Note 1 – Significant Accounting Policies of critical accounting policies from those disclosed within its Annual Report on Form 10-K for the Notes year ended December 31, 2023. Refer to the Consolidated Statements, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. December 31, 2023 for discussion of the Company's critical accounting policies.

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On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which created material changes to the Company's existing critical accounting policy that existed at December 31, 2022. Effective January 1, 2023, through March 31, 2023, the significant accounting policy which the Company believes to be critical in preparing the Company's consolidated financial is the determination of the allowance for credit losses.

Management considers the policies related to the allowance for credit losses critical to the financial statement presentation. The allowance for credit losses is established through the provision for credit losses charged to current earnings. The Company's methodologies for estimating the allowance for credit losses consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. Refer to Note 1 – Significant "NOTE 2 Recent Accounting Policies in the accompanying notes to Pronouncements" of the consolidated financial statements for further discussion on the methodology in establishing the allowance for credit losses. 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

Shareholder Dividend

On August 24, 2023 February 28, 2024, the Board of Directors of the Company declared a quarterly cash dividend of $0.19 per common share. This dividend was paid on October 13, 2023 April 12, 2024, to stockholders of record at the close of business on September 15, 2023 March 15, 2024.

Operating Results Overview

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

	Three months ended			Nine months ended		Three months ended		
	September 30,	June 30,	September 30,	September 30,	September 30,	March 31,	December 31,	March 31,
(dollars and shares in thousands, except per share data)	2023	2023	2022	2023	2022	2024	2023	2023
Performance Ratios								
Return on average total assets	0.95 %	0.96 %	1.02 %	0.93 %	1.13 %	0.63 %	(1.51)%	0.88 %
Return on average common equity	10.05 %	10.14 %	10.25 %	9.79 %	11.27 %	7.04 %	(16.75)%	9.17 %
Return on average tangible common equity (1)	13.51 %	13.71 %	13.89 %	13.27 %	14.59 %	9.78 %	(18.85)%	12.58 %
Noninterest income as a % of revenue	58.21 %	53.69 %	48.82 %	54.51 %	54.08 %	53.26 %	3.54 %	51.63 %
Net interest margin (taxable-equivalent basis)	2.27 %	2.52 %	3.21 %	2.50 %	3.02 %	2.30 %	2.37 %	2.70 %
Adjusted net interest margin (tax-equivalent basis) (1)						2.44 %	2.37 %	2.70 %
Efficiency ratio (1)	73.37 %	72.79 %	74.76 %	73.57 %	73.94 %	78.88 %	165.40 %	74.53 %
Adjusted efficiency ratio (1)						78.88 %	79.07 %	74.53 %
Average equity to average assets	9.47 %	9.52 %	9.95 %	9.51 %	10.06 %	8.87 %	9.03 %	9.54 %
Net charge-offs/(recoveries) to average loans	(0.09)%	(0.07)%	0.07 %	(0.04)%	0.04 %	0.01 %	(0.04)%	0.03 %
Dividend payout ratio	42.22 %	42.22 %	38.30 %	43.08 %	33.33 %	59.38 %	(26.03)%	45.00 %
Per Common Share								
Earnings per common share - basic	$ 0.46	$ 0.45	$ 0.48	$ 1.31	$ 1.58			
Earnings per common share - diluted	$ 0.45	$ 0.45	$ 0.47	$ 1.30	$ 1.56			
Earnings (losses) per common share − basic						$ 0.32	$ (0.74)	$ 0.41
Earnings (losses) per common share − diluted						$ 0.32	$ (0.73)	$ 0.40
Dividends declared per common share	$ 0.19	$ 0.19	$ 0.18	$ 0.56	$ 0.52	$ 0.19	$ 0.19	$ 0.18
Book value per common share	$ 17.60	$ 17.96	$ 17.25			$ 18.79	$ 18.71	$ 17.90
Tangible book value per common share (1)	$ 14.32	$ 14.60	$ 13.76			$ 15.63	$ 15.46	$ 14.50
Average common shares outstanding - basic	19,872	20,033	19,987	19,977	18,186			
Average common shares outstanding - diluted	20,095	20,241	20,230	20,193	18,431			
Average common shares outstanding − basic						19,739	19,761	20,028

	Three months ended September 30, 2023	June 30, 2023	September 30, 2022	Nine months ended September 30, 2023	September 30, 2022	Three months ended March 31, 2024	December 31, 2023	March 31, 2023
Average common shares outstanding − diluted						19,986	19,996	20,246
Other Data								
Retirement and benefit services assets under administration/management	$ 34,552,569	$ 35,052,652	$ 30,545,694			$ 38,488,523	$ 36,682,425	$ 33,404,342
Wealth management assets under administration/management	$ 3,724,091	$ 3,857,710	$ 3,435,786			$ 4,242,408	$ 4,018,846	$ 3,675,684
Mortgage originations	$ 109,637	$ 111,261	$ 229,901	$ 298,626	$ 686,060	$ 54,101	$ 65,488	$ 77,728

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

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Selected Financial Data

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

	Three months ended			Nine months ended		Three months ended		
(dollars in thousands)	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	December 31, 2023	March 31, 2023
Selected Average Balance Sheet Data								
Loans	$ 2,544,836	$ 2,482,413	$ 2,262,361	$ 2,495,122	$ 1,958,216	$ 2,768,514	$ 2,653,622	$ 2,457,154
Investment securities	971,913	1,007,792	1,116,458	1,004,436	1,165,414	775,305	921,555	1,034,288
Assets	3,821,601	3,785,487	3,743,154	3,799,645	3,431,212	4,139,053	3,868,561	3,791,536
Deposits	2,844,758	2,940,216	2,995,071	2,905,675	2,851,425	3,163,565	2,994,900	2,933,022
Fed funds purchased	312,121	360,033	84,149	320,861	55,527			
Short-term borrowings	173,913	—	168,750	84,982	60,073			
Fed funds purchased and Bank Term Funding Program						282,614	189,568	290,187
FHLB short-term advances						200,000	200,000	80,000
Long-term debt	58,914	58,886	58,843	58,886	58,875	58,971	58,943	58,858
Stockholders’ equity	361,735	360,216	372,274	361,260	345,192	367,248	349,382	361,857

(dollars in thousands)	March 31, 2024	December 31, 2023	March 31, 2023
Selected Period End Balance Sheet Data			
Loans	$ 2,799,475	$ 2,759,583	$ 2,486,625
Allowance for credit losses on loans	(36,584)	(35,843)	(35,102)
Investment securities	768,757	786,251	1,019,473
Assets	4,338,093	3,907,713	3,886,773
Deposits	3,284,969	3,095,611	3,031,978
Long-term debt	58,985	58,956	58,872
Total stockholders’ equity	371,635	369,127	359,118

	Three months ended		
	March 31,	December 31,	March 31,

(dollars in thousands)	2024	2023	2023
Selected Income Statement Data			
Net interest income	$ 22,219	$ 21,552	$ 23,659
Provision for credit losses	—	1,507	550
Noninterest income	25,323	791	25,253
Noninterest expense	39,019	38,654	37,870
Income (loss) before income taxes	8,523	(17,818)	10,492
Income tax expense (benefit)	2,091	(3,064)	2,307
Net income (loss)	$ 6,432	$ (14,754)	$ 8,185

(dollars in thousands)	September 30, 2023	June 30, 2023	December 31, 2022	September 30, 2022
Selected Period End Balance Sheet Data				
Loans	$ 2,606,430	$ 2,533,522	$ 2,443,994	$ 2,318,231
Allowance for credit losses on loans	(36,290)	(35,696)	(31,146)	(30,968)
Investment securities	943,269	985,870	1,039,226	1,055,520
Assets	3,869,138	3,832,978	3,779,637	3,691,253
Deposits	2,872,184	2,852,855	2,915,484	2,961,811
Long-term debt	58,928	58,900	58,843	58,836
Total stockholders’ equity	349,402	357,685	356,872	344,839

	Three months ended			Nine months ended	
(dollars in thousands)	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Selected Income Statement Data					
Net interest income	$ 20,395	$ 22,234	$ 28,316	$ 66,287	$ 72,765
Provision for credit losses	—	—	—	550	—
Noninterest income	28,407	25,778	27,010	79,439	85,706
Noninterest expense	37,260	36,373	42,767	111,503	120,822
Income before income taxes	11,542	11,639	12,559	33,673	37,649
Income tax expense	2,381	2,535	2,940	7,222	8,553
Net income	$ 9,161	$ 9,104	$ 9,619	$ 26,451	$ 29,096

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, adjusted efficiency ratio, adjusted noninterest income, net interest margin (tax-equivalent), and the efficiency ratio, as adjusted. 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' 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; (iii) (iv) tangible assets as total assets, less goodwill and other intangible assets; (iv) (v) return on average tangible common equity as net income adjusted for intangible amortization net of tax, divided by average tangible common equity; and (v) (vi) efficiency ratio as adjusted, as noninterest expense less intangible amortization expense, divided by net interest income plus noninterest income plus a tax-equivalent adjustment. adjustment; (vii) adjusted efficiency ratio as noninterest expense less intangible amortization expense, divided by net interest income plus noninterest income plus a tax-equivalent adjustment less net gains (losses) on investment securities; (viii) adjusted noninterest income as noninterest income adjusted for net gains (losses) on investment securities; and (ix) adjusted net interest margin (tax equivalent) as net interest income less cash interest income and interest expense related to BTFP, adjusted for tax equivalent related to loans and securities, and adjust interest earning assets less average cash proceeds balance from BTFP.

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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)	September 30, 2023	June 30, 2023	December 31, 2022	September 30, 2022	March 31, 2024	December 31, 2023	March 31, 2023
Tangible common equity to tangible assets							
Total common stockholders' equity	$ 349,402	$ 357,685	$ 356,872	$ 344,839	$ 371,635	$ 369,127	$ 359,118
Less: Goodwill	46,783	47,087	47,087	46,060	46,783	46,783	47,087
Less: Other intangible assets	18,482	19,806	22,455	23,779	15,834	17,158	21,131
Tangible common equity (a)	284,137	290,792	287,330	275,000	309,018	305,186	290,900
Total assets	3,869,138	3,832,978	3,779,637	3,691,253	4,338,093	3,907,713	3,886,773
Less: Goodwill	46,783	47,087	47,087	46,060	46,783	46,783	47,087
Less: Other intangible assets	18,482	19,806	22,455	23,779	15,834	17,158	21,131
Tangible assets (b)	3,803,873	3,766,085	3,710,095	3,621,414	4,275,476	3,843,772	3,818,555
Tangible common equity to tangible assets (a)/(b)	7.47 %	7.72 %	7.74 %	7.59 %	7.23 %	7.94 %	7.62 %
Adjusted Tangible Common Equity to Tangible Assets							
Tangible assets **(b)**					$4,275,476	$ 3,843,772	$3,818,555
Less: Cash proceeds from BTFP					355,000	—	—
Adjusted tangible assets **(c)**					3,920,476	3,843,772	3,818,555
Adjusted tangible common equity to tangible assets **(a)/(c)**					7.88 %	7.94 %	7.62 %
Tangible book value per common share							
Total common stockholders' equity	$ 349,402	$ 357,685	$ 356,872	$ 344,839	$ 371,635	$ 369,127	$ 359,118
Less: Goodwill	46,783	47,087	47,087	46,060	46,783	46,783	47,087
Less: Other intangible assets	18,482	19,806	22,455	23,779	15,834	17,158	21,131
Tangible common equity (c)	284,137	290,792	287,330	275,000			
Total common shares issued and outstanding (d)	19,848	19,915	19,992	19,987			

Tangible book value per common share (c)/(d)	$ 14.32	$ 14.60	$ 14.37	$ 13.76

Tangible common equity **(d)**	309,018	305,186	290,900
Total common shares issued and outstanding **(e)**	19,777	19,734	20,067
Tangible book value per common share **(d)/(e)**	$ 15.63	$ 15.46	$ 14.50

	Three months ended			Nine months ended	
(dollars and shares in thousands, except per share data)	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Return on average tangible common equity					
Net income	$ 9,161	$ 9,104	$ 9,619	$ 26,451	$ 29,096
Add: Intangible amortization expense (net of tax)	1,046	1,046	1,046	3,138	2,710
Net income, excluding intangible amortization (e)	10,207	10,150	10,665	29,589	31,806
Average total equity	361,735	360,216	372,274	361,260	345,192
Less: Average goodwill	46,882	47,087	48,141	47,018	37,101
Less: Average other intangible assets (net of tax)	15,109	16,153	19,466	16,149	16,605
Average tangible common equity (f)	299,744	296,976	304,667	298,093	291,486
Return on average tangible common equity (e)/(f)	13.51 %	13.71 %	13.89 %	13.27 %	14.59 %
Efficiency ratio					
Noninterest expense	$ 37,260	$ 36,373	$ 42,767	$ 111,503	$ 120,822
Less: Intangible amortization expense	1,324	1,324	1,324	3,972	3,430
Adjusted noninterest expense (g)	35,936	35,049	41,443	107,531	117,392
Net interest income	20,395	22,234	28,316	66,287	72,765
Noninterest income	28,407	25,778	27,010	79,439	85,706
Tax-equivalent adjustment	180	140	112	444	306
Total tax-equivalent revenue (h)	48,982	48,152	55,438	146,170	158,777
Efficiency ratio (g)/(h)	73.37 %	72.79 %	74.76 %	73.57 %	73.94 %

	Three months ended		
(dollars and shares in thousands, except per share data)	**March 31, 2024**	**December 31, 2023**	**March 31, 2023**
Return on average tangible common equity			
Net income (loss)	$ 6,432	$ (14,754)	$ 8,186
Add: Intangible amortization expense (net of tax)	1,046	1,046	1,046
Net income (loss), excluding intangible amortization **(f)**	7,478	(13,708)	9,232
Average total equity	367,248	349,382	361,857
Less: Average goodwill	46,783	46,783	47,087
Less: Average other intangible assets (net of tax)	13,018	14,067	17,209
Average tangible common equity **(g)**	307,447	288,532	297,561
Return on average tangible common equity **(f)/(g)**	9.78 %	(18.85)%	12.58 %
Efficiency ratio			
Noninterest expense	$ 39,019	$ 38,654	$ 37,869
Less: Intangible amortization expense	1,324	1,324	1,324

Adjusted noninterest expense **(h)**	37,695	37,330	36,545
Net interest income	22,219	21,552	23,658
Noninterest income	25,323	791	25,253
Tax-equivalent adjustment	247	226	124
Total tax-equivalent revenue **(i)**	47,789	22,569	49,035
Efficiency ratio **(h)/(i)**	78.88 %	165.40 %	74.53 %
Adjusted Efficiency Ratio			
Noninterest expense	$ 39,019	$ 38,654	$ 37,869
Less: Intangible amortization expense	1,324	1,324	1,324
Adjusted noninterest expense **(j)**	37,695	37,330	36,545
Net interest income	22,219	21,552	23,658
Noninterest income	25,323	791	25,253
Tax-equivalent adjustment	247	226	124
Less: Net gains (losses) on investment securities	—	(24,643)	—
Total tax-equivalent revenue **(k)**	47,789	47,212	49,035
Adjusted efficiency ratio **(j)/(k)**	78.88 %	79.07 %	74.53 %
Adjusted Noninterest Income			
Noninterest income	$ 25,323	$ 791	$ 25,253
Add: Net gains (losses) on investment securities	—	(24,643)	—
Adjusted noninterest income	$ 25,323	$ 25,434	$ 25,253
Adjusted Net Interest Margin (Tax-Equivalent)			
Net interest income	$ 22,219	$ 21,552	$ 23,658
Less: BTFP cash interest income	3,615	—	—
Add: BTFP interest expense	3,266	—	—
Net interest income excluding BTFP impact	21,870	21,552	23,658
Add: Tax equivalent adjustment for loans and securities	247	226	124
Adjusted net interest income **(l)**	$ 22,117	$ 21,778	$ 23,782
Interest earning assets	3,921,529	3,645,184	3,567,402
Less: Average cash proceeds balance from BTFP	269,176	—	—
Adjusted interest earning assets **(m)**	$ 3,652,353	$ 3,645,184	$ 3,567,402
Adjusted net interest margin (tax-equivalent) **(l)/(m)**	2.44 %	2.37 %	2.70 %

Discussion and Analysis of Results of Operations

Net Income

Net income for the three months ended September 30, 2023 March 31, 2024, was $9.2 million $6.4 million, or $0.45 $0.32 per diluted common share, a $0.5 million $1.8 million, or 4.8% 21.4%, decrease compared to $9.6 million $8.2 million, or $0.47 $0.40 per diluted common share, for the three months ended September 30, 2022 March 31, 2023. Earnings for the third first quarter of 2024 compared to the first quarter of 2023 compared decreased primarily due to the third quarter of 2022 a $1.4 million decrease in net interest income and $1.2 million increase in noninterest expense. This negative result was partially offset by a $0.6 million decrease in provision for credit losses expense.

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decreased primarily due to a $7.9 million decrease in net interest income. This negative result was partially offset by a $1.4 million increase in noninterest income and a $5.5 million decrease in noninterest expense.

Net income for the nine months ended September 30, 2023, was $26.5 million, or $1.30 per diluted common share, a $2.6 million, or 9.1%, decrease compared to $29.1 million, or $1.56 per diluted common share, for the nine months ended September 30, 2022. Earnings for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 decreased primarily due to a $6.5 million decrease in net interest income, a $550 thousand increase in provision for credit losses, and a $6.3 million decrease in noninterest income. These negative results were partially offset by a $9.3 million decrease in noninterest expense.

Net Interest Income

Net interest income is the difference between interest income and yield-related 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 nine months ended September 30, 2023 March 31, 2024 and 2022. 2023.

Net interest income for the three months ended September 30, 2023 March 31, 2024, was $20.4 million $22.2 million, a decrease of $7.9 million $1.4 million, or 28.0% 6.1%, compared to $28.3 million $23.7 million for the three months ended September 30, 2022 March 31, 2023. Net interest income for the third first quarter of 2023 2024 decreased compared to the third first quarter of 2022 2023 primarily due to the increasing cost of interest-bearing liabilities as interest expense increased $17.7 million $12.7 million mainly driven by an increase of 252 133 basis points in the average rate paid on interest-bearing liabilities. In addition, the average balance of interest-bearing liabilities increased $310.5 million $456.3 million. This was partially offset by a $9.8 million an $11.2 million increase in interest income, as interest earning assets increased $73.1 million $354.1 million while the interest earning asset yield increased 101 74 basis points. The increase in interest earning assets was primarily due to organic growth. loan growth and increased cash balances from deposit growth and BTFP borrowings. The increase in interest-bearing liabilities was due to a decrease in deposits which were replaced with wholesale borrowings and core deposit growth, a shift from noninterest-bearing deposits to interest-bearing deposits.

Net interest income for the nine months ended September 30, 2023, was $66.3 million, a decrease of $6.5 million, or 8.9%, compared to $72.8 million for the nine months ended September 30, 2022. Net interest income for the nine months ended September 30, 2023, decreased compared to the nine months ended September 30, 2022, primarily due to a 231 basis point increase in the average rate paid on interest-bearing liabilities in addition to an increase of $446.6 million in the average balance of interest-bearing liabilities. This was partially offset by increases of 121 basis points in the average rate paid on interest earning assets deposits and the average balance of interest earning assets. The average balance of interest earning assets increased $335.1 million. The increase in interest earning assets was due to a combination of organic growth and the acquisition of Metro Phoenix Bank. The increase in interest-bearing liabilities was due to the acquisition of Metro Phoenix Bank and a decrease in noninterest-bearing liabilities. BTFP borrowings.

Net interest margin (on a FTE tax-equivalent basis) for the three months ended September 30, 2023 March 31, 2024, was 2.27% 2.30%, compared to 3.21% 2.70% for the same period in 2022.

Net 2023. The decrease in net interest margin (on a FTE tax-equivalent basis) was mainly attributable to higher earning assets at lower yields resulting from the BTFP opportunity. Adjusted net interest margin (on a tax-equivalent basis) (non-GAAP), which excludes BTFP borrowings, was 2.44% for the nine months ended September 30, 2023, was 2.50%, compared to 3.02% first quarter of 2024, a 26 basis point decrease from 2.70% for the same period first quarter of 2023. The decrease in 2022. adjusted net interest margin (on a tax-equivalent basis) (non-GAAP) from the year reflected higher cost of funds from continued growth on interest-bearing deposits, partially offset by higher yields on new loans.

As a result of the recent and expected increases in the The higher target federal funds interest rate continues to pressure funding costs. However, the Company anticipates that net interest income and net interest margin (on a FTE an adjusted tax equivalent basis) will remain under pressure recover in future periods. periods as interest-earning assets remix at higher rates and the increases in deposit costs slow.

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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 nine months ended September 30, 2023 March 31, 2024 and 2022. 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 assets in order to present tax-exempt income and fully taxable income on a comparable fully taxable equivalent ("FTE") basis.

	Three months ended September 30,						Three months ended March 31,					
	2023			2022			2024			2023		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Interest Earning Assets												
Interest-bearing deposits with banks	$ 29,450	$ 229	3.09 %	$ 72,157	$ 368	2.02 %	$ 352,038	$ 4,665	5.33 %	$ 41,947	$ 334	3.23 %
Investment securities (1)	971,913	6,377	2.60 %	1,116,458	6,204	2.20 %	775,305	4,788	2.48	1,034,288	6,192	2.43
Fed funds sold	—	—	— %	21,893	131	2.37 %						
Loans held for sale	16,518	231	5.55 %	27,032	282	4.14 %	9,014	127	5.67	10,345	127	4.98
Loans												
Commercial:												
Commercial and industrial	555,649	9,258	6.61 %	566,987	7,729	5.41 %	599,456	10,323	6.93	559,416	8,394	6.09
Real estate construction	88,450	1,900	8.52 %	70,545	996	5.60 %	127,587	2,549	8.04	103,099	1,668	6.56
Commercial real estate	998,636	13,219	5.25 %	807,505	8,279	4.07 %	1,134,540	15,730	5.58	911,634	11,126	4.95
Total commercial	1,642,735	24,377	5.89 %	1,445,037	17,004	4.67 %	1,861,583	28,602	6.18	1,574,149	21,188	5.46
Consumer												
Residential real estate first mortgage	714,874	7,007	3.89 %	624,826	5,580	3.54 %	723,315	7,281	4.05	688,754	6,387	3.76
Residential real estate junior lien	154,939	3,004	7.69 %	140,664	1,918	5.41 %	154,781	3,024	7.86	149,720	2,661	7.21
Other revolving and installment	32,288	497	6.11 %	51,834	651	4.98 %	28,835	461	6.43	44,531	643	5.86
Total consumer	902,101	10,508	4.62 %	817,324	8,149	3.96 %	906,931	10,766	4.77	883,005	9,691	4.45
Total loans (1)	2,544,836	34,885	5.44 %	2,262,361	25,153	4.41 %	2,768,514	39,368	5.72	2,457,154	30,879	5.10
Federal Reserve/FHLB Stock	28,761	495	6.83 %	18,449	249	5.35 %	16,658	337	8.14	23,668	401	6.87
Total interest earning assets	3,591,478	42,217	4.66 %	3,518,350	32,387	3.65 %	3,921,529	49,285	5.05	3,567,402	37,933	4.31

Noninterest earning assets	230,123			224,804			217,524			224,134		
Total assets	$3,821,601			$3,743,154			$4,139,053			$3,791,536		
Interest-Bearing Liabilities												
Interest-bearing demand deposits	$ 751,455	$ 2,534	1.34 %	$ 659,696	$ 211	0.13 %	$ 869,060	$ 4,249	1.97 %	$ 746,660	$ 1,594	0.87 %
Money market and savings deposits	1,073,297	8,650	3.20 %	1,180,576	1,202	0.40 %	1,186,900	11,117	3.77	1,165,269	6,232	2.17
Time deposits	327,264	3,252	3.94 %	234,459	439	0.74 %	431,679	4,786	4.46	231,959	1,278	2.23
Fed funds purchased	312,121	4,327	5.50 %	84,149	787	3.71 %						
Short-term borrowings	173,913	2,201	5.02 %	168,750	729	1.71 %						
Fed funds purchased and Bank Term Funding Program							282,614	3,508	4.99	290,187	3,467	4.85
FHLB short-term advances							200,000	2,481	4.99	80,000	926	4.69
Long-term debt	58,914	679	4.57 %	58,843	591	3.98 %	58,971	678	4.62	58,858	654	4.51
Total interest-bearing liabilities	2,696,964	21,643	3.18 %	2,386,473	3,959	0.66 %	3,029,224	26,819	3.56	2,572,933	14,151	2.23
Noninterest-Bearing Liabilities and Stockholders' Equity												
Noninterest-bearing deposits	692,742			920,340			675,926			789,134		
Other noninterest-bearing liabilities	70,160			64,067			66,655			67,612		
Stockholders' equity	361,735			372,274			367,248			361,857		
Total liabilities and stockholders' equity	$3,821,601			$3,743,154			$4,139,053			$3,791,536		
Net interest income		$ 20,574			$ 28,428							
Net interest rate spread			1.48 %			2.99 %						
Net interest income on FTE basis (1)								$22,466			$23,782	
Net interest rate spread on FTE basis (1)									1.49 %			2.08 %

Net interest margin on FTE basis (1)	2.27 %	3.21 %	2.30 %	2.70 %

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

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	Nine months ended September 30,					
	2023			2022		
(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	$ 35,892	$ 927	3.45 %	$ 68,811	$ 442	0.86 %
Investment securities (1)	1,004,436	18,928	2.52 %	1,165,414	18,255	2.09 %
Fed funds sold	—	—	— %	7,378	131	2.37 %
Loans held for sale	13,822	547	5.29 %	27,864	689	3.31 %
Loans						
Commercial:						
Commercial and industrial	553,460	27,037	6.53 %	488,771	17,797	4.87 %
Real estate construction	93,098	5,197	7.46 %	52,212	1,839	4.71 %
Commercial real estate	956,018	36,485	5.10 %	670,854	19,378	3.86 %
Total commercial	1,602,576	68,719	5.73 %	1,211,837	39,014	4.30 %
Consumer						
Residential real estate first mortgage	700,734	19,942	3.80 %	561,261	14,472	3.45 %
Residential real estate junior lien	153,664	8,565	7.45 %	132,968	4,829	4.86 %
Other revolving and installment	38,148	1,708	5.99 %	52,150	1,791	4.59 %
Total consumer	892,546	30,215	4.53 %	746,379	21,092	3.78 %
Total loans (1)	2,495,122	98,934	5.30 %	1,958,216	60,106	4.10 %
Federal Reserve/FHLB Stock	25,403	1,294	6.81 %	11,877	448	5.04 %
Total interest earning assets	3,574,675	120,630	4.51 %	3,239,560	80,071	3.30 %
Noninterest earning assets	224,970			191,652		
Total assets	$ 3,799,645			$ 3,431,212		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 757,995	$ 6,559	1.16 %	$ 692,310	$ 637	0.12 %
Money market and savings deposits	1,127,630	22,915	2.72 %	1,089,137	1,943	0.24 %
Time deposits	276,797	6,744	3.26 %	224,603	914	0.54 %
Fed funds purchased	320,861	12,556	5.23 %	55,527	1,027	2.47 %
Short-term borrowings	84,982	3,128	4.92 %	60,073	767	1.71 %
Long-term debt	58,886	1,999	4.54 %	58,875	1,712	3.89 %
Total interest-bearing liabilities	2,627,151	53,901	2.74 %	2,180,525	7,000	0.43 %
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	743,253			845,375		
Other noninterest-bearing liabilities	67,981			60,120		

Stockholders' equity	361,260			345,192		
Total liabilities and stockholders' equity	$ 3,799,645			$ 3,431,212		
Net interest income		$ 66,729			$ 73,071	
Net interest rate spread			1.77 %			2.87 %
Net interest margin on FTE basis (1)			2.50 %			3.02 %

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

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

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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 September 30, 2023 Compared with Three Months Ended September 30, 2022			Nine months ended September 30, 2023 Compared with Nine months ended September 30, 2022			Three months ended March 31, 2024 Compared with Three months ended March 31, 2023		
	Change due to:		Interest	Change due to:		Interest	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance	Volume	Rate	Variance	Volume	Rate	Variance
Interest earning assets									
Interest-bearing deposits with banks	$ (217)	$ 78	$ (139)	$ (212)	$ 697	$ 485	$ 2,490	$ 1,841	$ 4,331
Investment securities	(802)	975	173	(2,516)	3,189	673	(1,565)	161	(1,404)
Loans held for sale	(131)	—	(131)	(131)	—	(131)			
Loans held for sale	(110)	59	(51)	(348)	206	(142)	(16)	16	—
Loans									
Commercial:									
Commercial and industrial	(155)	1,684	1,529	2,356	6,884	9,240	606	1,323	1,929
Real estate construction	253	651	904	1,440	1,918	3,358	399	482	881
Commercial real estate	1,961	2,979	4,940	8,233	8,874	17,107	2,743	1,861	4,604
Total commercial	2,059	5,314	7,373	12,029	17,676	29,705	3,748	3,666	7,414
Consumer									
Residential real estate first mortgage	803	624	1,427	3,599	1,871	5,470	323	571	894
Residential real estate junior lien	195	891	1,086	752	2,984	3,736	91	272	363
Other revolving and installment	(245)	91	(154)	(481)	398	(83)	(229)	47	(182)
Total consumer	753	1,606	2,359	3,870	5,253	9,123	185	890	1,075
Total loans	2,812	6,920	9,732	15,899	22,929	38,828	3,933	4,556	8,489
Federal Reserve/FHLB Stock	139	107	246	510	336	846	(120)	56	(64)
Total interest income	1,691	8,139	9,830	13,202	27,357	40,559	4,722	6,630	11,352
Interest-bearing liabilities									
Interest-bearing demand deposits	30	2,293	2,323	59	5,863	5,922	265	2,390	2,655
Money market and savings deposits	(108)	7,556	7,448	69	20,903	20,972	117	4,768	4,885

Time deposits	173	2,640	2,813	211	5,619	5,830	1,107	2,401	3,508
Fed funds purchased	2,132	1,408	3,540	4,902	6,627	11,529			
Short-term borrowings	22	1,450	1,472	319	2,042	2,361			
Fed funds purchased and Bank Term Funding Program							(91)	132	41
FHLB short-term advances							1,399	156	1,555
Long-term debt	1	87	88	—	287	287	1	23	24
Total interest expense	2,250	15,434	17,684	5,560	41,341	46,901	2,798	9,870	12,668
Change in net interest income	$ (559)	$ (7,295)	$ (7,854)	$ 7,642	$ (13,984)	$ (6,342)	$ 1,924	$ (3,240)	$ (1,316)

Provision for Credit Losses

The Company recorded no provision for credit loss expense for the three months ending September 30, 2023 and September 30, 2022.

The Company recorded a provision for credit loss expense of $550 thousand for the nine months ended September 30, 2023, a $550 thousand increase compared to the nine months ended September 30, 2022. The provision for credit loss expense for the nine months ended September 30, 2023 included $460 thousand in provision for credit loss on loans, $44 thousand in provision for credit loss on unfunded commitments and $46 thousand in provision for credit loss on investment securities held-to-maturity. The CECL accounting standard requires the Company to recognize losses over the expected life of the loan as opposed to the losses expected to already have been incurred. The increase in provision for credit losses is primarily a result was made up of a change in forecasting assumptions brought about by the new methodology. following components for the periods presented:

	Three months ended March 31, 2024	Three months ended March 31, 2023
(dollars in thousands)		
Provision (recovery) for loan losses	$ 799	$ 269
Provision (recovery) for credit losses on unfunded commitments	(793)	230
Provision (recovery) for HTM debt securities	(6)	51
Provision for credit losses	$ —	$ 550

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Noninterest Income

The Company's noninterest income is generated from four primary sources: (1) retirement and benefit services; (2) services, wealth management; (3) management, mortgage banking; banking, and (4) other general banking services.

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The following table presents the Company's noninterest income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(dollars in thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Retirement and benefit services	$ 18,605	$ 16,597	$ 49,977	$ 50,536	$15,655	$15,482
Wealth management	5,271	4,852	15,915	15,726	6,118	5,194
Mortgage banking	2,510	3,782	7,132	14,751	1,670	1,717
Service charges on deposit accounts	328	377	940	1,152	389	301
Other	1,693	1,402	5,475	3,541	1,491	2,559
Total noninterest income	$ 28,407	$ 27,010	$ 79,439	$ 85,706	$25,323	$25,253
Noninterest income as a % of revenue	58.21 %	48.82 %	54.51 %	54.08 %	53.26 %	51.63 %

Total noninterest income for the three months ended September 30, 2023 March 31, 2024 was $28.4 million $25.3 million, a $1.4 million, $70 thousand, or 5.2% 0.3%, increase compared to $27.0 million $25.3 million for the three months ended September 30, 2022 March 31, 2023. The increase in noninterest income was primarily driven by an increase of $2.0 million $0.9 million in wealth management revenue and $0.2 million in retirement and benefit services revenue due to assets under administration/management growth, primarily driven by improved equity and bond markets. This increase was offset by a $1.1 million decrease in other noninterest income, primarily due to $1.2 million in proceeds on a bank-owned life insurance claim in the divestiture first quarter of 2023. Noninterest income for the three months ended March 31, 2023, included revenue of $0.9 million related to the ESOP trustee business and increased assets under administration/management. Assets under administration/management were higher due to an increase that was subsequently divested in overall plans and participants coupled with improved equity and bond markets.

Total noninterest income for the nine months ended September 30, 2023, was $79.4 million, a $6.3 million, or 7.3%, decrease compared to $85.7 million for the nine months ended September 30, 2022. The decrease in noninterest income was primarily driven by a decrease third quarter of $7.6 million in mortgage banking revenue as mortgage originations decreased compared to 2022 as higher interest rates dramatically impacted demand. 2023.

The Company anticipates that noninterest income will continue to be significantly adversely affected in future periods as a result of increasing interest rates and inflationary pressure, which have begun, to and will continue, to adversely affect mortgage originations and mortgage banking revenue.

See "NOTE 15 Segment Reporting" of the consolidated financial statements for additional discussion regarding the Company's business lines.

Noninterest Expense

The following table presents noninterest expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(dollars in thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Compensation	$ 19,071	$ 21,168	$ 57,076	$ 61,467	$19,332	$19,158
Employee taxes and benefits	4,895	5,079	15,472	17,028	6,188	5,853
Occupancy and equipment expense	1,883	1,925	5,619	5,713	1,906	1,899
Business services, software and technology expense	4,774	5,373	15,367	15,082	5,345	5,324
Intangible amortization expense	1,324	1,324	3,972	3,430	1,324	1,324
Professional fees and assessments	1,716	3,126	4,397	6,913	1,993	1,152
Marketing and business development	692	890	2,026	2,304	685	686
Supplies and postage	410	588	1,275	1,806	528	460
Travel	322	291	876	826	292	248
Mortgage and lending expenses	689	409	1,401	1,577	441	497
Other	1,484	2,594	4,022	4,676	985	1,268
Total noninterest expense	$ 37,260	$ 42,767	$ 111,503	$ 120,822	$39,019	$37,869

Total noninterest expense for the three months ended September 30, 2023, was $37.3 million, a $5.5 million, or 12.9%, decrease compared to $42.8 million for the three months ended September 30, 2022. The year over year decrease was primarily due to a $2.1 million decrease in compensation and $1.4 million decrease in professional fees and

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assessments. Compensation decreased primarily due to a decrease in overall headcount and due to lower mortgage related incentive compensation as a result of lower mortgage originations. The decrease in professional fees and assessments was due to merger-related expenses incurred in the third quarter of 2022, in connection with the acquisition of Metro Phoenix Bank.

Total noninterest expense for the nine three months ended September 30, 2023 March 31, 2024, was $111.5 million $39.0 million, a $9.3 million $1.2 million, or 7.7% 3.0%, decrease increase compared to $120.8 million $37.9 million for the nine three months ended September 30, 2022 March 31, 2023. The decrease year over year increase was primarily driven by decreases of $4.4 million in compensation, $1.6 million in employee taxes and benefits, and $2.5 million in professional fees and assessments. The decrease in compensation expense was primarily due to a decrease in overall headcount and due to a lower mortgage related incentive compensation as a result of lower mortgage originations, which was also the primary driver for the decrease in mortgage and lending expenses. The decrease in employee taxes and benefits was primarily due to lower group insurance claims driven by a reduction in headcount along with a decrease in taxes driven by lower compensation expense. The decrease in higher professional fees and assessments was primarily driven by lower merger and acquisition and recruitment expenses offset by due to an increase in FDIC assessments. assessments and an increase in recruitment expense driven by talent acquisitions in the first quarter of 2024.

Income Tax Expense

Income tax expense is an estimate based on the amount the Company expects to owe the respective 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 September 30, 2023 March 31, 2024, the Company recognized income tax expense of $2.4 million $2.1 million on $11.5 million $8.5 million of pre-tax income, resulting in an effective tax rate of 20.6% 24.5%, compared to income tax expense of $2.9 million $2.3 million on $12.6 million $10.5 million of pre-tax income for the three months ended September 30, 2022 March 31, 2023, resulting in an effective tax rate of 23.3%.

For the nine months ended September 30, 2023, the Company recognized income tax expense of $7.2 million on $33.7 million of pre-tax income, resulting in an effective tax rate of 21.4%, compared to income tax expense of $8.6 million on $37.6 million of pre-tax income for the nine months ended September 30, 2022, resulting in an effective tax rate of 22.7% 22.0%.

Financial Condition

Overview

Total assets were $3.9 $4.3 billion as of September 30, 2023 March 31, 2024, an increase of $89.5 million $430.4 million, or 2.4% 11.0%, compared to December 31, 2022 December 31, 2023. The increase was primarily due to a $162.4 million increase in loans, $6.9 million increase in loans held for sale and $6.5 million $415.9 million increase in cash and cash equivalents and a $39.9 million increase in loans, partially offset by a decrease of $96.0 million $17.5 million in investment securities. The increase in cash and cash equivalents was primarily driven by the net proceeds from BTFP borrowings.

Investment Securities

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

(dollars in thousands)	March 31, 2024 Balance	March 31, 2024 Percent of Portfolio	December 31, 2023 Balance	December 31, 2023 Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 838	0.1 %	$ 1,120	0.2 %
Mortgage backed securities				
Residential agency	420,893	58.3	435,594	58.4
Commercial	1,351	0.2	1,353	0.2
Asset backed securities	22	—	25	—
Corporate bonds	49,168	6.8	48,644	6.5
Total available-for-sale investment securities	472,272	65.4	486,736	65.3
Held-to-maturity				
Obligations of state and political agencies	111,986	15.5	116,990	15.7
Mortgage backed securities				
Residential agency	137,821	19.1	141,627	19.0
Total held-to-maturity investment securities	249,807	34.6	258,617	34.7
Total investment securities	$ 722,079	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

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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 March 31, 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 $5.1 million increase in the allowance for credit losses. tax-equivalent basis, assuming a 21.00% income tax rate.

	Maturity as of March 31, 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	$ —	— %	$ 470	5.89 %	$ —	— %	$ 368	5.94 %
Mortgage backed securities								
Residential agency	12	2.76	3,017	2.48	4,142	3.07	413,722	1.71
Commercial	—	—	—	—	1,351	2.40	—	—
Asset backed securities	—	—	—	—	5	4.19	17	5.04
Corporate bonds	—	—	—	—	49,168	3.69	—	—
Total available-for-sale investment securities	12	2.76	3,487	2.93	54,666	3.61	414,107	1.71
Held-to-maturity								

Obligations of state and political agencies	7,974	1.08	43,614	1.43	49,662	2.04	10,736	2.21
Mortgage backed securities								
Residential agency	—	—	—	—	—	—	137,821	2.24
Total held-to-maturity investment securities	7,974	1.08	43,614	1.43	49,662	2.04	148,557	2.23
Total investment securities	$ 7,986	1.08 %	$ 47,101	1.54 %	$ 104,328	2.87 %	$ 562,664	1.85 %

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, and other revolving and installment loans. As

Total loans outstanding were $2.8 billion as of September 30, 2023 March 31, 2024, the portfolio mix an increase of $39.9 million, or 1.4%, from December 31, 2023. The increase was 22.3% primarily driven by a $28.0 million increase in CRE loans and a $13.4 million increase in commercial and industrial 39.3% commercial real estate, 33.4% loans, offset by a $2.0 million decrease in residential real estate and 5.0% in other categories. loans.

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The following table presents the composition Company's loan portfolio is highly diversified. As of total loans outstanding by portfolio segment as March 31, 2024, approximately 21.8% of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022		Change	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Amount	Percent
Commercial						
Commercial and industrial	$ 582,387	22.3 %	$ 583,876	23.9 %	$ (1,489)	(0.3)%
Real estate construction	97,742	3.8 %	97,810	4.0 %	(68)	(0.1)%
Commercial real estate	1,025,014	39.3 %	881,670	36.0 %	143,344	16.3 %
Total commercial	1,705,143	65.4 %	1,563,356	63.9 %	141,787	9.1 %
Consumer						
Residential real estate first mortgage	717,793	27.5 %	679,551	27.8 %	38,242	5.6 %
Residential real estate junior lien	152,677	5.9 %	150,479	6.2 %	2,198	1.5 %
Other revolving and installment	30,817	1.2 %	50,608	2.1 %	(19,791)	(39.1)%
Total consumer	901,287	34.6 %	880,638	36.1 %	20,649	2.3 %
Total loans	$ 2,606,430	100.0 %	$ 2,443,994	100.0 %	$ 162,436	6.6 %

Total loans outstanding were $2.6 billion as commercial and industrial, while 45.7% of September 30, 2023, an increase loans outstanding were CRE, and 31.4% of $162.4 million, or 6.6%, from December 31, 2022. The increase was primarily driven by a $143.3 million increase in commercial real estate and a $38.2 million increase in loans outstanding were residential real estate loans, offset by a $19.8 million decrease in other consumer revolving and installment loans. estate.

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Commercial and industrial:				

General business	$ 316,298	11.3 %	$ 294,149	10.7 %
Services	147,584	5.3	146,318	5.3
Retail trade	79,620	2.8	91,216	3.3
Manufacturing	68,193	2.4	66,638	2.4
Total commercial and industrial	611,695	21.8	598,321	21.7
Commercial real estate:				
Owner occupied	285,149	10.2	271,619	9.8
Non-owner occupied				
Multifamily	260,609	9.3	245,103	8.9
Office	133,284	4.8	124,684	4.5
Industrial	103,303	3.7	104,241	3.8
Retail	96,023	3.4	96,578	3.5
Hotel	67,288	2.4	80,576	2.9
Medical office	63,775	2.3	63,788	2.3
Medical or nursing facility	47,302	1.7	47,625	1.7
Other commercial real estate	55,066	1.9	51,866	1.9
Total non-owner occupied	826,650	29.5	814,461	29.5
Construction	125,966	4.5	124,034	4.5
Agricultural real estate	41,149	1.5	40,832	1.5
Total commercial real estate	1,278,914	45.7	1,250,946	45.3
Consumer				
Residential real estate first mortgage	722,151	25.8	726,879	26.3
Residential real estate junior lien	156,882	5.6	154,134	5.6
Other revolving and installment	29,833	1.1	29,303	1.1
Total consumer	908,866	32.5	910,316	33.0
Total loans	$ 2,799,475	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 for the commercial and industrial and commercial real estate loan portfolios as a result of recently added production talent.

Commercial 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 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 the non-owner occupied CRE loans for the periods presented:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
Geographical Market:				
Minnesota	$ 408,858	49.5 %	$ 394,754	48.5 %
North Dakota	212,551	25.7 %	214,884	26.4 %
Arizona	130,568	15.8 %	139,450	17.1 %
Missouri	15,970	1.9 %	15,969	2.0 %
Oregon	14,956	1.8 %	14,953	1.8 %
South Dakota	14,720	1.8 %	14,790	1.8 %
Other	29,027	3.5 %	19,661	2.4 %
Total non-owner occupied commercial real estate loans	$ 826,650	100.0 %	$ 814,461	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.

Residential real estate 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. Residential real estate 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 consist mainly of revolving lines of credit secured by residential real estate.

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.

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The Company's consumer mortgage loans have minimal direct exposure to subprime mortgages as the loans are underwritten to conform to secondary market standards. As of March 31, 2024, the Company's consumer mortgage portfolio was $879.0 million, which was a $2.0 million, or 0.2%, decrease from $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.

The following table presents the maturities and types of interest rates for the loan portfolio as of September 30, 2023 March 31, 2024:

	September 30, 2023					March 31, 2024				
(dollars in thousands)	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial										
Commercial and industrial	$ 168,974	$ 252,223	$ 161,190	$ —	$ 582,387	$149,102	$ 259,712	$ 202,881	$ —	$ 611,695
Real estate construction	25,538	63,442	6,567	2,195	97,742	12,214	109,851	1,709	2,192	125,966
Commercial real estate	67,108	449,764	445,426	62,716	1,025,014	91,414	610,152	384,410	66,972	1,152,948
Total commercial	261,620	765,429	613,183	64,911	1,705,143	252,730	979,715	589,000	69,164	1,890,609
Consumer										
Residential real estate first mortgage	5,829	30,107	45,676	636,181	717,793	4,601	33,865	43,388	640,297	722,151
Residential real estate junior lien	8,708	22,360	34,557	87,052	152,677	8,684	21,224	32,724	94,250	156,882
Other revolving and installment	8,734	19,242	2,841	—	30,817	10,442	16,808	2,583	—	29,833
Total consumer	23,271	71,709	83,074	723,233	901,287	23,727	71,897	78,695	734,547	908,866
Total loans	$ 284,891	$ 837,138	$ 696,257	$ 788,144	$ 2,606,430	$276,457	$1,051,612	$ 667,695	$ 803,711	$2,799,475
Loans with fixed interest rates:										
Commercial										
Commercial and industrial	$ 14,337	$ 217,039	$ 59,857	$ —	$ 291,233	$ 19,540	$ 211,917	$ 79,223	$ —	$ 310,680
Real estate construction	5,837	15,930	3,973	—	25,740	10,220	22,143	34	—	32,397
Commercial real estate	48,842	330,527	284,539	22,740	686,648	78,793	415,228	253,237	23,456	770,714
Total commercial	69,016	563,496	348,369	22,740	1,003,621	108,553	649,288	332,494	23,456	1,113,791
Consumer										
Residential real estate first mortgage	4,269	26,273	38,048	419,213	487,803	2,576	30,943	36,759	410,236	480,514
Residential real estate junior lien	1,451	6,899	22,487	15,828	46,665	2,314	6,312	22,269	14,091	44,986
Other revolving and installment	3,231	16,797	2,841	—	22,869	1,520	13,417	2,583	—	17,520

Total consumer	8,951	49,969	63,376	435,041	557,337	6,410	50,672	61,611	424,327	543,020
Total loans with fixed interest rates	$ 77,967	$ 613,465	$ 411,745	$ 457,781	$ 1,560,958	$114,963	$ 699,960	$ 394,105	$ 447,783	$1,656,811
Loans with floating interest rates:										
Commercial										
Commercial and industrial	$ 154,637	$ 35,184	$ 101,333	$ —	$ 291,154	$129,562	$ 47,795	$ 123,658	$ —	$ 301,015
Real estate construction	19,701	47,512	2,594	2,195	72,002	1,994	87,708	1,675	2,192	93,569
Commercial real estate	18,266	119,237	160,887	39,976	338,366	12,621	194,924	131,173	43,516	382,234
Total commercial	192,604	201,933	264,814	42,171	701,522	144,177	330,427	256,506	45,708	776,818
Consumer										
Residential real estate first mortgage	1,560	3,834	7,628	216,968	229,990	2,025	2,922	6,629	230,061	241,637
Residential real estate junior lien	7,257	15,461	12,070	71,224	106,012	6,370	14,912	10,455	80,159	111,896
Other revolving and installment	5,503	2,445	—	—	7,948	8,922	3,391	—	—	12,313
Total consumer	14,320	21,740	19,698	288,192	343,950	17,317	21,225	17,084	310,220	365,846
Total loans with floating interest rates	$ 206,924	$ 223,673	$ 284,512	$ 330,363	$ 1,045,472	$161,494	$ 351,652	$ 273,590	$ 355,928	$1,142,664

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 Investment Securities

The following table presents the fair value composition of the Company’s investment securities portfolio as of March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 838	0.1 %	$ 1,120	0.2 %
Mortgage backed securities				
Residential agency	420,893	58.3	435,594	58.4
Commercial	1,351	0.2	1,353	0.2
Asset backed securities	22	—	25	—
Corporate bonds	49,168	6.8	48,644	6.5

Total available-for-sale investment securities	472,272	65.4	486,736	65.3
Held-to-maturity				
Obligations of state and political agencies	111,986	15.5	116,990	15.7
Mortgage backed securities				
Residential agency	137,821	19.1	141,627	19.0
Total held-to-maturity investment securities	249,807	34.6	258,617	34.7
Total investment securities	$ 722,079	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 management includes 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 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 other categories of the allowance. The Company utilized an internal lending division, Special Credit Services, to develop and implement strategies for the management of individual nonperforming loans. balance

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Credit Quality Indicators

Loans are assigned sheet, while providing a risk rating vehicle for the investment of available funds, furnishing liquidity, and grouped into categories based on relevant information about the ability of borrowers supplying securities 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 4 Loans and Allowance for Credit Losses" to the consolidated financial statements for a definition of each of the risk ratings.

The table below presents criticized loans outstanding by loan portfolio segment pledge as of September 30, 2023 and December 31, 2022: collateral.

(dollars in thousands)	**September 30, 2023**	**December 31, 2022**
Commercial		
Commercial and industrial	$ 31,682	$ 25,182
Real estate construction	15,131	262
Commercial real estate	6,932	8,400
Total commercial	53,745	33,844
Consumer		
Residential real estate first mortgage	107	808
Residential real estate junior lien	1,922	632
Other revolving and installment	—	1
Total consumer	2,029	1,441
Total loans	$ 55,774	$ 35,285
Criticized loans as a percent of total loans	2.14 %	1.44 %

The investment securities presented in the following table presents information regarding nonperforming assets are reported at fair value and by contractual maturity as of September 30, 2023 March 31, 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 December 31, 2022: collateralized mortgage obligations receive monthly principal payments, which are not reflected below. The yields below are calculated on a tax-equivalent basis, assuming a 21.00% income tax rate.

(dollars in thousands)	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 9,007	$ 3,794
Accruing loans 90+ days past due	—	—
Total nonperforming loans	9,007	3,794
OREO and repossessed assets	3	30
Total nonperforming assets	9,010	3,824
Total restructured accruing loans	—	151
Total nonperforming assets and restructured accruing loans	$ 9,010	$ 3,975
Nonperforming loans to total loans	0.35 %	0.16 %
Nonperforming assets to total assets	0.23 %	0.10 %
Allowance for credit losses on loans to nonperforming loans	403 %	821 %

	Maturity as of March 31, 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	$ —	— %	$ 470	5.89 %	$ —	— %	$ 368	5.94 %
Mortgage backed securities								
Residential agency	12	2.76	3,017	2.48	4,142	3.07	413,722	1.71
Commercial	—	—	—	—	1,351	2.40	—	—
Asset backed securities	—	—	—	—	5	4.19	17	5.04
Corporate bonds	—	—	—	—	49,168	3.69	—	—
Total available-for-sale investment securities	12	2.76	3,487	2.93	54,666	3.61	414,107	1.71
Held-to-maturity								
Obligations of state and political agencies	7,974	1.08	43,614	1.43	49,662	2.04	10,736	2.21
Mortgage backed securities								
Residential agency	—	—	—	—	—	—	137,821	2.24
Total held-to-maturity investment securities	7,974	1.08	43,614	1.43	49,662	2.04	148,557	2.23
Total investment securities	$ 7,986	1.08 %	$ 47,101	1.54 %	$ 104,328	2.87 %	$ 562,664	1.85 %

Interest income lost on nonaccrual loans approximated $287 thousand and $172 thousand for the nine months ended September 30, 2023 and 2022, respectively. There was no interest income included in net interest income related to nonaccrual loans for the nine months ended September 30, 2023 and 2022.

Allowance for Credit Losses on Loans

The allowance for credit losses is loan portfolio represents a significant estimate in the Company's Consolidated Balance Sheet, affecting both earnings broad range of borrowers comprised of commercial and capital. Its methodology influences industrial, real estate construction, commercial real estate ("CRE"), residential real estate, and is influenced by the Company's overall credit risk management processes. The allowance for credit losses is managed in accordance with GAAP to provide an adequate reserve for expected credit losses that is reflective of management's best estimate of what is expected to be collected. All estimates of credit losses should be based on a careful consideration of all significant factors affecting the collectability other revolving and installment loans.

Total loans outstanding were $2.8 billion as of the evaluation date. March 31, 2024, an increase of $39.9 million, or 1.4%, from December 31, 2023. The allowance for credit losses is established through provision for credit loss expense charged to income. increase was primarily driven by a $28.0 million increase in CRE loans and a $13.4 million increase in commercial and industrial loans, offset by a $2.0 million decrease in residential real estate loans.

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The Company's loan portfolio is highly diversified. As of March 31, 2024, approximately 21.8% of loans outstanding were commercial and industrial, while 45.7% of loans outstanding were CRE, and 31.4% of loans outstanding were residential real estate.

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Commercial and industrial:				
General business	$ 316,298	11.3 %	$ 294,149	10.7 %
Services	147,584	5.3	146,318	5.3
Retail trade	79,620	2.8	91,216	3.3
Manufacturing	68,193	2.4	66,638	2.4
Total commercial and industrial	611,695	21.8	598,321	21.7
Commercial real estate:				
Owner occupied	285,149	10.2	271,619	9.8
Non-owner occupied				
Multifamily	260,609	9.3	245,103	8.9
Office	133,284	4.8	124,684	4.5
Industrial	103,303	3.7	104,241	3.8
Retail	96,023	3.4	96,578	3.5
Hotel	67,288	2.4	80,576	2.9
Medical office	63,775	2.3	63,788	2.3
Medical or nursing facility	47,302	1.7	47,625	1.7
Other commercial real estate	55,066	1.9	51,866	1.9
Total non-owner occupied	826,650	29.5	814,461	29.5
Construction	125,966	4.5	124,034	4.5
Agricultural real estate	41,149	1.5	40,832	1.5
Total commercial real estate	1,278,914	45.7	1,250,946	45.3
Consumer				
Residential real estate first mortgage	722,151	25.8	726,879	26.3
Residential real estate junior lien	156,882	5.6	154,134	5.6
Other revolving and installment	29,833	1.1	29,303	1.1
Total consumer	908,866	32.5	910,316	33.0
Total loans	$ 2,799,475	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 calculates anticipates continued loan growth for the allowance commercial and industrial and commercial real estate loan portfolios as a result of recently added production talent.

Commercial 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 losses at each are generally governed by a borrowing base. Inherent lending risks are monitored on a continuous basis through interim reporting, date. 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 recognizes requires collateral values in excess of the loan amounts, cash flows in excess of expected debt service requirements and equity 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 allowance for 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 lifetime expected credit losses for risk profile of each

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asset class. CRE loan policies are reviewed no less than semi-annually by management and approved by the amount 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 expect 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 collect. Subsequent changes net operating income and capitalization rates. The Company does not have exposure to the office building sector in expected credit losses are recognized immediately central business districts as the office portfolio is generally diversified in earnings. Management determines suburban markets with strong occupancy levels.

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

(dollars in thousands)	March 31, 2024 Balance	March 31, 2024 Percent of Total	December 31, 2023 Balance	December 31, 2023 Percent of Total
Geographical Market:				
Minnesota	$ 408,858	49.5 %	$ 394,754	48.5 %
North Dakota	212,551	25.7 %	214,884	26.4 %
Arizona	130,568	15.8 %	139,450	17.1 %
Missouri	15,970	1.9 %	15,969	2.0 %
Oregon	14,956	1.8 %	14,953	1.8 %
South Dakota	14,720	1.8 %	14,790	1.8 %
Other	29,027	3.5 %	19,661	2.4 %

Total non-owner occupied commercial real estate loans	$ 826,650	100.0 %	$ 814,461	100.0 %

The Bank does not currently monitor owner occupied CRE loans based on periodic evaluations 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.

Residential real estate 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 loan portfolio, after consideration construction phase, which is typically twelve months. Residential real estate loans also include home equity loans and lines of risk characteristics credit that are secured by a first or second lien on the borrower's residence. Home equity lines of credit consist mainly of revolving lines of credit secured by residential real estate.

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 prevailing and anticipated economic and other conditions. A risk system, consisting lines of multiple grading categories for each portfolio class, is utilized as an analytical tool to assess risk and appropriate reserves. In addition to the risk system, management further evaluates risk characteristics credit that are secured by first or junior liens. Most of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition Company's fixed rate residential loans, along with some of the borrower, expected loss experience, and Company's adjustable rate mortgages are sold to other relevant information from internal and external sources financial institutions with which management feels deserve recognition in establishing an appropriate reserve. These evaluations are inherently subjective as they require management to make material estimates, all of which may be susceptible to significant change. the Company has established a correspondent lending relationship.

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The Company's consumer mortgage loans have minimal direct exposure to subprime mortgages as the loans are underwritten to conform to secondary market standards. As of March 31, 2024, the Company's consumer mortgage portfolio was $879.0 million, which was a $2.0 million, or 0.2%, decrease from $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.

The following table presents by loan type, the changes in the allowance for credit losses on loans maturities and types of interest rates for the periods presented: loan portfolio as of March 31, 2024:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Balance—beginning of period	$ 35,696	$ 31,373	$ 35,003	$ 31,572
Commercial loan charge-offs				
Commercial and Industrial	(134)	(672)	(394)	(1,336)

Real estate construction	—	—	—	—
Commercial real estate	—	—	—	—
Total commercial loan charge-offs	(134)	(672)	(394)	(1,336)
Consumer loan charge-offs				
Residential real estate first mortgage	(9)	—	(9)	—
Residential real estate junior lien	—	—	(77)	—
Other revolving and installment	(8)	(75)	(36)	(130)
Total consumer loan charge-offs	(17)	(75)	(122)	(130)
Total loan charge-offs	(151)	(747)	(516)	(1,466)
Commercial loan recoveries				
Commercial and Industrial	456	105	950	321
Real estate construction	—	76	—	76
Commercial real estate	11	101	34	123
Total commercial recoveries	467	282	984	520
Consumer loan recoveries				
Residential real estate first mortgage	254	—	256	—
Residential real estate junior lien	—	7	52	221
Other revolving and installment	24	53	51	121
Total consumer loan recoveries	278	60	359	342
Total loan recoveries	745	342	1,343	862
Net loan charge-offs (recoveries)	(594)	405	(827)	604
Commercial loan provision				
Commercial and Industrial	442	(845)	(275)	1,011
Real estate construction	1,063	378	745	473
Commercial real estate	(270)	1,335	408	(229)
Total commercial loan provision	1,235	868	878	1,255
Consumer loan provision				
Residential real estate first mortgage	(389)	(584)	(339)	(941)
Residential real estate junior lien	(14)	(109)	140	(151)
Other revolving and installment	(58)	(75)	(188)	65
Total consumer loan provision	(461)	(768)	(387)	(1,027)
Unallocated provision expense	(774)	(100)	(31)	(228)
Total provision for credit losses on loans	—	—	460	—
Balance—end of period	$ 36,290	$ 30,968	$ 36,290	$ 30,968
Total loans	$ 2,606,430	$ 2,318,231	$ 2,606,430	$ 2,318,231
Average total loans	2,544,836	2,262,361	2,495,122	1,958,216
Allowance for credit losses on loans to total loans	1.39 %	1.34 %	1.39 %	1.34 %
Net charge-offs/(recoveries) to average total loans (annualized)	(0.09)%	0.07 %	(0.04)%	0.04 %

	March 31, 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	$ 149,102	$ 259,712	$ 202,881	$ —	$ 611,695
Real estate construction	12,214	109,851	1,709	2,192	125,966
Commercial real estate	91,414	610,152	384,410	66,972	1,152,948
Total commercial	252,730	979,715	589,000	69,164	1,890,609
Consumer					
Residential real estate first mortgage	4,601	33,865	43,388	640,297	722,151
Residential real estate junior lien	8,684	21,224	32,724	94,250	156,882
Other revolving and installment	10,442	16,808	2,583	—	29,833
Total consumer	23,727	71,897	78,695	734,547	908,866

Total loans	$ 276,457	$ 1,051,612	$ 667,695	$ 803,711	$ 2,799,475
Loans with fixed interest rates:					
Commercial					
Commercial and industrial	$ 19,540	$ 211,917	$ 79,223	$ —	$ 310,680
Real estate construction	10,220	22,143	34	—	32,397
Commercial real estate	78,793	415,228	253,237	23,456	770,714
Total commercial	108,553	649,288	332,494	23,456	1,113,791
Consumer					
Residential real estate first mortgage	2,576	30,943	36,759	410,236	480,514
Residential real estate junior lien	2,314	6,312	22,269	14,091	44,986
Other revolving and installment	1,520	13,417	2,583	—	17,520
Total consumer	6,410	50,672	61,611	424,327	543,020
Total loans with fixed interest rates	$ 114,963	$ 699,960	$ 394,105	$ 447,783	$ 1,656,811
Loans with floating interest rates:					
Commercial					
Commercial and industrial	$ 129,562	$ 47,795	$ 123,658	$ —	$ 301,015
Real estate construction	1,994	87,708	1,675	2,192	93,569
Commercial real estate	12,621	194,924	131,173	43,516	382,234
Total commercial	144,177	330,427	256,506	45,708	776,818
Consumer					
Residential real estate first mortgage	2,025	2,922	6,629	230,061	241,637
Residential real estate junior lien	6,370	14,912	10,455	80,159	111,896
Other revolving and installment	8,922	3,391	—	—	12,313
Total consumer	17,317	21,225	17,084	310,220	365,846
Total loans with floating interest rates	$ 161,494	$ 351,652	$ 273,590	$ 355,928	$ 1,142,664

Effective January 1, 2023, the Company adopted the new CECL accounting standard. The adoption expected life of the CECL accounting standard resulted in Company's loan portfolio will differ from contractual maturities because borrowers may have the Company's allowance for credit losses increasing by approximately $5.9 million relative right to curtail or prepay their loans with or without penalties. Consequently, the allowance held as of December 31, 2022. The adoption table above includes information limited to contractual maturities of the CECL accounting standard resulted in an additional allowance of $3.9 million in the allowance for credit losses on loans and $1.9 million in additional allowance for credit losses on unfunded commitments. The allowance for credit losses on loans was $36.3 million as of September 30, 2023, compared to $31.1 million as of December 31, 2022. The $5.1 million increase was the result of a $3.9 million increase from the adoption of the CECL accounting standard as well as a $550 thousand provision for credit losses on loans expense. As of September 30, 2023, the allowance for credit losses on loans represented 1.39% of total underlying loans.

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The following table summarizes the activity in the allowance for credit losses on loans for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Balance—beginning of period	$ 35,696	$ 31,373	$ 35,003	$ 31,572
Net charge-offs (recoveries):				
Commercial net charge-offs (recoveries)				

Commercial and Industrial	(322)	567	(556)	1,015
Real estate construction	—	(76)	—	(76)
Commercial real estate	(11)	(101)	(34)	(123)
Total commercial net charge-offs (recoveries)	(333)	390	(590)	816
Consumer net charge-offs (recoveries)				
Residential real estate first mortgage	(245)	—	(247)	—
Residential real estate junior lien	—	(7)	25	(221)
Other revolving and installment	(16)	22	(15)	9
Total consumer net charge-offs (recoveries)	(261)	15	(237)	(212)
Total net charge-offs (recoveries)	(594)	405	(827)	604
Provision for credit losses on loans	—	—	460	—
Balance—end of period	$ 36,290	$ 30,968	$ 36,290	$ 30,968
Net charge-offs (recoveries) to average loans				
Commercial net charge-offs (recoveries) to average loans				
Commercial and Industrial	(0.05)%	0.10 %	(0.03)%	0.07 %
Real estate construction	— %	(0.01)%	— %	(0.01)%
Commercial real estate	— %	(0.02)%	— %	(0.01)%
Total commercial net charge-offs (recoveries) to average loans	(0.05)%	0.07 %	(0.03)%	0.06 %
Consumer net charge-offs (recoveries) to average loans				
Residential real estate first mortgage	(0.04)%	— %	(0.01)%	— %
Residential real estate junior lien	— %	— %	— %	(0.02)%
Other revolving and installment	— %	— %	— %	— %
Total consumer net charge-offs (recoveries) to average loans	(0.04)%	— %	(0.01)%	(0.01)%
Total net charge-offs (recoveries) to average loans	(0.09)%	0.07 %	(0.04)%	0.04 %
Allowance for credit losses on loans to total loans	1.39 %	1.34 %	1.39 %	1.34 %
Allowance for credit losses on loans to nonaccrual loans	403 %	816 %	403 %	816 %
Allowance for credit losses on loans to nonperforming loans	403 %	821 %	403 %	821 %

The following table presents the allocation of the allowance for credit losses on loans as of the dates presented:

	September 30, 2023		December 31, 2022	
(dollars in thousands)	Allocated Allowance	Percentage of loans to total loans	Allocated Allowance	Percentage of loans to total loans
Commercial and industrial	$ 8,577	22.3 %	$ 9,158	23.9 %
Real estate construction	4,709	3.8 %	1,446	4.0 %
Commercial real estate	12,706	39.3 %	12,688	36.0 %
Residential real estate first mortgage	7,757	27.5 %	5,769	27.8 %
Residential real estate junior lien	1,337	5.9 %	1,289	6.2 %
Other revolving and installment	251	1.2 %	528	2.1 %
Unallocated	953	— %	268	— %
Total loans	$ 36,290	100.0 %	$ 31,146	100.0 %

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 allowance was established for off-balance sheet credit exposures as part of the adoption of the CECL accounting standard and is measured using similar internal and external assumptions.

This allowance is located in accrued expenses and other liabilities on the Consolidated Balance Sheets. The reserve for unfunded commitments was $5.2 million as of September 30, 2023.

Investment Securities

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

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 838	0.1 %	$ 1,120	0.2 %
Mortgage backed securities				
Residential agency	420,893	58.3	435,594	58.4
Commercial	1,351	0.2	1,353	0.2
Asset backed securities	22	—	25	—
Corporate bonds	49,168	6.8	48,644	6.5
Total available-for-sale investment securities	472,272	65.4	486,736	65.3
Held-to-maturity				
Obligations of state and political agencies	111,986	15.5	116,990	15.7
Mortgage backed securities				
Residential agency	137,821	19.1	141,627	19.0
Total held-to-maturity investment securities	249,807	34.6	258,617	34.7
Total investment securities	$ 722,079	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 following table presents the fair value composition of the Company's investment securities portfolio as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 2,665	0.3 %	$ 3,520	0.3 %
Mortgage backed securities				
Residential agency	521,623	55.3 %	587,679	56.6 %
Commercial	58,685	6.2 %	63,558	6.1 %

Asset backed securities	27	— %	34	— %
Corporate bonds	57,001	6.0 %	62,533	6.0 %
Total available-for-sale investment securities	640,001	67.8 %	717,324	69.0 %
Held-to-maturity				
Obligations of state and political agencies	130,088	13.8 %	137,787	13.3 %
Mortgage backed securities				
Residential agency	173,398	18.4 %	184,115	17.7 %
Total held-to-maturity investment securities	303,486	32.2 %	321,902	31.0 %
Total investment securities	$ 943,487	100.0 %	$ 1,039,226	100.0 %

The investment securities presented in the following table are reported at fair value and by contractual maturity as of September 30, 2023March 31, 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

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collateralized mortgage obligations receive monthly principal payments, which are not reflected below. The yields below are calculated on a tax-equivalent basis. basis, assuming a 21.00% income tax rate.

	Maturity as of September 30, 2023								Maturity as of March 31, 2024						
	One year or less		One to five years		Five to ten years		After ten years		One year or less		One to five years		Five to ten years		After te
(dollars in thousands)	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value
Available-for-sale															
U.S. Treasury and agencies	$ —	— %	$ 390	4.26 %	$ 590	5.68 %	$ 1,685	5.66 %	$ —	— %	$ 470	5.89 %	$ —	— %	$ 368
Mortgage backed securities															
Residential agency	15	3.11 %	3,248	2.22 %	5,416	2.77 %	512,944	1.82 %	12	2.76	3,017	2.48	4,142	3.07	413,722
Commercial	—	— %	15,316	2.77 %	9,179	2.88 %	34,190	2.42 %	—	—	—	—	1,351	2.40	—
Asset backed securities	—	— %	—	— %	8	5.20 %	19	5.04 %	—	—	—	—	5	4.19	17
Corporate bonds	—	— %	—	— %	57,001	3.83 %	—	— %	—	—	—	—	49,168	3.69	—
Total available-for-sale investment securities	15	3.11 %	18,954	2.71 %	72,194	3.66 %	548,838	1.87 %	12	2.76	3,487	2.93	54,666	3.61	414,107
Held-to-maturity															

Obligations of state and political agencies	5,875	0.60 %	45,878	1.38 %	49,427	2.04 %	10,257	2.21 %	7,974	1.08	43,614	1.43	49,662	2.04	10,736
Mortgage backed securities															
Residential agency	—	— %	—	— %	—	— %	136,802	2.17 %	—	—	—	—	—	—	137,821
Total held-to-maturity investment securities	5,875	0.60 %	45,878	1.38 %	49,427	2.04 %	147,059	2.17 %	7,974	1.08	43,614	1.43	49,662	2.04	148,557
Total investment securities	$ 5,890	0.61 %	$ 64,832	1.77 %	$ 121,621	2.99 %	$ 695,897	1.93 %	$ 7,986	1.08 %	$ 47,101	1.54 %	$ 104,328	2.87 %	$ 562,664

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, and other revolving and installment loans.

Total loans outstanding were $2.8 billion as of March 31, 2024, an increase of $39.9 million, or 1.4%, from December 31, 2023. The increase was primarily driven by a $28.0 million increase in CRE loans and a $13.4 million increase in commercial and industrial loans, offset by a $2.0 million decrease in residential real estate loans.

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The Company's loan portfolio is highly diversified. As of March 31, 2024, approximately 21.8% of loans outstanding were commercial and industrial, while 45.7% of loans outstanding were CRE, and 31.4% of loans outstanding were residential real estate.

	March 31, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent of Portfolio**	**Balance**	**Percent of Portfolio**
Commercial and industrial:				
General business	$ 316,298	11.3 %	$ 294,149	10.7 %
Services	147,584	5.3	146,318	5.3
Retail trade	79,620	2.8	91,216	3.3
Manufacturing	68,193	2.4	66,638	2.4
Total commercial and industrial	611,695	21.8	598,321	21.7
Commercial real estate:				
Owner occupied	285,149	10.2	271,619	9.8
Non-owner occupied				
Multifamily	260,609	9.3	245,103	8.9
Office	133,284	4.8	124,684	4.5
Industrial	103,303	3.7	104,241	3.8
Retail	96,023	3.4	96,578	3.5

Hotel	67,288	2.4	80,576	2.9
Medical office	63,775	2.3	63,788	2.3
Medical or nursing facility	47,302	1.7	47,625	1.7
Other commercial real estate	55,066	1.9	51,866	1.9
Total non-owner occupied	826,650	29.5	814,461	29.5
Construction	125,966	4.5	124,034	4.5
Agricultural real estate	41,149	1.5	40,832	1.5
Total commercial real estate	1,278,914	45.7	1,250,946	45.3
Consumer				
Residential real estate first mortgage	722,151	25.8	726,879	26.3
Residential real estate junior lien	156,882	5.6	154,134	5.6
Other revolving and installment	29,833	1.1	29,303	1.1
Total consumer	908,866	32.5	910,316	33.0
Total loans	$ 2,799,475	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 for the commercial and industrial and commercial real estate loan portfolios as a result of recently added production talent.

Commercial 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 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 the non-owner occupied CRE loans for the periods presented:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
Geographical Market:				
Minnesota	$ 408,858	49.5 %	$ 394,754	48.5 %
North Dakota	212,551	25.7 %	214,884	26.4 %
Arizona	130,568	15.8 %	139,450	17.1 %
Missouri	15,970	1.9 %	15,969	2.0 %
Oregon	14,956	1.8 %	14,953	1.8 %
South Dakota	14,720	1.8 %	14,790	1.8 %
Other	29,027	3.5 %	19,661	2.4 %
Total non-owner occupied commercial real estate loans	$ 826,650	100.0 %	$ 814,461	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.

Residential real estate 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. Residential real estate 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 consist mainly of revolving lines of credit secured by residential real estate.

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 consumer mortgage loans have minimal direct exposure to subprime mortgages as the loans are underwritten to conform to secondary market standards. As of March 31, 2024, the Company's consumer mortgage portfolio was $879.0 million, which was a $2.0 million, or 0.2%, decrease from $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.

The following table presents the maturities and types of interest rates for the loan portfolio as of March 31, 2024:

	March 31, 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	$ 149,102	$ 259,712	$ 202,881	$ —	$ 611,695
Real estate construction	12,214	109,851	1,709	2,192	125,966
Commercial real estate	91,414	610,152	384,410	66,972	1,152,948
Total commercial	252,730	979,715	589,000	69,164	1,890,609
Consumer					
Residential real estate first mortgage	4,601	33,865	43,388	640,297	722,151
Residential real estate junior lien	8,684	21,224	32,724	94,250	156,882
Other revolving and installment	10,442	16,808	2,583	—	29,833
Total consumer	23,727	71,897	78,695	734,547	908,866
Total loans	$ 276,457	$ 1,051,612	$ 667,695	$ 803,711	$ 2,799,475
Loans with fixed interest rates:					
Commercial					
Commercial and industrial	$ 19,540	$ 211,917	$ 79,223	$ —	$ 310,680
Real estate construction	10,220	22,143	34	—	32,397
Commercial real estate	78,793	415,228	253,237	23,456	770,714
Total commercial	108,553	649,288	332,494	23,456	1,113,791
Consumer					
Residential real estate first mortgage	2,576	30,943	36,759	410,236	480,514
Residential real estate junior lien	2,314	6,312	22,269	14,091	44,986
Other revolving and installment	1,520	13,417	2,583	—	17,520
Total consumer	6,410	50,672	61,611	424,327	543,020
Total loans with fixed interest rates	$ 114,963	$ 699,960	$ 394,105	$ 447,783	$ 1,656,811
Loans with floating interest rates:					
Commercial					
Commercial and industrial	$ 129,562	$ 47,795	$ 123,658	$ —	$ 301,015
Real estate construction	1,994	87,708	1,675	2,192	93,569
Commercial real estate	12,621	194,924	131,173	43,516	382,234
Total commercial	144,177	330,427	256,506	45,708	776,818
Consumer					
Residential real estate first mortgage	2,025	2,922	6,629	230,061	241,637
Residential real estate junior lien	6,370	14,912	10,455	80,159	111,896
Other revolving and installment	8,922	3,391	—	—	12,313
Total consumer	17,317	21,225	17,084	310,220	365,846
Total loans with floating interest rates	$ 161,494	$ 351,652	$ 273,590	$ 355,928	$ 1,142,664

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.

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Asset Quality

The Company's strategy for credit risk management includes 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 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 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 4 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 March 31, 2024 and December 31, 2023:

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Commercial		
Commercial and industrial	$ 42,653	$ 29,840
Real estate construction	21,055	20,667
Commercial real estate	34,442	9,170
Total commercial	98,150	59,677
Consumer		
Residential real estate first mortgage	5,301	105
Residential real estate junior lien	2,588	1,781
Other revolving and installment	1	—
Total consumer	7,890	1,886
Total loans	$ 106,040	$ 61,563
Criticized loans as a percent of total loans	3.79 %	2.23 %

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

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Nonaccrual loans	$ 7,345	$ 8,596
Accruing loans 90+ days past due	—	139
Total nonperforming loans	7,345	8,735
OREO and repossessed assets	3	32
Total nonperforming assets	7,348	8,767
Total restructured accruing loans	—	—
Total nonperforming assets and restructured accruing loans	$ 7,348	$ 8,767
Nonperforming loans to total loans	0.26 %	0.32 %
Nonperforming assets to total assets	0.17 %	0.22 %
Allowance for credit losses on loans to nonperforming loans	498 %	410 %

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Interest income lost on nonaccrual loans approximated $651 thousand and $38 thousand for the three months ended March 31, 2024 and 2023, respectively. There was no interest income included in net interest income related to nonaccrual loans for the three months ended March 31, 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 CECL 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, net of recoveries.

Management estimates the ACL using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable 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.

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. A reserve for unfunded commitments is established using historical loss data and utilization assumptions. This reserve is located under accrued expenses and other liabilities on the Consolidated Balance Sheets. The expense for provision (recovery) for unfunded commitments for the three months ended March 31, 2024 and 2023, was ($0.8) million and $0.2 million, respectively.

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The following table presents, by loan type, the changes in the allowance for credit losses on loans for the periods presented:

	Three months ended March 31,	
(dollars in thousands)	**2024**	**2023**
Balance—beginning of period	$ 35,843	$ 35,003
Commercial loan charge-offs		
Commercial and Industrial	(164)	(175)

Real estate construction	—	—
Commercial real estate	(29)	—
Total commercial loan charge-offs	(193)	(175)
Consumer loan charge-offs		
Residential real estate first mortgage	—	—
Residential real estate junior lien	—	(77)
Other revolving and installment	(12)	(5)
Total consumer loan charge-offs	(12)	(82)
Total loan charge-offs	(205)	(257)
Commercial loan recoveries		
Commercial and Industrial	123	56
Real estate construction	—	—
Commercial real estate	11	11
Total commercial recoveries	134	67
Consumer loan recoveries		
Residential real estate first mortgage	—	2
Residential real estate junior lien	—	6
Other revolving and installment	13	12
Total consumer loan recoveries	13	20
Total loan recoveries	147	87
Net loan charge-offs (recoveries)	58	170
Commercial loan provision		
Commercial and Industrial	122	(395)
Real estate construction	(189)	439
Commercial real estate	834	35
Total commercial loan provision	767	79
Consumer loan provision		
Residential real estate first mortgage	63	187
Residential real estate junior lien	(3)	121
Other revolving and installment	(28)	(118)
Total consumer loan provision	32	190
Total provision for credit losses on loans	799	269
Balance—end of period	$ 36,584	$ 35,102
Total loans	$ 2,799,475	$ 2,486,625
Average total loans	2,768,514	2,457,154
Allowance for credit losses on loans to total loans	1.31 %	1.41
Net charge-offs/(recoveries) to average total loans (annualized)	0.01 %	0.03

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The following table summarizes the activity in the allowance for credit losses on loans for the periods indicated:

	Three months ended March 31,	
(dollars in thousands)	**2024**	**2023**

Balance—beginning of period	$ 35,843	$ 35,003
Net charge-offs (recoveries):		
Commercial net charge-offs (recoveries)		
Commercial and Industrial	41	119
Real estate construction	—	—
Commercial real estate	18	(11)
Total commercial net charge-offs (recoveries)	59	108
Consumer net charge-offs (recoveries)		
Residential real estate first mortgage	—	(2)
Residential real estate junior lien	—	71
Other revolving and installment	(1)	(7)
Total consumer net charge-offs (recoveries)	(1)	62
Total net charge-offs (recoveries)	58	170
Provision for credit losses on loans	799	269
Balance—end of period	$ 36,584	$ 35,102
Net charge-offs (recoveries) to average loans		
Commercial net charge-offs (recoveries) to average loans		
Commercial and Industrial	0.01 %	0.02 %
Real estate construction	— %	— %
Commercial real estate	— %	— %
Total commercial net charge-offs (recoveries) to average loans	0.01 %	0.02 %
Consumer net charge-offs (recoveries) to average loans		
Residential real estate first mortgage	— %	— %
Residential real estate junior lien	— %	0.01 %
Other revolving and installment	— %	— %
Total consumer net charge-offs (recoveries) to average loans	— %	0.01 %
Total net charge-offs (recoveries) to average loans	0.01 %	0.03 %
Allowance for credit losses on loans to total loans	1.31 %	1.41 %
Allowance for credit losses on loans to nonaccrual loans	498 %	1,657 %
Allowance for credit losses on loans to nonperforming loans	498 %	1,657 %

The following table presents the allocation of the allowance for credit losses on loans as of the dates presented:

	March 31, 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	$ 9,975	21.8 %	$ 9,894	21.7 %
Real estate construction	5,922	4.5	6,111	4.5
Commercial real estate	12,713	41.2	11,897	40.8
Residential real estate first mortgage	6,641	25.8	6,578	26.3
Residential real estate junior lien	1,148	5.6	1,151	5.6
Other revolving and installment	185	1.1	212	1.1
Total loans	$ 36,584	100.0 %	$ 35,843	100.0 %

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 $6.6 million and $5.4 million as of March 31, 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 at Silicon Valley Bank, Signature Bank, and First Republic Bank that resulted in the failure of those institutions. recent bank failures.

Total deposits were $2.9 billion $3.3 billion as of September 30, 2023 March 31, 2024, a decrease an increase of $43.3 million $189.4 million, or 1.5% 6.1%, from December 31, 2022 December 31, 2023. Interest-bearing deposits increased $99.7 $224.9 million while noninterest-bearing deposits decreased $143.0 million $35.6 million. The decrease increase in total deposits was due to both seasonal inflows of public unit depositor seasonality funds deposit balances and clients using excess liquidity expanded commercial deposit relationships, along with time deposit and paying down revolving debt. synergistic deposit growth. Noninterest-bearing deposits decreased from 29.5% 23.5% of total deposits to 25.0% 21.1% as higher yields on interest-bearing accounts and other investment alternatives, such as U.S. treasuries, attracted 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023		December 31, 2022		Change		March 31, 2024		December 31, 2023		Change	
		Percent of		Percent of				Percent of		Percent of		
(dollars in thousands)	Balance	Portfolio	Balance	Portfolio	Amount	Percent	Balance	Portfolio	Balance	Portfolio	Amount	Percent
Noninterest-bearing demand	$ 717,990	25.0 %	$ 860,987	29.5 %	$(142,997)	(16.6)%	$ 692,500	21.1 %	$ 728,082	23.5 %	$ (35,582)	(4.9)%
Interest-bearing demand	759,812	26.5 %	706,275	24.2 %	53,537	7.6 %	938,751	28.6	840,711	27.2	98,040	11.7
Money market and savings	1,047,447	36.4 %	1,135,863	39.0 %	(88,416)	(7.8)%	1,196,989	36.4	1,115,256	36.0	81,733	7.3
Time deposits	346,935	12.1 %	212,359	7.3 %	134,576	63.4 %	456,729	13.9	411,562	13.3	45,167	11.0
Total deposits	$2,872,184	100.0 %	$2,915,484	100.0 %	$ (43,300)	(1.5)%	$3,284,969	100.0 %	$3,095,611	100.0 %	$189,358	6.1 %

The following table presents the average balances and rates of the Company's deposit portfolio for the three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	Three months ended September 30,				Three months ended March 31,			
	2023		2022		2024		2023	
(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand	$ 743,253	— %	$ 845,375	— %	$ 675,926	— %	$ 789,134	— %
Interest-bearing demand	757,995	1.34 %	692,310	0.13 %	869,060	1.97	746,660	0.87
Money market and savings	1,127,630	3.20 %	1,089,137	0.40 %	1,186,900	3.77	1,165,269	2.17
Time deposits	276,797	3.94 %	224,603	0.74 %	431,679	4.46	231,959	2.23
Total deposits	$ 2,905,675	1.97 %	$ 2,851,425	0.25 %	$3,163,565	2.56 %	$2,933,022	1.26 %

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The following table presents the contractual maturity of time deposits, including certificate of deposit account registry services and IRA deposits of $250 thousand and over, that were outstanding as of September 30, 2023 March 31, 2024:

(dollars in thousands)	September 30, 2023	March 31, 2024
Maturing in:		
3 months or less	$ 34,094	$ 54,618
3 months to 6 months	42,811	79,005
6 months to 1 year	17,753	14,031
1 year or greater	4,044	3,128
Total	$ 98,702	$150,782

The Company's total uninsured deposits, which are amounts of deposit accounts that exceed the FDIC insurance limit, currently $250,000, were approximately $1.0 billion $1.2 billion at September 30, 2023 March 31, 2024 These amounts were estimated based on the same methodologies used for regulatory reporting purposes.

Borrowings

Borrowings as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows:

	September 30, 2023		December 31, 2022	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Fed funds purchased	$ 315,470	54.9 %	$ 153,080	35.0 %
FHLB Short-term advances	200,000	34.8 %	225,000	51.6 %
Subordinated notes	50,000	8.7 %	50,000	11.4 %
Junior subordinated debentures	8,928	1.6 %	8,843	2.0 %
Total borrowed funds	$ 574,398	100.0 %	$ 436,923	100.0 %

	March 31, 2024		December 31, 2023	
		Percent of		Percent of

(dollars in thousands)	Balance	Portfolio	Balance	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	8,985	1.5	8,956	2.4
Total borrowed funds	$ 613,985	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 this borrowing at any time without penalty and the borrowing is secured by the Company's pledged collateral of investment securities.

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 decreased $7.5 million increased $2.5 million, or 2.1% 0.7%, to $349.4 million $371.6 million as of September 30, 2023 March 31, 2024, compared to $356.9 million $369.1 million as of December 31, 2022 December 31, 2023. Tangible common equity to tangible assets, a non-GAAP financial measure, decreased to 7.47% 7.23% as of September 30, 2023 March 31, 2024, from 7.74% 7.94% as of December 31, 2022 December 31, 2023. Common equity tier 1 capital to risk weighted assets decreased increased to 13.01% 11.86% as of September 30, 2023 March 31, 2024, from 13.39% 11.82% as of December 31, 2022 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

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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.

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

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under regulatory accounting policies. The Company has consistently maintained regulatory capital ratios at or above the well-capitalized standards.

At September 30, 2023 March 31, 2024 and December 31, 2022 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 as of

September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

Capital Ratios	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Alerus Financial Corporation Consolidated				
Common equity tier 1 capital to risk weighted assets	13.01 %	13.39 %	11.86 %	11.82 %
Tier 1 capital to risk weighted assets	13.30 %	13.69 %	12.13 %	12.10 %
Total capital to risk weighted assets	16.10 %	16.48 %	14.79 %	14.76 %
Tier 1 capital to average assets	11.14 %	11.25 %	9.89 %	10.57 %
Tangible common equity to tangible assets (1)	7.47 %	7.74 %	7.23 %	7.94 %
Alerus Financial, National Association				
Common equity tier 1 capital to risk weighted assets	12.68 %	12.76 %	11.71 %	11.40 %
Tier 1 capital to risk weighted assets	12.68 %	12.76 %	11.71 %	11.40 %
Total capital to risk weighted assets	13.86 %	13.83 %	12.87 %	12.51 %
Tier 1 capital to average assets	10.72 %	10.48 %	9.30 %	9.92 %

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

The capital ratios for the Company and the Bank, as of September 30, 2023 March 31, 2024, as shown in the above table, were at levels above the regulatory minimums to be considered "well capitalized". capitalized." See "NOTE 18 Regulatory Matters" to of the consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-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-balance sheet agreements as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, was as follows:

(dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 786,233	$ 806,431	$916,200	$ 942,413
Standby letters of credit	9,734	13,089	12,755	10,045
Total	$ 795,967	$ 819,520	$928,955	$ 952,458

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 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 September 30, 2023 March 31, 2024, the Company had on balance sheet liquidity of $623.4 million $712.3 million, compared to $778.9 $668.2 million as of December 31, 2022 December 31, 2023. On balance sheet liquidity includes cash and cash equivalents, federal funds sold, unencumbered securities available-for-sale, and over collateralized securities pledging positions available-for-sale.

The Bank is a member of the FHLB, which provides short- and 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 September 30, 2023 March 31, 2024, the Company had $315.5 million in no federal funds purchased and $200.0 million in short-term borrowings from the FHLB. As of September 30, 2023 March 31, 2024, the Company had $1.5 $1.6 billion of collateral pledged to the FHLB and based on this collateral, the Company was eligible to borrow up to an additional $477.1 million $898.0 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 $773.8 million $867.6 million, as of September 30, 2023 March 31, 2024. Management believed that the Company had adequate resources to fund all of the Company's commitments as of September 30, 2023 March 31, 2024 and December 31, 2022 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 of directors and the ALCO. The plan addresses the actions that the Company would take in response to both a short-term and long-term funding crisis.

A short-term funding crisis would most likely result from a shock to the financial system, either internal or external, which disrupts orderly 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 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.

ITEM 3. 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 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 liabilities that are prepaid/withdrawn, 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 of 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 liabilities, interest rate spreads and repricing periods. The ALCO reviews, on at least a quarterly basis, the interest rate risk position.

The 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 and 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, assuming immediate parallel moves in interest rates, is presented in the table below:

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Following 12 months	Following 24 months	Following 12 months	Following 24 months	Following 12 months	Following 24 months	Following 12 months	Following 24 months
+400 basis points	−6.3 %	−6.7 %	−25.1 %	−8.2 %	10.9 %	8.0 %	1.0 %	2.4 %
+300 basis points	−4.9 %	−5.5 %	−18.9 %	−6.4 %	8.0 %	5.6 %	0.5 %	1.4 %
+200 basis points	−3.3 %	−3.7 %	−12.7 %	−4.4 %	5.6 %	4.3 %	0.3 %	0.9 %
+100 basis points	−1.4 %	−1.3 %	−6.2 %	−1.8 %	3.0 %	2.4 %	0.4 %	0.9 %
−100 basis points	0.6 %	0.2 %	5.2 %	0.5 %	−0.8 %	−2.9 %	−1.0 %	−1.7 %
−200 basis points	0.4 %	−0.9 %	7.9 %	−1.7 %	−1.7 %	−5.9 %	−2.3 %	−4.1 %
−300 basis points					−2.9 %	−9.6 %	−4.1 %	−7.2 %
−400 basis points					−2.2 %	−10.2 %	−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 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, assuming immediate parallel shifts in interest rates:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
+400 basis points	−23.1 %	−19.5 %	−8.5 %	−15.5 %
+300 basis points	−18.5 %	−15.3 %	−7.1 %	−12.6 %
+200 basis points	−12.3 %	−10.4 %	−3.5 %	−7.7 %
+100 basis points	−5.5 %	−4.9 %	−1.2 %	−3.1 %
−100 basis points	4.1 %	4.0 %	0.3 %	1.6 %
−200 basis points	6.5 %	5.0 %	−0.4 %	2.0 %
−300 basis points			−3.0 %	−0.3 %
−400 basis points			−7.2 %	−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.

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.

ITEM 4. 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) 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) 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—OTHER INFORMATION

Item 1 – 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 our the Company's property is the subject. The Company does not know of any proceeding contemplated by a governmental authority against the Company or any of its subsidiaries.

Item 1A – Risk Factors

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 13, 2023 March 8, 2024.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Purchases of Equity Securities

Unregistered Sales of Equity Securities

None.

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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 third first quarter of 2023: 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)	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, 2023	48,364	$ 17.29	46,464	553,490				
August 1-31, 2023	861	18.45	861	552,629				
September 1-30, 2023	21,103	17.92	21,103	531,526				
January 1-31, 2024					902	$ 20.62	—	1,000,000
February 1-29, 2024					1,856	22.39	—	1,000,000
March 1-31, 2024					33,658	22.06	—	1,000,000
Total	70,328	$ 17.49	68,428	531,526	36,416	$ 22.04	—	1,000,000

(1) Shares repurchased Represents shares of the Company's common stock purchased by the Company included Company's Employee Stock Ownership Plan in open market purchases and shares surrendered by employees to the Company to pay withholding taxes on the vesting of restricted stock awards.

(2) On February 18, 2021, the Board of Directors of the Company approved a stock repurchase program, or the Existing Program, which authorizes 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. The New Program will continue for a period of 36 months, until February 28, 2024 expire on February 18, 2027. The Neither the Existing Program does not obligate nor the New Program obligates 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 September 30, 2023 March 31, 2024, the Company repurchased 68,428 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.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 – Other Information

During the fiscal quarter ended September 30, 2023 March 31, 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) or any non-Rule 10b5-1 trading arrangement.

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Item 6 – Exhibits

Exhibit No.	Description
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	Executive Severance Agreement by and between Alerus Financial Corporation and Forrest Wilson, dated February 26, 2024 (incorporated by reference to Exhibit 10.32 on Form 10-K filed on March 8, 2024)
31.1	Chief Executive Officer's Certifications required by Rule 13(a)-14(a) – filed herewith.
31.2	Chief Financial Officer's Certifications required by Rule 13(a)-14(a) – filed herewith.
32.1	Chief Executive Officer Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
32.2	Chief Financial Officer Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 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
101.PRE	iXBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibits 101)

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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: November 2, 2023 May 2, 2024	By: /s/ Katie A. Lorenson Name: Katie A. Lorenson Title: President and Chief Executive Officer (Principal Executive Officer)
Date: November 2, 2023 May 2, 2024	By: /s/ Alan A. Villalon Name: Alan A. Villalon 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

November May 2, 2023 2024

/s/ Katie A. Lorenson

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

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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

November May 2, 2023 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 September 30, 2023 March 31, 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

November May 2, 2023 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 September 30, 2023 March 31, 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

November May 2, 2023 2024

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

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