REFINITIV

DELTA REPORT

10-Q

ALRS - ALERUS FINANCIAL CORP

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1090
CHANGES	329
DELETIONS	360
ADDITIONS	401

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 June September 30, 2023

☐ **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 July 31, 2023 October 31, 2023 was 19,914,884. 19,776,006.

Table of Contents

Alerus Financial Corporation and Subsidiaries

Table of Contents

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)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Assets	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Cash and cash equivalents	$ 65,471	$ 58,242	$ 64,724	$ 58,242
Investment securities				
Available-for-sale, at fair value	677,454	717,324	640,001	717,324
Held-to-maturity, at carrying value (allowance for credit losses on investments of $218 June 30, 2023)	308,416	321,902		
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	20,893	9,488	16,346	9,488
Loans	2,533,522	2,443,994	2,606,430	2,443,994
Allowance for credit losses on loans	(35,696)	(31,146)	(36,290)	(31,146)
Net loans	2,497,826	2,412,848	2,570,140	2,412,848
Land, premises and equipment, net	17,488	17,288	17,182	17,288
Operating lease right-of-use assets	6,440	5,419	5,986	5,419
Accrued interest receivable	13,587	12,869	15,561	12,869
Bank-owned life insurance	32,793	33,991	33,012	33,991
Goodwill	47,087	47,087	46,783	47,087
Other intangible assets	19,806	22,455	18,482	22,455
Servicing rights	2,351	2,643	2,214	2,643
Deferred income taxes, net	43,709	42,369	47,978	42,369
Other assets	79,657	75,712	87,461	75,712
Total assets	$ 3,832,978	$ 3,779,637	$ 3,869,138	$ 3,779,637
Liabilities and Stockholders' Equity				
Deposits				
Noninterest-bearing	$ 715,534	$ 860,987	$ 717,990	$ 860,987
Interest-bearing	2,137,321	2,054,497	2,154,194	2,054,497
Total deposits	2,852,855	2,915,484	2,872,184	2,915,484
Short-term borrowings	492,060	378,080	515,470	378,080
Long-term debt	58,900	58,843	58,928	58,843
Operating lease liabilities	6,746	5,902	6,286	5,902
Accrued expenses and other liabilities	64,732	64,456	66,868	64,456
Total liabilities	3,475,293	3,422,765	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: 19,914,884 and 19,991,681 issued and outstanding	19,915	19,992		
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	152,673	155,095	151,875	155,095
Retained earnings	285,839	280,426	291,162	280,426
Accumulated other comprehensive income (loss)	(100,742)	(98,641)	(113,483)	(98,641)

Total stockholders' equity	357,685	356,872	349,402	356,872
Total liabilities and stockholders' equity	$ 3,832,978	$ 3,779,637	$ 3,869,138	$ 3,779,637

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars and shares in thousands, except per share data)	2023	2022	2023	2022	2023	2022	2023	2022
Interest Income								
Loans, including fees	$ 33,267	$ 17,988	$ 64,200	$ 35,280	$34,986	$25,379	$ 99,187	$ 60,659
Investment securities								
Taxable	6,125	6,068	12,076	11,508	6,146	5,939	18,222	17,447
Exempt from federal income taxes	186	213	376	429	182	209	558	638
Other	762	157	1,497	273	724	748	2,221	1,021
Total interest income	40,340	24,426	78,149	47,490	42,038	32,275	120,188	79,765
Interest Expense								
Deposits	12,678	813	21,782	1,642	14,436	1,852	36,218	3,494
Short-term borrowings	4,763	278	9,156	278	6,528	1,516	15,684	1,794
Long-term debt	665	559	1,319	1,121	679	591	1,999	1,712
Total interest expense	18,106	1,650	32,257	3,041	21,643	3,959	53,901	7,000
Net interest income	22,234	22,776	45,892	44,449	20,395	28,316	66,287	72,765
Provision for credit losses	—	—	550	—	—	—	550	—
Net interest income after provision for credit losses	22,234	22,776	45,342	44,449	20,395	28,316	65,737	72,765
Noninterest Income								
Retirement and benefit services	15,890	16,293	31,372	33,939	18,605	16,597	49,977	50,536
Wealth management	5,449	5,548	10,644	10,874	5,271	4,852	15,915	15,726
Mortgage banking	2,905	6,038	4,622	10,969	2,510	3,782	7,132	14,751
Service charges on deposit accounts	311	412	612	775	328	377	940	1,152
Other	1,223	935	3,781	2,139	1,693	1,402	5,475	3,541
Total noninterest income	25,778	29,226	51,031	58,696	28,407	27,010	79,439	85,706
Noninterest Expense								
Compensation	18,847	21,248	38,005	40,299	19,071	21,168	57,076	61,467
Employee taxes and benefits	4,724	5,787	10,577	11,949	4,895	5,079	15,472	17,028
Occupancy and equipment expense	1,837	1,737	3,736	3,788	1,883	1,925	5,619	5,713
Business services, software and technology expense	5,269	4,785	10,593	9,709	4,774	5,373	15,367	15,082
Intangible amortization expense	1,324	1,053	2,648	2,106	1,324	1,324	3,972	3,430
Professional fees and assessments	1,530	2,246	2,682	3,787	1,716	3,126	4,397	6,913
Marketing and business development	648	814	1,334	1,414	692	890	2,026	2,304
Supplies and postage	406	572	866	1,218	410	588	1,275	1,806

Travel	306	356	554	535	322	291	876	826
Mortgage and lending expenses	215	482	712	1,168	689	409	1,401	1,577
Other	1,267	904	2,535	2,082	1,484	2,594	4,022	4,676
Total noninterest expense	36,373	39,984	74,242	78,055	37,260	42,767	111,503	120,822
Income before income taxes	11,639	12,018	22,131	25,090	11,542	12,559	33,673	37,649
Income tax expense	2,535	2,725	4,841	5,613	2,381	2,940	7,222	8,553
Net income	$ 9,104	$ 9,293	$ 17,290	$ 19,477	$ 9,161	$ 9,619	$ 26,451	$ 29,096
Per Common Share Data								
Basic earnings per common share	$ 0.45	$ 0.53	$ 0.86	$ 1.11	$ 0.46	$ 0.48	$ 1.31	$ 1.58
Diluted earnings per common share	$ 0.45	$ 0.52	$ 0.85	$ 1.10	$ 0.45	$ 0.47	$ 1.30	$ 1.56
Dividends declared per common share	$ 0.19	$ 0.18	$ 0.37	$ 0.34	$ 0.19	$ 0.18	$ 0.56	$ 0.52
Average common shares outstanding	20,033	17,297	20,030	17,271	19,872	19,987	19,977	18,186
Diluted average common shares outstanding	20,241	17,532	20,243	17,517	20,095	20,230	20,193	18,431

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2023	2022	2023	2022
Net Income	$ 9,104	$ 9,293	$ 17,290	$ 19,477
Other Comprehensive Income (Loss), Net of Tax				
Unrealized gains (losses) on available-for-sale securities	(9,636)	(37,394)	(4,708)	(88,119)
Accretion of (gains) losses on debt securities reclassified to held-to-maturity	(84)	(97)	(171)	(199)
Net change in unrealized gain (losses) on derivatives	3,794	—	2,069	—
Total other comprehensive income (loss), before tax	(5,926)	(37,491)	(2,810)	(88,318)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(1,491)	(9,410)	(709)	(22,168)
Other comprehensive income (loss), net of tax	(4,435)	(28,081)	(2,101)	(66,150)
Total comprehensive income (loss)	$ 4,669	$ (18,788)	$ 15,189	$ (46,673)

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Net Income	$ 9,161	$ 9,619	$ 26,451	$ 29,096
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 gain (losses) on cash flow hedging derivatives	1,216	—	1,216	—
Reclassification adjustment for losses (gains) realized in income	(205)	—	(205)	—
Net change in unrealized gain (losses) on other derivatives	1,132	—	3,206	—
Total other comprehensive income (loss), before tax	(17,011)	(43,396)	(19,816)	(131,714)

Income tax expense (benefit) related to items of other comprehensive income (loss)	(4,270)	(10,892)	(4,974)	(33,060)
Other comprehensive income (loss), net of tax	(12,741)	(32,504)	(14,842)	(98,654)
Total comprehensive income (loss)	$ (3,580)	$ (22,885)	$ 11,609	$ (69,558)

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(dollars and shares in thousands)	Three months ended June 30, 2023					Three months ended September 30, 2023				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of March 31, 2023	$ 20,067	$ 154,818	$ 280,540	$ (96,307)	$ 359,118					
Balance as of June 30, 2023						$19,915	$152,673	$285,839	$ (100,742)	$357,685
Net income	—	—	9,104	—	9,104	—	—	9,161	—	9,161
Other comprehensive income (loss)	—	—	—	(4,435)	(4,435)	—	—	—	(12,741)	(12,741)
Common stock repurchased	(170)	(2,783)	—	—	(2,953)	(70)	(1,172)	—	—	(1,242)
Common stock dividends	—	—	(3,805)	—	(3,805)	—	—	(3,838)	—	(3,838)
Share-based compensation expense	18	638	—	—	656	—	377	—	—	377
Vesting of restricted stock	—	—	—	—	—	3	(3)	—	—	—
Balance as of June 30, 2023	$ 19,915	$ 152,673	$ 285,839	$ (100,742)	$ 357,685					
Balance as of September 30, 2023						$19,848	$151,875	$291,162	$ (113,483)	$349,402

(dollars in thousands)	Six months ended June 30, 2023					Nine months ended September 30, 2023				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	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	$19,992	$155,095	$280,426	$ (98,641)	$356,872
Cumulative effect of change in accounting principles, net of tax	—	—	(4,452)	—	(4,452)	—	—	(4,452)	—	(4,452)
Balance as of January 1, 2023	19,992	155,095	275,974	(98,641)	352,420	19,992	155,095	275,974	(98,641)	352,420
Net income	—	—	17,290	—	17,290	—	—	26,451	—	26,451
Other comprehensive income (loss)	—	—	—	(2,101)	(2,101)	—	—	—	(14,842)	(14,842)
Common stock repurchased	(187)	(3,127)	—	—	(3,314)	(257)	(4,299)	—	—	(4,556)
Common stock dividends	—	—	(7,425)	—	(7,425)	—	—	(11,263)	—	(11,263)
Share-based compensation expense	18	797	—	—	815	18	1,174	—	—	1,192
Vesting of restricted stock	92	(92)	—	—	—	95	(95)	—	—	—
Balance as of June 30, 2023	$ 19,915	$ 152,673	$ 285,839	$ (100,742)	$ 357,685					
Balance as of September 30, 2023						$19,848	$151,875	$291,162	$ (113,483)	$349,402

	Three months ended June 30, 2022				
(dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of March 31, 2022	$ 17,289	$ 92,573	$ 260,967	$ (42,324)	$ 328,505
Net income	—	—	9,293	—	9,293
Other comprehensive income (loss)	—	—	—	(28,081)	(28,081)
Common stock repurchased	(4)	(86)	—	—	(90)
Common stock dividends	—	—	(3,132)	—	(3,132)
Share-based compensation expense	10	653	—	—	663
Vesting of restricted stock	11	(11)	—	—	—
Balance as of June 30, 2022	$ 17,306	$ 93,129	$ 267,128	$ (70,405)	$ 307,158

	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

Table of Contents

(dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Six months ended June 30, 2022				
Balance as of December 31, 2021	$ 17,213	$ 92,878	$ 253,567	$ (4,255)	$ 359,403
Net income	—	—	19,477	—	19,477
Other comprehensive income (loss)	—	—	—	(66,150)	(66,150)
Common stock repurchased	(24)	(673)	—	—	(697)
Common stock dividends	—	—	(5,916)	—	(5,916)
Share-based compensation expense	10	1,031	—	—	1,041
Vesting of restricted stock	107	(107)	—	—	—
Balance as of June 30, 2022	$ 17,306	$ 93,129	$ 267,128	$ (70,405)	$ 307,158

(dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Nine months ended September 30, 2022				
Balance as of December 31, 2021	$ 17,213	$ 92,878	$ 253,567	$ (4,255)	$ 359,403
Net income	—	—	29,096	—	29,096
Other comprehensive income (loss)	—	—	—	(98,654)	(98,654)
Common stock repurchased	(24)	(673)	—	—	(697)
Common stock dividends	—	—	(9,531)	—	(9,531)
Stock issuance from the acquisition of Metro Phoenix Bank	2,681	61,149	—	—	63,830
Share-based compensation expense	10	1,382	—	—	1,392
Vesting of restricted stock	107	(107)	—	—	—
Balance as of September 30, 2022	$ 19,987	$ 154,629	$ 273,132	$ (102,909)	$ 344,839

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)	Six months ended June 30, 2023	Six months ended June 30, 2022
Operating Activities		
Net income	$ 17,290	$ 19,477

Adjustments to reconcile net income to net cash provided (used) by operating activities		
Deferred income taxes	857	968
Provision for credit losses	550	—
Depreciation and amortization	4,239	3,998
Amortization and accretion of premiums/discounts on investment securities	1,092	1,829
Amortization of operating lease right-of-use assets	1,571	(51)
Share-based compensation expense	815	1,041
Originations on loans held for sale	(146,664)	(353,547)
Proceeds on loans held for sale	138,818	351,625
(Increase) in value of bank-owned life insurance	(434)	(408)
Realized loss (gain) on sale of fixed assets	(116)	—
Realized loss (gain) on derivative instruments	1,344	(215)
Realized loss (gain) on loans sold	(3,531)	(6,037)
Realized loss (gain) on sale of foreclosed assets	5	(11)
Realized loss (gain) on BOLI mortality	(1,196)	—
Realized loss (gain) on servicing rights	(25)	(441)
Net change in:		
Accrued interest receivable	(718)	(618)
Other assets	1,414	(9,803)
Accrued expenses and other liabilities	(3,311)	9,924
Net cash provided (used) by operating activities	12,000	17,731
Investing Activities		
Proceeds from maturities of investment securities available-for-sale	34,549	61,313
Purchases of investment securities available-for-sale	—	(95,600)
Proceeds from calls of investment securities held-to-maturity	126	726
Proceeds from maturities of investment securities held-to-maturity	12,492	18,588
Net (increase) decrease in loans	(89,295)	(132,503)
Net (increase) decrease in FHLB stock	(5,020)	(10,132)
Proceeds from BOLI mortality claim	2,828	—
Purchases of premises and equipment	(1,088)	(471)
Proceeds from sales of foreclosed assets	25	117
Net cash provided (used) by investing activities	(45,383)	(157,962)
Financing Activities		
Net increase (decrease) in deposits	(62,629)	(301,001)
Net increase (decrease) in short-term borrowings	113,980	242,350
Repayments of long-term debt	—	(119)
Cash dividends paid on common stock	(7,425)	(5,570)
Repurchase of common stock	(3,314)	(697)
Net cash provided (used) by financing activities	40,612	(65,037)
Net change in cash and cash equivalents	7,229	(205,268)
Cash and cash equivalents at beginning of period	58,242	242,311
Cash and cash equivalents at end of period	$ 65,471	$ 37,043

	Nine months ended September 30,	
(dollars in thousands)	**2023**	**2022**
Operating Activities		
Net income	$ 26,451	$ 29,096
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Deferred income taxes	857	(1,215)
Provision for credit losses	550	—
Depreciation and amortization	6,378	6,116
Amortization and accretion of premiums/discounts on investment securities	1,652	2,778
Amortization of operating lease right-of-use assets	1,756	(65)

Share-based compensation expense	1,192	1,392
Originations on loans held for sale	(239,004)	(353,547)
Proceeds on loans held for sale	238,028	383,740
(Increase) in value of bank-owned life insurance	(653)	(621)
Realized loss (gain) on sale of fixed assets	(71)	(33)
Realized loss (gain) on derivative instruments	531	1,031
Realized loss (gain) on loans sold	(5,922)	(10,062)
Realized loss (gain) on sale of foreclosed assets	(27)	(9)
Realized loss (gain) on BOLI mortality	(1,196)	—
Realized loss (gain) on servicing rights	(28)	(683)
Net change in:		
Accrued interest receivable	(2,692)	(1,628)
Other assets	4,784	(13,903)
Accrued expenses and other liabilities	(1,986)	12,348
Net cash provided (used) by operating activities	30,600	54,735
Investing Activities		
Proceeds from maturities of investment securities available-for-sale	46,655	88,417
Purchases of investment securities available-for-sale	—	(96,968)
Proceeds from calls of investment securities held-to-maturity	242	827
Proceeds from maturities and paydowns of investment securities held-to-maturity	17,125	23,422
Net (increase) decrease in loans	(161,606)	(290,565)
Net (increase) decrease in FHLB stock	(5,953)	—
Net cash received (paid) for business combinations	—	101,585
Proceeds from BOLI mortality claim	2,828	—
Purchases of premises and equipment	(1,731)	(1,081)
Proceeds from sales of foreclosed assets	51	143
Net cash provided (used) by investing activities	(102,389)	(174,220)
Financing Activities		
Net increase (decrease) in deposits	(43,300)	(312,425)
Net increase (decrease) in short-term borrowings	137,390	253,830
Repayments of long-term debt	—	(182)
Cash dividends paid on common stock	(11,263)	(9,185)
Repurchase of common stock	(4,556)	(697)
Net cash provided (used) by financing activities	78,271	(68,659)
Net change in cash and cash equivalents	6,482	(188,144)
Cash and cash equivalents at beginning of period	58,242	242,311
Cash and cash equivalents at end of period	$ 64,724	$ 54,167

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

	Six months ended June 30,		Nine months ended September 30,	
Supplemental Cash Flow Disclosures	**2023**	**2022**	**2023**	**2022**

Cash paid for:				
Interest	$ 31,723	$ 3,913		
Income taxes	3,720	4,677		
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	—	81	3	153
Right-of-use assets obtained in exchange for new operating lease liabilities	2,286	—		
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	—

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

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 financial statements and notes thereto of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, and conform to practices within the banking industry and include all of the information and disclosures required by generally accepted accounting principles in the United States of America, or GAAP, for interim financial reporting. The accompanying unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of financial results for the interim periods presented. 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, included in the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2023.

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.

Table of Contents

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, 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 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 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. 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

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.

10

Table of Contents

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, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of June 30, 2023 September 30, 2023.

Adopted Pronouncements

On January 1, 2023, 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). 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.

Table of Contents

The following table illustrates the impact of ASC 326:

	January 1, 2023		
(dollars in thousands)	As reported under ASC 326	Pre-ASC 326 Adoption	Pre-tax impact of ASC 326 Adoption
Assets:			
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

Table of Contents

In March 2022, the FASB issued ASU No. 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method, which clarifies the guidance on fair value hedge accounting of interest rate risk portfolios of financial assets. ASU 2022-01 updates guidance in Topic 815, to expand the scope of the current last-of-layer method to allow multiple hedged layers to be designated for a single closed portfolio 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 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 effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company adopted ASU 2022-01 effective January 1, 2023, and entered into a fair value hedge agreement on February 10, 2023 and adopted the portfolio layer method of accounting for this transaction. This adoption had no impact on our consolidated financial statements as the Company did not have any hedged assets using the last-of-layer hedge accounting method.

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments – Credit Losses Troubled Debt Restructurings and Vintage Disclosures. The amendments in this update eliminate the accounting guidance for Troubled Debt Restructurings, 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. 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 are same as the effective date for ASU 2016-13. The Company adopted this ASU on January 1, 2023, and had no loans experience financial difficulty in the current period.

Table of Contents

NOTE 3 Investment Securities

The following tables present amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of the available-for-sale investment securities and the amortized cost, gross unrealized gains and losses and fair value of held-to-maturity securities as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023					September 30, 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	$ 2,915	$ 11	$ (20)	$ —	$ 2,906	$ 2,679	$ 9	$ (23)	$ —	$ 2,665
Mortgage backed securities										
Residential agency	673,586	1	(115,131)	—	558,456	656,845	—	(135,222)	—	521,623
Commercial	68,379	—	(7,470)	—	60,909	66,980	—	(8,295)	—	58,685
Asset backed securities	28	—	—	—	28	27	—	—	—	27
Corporate bonds	69,497	—	(14,342)	—	55,155	69,495	—	(12,494)	—	57,001
Total available-for-sale investment securities	814,405	12	(136,963)	—	677,454	796,026	9	(156,034)	—	640,001
Held-to-maturity										
Obligations of state and political agencies	131,016	—	(15,447)	115	115,569	130,088	—	(18,651)	115	111,437

Mortgage backed securities										
Residential agency	177,618	—	(32,477)	103	145,141	173,398	—	(36,596)	103	136,802
Total held-to-maturity investment securities	308,634	—	(47,924)	218	260,710	303,486	—	(55,247)	218	248,239
Total investment securities	$ 1,123,039	$ 12	$ (184,887)	$ 218	$ 938,164	$1,099,512	$ 9	$(211,281)	$ 218	$888,240

Table of Contents

(dollars in thousands)	December 31, 2022 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
Mortgage backed securities					
Residential agency	705,845	2	(118,168)	N/A	587,679
Commercial	70,669	—	(7,111)	N/A	63,558
Asset backed securities	34	—	—	N/A	34
Corporate bonds	69,501	—	(6,968)	N/A	62,533
Total available-for-sale investment securities	849,567	21	(132,264)	N/A	717,324
Held-to-maturity					
Obligations of state and political agencies	137,787	—	(17,736)	N/A	120,051
Mortgage backed securities					
Residential agency	184,115	—	(33,254)	N/A	150,861
Total held-to-maturity investment securities	321,902	—	(50,990)	N/A	270,912
Total investment securities	$ 1,171,469	$ 21	$ (183,254)	N/A	$ 988,236

The adequacy of the allowance for credit losses on investment securities is assessed at the end of each quarter. The Company does not believe that the available-for-sale debt securities that were in an unrealized loss position as of June 30, 2023 September 30, 2023, represent a credit loss impairment. As of June 30, 2023 September 30, 2023, and December 31, 2022, 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. 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 on held-to-maturity 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 was established in the amount of $218 thousand as of June 30, 2023 September 30, 2023.

Accrued interest receivable on available-for-sale investment securities and held-to-maturity investment securities is recorded in accrued interest receivable and is excluded from the estimate of credit losses. As of June 30, 2023 the accrued interest receivable on available-for-sale investment securities and held-to-maturity investment securities totaled $2.0 million and $1.4 million, respectively. As of

December 31, 2022, the accrued interest receivable on available-for-sale investment 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 in an unrealized loss position for which an allowance for credit losses has not been recorded as of June 30, 2023:

	June 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	$ (20)	$ 420	$ —	$ —	$ (20)	$ 420
Mortgage backed securities						
Residential agency	(76)	2,148	(115,055)	556,258	(115,131)	558,406
Commercial	(32)	570	(7,438)	60,339	(7,470)	60,909
Asset backed securities	—	27	—	1	—	28
Corporate bonds	(867)	7,109	(13,475)	48,046	(14,342)	55,155
Total available-for-sale investment securities	$ (995)	$ 10,274	$ (135,968)	$ 664,644	$ (136,963)	$ 674,918

Table of Contents

Accrued interest receivable on available-for-sale investment securities and held-to-maturity investment securities is recorded in accrued interest receivable 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, respectively. As of December 31, 2022, the accrued interest receivable on available-for-sale investment 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 in an unrealized loss position for which an allowance for credit losses has not been recorded as of September 30, 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 investmentsinvestment 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.

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

	Held-to-maturity		Available-for-sale	
(dollars in thousands)	Carrying Value	Fair Value	Amortized Cost	Fair Value
Due within one year or less	$ 6,098	$ 5,946	$ —	$ —
Due after one year through five years	44,352	40,512	17,461	16,096
Due after five years through ten years	67,751	58,000	78,734	63,524
Due after 10 years	12,815	11,111	44,624	39,378
	131,016	115,569	140,819	118,998
Mortgage-backed securities				
Residential agency	177,618	145,141	673,586	558,456
Total investment securities	$ 308,634	$ 260,710	$ 814,405	$ 677,454

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 $388.0 million and $260.7 million were pledged as of June 30, 2023 and December 31, 2022, respectively, to secure public deposits and for other purposes required or permitted by law.

Table of Contents

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

	Held-to-maturity		Available-for-sale	
(dollars in thousands)	Carrying Value	Fair Value	Amortized Cost	Fair Value
Due within one year or less	$ 5,981	$ 5,875	$ —	$ —
Due after one year through five years	51,009	45,878	17,119	15,706
Due after five years through ten years	60,325	49,427	80,670	66,779
Due after 10 years	12,773	10,257	41,392	35,893
	130,088	111,437	139,181	118,378
Mortgage-backed securities				
Residential agency	173,398	136,802	656,845	521,623
Total investment securities	$ 303,486	$ 248,239	$ 796,026	$ 640,001

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 and $260.7 million were pledged as of September 30, 2023 and December 31, 2022, 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 six nine months ended June 30, 2023 September 30, 2023 and 2022 2022.

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

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Proceeds	$ —	$ 211	$ 126	$ 726	$ 116	$ 101	$ 242	$ 827
Realized gains	—	—	—	—	—	—	—	—
Realized losses	—	—	—	—	—	—	—	—

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Federal Reserve	$ 4,623	$ 4,595	$ 4,623	$ 4,595
FHLB	24,382	19,362	25,316	19,362

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

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which will be indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these

litigation claims. Should this escrow account be insufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of June 30, 2023 September 30, 2023, the conversion ratio was 1.5902. 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 Class A equivalents) that the Company owned as of June 30, 2023 September 30, 2023 and December 31, 2022, 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 June 30, 2023 September 30, 2023 and December 31, 2022:

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commercial				
Commercial and industrial	$ 551,860	$ 583,876	$ 582,387	$ 583,876
Real estate construction	78,428	97,810	97,742	97,810
Commercial real estate	1,003,821	881,670	1,025,014	881,670
Total commercial	1,634,109	1,563,356	1,705,143	1,563,356
Consumer				
Residential real estate first mortgage	707,630	679,551	717,793	679,551
Residential real estate junior lien	157,231	150,479	152,677	150,479
Other revolving and installment	34,552	50,608	30,817	50,608
Total consumer	899,413	880,638	901,287	880,638
Total loans	$ 2,533,522	$ 2,443,994	$ 2,606,430	$ 2,443,994

Total loans included net deferred loan fees and costs of $0.8 million $0.5 million and $0.9 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Unearned discounts associated with the acquisition of Metro Phoenix Bank totaled $6.2 million $5.2 million as of June 30, 2023 September 30, 2023.

Accrued interest receivable on loans is recorded within accrued interest receivable, and totaled $9.8 million $11.5 million at both June 30, 2023 September 30, 2023 and $9.2 million at December 31, 2022.

Management monitors the credit quality of its loan portfolio 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.

The following tables present a past due aging analysis of total loans outstanding, by portfolio segment, as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023					September 30, 2023				
(dollars in thousands)	Accruing Current	30 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans	Accruing Current	30 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial										
Commercial and industrial	$ 542,769	$ 8,710	$ —	$ 381	$ 551,860	$ 572,898	$ 2,929	$ —	$ 6,560	$ 582,387
Real estate construction	78,277	—	—	151	78,428	97,627	—	—	115	97,742
Commercial real estate	1,002,925	—	—	896	1,003,821	1,024,118	—	—	896	1,025,014
Total commercial	1,623,971	8,710	—	1,428	1,634,109	1,694,643	2,929	—	7,571	1,705,143
Consumer										
Residential real estate first mortgage	704,957	2,027	347	299	707,630	716,799	108	—	886	717,793
Residential real estate junior lien	156,626	105	—	500	157,231	151,593	538	—	546	152,677
Other revolving and installment	34,400	146	—	6	34,552	30,635	178	—	4	30,817
Total consumer	895,983	2,278	347	805	899,413	899,027	824	—	1,436	901,287
Total loans	$ 2,519,954	$ 10,988	$ 347	$ 2,233	$ 2,533,522	$2,593,670	$ 3,753	$ —	$ 9,007	$2,606,430

Table of Contents

	December 31, 2022				
(dollars in thousands)	Accruing Current	30 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial					
Commercial and industrial	$ 580,288	$ 2,426	$ —	$ 1,162	$ 583,876
Real estate construction	97,370	—	—	440	97,810
Commercial real estate	879,830	368	—	1,472	881,670
Total commercial	1,557,488	2,794	—	3,074	1,563,356
Consumer					
Residential real estate first mortgage	677,471	1,545	—	535	679,551

Residential real estate junior lien	149,918	377	—	184	150,479
Other revolving and installment	50,360	247	—	1	50,608
Total consumer	877,749	2,169	—	720	880,638
Total loans	$ 2,435,237	$ 4,963	$ —	$ 3,794	$ 2,443,994

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 on nonaccrual status loans and loans 90 days or more past due and still accruing as of June 30, 2023 September 30, 2023 and December 31, 2022:

	As of June 30, 2023			As of September 30, 2023		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due
Commercial						
Commercial and industrial	$ 119	$ 381	$ —	$ —	$ 6,560	$ —
Real estate construction	151	151	—	115	115	—
Commercial real estate	—	896	—	—	896	—
Total commercial	270	1,428	—	115	7,571	—
Consumer						
Residential real estate first mortgage	293	299	347	880	886	—
Residential real estate junior lien	500	500	—	46	546	—
Other revolving and installment	—	6	—	—	4	—
Total consumer	793	805	347	926	1,436	—
Total loans	$ 1,063	$ 2,233	$ 347	$ 1,041	$ 9,007	$ —

	December 31, 2022		
(dollars in thousands)	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 $1.6 billion $1.9 billion as of June 30, 2023 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.

Table of Contents

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 six nine months ended June 30, 2023 September 30, 2023, the Company did not provide any modifications to loans under these circumstances that were experiencing financial difficulty.

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.

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,

Table of Contents

trends in the industries in which the borrowers operate and the estimated fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan.

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

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, 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 June 30, 2023:

Table of Contents

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of June 30, 2023	2023	2022	2021	2020	2019	Prior	Cost Basis	Total
Commercial and industrial								
Pass	$ 72,021	$ 124,487	$ 81,827	$ 72,874	$ 40,610	$ 24,848	$ 102,467	$ 519,134
Substandard	—	5,223	415	8,463	186	823	17,616	32,726
Subtotal	72,021	129,710	82,242	81,337	40,796	25,671	120,083	551,860
Real estate construction								
Pass	6,263	37,948	19,315	4,440	9,150	1,006	306	78,428
Substandard	—	—	—	—	—	—	—	—
Subtotal	6,263	37,948	19,315	4,440	9,150	1,006	306	78,428
Commercial real estate								
Pass	105,650	278,338	150,233	160,601	110,705	176,802	14,685	997,014
Substandard	—	—	886	—	4,096	1,825	—	6,807
Subtotal	105,650	278,338	151,119	160,601	114,801	178,627	14,685	1,003,821
Residential real estate first mortgage								
Pass	40,090	202,056	226,785	111,801	34,894	91,680	216	707,522
Substandard	—	—	—	—	—	108	—	108
Subtotal	40,090	202,056	226,785	111,801	34,894	91,788	216	707,630
Residential real estate junior lien								
Pass	13,552	17,683	6,751	4,936	1,947	6,939	105,066	156,874
Substandard	—	—	—	—	—	357	—	357
Subtotal	13,552	17,683	6,751	4,936	1,947	7,296	105,066	157,231
Other revolving and installment								
Pass	4,090	9,031	1,467	6,071	2,506	2,037	9,350	34,552
Substandard	—	—	—	—	—	—	—	—
Subtotal	4,090	9,031	1,467	6,071	2,506	2,037	9,350	34,552
Total Loans								
Pass	241,666	669,543	486,378	360,723	199,812	303,312	232,090	2,493,524
Substandard	—	5,223	1,301	8,463	4,282	3,113	17,616	39,998
Total loans	$ 241,666	$ 674,766	$ 487,679	$ 369,186	$ 204,094	$ 306,425	$ 249,706	$ 2,533,522

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.

Table of Contents

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 six months ended June 30, 2023 and 2022:

	Three months ended June 30, 2023				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 7,800	$ (340)	$ (85)	$ 438	$ 7,813
Real estate construction	4,406	(760)	—	—	3,646
Commercial real estate	12,344	609	—	12	12,965
Total commercial	24,550	(491)	(85)	450	24,424
Consumer					
Residential real estate first mortgage	8,060	(159)	—	—	7,901
Residential real estate junior lien	1,277	28	—	46	1,351
Other revolving and installment	314	(13)	(23)	15	293
Total consumer	9,651	(144)	(23)	61	9,545
Unallocated	901	826	—	—	1,727
Total	$ 35,102	$ 191	$ (108)	$ 511	$ 35,696

(1) The difference in the credit loss expense reported herein compared to the Consolidated Statements of Income is associated with the credit loss expense reversal of $186 thousand related to off-balance sheet credit exposures and $5 thousand related to investment securities held-to-maturity.

	Six months ended June 30, 2023					
(dollars in thousands)	Beginning Balance	Adoption of ASC 326	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial						
Commercial and industrial	$ 9,158	$ (862)	$ (717)	$ (260)	$ 494	$ 7,813
Real estate construction	1,446	2,518	(318)	—	—	3,646
Commercial real estate	12,688	(424)	678	—	23	12,965
Total commercial	23,292	1,232	(357)	(260)	517	24,424
Consumer						
Residential real estate first mortgage	5,769	2,080	50	—	2	7,901
Residential real estate junior lien	1,289	(67)	154	(77)	52	1,351

Other revolving and installment	528	(104)	(130)	(28)	27	293
Total consumer	7,586	1,909	74	(105)	81	9,545
Unallocated	268	716	743	—	—	1,727
Total	$ 31,146	$ 3,857	$ 460	$ (365)	$ 598	$ 35,696

(1) The difference in the credit loss expense reported herein compared to the Consolidated Statements of Income is associated with the credit loss expense of $44 thousand related to off-balance sheet credit exposures and $46 thousand related to investment securities held-to-maturity.

	Three months ended June 30, 2022				
(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 9,795	$ 1,085	$ (637)	$ 90	$ 10,333
Real estate construction	810	68	—	—	878
Commercial real estate	11,946	(1,123)	—	11	10,834
Total commercial	22,551	30	(637)	101	22,045
Consumer					
Residential real estate first mortgage	6,661	(486)	—	—	6,175
Residential real estate junior lien	1,400	(134)	—	201	1,467
Other revolving and installment	644	(5)	(37)	32	634
Total consumer	8,705	(625)	(37)	233	8,276
Unallocated	457	595	—	—	1,052
Total	$ 31,713	$ —	$ (674)	$ 334	$ 31,373

20

[Table of Contents](#)

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:

	Six months ended June 30, 2022				
(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 8,925	$ 1,856	$ (664)	$ 216	$10,333

	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**
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	783	95	—	—	878								
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	12,376	(1,564)	—	22	10,834								
Total commercial	22,084	387	(664)	238	22,045								
Consumer													
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	6,532	(357)	—	—	6,175								
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	1,295	(42)	—	214	1,467								
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	481	140	(55)	68	634								
Total consumer	8,308	(259)	(55)	282	8,276								
Unallocated	1,180	(128)	—	—	1,052								
Total	$ 31,572	$ —	$ (719)	$ 520	$31,373								
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

Table of Contents

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 table presents, tables present, by loan portfolio segment, a summary of charge-offs, by vintage, for the six months ended June 30, 2023:

	Gross Charge-offs for six months ended June 30, 2023						
(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Total
Commercial							
Commercial and industrial	$ 39	$ —	$ 25	$ 9	$ 187	$ —	$ 260
Real estate construction	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—
Total commercial	39	—	25	9	187	—	260
Consumer							
Residential real estate first mortgage	—	—	—	—	—	—	—
Residential real estate junior lien	—	—	—	—	—	77	77
Other revolving and installment	—	2	—	21	4	1	28
Total consumer	—	2	—	21	4	78	105
Total loans	$ 39	$ 2	$ 25	$ 30	$ 191	$ 78	$ 365

The following tables present changes in the amortized cost and related allowance for credit losses on loans by portfolio segment, as of June 30, 2023 for the three and December 31, 2022: nine months ended September 30, 2023 and 2022:

	June 30, 2023										
	Amortized Cost			Allowance for Credit Losses on Loans			Three months ended September 30, 2023				
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Beginning Balance	Provision for Credit Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial											
Commercial and industrial	$ 381	$ 551,479	$ 551,860	$ 78	$ 7,735	$ 7,813	$ 7,813	$ 442	$ (134)	$ 456	$ 8,577
Real estate construction	—	78,428	78,428	—	3,646	3,646	3,646	1,063	—	—	4,709
Commercial real estate	886	1,002,935	1,003,821	572	12,393	12,965	12,965	(270)	—	11	12,706
Total commercial	1,267	1,632,842	1,634,109	650	23,774	24,424	24,424	1,235	(134)	467	25,992
Consumer											
Residential real estate first mortgage	299	707,331	707,630	5	7,896	7,901	7,901	(389)	(9)	254	7,757
Residential real estate junior lien	500	156,731	157,231	—	1,351	1,351	1,351	(14)	—	—	1,337
Other revolving and installment	6	34,546	34,552	6	287	293	293	(58)	(8)	24	251
Total consumer	805	898,608	899,413	11	9,534	9,545	9,545	(461)	(17)	278	9,345
Unallocated	—	—	—	—	—	1,727	1,727	(774)	—	—	953
Total loans	$ 2,072	$ 2,531,450	$2,533,522	$ 661	$ 33,308	$35,696					
Total							$ 35,696	$ —	$ (151)	$ 745	$36,290

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

Commercial and industrial	$ 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
Real estate construction	783	473	—	76	1,332
Commercial real estate	12,376	(229)	—	123	12,270
Total commercial	22,084	1,255	(1,336)	520	22,523
Consumer					
Residential real estate first mortgage	6,532	(941)	—	—	5,591
Residential real estate junior lien	1,295	(151)	—	221	1,365
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

	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

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

The following table presents tables present the amortized cost basis of collateral dependent and related allowance for credit losses on loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans, portfolio segment, as of June 30, 2023 September 30, 2023 and December 31, 2022:

	As of June 30, 2023					September 30, 2023					
	Primary Type of Collateral					Amortized Cost			Allowance for Credit Losses on Loans		
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial											
Commercial and industrial	$ —	$ 188	$ —	$ 188	$ 68	$ 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	—	188	—	188	68	7,570	1,697,573	1,705,143	1,352	24,640	25,992
Consumer											
Residential real estate first mortgage	299	—	—	299	5	886	716,907	717,793	—	7,757	7,757
Residential real estate junior lien	500	—	—	500	—	547	152,130	152,677	—	1,337	1,337
Other revolving and installment	—	—	6	6	6	4	30,813	30,817	—	251	251
Total consumer	799	—	6	805	11	1,437	899,850	901,287	—	9,345	9,345
Unallocated						—	—	—	—	—	953
Total loans	$ 799	$ 188	$ 6	$ 993	$ 79	$ 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

Table of Contents

The following table presents 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 September 30, 2023:

	As of September 30, 2023				
	Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses

Commercial					
Commercial and industrial	$ —	$ —	$ —	$ —	$ —
Commercial real estate	572	—	—	572	572
Total commercial	572	—	—	572	572
Consumer					
Residential real estate first mortgage	886	—	—	886	3
Residential real estate junior lien	46	—	—	46	—
Other revolving and installment	—	—	4	4	2
Total consumer	932	—	4	936	5
Total loans	$ 1,504	$ —	$ 4	$ 1,508	$ 577

Pre-ASC 326 Adoption impaired loan disclosures

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

	December 31, 2022		
(dollars in thousands)	Recorded Investment	Unpaid Principal	Related 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

Table of Contents

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

(dollars in thousands)	Three months ended June 30, 2022 Average Recorded Investment	Three months ended June 30, 2022 Interest Income	Three months ended September 30, 2022 Average Recorded Investment	Three months ended September 30, 2022 Interest Income
Impaired loans with a valuation allowance				
Commercial and industrial	$ 1,018	$ 2	$ 722	$ 3
Commercial real estate	176	2	—	—
Residential real estate first mortgage			—	—
Residential real estate junior lien			—	—
Other revolving and installment	75	—	—	—
Total impaired loans with a valuation allowance	1,269	4	722	3
Impaired loans without a valuation allowance				
Commercial and industrial	761	—	1,371	7
Commercial real estate	629	—	801	2
Residential real estate first mortgage	1,962	—	2,032	—
Residential real estate junior lien	196	—	189	—
Other revolving and installment	—	—	8	—
Total impaired loans without a valuation allowance	3,548	—	4,401	9
Total impaired loans				
Commercial and industrial	1,779	2	2,093	10
Commercial real estate	805	2	801	2
Residential real estate first mortgage	1,962	—	2,032	—
Residential real estate junior lien	196	—	189	—
Other revolving and installment	75	—	8	—
Total impaired loans	$ 4,817	$ 4	$ 5,123	$ 12

(dollars in thousands)	Six Months Ended June 30, 2022 Average Recorded Investment	Six Months Ended June 30, 2022 Interest Income
Impaired loans with a valuation allowance		
Commercial and industrial	$ 1,156	$ 6
Commercial real estate	177	3
Other revolving and installment	157	—
Total impaired loans with a valuation allowance	1,490	9
Impaired loans without a valuation allowance		
Commercial and industrial	761	—
Commercial real estate	629	—
Residential real estate first mortgage	1,953	—
Residential real estate junior lien	198	—
Total impaired loans without a valuation allowance	3,541	—
Total impaired loans		
Commercial and industrial	1,917	6
Commercial real estate	806	3
Residential real estate first mortgage	1,953	—
Residential real estate junior lien	198	—
Other revolving and installment	157	—
Total impaired loans	$ 5,031	$ 9

	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

Table of Contents

NOTE 5 Goodwill and Other Intangible Assets

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

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

Goodwill is evaluated for impairment on an annual basis, at a minimum, and more frequently when the economic environment warrants. The Company determined that there was no goodwill impairment as of June 30, 2023 September 30, 2023.

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

(dollars in thousands)	June 30, 2023 Gross Carrying Amount	June 30, 2023 Accumulated Amortization	June 30, 2023 Total	December 31, 2022 Gross Carrying Amount	December 31, 2022 Accumulated Amortization	December 31, 2022 Total	September 30, 2023 Gross Carrying Amount	September 30, 2023 Accumulated Amortization	September 30, 2023 Total	December 31, 2022 Gross Carrying Amount	December 31, 2022 Accumulated Amortization	December 31, 2022 Total
Identifiable customer intangibles	$41,423	$ (27,944)	$13,479	$41,423	$ (25,927)	$15,496	$41,423	$ (28,951)	$12,472	$41,423	$ (25,927)	$15,496
Core deposit intangible assets	7,592	(1,265)	6,327	7,592	(633)	6,959	7,592	(1,582)	6,010	7,592	(633)	6,959
Total intangible assets	$49,015	$ (29,209)	$19,806	$49,015	$ (26,560)	$22,455	$49,015	$ (30,533)	$18,482	$49,015	$ (26,560)	$22,455

Amortization of intangible assets was $1.3 million and $1.1 million for both the three months ended June 30, 2023 September 30, 2023 and 2022. Amortization of intangible assets was $2.6 million $4.0 million and $2.1 million $3.4 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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 $367.8 $373.8 million and $357.2 million as of June 30, 2023 September 30, 2023 and December 31, 2022, 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 six nine months ended June 30, 2023 September 30, 2023 and 2022:

(dollars in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Balance, beginning of period	$ 2,421	$ 1,771	$ 2,643	$ 1,880	$ 2,351	$ 2,064	$ 2,643	$ 1,880
Additions	20	13	23	17	—	604	23	622
Amortization	(134)	(96)	(318)	(256)	(140)	(110)	(458)	(367)
Fair value adjustments	44	376	3	423	3	222	6	645
Balance, end of period	$ 2,351	$ 2,064	$ 2,351	$ 2,064	$ 2,214	$ 2,780	$ 2,214	$ 2,780

The following is a summary of key data and assumptions used in the valuation of servicing rights as of June 30, 2023 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)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Fair value of servicing rights	$ 2,351	$ 2,643	$ 2,214	$ 2,643
Weighted-average remaining term, years	19.0	20.5	18.8	20.5
Prepayment speeds	6.1 %	6.9 %	5.9 %	6.9 %
Discount rate	11.0 %	10.5 %	11.1 %	10.5 %

NOTE 7 Leases

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 2032. 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.

The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated financial statements. The following table presents the classification of the Company's right-of-use, or ROU, assets and lease liabilities on the consolidated financial statements as of June 30, 2023 September 30, 2023 and December 31, 2022:

(dollars in thousands)		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Lease Right-of-Use Assets	**Classification**			**Classification**		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 6,440	$ 5,419	Operating lease right-of-use assets	$ 5,986	$ 5,419
Lease Liabilities						
Operating lease liabilities	Operating lease liabilities	$ 6,746	$ 5,902	Operating lease liabilities	$ 6,286	$ 5,902

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

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Weighted-average remaining lease term, years				
Operating leases	4.5	5.0	7.2	5.0
Weighted-average discount rate				
Operating leases	3.6 %	3.1 %	3.9 %	3.1 %

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.

Table of Contents

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

(dollars in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022	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	$ 354	$ 414	$ 935	$ 825	$ 503	$ 425	$ 1,438	$ 1,250
Variable lease cost	474	150	699	363	219	187	918	550
Short-term lease cost	39	43	82	88	46	188	128	276
Finance lease cost								
Interest on lease liabilities	—	1	—	5	—	2	—	7
Amortization of right-of-use assets	—	29	—	58	—	29	—	87
Sublease income	(60)	(59)	(119)	(116)	(50)	(63)	(169)	(179)
Net lease cost	$ 807	$ 578	$ 1,597	$ 1,223	$ 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	$ 474	$ 393	$ 953	$ 784	$ 499	$ 400	$ 1,275	$ 1,184
Right-of-use assets obtained in exchange for new operating lease liabilities	2,029	—	2,286	—	(1,240)	1,065	1,938	1,452

Table of Contents

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

(dollars in thousands)	Operating Leases	Operating Leases
Twelve months ended		
June 30, 2024	$ 1,861	
June 30, 2025	1,428	
June 30, 2026	1,158	
June 30, 2027	791	
June 30, 2028	408	
September 30, 2024		$ 1,667
September 30, 2025		1,278
September 30, 2026		1,064

September 30, 2027		516
September 30, 2028		311
Thereafter	2,135	1,830
Total future minimum lease payments	$ 7,781	$ 6,666
Amounts representing interest	(1,035)	(380)
Total operating lease liabilities	$ 6,746	$ 6,286

NOTE 8 Deposits

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

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Noninterest-bearing	$ 715,534	$ 860,987	$ 717,990	$ 860,987
Interest-bearing				
Interest-bearing demand	753,194	706,275	759,812	706,275
Savings accounts	93,557	99,882	88,341	99,882
Money market savings	986,403	1,035,981	959,106	1,035,981
Time deposits	304,167	212,359	346,935	212,359
Total interest-bearing	2,137,321	2,054,497	2,154,194	2,054,497
Total deposits	$ 2,852,855	$ 2,915,484	$ 2,872,184	$ 2,915,484

Certificates of deposit in excess of $250,000 totaled $94.2 million $98.7 million and $51.1 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Table of Contents

NOTE 9 Short-Term Borrowings

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

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Fed funds purchased	$ 492,060	$ 153,080	$ 315,470	$ 153,080
FHLB short-term advances	—	225,000	200,000	225,000
Total	$ 492,060	$ 378,080	$ 515,470	$ 378,080

The following table presents information related to short-term borrowings 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
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	Nine months ended September 30, 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 %

Table of Contents

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

(dollars in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022

Fed funds purchased		
Balance as of end of period	$ 492,060	$ 117,350
Average daily balance	360,033	81,506
Maximum month-end balance	492,060	117,350
Weighted-average rate		
During period	5.31 %	1.18 %
End of period	5.35 %	1.44 %
FHLB short-term advances		
Balance as of end of period	$ —	$ 125,000
Average daily balance	—	9,615
Maximum month-end balance	—	125,000
Weighted-average rate		
During period	N/A %	1.59 %
End of period	N/A %	1.80 %

	Six months ended June 30,	
(dollars in thousands)	**2023**	**2022**
Fed funds purchased		
Balance as of end of period	$ 492,060	$ 117,350
Average daily balance	325,303	40,978
Maximum month-end balance	492,060	117,350
Weighted-average rate		
During period	5.10 %	1.18 %
End of period	5.35 %	1.44 %
FHLB short-term advances		
Balance as of end of period	$ —	$ 125,000
Average daily balance	39,779	4,834
Maximum month-end balance	225,000	125,000
Weighted-average rate		
During period	4.69 %	1.59 %
End of period	N/A %	1.80 %

NOTE 10 Long-Term Debt

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

	June 30, 2023						September 30, 2023					
(dollars in thousands)	Face Value	Carrying Value	Interest Rate	Period End Interest Rate	Maturity Date	Call Date	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	3,560	Three-month LIBOR + 3.10%	8.64 %	6/26/2033	6/26/2008	4,124	3,571	Three-month CME SOFR + 0.26% + 3.10%	8.76 %	6/26/2033	6/26/2008

Junior subordinated debenture (Trust II)	6,186	5,340	Three-month LIBOR + 1.80%	7.35 %	9/15/2036	9/15/2011	6,186	5,357	Three-month CME SOFR + 0.26% + 1.80%	7.47 %	9/15/2036	9/15/2011
Total long-term debt	$60,310	$58,900					$60,310	$58,928				

Table of Contents

	December 31, 2022					
(dollars in thousands)	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
Junior subordinated debenture (Trust I)	4,124	3,537	Three-month LIBOR + 3.10%	7.82 %	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
Total long-term debt	$ 60,310	$ 58,843				

NOTE 11 Financial Instruments with Off-Balance Sheet Risk

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 June 30, 2023 September 30, 2023 and December 31, 2022, respectively, was as follows:

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commitments to extend credit	$ 786,451	$ 806,431	$ 786,233	$ 806,431
Standby letters of credit	9,784	13,089	9,734	13,089
Total	$ 796,235	$ 819,520	$ 795,967	$ 819,520

The Company had an allowance for loan losses on unfunded commitments of $3.2 million as of December 31, 2022. Upon the adoption of the CECL accounting standard, the Company recorded an additional $1.9 million reserve for unfunded commitments. For the six nine months ending June 30, 2023 September 30, 2023, the Company recorded an additional $44 $304 thousand in provision for credit losses on unfunded commitments for a total of $5.1 million $5.2 million of allowance for credit losses on unfunded commitments as of June 30, 2023 September 30, 2023.

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

Table of Contents

extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

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

The Company utilizes standby letters of credit issued by either the FHLB or the Bank of North Dakota to secure public unit deposits. The Company had no letters of credit outstanding with the FHLB as of June 30, 2023 September 30, 2023 or December 31, 2022. With the Bank of North Dakota, the Company had a no letters of credit outstanding as of June 30, 2023 September 30, 2023 and December 31, 2022. Letters of credit with the Bank of North Dakota were collateralized by loans pledged to the Bank of North Dakota in the amount of $230.3 $400.3 million and $215.5 million as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Table of Contents

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 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. 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 were not issued upon the settlement of the award. 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. The plan authorizes the issuance of up to 1,100,000 shares of common stock. As of June 30, 2023 September 30, 2023, 810,277 781,839 shares of common stock are still available for issuance under the plan.

The compensation expense relating to awards under these plans was $656 $377 thousand and $663 $351 thousand for the three months ended June 30, 2023 September 30, 2023 and 2022. The compensation expense relating to awards under these plans was $815 thousand $1.2 million and $1.0 million $1.4 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

The following table presents the activity in the stock plans for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

	Six months ended June 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	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	238,929	$ 23.66	260,850	$ 21.04
Granted	82,810	20.85	94,592	19.01	115,174	20.00	102,265	25.44
Vested	(91,867)	21.29	(107,113)	19.19	(93,767)	21.34	(107,370)	19.19
Forfeited or cancelled	(22,204)	21.39	(10,624)	23.71	(26,840)	21.33	(10,624)	23.71
Outstanding at end of period	207,668	$ 23.83	237,705	$ 20.95	233,496	$ 23.05	245,121	$ 23.57

As of June 30, 2023September 30, 2023, there was $3.0 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 2.52.4 years.

Table of Contents

NOTE 13 Income Taxes

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

	Three months ended June 30,			
	2023		2022	
(dollars in thousands)	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Taxes at statutory federal income tax rate	$ 2,444	21.0 %	$ 2,524	21.0 %
Tax effect of:				
Tax exempt income	(156)	(1.3)%	(122)	(1.0)%
State income taxes, net of federal benefits	485	4.1 %	531	4.4 %
Nondeductible items and other	(238)	(2.0)%	(208)	(1.7)%
Applicable income taxes	$ 2,535	21.8 %	$ 2,725	22.7 %

Table of Contents

	Three 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	$ 2,424	21.0 %	$ 2,637	21.0 %
Tax effect of:				
Tax exempt income	(189)	(1.6)%	(133)	(1.1)%

State income taxes, net of federal benefits	499	4.3 %	406	3.2 %
Nondeductible items and other	(353)	(3.1)%	30	0.2 %
Applicable income taxes	$ 2,381	20.6 %	$ 2,940	23.3 %

	Six months ended June 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
(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	$ 4,648	21.0 %	$ 5,269	21.0 %	$7,071	21.0 %	$7,906	21.0 %
Tax effect of:								
Tax exempt income	(300)	(1.4)%	(239)	(1.0)%	(489)	(1.5)%	(372)	(1.0)%
State income taxes, net of federal benefits	946	4.3 %	1,109	4.4 %	1,445	4.3 %	1,515	4.0 %
Nondeductible items and other	(453)	(2.0)%	(526)	(2.1)%	(805)	(2.4)%	(496)	(1.3)%
Applicable income taxes	$ 4,841	21.9 %	$ 5,613	22.3 %	$7,222	21.4 %	$8,553	22.7 %

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 June 30, 2023 September 30, 2023 and December 31, 2022:

(dollars in thousands)		June 30, 2023		December 31, 2022			September 30, 2023		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	$ 15,202	$ 17,906	$ 15,559	Proportional amortization	$ 17,906	$ 12,719	$ 17,906
Total		$ 17,906	$ 15,202	$ 17,906	$ 15,559		$ 17,906	$ 12,719	$ 17,906

Table of Contents

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 six nine months ended June 30, 2023 September 30, 2023 and 2022:

(dollars in thousands)	Three months ended June 30, 2023 Amortization Expense (1)	Three months ended June 30, 2023 Tax Benefit Recognized (2)	Three months ended June 30, 2022 Amortization Expense (1)	Three months ended June 30, 2022 Tax Benefit Recognized (2)	Three months ended September 30, 2023 Amortization Expense (1)	Three months ended September 30, 2023 Tax Benefit Recognized (2)	Three months ended September 30, 2022 Amortization Expense (1)	Three months ended September 30, 2022 Tax Benefit Recognized (2)
Low income housing tax credit	$ 278	$ (509)	$ 111	$ (156)	$ 245	$ (435)	$ 109	$ (146)
Total	$ 278	$ (509)	$ 111	$ (156)	$ 245	$ (435)	$ 109	$ (146)

(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)	Six months ended June 30, 2023 Amortization Expense (1)	Six months ended June 30, 2023 Tax Benefit Recognized (2)	Six months ended June 30, 2022 Amortization Expense (1)	Six months ended June 30, 2022 Tax Benefit Recognized (2)	Nine months ended September 30, 2023 Amortization Expense (1)	Nine months ended September 30, 2023 Tax Benefit Recognized (2)	Nine months ended September 30, 2022 Amortization Expense (1)	Nine months ended September 30, 2022 Tax Benefit Recognized (2)
Low income housing tax credit	$ 639	$ (735)	$ 111	$ (156)	$ 884	$ (1,171)	$ 220	$ (303)
Total	$ 639	$ (735)	$ 111	$ (156)	$ 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 determines reportable 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 operates through four operating segments: Banking, Retirement and Benefit Services, Wealth Management, and Mortgage.

The financial information presented for each segment includes net interest income, provision for credit losses, direct noninterest income, and direct noninterest expense, before indirect allocations. Corporate Administration includes the indirect overhead 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 to the Company's segments for the periods presented:

	Three months ended June 30, 2023					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated
Net interest income (loss)	$ 22,681	$ —	$ —	$ 218	$ (665)	$ 22,234
Provision for credit losses	—	—	—	—	—	—
Noninterest income	1,336	15,890	5,449	2,905	198	25,778
Intercompany revenue (expense)	(2,933)	1,331	(257)	286	1,573	—
Noninterest expense	11,548	8,290	2,100	3,882	10,553	36,373
Net income (loss) before taxes	$ 9,536	$ 8,931	$ 3,092	$ (473)	$ (9,447)	$ 11,639

	Six months ended June 30, 2023						Three months ended September 30, 2023					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consoli
Net interest income (loss)	$46,832	$ —	$ —	$ 380	$ (1,320)	$ 45,892	$20,818	$ —	$ —	$ 255	$ (678)	$ 20
Provision for credit losses	550	—	—	—	—	550	—	—	—	—	—	

Noninterest income	4,158	31,372	10,644	4,622	235	51,031						
Noninterest income (loss)							2,150	18,605	5,271	2,510	(129)	28
Intercompany revenue (expense)	(5,980)	2,672	(425)	512	3,221	—	(9,371)	4,264	4,624	483	—	
Noninterest expense	25,503	15,600	3,613	6,667	22,859	74,242	10,728	9,354	2,722	3,245	11,211	37
Net income (loss) before taxes	$18,957	$ 18,444	$ 6,606	$ (1,153)	$ (20,723)	$ 22,131	$ 2,869	$ 13,515	$ 7,173	$ 3	$ (12,018)	$ 11

Table of Contents

	Three months ended June 30, 2022					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated
Net interest income (loss)	$ 22,779	$ —	$ —	$ 558	$ (561)	$ 22,776
Provision for credit losses	—	—	—	—	—	—
Noninterest income	1,341	16,293	5,548	6,038	6	29,226
Intercompany revenue (expense)	(3,829)	1,095	(337)	1,334	1,737	
Noninterest expense	11,790	7,693	1,293	6,543	12,665	39,984
Net income (loss) before taxes	$ 8,501	$ 9,695	$ 3,918	$ 1,387	$ (11,483)	$ 12,018

	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

	Six months ended June 30, 2022						Three months ended September 30, 2022					
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consolidated	Banking	Retirement and Benefit Services	Wealth Management	Mortgage	Corporate Administration	Consoli
Net interest income (loss)	$44,304	$ —	$ —	$ 1,267	$ (1,122)	$ 44,449	$28,512	$ —	$ —	$ 393	$ (589)	$ 28
Provision for credit losses	—	—	—	—	—	—	—	—	—	—	—	
Noninterest income	2,879	33,939	10,874	10,969	35	58,696	1,723	16,597	4,852	3,782	56	27

Intercompany revenue (expense)	(4,988)	692	(851)	1,828	3,319	—	(4,562)	1,868	(170)	1,386	1,478	
Noninterest expense	23,325	15,722	2,617	12,057	24,334	78,055	15,428	7,998	1,406	5,869	12,066	42
Net income (loss) before taxes	$18,870	$ 18,909	$ 7,406	$ 2,007	$ (22,102)	$ 25,090	$10,245	$ 10,467	$ 3,276	$ (308)	$ (11,121)	$ 12

	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

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; 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. In addition, the 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.

Table of Contents

NOTE 16 Earnings Per Share

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

(dollars and shares in thousands, except per share data)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income	$ 9,104	$ 9,293	$ 17,290	$ 19,477	$ 9,161	$ 9,619	$26,451	$29,096
Dividends and undistributed earnings allocated to participating securities	62	101	120	225	67	90	186	312
Net income available to common shareholders	$ 9,042	$ 9,192	$ 17,170	$ 19,252	$ 9,094	$ 9,529	$26,265	$28,784
Weighted-average common shares outstanding for basic earnings per share	20,033	17,297	20,030	17,271	19,872	19,987	19,977	18,186
Dilutive effect of stock-based awards	208	235	213	246	223	243	216	245
Weighted-average common shares outstanding for diluted earnings per share	20,241	17,532	20,243	17,517	20,095	20,230	20,193	18,431
Earnings per common share:								
Basic earnings per common share	$ 0.45	$ 0.53	$ 0.86	$ 1.11	$ 0.46	$ 0.48	$ 1.31	$ 1.58
Diluted earnings per common share	$ 0.45	$ 0.52	$ 0.85	$ 1.10	$ 0.45	$ 0.47	$ 1.30	$ 1.56

NOTE 17 Derivative Instruments

The following table presentscompany 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 total other party based on a notional amounts amount and gross fair values 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 derivatives 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 of June 30, 2023 and December 31, 2022: derivative instruments.

(dollars in thousands)		June 30, 2023 Fair Value	June 30, 2023 Notional Amount	December 31, 2022 Fair Value	December 31, 2022 Notional Amount
Designated as hedging instruments:	**Consolidated Balance Sheet Location**				
Fair value hedges:					
Interest rate swaps	Other assets	$ 2,069	$ 200,000	$ —	$ —
Total derivatives designated as hedging instruments		$ 2,069	$ 200,000	$ —	$ —
Not designated as hedging instruments:					
Asset Derivatives					
Interest rate swaps	Other assets	$ 6,049	$ 42,716	$ 6,277	$ 43,430
Interest rate lock commitments	Other assets	523	34,602	121	10,462
Forward loan sales commitments	Other assets	71	4,193	7	351
To-be-announced mortgage backed securities	Other assets	210	68,750	—	—
Total asset derivatives not designated as hedging instruments		$ 6,853	$ 150,261	$ 6,405	$ 54,243
Liability Derivatives					
Interest rate swaps	Accrued expenses and other liabilities	$ 6,049	$ 42,716	$ 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	$ 6,049	$ 42,716	$ 6,303	$ 69,180

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 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, the Company only uses fair value and cash flow hedges.

Table of Contents

Fair value hedges: Derivatives These derivatives are designated as interest rate swaps the Company uses to hedge the change in fair value hedges related to limit interest rate changes of its underlying mortgage-backed investment securities and mortgage loan pools. The interest rate swaps are carried on the Company's exposure 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 the fair value of assets or liabilities the interest rate swaps due to movements changes in benchmark interest rates. During rates are recorded as an adjustment to the first quarter of 2023, hedged instruments and offset in the same interest income line items.

Cash flow hedges: These derivatives are interest rate swaps the Company entered into an uses to hedge the variability of expected future cash flows due to market interest rate swap, with an effective date of February 10, 2023. This transaction was designated a fair value hedge of certain mortgage-backed investment securities. The Company will pay the counterparty a fixed rate of 4.019% and will receive a floating rate based on the Secured Overnight Financing Rate. The fair value hedge has a maturity date of February 10, 2026. 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

Table of Contents

other liabilities (when the fair value is negative). The changes in the fair value of the interest rate swap are recorded in interest income. The unrealized gains or losses due to changes Changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) until the cash flows of the hedged debt securities due items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to changes be highly effective, the gain or loss in benchmark interest rates are recorded as an adjustment other comprehensive income (loss) is amortized to earnings over the period the forecasted hedged debt securities and offset in the same interest income line items.

The following table shows the carrying amount and associated cumulative basis adjustments related to the application of transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting that is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately, unless the carrying amount 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. The Company estimates that an additional $1.0 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. As of September 30, 2023, the maximum length of time over which forecasted transactions are hedged assets and liabilities in fair value hedging relationships at June 30, 2023: is 15 months.

	June 30, 2023	
	Carrying Amount of Hedge Assets/ Liabilities	Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities
(dollars in thousands)		
Mortgage-backed securities		
Residential agency	$ 284,584	$ (2,073)
Total	$ 284,584	$ (2,073)

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

		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

Table of Contents

The following table shows the effective portion of the gains (losses) recognized in other comprehensive income (loss) recognized on derivative instruments and the gains (losses), before tax, reclassified from other comprehensive income (loss) into earnings for the three 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
Derivatives designated as hedging instruments	**2023**	**2023**	**2023**	**2023**
Cash flow hedges:				
Interest rate swaps	$ 1,216	$ 205	$ 1,216	$ 205

The following table shows the effect of fair value and six months ended June 30, 2023 and 2022 was cash flow hedge accounting on derivatives designated as follows: hedging instruments in the Consolidated Statements of Income:

	Location and Amount of Gains (Losses) Recognized in Income		
	Interest Income		Interest Expense
(dollars in thousands)	Loans, including fees	Investment securities - Taxable	Short-term borrowings
Three months ended September 30, 2023			
Total amounts in the Consolidated Statements of Income	$ 34,986	$ 6,146	$ 6,528
Fair value hedges:			
Interest rate swaps	71	606	—
Cash flow hedges:			
Interest rate swaps	—	—	(205)
Nine months ended September 30, 2023			
Total amounts in the Consolidated Statements of Income	$ 99,187	$ 18,222	$ 15,684
Fair value hedges:			
Interest rate swaps	71	1,229	—
Cash flow hedges:			
Interest rate swaps	—	—	(205)

Table of Contents

(dollars in thousands)		Three months ended June 30,		Six months ended June	
Derivatives designated as hedging instruments	**Consolidated Statements of Income Location**	**2023**	**2022**	**2023**	**2022**
Interest rate swaps	Interest income	$ —	$ —	$ —	$
Total gain (loss) from derivatives designated as hedging instruments		$ —	$ —	$ —	$
Derivatives not designated as hedging instruments					
Interest rate swaps	Other noninterest income	$ —	$ 1	$ —	$
Interest rate lock commitments	Mortgage banking	89	563	429	(1
Forward loan sales commitments	Mortgage banking	70	542	64	
To-be-announced mortgage backed securities	Mortgage banking	302	1,246	129	3,7
Total gain (loss) from derivatives not designated as hedging instruments		$ 461	$ 2,352	$ 622	$ 3,6

The following table shows 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:

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

(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, the amortized cost of the closed portfolios used in these hedging relationships was $331 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, the amortized cost basis of the residential real estate loans used in these hedging relationships was $706.8 million.

The gain (loss) recognized on derivatives not designated as hedging relationships for the three and nine months ended September 30, 2023 and 2022 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

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

Table of Contents

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:

(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged (Received)	Net Amount
September 30, 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

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

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 June 30, 2023 September 30, 2023 and December 31, 2022, each of the Company and the Bank had met all of the capital adequacy requirements to which it was subject.

[Table of Contents](#)

The following table presents the Company's and the Bank's actual capital amounts and ratios as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023						September 30, 2023					
	Actual		Requirements for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action		Actual		Requirements for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action	
(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	$ 395,276	13.30 %	$ 133,728	4.50 %	$ N/A	N/A	$402,118	13.01 %	$139,056	4.50 %	$ N/A	N/A
Bank	383,663	12.93 %	133,585	4.50 %	192,895	6.50 %	391,239	12.68 %	138,838	4.50 %	200,544	6.50 %
Tier 1 capital to risk weighted assets					.						.	
Consolidated	404,176	13.60 %	178,304	6.00 %	N/A	N/A	411,046	13.30 %	185,408	6.00 %	N/A	N/A
Bank	383,663	12.93 %	178,113	6.00 %	237,409	8.00 %	391,239	12.68 %	185,117	6.00 %	246,823	8.00 %
Total capital to risk weighted assets												
Consolidated	490,091	16.49 %	237,738	8.00 %	N/A	N/A	497,554	16.10 %	247,210	8.00 %	N/A	N/A
Bank	419,578	14.14 %	237,486	8.00 %	296,762	10.00 %	427,747	13.86 %	246,823	8.00 %	308,529	10.00 %
Tier 1 capital to average assets												
Consolidated	404,176	11.15 %	144,987	4.00 %	N/A	N/A	411,046	11.14 %	147,625	4.00 %	N/A	N/A
Bank	383,663	10.59 %	144,890	4.00 %	181,112	5.00 %	391,239	10.72 %	146,043	4.00 %	182,554	5.00 %

December 31, 2022		
	Requirements	Minimum to be Well Capitalized

(dollars in thousands)	Actual Amount	Actual Ratio	for Capital Adequacy Purposes Amount	for Capital Adequacy Purposes Ratio	Under Prompt Corrective Action Amount	Under Prompt Corrective Action Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated	$ 389,335	13.39 %	$ 130,862	4.50 %	$ N/A	N/A
Bank	370,749	12.76 %	130,791	4.50 %	188,920	6.50 %
Tier 1 capital to risk weighted assets					.	
Consolidated	398,179	13.69 %	174,482	6.00 %	N/A	N/A
Bank	370,749	12.76 %	174,388	6.00 %	232,517	8.00 %
Total capital to risk weighted assets						
Consolidated	479,325	16.48 %	232,643	8.00 %	N/A	N/A
Bank	401,895	13.83 %	232,517	8.00 %	290,646	10.00 %
Tier 1 capital to average assets						
Consolidated	398,179	11.25 %	141,514	4.00 %	N/A	N/A
Bank	370,749	10.48 %	141,440	4.00 %	176,800	5.00 %

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. The Company and the Bank are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act rules. The rules include a 2.5 percent capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. A banking organization with a conservation buffer of less than the required amount will be subject to the limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. As of June 30, 2023 September 30, 2023, the capital ratios for the Company and the Bank were sufficient to meet the conservation buffer. In addition, the Company must adhere to various U.S. Department of Housing and Urban Development, or HUD, regulatory guidelines including required minimum capital and liquidity to maintain their Federal Housing Administration approval status. Failure to comply with the HUD guidelines could result in withdrawal of this certification. As of June 30, 2023 September 30, 2023 and December 31, 2022, the Company was in compliance with the aforementioned guidelines.

NOTE 19 Stock Repurchase Program

On February 18, 2021, the Board of Directors of the Company approved a stock repurchase program, or the Program, which authorizes the Company to repurchase up to 770,000 shares of its common stock subject to certain limitations and conditions. The Program was effective immediately and will continue for a period of 36 months, until

Table of Contents

February 28, 2024. The 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 six nine months ended June 30, 2023 September 30, 2023, the Company repurchased 170,046 238,474 shares of common stock under the Program. The Company also repurchases shares to pay withholding taxes on the vesting of restricted stock awards and units.

NOTE 20 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.

Table of Contents

The following tables present the balances of the assets and liabilities measured at estimated fair value on a recurring basis as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023				September 30, 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	$ —	$ 2,906	$ —	$ 2,906	$ —	$ 2,665	$ —	$ 2,665
Mortgage backed securities								
Residential agency	—	558,456	—	558,456	—	521,623	—	521,623
Commercial	—	60,909	—	60,909	—	58,685	—	58,685
Asset backed securities	—	28	—	28	—	27	—	27
Corporate bonds	—	55,155	—	55,155	—	57,001	—	57,001
Total available-for-sale investment securities	$ —	$ 677,454	$ —	$ 677,454	$ —	$640,001	$ —	$640,001
Other assets								
Derivatives	$ —	$ 6,853	$ —	$ 6,853	$ —	$ 12,193	$ —	$ 12,193
Other liabilities								
Derivatives	$ —	$ 8,118	$ —	$ 8,118	$ —	$ 6,820	$ —	$ 6,820

	December 31, 2022			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Available-for-sale				
U.S. treasury and government agencies	$ —	$ 3,520	$ —	$ 3,520
Mortgage backed securities				

Residential agency	—	587,679	—	587,679
Commercial	—	63,558	—	63,558
Asset backed securities	—	34	—	34
Corporate bonds	—	62,533	—	62,533
Total available-for-sale investment securities	$ —	$717,324	$ —	$717,324
Other assets				
Derivatives	$ —	$ 6,405	$ —	$ 6,405
Other liabilities				
Derivatives	$ —	$ 6,303	$ —	$ 6,303

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, 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.

Table of Contents

Net impairment related to nonrecurring estimated fair value measurements of certain assets as of June 30, 2023 September 30, 2023 and December 31, 2022 consisted of the following:

	June 30, 2023				September 30, 2023				
(dollars in thousands)	Level 2	Level 3	Total	Impairment	Level 1	Level 2	Level 3	Total	Impairment
Loans held for sale	$ 20,893	$ —	$ 20,893	$ —	$ —	$16,346	$ —	$16,346	$ —
Individually evaluated	—	2,390	2,390	288	—	—	2,390	2,390	288
Servicing rights	—	2,351	2,351	—	—	—	2,214	2,214	—

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

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

(dollars in thousands)	June 30, 2023					September 30, 2023				
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	$ 2,390	N/A	N/A
Foreclosed assets	Appraisal value	Property specific adjustment	—	N/A	N/A	Appraisal value	Property specific adjustment	3	N/A	N/A
Servicing rights	Discounted cash flows	Prepayment speed assumptions	2,351	83-134	101	Discounted cash flows	Prepayment speed assumptions	2,214	84-125	101
		Discount rate		11.0 %	11.0 %		Discount rate		11.1 %	11.1 %

(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 %

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

Table of Contents

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 June 30, 2023 September 30, 2023 and December 31, 2022, 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.

Table of Contents

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

	June 30, 2023					September 30, 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	$ 65,471	$ 65,471	$ —	$ —	$ 65,471	$ 64,724	$ 64,724	$ —	$ —	$ 64,724
Investment securities held-to-maturity	308,416	—	260,710	—	260,710	303,268	—	248,239	—	248,239
Loans, net	2,497,826	—	—	2,403,819	2,403,819	2,570,140	—	—	2,451,993	2,451,993
Accrued interest receivable	13,587	13,587	—	—	13,587	15,561	15,561	—	—	15,561
Bank-owned life insurance	32,793	—	32,793	—	32,793	33,012	—	33,012	—	33,012
Financial Liabilities										
Noninterest-bearing deposits	$ 715,534	$ —	$ 715,534	$ —	$ 715,534	$ 717,990	$ —	$ 717,990	$ —	$ 717,990
Interest-bearing deposits	1,833,154	—	1,833,154	—	1,833,154	1,807,259	—	1,807,259	—	1,807,259
Time deposits	304,167	—	—	300,375	300,375	346,935	—	—	343,600	343,600
Short-term borrowings	492,060	492,060	—	—	492,060	515,470	515,470	—	—	515,470
Long-term debt	58,900	—	56,008	—	56,008	58,928	—	55,076	—	55,076
Accrued interest payable	2,960	2,960	—	—	2,960	5,358	5,358	—	—	5,358

	December 31, 2022				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 58,242	$ 58,242	$ —	$ —	$ 58,242
Investment securities held-to-maturity	321,902	—	270,912	—	270,912
Loans, net	2,412,848	—	—	2,311,956	2,311,956
Accrued interest receivable	12,869	12,869	—	—	12,869
Bank-owned life insurance	33,991	—	33,991	—	33,991
Financial Liabilities					
Noninterest-bearing deposits	$ 860,987	$ —	$ 860,987	$ —	$ 860,987
Interest-bearing deposits	1,842,138	—	1,842,138	—	1,842,138
Time deposits	212,359	—	—	208,550	208,550
Short-term borrowings	378,080	378,080	—	—	378,080
Long-term debt	58,843	—	56,116	—	56,116
Accrued interest payable	2,426	2,426	—	—	2,426

Table of Contents

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

General

The following discussion explains our the Company's financial condition and results of operations as of and for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022. 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, filed with the Securities and Exchange Commission on March 13, 2023.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of Alerus Financial Corporation. These statements are often, but not always, identified by words such as "may", "might", "should", "could", "predict", "potential", "believe", "expect", "continue", "will", "anticipate", "seek", "estimate", "intend", "plan", "projection", "would", "annualized", "target" and "outlook", or the negative version of those words or other comparable words of a future or forward-looking nature. Examples of forward-looking statements include, among others, statements we the Company make regarding our 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 our the Company's current beliefs, expectations and assumptions regarding the future of our 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 our the Company's control. Our 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 our 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, associated with our business, including the effects of recent and anticipated potential additional rate increases by the Federal Reserve;
- our the Company's ability to successfully manage credit risk 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;
- business and economic conditions generally and in the financial services industry, nationally and within our the Company's market areas, including continued rising rates of inflation and possible recession, the effects of recent developments and events in the financial services industry, including the large-scale deposit withdrawals over a short period of time at Silicon Valley Bank, Signature Bank and First Republic Bank that resulted in the failure of those institutions;
- our the Company's ability to successfully manage liquidity risk, including our the Company's need to access higher cost sources of funds such as fed funds purchased and short-term borrowings;

- the concentration of large deposits from certain clients, who have balances above current Federal Deposit Insurance Corporation, or FDIC, insurance limits and may withdraw deposits to diversify their exposure; limits;

- fluctuations in the values of securities held in our 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 our the Company's loan portfolio;
- the level of nonperforming assets on our the Company's balance sheet;
- our the Company's ability to implement our organic and acquisition growth strategies, including the integration of Metro Phoenix Bank which we the Company acquired in 2022;
- the impact of economic or market conditions on our the Company's fee-based services;
- our the Company's ability to continue to grow our retirement and benefit services business;
- our the Company's ability to continue to originate a sufficient volume of residential mortgages;
- the occurrence of fraudulent activity, breaches or failures of our 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 our the Company's information technology and telecommunications systems or third-party servicers;
- potential losses incurred in connection with mortgage loan repurchases;
- the composition of our the Company's executive management team and our 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 our the Company's risk management framework;
- the commencement and outcome of litigation and other legal proceedings and regulatory actions against us the Company or to which we the Company may become subject;
- potential impairment to the goodwill we the Company recorded in connection with our the Company's past acquisitions; including the acquisition of Metro Phoenix Bank;
- the extensive regulatory framework that applies to us;
- 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;
- governmental monetary, trade and fiscal policies;

Table of Contents

- risks related to climate change and the negative impact it may have on our the Company's customers and their businesses;

Table of Contents

- severe weather, natural disasters, widespread disease or pandemics, such as the COVID-19 global pandemic;
- acts of war or terrorism, including the Israeli-Palestinian conflict and the Russian invasion of Ukraine, or other adverse external events;
- any material weaknesses in our 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 publicly traded companies;
- talent and labor shortages and employee turnover; our the Company's success at managing the risks involved in the foregoing items; and
- any other risks described in the "Risk Factors" sections of the reports filed by Alerus Financial Corporation with the Securities and Exchange Commission.

Any forward-looking statement made by us the Company in this report is based only on information currently available to us the Company and speaks only as of the date on which it is made. We undertake 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

We are The Company is a diversified financial services company headquartered in Grand Forks, North Dakota. Through our the Company's subsidiary, Alerus Financial, National Association, or the Bank, we provide the Company provides financial solutions to businesses and consumers through four distinct business lines—banking, retirement and benefit services, wealth management and mortgage. These solutions are delivered through a relationship-oriented primary point of contact along with responsive and client-friendly technology.

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

Critical Accounting Policies

Our The Company's consolidated financial statements are prepared based on the application of accounting policies generally accepted in the United States, or GAAP. The preparation of our the Company's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under current circumstances. These estimates form the basis for making judgments about the carrying 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 have the most effect on the Company's reported financial position and results of operations are set forth in Note 1 – Significant Accounting Policies of the Notes to the Consolidated Statements, included in our the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

47

Table of Contents

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 we believe the Company believes to be critical in preparing our the Company's consolidated financial is the determination of the allowance for credit losses.

46

Table of Contents

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 Accounting Policies in the accompanying notes to the consolidated financial statements for further discussion on the methodology in establishing the allowance for credit losses.

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 May 11, 2023 August 24, 2023, the Board of Directors of the Company declared a quarterly cash dividend of $0.19 per common share. This dividend was paid on July 14, 2023 October 13, 2023, to stockholders of record at the close of business on June 15, 2023 September 15, 2023.

48

Table of Contents

Operating Results Overview

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

(dollars and shares in thousands, except per share data)	Three months ended			Six months ended		Three months ended			Nine months en	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	Sept
Performance Ratios										
Return on average total assets	0.96 %	0.88 %	1.14 %	0.92 %	1.20 %	0.95 %	0.96 %	1.02 %	0.93 %	
Return on average common equity	10.14 %	9.17 %	11.93 %	9.66 %	11.85 %	10.05 %	10.14 %	10.25 %	9.79 %	
Return on average tangible common equity (1)	13.71 %	12.58 %	15.25 %	13.15 %	14.97 %	13.51 %	13.71 %	13.89 %	13.27 %	
Noninterest income as a % of revenue	53.69 %	51.63 %	56.20 %	52.65 %	56.91 %	58.21 %	53.69 %	48.82 %	54.51 %	
Net interest margin (taxable-equivalent basis)	2.52 %	2.70 %	2.98 %	2.61 %	2.91 %	2.27 %	2.52 %	3.21 %	2.50 %	
Efficiency ratio (1)	72.79 %	74.53 %	74.72 %	73.67 %	73.50 %	73.37 %	72.79 %	74.76 %	73.57 %	
Average equity to average assets	9.52 %	9.54 %	9.59 %	9.53 %	10.13 %	9.47 %	9.52 %	9.95 %	9.51 %	
Net charge-offs/(recoveries) to average loans	(0.07)%	0.03 %	0.07 %	(0.02)%	0.02 %	(0.09)%	(0.07)%	0.07 %	(0.04)%	
Dividend payout ratio	42.22 %	45.00 %	34.62 %	43.53 %	30.91 %	42.22 %	42.22 %	38.30 %	43.08 %	
Per Common Share										
Earnings per common share - basic	$ 0.45	$ 0.41	$ 0.53	$ 0.86	$ 1.11	$ 0.46	$ 0.45	$ 0.48	$ 1.31	$
Earnings per common share - diluted	$ 0.45	$ 0.40	$ 0.52	$ 0.85	$ 1.10	$ 0.45	$ 0.45	$ 0.47	$ 1.30	$
Dividends declared per common share	$ 0.19	$ 0.18	$ 0.18	$ 0.37	$ 0.34	$ 0.19	$ 0.19	$ 0.18	$ 0.56	$
Book value per common share	$ 17.96	$ 17.90	$ 17.75			$ 17.60	$ 17.96	$ 17.25		
Tangible book value per common share (1)	$ 14.60	$ 14.50	$ 14.93			$ 14.32	$ 14.60	$ 13.76		
Average common shares outstanding - basic	20,033	20,028	17,297	20,030	17,271	19,872	20,033	19,987	19,977	
Average common shares outstanding - diluted	20,241	20,246	17,532	20,243	17,517	20,095	20,241	20,230	20,193	
Other Data										
Retirement and benefit services assets under administration/management	$35,052,652	$33,404,342	$31,749,157			$ 34,552,569	$35,052,652	$ 30,545,694		
Wealth management assets under administration/management	$ 3,857,710	$ 3,675,684	$ 4,147,763			$ 3,724,091	$ 3,857,710	$ 3,435,786		
Mortgage originations	$ 111,261	$ 77,728	$ 269,397	$188,989	$456,159	$ 109,637	$ 111,261	$ 229,901	$ 298,626	$

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

Table of Contents

Selected Financial Data

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

(dollars in thousands)	Three months ended			Six months ended		Three months ended			Nine months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Selected Average Balance Sheet Data										
Loans	$2,482,413	$2,457,154	$1,838,631	$2,469,853	$1,803,623	$ 2,544,836	$2,482,413	$ 2,262,361	$ 2,495,122	$ 1,958,216
Investment securities	1,007,792	1,034,288	1,164,625	1,020,967	1,190,298	971,913	1,007,792	1,116,458	1,004,436	1,165,414
Assets	3,785,487	3,791,536	3,258,655	3,788,494	3,272,654	3,821,601	3,785,487	3,743,154	3,799,645	3,431,212
Deposits	2,940,216	2,933,022	2,740,417	2,936,638	2,778,411	2,844,758	2,940,216	2,995,071	2,905,675	2,851,425
Fed funds purchased	360,033	290,187	81,506	325,303	40,978	312,121	360,033	84,149	320,861	55,527
Short-term borrowings	—	80,000	9,615	39,779	4,834	173,913	—	168,750	84,982	60,073
Long-term debt	58,886	58,858	58,876	58,872	58,892	58,914	58,886	58,843	58,886	58,875
Stockholders' equity	360,216	361,857	312,515	361,032	331,425	361,735	360,216	372,274	361,260	345,192

(dollars in thousands)	June 30, 2023	March 31, 2023	December 31, 2022	June 30, 2022
Selected Period End Balance Sheet Data				
Loans	$ 2,533,522	$ 2,486,625	$ 2,443,994	$ 1,890,243
Allowance for credit losses on loans	(35,696)	(35,102)	(31,146)	(31,373)
Investment securities	985,870	1,019,473	1,039,226	1,130,538
Assets	3,832,978	3,886,773	3,779,637	3,295,065
Deposits	2,852,855	3,031,978	2,915,484	2,619,550
Long-term debt	58,900	58,872	58,843	58,870
Total stockholders' equity	357,685	359,118	356,872	307,158

Table of Contents

(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			Six months ended		Three months ended			Nine months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,	September 30,	June 30,	September 30,	September 30,	September 30,
(dollars in thousands)	2023	2023	2022	2023	2022	2023	2023	2022	2023	2022
Selected Income Statement Data										
Net interest income	$ 22,234	$ 23,658	$ 22,776	$ 45,892	$ 44,449	$ 20,395	$22,234	$ 28,316	$ 66,287	$ 72,765
Provision for credit losses	—	550	—	550	—	—	—	—	550	—
Noninterest income	25,778	25,253	29,226	51,031	58,696	28,407	25,778	27,010	79,439	85,706
Noninterest expense	36,373	37,869	39,984	74,242	78,055	37,260	36,373	42,767	111,503	120,822
Income before income taxes	11,639	10,492	12,018	22,131	25,090	11,542	11,639	12,559	33,673	37,649
Income tax expense	2,535	2,306	2,725	4,841	5,613	2,381	2,535	2,940	7,222	8,553
Net income	$ 9,104	$ 8,186	$ 9,293	$ 17,290	$ 19,477	$ 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, we the Company routinely supplement our 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, tangible book value per common share, return on average tangible common equity, net interest margin (tax-equivalent), and the efficiency ratio, as adjusted. Management uses these non-GAAP financial measures in its analysis of its performance, and believes financial analysts and others frequently use these measures, and other similar measures, to evaluate capital adequacy. Management calculates: (i) tangible common equity as total common stockholders' equity less goodwill and other intangible assets; (ii) tangible book value per common share as tangible common equity divided by shares of common stock outstanding; (iii) tangible assets as total assets, less goodwill and other intangible assets; (iv) return on average tangible common equity as net income adjusted for intangible amortization net of tax, divided by average tangible common equity; and (v) efficiency ratio, as adjusted, as noninterest expense less intangible amortization expense, divided by net interest income plus noninterest income plus a tax-equivalent adjustment.

Table of Contents

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:

	June 30,	March 31,	December 31,	June 30,	September 30,	June 30,	December 31,	September 30,
(dollars and shares in thousands, except per share data)	2023	2023	2022	2022	2023	2023	2022	2022
Tangible common equity to tangible assets								

Total common stockholders' equity	$ 357,685	$ 359,118	$ 356,872	$ 307,158	$ 349,402	$ 357,685	$ 356,872	$ 344,839
Less: Goodwill	47,087	47,087	47,087	31,337	46,783	47,087	47,087	46,060
Less: Other intangible assets	19,806	21,131	22,455	17,511	18,482	19,806	22,455	23,779
Tangible common equity (a)	290,792	290,900	287,330	258,310	284,137	290,792	287,330	275,000
Total assets	3,832,978	3,886,773	3,779,637	3,295,065	3,869,138	3,832,978	3,779,637	3,691,253
Less: Goodwill	47,087	47,087	47,087	31,337	46,783	47,087	47,087	46,060
Less: Other intangible assets	19,806	21,131	22,455	17,511	18,482	19,806	22,455	23,779
Tangible assets (b)	3,766,085	3,818,555	3,710,095	3,246,217	3,803,873	3,766,085	3,710,095	3,621,414
Tangible common equity to tangible assets (a)/(b)	7.72 %	7.62 %	7.74 %	7.96 %	7.47 %	7.72 %	7.74 %	7.59 %
Tangible book value per common share								
Total common stockholders' equity	$ 357,685	$ 359,118	$ 356,872	$ 307,158	$ 349,402	$ 357,685	$ 356,872	$ 344,839
Less: Goodwill	47,087	47,087	47,087	31,337	46,783	47,087	47,087	46,060
Less: Other intangible assets	19,806	21,131	22,455	17,511	18,482	19,806	22,455	23,779
Tangible common equity (c)	290,792	290,900	287,330	258,310	284,137	290,792	287,330	275,000
Total common shares issued and outstanding (d)	19,915	20,067	19,992	17,306	19,848	19,915	19,992	19,987
Tangible book value per common share (c)/(d)	$ 14.60	$ 14.50	$ 14.37	$ 14.93	$ 14.32	$ 14.60	$ 14.37	$ 13.76

	Three months ended			**Six months ended**		**Three months ended**			**Nine months ended**	
	June 30,	**March 31,**	**June 30,**	**June 30,**	**June 30,**	**September 30,**	**June 30,**	**September 30,**	**September 30,**	**September 30,**
(dollars and shares in thousands, except per share data)	**2023**	**2023**	**2022**	**2023**	**2022**	**2023**	**2023**	**2022**	**2023**	**2022**
Return on average tangible common equity										
Net income	$ 9,104	$ 8,186	$ 9,293	$ 17,290	$ 19,477	$ 9,161	$ 9,104	$ 9,619	$ 26,451	$ 29,096

Add: Intangible amortization expense (net of tax)	1,046	1,046	832	2,092	1,664	1,046	1,046	1,046	3,138	2,710
Net income, excluding intangible amortization (e)	10,150	9,232	10,125	19,382	21,141	10,207	10,150	10,665	29,589	31,806
Average total equity	360,216	361,857	312,515	361,032	331,425	361,735	360,216	372,274	361,260	345,192
Less: Average goodwill	47,087	47,087	31,488	47,087	31,489	46,882	47,087	48,141	47,018	37,101
Less: Average other intangible assets (net of tax)	16,153	17,208	14,737	16,678	15,151	15,109	16,153	19,466	16,149	16,605
Average tangible common equity (f)	296,976	297,562	266,290	297,267	284,785	299,744	296,976	304,667	298,093	291,486
Return on average tangible common equity (e)/(f)	13.71 %	12.58 %	15.25 %	13.15 %	14.97 %	13.51 %	13.71 %	13.89 %	13.27 %	14.59 %
Efficiency ratio										
Noninterest expense	$ 36,373	$ 37,869	$ 39,984	$ 74,242	$ 78,055	$ 37,260	$ 36,373	$ 42,767	$ 111,503	$ 120,822
Less: Intangible amortization expense	1,324	1,324	1,053	2,648	2,106	1,324	1,324	1,324	3,972	3,430
Adjusted noninterest expense (g)	35,049	36,545	38,931	71,594	75,949	35,936	35,049	41,443	107,531	117,392
Net interest income	22,234	23,658	22,776	45,892	44,449	20,395	22,234	28,316	66,287	72,765
Noninterest income	25,778	25,253	29,226	51,031	58,696	28,407	25,778	27,010	79,439	85,706
Tax-equivalent adjustment	140	124	100	264	194	180	140	112	444	306
Total tax-equivalent revenue (h)	48,152	49,035	52,102	97,187	103,339	48,982	48,152	55,438	146,170	158,777
Efficiency ratio (g)/(h)	72.79 %	74.53 %	74.72 %	73.67 %	73.50 %	73.37 %	72.79 %	74.76 %	73.57 %	73.94 %

Discussion and Analysis of Results of Operations

Net Income

Net income for the three months ended June 30, 2023 September 30, 2023, was $9.1 million $9.2 million, or $0.45 per diluted common share, a $189 thousand $0.5 million, or 2% 4.8%, decrease compared to $9.3 million $9.6 million, or $0.52 $0.47 per diluted common share, for the three months ended June 30, 2022 September 30, 2022. Earnings for the second third quarter of 2023 compared to the second third quarter of 2022 decreased primarily due to a $3.4 million decrease in noninterest income and a $0.5 million decrease in net interest income. These negative results were partially offset by a $3.6 million decrease in noninterest expense.

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 six nine months ended June 30, 2023 September 30, 2023, was $17.3 million $26.5 million, or $0.85 $1.30 per diluted common share, a $2.2 million $2.6 million, or 11.2% 9.1%, decrease compared to $19.5 million $29.1 million, or $1.10 $1.56 per diluted common share, for the six nine months ended June 30, 2022 September 30, 2022. Earnings for the six nine months ended June 30, 2023 September 30, 2023 compared to the six nine months ended June 30, 2022 September 30, 2022 decreased primarily due to a $7.7 million $6.5 million decrease in noninterest net interest income, and a $0.6 million $550 thousand increase in provision for credit losses. losses, and a $6.3 million decrease in noninterest income. These negative results were partially offset by a $1.4 million increase in net interest income and a $3.8 million $9.3 million decrease in noninterest expense.

Net Interest Income

Net interest income is the difference between interest income and yield-related fees earned on assets and interest expense paid on liabilities. Net interest margin is the difference between the yield on interest earning assets and the cost of interest-bearing liabilities as a percentage of interest earning assets. Net interest margin is presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to a pre-tax-equivalent income, assuming a federal income tax rate of 21% for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Net interest income for the three months ended June 30, 2023 September 30, 2023, was $22.2 million $20.4 million, a decrease of $542 thousand, $7.9 million, or 2.4% 28.0%, compared to $22.8 million $28.3 million for the three months ended June 30, 2022 September 30, 2022. Net interest income for the second third quarter of 2023 decreased compared to the second third quarter of 2022 primarily due to the increasing cost of interest-bearing liabilities as interest expense increased $16.5 million $17.7 million mainly driven by an increase of 246 252 basis points in the average rate paid on interest-bearing liabilities. In addition, the average balance of interest-bearing liabilities increased $503.1 million $310.5 million. This was partially offset by a $16.0 million $9.8 million increase in interest income, as interest earning assets increased $490.3 million $73.1 million while the interest earning asset yield increased 135 101 basis points. The increase in interest earning assets was due to a combination of organic growth and the acquisition of Metro Phoenix Bank. growth. The increase in interest-bearing liabilities was due to the acquisition of Metro Phoenix Bank and a decrease in deposits which were replaced with wholesale borrowings and a shift from noninterest-bearing liabilities. deposits to interest-bearing deposits.

Net interest income for the six nine months ended June 30, 2023 September 30, 2023, was $45.9 million $66.3 million, an increase a decrease of $1.4 million $6.5 million, or 3.2% 8.9%, compared to the $44.4 million $72.8 million for the six nine months ended June 30, 2022 September 30, 2022. Net interest income for the six nine months ended June 30, 2023 increased September 30, 2023, decreased compared to the six nine months ended June 30, 2022 September 30, 2022, primarily due to a 133 231 basis point increase in the earning asset yield average rate paid on interest-bearing liabilities in addition to an increase of $468.3 million $446.6 million in the average balance of interest earning assets. interest-bearing liabilities. This was partially offset by an increase increases of 221 121 basis points in the average rate paid on interest-bearing liabilities. interest earning assets and the average balance of interest earning assets. The average balance in interest-bearing liabilities of interest earning assets increased $515.8 million $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.

Net interest margin (on a FTE basis) for the three months ended June 30, 2023 September 30, 2023, was 2.52% 2.27%, compared to 2.98% 3.21% for the same period in 2022.

Net interest margin (on a FTE basis) for the six nine months ended June 30, 2023 September 30, 2023, was 2.61% 2.50%, compared to 2.91% 3.02% for the same period in 2022.

As a result of the recent and expected increases in the target federal funds interest rate, we anticipate the Company anticipates that our net interest income and net interest margin (on a FTE basis) will remain under pressure in future periods.

Table of Contents

The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields on assets, average yields earned, and rates paid for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022. We The Company derived these yields and rates by dividing income or expense by the average balance of the corresponding assets or liabilities. We The Company derived average balances from the daily balances throughout the periods indicated. Average loan balances include loans that have been placed on nonaccrual, 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 basis.

	Three months ended June 30,						Three months ended September 30,					
	2023			2022			2023			2022		
(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	$ 36,418	$ 363	4.00 %	$ 28,920	$ 28	0.39 %	$ 29,450	$ 229	3.09 %	$ 72,157	$ 368	2.02 %
Investment securities (1)	1,007,792	6,360	2.53 %	1,164,625	6,338	2.18 %	971,913	6,377	2.60 %	1,116,458	6,204	2.20 %
Fed funds sold							—	—	— %	21,893	131	2.37 %
Loans held for sale	14,536	189	5.22 %	31,878	250	3.15 %	16,518	231	5.55 %	27,032	282	4.14 %
Loans												
Commercial:												
Commercial and industrial	545,357	9,386	6.90 %	463,215	5,053	4.38 %	555,649	9,258	6.61 %	566,987	7,729	5.41 %
Real estate construction	87,905	1,629	7.43 %	44,627	449	4.04 %	88,450	1,900	8.52 %	70,545	996	5.60 %
Commercial real estate	956,828	12,138	5.09 %	601,765	5,701	3.80 %	998,636	13,219	5.25 %	807,505	8,279	4.07 %
Total commercial	1,590,090	23,153	5.84 %	1,109,607	11,203	4.05 %	1,642,735	24,377	5.89 %	1,445,037	17,004	4.67 %
Consumer												

Residential real estate first mortgage	698,288	6,548	3.76 %	543,023	4,458	3.29 %	714,874	7,007	3.89 %	624,826	5,580	3.54 %
Residential real estate junior lien	156,276	2,900	7.44 %	132,082	1,528	4.64 %	154,939	3,004	7.69 %	140,664	1,918	5.41 %
Other revolving and installment	37,759	568	6.03 %	53,919	592	4.40 %	32,288	497	6.11 %	51,834	651	4.98 %
Total consumer	892,323	10,016	4.50 %	729,024	6,578	3.62 %	902,101	10,508	4.62 %	817,324	8,149	3.96 %
Total loans (1)	2,482,413	33,169	5.36 %	1,838,631	17,781	3.88 %	2,544,836	34,885	5.44 %	2,262,361	25,153	4.41 %
Federal Reserve/FHLB Stock	23,724	399	6.75 %	10,564	129	4.90 %	28,761	495	6.83 %	18,449	249	5.35 %
Total interest earning assets	3,564,883	40,480	4.55 %	3,074,618	24,526	3.20 %	3,591,478	42,217	4.66 %	3,518,350	32,387	3.65 %
Noninterest earning assets	220,604			184,037			230,123			224,804		
Total assets	$3,785,487			$3,258,655			$3,821,601			$3,743,154		
Interest-Bearing Liabilities												
Interest-bearing demand deposits	$ 775,818	$ 2,431	1.26 %	$ 703,365	$ 212	0.12 %	$ 751,455	$ 2,534	1.34 %	$ 659,696	$ 211	0.13 %
Money market and savings deposits	1,145,335	8,033	2.81 %	1,041,898	373	0.14 %	1,073,297	8,650	3.20 %	1,180,576	1,202	0.40 %
Time deposits	270,121	2,214	3.29 %	211,787	228	0.43 %	327,264	3,252	3.94 %	234,459	439	0.74 %
Fed funds purchased	360,033	4,763	5.31 %	81,506	240	1.18 %	312,121	4,327	5.50 %	84,149	787	3.71 %
Short-term borrowings	—	—	— %	9,615	38	1.59 %	173,913	2,201	5.02 %	168,750	729	1.71 %
Long-term debt	58,886	665	4.53 %	58,876	559	3.81 %	58,914	679	4.57 %	58,843	591	3.98 %
Total interest-bearing liabilities	2,610,193	18,106	2.78 %	2,107,047	1,650	0.31 %	2,696,964	21,643	3.18 %	2,386,473	3,959	0.66 %
Noninterest-Bearing Liabilities and Stockholders' Equity												
Noninterest-bearing deposits	748,942			783,367			692,742			920,340		
Other noninterest-bearing liabilities	66,136			55,726			70,160			64,067		
Stockholders' equity	360,216			312,515			361,735			372,274		

Total liabilities and stockholders' equity	$3,785,487	$3,258,655	$3,821,601	$3,743,154
Net interest income	$ 22,374	$ 22,876	$ 20,574	$ 28,428
Net interest rate spread	1.77 %	2.89 %	1.48 %	2.99 %
Net interest margin on FTE basis (1)	2.52 %	2.98 %	2.27 %	3.21 %

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

Table of Contents

	Six months ended June 30,						Nine months ended September 30,					
	2023			2022			2023			2022		
(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	$ 39,167	$ 697	3.59 %	$ 67,111	$ 74	0.22 %	$ 35,892	$ 927	3.45 %	$ 68,811	$ 442	0.86 %
Investment securities (1)	1,020,967	12,552	2.48 %	1,190,298	12,051	2.04 %	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	12,452	316	5.12 %	28,287	407	2.90 %	13,822	547	5.29 %	27,864	689	3.31 %
Loans												
Commercial:												
Commercial and industrial	552,348	17,779	6.49 %	449,014	10,068	4.52 %	553,460	27,037	6.53 %	488,771	17,797	4.87 %
Real estate construction	95,460	3,297	6.96 %	42,893	844	3.97 %	93,098	5,197	7.46 %	52,212	1,839	4.71 %
Commercial real estate	934,356	23,265	5.02 %	601,397	11,100	3.72 %	956,018	36,485	5.10 %	670,854	19,378	3.86 %
Total commercial	1,582,164	44,341	5.65 %	1,093,304	22,012	4.06 %	1,602,576	68,719	5.73 %	1,211,837	39,014	4.30 %
Consumer												
Residential real estate first mortgage	693,547	12,935	3.76 %	528,952	8,891	3.39 %	700,734	19,942	3.80 %	561,261	14,472	3.45 %
Residential real estate junior lien	153,016	5,561	7.33 %	129,056	2,910	4.55 %	153,664	8,565	7.45 %	132,968	4,829	4.86 %
Other revolving and installment	41,126	1,211	5.94 %	52,311	1,140	4.39 %	38,148	1,708	5.99 %	52,150	1,791	4.59 %
Total consumer	887,689	19,707	4.48 %	710,319	12,941	3.67 %	892,546	30,215	4.53 %	746,379	21,092	3.78 %
Total loans (1)	2,469,853	64,048	5.23 %	1,803,623	34,953	3.91 %	2,495,122	98,934	5.30 %	1,958,216	60,106	4.10 %
Federal Reserve/FHLB Stock	23,697	801	6.82 %	8,536	199	4.70 %	25,403	1,294	6.81 %	11,877	448	5.04 %
Total interest earning assets	3,566,136	78,414	4.43 %	3,097,855	47,684	3.10 %	3,574,675	120,630	4.51 %	3,239,560	80,071	3.30 %
Noninterest earning assets	222,358			174,799			224,970			191,652		
Total assets	$3,788,494			$3,272,654			$3,799,645			$3,431,212		
Interest-Bearing Liabilities												
Interest-bearing demand deposits	$ 761,319	$ 4,025	1.07 %	$ 708,888	$ 426	0.12 %	$ 757,995	$ 6,559	1.16 %	$ 692,310	$ 637	0.12 %
Money market and savings deposits	1,155,247	14,265	2.49 %	1,042,660	741	0.14 %	1,127,630	22,915	2.72 %	1,089,137	1,943	0.24 %
Time deposits	251,145	3,492	2.80 %	219,592	475	0.44 %	276,797	6,744	3.26 %	224,603	914	0.54 %

Fed funds purchased	325,303	8,231	5.10 %	40,978	240	1.18 %	320,861	12,556	5.23 %	55,527	1,027	2.47 %
Short-term borrowings	39,779	926	4.69 %	4,834	38	1.59 %	84,982	3,128	4.92 %	60,073	767	1.71 %
Long-term debt	58,872	1,318	4.51 %	58,892	1,121	3.84 %	58,886	1,999	4.54 %	58,875	1,712	3.89 %
Total interest-bearing liabilities	2,591,665	32,257	2.51 %	2,075,844	3,041	0.30 %	2,627,151	53,901	2.74 %	2,180,525	7,000	0.43 %
Noninterest-Bearing Liabilities and Stockholders' Equity												
Noninterest-bearing deposits	768,927			807,271			743,253			845,375		
Other noninterest-bearing liabilities	66,870			58,114			67,981			60,120		
Stockholders' equity	361,032			331,425			361,260			345,192		
Total liabilities and stockholders' equity	$3,788,494			$3,272,654			$3,799,645			$3,431,212		
Net interest income		$46,157			$44,643			$ 66,729			$73,071	
Net interest rate spread			1.92 %			2.80 %			1.77 %			2.87 %
Net interest margin on FTE basis (1)			2.61 %			2.91 %			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 our interest earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in

Table of Contents

change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume.

	Three Months Ended June 30, 2023 Compared with Three Months Ended June 30, 2022			Six months ended June 30, 2023 Compared with Six months ended June 30, 2022			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		
	Change due to:		Interest	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**	**Volume**	**Rate**	**Variance**
Interest earning assets												
Interest-bearing deposits with banks	$ 7	$ 328	$ 335	$ (30)	$ 653	$ 623	$ (217)	$ 78	$ (139)	$ (212)	$ 697	$ 485
Investment securities	(852)	874	22	(1,713)	2,214	501	(802)	975	173	(2,516)	3,189	673
Loans held for sale							(131)	—	(131)	(131)	—	(131)
Loans held for sale	(136)	75	(61)	(228)	137	(91)	(110)	59	(51)	(348)	206	(142)
Loans												
Commercial:												

Commercial and industrial	897	3,436	4,333	2,316	5,395	7,711	(155)	1,684	1,529	2,356	6,884	9,240
Real estate construction	436	744	1,180	1,035	1,418	2,453	253	651	904	1,440	1,918	3,358
Commercial real estate	3,364	3,073	6,437	6,142	6,023	12,165	1,961	2,979	4,940	8,233	8,874	17,107
Total commercial	4,697	7,253	11,950	9,493	12,836	22,329	2,059	5,314	7,373	12,029	17,676	29,705
Consumer												
Residential real estate first mortgage	1,274	816	2,090	2,767	1,277	4,044	803	624	1,427	3,599	1,871	5,470
Residential real estate junior lien	280	1,092	1,372	541	2,110	2,651	195	891	1,086	752	2,984	3,736
Other revolving and installment	(177)	153	(24)	(243)	314	71	(245)	91	(154)	(481)	398	(83)
Total consumer	1,377	2,061	3,438	3,065	3,701	6,766	753	1,606	2,359	3,870	5,253	9,123
Total loans	6,074	9,314	15,388	12,558	16,537	29,095	2,812	6,920	9,732	15,899	22,929	38,828
Federal Reserve/FHLB Stock	161	109	270	353	249	602	139	107	246	510	336	846
Total interest income	5,254	10,700	15,954	10,940	19,790	30,730	1,691	8,139	9,830	13,202	27,357	40,559
Interest-bearing liabilities												
Interest-bearing demand deposits	22	2,197	2,219	31	3,568	3,599	30	2,293	2,323	59	5,863	5,922
Money market and savings deposits	36	7,624	7,660	78	13,446	13,524	(108)	7,556	7,448	69	20,903	20,972
Time deposits	63	1,923	1,986	69	2,948	3,017	173	2,640	2,813	211	5,619	5,830
Fed funds purchased	819	3,704	4,523	1,664	6,327	7,991	2,132	1,408	3,540	4,902	6,627	11,529
Short-term borrowings	(38)	—	(38)	276	612	888	22	1,450	1,472	319	2,042	2,361
Long-term debt	—	106	106	—	197	197	1	87	88	—	287	287
Total interest expense	902	15,554	16,456	2,118	27,098	29,216	2,250	15,434	17,684	5,560	41,341	46,901
Change in net interest income	$ 4,352	$ (4,854)	$ (502)	$ 8,822	$ (7,308)	$ 1,514	$ (559)	$ (7,295)	$ (7,854)	$ 7,642	$ (13,984)	$ (6,342)

Provision for Credit Losses

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

The Company recorded a provision for credit loss expense of $550 thousand for the six nine months ended June 30, 2023 September 30, 2023, a $550 thousand increase compared to the six nine months ended June 30, 2022 September 30, 2022. The provision for credit loss expense for the six nine months ended June 30, 2023 September 30, 2023 included $269 $460 thousand in provision for credit loss on loans, $230 $44 thousand in provision for credit loss on unfunded commitments and $51 $46 thousand in provision for credit loss on investment securities held-to-maturity. The CECL accounting standard requires us 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 of a change in forecasting assumptions brought about by the new methodology.

Noninterest Income

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

Table of Contents

The following table presents our the Company's noninterest income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Retirement and benefit services	$ 15,890	$ 16,293	$ 31,372	$ 33,939	$18,605	$16,597	$49,977	$50,536
Wealth management	5,449	5,548	10,644	10,874	5,271	4,852	15,915	15,726
Mortgage banking	2,905	6,038	4,622	10,969	2,510	3,782	7,132	14,751
Service charges on deposit accounts	311	412	612	775	328	377	940	1,152
Other	1,223	935	3,781	2,139	1,693	1,402	5,475	3,541
Total noninterest income	$ 25,778	$ 29,226	$ 51,031	$ 58,696	$28,407	$27,010	$79,439	$85,706
Noninterest income as a % of revenue	53.69 %	56.20 %	52.65 %	56.91 %	58.21 %	48.82 %	54.51 %	54.08 %

Total noninterest income for the three months ended June 30, 2023 September 30, 2023 was $25.8 million $28.4 million, a $3.4 million $1.4 million, or 11.8% 5.2%, decrease increase compared to $29.2 million $27.0 million for the three months ended June 30, 2022 September 30, 2022. The increase in noninterest income was primarily driven by an increase of $2.0 million in retirement and benefit services due to the divestiture of the ESOP trustee business and increased assets under administration/management. Assets under administration/management were higher due to an increase 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 of $3.1 million $7.6 million in mortgage banking revenue as mortgage originations decreased $158.1 million, or 58.7%, compared to 2022 as higher interest rates dramatically impacted demand. Retirement and benefit services decreased $402 thousand mainly from the exit of the payroll services business and one time non-recurring document restatement fees.

Total noninterest income for the six months ended June 30, 2023, was $51.0 million, a $7.7 million, or 13.1%, decrease compared to $58.7 million for the six months ended June 30, 2022. The decrease in noninterest income was primarily driven by a decrease of $6.3 million in mortgage banking revenue as mortgage originations decreased $267.2 million, or 58.6%, compared to 2022 as higher interest rates dramatically impacted demand. Retirement and benefit services decreased $2.6 million mainly from the exit of the payroll services business, document restatement fees and asset based fees.

We anticipate Company anticipates that our 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.

Noninterest income as a percentage of total operating revenue was 53.7% for the three months ended June 30, 2023, compared to 56.2% for the three months ended June 30, 2022.

Noninterest income as a percentage of total operating revenue was 52.7% for the six months ended June 30, 2023, compared to 56.9% for the six months ended June 30, 2022.

See “NOTE 15 Segment Reporting” of the consolidated financial statements for additional discussion regarding our the Company’s business lines.

Noninterest Expense

The following table presents noninterest expense for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Compensation	$ 18,847	$ 21,248	$ 38,005	$ 40,299	$19,071	$21,168	$ 57,076	$ 61,467
Employee taxes and benefits	4,724	5,787	10,577	11,949	4,895	5,079	15,472	17,028
Occupancy and equipment expense	1,837	1,737	3,736	3,788	1,883	1,925	5,619	5,713
Business services, software and technology expense	5,269	4,785	10,593	9,709	4,774	5,373	15,367	15,082
Intangible amortization expense	1,324	1,053	2,648	2,106	1,324	1,324	3,972	3,430
Professional fees and assessments	1,530	2,246	2,682	3,787	1,716	3,126	4,397	6,913
Marketing and business development	648	814	1,334	1,414	692	890	2,026	2,304
Supplies and postage	406	572	866	1,218	410	588	1,275	1,806
Travel	306	356	554	535	322	291	876	826
Mortgage and lending expenses	215	482	712	1,168	689	409	1,401	1,577
Other	1,267	904	2,535	2,082	1,484	2,594	4,022	4,676
Total noninterest expense	$ 36,373	$ 39,984	$ 74,242	$ 78,055	$37,260	$42,767	$111,503	$120,822

Total noninterest expense for the three months ended June 30, 2023 September 30, 2023, was $36.4 million $37.3 million, a $3.6 million $5.5 million, or 9% 12.9%, decrease compared to $40.0 million $42.8 million for the three months ended June 30, 2022 September 30, 2022. The year over year decrease was primarily due to a $2.4 million $2.1 million decrease in compensation $1.1 million decrease in employee taxes and benefits, and $716 thousand $1.4 million decrease in professional fees and

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 employee taxes professional fees and benefits resulted from lower group insurance claims, reduced headcount, and lower compensation costs. The number of full time equivalent employees assessments was reduced by 65, or 8.1%, from due to merger-related expenses incurred in the second third quarter of 2022, after adjusting for in connection with the acquired employees from the acquisition of Metro Phoenix Bank transaction. Bank.

Total noninterest expense for the six nine months ended June 30, 2023 September 30, 2023, was $74.2 million $111.5 million, a $3.8 million $9.3 million, or 4.9% 7.7%, decrease compared to $78.1 million $120.8 million for the six nine months ended June 30, 2022 September 30, 2022. The decrease was driven by decreases of $2.3 million $4.4 million in compensation, $1.4 million $1.6 million in employee taxes and benefits, $1.1 million and $2.5 million in professional fees and assessments, $456 thousand in mortgage lending expense, and $352 thousand in supplies and postage. 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 expense. 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 professional fees and assessments was primarily driven by lower merger and acquisition and recruitment expenses offset by an increase in FDIC assessments. The decrease in supplies and postage was driven by transitioning our retirement and benefit services fulfillment services from a mostly paper based to an electronic delivery method. These decreases were partially offset by increases of $884 thousand in business services, software and technology expense, $542 thousand in intangible amortization, and $453 thousand in other expenses. The increases in business services, software, and technology as well as intangible amortization were driven by our acquisition of Metro Phoenix Bank. The increase in other expenses was primarily due to provision of unfunded commitments and an increase in expenses incurred related to the payroll services line of business which we exited in 2022.

Income Tax Expense

Income tax expense is an estimate based on the amount we expect 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 our the Company's tax position. If the final resolution of taxes payable differs from our the Company's estimates due to regulatory determination or legislative or judicial actions, adjustments to tax expense may be required.

Table of Contents

For the three months ended June 30, 2023 September 30, 2023, we the Company recognized income tax expense of $2.5 million $2.4 million on $11.6 million $11.5 million of pre-tax income, resulting in an effective tax rate of 21.8% 20.6%, compared to income tax expense of $2.7 million $2.9 million on $12.0 million $12.6 million of pre-tax income for the three months ended June 30, 2022 September 30, 2022, 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%.

For the six months ended June 30, 2023, we recognized income tax expense of $4.8 million on $22.1 million of pre-tax income, resulting in an effective tax rate of 21.9%, compared to income tax expense of $5.6 million on $25.1 million of pre-tax income for the six months ended June 30, 2022, resulting in an effective tax rate of 22.3%.

Financial Condition

Overview

Total assets were $3.8 $3.9 billion as of June 30, 2023 September 30, 2023, an increase of $53.3 million $89.5 million, or 1.4% 2.4%, as compared to December 31, 2022. The increase was primarily due to a $89.5 million $162.4 million increase in loans, $11.4 million $6.9 million increase in loans held for sale and $7.2 million $6.5 million increase in cash and cash equivalents, offset by a decrease of $53.4 million $96.0 million in investment securities. securities and a $5.1 million increase in the allowance for credit losses.

Loans

The loan portfolio represents a broad range of borrowers comprised of commercial and industrial, commercial real estate, residential real estate, and other revolving and installment loans. As of June 30, 2023 September 30, 2023, the portfolio mix was 21.8% 22.3% commercial and industrial, 39.6% 39.3% commercial real estate, 34.1% 33.4% residential real estate and 4.5% 5.0% in other categories.

Table of Contents

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

	June 30, 2023		December 31, 2022		Change		September 30, 2023		December 31, 2022		Change	
		Percent of		Percent of				Percent of		Percent of		
(dollars in thousands)	Balance	Portfolio	Balance	Portfolio	Amount	Percent	Balance	Portfolio	Balance	Portfolio	Amount	Percen
Commercial												
Commercial and industrial	$ 551,860	21.8 %	$ 583,876	23.9 %	$ (32,016)	(5.5)%	$ 582,387	22.3 %	$ 583,876	23.9 %	$ (1,489)	(0.3
Real estate construction	78,428	3.1 %	97,810	4.0 %	(19,382)	(19.8)%	97,742	3.8 %	97,810	4.0 %	(68)	(0.1
Commercial real estate	1,003,821	39.6 %	881,670	36.0 %	122,151	13.9 %	1,025,014	39.3 %	881,670	36.0 %	143,344	16.3
Total commercial	1,634,109	64.5 %	1,563,356	63.9 %	70,753	4.5 %	1,705,143	65.4 %	1,563,356	63.9 %	141,787	9.1
Consumer												
Residential real estate first mortgage	707,630	27.9 %	679,551	27.8 %	28,079	4.1 %	717,793	27.5 %	679,551	27.8 %	38,242	5.6
Residential real estate junior lien	157,231	6.2 %	150,479	6.2 %	6,752	4.5 %	152,677	5.9 %	150,479	6.2 %	2,198	1.5
Other revolving and installment	34,552	1.4 %	50,608	2.1 %	(16,056)	(31.7)%	30,817	1.2 %	50,608	2.1 %	(19,791)	(39.1
Total consumer	899,413	35.5 %	880,638	36.1 %	18,775	2.1 %	901,287	34.6 %	880,638	36.1 %	20,649	2.3
Total loans	$2,533,522	100.0 %	$2,443,994	100.0 %	$ 89,528	3.7 %	$2,606,430	100.0 %	$2,443,994	100.0 %	$162,436	6.6

Total loans outstanding were $2.5 billion $2.6 billion as of June 30, 2023 September 30, 2023, an increase of $89.5 million $162.4 million, or 3.7% 6.6%, from December 31, 2022. The increase was primarily driven by a $122.2 million $143.3 million increase in commercial real estate and a $34.8 million $38.2 million increase in residential real estate loans, offset by a $32.0 million decrease in commercial and industrial, a $19.4 million decrease in real estate construction and a $16.1 million $19.8 million decrease in other consumer revolving and installment loans.

We anticipate that Despite headwinds from a higher interest rate environment and competition in the Company's market areas, the Company anticipates continued loan growth will slow down in future periods for our the commercial and industrial and commercial real estate residential real estate, and consumer loan portfolios as a result of the increasing interest rate environment and competition in our market areas. recently added production talent.

Table of Contents

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

	June 30, 2023					September 30, 2023				
(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	$ 140,538	$ 248,600	$ 161,983	$ 739	$ 551,860	$168,974	$252,223	$ 161,190	$ —	$ 582,387
Real estate construction	25,301	42,706	8,375	2,046	78,428	25,538	63,442	6,567	2,195	97,742
Commercial real estate	57,619	414,874	470,975	60,353	1,003,821	67,108	449,764	445,426	62,716	1,025,014
Total commercial	223,458	706,180	641,333	63,138	1,634,109	261,620	765,429	613,183	64,911	1,705,143
Consumer										
Residential real estate first mortgage	10,094	28,622	46,078	622,836	707,630	5,829	30,107	45,676	636,181	717,793
Residential real estate junior lien	8,990	24,807	35,574	87,860	157,231	8,708	22,360	34,557	87,052	152,677
Other revolving and installment	9,120	22,565	2,867	—	34,552	8,734	19,242	2,841	—	30,817
Total consumer	28,204	75,994	84,519	710,696	899,413	23,271	71,709	83,074	723,233	901,287
Total loans	$ 251,662	$ 782,174	$ 725,852	$ 773,834	$ 2,533,522	$284,891	$837,138	$ 696,257	$ 788,144	$2,606,430
Loans with fixed interest rates:										
Commercial										
Commercial and industrial	$ 14,520	$ 213,065	$ 64,592	$ 740	$ 292,917	$ 14,337	$217,039	$ 59,857	$ —	$ 291,233
Real estate construction	5,915	2,601	6,168	—	14,684	5,837	15,930	3,973	—	25,740
Commercial real estate	42,073	322,046	296,216	21,158	681,493	48,842	330,527	284,539	22,740	686,648
Total commercial	62,508	537,712	366,976	21,898	989,094	69,016	563,496	348,369	22,740	1,003,621
Consumer										
Residential real estate first mortgage	6,892	25,171	38,390	409,946	480,399	4,269	26,273	38,048	419,213	487,803
Residential real estate junior lien	1,381	6,312	22,717	14,684	45,094	1,451	6,899	22,487	15,828	46,665
Other revolving and installment	3,815	18,759	2,867	—	25,441	3,231	16,797	2,841	—	22,869
Total consumer	12,088	50,242	63,974	424,630	550,934	8,951	49,969	63,376	435,041	557,337

Total loans with fixed interest rates	$ 74,596	$ 587,954	$ 430,950	$ 446,528	$ 1,540,028	$ 77,967	$613,465	$ 411,745	$ 457,781	$1,560,958
Loans with floating interest rates:										
Commercial										
Commercial and industrial	$ 126,018	$ 35,535	$ 97,391	$ —	$ 258,944	$154,637	$ 35,184	$ 101,333	$ —	$ 291,154
Real estate construction	19,386	40,105	2,207	2,046	63,744	19,701	47,512	2,594	2,195	72,002
Commercial real estate	15,546	92,828	174,759	39,195	322,328	18,266	119,237	160,887	39,976	338,366
Total commercial	160,950	168,468	274,357	41,241	645,016	192,604	201,933	264,814	42,171	701,522
Consumer										
Residential real estate first mortgage	3,202	3,451	7,688	212,890	227,231	1,560	3,834	7,628	216,968	229,990
Residential real estate junior lien	7,609	18,495	12,857	73,176	112,137	7,257	15,461	12,070	71,224	106,012
Other revolving and installment	5,305	3,806	—	—	9,111	5,503	2,445	—	—	7,948
Total consumer	16,116	25,752	20,545	286,066	348,479	14,320	21,740	19,698	288,192	343,950
Total loans with floating interest rates	$ 177,066	$ 194,220	$ 294,902	$ 327,307	$ 993,495	$206,924	$223,673	$ 284,512	$ 330,363	$1,045,472

The expected life of our 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

Our 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. We strive 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. We utilize The Company utilized an internal lending division, Special Credit Services, to develop and implement strategies for the management of individual nonperforming loans.

Table of Contents

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 on Loans" 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 as of June 30, 2023 September 30, 2023 and December 31, 2022:

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commercial				
Commercial and industrial	$ 32,733	$ 25,182	$ 31,682	$ 25,182
Real estate construction	—	262	15,131	262
Commercial real estate	6,806	8,400	6,932	8,400
Total commercial	39,539	33,844	53,745	33,844
Consumer				
Residential real estate first mortgage	467	808	107	808
Residential real estate junior lien	357	632	1,922	632
Other revolving and installment	6	1	—	1
Total consumer	830	1,441	2,029	1,441
Total loans	$ 40,369	$ 35,285	$ 55,774	$ 35,285
Criticized loans as a percent of total loans	1.59 %	1.44 %	2.14 %	1.44 %

The following table presents information regarding nonperforming assets as of June 30, 2023 September 30, 2023 and December 31, 2022:

(dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 2,233	$ 3,794	$ 9,007	$ 3,794
Accruing loans 90+ days past due	347	—	—	—
Total nonperforming loans	2,580	3,794	9,007	3,794
OREO and repossessed assets	—	30	3	30
Total nonperforming assets	2,580	3,824	9,010	3,824
Total restructured accruing loans	—	151	—	151
Total nonperforming assets and restructured accruing loans	$ 2,580	$ 3,975	$ 9,010	$ 3,975
Nonperforming loans to total loans	0.10 %	0.16 %	0.35 %	0.16 %
Nonperforming assets to total assets	0.07 %	0.10 %	0.23 %	0.10 %
Allowance for credit losses on loans to nonperforming loans	1,384 %	821 %	403 %	821 %

Interest income lost on nonaccrual loans approximated $101 $287 thousand and $107 $172 thousand for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. There was no interest income included in net interest income related to nonaccrual loans for the six nine months ended June 30, 2023 September 30, 2023 and 2022.

Allowance for Credit Losses on Loans

The allowance for credit losses is a significant estimate in the Company's Consolidated Balance Sheet, affecting both earnings and capital. Its methodology influences 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 as of the evaluation date. The allowance for credit losses is established through provision for credit loss expense charged to income.

Table of Contents

The Company calculates the allowance for credit losses at each reporting date. The Company recognizes an allowance for the lifetime expected credit losses for the amount the Company does not expect to collect. Subsequent changes in expected credit losses are recognized immediately in earnings. Management determines the adequacy of the allowance based on periodic evaluations of the loan portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic and other conditions. A risk system, consisting 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 of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, expected loss experience, and other relevant information from internal and external sources 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.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Balance—beginning of period	$ 35,102	$ 31,713	$ 35,003	$ 31,572	$ 35,696	$ 31,373	$ 35,003	$ 31,572
Commercial loan charge-offs								
Commercial and Industrial	(85)	(637)	(260)	(664)	(134)	(672)	(394)	(1,336)
Real estate construction	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—
Total commercial loan charge-offs	(85)	(637)	(260)	(664)	(134)	(672)	(394)	(1,336)
Consumer loan charge-offs								
Residential real estate first mortgage	—	—	—	—	(9)	—	(9)	—
Residential real estate junior lien	—	—	(77)	—	—	—	(77)	—
Other revolving and installment	(23)	(37)	(28)	(55)	(8)	(75)	(36)	(130)
Total consumer loan charge-offs	(23)	(37)	(105)	(55)	(17)	(75)	(122)	(130)
Total loan charge-offs	(108)	(674)	(365)	(719)	(151)	(747)	(516)	(1,466)
Commercial loan recoveries								
Commercial and Industrial	438	90	494	216	456	105	950	321
Real estate construction	—	—	—	—	—	76	—	76
Commercial real estate	12	11	23	22	11	101	34	123
Total commercial recoveries	450	101	517	238	467	282	984	520
Consumer loan recoveries								

Residential real estate first mortgage	—	—	2	—	254	—	256	—
Residential real estate junior lien	46	201	52	214	—	7	52	221
Other revolving and installment	15	32	27	68	24	53	51	121
Total consumer loan recoveries	61	233	81	282	278	60	359	342
Total loan recoveries	511	334	598	520	745	342	1,343	862
Net loan charge-offs (recoveries)	(403)	340	(233)	199	(594)	405	(827)	604
Commercial loan provision								
Commercial and Industrial	(340)	1,085	(717)	1,856	442	(845)	(275)	1,011
Real estate construction	(760)	68	(318)	95	1,063	378	745	473
Commercial real estate	609	(1,123)	678	(1,564)	(270)	1,335	408	(229)
Total commercial loan provision	(491)	30	(357)	387	1,235	868	878	1,255
Consumer loan provision								
Residential real estate first mortgage	(159)	(486)	50	(357)	(389)	(584)	(339)	(941)
Residential real estate junior lien	28	(134)	154	(42)	(14)	(109)	140	(151)
Other revolving and installment	(13)	(5)	(130)	140	(58)	(75)	(188)	65
Total consumer loan provision	(144)	(625)	74	(259)	(461)	(768)	(387)	(1,027)
Unallocated provision expense	826	595	743	(128)	(774)	(100)	(31)	(228)
Total provision for credit losses on loans	191	—	460	—	—	—	460	—
Balance—end of period	$ 35,696	$ 31,373	$ 35,696	$ 31,373	$ 36,290	$ 30,968	$ 36,290	$ 30,968
Total loans	$ 2,533,522	$ 1,890,243	$ 2,533,522	$ 1,890,243	$2,606,430	$2,318,231	$2,606,430	$2,318,231
Average total loans	2,482,413	1,838,631	2,469,853	1,803,623	2,544,836	2,262,361	2,495,122	1,958,216
Allowance for credit losses on loans to total loans	1.41 %	1.66 %	1.41 %	1.66 %	1.39 %	1.34 %	1.39 %	1.34 %
Net charge-offs/(recoveries) to average total loans (annualized)	(0.07)%	0.07 %	(0.02)%	0.02 %	(0.09)%	0.07 %	(0.04)%	0.04 %

Effective January 1, 2023, the Company adopted the new CECL accounting standard. The adoption of the CECL accounting standard resulted in the Company's allowance for credit losses increasing by approximately $5.9 million relative to the allowance held as of December 31, 2022. The adoption 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 $35.7 $36.3 million as of June 30, 2023 September 30, 2023, compared to $31.1 million as of December 31, 2022. The $4.6 million $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 $269 $550 thousand provision for credit losses on loans expense. As of June 30, 2023 September 30, 2023, the allowance for credit losses on loans represented 1.41% 1.39% of total loans.

Table of Contents

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

(dollars in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Balance—beginning of period	$ 35,102	$ 31,713	$35,003	$31,572	$ 35,696	$ 31,373	$35,003	$31,572
Net charge-offs (recoveries):								
Commercial net charge-offs (recoveries)								
Commercial and Industrial	(353)	547	(234)	448	(322)	567	(556)	1,015
Real estate construction	—	—	—	—	—	(76)	—	(76)
Commercial real estate	(12)	(11)	(23)	(22)	(11)	(101)	(34)	(123)
Total commercial net charge-offs (recoveries)	(365)	536	(257)	426	(333)	390	(590)	816
Consumer net charge-offs (recoveries)								
Residential real estate first mortgage	—	—	(2)	—	(245)	—	(247)	—
Residential real estate junior lien	(46)	(201)	25	(214)	—	(7)	25	(221)
Other revolving and installment	8	5	1	(13)	(16)	22	(15)	9
Total consumer net charge-offs (recoveries)	(38)	(196)	24	(227)	(261)	15	(237)	(212)
Total net charge-offs (recoveries)	(403)	340	(233)	199	(594)	405	(827)	604
Provision for credit losses on loans	191	—	460	—	—	—	460	—
Balance—end of period	$ 35,696	$ 31,373	$35,696	$31,373	$ 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	(0.06)%	0.12 %	(0.02)%	0.05 %	(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	(0.06)%	0.12 %	(0.02)%	0.05 %	(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	(0.01)%	(0.04)%	— %	(0.02)%	— %	— %	— %	(0.02)%
Other revolving and installment	— %	— %	— %	— %	— %	— %	— %	— %
Total consumer net charge-offs (recoveries) to average loans	(0.01)%	(0.04)%	— %	(0.03)%	(0.04)%	— %	(0.01)%	(0.01)%
Total net charge-offs (recoveries) to average loans	(0.07)%	0.07 %	(0.02)%	0.02 %	(0.09)%	0.07 %	(0.04)%	0.04 %
Allowance for credit losses on loans to total loans	1.41 %	1.66 %	1.41 %	1.66 %	1.39 %	1.34 %	1.39 %	1.34 %
Allowance for credit losses on loans to nonaccrual loans	1,599 %	827 %	1,599 %	827 %	403 %	816 %	403 %	816 %
Allowance for credit losses on loans to nonperforming loans	1,384 %	821 %	1,384 %	821 %	403 %	821 %	403 %	821 %

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

(dollars in thousands)	June 30, 2023 Allocated Allowance	June 30, 2023 Percentage of loans to total loans	December 31, 2022 Allocated Allowance	December 31, 2022 Percentage of loans to total loans	September 30, 2023 Allocated Allowance	September 30, 2023 Percentage of loans to total loans	December 31, 2022 Allocated Allowance	December 31, 2022 Percentage of loans to total loans
Commercial and industrial	$ 7,813	21.8 %	$ 9,158	23.9 %	$ 8,577	22.3 %	$ 9,158	23.9 %

Real estate construction	3,646	3.1 %	1,446	4.0 %	4,709	3.8 %	1,446	4.0 %
Commercial real estate	12,965	39.6 %	12,688	36.0 %	12,706	39.3 %	12,688	36.0 %
Residential real estate first mortgage	7,901	27.9 %	5,769	27.8 %	7,757	27.5 %	5,769	27.8 %
Residential real estate junior lien	1,351	6.2 %	1,289	6.2 %	1,337	5.9 %	1,289	6.2 %
Other revolving and installment	293	1.4 %	528	2.1 %	251	1.2 %	528	2.1 %
Unallocated	1,727	— %	268	— %	953	— %	268	— %
Total loans	$ 35,696	100.0 %	$ 31,146	100.0 %	$ 36,290	100.0 %	$ 31,146	100.0 %

In the ordinary course of business, we enter 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

Table of Contents

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 June 30, 2023 September 30, 2023.

Investment Securities

The composition of our the Company's investment securities portfolio reflects our 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 our the Company's investment securities portfolio as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale								
U.S. Treasury and agencies	$ 2,906	0.3 %	$ 3,520	0.3 %	$ 2,665	0.3 %	$ 3,520	0.3 %
Mortgage backed securities								
Residential agency	558,456	56.6 %	587,679	56.6 %	521,623	55.3 %	587,679	56.6 %
Commercial	60,909	6.2 %	63,558	6.1 %	58,685	6.2 %	63,558	6.1 %
Asset backed securities	28	— %	34	— %	27	— %	34	— %
Corporate bonds	55,155	5.6 %	62,533	6.0 %	57,001	6.0 %	62,533	6.0 %
Total available-for-sale investment securities	677,454	68.7 %	717,324	69.0 %	640,001	67.8 %	717,324	69.0 %
Held-to-maturity								
Obligations of state and political agencies	131,016	13.3 %	137,787	13.3 %	130,088	13.8 %	137,787	13.3 %
Mortgage backed securities								
Residential agency	177,618	18.0 %	184,115	17.7 %	173,398	18.4 %	184,115	17.7 %
Total held-to-maturity investment securities	308,634	31.3 %	321,902	31.0 %	303,486	32.2 %	321,902	31.0 %

Total investment securities	$ 986,088	100.0 %	$ 1,039,226	100.0 %	$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 June 30, 2023 September 30, 2023. 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

Table of Contents

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

	Maturity as of June 30, 2023								Maturity as of September 30, 2023						
	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		
(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	
Available-for-sale															
U.S. Treasury and agencies	$ —	— %	$ 420	4.47 %	$ 674	5.45 %	$ 1,812	5.41 %	$ —	— %	$ 390	4.26 %	$ 590	5.68 %	$
Mortgage backed securities															
Residential agency	23	3.10 %	3,750	2.23 %	5,761	2.78 %	548,922	1.81 %	15	3.11 %	3,248	2.22 %	5,416	2.77 %	5
Commercial	—	— %	15,676	2.77 %	7,686	2.81 %	37,547	2.47 %	—	— %	15,316	2.77 %	9,179	2.88 %	
Asset backed securities	—	— %	—	— %	8	5.54 %	20	5.22 %	—	— %	—	— %	8	5.20 %	
Corporate bonds	—	— %	—	— %	55,155	3.83 %	—	— %	—	— %	—	— %	57,001	3.83 %	
Total available-for-sale investment securities	23	3.10 %	19,846	2.71 %	69,284	3.67 %	588,301	1.86 %	15	3.11 %	18,954	2.71 %	72,194	3.66 %	5
Held-to-maturity															
Obligations of state and political agencies	5,946	0.60 %	40,512	1.31 %	58,000	2.00 %	11,111	2.21 %	5,875	0.60 %	45,878	1.38 %	49,427	2.04 %	
Mortgage backed securities															
Residential agency	—	— %	—	— %	—	— %	145,141	2.21 %	—	— %	—	— %	—	— %	1

Total held-to-maturity investment securities	5,946	0.60 %	40,512	1.31 %	58,000	2.00 %	156,252	2.21 %	5,875	0.60 %	45,878	1.38 %	49,427	2.04 %	1
Total investment securities	$ 5,969	0.61 %	$ 60,358	1.77 %	$ 127,284	2.93 %	$ 744,553	1.94 %	$ 5,890	0.61 %	$ 64,832	1.77 %	$ 121,621	2.99 %	$ 6

Deposits

Deposit inflows and outflows are influenced by prevailing market interest rates, competition, local and economic conditions, and fluctuations in our 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.

Total deposits were $2.9 billion as of June 30, 2023 September 30, 2023, a decrease of $62.6 million $43.3 million, or 2.1% 1.5%, from December 31, 2022. Interest-bearing deposits increased $82.8 $99.7 million while noninterest-bearing deposits decreased $145.5 million $143.0 million. The decrease in total deposits was due to both public unit depositor seasonality and clients using excess liquidity and paying down revolving debt. Noninterest-bearing deposits decreased from 29.5% of total deposits to 25.1% 25.0% 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 our the Company's deposit portfolio as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022		Change		September 30, 2023		December 31, 2022		Change	
(dollars in thousands)	**Balance**	**Percent of Portfolio**	**Balance**	**Percent of Portfolio**	**Amount**	**Percent**	**Balance**	**Percent of Portfolio**	**Balance**	**Percent of Portfolio**	**Amount**	**Percent**
Noninterest-bearing demand	$ 715,534	25.1 %	$ 860,987	29.5 %	$ (145,453)	(16.9)%	$ 717,990	25.0 %	$ 860,987	29.5 %	$ (142,997)	(16.6)%
Interest-bearing demand	753,194	26.4 %	706,275	24.2 %	46,919	6.6 %	759,812	26.5 %	706,275	24.2 %	53,537	7.6 %
Money market and savings	1,079,960	37.8 %	1,135,863	39.0 %	(55,903)	(4.9)%	1,047,447	36.4 %	1,135,863	39.0 %	(88,416)	(7.8)%
Time deposits	304,167	10.7 %	212,359	7.3 %	91,808	43.2 %	346,935	12.1 %	212,359	7.3 %	134,576	63.4 %
Total deposits	$2,852,855	100.0 %	$2,915,484	100.0 %	$ (62,629)	(2.1)%	$2,872,184	100.0 %	$2,915,484	100.0 %	$ (43,300)	(1.5)%

Table of Contents

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

Three months ended June 30,	Three months ended September 30,

(dollars in thousands)	2023 Average Balance	2023 Average Rate	2022 Average Balance	2022 Average Rate	2023 Average Balance	2023 Average Rate	2022 Average Balance	2022 Average Rate
Noninterest-bearing demand	$ 768,927	— %	$ 807,271	— %	$ 743,253	— %	$ 845,375	— %
Interest-bearing demand	761,319	1.26 %	708,888	0.12 %	757,995	1.34 %	692,310	0.13 %
Money market and savings	1,155,247	2.81 %	1,042,660	0.14 %	1,127,630	3.20 %	1,089,137	0.40 %
Time deposits	251,145	3.29 %	219,592	0.43 %	276,797	3.94 %	224,603	0.74 %
Total deposits	$ 2,936,638	1.73 %	$ 2,778,411	0.12 %	$2,905,675	1.97 %	$2,851,425	0.25 %

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 June 30, 2023 September 30, 2023:

(dollars in thousands)	June 30, 2023	September 30, 2023
Maturing in:		
3 months or less	$ 89,190	$ 34,094
3 months to 6 months	3,453	42,811
6 months to 1 year	821	17,753
1 year or greater	752	4,044
Total	$ 94,216	$ 98,702

The Company's total uninsured deposits, which are amounts of deposit accounts that exceed the FDIC insurance limit, currently $250,000, were approximately $983.6 million $1.0 billion at June 30, 2023 September 30, 2023 These amounts were estimated based on the same methodologies used for regulatory reporting purposes.

Borrowings

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

(dollars in thousands)	June 30, 2023 Balance	June 30, 2023 Percent of Portfolio	December 31, 2022 Balance	December 31, 2022 Percent of Portfolio	September 30, 2023 Balance	September 30, 2023 Percent of Portfolio	December 31, 2022 Balance	December 31, 2022 Percent of Portfolio
Fed funds purchased	$ 492,060	89.3 %	$ 153,080	35.0 %	$315,470	54.9 %	$153,080	35.0 %
FHLB Short-term advances	—	— %	225,000	51.6 %	200,000	34.8 %	225,000	51.6 %
Subordinated notes	50,000	9.1 %	50,000	11.4 %	50,000	8.7 %	50,000	11.4 %
Junior subordinated debentures	8,900	1.6 %	8,843	2.0 %	8,928	1.6 %	8,843	2.0 %
Total borrowed funds	$ 550,960	100.0 %	$ 436,923	100.0 %	$574,398	100.0 %	$436,923	100.0 %

Capital Resources

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

Stockholders' equity increased $813 thousand, decreased $7.5 million, or 0.2% 2.1%, to $357.7 million $349.4 million as of June 30, 2023 September 30, 2023, compared to $356.9 million as of December 31, 2022. Tangible common equity to tangible assets, a non-GAAP financial measure, decreased to 7.72% 7.47% as of June 30, 2023 September 30, 2023, from 7.74% as of December 31, 2022. Common equity tier 1 capital to risk weighted assets decreased to 13.30% 13.01% as of June 30, 2023 September 30, 2023, from 13.39% as of December 31, 2022.

We strive The Company strives to maintain an adequate capital base to support our the Company's activities in a safe and sound manner while at the same time attempting to maximize stockholder value. Capital adequacy is assessed against the risk inherent in our

Table of Contents

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.

We are 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 our the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. We have The Company has consistently maintained regulatory capital ratios at or above the well-capitalized standards.

At June 30, 2023 September 30, 2023 and December 31, 2022, we the Company met all the capital adequacy requirements to which we were the Company was subject. The table below presents the Company's and the Bank's regulatory capital ratios as of June 30, 2023 September 30, 2023 and December 31, 2022:

Capital Ratios	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Alerus Financial Corporation Consolidated				
Common equity tier 1 capital to risk weighted assets	13.30 %	13.39 %	13.01 %	13.39 %
Tier 1 capital to risk weighted assets	13.60 %	13.69 %	13.30 %	13.69 %
Total capital to risk weighted assets	16.49 %	16.48 %	16.10 %	16.48 %
Tier 1 capital to average assets	11.15 %	11.25 %	11.14 %	11.25 %
Tangible common equity to tangible assets (1)	7.72 %	7.74 %	7.47 %	7.74 %
Alerus Financial, National Association				
Common equity tier 1 capital to risk weighted assets	12.93 %	12.76 %	12.68 %	12.76 %
Tier 1 capital to risk weighted assets	12.93 %	12.76 %	12.68 %	12.76 %
Total capital to risk weighted assets	14.14 %	13.83 %	13.86 %	13.83 %
Tier 1 capital to average assets	10.59 %	10.48 %	10.72 %	10.48 %

(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 June 30, 2023 September 30, 2023, as shown in the above table, were at levels above the regulatory minimums to be considered "well capitalized". See "NOTE 18 Regulatory Matters" to the consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

We are 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 our 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 our exposure to off-balance sheet agreements as of June 30, 2023 and December 31, 2022, was as follows:

(dollars in thousands)	June 30, 2023	December 31, 2022
Commitments to extend credit	$ 786,451	$ 806,431

Standby letters of credit	9,784	13,089
Total	$ 796,235	$ 819,520

6567

[Table of Contents](#)

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

(dollars in thousands)	September 30, 2023	December 31, 2022
Commitments to extend credit	$ 786,233	$ 806,431
Standby letters of credit	9,734	13,089
Total	$ 795,967	$ 819,520

Liquidity

Liquidity management is the process by which we managethe Company manages the flow of funds necessary to meet ourthe 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 ourthe Company's operations, and capital expenditures. Liquidity is monitored and closely managed by ourthe 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 we havethe 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 June 30, 2023September 30, 2023, wethe Company had on balance sheet liquidity of $654.4 million$623.4 million, compared to $778.9 million as of December 31, 2022. 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 June 30, 2023September 30, 2023, wethe Company had $492.1 million$315.5 million in federal funds purchased and no$200.0 million in short-term borrowings from the FHLB. As of June 30, 2023September 30, 2023, wethe Company had $1.5 billion of collateral pledged to the FHLB and based on this collateral, we werethe Company was eligible to borrow up to an additional $493.5 million$477.1 million from the FHLB. In addition, wethe Company can borrow up to $107.0 million through the unsecured lines of credit we havethe Company has established with four other correspondent banks.

In addition, because the Bank is "well capitalized," wethe Company can accept wholesale deposits up to 20.0% of total assets based on current policy limits, or $766.6 million$773.8 million, as of June 30, 2023September 30, 2023. Management believed that wethe Company had adequate resources to fund all of ourthe Company's commitments as of June 30, 2023September 30, 2023 and December 31, 2022.

OurThe 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 ourthe Company's liquidity if we experiencethe Company experiences significant credit deterioration and as we meetthe 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 we 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 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. We seek 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 our 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 our 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 our 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 our the Company's overall sensitivity position is as of our 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 our the Company's equity.

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

Table of Contents

The estimated impact on our the Company's net interest income as of June 30, 2023 September 30, 2023 and December 31, 2022, assuming immediate parallel moves in interest rates, is presented in the table below:

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	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	−35.0 %	−18.2 %	−25.1 %	−8.2 %	−6.3 %	−6.7 %	−25.1 %	−8.2 %
+300 basis points	−26.3 %	−13.8 %	−18.9 %	−6.4 %	−4.9 %	−5.5 %	−18.9 %	−6.4 %
+200 basis points	−17.5 %	−9.2 %	−12.7 %	−4.4 %	−3.3 %	−3.7 %	−12.7 %	−4.4 %
+100 basis points	−8.5 %	−4.1 %	−6.2 %	−1.8 %	−1.4 %	−1.3 %	−6.2 %	−1.8 %
−100 basis points	7.7 %	2.8 %	5.2 %	0.5 %	0.6 %	0.2 %	5.2 %	0.5 %
−200 basis points	13.3 %	3.3 %	7.9 %	−1.7 %	0.4 %	−0.9 %	7.9 %	−1.7 %

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

Table of Contents

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 June 30, 2023 September 30, 2023 and December 31, 2022, assuming immediate parallel shifts in interest rates:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
+400 basis points	−27.7 %	−19.5 %	−23.1 %	−19.5 %
+300 basis points	−21.6 %	−15.3 %	−18.5 %	−15.3 %
+200 basis points	−14.6 %	−10.4 %	−12.3 %	−10.4 %
+100 basis points	−6.9 %	−4.9 %	−5.5 %	−4.9 %
−100 basis points	5.7 %	4.0 %	4.1 %	4.0 %
−200 basis points	8.7 %	5.0 %	6.5 %	5.0 %

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 our 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 us 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 our 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,

Table of Contents

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 our the President and Chief Executive Officer, our the Chief Financial Officer, and our the Chief Accounting Officer have evaluated the effectiveness of our 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, our the President and Chief Executive Officer, our the Chief Financial Officer and our 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 we the Company or any of our its subsidiaries are a party or to which our 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.

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

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

The following table presents information related to repurchases of shares of our the Company's common stock for each calendar month in the second third quarter of 2023:

(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)

April 1-30, 2023	—	$ —	—	770,000				
May 1-31, 2023	62,513	16.13	62,513	770,000				
June 1-30, 2023	107,533	18.09	107,533	770,000				
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
Total	170,046	$ 17.37	170,046	770,000	70,328	$ 17.49	68,428	531,526

(1) Shares repurchased by the Company represent included 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 Program, which authorizes the Company to repurchase up to 770,000 shares of its common stock, subject to certain limitations and conditions. The Program was effective immediately and will continue for a period of 36 months, until February 28, 2024. The 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 three months ended June 30, 2023 September 30, 2023, the Company repurchased 170,046 68,428 shares of common stock under the Program.

Table of Contents

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 June 30, 2023 September 30, 2023, 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.

Table of Contents

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).
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)

Table of Contents

SIGNATURES

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

ALERUS FINANCIAL CORPORATION

Date: August 3, 2023 November 2, 2023

By: /s/ Katie A. Lorenson

Name: Katie A. Lorenson

Title: President and Chief Executive Officer (Principal Executive Officer)

Date: August 3, 2023 November 2, 2023

By: /s/ Alan A. Villalon

Name: Alan A. Villalon

Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer)

72 74

Exhibit 31.1

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

I, Katie A. Lorenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of Alerus Financial Corporation (the “Registrant”);
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   d) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Alerus Financial Corporation

August 3, November 2, 2023

/s/ Katie A. Lorenson

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

---

ody>

Exhibit 31.2

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

I, Alan A. Villalon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Alerus Financial Corporation (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Alerus Financial Corporation

August 3, November 2, 2023

/s/ Alan A. Villalon

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

Exhibit 32.1

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

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

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 September 30, 2023 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Alerus Financial Corporation

August 3, November 2, 2023

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

Exhibit 32.2

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

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

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 September 30, 2023 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Alerus Financial Corporation

August 3, November 2, 2023

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

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

REFINITIV