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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 30, 2025

☐ 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 August 1, 2025 was 25,396,307.

Alerus Financial Corporation and Subsidiaries

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PART 1. FINANCIAL INFORMATION

Item 1 - Consolidated Financial Statements

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(dollars in thousands, except share and per share data)	June 30, 2025	December 31, 2024
Assets		
Cash and cash equivalents	$ 80,904	$ 61,239
Investment securities		
Trading	1,686	3,309
Available-for-sale, at fair value (amortized cost of $620,799 and $686,556, respectively)	541,152	588,053
Held-to-maturity, at amortized cost (fair value of $231,504 and $236,986, respectively, with an allowance for credit losses on investments of $127 and $131, respectively)	263,706	275,585
Loans held for sale	18,424	16,518
Non-mortgage loans held for sale	50,160	—
Loans	4,044,657	3,992,534
Allowance for credit losses on loans	(59,278)	(59,929)
Net loans	3,985,379	3,932,605
Land, premises and equipment, net	42,693	39,780
Operating lease right-of-use assets	12,535	13,438
Accrued interest receivable	20,884	20,075
Bank-owned life insurance	38,613	36,033
Goodwill	85,634	85,634
Other intangible assets, net	38,462	43,882
Servicing rights	7,184	7,918
Deferred income taxes, net	41,460	52,885
Other assets	94,946	84,719
Total assets	$ 5,323,822	$ 5,261,673
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 790,300	$ 903,466
Interest-bearing	3,547,168	3,474,944
Total deposits	4,337,468	4,378,410
Short-term borrowings	314,600	238,960
Long-term debt	59,126	59,069
Operating lease liabilities	18,017	18,991
Accrued expenses and other liabilities	61,456	70,833
Total liabilities	4,790,667	4,766,263
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, $1 par value, 2,000,000 shares authorized: 0 issued and outstanding	—	—
Common stock, $1 par value, 60,000,000 and 30,000,000 shares authorized: 25,388,848 and 25,344,803 issued and outstanding	25,389	25,345
Additional paid-in capital	270,735	269,708
Retained earnings	296,878	273,723
Accumulated other comprehensive income (loss)	(59,847)	(73,366)
Total stockholders' equity	533,155	495,410
Total liabilities and stockholders' equity	$ 5,323,822	$ 5,261,673

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

(dollars and shares in thousands, except per share data)	Three months ended June 30, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Interest Income				
Loans, including fees	$ 63,853	$ 41,663	$ 125,348	$ 80,958
Investment securities				
Taxable	5,310	4,845	11,017	9,413
Exempt from federal income taxes	160	170	320	343
Other	1,101	6,344	1,920	11,346
Total interest income	70,424	53,022	138,605	102,060
Interest Expense				
Deposits	22,758	21,284	46,293	41,436
Short-term borrowings	3,982	7,053	6,821	13,042
Long-term debt	652	684	1,302	1,362
Total interest expense	27,392	29,021	54,416	55,840
Net interest income	43,032	24,001	84,189	46,220
Provision for credit losses	—	4,489	863	4,489
Net interest income after provision for credit losses	43,032	19,512	83,326	41,731
Noninterest Income				
Retirement and benefit services	16,024	16,078	32,130	31,733
Wealth	7,363	6,360	14,267	12,477
Mortgage banking	3,651	2,554	5,177	4,224
Service charges on deposit accounts	680	456	1,330	845
Gain on sale of non-mortgage loans	2,115	—	2,115	—
Other	1,930	1,923	4,376	3,415
Total noninterest income	31,763	27,371	59,395	52,694
Noninterest Expense				
Compensation	24,343	20,265	47,304	39,597
Employee taxes and benefits	6,633	5,134	14,396	11,322
Occupancy and equipment expense	2,559	1,815	5,466	3,722
Business services, software and technology expense	5,868	4,599	11,620	9,944
Intangible amortization expense	2,710	1,324	5,419	2,648
Professional fees and assessments	2,339	2,373	5,335	4,366
Marketing and business development	787	651	1,752	1,436
Supplies and postage	490	370	1,121	898
Travel	347	332	634	624
Mortgage and lending expenses	940	467	1,476	908
Other	1,422	1,422	4,282	2,306
Total noninterest expense	48,438	38,752	98,805	77,771
Income before income taxes	26,357	8,131	43,916	16,654
Income tax expense	6,104	1,923	10,349	4,014
Net income	$ 20,253	$ 6,208	$ 33,567	$ 12,640
Per Common Share Data				
Basic earnings per common share	$ 0.79	$ 0.31	$ 1.31	$ 0.64
Diluted earnings per common share	$ 0.78	$ 0.31	$ 1.30	$ 0.63
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.41	$ 0.39
Average common shares outstanding	25,368	19,777	25,363	19,758
Diluted average common shares outstanding	25,714	20,050	25,683	20,018

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)	Three months ended June 30, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Net Income	$ 20,253	$ 6,208	$ 33,567	$ 12,640
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains (losses) on debt securities	4,586	(1,221)	18,760	(4,739)
Net change in unrealized gain (losses) on cash flow hedging derivatives	(147)	25	(587)	709
Net change in unrealized gain (losses) on other derivatives	110	164	(123)	2,195
Total other comprehensive income (loss), before tax	4,549	(1,032)	18,050	(1,835)
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,142	(259)	4,531	(461)
Other comprehensive income (loss), net of tax	3,407	(773)	13,519	(1,374)
Total comprehensive income (loss)	$ 23,660	$ 5,435	$ 47,086	$ 11,266

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Three months ended				
(dollars and shares in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of March 31, 2024	19,777	$ 150,741	$ 275,374	$ (74,256)	$ 371,636
Net income	—	—	6,208	—	6,208
Other comprehensive income (loss)	—	—	—	(773)	(773)
Common stock repurchased	—	(4)	—	—	(4)
Common stock dividends	—	—	(3,962)	—	(3,962)
Share-based compensation expense	—	121	—	—	121
Vesting of restricted stock	1	(1)	—	—	—
Balance as of June 30, 2024	19,778	$ 150,857	$ 277,620	$ (75,029)	$ 373,226
Balance as of March 31, 2025	25,366	$ 270,159	$ 281,961	$ (63,254)	$ 514,232
Net income	—	—	20,253	—	20,253
Other comprehensive income (loss)	—	—	—	3,407	3,407
Common stock repurchased	(2)	(47)	—	—	(49)
Common stock dividends	—	—	(5,336)	—	(5,336)
Share-based compensation expense	—	648	—	—	648
Vesting of restricted stock	25	(25)	—	—	—
Balance as of June 30, 2025	25,389	$ 270,735	$ 296,878	$ (59,847)	$ 533,155

	Six months ended				
(dollars and shares in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2023	19,734	$ 150,343	$ 272,705	$ (73,655)	$ 369,127
Net income	—	—	12,640	—	12,640
Other comprehensive income (loss)	—	—	—	(1,374)	(1,374)
Common stock repurchased	(7)	(149)	—	—	(156)
Common stock dividends	—	—	(7,725)	—	(7,725)
Share-based compensation expense	—	714	—	—	714
Vesting of restricted stock	51	(51)	—	—	—
Balance as of June 30, 2024	19,778	$ 150,857	$ 277,620	$ (75,029)	$ 373,226
Balance as of December 31, 2024	25,345	$ 269,708	$ 273,723	$ (73,366)	$ 495,410
Net income	—	—	33,567	—	33,567
Other comprehensive income (loss)	—	—	—	13,519	13,519
Common stock repurchased	(8)	(168)	—	—	(176)
Common stock dividends	—	—	(10,412)	—	(10,412)
Share-based compensation expense	—	1,247	—	—	1,247
Vesting of restricted stock	52	(52)	—	—	—
Balance as of June 30, 2025	25,389	$ 270,735	$ 296,878	$ (59,847)	$ 533,155

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)	Six months ended June 30, 2025	2024
Operating Activities		
Net income	$ 33,567	$ 12,640
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Deferred income taxes	6,894	(676)
Provision for credit losses	863	4,489
Depreciation and amortization	7,663	4,271
Amortization and accretion of premiums/discounts on investment securities	377	853
Amortization of operating lease right-of-use assets	(72)	11
Share-based compensation expense	1,247	714
Purchase accounting accretion, net	(17,438)	(1,250)
Originations of loans held for sale	(113,267)	(154,739)
Proceeds on loans held for sale	115,851	131,532
Realized loss (gain) on mortgage loans sold	(4,405)	(3,497)
Servicing rights capitalized upon sale of mortgage loans	(101)	—
(Increase) in value of bank-owned life insurance	(370)	(337)
Realized loss (gain) on sale of premises and equipment	84	—
Realized loss (gain) on derivative instruments	(484)	(913)
Realized loss (gain) on sale of foreclosed assets	21	1
Change in fair value of mortgage servicing rights	835	—
Realized loss (gain) on servicing rights	—	(134)
Net change in:		
Accrued interest receivable	(809)	(1,177)
Other assets	(2,247)	(1,335)
Accrued expenses and other liabilities	(9,800)	8,799
Net cash provided (used) by operating activities	18,409	(748)
Investing Activities		
Proceeds from sales of trading investment securities	5,450	7,443
Purchases of trading investment securities	(3,729)	(10,211)
Proceeds from sales or calls of investment securities available-for-sale	19,000	—
Proceeds from maturities of investment securities available-for-sale	46,759	22,384
Proceeds from calls of investment securities held-to-maturity	146	251
Proceeds from maturities and paydowns of investment securities held-to-maturity	11,262	12,209
Proceeds from sale of non-mortgage loan held for sale	12,331	—
Net (increase) decrease in loans	(102,662)	(157,687)
Net (increase) decrease in FHLB stock	(4,504)	4,952
Purchases of BOLI	(2,210)	(1,935)
Purchases of premises and equipment	(5,185)	(4,566)
Proceeds from sales of foreclosed assets	484	36
Net cash provided (used) by investing activities	(22,858)	(127,124)
Financing Activities		
Net increase (decrease) in deposits	(40,942)	202,964
Net increase (decrease) in short-term borrowings	75,640	240,830
Repayments of long-term debt	—	1
Cash dividends paid on common stock	(10,408)	(7,519)
Repurchase of common stock	(176)	(156)
Net cash provided (used) by financing activities	24,114	436,120
Net change in cash and cash equivalents	19,665	308,248
Cash and cash equivalents at beginning of period	61,239	129,893
Cash and cash equivalents at end of period	$ 80,904	$ 438,141

See accompanying notes to consolidated financial statements (unaudited)

	Six months ended June 30,	
	2025	2024
Supplemental Cash Flow Disclosures		
Interest paid	$ 57,569	$ 47,719
Income taxes paid	501	174
Cash dividends declared, not paid	5,336	3,962
Supplemental Disclosures of Noncash Investing and Financing Activities		
Loan collateral transferred to foreclosed assets	(1,235)	(5)
Right-of-use assets obtained in exchange for new operating lease liabilities, net	66	318
Change in fair value hedges presented within residential real estate loans and other assets	—	143
Loans transferred to non-mortgage loans held for sale	62,491	—

See accompanying notes to consolidated financial statements (unaudited)

Alerus Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 Basis of Presentation

The accompanying unaudited consolidated interim financial statements and notes thereto of the Company have been prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated balance sheets of Alerus Financial Corporation ("the Company") as of June 30, 2025 and December 31, 2024, the consolidated statements of income for the three and six months ended June 30, 2025 and 2024, the consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2025 and 2024, the consolidated statements of changes in stockholders' equity for the three and six months ended June 30, 2025 and 2024, and the consolidated statements of cash flows for the six months ended June 30, 2025 and 2024.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's principal operating subsidiary is Alerus Financial, National Association (the "Bank"). Certain items previously reported have been reclassified to conform to the current period's reporting format. Such reclassifications did not affect net income or stockholders' equity. The results of operations for the interim periods are not necessarily indicative of the results for the full year or any other period. The Company has also evaluated all subsequent events for potential recognition and disclosure through the date of the filing of this Quarterly Report on Form 10-Q. These interim unaudited financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K filed with the SEC on March 14, 2025.

NOTE 2 Recent Accounting Pronouncements

The following Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASUs") are divided into pronouncements which have been adopted by the Company since January 1, 2025, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of June 30, 2025.

Adopted Pronouncements

There have been no new ASUs adopted by the Company since January 1, 2025.

Pronouncements Not Yet Effective

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

NOTE 3 Investment Securities

Trading securities are reported on the Company's consolidated balance sheet at fair value. The fair value of the Company's trading securities was $1.7 million and $3.3 million as of June 30, 2025 and December 31, 2024, respectively. Changes in the fair value of trading securities are recorded in other noninterest income on the Company's consolidated statements of income.

The following tables present amortized cost, gross unrealized gains and losses, allowance for credit losses ("ACL") and fair value of available-for-sale ("AFS") investment securities and the amortized cost, gross unrealized gains and losses and fair value of held-to-maturity ("HTM") securities as of June 30, 2025 and December 31, 2024:

	June 30, 2025				
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale					
U.S. Treasury and agencies	$ 638	$ —	$ (1)	$ —	$ 637
Mortgage backed securities					
Residential agency	564,826	330	(76,217)	—	488,939
Commercial	1,336	—	(56)	—	1,280
Asset backed securities	17	—	—	—	17
Corporate bonds	53,982	—	(3,703)	—	50,279
Total available-for-sale investment securities	620,799	330	(79,977)	—	541,152
Held-to-maturity					
Obligations of state and political agencies	114,141	—	(8,770)	75	105,371
Mortgage backed securities					
Residential agency	149,692	—	(23,559)	52	126,133
Total held-to-maturity investment securities	263,833	—	(32,329)	127	231,504
Total investment securities	$ 884,632	$ 330	$ (112,306)	$ 127	$ 772,656

(dollars in thousands)	December 31, 2024 Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale					
U.S. Treasury and agencies	$ 30,691	$ 18	$ (2)	—	$ 30,707
Mortgage backed securities					
Residential agency	596,510	1	(92,805)	—	503,706
Commercial	1,350	—	(99)	—	1,251
Asset backed securities	19	—	—	—	19
Corporate bonds	57,986	—	(5,616)	—	52,370
Total available-for-sale investment securities	686,556	19	(98,522)	—	588,053
Held-to-maturity					
Obligations of state and political agencies	119,623	—	(11,638)	77	107,985
Mortgage backed securities					
Residential agency	156,093	—	(27,092)	54	129,001
Total held-to-maturity investment securities	275,716	—	(38,730)	131	236,986
Total investment securities	$ 962,272	$ 19	$ (137,252)	$ 131	$ 825,039

The adequacy of the ACL on investment securities is assessed at the end of each quarter. The Company does not believe that the AFS debt securities that were in an unrealized loss position as of June 30, 2025 represented a credit loss impairment. As of both June 30, 2025 and December 31, 2024, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Additionally, there were corporate bonds in gross unrealized loss positions as of both June 30, 2025 and December 31, 2024; however, all such bonds had an investment grade rating as of both June 30, 2025 and December 31, 2024. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

The ACL on HTM debt securities is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Using a probability of default and loss given default analysis, the ACL on HTM debt securities was $127 thousand and $131 thousand as of June 30, 2025 and December 31, 2024, respectively. The change in the ACL on HTM debt securities was due to a change in the provision for credit losses, with no charge-offs or recoveries for the three and six months ended June 30, 2025.

Accrued interest receivable on AFS investment securities and HTM investment securities is recorded in accrued interest receivable and is excluded from the estimate of credit losses. As of June 30, 2025, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $1.6 million and $1.2 million, respectively. As of December 31, 2024, the accrued interest receivable on AFS investment securities and HTM investment securities totaled $2.0 million and $1.3 million, respectively.

The Company had no sales of AFS investment securities for the three and six months ended June 30, 2025 and 2024. The Company had calls of AFS investment securities with proceeds of $19.0 million and $29.0 million for the three and six months ended June 30, 2025, respectively, and no calls of AFS investment securities for the three and six months ended June 30, 2024.

The Company had no sales of HTM investment securities for the three and six months ended June 30, 2025 and 2024.

The following tables present investment securities with gross unrealized losses, for which an ACL was not recorded at June 30, 2025 and December 31, 2024, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position:

(dollars in thousands)	June 30, 2025 Number of Holdings	Less than 12 Months Unrealized Losses	Less than 12 Months Fair Value	Over 12 Months Unrealized Losses	Over 12 Months Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-sale							
U.S. Treasury and agencies	2	$ —	$ —	$ (1)	$ 469	$ (1)	$ 469
Mortgage backed securities							
Residential agency	111	(1)	35	(76,216)	383,021	(76,217)	383,056
Commercial	1	—	—	(56)	1,278	(56)	1,278
Asset backed securities	3	—	—	—	16	—	16
Corporate bonds	11	—	—	(3,703)	50,279	(3,703)	50,279
Total available-for-sale investment securities	128	$ (1)	$ 35	$ (79,976)	$ 435,063	$ (79,977)	$ 435,098

(dollars in thousands)	December 31, 2024 Number of Holdings	Less than 12 Months Unrealized Losses	Less than 12 Months Fair Value	Over 12 Months Unrealized Losses	Over 12 Months Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-sale							
U.S. Treasury and agencies	1	$ —	$ —	$ (2)	$ 327	$ (2)	$ 327
Mortgage backed securities							
Residential agency	124	(1,715)	116,800	(91,090)	386,864	(92,805)	503,664
Commercial	1	—	—	(99)	1,251	(99)	1,251
Asset backed securities	3	—	—	—	18	—	18
Corporate bonds	12	—	—	(5,616)	52,370	(5,616)	52,370
Total available-for-sale investment securities	141	$ (1,715)	$ 116,800	$ (96,807)	$ 440,830	$ (98,522)	$ 557,630

As of June 30, 2025 and December 31, 2024, none of the Company's HTM debt securities were past due or on nonaccrual status. The Company did not recognize any interest income on nonaccrual HTM debt securities during the three months ended June 30, 2025 and 2024.

The following table presents the carrying value and fair value of HTM investment securities and the amortized cost and fair value of AFS investment securities as of June 30, 2025, 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	$ 6,547	$ 6,461	$ —	$ —
Due after one year through five years	57,083	53,878	1,625	1,568
Due after five years through ten years	43,077	38,521	53,999	50,296
Due after 10 years	7,434	6,511	349	349
	114,141	105,371	55,973	52,213
Mortgage-backed securities				
Residential agency	149,692	126,133	564,826	488,939
Total investment securities	$ 263,833	$ 231,504	$ 620,799	$ 541,152

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 $439.1 million and $340.2 million were pledged as of June 30, 2025 and December 31, 2024, respectively, to secure public deposits and for other purposes required or permitted by law.

As of June 30, 2025 and December 31, 2024, the carrying value of the Company's Federal Reserve stock and Federal Home Loan Bank of Des Moines ("FHLB") stock was as follows:

(dollars in thousands)	June 30, 2025	December 31, 2024
Federal Reserve	$ 8,631	$ 7,519
FHLB	18,161	13,656

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, 2025, the conversion ratio was 1.5609. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the 6,924 Class B shares (10,808 Class A equivalents) that the Company owned as of June 30, 2025 and December 31, 2024, 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, 2025 and December 31, 2024:

(dollars in thousands)	June 30, 2025	December 31, 2024
Commercial		
Commercial and industrial	$ 675,892	$ 666,727
Commercial real estate		
Construction, land and development	352,749	294,677
Multifamily	333,307	363,123
Non-owner occupied	887,643	967,025
Owner occupied	440,170	371,418
Total commercial real estate	2,013,869	1,996,243
Agricultural		
Land	66,395	61,299
Production	67,931	63,008
Total agricultural	134,326	124,307
Total commercial	2,824,087	2,787,277
Consumer		
Residential real estate		
First lien	901,738	921,019
Construction	35,754	33,547
HELOC	200,624	162,509
Junior lien	41,450	44,060
Total residential real estate	1,179,566	1,161,135
Other consumer	41,004	44,122
Total consumer	1,220,570	1,205,257
Total loans	$ 4,044,657	$ 3,992,534

Total loans included net deferred loan fees and costs of $0.3 million and $1.1 million at June 30, 2025 and December 31, 2024, respectively. Unearned discounts associated with bank acquisitions totaled $52.7 million and $70.6 million as of June 30, 2025 and December 31, 2024, respectively.

Accrued interest receivable on loans is recorded within accrued interest receivable, and totaled $17.5 million at June 30, 2025 and $16.4 million at December 31, 2024.

As of June 30, 2025, the Company had $50.2 million in non-mortgage loans held for sale, which were previously recorded as loans, compared to $0.0 million at December 31, 2024. The Company transferred these loans to the non-mortgage loans held for sale category in the second quarter of 2025, and a valuation allowance of $78 thousand was recorded as part of this transaction. During the second quarter of 2025, the Company transferred a loan from the loans category to the non-mortgage loans held for sale category. This loan was sold prior to the end of the second quarter of 2025, and the Company received proceeds of $12.3 million.

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

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

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

- The adequacy of the ACL is overseen by the ACL Governance Committee, which is an internal management committee comprised of various Company executives and senior managers across business lines, including Accounting and Finance, Credit Underwriting, Collections and Special Assets, Risk, and Commercial and Retail Banking. The ACL Governance Committee supports the oversight efforts of the Bank's Board of Directors.

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

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

Loans with a carrying value of $2.9 billion, as of both June 30, 2025 and December 31, 2024, were pledged to secure public deposits, and for other purposes required or permitted by law.

ACL on Loans

The following tables present, by loan portfolio segment, a summary of the changes in the ACL on loans for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30, 2025				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 7,960	$ 317	$ (79)	$ 128	$ 8,326
Commercial real estate					
Construction, land and development	18,369	160	—	—	18,529
Multifamily	4,749	127	—	—	4,876
Non-owner occupied	16,342	(22)	(3,401)	—	12,919
Owner occupied	3,512	301	(6)	11	3,818
Total commercial real estate	42,972	566	(3,407)	11	40,142
Agricultural					
Land	603	12	—	—	615
Production	913	94	(384)	—	623
Total agricultural	1,516	106	(384)	—	1,238
Total commercial	52,448	989	(3,870)	139	49,706
Consumer					
Residential real estate					
First lien	7,042	17	—	—	7,059
Construction	467	(51)	—	—	416
HELOC	1,180	188	(10)	—	1,358
Junior lien	439	(63)	—	—	376
Total residential real estate	9,128	91	(10)	—	9,209
Other consumer	353	36	(38)	12	363
Total consumer	9,481	127	(48)	12	9,572
Total	$ 61,929	$ 1,116	$ (3,918)	$ 151	$ 59,278

(1) The difference in the credit loss expense reported herein compared to the consolidated statements of income is associated with the credit loss expense of ($1.2) million related to off-balance sheet credit exposure, ($2) thousand related to HTM investment securities, and $78 thousand related to non-mortgage loans transferred to held for sale.

	Six months ended June 30, 2025				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 8,170	$ 6	$ (248)	$ 398	$ 8,326
Commercial real estate					
Construction, land and development	16,277	2,252	—	—	18,529
Multifamily	4,716	160	—	—	4,876
Non-owner occupied	16,513	(193)	(3,401)	—	12,919
Owner occupied	3,226	576	(6)	22	3,818
Total commercial real estate	40,732	2,795	(3,407)	22	40,142
Agricultural					
Land	597	18	—	—	615
Production	631	364	(384)	12	623
Total agricultural	1,228	382	(384)	12	1,238
Total commercial	50,130	3,183	(4,039)	432	49,706
Consumer					
Residential real estate					
First lien	6,921	192	(54)	—	7,059
Construction	357	59	—	—	416
HELOC	1,339	279	(260)	—	1,358
Junior lien	742	(66)	(300)	—	376
Total residential real estate	9,359	464	(614)	—	9,209
Other consumer	440	(124)	(77)	124	363
Total consumer	9,799	340	(691)	124	9,572
Total	$ 59,929	$ 3,523	$ (4,730)	$ 556	$ 59,278

(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 ($2.7) million related to off-balance sheet credit exposure, ($4) thousand related to HTM investment securities, and $78 thousand related to non-mortgage loans transferred to held for sale.

	Three months ended June 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 9,508	$ (663)	$ (2,730)	$ 119	$ 6,234
Commercial real estate					
Construction, land and development	5,922	4,898	—	—	10,820
Multifamily	2,148	282	—	—	2,430
Non-owner occupied	8,104	668	—	—	8,772
Owner occupied	2,461	(190)	—	9	2,280
Total commercial real estate	18,635	5,658	—	9	24,302
Agricultural					
Land	248	11	—	—	259
Production	219	(34)	—	—	185
Total agricultural	467	(23)	—	—	444
Total commercial	28,610	4,972	(2,730)	128	30,980
Consumer					
Residential real estate					
First lien	6,152	(786)	—	—	5,366
Construction	489	(31)	—	—	458
HELOC	864	22	—	—	886
Junior lien	284	(41)	(3)	74	314
Total residential real estate	7,789	(836)	(3)	74	7,024
Other consumer	185	134	(1)	10	328
Total consumer	7,974	(702)	(4)	84	7,352
Total	$ 36,584	$ 4,270	$ (2,734)	$ 212	$ 38,332

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

	Six months ended June 30, 2024				
(dollars in thousands)	Beginning Balance	Provision for Credit Losses(1)	Loan Charge-offs	Loan Recoveries	Ending Balance
Commercial					
Commercial and industrial	$ 9,705	$ (819)	$ (2,894)	$ 242	$ 6,234
Commercial real estate					
Construction, land and development	6,135	4,685	—	—	10,820
Multifamily	1,776	654	—	—	2,430
Non-owner occupied	7,726	1,046	—	—	8,772
Owner occupied	2,449	(160)	(29)	20	2,280
Total commercial real estate	18,086	6,225	(29)	20	24,302
Agricultural					
Land	96	163	—	—	259
Production	84	101	—	—	185
Total agricultural	180	264	—	—	444
Total commercial	27,971	5,670	(2,923)	262	30,980
Consumer					
Residential real estate					
First lien	6,087	(721)	—	—	5,366
Construction	485	(27)	—	—	458
HELOC	835	51	—	—	886
Junior lien	264	(21)	(3)	74	314
Total residential real estate	7,671	(718)	(3)	74	7,024
Other consumer	201	117	(13)	23	328
Total consumer	7,872	(601)	(16)	97	7,352
Total	$ 35,843	$ 5,069	$ (2,939)	$ 359	$ 38,332

(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 ($0.5) million related to off-balance sheet credit exposure and ($62) thousand related to HTM investment securities.

The ACL on loans at June 30, 2025 was $59.3 million, a decrease of $0.6 million, or 1.1%, from December 31, 2024. The decrease was primarily due to the non-mortgage loans transferred to held for sale, offset by loan growth and economic conditions.

Credit Concentrations

The Company focuses on maintaining a well-balanced and diversified loan portfolio. Despite such efforts, it is recognized that credit concentrations may occasionally emerge as a result of economic conditions, changes in local demand, natural loan growth and runoff. To identify credit concentrations effectively, all commercial and industrial and owner occupied real estate loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes and state and county codes. Property type coding is used for investment real estate. There were no industry concentrations exceeding 10% of the Company's total loan portfolio as of June 30, 2025.

Credit Quality Indicators

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

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

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

- *Pass:* A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.
- *Special Mention:* Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.
- *Substandard:* Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined 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 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 tables set forth the amortized cost basis of loans by credit quality indicator and vintage based on the most recent analysis performed, as of June 30, 2025 and December 31, 2024:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of June 30, 2025	**2025**	**2024**	**2023**	**2022**	**2021**	**Prior**	**Cost Basis**	**Total**
Commercial and industrial								
Pass	$ 78,791	$ 167,272	$ 100,345	$ 52,029	$ 27,322	$ 52,389	$ 152,868	$ 631,016
Special mention	—	11	—	—	674	—	—	685
Substandard	1,218	10,345	4,961	3,637	648	10,045	13,337	44,191
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 80,009	$ 177,628	$ 105,306	$ 55,666	$ 28,644	$ 62,434	$ 166,205	$ 675,892
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ 248	$ —	$ 248
CRE − Construction, land and development								
Pass	$ 5,355	$ 128,894	$ 142,272	$ 28,622	$ 667	$ 1,140	$ 3,230	$ 310,180
Special mention	—	—	—	175	—	—	—	175
Substandard	—	10,052	—	31,868	—	174	300	42,394
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 5,355	$ 138,946	$ 142,272	$ 60,665	$ 667	$ 1,314	$ 3,530	$ 352,749
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Multifamily								
Pass	$ 2,944	$ 26,832	$ 40,215	$ 112,825	$ 32,933	$ 63,015	$ —	$ 278,764
Special mention	—	—	—	25,152	821	1,001	—	26,974
Substandard	—	5,756	3,972	—	—	17,841	—	27,569
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 2,944	$ 32,588	$ 44,187	$ 137,977	$ 33,754	$ 81,857	$ —	$ 333,307
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Non-owner occupied								
Pass	$ 49,808	$ 193,356	$ 152,003	$ 197,413	$ 89,190	$ 185,169	$ 1,970	$ 868,909
Special mention	—	—	—	—	—	1,063	—	1,063
Substandard	—	—	5,417	1,293	2,778	8,183	—	17,671
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 49,808	$ 193,356	$ 157,420	$ 198,706	$ 91,968	$ 194,415	$ 1,970	$ 887,643
Gross charge-offs for the period ended	$ —	$ —	$ —	$ 632	$ 775	$ 1,994	$ —	$ 3,401
CRE − Owner occupied								
Pass	$ 26,322	$ 83,805	$ 56,577	$ 63,039	$ 43,710	$ 136,665	$ 1,435	$ 411,553
Special mention	—	450	1,400	—	—	4,317	570	6,737
Substandard	—	—	1,496	2,946	1,910	15,528	—	21,880
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 26,322	$ 84,255	$ 59,473	$ 65,985	$ 45,620	$ 156,510	$ 2,005	$ 440,170
Gross charge-offs for the period ended	$ —	$ —	$ 6	$ —	$ —	$ —	$ —	$ 6
Agricultural − Land								
Pass	$ 6,427	$ 9,376	$ 9,531	$ 12,568	$ 5,672	$ 12,793	$ 1,914	$ 58,281
Special mention	—	—	—	3,372	—	—	—	3,372
Substandard	—	—	303	3,604	—	835	—	4,742
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 6,427	$ 9,376	$ 9,834	$ 19,544	$ 5,672	$ 13,628	$ 1,914	$ 66,395
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural − Production								
Pass	$ 8,161	$ 8,140	$ 5,691	$ 4,011	$ 484	$ 1,077	$ 36,187	$ 63,751
Special mention	—	415	253	99	—	408	150	1,325
Substandard	—	23	539	1,237	28	—	1,028	2,855
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 8,161	$ 8,578	$ 6,483	$ 5,347	$ 512	$ 1,485	$ 37,365	$ 67,931
Gross charge-offs for the period ended	$ —	$ —	$ —	$ 384	$ —	$ —	$ —	$ 384
Residential real estate − First lien								
Performing	$ 27,992	$ 45,602	$ 131,981	$ 218,932	$ 242,815	$ 231,766	$ —	$ 899,088
Nonperforming	—	—	574	—	436	1,640	—	2,650
Subtotal	$ 27,992	$ 45,602	$ 132,555	$ 218,932	$ 243,251	$ 233,406	$ —	$ 901,738
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ 7	$ 47	$ —	$ 54
Residential real estate − Construction								
Performing	$ 6,010	$ 21,246	$ 872	$ —	$ 1,043	$ —	$ 1,903	$ 31,074
Nonperforming	—	—	—	4,680	—	—	—	4,680
Subtotal	$ 6,010	$ 21,246	$ 872	$ 4,680	$ 1,043	$ —	$ 1,903	$ 35,754
Gross charge-offs for the period ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − HELOC								
Performing	$ 328	$ 2,773	$ 4,607	$ 5,680	$ 1,441	$ 4,246	$ 180,336	$ 199,411
Nonperforming	—	—	25	1,130	—	58	—	1,213
Subtotal	$ 328	$ 2,773	$ 4,632	$ 6,810	$ 1,441	$ 4,304	$ 180,336	$ 200,624
Gross charge-offs for the period ended	$ —	$ —	$ 10	$ 250	$ —	$ —	$ —	$ 260
Residential real estate − Junior lien								
Performing	$ 2,751	$ 6,749	$ 10,664	$ 8,313	$ 4,591	$ 5,964	$ 50	$ 39,082
Nonperforming	—	1,775	—	—	—	593	—	2,368
Subtotal	$ 2,751	$ 8,524	$ 10,664	$ 8,313	$ 4,591	$ 6,557	$ 50	$ 41,450
Gross charge-offs for the period ended	$ —	$ —	$ —	$ 300	$ —	$ —	$ —	$ 300
Other consumer								
Performing	$ 4,101	$ 3,866	$ 3,615	$ 3,872	$ 284	$ 4,848	$ 20,370	$ 40,956

Nonperforming	—	9	39	—	—	—	—	48
Subtotal	$ 4,101	$ 3,875	$ 3,654	$ 3,872	$ 284	$ 4,848	$ 20,370	$ 41,004
Gross charge-offs for the period ended	$ —	$ —	$ 31	$ 22	$ —	$ 24	$ —	$ 77
Total loans	$ 220,208	$ 726,747	$ 677,352	$ 786,497	$ 457,447	$ 760,758	$ 415,648	$ 4,044,657
Gross charge-offs for the period ended	$ —	$ —	$ 47	$ 1,588	$ 782	$ 2,313	$ —	$ 4,730

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
As of December 31, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Cost Basis**	**Total**
Commercial and industrial								
Pass	$ 209,001	$ 141,028	$ 61,254	$ 34,645	$ 38,342	$ 36,136	$ 111,194	$ 631,600
Special mention	1,367	495	3,286	2,239	5,575	1	1,651	14,614
Substandard	—	12,663	220	780	3,154	2,447	1,198	20,462
Doubtful	—	—	—	—	—	51	—	51
Subtotal	$ 210,368	$ 154,186	$ 64,760	$ 37,664	$ 47,071	$ 38,635	$ 114,043	$ 666,727
Gross charge-offs for the year ended	$ —	$ 218	$ 2	$ 397	$ 2,768	$ 342	$ —	$ 3,727
CRE − Construction, land and development								
Pass	$ 97,244	$ 112,845	$ 40,890	$ 1,560	$ 517	$ 1,187	$ 2,801	$ 257,044
Special mention	—	—	172	—	—	—	—	172
Substandard	5,406	—	31,585	—	—	170	300	37,461
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 102,650	$ 112,845	$ 72,647	$ 1,560	$ 517	$ 1,357	$ 3,101	$ 294,677
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Multifamily								
Pass	$ 35,112	$ 62,982	$ 138,698	$ 33,782	$ 33,157	$ 32,204	$ —	$ 335,935
Special mention	—	—	7,644	272	1,241	—	—	9,157
Substandard	—	—	—	—	17,732	299	—	18,031
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 35,112	$ 62,982	$ 146,342	$ 34,054	$ 52,130	$ 32,503	$ —	$ 363,123
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Non-owner occupied								
Pass	$ 189,068	$ 149,368	$ 223,349	$ 98,309	$ 71,432	$ 188,617	$ 1,709	$ 921,852
Special mention	—	—	1,694	8,603	—	4,148	4,195	18,640
Substandard	—	—	—	7,767	6,347	12,419	—	26,533
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 189,068	$ 149,368	$ 225,043	$ 114,679	$ 77,779	$ 205,184	$ 5,904	$ 967,025
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE − Owner occupied								
Pass	$ 63,721	$ 41,918	$ 60,788	$ 44,957	$ 38,941	$ 91,804	$ 1,652	$ 343,781
Special mention	451	—	—	937	2,981	2,735	—	7,104
Substandard	—	311	3,023	2,694	—	13,538	967	20,533
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 64,172	$ 42,229	$ 63,811	$ 48,588	$ 41,922	$ 108,077	$ 2,619	$ 371,418
Gross charge-offs for the year ended	$ —	$ 12	$ 97	$ —	$ —	$ 128	$ —	$ 237
Agricultural − Land								
Pass	$ 10,496	$ 8,864	$ 14,369	$ 5,840	$ 5,103	$ 8,473	$ 120	$ 53,265
Special mention	69	1,612	3,275	—	—	—	—	4,956
Substandard	—	303	2,166	—	609	—	—	3,078
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 10,565	$ 10,779	$ 19,810	$ 5,840	$ 5,712	$ 8,473	$ 120	$ 61,299
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural − Production								
Pass	$ 10,445	$ 6,440	$ 4,356	$ 724	$ 1,121	$ 582	$ 34,527	$ 58,195
Special mention	130	704	—	—	420	—	1,518	2,772
Substandard	—	—	1,987	—	—	54	—	2,041
Doubtful	—	—	—	—	—	—	—	—
Subtotal	$ 10,575	$ 7,144	$ 6,343	$ 724	$ 1,541	$ 636	$ 36,045	$ 63,008
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ 26	$ —	$ 26
Residential real estate − First lien								
Performing	$ 49,414	$ 144,460	$ 226,993	$ 251,006	$ 127,200	$ 118,958	$ —	$ 918,031
Nonperforming	—	576	—	744	12	1,656	—	2,988
Subtotal	$ 49,414	$ 145,036	$ 226,993	$ 251,750	$ 127,212	$ 120,614	$ —	$ 921,019
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − Construction								
Performing	$ 19,229	$ 6,449	$ 1,900	$ 1,289	$ —	$ —	$ —	$ 28,867
Nonperforming	—	—	4,680	—	—	—	—	4,680
Subtotal	$ 19,229	$ 6,449	$ 6,580	$ 1,289	$ —	$ —	$ —	$ 33,547
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate − HELOC								
Performing	$ 3,290	$ 5,558	$ 6,217	$ 1,622	$ 939	$ 2,717	$ 140,707	$ 161,050
Nonperforming	—	35	—	—	—	74	1,350	1,459
Subtotal	$ 3,290	$ 5,593	$ 6,217	$ 1,622	$ 939	$ 2,791	$ 142,057	$ 162,509
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ 19	$ —	$ 19
Residential real estate − Junior lien								
Performing	$ 7,762	$ 11,557	$ 9,553	$ 4,990	$ 2,760	$ 4,178	$ 50	$ 40,850
Nonperforming	1,775	—	300	108	—	1,027	—	3,210
Subtotal	$ 9,537	$ 11,557	$ 9,853	$ 5,098	$ 2,760	$ 5,205	$ 50	$ 44,060
Gross charge-offs for the year ended	$ —	$ —	$ —	$ —	$ —	$ 638	$ —	$ 638
Other consumer								
Performing	$ 9,618	$ 4,695	$ 4,853	$ 502	$ 2,541	$ 4,069	$ 17,505	$ 43,783
Nonperforming	—	11	272	—	7	49	—	339
Subtotal	$ 9,618	$ 4,706	$ 5,125	$ 502	$ 2,548	$ 4,118	$ 17,505	$ 44,122
Gross charge-offs for the year ended	$ 4	$ 2	$ —	$ 31	$ 6	$ 8	$ —	$ 51

Total loans	$ 713,598	$ 712,874	$ 853,524	$ 503,370	$ 360,131	$ 527,593	$ 321,444	$ 3,992,534
Gross charge-offs for the year ended	$ 4	$ 232	$ 99	$ 428	$ 2,774	$ 1,161	$ —	$ 4,698

Past Due and Nonaccrual Loans

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

The following tables present a past due aging analysis of total loans outstanding, by portfolio segment, as of June 30, 2025 and December 31, 2024:

	June 30, 2025					
(dollars in thousands)	Accruing Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial						
Commercial and industrial	$ 671,559	$ 992	$ 306	$ —	$ 3,035	$ 675,892
Commercial real estate						
Construction, land and development	317,922	—	—	—	34,827	352,749
Multifamily	328,568	—	4,530	—	209	333,307
Non-owner occupied	887,643	—	—	—	—	887,643
Owner occupied	437,343	1,271	91	—	1,465	440,170
Total commercial real estate	1,971,476	1,271	4,621	—	36,501	2,013,869
Agricultural						
Land	65,616	—	—	—	779	66,395
Production	67,590	341	—	—	—	67,931
Total agricultural	133,206	341	—	—	779	134,326
Total commercial	2,776,241	2,604	4,927	—	40,315	2,824,087
Consumer						
Residential real estate						
First lien	898,139	532	214	202	2,651	901,738
Construction	31,074	—	—	—	4,680	35,754
HELOC	199,141	233	36	—	1,214	200,624
Junior lien	38,949	133	—	—	2,368	41,450
Total residential real estate	1,167,303	898	250	202	10,913	1,179,566
Other consumer	40,816	130	10	—	48	41,004
Total consumer	1,208,119	1,028	260	202	10,961	1,220,570
Total	$ 3,984,360	$ 3,632	$ 5,187	$ 202	$ 51,276	$ 4,044,657

	December 31, 2024					
(dollars in thousands)	Accruing Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Loans
Commercial						
Commercial and industrial	$ 654,073	$ 903	$ 133	$ 8,400	$ 3,218	$ 666,727
Commercial real estate						
Construction, land and development	264,633	—	—	—	30,044	294,677
Multifamily	363,123	—	—	—	—	363,123
Non-owner occupied	961,808	—	—	—	5,217	967,025
Owner occupied	369,176	225	—	—	2,017	371,418
Total commercial real estate	1,958,740	225	—	—	37,278	1,996,243
Agricultural						
Land	60,690	—	—	—	609	61,299
Production	62,269	87	—	—	652	63,008
Total agricultural	122,959	87	—	—	1,261	124,307
Total commercial	2,735,772	1,215	133	8,400	41,757	2,787,277
Consumer						
Residential real estate						
First lien	915,167	2,104	707	53	2,988	921,019
Construction	28,867	—	—	—	4,680	33,547
HELOC	160,430	169	450	—	1,460	162,509
Junior lien	40,454	396	—	—	3,210	44,060
Total residential real estate	1,144,918	2,669	1,157	53	12,338	1,161,135
Other consumer	43,651	103	30	—	338	44,122
Total consumer	1,188,569	2,772	1,187	53	12,676	1,205,257
Total	$ 3,924,341	$ 3,987	$ 1,320	$ 8,453	$ 54,433	$ 3,992,534

In calculating expected credit losses, the Company includes loans on nonaccrual status and loans 90 days or more past due and still accruing. The following tables present the amortized cost basis on nonaccrual status loans and loans 90 days or more past due and still accruing as of June 30, 2025 and December 31, 2024:

	As of June 30, 2025		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing
Commercial			
Commercial and industrial	$ 2,885	$ 3,035	$ —
Commercial real estate			
Construction, land and development	28,615	34,827	—
Multifamily	209	209	—
Non-owner occupied	—	—	—
Owner occupied	1,330	1,465	—
Total commercial real estate	30,154	36,501	—
Agricultural			
Land	779	779	—
Production	—	—	—
Total agricultural	779	779	—
Total commercial	33,818	40,315	—
Consumer			
Residential real estate			
First lien	2,379	2,651	202
Construction	4,680	4,680	—
HELOC	1,102	1,214	—
Junior lien	2,320	2,368	—
Total residential real estate	10,481	10,913	202
Other consumer	—	48	—
Total consumer	10,481	10,961	202
Total	$ 44,299	$ 51,276	$ 202

	December 31, 2024		
(dollars in thousands)	Nonaccrual with no Allowance for Credit Losses	Nonaccrual	90 Days or More Past Due and Accruing
Commercial			
Commercial and industrial	$ 2,952	$ 3,218	$ 8,400
Commercial real estate			
Construction, land and development	24,638	30,044	—
Multifamily	—	—	—
Non-owner occupied	5,217	5,217	—
Owner occupied	1,706	2,017	—
Total commercial real estate	31,561	37,278	—
Agricultural			
Land	609	609	—
Production	652	652	—
Total agricultural	1,261	1,261	—
Total commercial	35,774	41,757	8,400
Consumer			
Residential real estate			
First lien	2,614	2,988	53
Construction	4,680	4,680	—
HELOC	—	1,460	—
Junior lien	2,696	3,210	—
Total residential real estate	9,990	12,338	53
Other consumer	—	338	—
Total consumer	9,990	12,676	53
Total	$ 45,764	$ 54,433	$ 8,453

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the three months ended June 30, 2025 and 2024, is estimated to have been $1.1 million and $0.2 million, respectively.

The Company's policy is to reverse previously recorded interest income when a loan is placed on nonaccrual status. As a result, the Company did not record any interest income on its nonaccrual loans for the three months ended June 30, 2025 or 2024. At June 30, 2025 and December 31, 2024, total accrued interest receivable on loans, which had been excluded from reported amortized cost basis on loans, was $17.5 million and $16.4 million, respectively, and was reported within accrued interest receivable on the consolidated statements of condition. An allowance was not carried on the accrued interest receivable at either date.

The following tables present the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans, as of June 30, 2025 and December 31, 2024:

	As of June 30, 2025				
	Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses
Commercial					
Commercial and industrial	$ 2,885	$ 131	$ —	$ 3,016	$ 128
Commercial real estate					
Construction, land and development	34,827	—	—	34,827	4,984
Multifamily	209	—	—	209	—
Non-owner occupied	—	—	—	—	—
Owner occupied	1,384	—	—	1,384	4
Total commercial real estate	36,420	—	—	36,420	4,988
Agricultural					
Land	779	—	—	779	—
Production	—	—	—	—	—
Total agricultural	779	—	—	779	—
Total commercial	40,084	131	—	40,215	5,116
Consumer					
Residential real estate					
First lien	2,379	—	—	2,379	—
Construction	4,680	—	—	4,680	—
HELOC	1,100	—	—	1,100	—
Junior lien	2,320	—	—	2,320	—
Total residential real estate	10,479	—	—	10,479	—
Other consumer	—	—	—	—	—
Total consumer	10,479	—	—	10,479	—
Total	$ 50,563	$ 131	$ —	$ 50,694	$ 5,116

	As of December 31, 2024				
	Primary Type of Collateral				
(dollars in thousands)	Real estate	Equipment	Other	Total	Allowance for Credit Losses
Commercial					
Commercial and industrial	$ 2,885	$ 275	$ —	$ 3,160	$ 4
Commercial real estate					
Construction, land and development	30,044	—	—	30,044	4,984
Multifamily	—	—	—	—	—
Non-owner occupied	5,217	—	—	5,217	—
Owner occupied	1,936	—	—	1,936	9
Total commercial real estate	37,197	—	—	37,197	4,993
Agricultural					
Land	609	—	—	609	—
Production	—	652	—	652	—
Total agricultural	609	652	—	1,261	—
Total commercial	40,691	927	—	41,618	4,997
Consumer					
Residential real estate					
First lien	2,514	—	—	2,514	7
Construction	4,680	—	—	4,680	—
HELOC	1,366	—	—	1,366	252
Junior lien	3,105	—	—	3,105	330
Total residential real estate	11,665	—	—	11,665	589
Other consumer	—	—	289	289	50
Total consumer	11,665	—	289	11,954	639
Total	$ 52,356	$ 927	$ 289	$ 53,572	$ 5,636

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

Effective January 1, 2023, the Company evaluates all loan modifications in accordance with ASU 2022-02. Under ASU 2022-02, a loan is evaluated to consider whether the loan, as modified, represents a new loan or is a continuation of an existing loan.

In cases where a borrower experiences financial difficulty, the Company may make certain concessions for which the terms of the loan are modified. Loans experiencing financial difficulty can include modifications allowing 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 these or similar types of modifications. During both the three and six months ended June 30, 2025 and 2024, the Company did not provide any modifications to loans under these circumstances that were experiencing financial difficulty.

The following table presents the amortized cost basis of loans as of June 30, 2025, by class of type of modification, that were experiencing financial difficulty during the three and six months ended June 30, 2025. There were no loans that were modified to borrowers experiencing financial difficulty during the three and six months ended June 30, 2024. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of the class of financing receivable as of June 30, 2025, is also presented below.

	Three months ended June 30, 2025						
(dollars in thousands)	Interest Rate Reduction	Principal Forgiveness	Term Extension	Payment Delay	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Interest Rate Reduction	Total % of Portfolio
Agricultural − Land	$ —	$ —	$ —	$ 1,457	$ —	$ —	2.2%

	Six months ended June 30, 2025						
(dollars in thousands)	Interest Rate Reduction	Principal Forgiveness	Term Extension	Payment Delay	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Interest Rate Reduction	Total % of Portfolio
Agricultural − Land	$ —	$ —	$ —	$ 1,457	$ —	$ —	2.2%

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts and relevant factors are considered while assessing the adequacy of the ACL. For the three and six months ended June 30, 2025 and 2024, there were no modified loans to borrowers experiencing financial difficulty that were past due or for which the borrower subsequently defaulted.

NOTE 5 Land, Premises and Equipment, Net

Components of land, premises and equipment, net at June 30, 2025 and December 31, 2024 were as follows:

(dollars in thousands)	June 30, 2025	December 31, 2024
Land (1)	$ 7,155	$ 7,155
Buildings and improvements (1)	39,312	36,961
Leasehold improvements	2,657	2,657
Furniture, fixtures, and equipment	41,247	38,540
	90,371	85,313
Less accumulated depreciation	(47,678)	(45,533)
Total	$ 42,693	$ 39,780

(1) Excludes assets held for sale.

Depreciation expense was $1.1 million and $0.7 million for the three months ended June 30, 2025 and 2024, respectively. Depreciation expense was $2.2 million and $1.3 million for the six months ended June 30, 2025 and 2024, respectively.

The Company's West Fargo, North Dakota branch is listed for sale for $3.8 million and is expected to sell within the next 12 months. At June 30, 2025, the facility had a carrying value of approximately $0.4 million. The Company expects to record a gain on the sale upon closing, as the expected sale price is greater than the property's carrying value. Total assets held for sale by the Company at June 30, 2025 were $0.4 million and were included in other assets on the Company's consolidated balance sheet and not included in the table above.

NOTE 6 Goodwill and Other Intangible Assets

The following table summarizes the carrying amount of goodwill, by segment, as of June 30, 2025 and December 31, 2024:

(dollars in thousands)	June 30, 2025	December 31, 2024
Banking	$ 74,111	$ 74,111
Retirement and benefit services	11,523	11,523
Total goodwill	$ 85,634	$ 85,634

Goodwill is evaluated for impairment on an annual basis, at a minimum, and more frequently when the economic environment or specific circumstances warrant. The Company determined that there was no goodwill impairment as of June 30, 2025.

The gross carrying amount and accumulated amortization for each type of identifiable intangible asset, as of June 30, 2025 and December 31, 2024, were as follows:

	June 30, 2025			December 31, 2024		
(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Identifiable customer intangibles	$ 27,504	$ (21,137)	$ 6,367	$ 41,423	$ (33,736)	$ 7,687
Core deposit intangible assets	41,092	(8,997)	32,095	41,092	(4,897)	36,195
Total intangible assets	$ 68,596	$ (30,134)	$ 38,462	$ 82,515	$ (38,633)	$ 43,882

Amortization of total intangible assets was $2.7 million and $1.3 million for the three months ended June 30, 2025 and 2024, respectively. Amortization of total intangible assets was $5.4 million and $2.6 million for the six months ended June 30, 2025 and 2024, respectively.

NOTE 7 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 $701.0 million and $728.5 million as of June 30, 2025 and December 31, 2024, 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. As of and for the year ended December 31, 2024, the Company elected to subsequently measure mortgage servicing rights ("MSRs") at fair value. The Company accounted for MSRs at the lower of amortized cost or fair value for all periods prior to December 31, 2024.

The following table presents the changes in fair value of the Company's MSR portfolio for the three and six months ended June 30, 2025:

(dollars in thousands)	Three months ended June 30, 2025	Six months ended June 30, 2025
Balance at beginning of period	$ 7,351	$ 7,918
Additions from loans sold with servicing rights retained	47	101
Change in fair value	(214)	(835)
Balance at end of period	$ 7,184	$ 7,184

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

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

(1) Associated income was reported within mortgage banking income, net on the consolidated statements of income.
(2) Associated amortization expense was reported within other noninterest income on the consolidated statements of income.
(3) Associated valuation reserve was reported within mortgage and lending expenses on the consolidated statements of income.

The following is a summary of key data and assumptions used in the valuation of servicing rights as of June 30, 2025 and December 31, 2024. Increases or decreases in any one of these assumptions would result in lower or higher fair value measurements.

(dollars in thousands)	June 30, 2025	December 31, 2024
Fair value of servicing rights	$ 7,184	$ 7,918
Weighted-average remaining term, years	21.8	22.0
Prepayment speeds	12.2%	9.9%
Discount rate	10.5%	10.5%

NOTE 8 Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of an identified property, plant or equipment for a period of time in exchange for consideration. Substantially all of the leases in which the Company is the lessee are comprised of real property for offices and office equipment rentals with terms extending through 2041. Portions of certain properties are subleased for terms extending through July 2025. Substantially all of the Company's leases are classified as operating leases. The Company has no existing finance leases.

The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated financial statements. The following table presents the classification of the Company's right-of-use ("ROU") assets and lease liabilities on the consolidated financial statements as of June 30, 2025 and December 31, 2024:

(dollars in thousands)		June 30, 2025	December 31, 2024
Lease Right-of-Use Assets	**Classification**		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 12,535	$ 13,438
Lease Liabilities			
Operating lease liabilities	Operating lease liabilities	$ 18,017	$ 18,991

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, 2025	December 31, 2024
Weighted-average remaining lease term, years		
Operating leases	12.5	12.6
Weighted-average discount rate		
Operating leases	4.6%	4.5%

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

The following table presents lease costs and other lease information for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2025	2024	2025	2024
Lease costs				
Operating lease cost	$ 621	$ 442	$ 1,240	$ 903
Variable lease cost	184	206	126	472
Short-term lease cost	44	67	334	104
Finance lease cost				
Interest on lease liabilities	—	—	—	—
Amortization of right-of-use assets	—	—	—	—
Sublease income	(80)	(51)	(121)	(99)
Net lease cost	$ 769	$ 664	$ 1,579	$ 1,380
Other information				
Cash paid for amounts included in the measurement of lease liabilities operating cash flows from operating leases	$ 599	$ 460	$ 1,197	$ 920
Right-of-use assets obtained in exchange for new operating lease liabilities	44	210	66	318

Future minimum payments for finance and operating leases with initial or remaining terms of one year or more as of June 30, 2025 were as follows:

(dollars in thousands)	Operating Leases
Twelve months ended	
June 30, 2026	$ 2,457
June 30, 2027	2,146
June 30, 2028	1,759
June 30, 2029	1,431
June 30, 2030	1,221
Thereafter	25,224
Total future minimum lease payments	$ 34,238
Amounts representing interest	(16,221)
Total operating lease liabilities	$ 18,017

NOTE 9 Deposits

The components of deposits in the consolidated balance sheets as of June 30, 2025 and December 31, 2024 were as follows:

(dollars in thousands)	June 30, 2025	December 31, 2024
Noninterest-bearing	$ 790,300	$ 903,466
Interest-bearing		
Interest-bearing demand	1,214,597	1,220,173
Savings accounts	175,586	165,882
Money market savings	1,358,516	1,381,924
Time deposits	798,469	706,965
Total interest-bearing	3,547,168	3,474,944
Total deposits	$ 4,337,468	$ 4,378,410

Certificates of deposit in excess of $250,000 totaled $219.5 million and $227.4 million at June 30, 2025 and December 31, 2024, respectively.

NOTE 10 Short-Term Borrowings

Short-term borrowings at June 30, 2025 and December 31, 2024 consisted of the following:

(dollars in thousands)	June 30, 2025	December 31, 2024
Fed funds purchased	$ 114,600	$ 38,960
FHLB short-term advances	200,000	200,000
Total	$ 314,600	$ 238,960

NOTE 11 Long-Term Debt

Long-term debt as of June 30, 2025 and December 31, 2024 consisted of the following:

	June 30, 2025					
(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	3,650	Three-month CME SOFR + 0.26% + 3.10%	7.66%	6/26/2033	6/26/2008
Junior subordinated debenture (Trust II)	6,186	5,476	Three-month CME SOFR + 0.26% + 1.80%	6.38%	9/15/2036	9/15/2011
Total long-term debt	$ 60,310	$ 59,126				

	December 31, 2024					
(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	3,628	Three-month CME SOFR + 0.26% + 3.10%	7.69%	6/26/2033	6/26/2008
Junior subordinated debenture (Trust II)	6,186	5,441	Three-month CME SOFR + 0.26% + 1.80%	6.42%	9/15/2036	9/15/2011
Total long-term debt	$ 60,310	$ 59,069				

NOTE 12 Commitments and Contingencies

Commitments

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

A summary of the contractual amounts of the Company's exposure to off-balance sheet risk as of June 30, 2025 and December 31, 2024, respectively, was as follows:

(dollars in thousands)	June 30, 2025	December 31, 2024
Commitments to extend credit	$ 1,002,440	$ 1,090,114
Standby letters of credit	17,943	30,033
Total	$ 1,020,383	$ 1,120,147

The Company establishes an ACL on unfunded commitments, except those that are unconditionally cancellable by the Company. As of June 30, 2025 and December 31, 2024, the ACL on unfunded commitments was $4.8 million and $7.5 million, respectively. The ACL on unfunded commitments was presented within accrued expenses and other liabilities on the consolidated balance sheets. For the six months ended June 30, 2025 and 2024, the provision (recovery) for credit losses on unfunded commitments was ($2.7) million and ($0.5) million, respectively.

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

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

The Company utilizes standby letters of credit issued by either the FHLB or the Bank of North Dakota to secure public unit deposits. The Company had letters of credit outstanding with the FHLB in the amount of $10.1 million as of June 30, 2025 and $12.0 million as of December 31, 2024. With the Bank of North Dakota, the Company had no letters of credit outstanding as of June 30, 2025 and had letters of credit outstanding in the amount of $50.0 million as of December 31, 2024. Letters of credit with the Bank of North Dakota were collateralized by loans pledged to the Bank of North Dakota in the amount of $514.6 million and $524.9 million as of June 30, 2025 and December 31, 2024, respectively.

Legal Contingencies

In the normal course of business, including in connection with business combinations pursued by the Company, the Company and its subsidiaries are subject to pending and threatened litigation, claims investigations and legal and administrative cases and proceedings.

Under applicable accounting standards, reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. When a material loss contingency is reasonably possible, but not probable, the Company does not record a liability, but instead discloses the nature of the matter and an estimate of the loss or range of losses, to the extent such estimate can be made. Significant judgment is required in both the determination of possibility or probability, and whether the loss or range of losses is reasonably estimable. The Company's judgments are subjective and based on the status of the legal or regulatory proceedings, the merits of the Company's defenses and consultation with in-house and outside legal counsel. Because of uncertainties related to these matters, accruals are based on the best information available to the Company and its advisors at the time, including, among other information, settlement agreements. As additional information becomes available, the Company reassesses the potential liability related to pending claims and litigation and may revise its estimates accordingly. Due to the inherent uncertainties of the legal and regulatory processes, such judgments may be materially different than the actual outcomes. Legal costs such as outside counsel fees are expensed in the period in which the services are rendered.

Assessments of litigation exposure are difficult because they involve inherently unpredictable factors including, but not limited to: whether the proceeding is in the early stages; whether damages are unspecified, unsupported or uncertain; whether there is a potential for punitive or other pecuniary damages; whether the matter involves legal uncertainties, including novel issues of law; whether the matter involves multiple parties and/or jurisdictions; whether discovery has begun or is not complete; whether meaningful settlement discussions have commenced; and whether the proceeding involves class allegations. In many lawsuits and arbitrations, it is not possible to determine whether a liability will be incurred, or to estimate the ultimate or minimum amount of that liability, until the matter is close to resolution, in which case a reserve will not be recognized until that time. As a result, the Company may be unable to estimate reasonably possible losses with respect to litigation matters it faces.

In 2023, the Company sold its ESOP fiduciary services business but currently remains subject to pending lawsuits related to the sold business, including one brought by the DOL.

In November 2023, the DOL brought suit against several defendants, including the Bank, alleging that the Bank, in its capacity as trustee to an ESOP, (1) breached certain of its fiduciary duties in connection with a transaction which allegedly caused the ESOP to pay more than fair market value to acquire stock, and (2) engaged in a prohibited transaction by causing the ESOP to acquire the stock from an existing company shareholder for more than adequate consideration. The Bank continues to dispute the allegations made by the DOL and intends to continue to defend itself vigorously.

The Company believes a material loss contingency related to the DOL complaint is reasonably possible, but not probable, based on currently-available information. However, the Company is unable to estimate the ultimate or minimum loss or range of losses, if any, at this time due to a number of uncertainties, including, but not limited to: (1) the current early stages of the proceedings and discovery not having commenced, (2) the absence of specificity as to alleged damages, (3) the potential reinsertion of the selling shareholder as co-defendant in the suit and (4) and the lack of resolution of significant factual and legal issues.

The Company did not have any accrued liabilities recorded for loss contingencies that were required to be disclosed as of June 30, 2025 and December 31, 2024, respectively.

NOTE 13 Share-Based Compensation

On May 6, 2019, the Company's stockholders approved the Alerus Financial Corporation 2019 Equity Incentive Plan. This plan allows the compensation committee of the Board of Directors of the Company the ability to grant a wide variety of equity awards, including stock options, stock appreciation rights, stock awards, and cash incentive awards in such forms and amounts as it deems appropriate to accomplish the goals of the plan. Since inception, all awards issued under the plan have been restricted stock and restricted stock units. Any shares subject to an award that is cancelled, forfeited, or expires prior to exercise or realization, either in full or in part, shall again become available for issuance under the plan. However, shares subject to an award shall not again be made available for issuance or delivery under the plan if such shares are (a) tendered in payment of the exercise price of a stock option, (b) delivered to, or withheld by, the Company to satisfy any tax withholding obligation, or (c) covered by a stock-settled stock appreciation right or other awards that were not issued upon the settlement of the award. Restricted stock units issued do not participate in dividends and recipients are not entitled to vote these restricted stock units until shares of the Company's common stock are delivered after vesting of the restricted stock units. Shares vest, become exercisable and contain such other terms and conditions as determined by the compensation committee and set forth in individual agreements with the participant receiving the award. Awards issued to Company directors vest on the earlier of the first anniversary of the grant date and the next annual meeting of stockholders. The plan authorizes the issuance of up to 1,100,000 shares of common stock. As of June 30, 2025, 555,709 shares of common stock were still available for issuance under the plan.

The compensation expense relating to awards under these plans was $648 thousand and $121 thousand for the three months ended June 30, 2025 and 2024, respectively. The compensation expense relating to awards under these plans was $1.2 million and $0.7 million for the six months ended June 30, 2025 and 2024, respectively.

The following table presents the activity in the stock plans for the six months ended June 30, 2025 and 2024:

	Six months ended June 30,			
	2025		2024	
	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	289,549	$ 21.94	231,657	$ 22.96
Granted	119,012	20.11	60,976	21.83
Vested	(52,669)	23.13	(38,149)	26.05
Forfeited or cancelled	(20,516)	28.07	—	—
Outstanding at end of period	335,376	$ 20.73	254,484	$ 22.18

As of June 30, 2025, there was $4.4 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 2.2 years.

NOTE 14 Income Taxes

The components of income tax expense (benefit) for the three and six months ended June 30, 2025 and 2024 were as follows:

	Three months ended June 30,			
	2025		2024	
(dollars in thousands)	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Taxes at statutory federal income tax rate	$ 5,535	21.0%	$ 1,708	21.0%
Tax effect of:				
Tax exempt income	(498)	(1.9)%	(239)	(2.9)%
State income taxes, net of federal benefits	1,392	5.3%	398	4.9%
Nondeductible items and other	(325)	(1.2)%	56	0.7%
Applicable income taxes	$ 6,104	23.2%	$ 1,923	23.7%

	Six months ended June 30,			
	2025		2024	
(dollars in thousands)	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Taxes at statutory federal income tax rate	$ 9,222	21.0%	$ 3,497	21.0%
Tax effect of:				
Tax exempt income	(955)	(2.2)%	(468)	(2.8)%
State income taxes, net of federal benefits	2,185	5.0%	812	4.9%
Nondeductible items and other	(103)	(0.2)%	173	1.0%
Applicable income taxes	$ 10,349	23.6%	$ 4,014	24.1%

It is the opinion of management that, as of June 30, 2025, the Company had no significant uncertain tax positions that would be subject to change upon examination.

On July 4, 2025, the President signed H.R. 1, the "One Big Beautiful Bill Act," into law. The legislation includes several changes to federal tax law that generally allow for more favorable deductibility of certain business expenses beginning in 2025, including the restoration of immediate expensing of domestic research and development (R&D) expenditures, reinstatement of 100% bonus depreciation, and more favorable rules for determining the limitation on business interest expense. The Company is currently evaluating the impact this legislation may have on future periods.

NOTE 15 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, 2025 and December 31, 2024:

		June 30, 2025		December 31, 2024	
(dollars in thousands)		Investment	Unfunded Commitment	Investment	Unfunded Commitment
Investment	**Accounting Method**				
Low income housing tax credit	Proportional amortization	$ 22,906	$ 6,907	$ 17,906	$ 3,968

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 months ended June 30, 2025 and 2024:

	Three months ended June 30,			
	2025		2024	
(dollars in thousands)	Amortization Expense (1)	Tax Benefit Recognized (2)	Amortization Expense (1)	Tax Benefit Recognized (2)
Low income housing tax credit	$ 455	$ (673)	$ 432	$ (370)

(1) The amortization expense for low income housing tax credits was included in the income tax expense.
(2) All of the tax benefits recognized were included in income tax expense.

	Six months ended June 30,			
	2025		2024	
(dollars in thousands)	Amortization Expense (1)	Tax Benefit Recognized (2)	Amortization Expense (1)	Tax Benefit Recognized (2)
Low income housing tax credit	$ 914	$ (1,025)	$ 864	$ (751)

(1) The amortization expense for low income housing tax credits was included in the income tax expense.
(2) All of the tax benefits recognized were included in income tax expense.

NOTE 16 Segment Reporting

Beginning with the annual period ended December 31, 2024, the Company adopted the guidance within ASU *2023-07, Segment Reporting (Topic 280)*, which expanded disclosure requirements for significant segment expenses and other segment items. In connection with this guidance, compensation, employee taxes and benefits, business services, software and technology expense, and merger and acquisition expense are presented separately as these expenses were previously included within total noninterest expense. Financial information for prior periods were recast to conform to the current presentation.

Operating segments are components of an enterprise, which are evaluated regularly by the "chief operating decision maker" in deciding how to allocate resources and assess performance. The Company's chief operating decision maker is the President and Chief Executive Officer of the Company, and assesses overall segment performance based on net income (loss) before taxes and uses this metric to allocate resources for each segment, focusing on budgeting and forecasting.

Reportable segments are determined based on the services offered, the significance of the services offered, the significance of those services to the Company's financial statements, and management's regular review of the operating results of those services. The Company currently operates through three operating segments: banking, retirement and benefit services, and wealth.

The Company's reportable segments include the following:

- Banking: Offers a complete line of loan, deposit, cash management, and treasury services through 29 offices in North Dakota, Minnesota, Wisconsin, Iowa, and Arizona, including 15 banking offices acquired in the HMN Financial, Inc. ("HMNF") transaction. 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: Provides the following services nationally: record-keeping and administration services to qualified and other types of retirement plans, investment fiduciary services to retirement plans, health savings accounts, flexible spending accounts, and COBRA recordkeeping and administration services. The division operates within each of the banking markets, as well as in East Lansing, Michigan and Lakewood, Colorado.

- Wealth: Provides advisory and planning services, investment management, and trust and fiduciary services to clients across the Company's footprint.

The Company's segment reporting process begins with the assignment of income and expenses directly to the applicable segments based on different cost centers withing the Company. The net income (loss) before taxes for each reportable segment is further derived by the use of expense allocations. Certain expenses not directly attributable to a specific segment are allocated across all segments based on key metrics, such as number of employees and time spent working in each segment. These types of expenses include business services, software and technology expense, human resources, accounting and finance, risk management, legal, and marketing.

The financial information presented for each segment includes net interest income, provision for credit losses, noninterest income, and direct and indirect noninterest expense. As discussed above, noninterest expense is broken out between significant noninterest expenses and other noninterest expense. Other noninterest expense consists of occupancy and equipment expense, intangible amortization expense, professional fees and assessments (less merger and acquisition expenses which are included within this expense item on the consolidated statements of income), marketing and business development, supplies and postage, travel, mortgage and lending expenses, and other noninterest expenses. Corporate administration includes all remaining income and expenses not allocated to the three operating segments, including all merger and acquisition expenses.

The assignment and allocation methodologies used in the segment reporting process discussed above change from time to time as systems are enhanced, methods for evaluating segment performance or product lines change or as business segments are realigned.

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

	As of and for the three months ended June 30, 2025				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth	Corporate Administration	Consolidated
Net interest income (loss)	$ 43,684	$ —	$ —	$ (652)	$ 43,032
Provision for credit losses	—	—	—	—	—
Noninterest income (loss)	8,436	16,024	7,363	(60)	31,763
Noninterest expense					
Compensation	12,278	7,064	3,383	1,618	24,343
Employee taxes and benefits	3,289	2,015	721	608	6,633
Business services, software and technology expense	3,084	1,930	686	168	5,868
Merger and acquisition expense	—	—	—	11	11
Other noninterest expense	8,797	2,157	342	287	11,583
Total noninterest expense	27,448	13,166	5,132	2,692	48,438
Net income (loss) before taxes	$ 24,672	$ 2,858	$ 2,231	$ (3,404)	$ 26,357
Total assets	$ 5,244,506	$ 30,817	$ 6,055	$ 42,444	$ 5,323,822

	As of and for the six months ended June 30, 2025				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth	Corporate Administration	Consolidated
Net interest income (loss)	$ 85,491	$ —	$ —	$ (1,302)	$ 84,189
Provision for credit losses	863	—	—	—	863
Noninterest income (loss)	13,083	32,130	14,267	(85)	59,395
Noninterest expense					
Compensation	23,914	14,280	6,435	2,675	47,304
Employee taxes and benefits	7,169	4,326	1,462	1,439	14,396
Business services, software and technology expense	6,048	3,924	1,304	344	11,620
Merger and acquisition expense	—	—	—	297	297
Other noninterest expense	19,528	4,253	768	639	25,188
Total noninterest expense	56,659	26,783	9,969	5,394	98,805
Net income (loss) before taxes	$ 41,052	$ 5,347	$ 4,298	$ (6,781)	$ 43,916
Total assets	$ 5,244,506	$ 30,817	$ 6,055	$ 42,444	$ 5,323,822

	As of and for the three months ended June 30, 2024				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth Management	Corporate Administration	Consolidated
Net interest income (loss)	$ 24,684	$ —	$ —	$ (683)	$ 24,001
Provision for credit losses	4,489	—	—	—	4,489
Noninterest income	4,999	16,078	6,360	(66)	27,371
Noninterest expense					
Compensation	9,590	6,841	2,517	1,317	20,265
Employee taxes and benefits	2,450	1,841	588	255	5,134
Business services, software and technology expense	2,247	1,644	581	127	4,599
Merger and acquisition expense	—	—	—	563	563
Other noninterest expense	4,628	3,096	222	245	8,191
Total noninterest expense	18,915	13,422	3,908	2,507	38,752
Net income (loss) before taxes	$ 6,279	$ 2,656	$ 2,452	$ (3,256)	$ 8,131
Total assets	$ 4,282,868	$ 34,695	$ 5,125	$ 35,935	$ 4,358,623

	As of and for the six months ended June 30, 2024				
(dollars in thousands)	Banking	Retirement and Benefit Services	Wealth	Corporate Administration	Consolidated
Net interest income (loss)	$ 47,581	$ —	$ —	$ (1,361)	$ 46,220
Provision for credit losses	4,489	—	—	—	4,489
Noninterest income	8,489	31,733	12,477	(5)	52,694
Noninterest expense					
Compensation	18,044	13,796	5,096	2,661	39,597
Employee taxes and benefits	5,252	3,898	1,313	859	11,322
Business services, software and technology expense	4,814	3,687	1,178	265	9,944
Merger and acquisition expense	—	—	—	591	591
Other noninterest expense	9,476	6,230	71	540	16,317
Total noninterest expense	37,586	27,611	7,658	4,916	77,771
Net income (loss) before taxes	$ 13,995	$ 4,122	$ 4,819	$ (6,282)	$ 16,654
Total assets	$ 4,282,868	$ 34,695	$ 5,125	$ 35,935	$ 4,358,623

NOTE 17 Earnings Per Share

The calculations of basic and diluted earnings per share using the two-class method for the three and six months ended June 30, 2025 and 2024 are presented below:

	Three months ended June 30,		Six months ended June 30,	
(dollars and shares in thousands, except per share data)	2025	2024	2025	2024
Net income	$ 20,253	$ 6,208	$ 33,567	$ 12,640
Dividends and undistributed earnings allocated to participating securities	205	38	298	78
Net income available to common stockholders	$ 20,048	$ 6,170	$ 33,269	$ 12,562
Weighted-average common shares outstanding for basic earnings per share	25,368	19,777	25,363	19,758
Dilutive effect of stock-based awards	346	273	320	260
Weighted-average common shares outstanding for diluted earnings per share	25,714	20,050	25,683	20,018
Earnings per common share:				
Basic earnings per common share	$ 0.79	$ 0.31	$ 1.31	$ 0.64
Diluted earnings per common share	$ 0.78	$ 0.31	$ 1.30	$ 0.63

There were no antidilutive shares for the three and six months ended June 30, 2025 and 2024.

NOTE 18 Derivative Instruments

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

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

Derivatives Designated as Hedging Instruments

The Company uses derivative instruments to hedge its exposure to economic risks, including interest rate, liquidity and credit risk. Certain hedging relationships are formally designated and qualify for hedge accounting under GAAP. On the date the Company enters into a derivative contract designated as a hedging instrument, the derivative is designated as either a fair value hedge, cash flow hedge, or a net investment hedge. When a derivative is designated as a fair value, cash flow, or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the value or cash flows of the hedged item(s). As of June 30, 2025, the Company only used fair value and cash flow hedges.

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

Cash flow hedges: These derivatives are interest rate swaps the Company uses to hedge the variability of expected future cash flows due to market interest changes. The interest rate swap is carried on the Company's consolidated balance sheet at its fair value in other assets (when the fair value is positive) or in accrued expenses and other liabilities (when the fair value is negative). Changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) ("OCI") until the cash flows of the hedged items are realized. If a derivative designated as a cash flow hedge is terminated or ceases to be highly effective, the gain or loss in OCI is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is no longer probable, hedge accounting is ceased and any gain or loss included in OCI is reported in earnings immediately, unless the forecasted transaction is at least reasonably possible of occurring, whereby the amounts remain within accumulated other comprehensive income (loss) ("AOCI"). The Company estimates that no additional amounts will be reclassified as an increase to interest expense over the next 12 months. All cash flow hedges were highly effective for the three and six months ended June 30, 2025. As of June 30, 2025, the maximum length of time over which forecasted transactions are hedged was 18 months.

Derivatives Not Designated as Hedging Instruments

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

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

The following table presents the total notional amounts and gross fair values of the Company's derivatives as of June 30, 2025 and December 31, 2024:

	Derivative Assets (1)		Derivative Liabilities (2)	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
June 30, 2025				
Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$ 200,000	$ 26	$ —	$ —
Cash flow hedges:				
Interest rate swaps	—	—	200,000	132
Total derivatives designated as hedging instruments	$ 200,000	$ 26	$ 200,000	$ 132
Not designated as hedging instruments:				
Interest rate swaps (3)	$ 421,211	$ 10,747	$ 438,211	$ 10,765
Interest rate lock commitments	33,257	664	—	—
Forward loan sales commitments	—	(89)	1,480	70
To-be-announced mortgage backed securities	—	—	46,250	258
Total asset derivatives not designated as hedging instruments	$ 454,468	$ 11,322	$ 485,941	$ 11,093
December 31, 2024				
Designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps	$ 200,000	$ 149	$ —	$ —
Cash flow hedges:				
Interest rate swaps	200,000	477	200,000	21
Total derivatives designated as hedging instruments	$ 400,000	$ 626	$ 200,000	$ 21
Not designated as hedging instruments:				
Interest rate swaps (3)	$ 347,575	$ 8,182	$ 364,575	$ 8,579
Interest rate lock commitments	14,647	153	—	—
Forward loan sales commitments	6,645	109	—	—
To-be-announced mortgage backed securities	39,000	35	—	—
Total asset derivatives not designated as hedging instruments	$ 407,867	$ 8,479	$ 364,575	$ 8,579

(1) Derivative assets are included in other assets on the Company's consolidated balance sheet.
(2) Derivative liabilities are included in accrued expenses and other liabilities on the Company's consolidated balance sheet.
(3) Reported fair values include accrued interest receivable and payable.

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

(dollars in thousands)	Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from OCI into Earnings
Derivatives designated as hedging instruments		
For the three months ended June 30, 2025		
Cash flow hedges:		
Interest rate swaps	$ (147)	$ —
For the three months ended June 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ 296	$ 270
For the six months ended June 30, 2025		
Cash flow hedges:		
Interest rate swaps	$ 134	$ 721
For the six months ended June 30, 2024		
Cash flow hedges:		
Interest rate swaps	$ 1,241	$ 532

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

	Location and Amount of Gains (Losses) Recognized in Income		
	Interest Income		Interest Expense
(dollars in thousands)	Loans, including fees	Investment securities - Taxable	Short-term borrowings
For the three months ended June 30, 2025			
Total amounts in the Consolidated Statements of Income	$ 63,853	$ 5,310	$ 3,982
Fair value hedges:			
Interest rate swaps	—	143	—
Cash flow hedges:			
Interest rate swaps	—	—	—
For the three months ended June 30, 2024			
Total amounts in the Consolidated Statements of Income	$ 41,663	$ 4,845	$ 7,053
Fair value hedges:			
Interest rate swaps	168	659	—
Cash flow hedges:			
Interest rate swaps	—	—	(270)
For the six months ended June 30, 2025			
Total amounts in the Consolidated Statements of Income	$ 125,348	$ 11,017	$ 6,821
Fair value hedges:			
Interest rate swaps	—	291	—
Cash flow hedges:			
Interest rate swaps	—	—	721
For the six months ended June 30, 2024			
Total amounts in the Consolidated Statements of Income	$ 80,958	$ 9,413	$ 13,042
Fair value hedges:			
Interest rate swaps	321	1,301	—
Cash flow hedges:			
Interest rate swaps	—	—	(532)

The following tables show the notional amount, carrying amount and associated cumulative basis adjustments related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships at June 30, 2025 and December 31, 2024, respectively:

	June 30, 2025		
(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	$ 199,975	$ (25)
Total	$ 200,000	$ 199,975	$ (25)

(1) Includes amounts related to residential agency mortgage-backed securities currently designated as the hedged item in a fair value hedge using the portfolio layer method. At June 30, 2025, the amortized cost of the closed portfolios used in these hedging relationships was $281.6 million.

	December 31, 2024		
(dollars in thousands)	Notional Amount	Carrying Amount of Hedged Assets/ Liabilities	Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/ Liabilities
Mortgage-backed securities			
Residential agency (1)	$ 200,000	$ 199,854	$ (146)
Total	$ 200,000	$ 199,854	$ (146)

(1) Includes amounts related to residential agency mortgage-backed securities currently designated as the hedged item in a fair value hedge using the portfolio layer method. At December 31, 2024, the amortized cost of the closed portfolios used in these hedging relationships was $296.9 million.

The gain (loss) recognized on derivatives not designated as hedging relationships for the three and six months ended June 30, 2025 and 2024 was as follows:

(dollars in thousands)		Three months ended June 30,		Six months ended June 30,	
Derivatives not designated as hedging instruments	Consolidated Statements of Income Location	2025	2024	2025	2024
Interest rate swaps	Other noninterest income	$ —	$ —	$ —	$ 21
Interest rate swaps	Mortgage banking	191	—	378	—
Interest rate lock commitments	Mortgage banking	275	59	597	210
Forward loan sales commitments	Mortgage banking	(190)	176	(197)	171
To-be-announced mortgage backed securities	Mortgage banking	(54)	84	(340)	126
Total gain (loss) from derivatives not designated as hedging instruments		$ 222	$ 319	$ 438	$ 528

The Company has third party agreements that require a minimum dollar transfer amount upon a margin call. These requirements are dependent on certain specified credit measures. There was no collateral posted with third parties at June 30, 2025. The amount of collateral posted with third parties was $3.9 million at December 31, 2024. The amount of collateral posted with third parties was deemed to be sufficient as of those dates to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures.

Credit Risk-Related Contingent Features

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

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

As of June 30, 2025 and December 31, 2024, the fair value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for non-performance risk, related to these agreements was $10.9 million and $8.6 million, respectively. As of June 30, 2025 and December 31, 2024, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted cash collateral of $0.0 million and $3.9 million, respectively. If the Company had breached any of these provisions at June 30, 2025 or December 31, 2024, it could have been required to settle its obligations under the agreements at their termination value of $10.9 million and $8.6 million, respectively.

Balance Sheet Offsetting

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

(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
June 30, 2025					
Derivative assets:					
Interest rate swaps − Company (1)	$ 26	$ —	$ 26	$ 32	$ 58
Interest rate swaps − dealer bank (1)	3,485	—	3,485	(4,022)	(537)
Interest rate swaps − customer (2)	7,262	—	7,262	—	7,262
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 10,773	$ —	$ 10,773	$ (3,990)	$ 6,783
Derivative liabilities:					
Interest rate swaps − Company (1)	$ 132	$ —	$ 132	$ —	$ 132
Interest rate swaps − dealer bank (1)	7,485	—	7,485	—	7,485
Interest rate swaps − customer (2)	3,280	—	3,280	—	3,280
To-be-announced mortgage backed securities	258	—	258	—	258
Total	$ 11,155	$ —	$ 11,155	$ —	$ 11,155

(1) The Company maintains a master netting agreement with each counterparty and settles collateral on a net basis for all interest rate swaps with counterparty banks.
(2) The Company manages its net exposure on its customer loan swaps by obtaining collateral as part of the normal loan policy and underwriting practices. The Company does not post collateral to its customers as part of its contract.

(dollars in thousands)	Gross Amount Recognized in the Consolidated Balance Sheets	Gross Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral Pledged (Received)	Net Amount
December 31, 2024					
Derivative assets:					
Interest rate swaps − Company (1)	$ 626	$ —	$ 626	$ (683)	$ (57)
Interest rate swaps − dealer bank (1)	5,606	—	5,606	(177)	5,429
Interest rate swaps − customer (2)	2,576	—	2,576		2,576
To-be-announced mortgage backed securities	35	—	35	—	35
Total	$ 8,843	$ —	$ 8,843	$ (860)	$ 7,983
Derivative liabilities:					
Interest rate swaps − Company (1)	$ 21	$ —	$ 21	$ 59	$ (38)
Interest rate swaps − dealer bank (1)	2,863	—	2,863	3,841	(978)
Interest rate swaps − customer (2)	5,716	$ —	5,716	—	5,716
To-be-announced mortgage backed securities	—	—	—	—	—
Total	$ 8,600	$ —	$ 8,600	$ 3,900	$ 4,700

(1) The Company maintains a master netting agreement with each counterparty and settles collateral on a net basis for all interest rate swaps with counterparty banks.
(2) The Company manages its net exposure on its customer loan swaps by obtaining collateral as part of the normal loan policy and underwriting practices. The Company does not post collateral to its customers as part of its contract.

NOTE 19 Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of common equity tier 1, tier 1, and total capital (as defined in the regulations) to risk weighted assets (as defined) and of tier 1 capital (as defined) to average assets (as defined). Management believes that, at June 30, 2025 and December 31, 2024, each of the Company and the Bank had met all of the capital adequacy requirements to which it was subject.

The following tables present the Company's and the Bank's actual capital amounts and ratios as of June 30, 2025 and December 31, 2024:

	June 30, 2025					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$ 473,212	10.54%	$ 202,112	4.50%	N/A	N/A
Bank	477,814	10.78%	199,368	4.50%	287,977	6.50%
Tier 1 capital to risk weighted assets						
Consolidated (1)	482,337	10.74%	269,483	6.00%	N/A	N/A
Bank	477,814	10.78%	265,825	6.00%	354,433	8.00%
Total capital to risk weighted assets						
Consolidated (1)	588,579	13.10%	359,311	8.00%	N/A	N/A
Bank	533,303	12.04%	354,433	8.00%	443,041	10.00%
Tier 1 capital to average assets						
Consolidated (1)	482,337	9.16%	210,717	4.00%	N/A	N/A
Bank	477,814	9.34%	204,575	4.00%	255,719	5.00%

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

	December 31, 2024					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action (1)	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk weighted assets						
Consolidated (1)	$ 443,833	9.91%	$ 201,441	4.50%	N/A	N/A
Bank	449,497	10.18%	198,743	4.50%	287,074	6.50%
Tier 1 capital to risk weighted assets						
Consolidated (1)	452,903	10.12%	268,588	6.00%	N/A	N/A
Bank	449,497	10.18%	264,991	6.00%	353,322	8.00%
Total capital to risk weighted assets						
Consolidated (1)	559,002	12.49%	358,118	8.00%	N/A	N/A
Bank	504,857	11.43%	353,322	8.00%	441,652	10.00%
Tier 1 capital to average assets						
Consolidated (1)	452,903	8.65%	209,532	4.00%	N/A	N/A
Bank	449,497	8.69%	206,832	4.00%	258,540	5.00%

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

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval, including rules requiring 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, 2025, 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 ("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, 2025 and December 31, 2024, the Company was in compliance with the aforementioned guidelines.

NOTE 20 Other Comprehensive Income (Loss)

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

	For the three months ended					
	June 30, 2025			June 30, 2024		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$ 4,628	$ (1,161)	$ 3,467	$ (1,153)	$ 290	$ (863)
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM (1)	42	(10)	32	68	(17)	51
Less: reclassification adjustment for net realized losses (2)	—	—	—	—	—	—
Net change	4,586	(1,151)	3,435	(1,221)	307	(914)
Cash Flow Hedges:						
Change in fair value	(147)	37	(110)	295	(109)	186
Less: reclassified AOCI gain (loss) into interest expense (3)	—	—	—	270	(68)	202
Net change	(147)	37	(110)	25	(41)	(16)
Other Derivatives:						
Change in fair value	110	(28)	82	164	(7)	157
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	110	(28)	82	164	(7)	157
Other comprehensive income (loss)	$ 4,549	$ (1,142)	$ 3,407	$ (1,032)	$ 259	$ (773)

(1) Reclassified into taxable and/or exempt from federal income taxes interest income on investment securities on the consolidated statements of income. Refer to "NOTE 3 Investment Securities" for further details.
(2) Reclassified into net gains (losses) on investment securities in the consolidated statements of income. Refer to "NOTE 3 Investment Securities" for further details.
(3) Reclassified into interest expense on short-term borrowings on the consolidated statements of income. Refer to "NOTE 18 Derivative Instruments" for further details.
(4) Reclassified into interest income on loans, including fees and/or interest income on taxable investment securities on the consolidated statements of income. Refer to "NOTE 18 Derivative Instruments" for further details.

	For the Six months ended					
	June 30, 2025			June 30, 2024		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Debt Securities:						
Change in fair value	$ 18,855	$ (4,733)	$ 14,122	$ (4,597)	$ 1,154	$ (3,443)
Less: reclassification adjustment from amortization of securities transferred from AFS to HTM (1)	95	(24)	71	142	(36)	106
Less: reclassification adjustment for net realized losses (2)	—	—	—	—	—	—
Net change	18,760	(4,709)	14,051	(4,739)	1,190	(3,549)
Cash Flow Hedges:						
Change in fair value	(609)	153	(456)	1,241	(685)	556
Less: reclassified AOCI gain (loss) into interest expense (3)	(22)	6	(16)	532	(134)	398
Net change	(587)	147	(440)	709	(551)	158
Other Derivatives:						
Change in fair value	(123)	31	(92)	2,195	(178)	2,017
Less: reclassified AOCI gain (loss) into interest expense (4)	—	—	—	—	—	—
Net change	(123)	31	(92)	2,195	(178)	2,017
Other comprehensive income (loss)	$ 18,050	$ (4,531)	$ 13,519	$ (1,835)	$ 461	$ (1,374)

(1) Reclassified into taxable and/or exempt from federal income taxes interest income on investment securities on the consolidated statements of income. Refer to "NOTE 3 Investment Securities" for further details.
(2) Reclassified into net gains (losses) on investment securities in the consolidated statements of income. Refer to "NOTE 3 Investment Securities" for further details.
(3) Reclassified into interest expense on short-term borrowings on the consolidated statements of income. Refer to "NOTE 18 Derivative Instruments" for further details.
(4) Reclassified into interest income on loans, including fees and/or interest income on taxable investment securities on the consolidated statements of income. Refer to "NOTE 18 Derivative Instruments" for further details.

(dollars in thousands)	Net Unrealized Gains (Losses) on Debt Securities (1)	Net Unrealized Gains (Losses) on Cash Flow Hedges (1)	Net Unrealized Gains (Losses) on Other Derivatives (1)	AOCI (1)
For the Three Months Ended June 30, 2025				
Balance at March 31, 2025	$ (63,108)	$ (3)	$ (143)	$ (63,254)
Other comprehensive income (loss) before reclassifications	3,467	(110)	82	3,439
Less: Amounts reclassified from AOCI	32	—	—	32
Other comprehensive income (loss)	3,435	(110)	82	3,407
Balance at June 30, 2025	$ (59,673)	(113)	(61)	(59,847)
For the Three Months Ended June 30, 2024				
Balance at March 31, 2024	$ (75,793)	$ (63)	$ 1,600	$ (74,256)
Other comprehensive income (loss) before reclassifications	(863)	186	157	(520)
Less: Amounts reclassified from AOCI	51	202	—	253
Other comprehensive income (loss)	(914)	(16)	157	(773)
Balance at June 30, 2024	$ (76,707)	(79)	1,757	(75,029)
For the six months ended June 30, 2025				
Balance at December 31, 2024	$ (73,724)	$ 327	$ 31	$ (73,366)
Other comprehensive income (loss) before reclassifications	14,122	(456)	(92)	13,574
Less: Amounts reclassified from AOCI	71	(16)	—	55
Other comprehensive income (loss)	14,051	(440)	(92)	13,519
Balance at June 30, 2025	$ (59,673)	(113)	(61)	(59,847)
For the Six Months Ended June 30, 2024				
Balance at December 31, 2023	$ (73,158)	$ (237)	$ (260)	$ (73,655)
Other comprehensive income (loss) before reclassifications	(3,443)	556	2,017	(870)
Less: Amounts reclassified from AOCI	106	398	—	504
Other comprehensive income (loss)	(3,549)	158	2,017	(1,374)
Balance at June 30, 2024	$ (76,707)	$ (79)	$ 1,757	$ (75,029)

(1) All amounts net of tax.

NOTE 21 Stock Repurchase Program

On December 12, 2023, the Board of Directors of the Company approved a stock repurchase program (the "Program") which authorizes the Company to repurchase up to 1,000,000 shares of its common stock subject to certain limitations and conditions. The Program became effective on February 18, 2024, replacing and superseding a prior stock repurchase program, and will expire on February 18, 2027.

The Program does not obligate the Company to repurchase any shares of its common stock, and other than repurchases that have been completed to date, there is no assurance that the Company will do so or that the Company will repurchase shares at favorable prices. The Program may be suspended or terminated at any time and, even if fully implemented, the Program may not enhance long-term stockholder value. For the six months ended June 30, 2025, the Company did not repurchase any shares under the Program. The Company also repurchases shares to pay withholding taxes on the vesting of restricted stock awards and units.

NOTE 22 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.

The following tables present the balances of the assets and liabilities measured at estimated fair value on a recurring basis as of June 30, 2025 and December 31, 2024:

	June 30, 2025			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading	$ 1,686	$ —	$ —	$ 1,686
Available-for-sale				
U.S. treasury and government agencies	—	637	—	637
Mortgage backed securities				
Residential agency	—	488,939	—	488,939
Commercial	—	1,280	—	1,280
Asset backed securities	—	17	—	17
Corporate bonds	—	50,279	—	50,279
Total available-for-sale investment securities	$ —	$ 541,152	$ —	$ 541,152
Servicing rights	$ —	$ —	$ 7,184	$ 7,184
Other assets				
Derivatives	$ —	$ 11,348	$ —	$ 11,348
Other liabilities				
Derivatives	$ —	$ 11,225	$ —	$ 11,225

	December 31, 2024			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading	$ 3,309	$ —	$ —	$ 3,309
Available-for-sale				
U.S. treasury and government agencies	—	30,707	—	30,707
Mortgage backed securities				
Residential agency	—	503,706	—	503,706
Commercial	—	1,251	—	1,251
Asset backed securities	—	19	—	19
Corporate bonds	—	52,370	—	52,370
Total available-for-sale investment securities	$ —	$ 588,053	$ —	$ 588,053
Servicing rights	$ —	$ —	$ 7,918	$ 7,918
Other assets				
Derivatives	$ —	$ 9,105	$ —	$ 9,105
Other liabilities				
Derivatives	$ —	$ 8,600	$ —	$ 8,600

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

Investment Securities, Trading for Deferred Compensation

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

Investment Securities, Available-for-Sale

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

Derivatives

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

Nonrecurring Basis

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

The estimated fair value of certain assets on a nonrecurring basis as of June 30, 2025 and December 31, 2024 consisted of the following:

	June 30, 2025			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-mortgage loans held for sale	$ —	$ —	$ 50,160	$ 50,160
Collateral dependent loans	—	—	29,722	29,722
Foreclosed assets	—	—	751	751

	December 31, 2024			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Collateral dependent loans	$ —	$ —	$ 34,088	$ 34,088

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.

Non-mortgage Loans Held for Sale

Non-mortgage loans held for sale are carried at the lower of cost or estimated fair value, which is generally based on quoted market prices for similar loans, less estimated cost to sell.

Foreclosed Assets

Assets acquired through loan foreclosure are included in other assets and are initially recorded at estimated fair value less estimated selling costs. The estimated fair value of foreclosed assets is evaluated regularly and any decreases in value along with holding costs, such as taxes, insurance and utilities, are reported in noninterest expense.

The valuation techniques and significant unobservable inputs used to measure Level 3 estimated fair values as of June 30, 2025 and December 31, 2024, were as follows:

			June 30, 2025		
(dollars in thousands)					Weighted
Asset Type	**Valuation Technique**	**Unobservable Input**	**Fair Value**	**Range**	**Average**
Non-mortgage loans HFS	Quoted market prices of similar loans	Estimated cost to sell	$ 50,160	N/A	N/A
Individually evaluated	Appraisal value	Property specific adjustment	29,722	10 - 35%	34.9%
Foreclosed assets	Appraisal value	Property specific adjustment	751	10.0%	10.0%
Servicing rights	Discounted cash flows	Prepayment speed assumptions	7,184	115 - 602	202
		Discount rate		10.5%	10.5%

			December 31, 2024		
(dollars in thousands)					Weighted
Asset Type	**Valuation Technique**	**Unobservable Input**	**Fair Value**	**Range**	**Average**
Individually evaluated	Appraisal value	Property specific adjustment	$ 34,088	10 - 35%	28.9%
Servicing rights	Discounted cash flows	Prepayment speed assumptions	7,918	103 - 495	165
		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 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 for which the ending balances, as of June 30, 2025 and December 31, 2024, 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.

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

	June 30, 2025				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 80,904	$ 80,904	$ —	$ —	$ 80,904
Investment securities held-to-maturity	263,706	—	231,504	—	231,504
Non-mortgage loans held for sale	50,160			50,160	50,160
Loans, net	3,985,379	—	—	3,985,379	3,985,379
Accrued interest receivable	20,884	20,884	—	—	20,884
Bank-owned life insurance	38,613	—	38,613	—	38,613
Servicing rights	7,184	—	—	7,184	7,184
Financial Liabilities					
Noninterest-bearing deposits	$ 790,300	$ —	$ 790,300	$ —	$ 790,300
Interest-bearing deposits	2,748,699	—	2,748,699	—	2,748,699
Time deposits	798,469	—	663,919	—	663,919
Short-term borrowings	314,600	314,600	—	—	314,600
Long-term debt	59,126	—	59,379	—	59,379
Accrued interest payable	8,191	8,191	—	—	8,191

	December 31, 2024				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 61,239	$ 61,239	$ —	$ —	$ 61,239
Investment securities held-to-maturity	275,585	—	236,986	—	236,986
Loans, net	3,932,605	—	—	3,872,186	3,872,186
Accrued interest receivable	20,075	20,075	—	—	20,075
Bank-owned life insurance	36,033	—	36,033	—	36,033
Servicing rights	7,918	—	—	7,918	7,918
Financial Liabilities					
Noninterest-bearing deposits	$ 903,466	$ —	$ 903,466	$ —	$ 903,466
Interest-bearing deposits	2,767,979	—	2,767,979	—	2,767,979
Time deposits	706,965	—	696,976	—	696,976
Short-term borrowings	238,960	238,960	—	—	238,960
Long-term debt	59,069	—	59,078	—	59,078
Accrued interest payable	11,343	11,343	—	—	11,343

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

General

The following discussion explains the Company's financial condition and results of operations as of and for the three and six months ended June 30, 2025 and 2024. 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, 2024, filed with the SEC on March 14, 2025.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of Alerus Financial Corporation. These statements are often, but not always, identified by words such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "annualized," "target" and "outlook," or the negative version of those words or other comparable words of a future or forward-looking nature. Examples of forward-looking statements include, among others, statements the Company makes regarding the Company's projected growth, anticipated future financial performance, financial condition, credit quality, management's long-term performance goals and the future plans and prospects of Alerus Financial Corporation.

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

- the strength of the local, state, national and international economies and financial markets (including effects of inflationary pressures and future monetary policies of the Federal Reserve in response thereto);
- interest rate risk, including the effects of changes in interest rates;
- effects on the U.S. economy resulting from the threat or implementation of new, or changes to, existing policies, regulations, regulatory and other governmental agencies and executive orders, including tariffs, immigration, DEI and ESG initiatives, consumer protection, foreign policy and tax regulations;
- disruptions to the global supply chain, including as a result of domestic or foreign policies;
- the Company's ability to successfully manage credit risk, including in the commercial real estate portfolio, and maintain an adequate level of allowance for credit losses;
- business and economic conditions generally and in the financial services industry, nationally and within the Company's market areas, including the level and impact of inflation rates 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 that resulted in several bank failures;
- the Company's ability to raise additional capital to implement its business plan;
- the overall health of the local and national real estate market;
- credit risks and risks from concentrations (by type of borrower, geographic area, collateral, and industry) within the Company's loan portfolio;
- the concentration of large loans to certain borrowers (including commercial real estate loans);
- the level of nonperforming assets on the Company's balance sheet;
- the Company's ability to implement organic and acquisition growth strategies, including the integration HMNF;
- the commencement, cost, and outcome of litigation and other legal proceedings and regulatory actions against the Company or to which the Company may become subject, including with respect to pending actions relating to the Company's previous ESOP fiduciary services commenced by government or private parties;
- the impact of economic or market conditions on the Company's fee-based services;
- the Company's ability to continue to grow the retirement and benefit services business;
- the Company's ability to continue to originate a sufficient volume of residential mortgages;
- the occurrence of fraudulent activity, breaches or failures of the Company's or the Company's third party vendors' information security controls or cybersecurity-related incidents, including as a result of sophisticated attacks using artificial intelligence and similar tools or as a result of insider fraud;

- interruptions involving the Company's information technology and telecommunications systems or third party servicers;
- potential losses incurred in connection with mortgage loan repurchases;
- the composition of the Company's executive management team and the Company's ability to attract and retain key personnel;
- rapid and expensive technological changes implemented by the Company and other parties in the financial services industry, including third-party vendors, which may be more difficult to implement or more expensive than anticipated or which may have unforeseen consequences to us and our customers, including the development and implementation of tools incorporating artificial intelligence;
- increased competition in the financial services industry, including from non-banks such as credit unions, Fintech companies and digital asset service providers;
- the Company's ability to successfully manage liquidity risk, including the Company's need to access higher cost sources of funds such as fed funds purchased and short-term borrowings;
- the concentration of large deposits from certain clients, including those who have balances above current Federal Deposit Insurance Corporation ("FDIC") insurance limits;
- the effectiveness of the Company's risk management framework;
- potential impairment to the goodwill the Company recorded in connection with the Company's past acquisitions, including the acquisitions of Metro Phoenix Bank and HMNF;
- the extensive regulatory framework that applies to the Company;
- changes in local, state and federal laws, regulations and government policies concerning the Company's general business, including interpretation and prioritization of such laws, regulations and policies;
- new or revised accounting standards, as may be adopted by state and federal regulatory agencies, the FASB, the SEC or the Public Company Accounting Oversight Board;
- fluctuations in the values of the securities held in the Company's securities portfolio, including as a result of changes in interest rates;
- governmental monetary, trade and fiscal policies;
- risks related to climate change and the negative impact it may have on the Company's customers and their businesses;
- severe weather, natural disasters, and widespread disease or pandemics;
- acts of war or terrorism, including ongoing conflicts in the Middle East, the Russian invasion of Ukraine, or other adverse external events;
- any material weaknesses in the Company's internal control over financial reporting;
- talent and labor shortages and employee turnover;
- the Company's success at managing and responding to the risks involved in the foregoing items; and
- any other risks described in the "Risk Factors" section of this report and in other reports filed by Alerus Financial Corporation with the SEC.

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

Overview

The Company is a commercial wealth bank and national retirement services provider headquartered in Grand Forks, North Dakota. Through the Company's subsidiary, Alerus Financial, National Association, the Company provides financial solutions to businesses and consumers through three distinct business lines—banking, retirement and benefit services, and wealth. These solutions are delivered through a relationship-oriented primary point of contact along with responsive and client-friendly technology.

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

Critical Accounting Policies

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

The Company's Annual Report on Form 10-K for the year ended December 31, 2024 includes a discussion of the Company's critical accounting policies. There have been no material changes to the Company's critical accounting policies from those disclosed within its Annual Report on Form 10-K for the year ended December 31, 2024.

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

Recent Developments

Stockholder Dividend

On May 22, 2025, the Board of Directors of the Company declared a quarterly cash dividend of $0.21 per common share. This dividend was paid on July 11, 2025, to stockholders of record at the close of business on June 27, 2025.

Property Sale

The Company's West Fargo, North Dakota branch is listed for sale for $3.8 million and is expected to sell within the next 12 months. At June 30, 2025, the facility had a carrying value of approximately $0.4 million. The Company expects to record a gain on the sale upon closing, as the expected sale price is greater than the property's carrying value.

Operating Results Overview

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

	Three months ended			Six months ended	
(dollars and shares in thousands, except per share data)	**June 30, 2025**	**March 31, 2025**	**June 30, 2024**	**June 30, 2025**	**June 30, 2024**
Performance Ratios					
Return on average total assets	1.53%	1.02%	0.58%	1.28%	0.60%
Adjusted return on average total assets (1)	1.41%	1.10%	0.65%	1.26%	0.65%
Return on average common equity	15.82%	10.82%	6.76%	13.37%	6.90%
Return on average tangible common equity (1)	22.65%	16.50%	9.40%	19.66%	9.58%
Adjusted return on average tangible common equity (1)	21.02%	17.61%	10.30%	19.36%	10.19%
Noninterest income as a % of revenue	42.47%	40.17%	53.28%	41.37%	53.27%
Net interest margin (taxable-equivalent basis)	3.51%	3.41%	2.39%	3.46%	2.35%
Efficiency ratio (1)	60.66%	68.76%	72.50%	64.54%	75.56%
Adjusted efficiency ratio (1)	62.35%	66.86%	70.80%	64.55%	74.38%
Average equity to average assets	9.69%	9.47%	8.59%	9.58%	8.74%
Net charge-offs/(recoveries) to average loans	0.37%	0.04%	0.36%	0.21%	0.19%
Adjusted net charge-offs to average loans	0.07%	0.04%	0.36%	0.06%	0.19%
Dividend payout ratio	26.92%	38.46%	64.52%	31.54%	61.90%
Per Common Share					
Earnings (losses) per common share – basic	$ 0.79	$ 0.52	$ 0.31	$ 1.31	$ 0.64
Earnings (losses) per common share – diluted	$ 0.78	$ 0.52	$ 0.31	$ 1.30	$ 0.63
Adjusted earnings (losses) per common share – diluted (1)	$ 0.72	$ 0.56	$ 0.34	$ 1.27	$ 0.67
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.20	$ 0.41	$ 0.39
Book value per common share	$ 21.00	$ 20.27	$ 18.87		
Tangible book value per common share (1)	$ 16.11	$ 15.27	$ 15.77		
Average common shares outstanding – basic	25,368	25,359	19,777	25,363	19,758
Average common shares outstanding – diluted	25,714	25,653	20,050	25,683	20,018
Other Data					
Retirement and benefit services assets under administration/management	$ 42,451,544	$ 39,925,596	$ 39,389,533		
Wealth assets under administration/management	$ 4,613,102	$ 4,500,852	$ 4,172,290		
Mortgage originations	$ 134,634	$ 70,593	$ 109,254	$ 205,227	$ 163,355

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

Selected Financial Data

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

(dollars in thousands)	Three months ended June 30, 2025	Three months ended March 31, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Selected Average Balance Sheet Data					
Loans	$ 4,079,084	$ 4,022,862	$ 2,837,232	$ 4,051,129	$ 2,802,873
Investment securities	823,463	859,696	756,413	841,479	765,859
Assets	5,302,728	5,272,319	4,297,294	5,287,622	4,218,443
Deposits	4,305,275	4,376,597	3,230,699	4,340,739	3,197,133
Fed funds purchased and Bank Term Funding Program	149,046	49,834	366,186	99,714	324,400
FHLB short-term advances	200,000	200,000	200,000	200,000	200,000
Long-term debt	59,112	59,084	58,999	59,098	58,985
Stockholders' equity	513,606	499,224	369,217	506,470	368,501

(dollars in thousands)	June 30, 2025	March 31, 2025	December 31, 2024	June 30, 2024
Selected Period End Balance Sheet Data				
Loans	$ 4,044,657	$ 4,085,483	$ 3,992,534	$ 2,915,792
Allowance for credit losses on loans	(59,278)	(61,929)	(59,929)	(38,332)
Investment securities	806,544	839,406	866,946	748,745
Assets	5,323,822	5,339,620	5,261,673	4,358,623
Deposits	4,337,468	4,485,291	4,378,411	3,298,575
Long-term debt	59,126	59,098	59,069	59,013
Total stockholders' equity	533,155	514,232	495,410	373,226

(dollars in thousands)	Three months ended June 30, 2025	Three months ended March 31, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Selected Income Statement Data					
Net interest income	$ 43,032	$ 41,157	$ 24,001	$ 84,189	$ 46,220
Provision for credit losses	—	863	4,489	863	4,489
Noninterest income	31,763	27,632	27,371	59,395	52,694
Noninterest expense	48,438	50,365	38,752	98,805	77,771
Income before income taxes	26,357	17,561	8,131	43,916	16,654
Income tax expense	6,104	4,246	1,923	10,349	4,014
Net income	$ 20,253	$ 13,315	$ 6,208	$ 33,567	$ 12,640

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

In addition to the results presented in accordance with GAAP, the Company routinely supplements its evaluation with an analysis of certain non-GAAP financial measures. Management uses the non-GAAP financial measures presented in the tables below in its analysis of its performance, and believes financial analysts and investors frequently use these measures, and other similar measures, to evaluate capital adequacy and financial performance. Management, banking regulators, many financial analysts and other investors use these measures in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, which typically stem from the use of the purchase accounting method of accounting for mergers and acquisitions.

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

(dollars and shares in thousands, except per share data)	June 30, 2025	March 31, 2025	December 31, 2024	June 30, 2024
Tangible common equity to tangible assets				
Total common stockholders' equity	$ 533,155	$ 514,232	$ 495,410	$ 373,226
Less: Goodwill	85,634	85,634	85,634	46,783
Less: Other intangible assets	38,462	41,172	43,882	14,510
Tangible common equity (a)	409,059	387,426	365,894	311,933
Total assets	5,323,822	5,339,620	5,261,673	4,358,623
Less: Goodwill	85,634	85,634	85,634	46,783
Less: Other intangible assets	38,462	41,172	43,882	14,510
Tangible assets (b)	5,199,726	5,212,814	5,132,157	4,297,330
Tangible common equity to tangible assets (a)/(b)	7.87%	7.43%	7.13%	7.26%
Tangible book value per common share				
Tangible common equity (a)	409,059	387,426	365,894	311,933
Total common shares issued and outstanding (c)	25,389	25,366	25,345	19,778
Tangible book value per common share (a)/(c)	$ 16.11	$ 15.27	$ 14.44	$ 15.77

(dollars and shares in thousands, except per share data)	Three months ended June 30, 2025	Three months ended March 31, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Return on Average Tangible Common Equity					
Net income	$ 20,253	$ 13,315	$ 6,208	$ 33,567	$ 12,640
Add: Intangible amortization expense (net of tax) (1)	2,141	2,141	1,046	4,281	2,092
Net income, excluding intangible amortization (d)	22,394	15,456	7,254	37,848	14,732
Average total equity	513,606	499,224	369,217	506,470	368,501
Less: Average goodwill	85,634	85,634	46,783	85,634	46,783
Less: Average other intangible assets (net of tax) (1)	31,436	33,718	11,969	32,571	12,494
Average tangible common equity (e)	396,536	379,872	310,466	388,265	309,224
Return on average tangible common equity (d)/(e)	22.65%	16.50%	9.40%	19.66%	9.58%
Efficiency ratio					
Noninterest expense	$ 48,438	$ 50,365	$ 38,752	$ 98,805	$ 77,771
Less: Intangible amortization expense	2,710	2,710	1,324	5,419	2,648
Adjusted noninterest expense (f)	45,728	47,655	37,428	93,386	75,123
Net interest income	43,032	41,157	24,001	84,189	46,220
Noninterest income	31,763	27,632	27,371	59,395	52,694
Tax-equivalent adjustment	592	520	255	1,110	502
Total tax-equivalent revenue (g)	75,387	69,309	51,627	144,694	99,416
Efficiency ratio (f)/(g)	60.66%	68.76%	72.50%	64.54%	75.56%
Pre-Provision Net Revenue					
Net interest income	$ 43,032	$ 41,157	$ 24,001	$ 84,189	$ 46,220
Add: Noninterest income	31,763	27,632	27,371	59,395	52,694
Less: Noninterest expense	48,438	50,365	38,752	98,805	77,771
Pre-provision net revenue	$ 26,357	$ 18,424	$ 12,620	$ 44,779	$ 21,143
Adjusted Noninterest Income					
Noninterest income	$ 31,763	$ 27,632	$ 27,371	$ 59,395	$ 52,694
Less: Adjusted noninterest income items					
Net gain (loss) on sale of loans	2,115	—	—	2,115	—
Net gain on sale of premises and equipment	(84)	—	—	(84)	5
Total adjusted noninterest income items (h)	2,031	—	—	2,031	5
Adjusted noninterest income (i)	$ 29,732	$ 27,632	$ 27,371	$ 57,364	$ 52,689
Adjusted Noninterest Expense					
Noninterest expense	$ 48,438	$ 50,365	$ 38,752	$ 98,805	$ 77,771
Less: Adjusted noninterest expense items					
HMNF merger- and acquisition-related expenses	11	286	563	298	591
Severance and signing bonus expense	(23)	1,027	315	1,004	595
Total adjusted noninterest expense items (j)	(12)	1,313	878	1,302	1,186
Adjusted noninterest expense (k)	$ 48,450	$ 49,052	$ 37,874	$ 97,503	$ 76,585
Adjusted Pre-Provision Net Revenue					
Net interest income	$ 43,032	$ 41,157	$ 24,001	$ 84,189	$ 46,220
Add: Adjusted noninterest income (i)	29,732	27,632	27,371	57,364	52,689
Less: Adjusted noninterest expense (k)	48,450	49,052	37,874	97,503	76,585
Adjusted pre-provision net revenue	$ 24,314	$ 19,737	$ 13,498	$ 44,050	$ 22,324
Adjusted Efficiency Ratio					
Adjusted noninterest expense (k)	$ 48,450	$ 49,052	$ 37,874	$ 97,503	$ 76,585
Less: Intangible amortization expense	2,710	2,710	1,324	5,419	2,648
Adjusted noninterest expense for efficiency ratio (l)	45,740	46,342	36,550	92,084	73,937
Tax-equivalent revenue					
Net interest income	43,032	41,157	24,001	84,189	46,220
Add: Adjusted noninterest income (i)	29,732	27,632	27,371	57,364	52,689
Add: Tax-equivalent adjustment	592	520	255	1,110	502
Total tax-equivalent revenue (m)	73,356	69,309	51,627	142,663	99,411
Adjusted efficiency ratio (l)/(m)	62.35%	66.86%	70.80%	64.55%	74.38%

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

(dollars and shares in thousands, except per share data)	Three months ended June 30, 2025	Three months ended March 31, 2025	Three months ended June 30, 2024	Six months ended June 30, 2025	Six months ended June 30, 2024
Adjusted Net Income					
Net income	$ 20,253	$ 13,315	$ 6,208	$ 33,567	$ 12,640
Less: Adjusted noninterest income items (net of tax) (1) (h)	1,604	—	—	1,604	4
Add: Adjusted noninterest expense items (net of tax) (1) (j)	(9)	1,037	694	1,029	937
Adjusted net income (o)	$ 18,640	$ 14,352	$ 6,902	$ 32,991	$ 13,573
Adjusted Return on Average Total Assets					
Average total assets (o)	$ 5,302,728	$ 5,272,319	$ 4,297,294	$ 5,287,622	$ 4,218,443
Adjusted return on average total assets (n)/(o)	1.41%	1.10%	0.65%	1.26%	0.65%
Adjusted Return on Average Tangible Common Equity					
Adjusted net income (n)	$ 18,640	$ 14,352	$ 6,902	$ 32,991	$ 13,573
Add: Intangible amortization expense (net of tax) (1)	2,141	2,141	1,046	4,281	2,092
Adjusted net income, excluding intangible amortization (p)	20,781	16,493	7,948	37,272	15,665
Average total equity	513,606	499,224	369,217	506,470	368,501
Less: Average goodwill	85,634	85,634	46,783	85,634	46,783
Less: Average other intangible assets (net of tax) (1)	31,436	33,718	11,969	32,571	12,494
Average tangible common equity (q)	396,536	379,872	310,466	388,265	309,224
Adjusted return on average tangible common equity (p)/(q)	21.02%	17.61%	10.30%	19.36%	10.19%
Adjusted Earnings Per Common Share − Diluted					
Adjusted net income (o)	$ 18,640	$ 14,352	$ 6,902	$ 32,991	$ 13,573
Less: Dividends and undistributed earnings allocated to participating securities	205	99	38	298	78
Net income available to common stockholders (r)	18,435	14,253	6,864	32,693	13,495
Weighted-average common shares outstanding for diluted earnings per share (s)	25,714	25,653	20,050	25,683	20,018
Adjusted earnings per common share − diluted (r)/(s)	$ 0.72	$ 0.56	$ 0.34	$ 1.27	$ 0.67
Adjusted Net Charge-Offs to Average Loans					
Net charge-offs	$ 3,767	$ 407	$ 2,522	$ 4,174	$ 2,580
Less: Charge-off of PCD reserves on loans transferred to non-mortgage loans held for sale	3,053	-	-	3,053	-
Adjusted net charge-offs (t)	714	407	2,522	1,121	2,580
Average total loans (u)	$ 4,079,084	$ 4,022,473	$ 2,837,232	$ 4,051,129	$ 2,802,873
Adjusted net charge-offs to average loans (t)/(u)	0.07%	0.04%	0.36%	0.06%	0.19%

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

Discussion and Analysis of Results of Operations

Net Income

Net income for the three months ended June 30, 2025, was $20.3 million, or $0.78 per diluted common share, a $14.0 million, or 226.2%, increase compared to $6.2 million, or $0.31 per diluted common share, for the three months ended June 30, 2024. Earnings for the second quarter of 2025 compared to the second quarter of 2024 increased primarily due to a $19.0 million increase in net interest income and a $4.4 million increase in noninterest income. This positive result was partially offset by a $9.6 million increase in noninterest expense.

Net income for the six months ended June 30, 2025, was $33.6 million, or $1.30 per diluted common share, a $20.9 million, or 165.6%, increase compared to $12.6 million, or $0.63 per diluted common share, for the six months ended June 30, 2024. Earnings for the six months ended June 30, 2025 compared to the six months ended June 30, 2024 increased primarily due to a $38.0 million increase in net interest income and a $6.7 million increase in noninterest income. This positive result was partially offset by a $21.0 million increase 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 months ended June 30, 2025 and 2024.

Net interest income for the three months ended June 30, 2025 was $43.0 million, an increase of $19.0 million, or 79.3%, compared to $24.0 million for the three months ended June 30, 2024. Net interest income for the second quarter of 2025 increased compared to the second quarter of 2024 primarily due to a $17.4 million increase in interest income, as average earning assets increased $1.0 billion while the average interest earning asset yield increased 43 basis points. Additionally, interest expense decreased $1.6 million due primarily to an 85 basis point decline in the average rate paid on interest-bearing liabilities partially offset by a $714.9 million increase in the average balance of interest-bearing liabilities. The increase in interest earning assets and interest-bearing liabilities balances was primarily due to assets and liabilities acquired in the HMNF transaction and organic loan and deposit growth. The increase in interest earning asset yields was primarily due to organic loan growth at higher yields and purchase accounting accretion. The decrease in average rate paid on interest-bearing liabilities was due to the impact of the HMNF transaction as well as lower rates paid on interest-bearing deposits following rate cuts in 2024.

Net interest income for the six months ended June 30, 2025 was $84.2 million, an increase of $38.0 million, or 82.1%, compared to $46.2 million for the six months ended June 30, 2024. Net interest income for the six months ended June 30, 2025 increased compared to the six months ended June 30, 2024 primarily due to a $36.5 million increase in interest income as average earning assets increased $1.1 billion while the average interest earning asset yield increased 49 basis points. Additionally, interest expense decreased $1.4 million due primarily to a 78 basis point decline in the average rate paid on interest-bearing liabilities partially offset by a $760.9 million increase in the average balance of interest-bearing liabilities. The increase in interest earning assets and interest-bearing liabilities balances was primarily due to assets and liabilities acquired in the HMNF transaction and organic loan and deposit growth. The increase in interest earning asset yields was primarily due to organic loan growth at higher yields and purchase accounting accretion. The decrease in average rate paid on interest-bearing liabilities was due to the impact of the HMNF transaction as well as lower rates paid on interest-bearing deposits following rate cuts in 2024.

Net interest margin (on a tax-equivalent basis) for the three months ended June 30, 2025 was 3.51%, compared to 2.39% for the same period in 2024. The increase in net interest margin (on a tax-equivalent basis) was mainly attributable to higher rates on interest earning assets from organic loan growth and the HMNF transaction, purchase accounting accretion, and lower rates paid on deposits.

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 months ended June 30, 2025 and 2024. The Company derived these yields and rates by dividing income or expense by the average balance of the corresponding assets or liabilities. The Company derived average balances from the daily balances throughout the periods indicated. Average loan balances include loans that have been placed on nonaccrual status, while interest previously accrued on these loans is reversed against interest income. In these tables, adjustments are made to the yields on tax-exempt assets in order to present tax-exempt income and fully taxable income on a fully taxable equivalent ("FTE") basis.

	Three months ended June 30,					
	2025			2024		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 35,951	$ 494	5.51%	$ 448,245	$ 5,991	5.38%
Investment securities (1)	823,463	5,513	2.69	756,413	5,058	2.69
Loans held for sale	22,302	247	4.44	16,473	365	8.91
Loans						
Commercial and industrial	653,635	12,242	7.51	578,544	10,628	7.39
CRE − Construction, land and development	337,867	5,025	5.97	126,744	2,524	8.01
CRE − Multifamily	347,277	5,821	6.72	243,076	3,335	5.52
CRE − Non-owner occupied	955,134	15,525	6.52	617,338	9,056	5.90
CRE − Owner occupied	442,796	6,947	6.29	283,754	3,856	5.47
Agricultural − Land	66,044	948	5.76	40,932	480	4.72
Agricultural − Production	67,412	1,231	7.32	38,004	632	6.69
RRE − First lien	898,903	11,016	4.92	694,866	7,023	4.07
RRE − Construction	39,682	754	7.62	21,225	284	5.38
RRE − HELOC	188,494	3,285	6.99	123,233	2,543	8.30
RRE − Junior lien	42,435	674	6.37	36,181	594	6.60
Other consumer	39,405	689	7.01	33,335	553	6.67
Total loans (1)	4,079,084	64,157	6.31	2,837,232	41,508	5.88
Federal Reserve/FHLB Stock	28,146	607	8.65	16,640	353	8.53
Total interest earning assets	4,988,946	71,018	5.71	4,075,003	53,276	5.26
Noninterest earning assets	313,782			222,291		
Total assets	$ 5,302,728			$ 4,297,294		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 1,247,241	$ 5,582	1.80%	$ 959,119	$ 5,338	2.24%
Money market and savings deposits	1,561,977	10,799	2.77	1,147,525	10,824	3.79
Time deposits	687,428	6,377	3.72	458,125	5,122	4.50
Fed funds purchased and BTFP	149,046	1,719	4.63	366,186	4,463	4.90
FHLB short-term advances	200,000	2,263	4.54	200,000	2,589	5.21
Long-term debt	59,112	652	4.42	58,999	684	4.66
Total interest-bearing liabilities	3,904,804	27,392	2.81	3,189,954	29,020	3.66
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	808,629			665,930		
Operating lease liabilities	18,346			5,344		
Accrued expenses and other liabilities	57,343			66,849		
Other noninterest-bearing liabilities	75,689			72,193		
Stockholders' equity	513,606			369,217		
Total liabilities and stockholders' equity	$ 5,302,728			$ 4,297,294		
Net interest income on FTE basis (1)		$ 43,626			$ 24,256	
Net interest rate spread on FTE basis (1)			2.90%			1.60%
Net interest margin on FTE basis (1)			3.51%			2.39%

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

(dollars in thousands)	Six months ended June 30, 2025 Average Balance	2025 Interest Income/ Expense	2025 Average Yield/ Rate	2024 Average Balance	2024 Interest Income/ Expense	2024 Average Yield/ Rate
Interest Earning Assets						
Interest-bearing deposits with banks	$ 34,695	$ 884	5.14%	$ 400,141	$ 10,656	5.36%
Investment securities (1)	841,479	11,422	2.74	765,859	9,847	2.59
Loans held for sale	16,856	396	4.74	12,743	492	7.76
Loans						
Commercial and industrial	655,725	24,101	7.41	571,334	20,391	7.18
CRE − Construction, land and development	340,279	9,958	5.90	127,165	5,073	8.02
CRE − Multifamily	355,715	11,511	6.53	246,794	6,796	5.54
CRE − Non-owner occupied	957,629	31,297	6.59	590,946	17,127	5.83
CRE − Owner occupied	411,546	12,749	6.25	281,459	7,576	5.41
Agricultural − Land	66,633	1,916	5.80	40,621	956	4.73
Agricultural − Production	64,190	2,326	7.31	36,668	1,193	6.54
RRE − First lien	899,367	21,616	4.85	698,311	14,024	4.04
RRE − Construction	38,305	1,519	8.00	21,392	564	5.30
RRE − HELOC	178,601	6,244	7.05	121,095	4,999	8.30
RRE − Junior lien	43,261	1,353	6.31	36,003	1,162	6.49
Other consumer	39,878	1,387	7.01	31,085	1,015	6.57
Total loans (1)	4,051,129	125,977	6.27	2,802,873	80,876	5.80
Federal Reserve/FHLB Stock	25,287	1,036	8.26	16,649	690	8.33
Total interest earning assets	4,969,446	139,715	5.67	3,998,265	102,561	5.16
Noninterest earning assets	318,176			220,178		
Total assets	$ 5,287,622			$ 4,218,443		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$ 1,247,482	$ 11,146	1.80%	$ 914,090	$ 9,587	2.11%
Money market and savings deposits	1,576,218	22,131	2.83	1,167,213	21,941	3.78
Time deposits	687,995	13,016	3.82	444,902	9,909	4.48
Fed funds purchased and BTFP	99,714	2,295	4.64	324,400	7,971	4.94
FHLB short-term advances	200,000	4,526	4.56	200,000	5,071	5.10
Long-term debt	59,098	1,302	4.44	58,985	1,362	4.64
Total interest-bearing liabilities	3,870,507	54,416	2.84	3,109,590	55,841	3.61
Noninterest-Bearing Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	829,044			670,928		
Operating lease liabilities	18,586			5,474		
Accrued expenses and other liabilities	63,015			63,950		
Other noninterest-bearing liabilities	81,601			69,424		
Stockholders' equity	506,470			368,501		
Total liabilities and stockholders' equity	$ 5,287,622			$ 4,218,443		
Net interest income on FTE basis (1)		$ 85,299			$ 46,720	
Net interest rate spread on FTE basis (1)			2.83%			1.55%
Net interest margin on FTE basis (1)			3.46%			2.35%

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

Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on interest earning assets and the interest incurred on interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in 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, 2025 Compared with Three months ended June 30, 2024			Six months ended June 30, 2025 Compared with Six months ended June 30, 2024		
	Change due to:		Interest	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance	Volume	Rate	Variance
Interest earning assets						
Interest-bearing deposits with banks	$ (5,530)	$ 33	$ (5,497)	$ (9,713)	$ (59)	$ (9,772)
Investment securities	450	5	455	971	604	1,575
Loans held for sale	129	(247)	(118)	158	(254)	(96)
Loans						
Commercial and industrial	1,500	113	1,613	3,005	705	3,710
CRE − Construction, land and development	2,906	(405)	2,501	8,476	(3,591)	4,885
CRE − Multifamily	1,533	953	2,486	2,992	1,723	4,715
CRE − Non-owner occupied	4,607	1,862	6,469	10,601	3,569	14,170
CRE − Owner occupied	2,653	438	3,091	3,490	1,683	5,173
Agricultural − Land	419	49	468	610	350	960
Agricultural − Production	298	301	599	893	240	1,133
RRE − First lien	2,737	1,256	3,993	4,028	3,564	7,592
RRE − Construction	382	88	470	445	510	955
RRE − HELOC	1,074	(332)	742	2,367	(1,122)	1,245
RRE − Junior lien	104	(24)	80	234	(43)	191
Other consumer	89	47	136	286	86	372
Total loans	18,302	4,346	22,648	37,427	7,674	45,101
Federal Reserve/FHLB Stock	245	9	254	357	(11)	346
Total interest income	13,596	4,146	17,742	29,200	7,954	37,154
Interest-bearing liabilities						
Interest-bearing demand deposits	1,609	(1,365)	244	3,488	(1,929)	1,559
Money market and savings deposits	3,916	(3,941)	(25)	7,667	(7,477)	190
Time deposits	2,573	(1,318)	1,255	5,401	(2,294)	3,107
Fed funds purchased and BTFP	(2,653)	(91)	(2,744)	(5,504)	(172)	(5,676)
FHLB short-term advances	—	(326)	(326)	—	(545)	(545)
Long-term debt	1	(33)	(32)	3	(63)	(60)
Total interest expense	5,446	(7,074)	(1,628)	11,055	(12,480)	(1,425)
Change in net interest income	$ 8,150	$ 11,220	$ 19,370	$ 18,145	$ 20,434	$ 38,579

Provision for Credit Losses

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

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Provision (recovery) for loan losses	$ 1,116	$ 4,270	$ 3,523	$ 5,069
Provision (recovery) for credit losses on unfunded commitments	(1,192)	275	(2,734)	(518)
Provision (recovery) for HTM debt securities	(2)	(56)	(4)	(62)
Provision (recovery) for non-mortgage loans transferred to held for sale	78	—	78	—
Provision for credit losses	$ —	$ 4,489	$ 863	$ 4,489

The Company recorded a provision for credit losses of $0.0 million for the second quarter of 2025, compared to a provision for credit losses of $4.5 million for the second quarter of 2024. The decrease in the provision for credit losses was primarily driven by the change in net loans, and the decrease in provision for credit losses on unfunded commitments was primarily driven by a decrease in the required reserve for unfunded commitments.

The Company recorded a provision for credit losses of $0.9 million for the six months ended June 30, 2025 compared to a provision for credit losses of $4.5 for the six months ended June 30, 2024. The decrease in the provision for credit losses was primarily driven by the change in net loans, and the decrease in provision for credit losses on unfunded commitments was primarily driven by a decrease in the required reserve for unfunded commitments.

Noninterest Income

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

The following table presents the Company's noninterest income for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Retirement and benefit services	$ 16,024	$ 16,078	$ 32,130	$ 31,733
Wealth	7,363	6,360	14,267	12,477
Mortgage banking	3,651	2,554	5,177	4,224
Service charges on deposit accounts	680	456	1,330	845
Gain on sale of non-mortgage loan	2,115	—	2,115	—
Other	1,930	1,923	4,376	3,415
Total noninterest income	$ 31,763	$ 27,371	$ 59,395	$ 52,694
Noninterest income as a % of revenue	42.47%	53.28%	41.37%	53.27%

Total noninterest income for the three months ended June 30, 2025 was $31.8 million, an increase of $4.4 million, or 16.0%, from the three months ended June 30, 2024. The increase in noninterest income was primarily driven by a $2.1 million gain on the sale of a PCD hospitality loan during the second quarter of 2025. Wealth revenue increased $1.0 million, or 15.8%, in the second quarter of 2025 compared to the second quarter of 2024, primarily driven by an increase in assets under administration/management during that same period as a result of improved bond and equity markets as well as the HMNF transaction. Mortgage banking revenue increased $1.1 million, or 43.0%, in the second quarter of 2025 compared to the second quarter of 2024, primarily driven by a higher gain on sale rate and increased mortgage servicing revenue driven by the HMNF transaction.

Total noninterest income for the six months ended June 30, 2025 was $59.4 million, an increase of $6.7 million, or 12.7%, from the six months ended June 30, 2024. The increase in noninterest income was primarily driven by a $2.1 million gain on the sale of a PCD hospitality loan during the second quarter of 2025. Wealth revenue increased $1.8 million, or 14.3%, for the six months ended June 30, 2025 compared to the six months ended June 30, 2024, primarily driven by an increase in assets under administration/management during that same period as a result of improved bond and equity markets as well as the HMNF transaction. Mortgage banking revenue increased $1.1 million, or 27.2%, for the six months ended June 30, 2025 compared to the six months ended June 30, 2024, primarily driven by a higher gain on sale rate and increased mortgage servicing revenue driven by the HMNF transaction.

See "NOTE 16 Segment Reporting" of the consolidated financial statements and Segment Reporting section below for additional discussion regarding the Company's business lines.

Noninterest Expense

The following table presents noninterest expense for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Compensation	$ 24,343	$ 20,265	$ 47,304	$ 39,597
Employee taxes and benefits	6,633	5,134	14,396	11,322
Occupancy and equipment expense	2,559	1,815	5,466	3,722
Business services, software and technology expense	5,868	4,599	11,620	9,944
Intangible amortization expense	2,710	1,324	5,419	2,648
Professional fees and assessments	2,339	2,373	5,335	4,366
Marketing and business development	787	651	1,752	1,436
Supplies and postage	490	370	1,121	898
Travel	347	332	634	624
Mortgage and lending expenses	940	467	1,476	908
Other	1,422	1,422	4,282	2,306
Total noninterest expense	$ 48,438	$ 38,752	$ 98,805	$ 77,771

Total noninterest expense for the three months ended June 30, 2025 was $48.4 million, a $9.7 million, or 25.0%, increase compared to $38.8 million for the three months ended June 30, 2024. The year over year increase was primarily driven by higher compensation expense, employee taxes and benefits expense, intangible amortization expense, and occupancy and equipment expense. Compensation expense and employee taxes and benefits expense increased primarily due to increased head count resulting from the HMNF transaction. Intangible amortization expense increased primarily due to the $33.5 million core deposit intangible recorded in connection with the HMNF transaction. Occupancy and equipment expense increased primarily due to increased branch footprint resulting from the HMNF transaction.

Total noninterest expense for the six months ended June 30, 2025 was $98.8 million, a $21.0 million, or 27.0%, increase compared to $77.8 million for the six months ended June 30, 2024. The year over year increase was primarily driven by higher compensation expense, employee taxes and benefits expense, intangible amortization expense, and occupancy and equipment expense. Compensation expense and employee taxes and benefits expense increased primarily due to increased head count resulting from the HMNF transaction. Intangible amortization expense increased primarily due to the $33.5 million core deposit intangible recorded in connection with the HMNF transaction. Occupancy and equipment expense increased primarily due to increased branch footprint resulting from the HMNF transaction.

Income Tax Expense

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

For the three months ended June 30, 2025, the Company recognized income tax expense of $6.1 million on $26.4 million of pre-tax income, resulting in an effective tax rate of 23.2%, compared to income tax expense of $1.9 million on $8.1 million of pre-tax income for the three months ended June 30, 2024, resulting in an effective tax rate of 23.7%.

For the six months ended June 30, 2025, the Company recognized income tax expense of $10.3 million on $43.9 million of pre-tax income, resulting in an effective tax rate of 23.6%, compared to income tax expense of $4.0 million on $16.7 million of pre-tax income for the six months ended June 30, 2024, resulting in an effective tax rate of 24.1%.

Segment Reporting

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

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

For additional financial information on the Company's segments see "NOTE 16 Segment Reporting" of the Company's consolidated financial statements.

Banking

The banking segment offers a complete line of loan, deposit, cash management, and treasury services through 29 offices in North Dakota, Minnesota, Wisconsin, Iowa, and Arizona, including 15 banking offices acquired in the HMNF transaction. These products and services are supported through web and mobile based applications. The majority of the Company's assets and liabilities are in the banking segment's balance sheet.

The following table presents the banking segment income statement, net of corporate administration, for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Net interest income	$ 43,032	$ 24,001	$ 84,189	$ 46,220
Provision for credit losses	—	4,489	863	4,489
Noninterest income	8,376	4,933	12,998	8,484
Total revenue	51,408	24,445	96,324	50,215
Noninterest expense (1)	30,140	18,915	62,053	37,586
Net income before taxes	$ 21,268	$ 5,530	$ 34,271	$ 12,629

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

Retirement and Benefit Services

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

The following table presents the retirement and benefits services segment income statement for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Recurring annual income (1)	$ 12,717	$ 12,647	$ 25,882	$ 22,333
Transactional income (2)	3,307	3,431	6,248	6,625
Total noninterest income	16,024	16,078	32,130	31,733
Noninterest expense	13,166	13,422	26,783	27,611
Net income before taxes	$ 2,858	$ 2,656	$ 5,347	$ 4,122

(1) Recurring annual income primarily includes asset based fees, administration fees, record-keeping fees, trust/custody fees, and health and welfare fees. $6.2 million and $6.2 million for the three months ended June 30, 2025 and 2024, respectively, were due to movements in the market.
(2) Transactional income primarily includes advisory fees and distribution fees.

Wealth

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

The following table presents the wealth segment income statement for the three and six months ended June 30, 2025 and 2024:

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
Asset management	$ 4,742	$ 5,564	$ 10,502	$ 10,818
Brokerage	494	439	1,029	805
Insurance and advisory	2,127	357	2,736	853
Total noninterest income	7,363	6,360	14,267	12,476
Noninterest expense	5,132	3,908	9,969	7,658
Net income before taxes	$ 2,231	$ 2,452	$ 4,298	$ 4,818

Financial Condition

Overview

Total assets were $5.3 billion as of June 30, 2025, an increase of $62.1 million, or 1.2%, compared to December 31, 2024. The increase was primarily due to a $52.1 million increase in loans held for investment and a non-cash transfer of $50.2 million to non-mortgage loans held for sale, partially offset by a decrease of $46.9 million in available-for-sale investment securities and a decrease of $11.9 million in held-to-maturity investment securities.

Investment Securities

The following table presents the fair value composition of the Company's investment securities portfolio as of June 30, 2025 and December 31, 2024:

	June 30, 2025		December 31, 2024	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Available-for-sale				
U.S. Treasury and agencies	$ 637	0.1%	$ 30,707	3.7%
Mortgage backed securities				
Residential agency	488,939	63.3	503,706	61.1
Commercial	1,280	0.2	1,251	0.2
Asset backed securities	17	—	19	—
Corporate bonds	50,279	6.5	52,370	6.3
Total available-for-sale investment securities	541,152	70.1	588,053	71.3
Held-to-maturity				
Obligations of state and political agencies	105,371	13.6	107,985	13.1
Mortgage backed securities				
Residential agency	126,133	16.3	129,001	15.6
Total held-to-maturity investment securities	231,504	29.9	236,986	28.7
Total investment securities	$ 772,656	100.0%	$ 825,039	100.0%

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

The investment securities presented in the following table are reported at fair value and by contractual maturity as of June 30, 2025. Actual timing may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Additionally, residential mortgage backed securities and collateralized mortgage obligations receive monthly principal payments, which are not reflected below. The yields below are calculated on a tax-equivalent basis, assuming a 21.0% income tax rate.

	Maturity as of June 30, 2025							
	One year or less		One to five years		Five to ten years		After ten years	
(dollars in thousands)	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield
Available-for-sale								
U.S. Treasury and agencies	$ —	—%	$ 288	4.84%	$ —	—%	$ 349	4.94%
Mortgage backed securities								
Residential agency	35	2.60	2,970	3.46	23,797	4.09	462,136	2.32
Commercial	—	—	1,280	2.40	—	—	—	—
Asset backed securities	—	—	—	—	17	4.89	—	—
Corporate bonds	—	—	—	—	50,279	3.55	—	—
Total available-for-sale investment securities	35	2.60	4,538	3.22	74,093	3.73	462,485	2.32
Held-to-maturity								
Obligations of state and political agencies	6,461	1.39	53,878	1.77	38,521	2.23	6,511	2.24
Mortgage backed securities								
Residential agency	—	—	—	—	—	—	126,133	2.22
Total held-to-maturity investment securities	6,461	1.39	53,878	1.77	38,521	2.23	132,644	2.22
Total investment securities	$ 6,496	1.40%	$ 58,416	1.89%	$ 112,614	3.21%	$ 595,129	2.30%

Loans

The loan portfolio represents a broad range of borrowers comprised of commercial and industrial, commercial real estate, agricultural, and consumer loans.

Total loans outstanding were $4.0 billion as of June 30, 2025, an increase of $52.1 million, or 1.3%, from December 31, 2024. The increase was primarily driven by a $17.6 million increase in CRE loans, a $15.3 million increase in consumer loans, a $10.0 million increase in agricultural loans, and a $9.2 million increase in commercial and industrial loans.

The Company's loan portfolio is diversified. The following table presents the balance and percentage of loans outstanding by segment/industry as of the dates presented:

	June 30, 2025		December 31, 2024	
(dollars in thousands)	**Balance**	**Percent of Portfolio**	**Balance**	**Percent of Portfolio**
Commercial and industrial:				
General business	$ 287,886	7.1%	$ 340,702	8.5%
Services	191,709	4.7	177,813	4.5
Retail trade	105,220	2.6	88,105	2.2
Manufacturing	91,077	2.3	60,107	1.5
Total commercial and industrial	675,892	16.7	666,727	16.7
Commercial real estate:				
Construction, land and development	352,749	8.7	294,677	7.4
Multifamily	333,307	8.2	363,123	9.1
Non-owner occupied				
Office	157,557	3.9	168,170	4.2
Industrial	173,980	4.3	169,391	4.2
Retail	145,421	3.6	154,325	3.9
Hotel	103,828	2.6	170,982	4.3
Medical office	183,237	4.5	139,939	3.5
Medical or nursing facility	80,572	2.0	110,164	2.8
Other commercial real estate	43,048	1.1	54,054	1.3
Total non-owner occupied	887,643	22.0	967,025	24.2
Owner occupied	440,170	10.9	371,418	9.3
Total commercial real estate	2,013,869	49.8	1,996,243	50.0
Agricultural:				
Land	66,395	1.6	61,299	1.5
Production	67,931	1.7	63,008	1.6
Total agricultural	134,326	3.3	124,307	3.1
Consumer:				
RRE − First lien	901,738	22.3	921,019	23.1
RRE − Construction	35,754	0.9	33,547	0.8
RRE − HELOC	200,624	5.0	162,509	4.1
RRE − Junior lien	41,450	1.0	44,060	1.1
Other consumer	41,004	1.0	44,122	1.1
Total consumer	1,220,570	30.2	1,205,257	30.2
Total loans	$ 4,044,657	100.0%	$ 3,992,534	100.0%

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

CRE loans consist of term loans secured by a mortgage lien on real property and include both owner occupied CRE loans as well as non-owner occupied loans. Non-owner occupied CRE loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, multi-family, industrial, office, retail and other specific use properties as well as CRE construction loans that are offered to builders and developers generally within the Bank's geographical footprint. The primary risk characteristics in the non-owner occupied portfolio include impacts of overall leasing rates, absorption timelines, levels of vacancy rates and operating expenses. The Company requires collateral values in excess of the loan amounts, cash flows in excess of expected debt service requirements and equity investment in the project. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. Inherent lending risks are monitored on a continuous basis through quarterly monitoring and the Bank's annual underwriting process, incorporating an analysis of cash flow, collateral, market conditions and guarantor liquidity, if applicable. CRE loan policies are specific to individual product types and underwriting parameters vary depending on the risk profile of each asset class. CRE loan policies are reviewed no less than semi-annually by management and approved by the Bank's Board of Directors to ensure they align with current market conditions and the Bank's moderate risk appetite. Construction loans are monitored monthly and includes on-site inspections. Management reviews all construction loans quarterly to ensure projects are on time and within budget. CRE concentration limits have been established by product type and are monitored quarterly by the Bank's Credit Governance Committee and Bank Board of Directors.

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

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

	June 30, 2025		December 31, 2024	
(dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total
Geographical Market:				
Minnesota	$ 594,936	48.7%	$ 668,395	50.2%
North Dakota	201,288	16.5	221,693	16.7
Arizona	141,841	11.6	169,473	12.7
Texas	37,124	3.0	34,580	2.6
Colorado	23,372	1.9	23,386	1.8
Oregon	17,833	1.5	17,990	1.4
Wisconsin	101,430	8.3	111,502	8.4
Missouri	16,594	1.4	16,776	1.3
Kansas	15,763	1.3	15,183	1.1
South Dakota	12,565	1.0	14,554	1.1
Virginia	11,176	0.9	—	—
Other	47,028	3.9	36,616	2.8
Total non-owner occupied and multifamily commercial real estate loans	$ 1,220,950	100.0%	$ 1,330,148	100.0%

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

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

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

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

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

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

The Company's RRE loans have minimal direct exposure to subprime mortgages as the loans are underwritten to conform to secondary market standards. As of June 30, 2025, the Company's RRE portfolio was $1.2 billion, representing a $18.4 million, or 1.6%, increase from December 31, 2024. Market interest rates, expected duration, and the Company's overall interest rate sensitivity profile continue to be the most significant factors in determining whether the Company chooses to retain versus sell portions of new consumer mortgage originations.

The following table presents the maturities and types of interest rates for the loan portfolio as of June 30, 2025:

	June 30, 2025				
(dollars in thousands)	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial					
Commercial and industrial	$ 187,516	$ 312,274	$ 173,173	$ 2,929	$ 675,892
Commercial real estate					
Construction, land and development	116,523	136,103	72,429	27,694	352,749
Multifamily	61,818	209,414	62,075	—	333,307
Non-owner occupied	123,260	599,264	145,909	19,210	887,643
Owner occupied	34,289	242,692	117,160	46,029	440,170
Total commercial real estate	335,890	1,187,473	397,573	92,933	2,013,869
Agricultural					
Land	4,714	20,565	15,125	25,991	66,395
Production	43,873	22,528	1,530	—	67,931
Total agricultural	48,587	43,093	16,655	25,991	134,326
Total commercial	571,993	1,542,840	587,401	121,853	2,824,087
Consumer					
Residential real estate					
First lien	13,637	45,056	81,181	761,864	901,738
Construction	23,809	4,691	—	7,254	35,754
HELOC	4,692	14,951	23,743	157,238	200,624
Junior lien	2,498	6,707	21,244	11,001	41,450
Total residential real estate	44,636	71,405	126,168	937,357	1,179,566
Other consumer	13,686	22,695	4,623	—	41,004
Total consumer	58,322	94,100	130,791	937,357	1,220,570
Total loans	$ 630,315	$ 1,636,940	$ 718,192	$ 1,059,210	$ 4,044,657
Loans with fixed interest rates:					
Commercial					
Commercial and industrial	$ 40,860	$ 210,727	$ 57,024	$ —	$ 308,611
Commercial real estate					
Construction, land and development	52,917	21,016	1,249	—	75,182
Multifamily	29,287	151,220	27,377	—	207,884
Non-owner occupied	76,578	353,769	64,912	427	495,686
Owner occupied	28,505	169,177	57,744	1,187	256,613
Total commercial real estate	187,287	695,182	151,282	1,614	1,035,365
Agricultural					
Land	4,623	20,563	13,330	17,778	56,294
Production	3,963	21,020	1,530	—	26,513
Total agricultural	8,586	41,583	14,860	17,778	82,807
Total commercial	236,733	947,492	223,166	19,392	1,426,783
Consumer					
Residential real estate					
First lien	12,249	36,289	71,000	423,837	543,375
Construction	12,261	809	—	2,212	15,282
HELOC	30	1,797	7,561	3,892	13,280
Junior lien	1,954	4,392	14,454	10,145	30,945
Total residential real estate	26,494	43,287	93,015	440,086	602,882
Other consumer	1,767	14,446	4,623	—	20,836
Total consumer	28,261	57,733	97,638	440,086	623,718
Total loans with fixed interest rates	$ 264,994	$ 1,005,225	$ 320,804	$ 459,478	$ 2,050,501
Loans with floating interest rates:					
Commercial					
Commercial and industrial	$ 146,656	$ 101,547	$ 116,149	$ 2,929	$ 367,281
Commercial real estate					
Construction, land and development	63,606	115,087	71,180	27,694	277,567
Multifamily	32,531	58,194	34,698	—	125,423
Non-owner occupied	46,682	245,495	80,997	18,783	391,957
Owner occupied	5,784	73,515	59,416	44,842	183,557
Total commercial real estate	148,603	492,291	246,291	91,319	978,504
Agricultural					
Land	91	2	1,795	8,213	10,101
Production	39,910	1,508	—	—	41,418
Total agricultural	40,001	1,510	1,795	8,213	51,519
Total commercial	335,260	595,348	364,235	102,461	1,397,304
Consumer					
Residential real estate					
First lien	1,388	8,767	10,181	338,027	358,363
Construction	11,548	3,882	—	5,042	20,472
HELOC	4,662	13,154	16,182	153,346	187,344
Junior lien	544	2,315	6,790	856	10,505
Total residential real estate	18,142	28,118	33,153	497,271	576,684
Other consumer	11,919	8,249	—	—	20,168
Total consumer	30,061	36,367	33,153	497,271	596,852
Total loans with floating interest rates	$ 365,321	$ 631,715	$ 397,388	$ 599,732	$ 1,994,156

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

Asset Quality

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

Credit Quality Indicators

Loans are assigned a risk rating and grouped into categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The risk ratings are aligned to pass and criticized categories. The criticized categories include special mention, substandard, and doubtful risk ratings. See "NOTE 4 Loans and Allowance for Credit Losses" of the consolidated financial statements for a definition of each of the risk ratings.

The table below presents criticized loans outstanding by loan portfolio segment as of June 30, 2025 and December 31, 2024:

(dollars in thousands)	**June 30, 2025**	**December 31, 2024**
Commercial		
Commercial and industrial	$ 44,876	$ 35,127
Commercial real estate		
Construction, land and development	42,569	37,633
Multifamily	54,543	27,188
Non-owner occupied	18,734	45,173
Owner occupied	28,617	27,637
Total commercial real estate	144,463	137,631
Agricultural		
Land	8,114	8,034
Production	4,180	4,813
Total agricultural	12,294	12,847
Total commercial	201,633	185,605
Consumer		
Residential real estate		
First lien	2,650	2,988
Construction	4,680	4,680
HELOC	1,213	1,459
Junior lien	2,368	3,210
Total residential real estate	10,911	12,337
Other consumer	48	339
Total consumer	10,959	12,676
Total criticized loans	$ 212,592	$ 198,281
Criticized loans as a percent of total loans	5.26%	4.97%

The following table presents information regarding nonperforming assets as of June 30, 2025 and December 31, 2024:

(dollars in thousands)	**June 30, 2025**	**December 31, 2024**
Nonaccrual loans	$ 51,276	$ 54,433
Accruing loans 90+ days past due	202	8,453
Total nonperforming loans	51,478	62,886
OREO and repossessed assets	751	—
Total nonperforming assets	52,229	62,886
Total restructured accruing loans	—	—
Total nonperforming assets and restructured accruing loans	$ 52,229	$ 62,886
Nonperforming loans to total loans	1.27%	1.58%
Nonperforming assets to total assets	0.98%	1.20%
ACL on loans to nonperforming loans	115%	95%

Interest income lost on nonaccrual loans was approximately $2.3 million and $0.8 million for the six months ended June 30, 2025 and 2024, respectively. There was no interest income included in net interest income related to nonaccrual loans for the six months ended June 30, 2025 and 2024.

Allowance for Credit Losses

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	**2025**	**2024**	**2025**	**2024**
ACL on loans at the beginning of the period	$ 61,929	$ 36,584	$ 59,929	$ 35,843
(Credit) provision for loan losses	1,116	4,270	3,523	5,069
Net charge-offs (recoveries) (1)				
Commercial and industrial	(49)	2,611	(150)	2,652
CRE − Construction, land and development	—	—	—	—
CRE − Multifamily	—	—	—	—
CRE − Non-owner occupied (2)	3,401	—	3,401	—
CRE − Owner occupied	(5)	(9)	(16)	9
Agricultural − Land	—	—	—	—
Agricultural − Production	384	—	372	—
RRE − First lien	—	—	54	—
RRE − Construction	—	—	—	—
RRE − HELOC	10	—	260	—
RRE − Junior lien	—	(71)	300	(71)
Other consumer	26	(9)	(47)	(10)
Total net charge-offs (recoveries)	3,767	2,522	4,174	2,580
ACL on loans at the end of the period	59,278	38,332	59,278	38,332
Components of ACL:				
ACL on HTM debt securities	127	151	127	151
ACL on loans	59,278	38,332	59,278	38,332
ACL on off-balance sheet credit exposures	4,801	6,882	4,801	6,882
ACL at end of the period	64,206	45,365	64,206	45,365
Total loans	$ 4,044,657	$ 2,915,792	$ 4,044,657	$ 2,915,792
Average total loans	4,079,084	2,837,232	4,051,129	2,802,873
ACL on loans to total loans	1.47%	1.31%	1.47%	1.31%
ACL on loans to nonaccrual loans	115.61%	138.79%	115.61%	138.79%
ACL on loans to nonperforming loans	115.15%	138.79%	115.15%	138.79%
Net charge-offs/(recoveries) to average total loans (annualized)	0.37%	0.36%	0.21%	0.19%

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

(2) The $3.4 million charge-off related to the sale of one PCD non-owner occupied commercial real estate hospitality loan and the transfer of a pool of non-owner occupied commercial real estate hospitality loans to non-mortgage loans held for sale in the second quarter of 2025. Of the $3.4 million, $3.1 million represented reserves on PCD loans acquired in the HMNF transaction that were reserved in the day 1 accounting.

(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
	For the three months ended June 30,				
2025:					
Commercial					
Commercial and industrial	$ 79	$ 128	$ (49)	$ 653,635	(0.03)%
Commercial real estate					
Construction, land and development	—	—	—	337,867	—
Multifamily	—	—	—	354,909	—
Non-owner occupied (1)	3,401	—	3,401	974,705	1.40
Owner occupied	6	11	(5)	448,771	—
Total commercial real estate	3,407	11	3,396	2,116,252	0.64
Agricultural					
Land	—	—	—	66,044	—
Production	384	—	384	67,412	2.28
Total agricultural	384	—	384	133,456	1
Total commercial	3,870	139	3,731	2,903,343	0.52
Consumer					
Residential real estate					
First lien	—	—	—	898,903	—
Construction	—	—	—	39,682	—
HELOC	10	—	10	188,494	0.02
Junior lien	—	—	—	42,435	—
Total residential real estate	10	—	10	1,169,514	—
Other consumer	38	12	26	39,405	0.26
Total consumer	48	12	36	1,208,919	0.01
Total loans	$ 3,918	$ 151	$ 3,767	$ 4,112,262	0.37%
2024:					
Commercial					
Commercial and industrial	$ 2,730	$ 119	$ 2,611	$ 578,544	1.83%
Commercial real estate					
Construction, land and development	—	—	—	126,744	—
Multifamily	—	—	—	243,076	—
Non-owner occupied	—	—	—	617,338	—
Owner occupied	—	9	(9)	283,754	(0.01)
Total commercial real estate	—	9	(9)	1,270,912	—
Agricultural					
Land	—	—	—	40,932	—
Production	—	—	—	38,004	—
Total agricultural	—	—	—	78,936	—
Total commercial	2,730	128	2,602	1,928,392	0.55
Consumer					
Residential real estate					
First lien	—	—	—	694,866	—
Construction	—	—	—	21,225	—
HELOC	—	—	—	123,233	—
Junior lien	3	74	(71)	36,181	(0.80)
Total residential real estate	3	74	(71)	875,505	(0.03)
Other consumer	1	10	(9)	33,335	(0.11)
Total consumer	4	84	(80)	908,840	(0.04)
Total loans	$ 2,734	$ 212	$ 2,522	$ 2,837,232	0.36%

(1) The $3.4 million charge-off related to the sale of one PCD non-owner occupied commercial real estate hospitality loan and the transfer of a pool of non-owner occupied commercial real estate hospitality loans to non-mortgage loans held for sale in the second quarter of 2025. Of the $3.4 million, $3.1 million represented reserves on PCD loans acquired in the HMNF transaction that were reserved in the day 1 accounting.

(dollars in thousands)	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Net Charge-offs (Recoveries) to Average Loans
	For the six months ended June 30,				
2025:					
Commercial					
Commercial and industrial	$ 248	$ 398	$ (150)	$ 655,725	(0.05)%
Commercial real estate					
Construction, land and development	—	—	—	340,279	—
Multifamily	—	—	—	363,710	—
Non-owner occupied (1)	3,401	—	3,401	978,134	0.70
Owner occupied	6	22	(16)	417,830	(0.01)
Total commercial real estate	3,407	22	3,385	2,099,953	0.33
Agricultural					
Land	—	—	—	66,633	—
Production	384	12	372	64,190	1.17
Total agricultural	384	12	372	130,823	0.57
Total commercial	4,039	432	3,607	2,886,501	0.25
Consumer					
Residential real estate					
First lien	54	—	54	899,367	0.01
Construction	—	—	—	38,305	—
HELOC	260	—	260	178,601	0.29
Junior lien	300	—	300	43,261	1.40
Total residential real estate	614	—	614	1,159,534	0.11
Other consumer	77	124	(47)	39,878	(0.24)
Total consumer	691	124	567	1,199,412	0.10
Total loans	$ 4,730	$ 556	$ 4,174	$ 4,085,913	0.21%
2024:					
Commercial					
Commercial and industrial	$ 2,894	$ 242	$ 2,652	$ 571,334	0.93%
Commercial real estate					
Construction, land and development	—	—	—	127,165	—
Multifamily	—	—	—	246,794	—
Non-owner occupied	—	—	—	590,946	—
Owner occupied	29	20	9	281,459	0.01
Total commercial real estate	29	20	9	1,246,364	—
Agricultural					
Land	—	—	—	40,621	—
Production	—	—	—	36,668	—
Total agricultural	—	—	—	77,289	—
Total commercial	2,923	262	2,661	1,894,987	0.28
Consumer					
Residential real estate					
First lien	—	—	—	698,311	—
Construction	—	—	—	21,392	—
HELOC	—	—	—	121,095	—
Junior lien	3	74	(71)	36,003	(0.40)
Total residential real estate	3	74	(71)	876,801	(0.02)
Other consumer	13	23	(10)	31,085	(0.06)
Total consumer	16	97	(81)	907,886	(0.02)
Total loans	$ 2,939	$ 359	$ 2,580	$ 2,802,873	0.19%

(1) The $3.4 million charge-off related to the sale of one PCD non-owner occupied commercial real estate hospitality loan and the transfer of a pool of non-owner occupied commercial real estate hospitality loans to non-mortgage loans held for sale in the second quarter of 2025. Of the $3.4 million, $3.1 million represented reserves on PCD loans acquired in the HMNF transaction that were reserved in the day 1 accounting.

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

	June 30, 2025		December 31, 2024	
(dollars in thousands)	Allocated Allowance	Percentage of loans to total loans	Allocated Allowance	Percentage of loans to total loans
Commercial and industrial	$ 8,326	16.7%	$ 8,170	16.7%
CRE − Construction, land and development	18,529	8.7	16,277	7.4
CRE − Multifamily	4,876	8.2	4,716	9.1
CRE − Non-owner occupied	12,919	22.0	16,513	24.2
CRE − Owner occupied	3,818	10.9	3,226	9.3
Agricultural − Land	615	1.6	597	1.5
Agricultural − Production	623	1.7	631	1.6
RRE − First lien	7,059	22.3	6,921	23.1
RRE − Construction	416	0.9	357	0.8
RRE − HELOC	1,358	5.0	1,339	4.1
RRE − Junior lien	376	1.0	742	1.1
Other consumer	363	1.0	440	1.1
Total loans	$ 59,278	100.0%	$ 59,929	100.0%

In the ordinary course of business, the Company enters into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. An ACL on off-balance sheet credit exposures is measured using similar internal and external assumptions as the ACL on loans. This allowance is located in accrued expenses and other liabilities on the consolidated balance sheets. The ACL for unfunded commitments was $4.8 million and $6.9 million as of June 30, 2025 and 2024, respectively.

Deposits

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

Total deposits were $4.3 billion as of June 30, 2025, a decrease of $40.9 million, or 0.9%, from December 31, 2024. Interest-bearing deposits increased $72.2 million during this period, while noninterest-bearing deposits decreased $113.2 million. The decrease in total deposits was due primarily to seasonal outflows from public funds depositors as well as a decrease in clearing and synergistic deposits. The decrease was partially offset by an increase in brokered deposit balances as callable brokered certificates of deposit were raised to diversify the funding structure while retaining optionality.

The following table presents the composition of the Company's deposit portfolio as of June 30, 2025 and December 31, 2024:

	June 30, 2025		December 31, 2024		Change	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Amount	Percent
Noninterest-bearing demand	$ 790,300	18.2%	$ 903,466	20.6%	$ (113,166)	(12.5)%
Interest-bearing demand	1,214,597	28.0	1,220,173	27.9	(5,576)	(0.5)
Money market and savings (1)	1,534,102	35.4	1,547,806	35.4	(13,704)	(0.9)
Time deposits	798,469	18.4	706,965	16.1	91,504	12.9
Total deposits	$ 4,337,468	100.0%	$ 4,378,410	100.0%	$ (40,942)	(0.9)%

(1) Money market and savings deposits included health savings account deposits of $198.7 million and $190.3 million as of June 30, 2025 and December 31, 2024, respectively.

The following table presents the average balances and rates of the Company's deposit portfolio for the three months ended June 30, 2025 and 2024:

	Three months ended June 30,			
	2025		2024	
(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand	$ 829,044	—%	$ 670,928	—%
Interest-bearing demand	1,247,482	1.80	914,090	2.24
Money market and savings	1,576,218	2.77	1,167,213	3.79
Time deposits	687,995	3.72	444,902	4.50
Total deposits	$ 4,340,739	2.10%	$ 3,197,133	2.70%

The following table presents the composition of the Company's deposit portfolio by client segment as of June 30, 2025 and December 31, 2024:

	June 30, 2025		December 31, 2024		Change	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Amount	Percent
Commercial	$ 1,544,905	35.6%	$ 1,647,131	37.7%	$ (102,226)	(6.2)%
Consumer	1,656,353	38.2	1,556,522	35.5	99,831	6.4
Public (1)	217,360	5.0	201,197	4.6	16,163	8.0
Synergistic (2)						
Retirement and benefit services (3)	664,410	15.3	683,149	15.6	(18,739)	(2.7)
Wealth (4)	254,440	5.9	290,411	6.6	(35,971)	(12.4)
Total synergistic	918,850	21.2	973,560	22.2	(54,710)	(15.1)
Total deposits	$ 4,337,468	100.0%	$ 4,378,410	100.0%	$ (40,942)	(0.9)%

(1) Public deposits primarily represent municipalities, school districts, and other governmental entities that receive public funding.
(2) Synergistic deposits represent the on-balance sheet money market balances that Alerus Retirement and Benefit Services and Alerus Wealth clients hold in proprietary Alerus money market products.
(3) $366.8 million and $361.3 million of retirement and benefit services synergistic deposits were indexed as of June 30, 2025 and December 31, 2024, respectively.
(4) $254.4 million and $290.4 million of wealth synergistic deposits were indexed as of June 30, 2025 and December 31, 2024, respectively.

The following table presents the contractual maturity of time deposits, including certificate of deposit account registry services and IRA deposits of $250,000 and over, that were outstanding as of June 30, 2025:

(dollars in thousands)	June 30, 2025
Maturing in:	
3 months or less	$ 114,175
3 months to 6 months	92,781
6 months to 1 year	9,687
1 year or greater	2,902
Total	$ 219,545

The Company's total uninsured deposits, which are amounts of deposit accounts that exceed the FDIC insurance limit, currently $250,000, were approximately $1.4 billion at June 30, 2025 and approximately $1.5 billion at December 31, 2024. These amounts were estimated based on the same methodologies used for regulatory reporting purposes.

Borrowings

Borrowings as of June 30, 2025 and December 31, 2024 were as follows:

	June 30, 2025		December 31, 2024	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio
Fed funds purchased	$ 114,600	30.7%	$ 38,960	13.1%
FHLB short-term advances	200,000	53.5	200,000	67.1
Subordinated notes	50,000	13.4	50,000	16.8
Junior subordinated debentures	9,126	2.4	9,069	3.0
Total borrowed funds	$ 373,726	100.0%	$ 298,029	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 $37.7 million, or 7.6%, to $533.2 million as of June 30, 2025, compared to $495.4 million as of December 31, 2024. Tangible common equity to tangible assets, a non-GAAP financial measure, increased to 7.87% as of June 30, 2025, from 7.13% as of December 31, 2024. Common equity tier 1 capital to risk weighted assets increased to 10.54% as of June 30, 2025, from 9.91% as of December 31, 2024.

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

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

At June 30, 2025 and December 31, 2024, the Company met all the capital adequacy requirements to which the Company was subject. The table below presents the Company's and the Bank's regulatory capital ratios and the Company's tangible common equity to tangible assets ratio as of June 30, 2025 and December 31, 2024:

Capital Ratios	June 30, 2025	December 31, 2024
Alerus Financial Corporation Consolidated		
Common equity tier 1 capital to risk weighted assets	10.54%	9.91%
Tier 1 capital to risk weighted assets	10.74%	10.12%
Total capital to risk weighted assets	13.1%	12.49%
Tier 1 capital to average assets	9.16%	8.65%
Tangible common equity to tangible assets (1)	7.87%	7.13%
Alerus Financial, National Association		
Common equity tier 1 capital to risk weighted assets	10.78%	10.18%
Tier 1 capital to risk weighted assets	10.78%	10.18%
Total capital to risk weighted assets	12.04%	11.43%
Tier 1 capital to average assets	9.34%	8.69%

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

The regulatory capital ratios for the Company and the Bank, as of June 30, 2025, as shown in the above table, were at levels above the regulatory minimums to be considered "well capitalized." See "NOTE 19 Regulatory Matters" of the consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

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

A summary of the contractual amounts of the Company's exposure to off-balance sheet agreements as of June 30, 2025 and December 31, 2024, was as follows:

(dollars in thousands)	June 30, 2025	December 31, 2024
Commitments to extend credit	$ 1,002,440	$ 1,090,114
Standby letters of credit	17,943	30,033
Total	$ 1,020,383	$ 1,120,147

Liquidity

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

As of June 30, 2025, the Company had on balance sheet liquidity of $505.9 million, compared to $579.0 million as of December 31, 2024. 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.

As of June 30, 2025, the Company had off balance sheet liquidity of $2.2 billion, compared to $2.3 billion as of December 31, 2024. Off balance sheet liquidity includes FHLB borrowing capacity, federal funds lines, and brokered deposit capacity.

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, 2025, the Company had $114.6 million in federal funds purchased and $200.0 million in short-term borrowings from the FHLB. As of June 30, 2025, the Company had $2.4 billion of collateral pledged to the FHLB and, based on this collateral, the Company was eligible to borrow up to an additional $1.1 billion from the FHLB. In addition, the Company can borrow up to $127.0 million through the unsecured lines of credit the Company has established with five other correspondent banks.

In addition, because the Bank is "well capitalized," the Company can accept wholesale deposits up to 20.0% of total assets based on current policy limits, or $1.1 billion, as of June 30, 2025. Management believed that the Company had adequate resources to fund all of the Company's commitments as of June 30, 2025 and December 31, 2024.

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

Though remote, the possibility of a funding crisis exists at all financial institutions. Management has addressed this issue by formulating a liquidity contingency plan, which has been reviewed and approved by both the Bank's Board of Directors and the ALCO. The plan addresses the actions that the Company would take in response to both a short-term and long-term funding crisis.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

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

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

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

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

The estimated impact on the Company's net interest income as of June 30, 2025 and December 31, 2024, assuming immediate parallel moves in interest rates, is presented in the table below:

	June 30, 2025		December 31, 2024	
	Following 12 months	Following 24 months	Following 12 months	Following 24 months
+400 basis points	0.5%	12.3%	1.7%	13.6%
+300 basis points	0.3%	9.0%	1.2%	10.0%
+200 basis points	0.5%	6.7%	1.1%	7.2%
+100 basis points	0.4%	3.6%	0.6%	3.7%
−100 basis points	0.6%	-3.0%	0.4%	-3.1%
−200 basis points	1.0%	-6.6%	0.7%	-6.8%
−300 basis points	1.8%	-9.2%	0.8%	-10.5%
−400 basis points	4.3%	-6.7%	4.0%	-7.0%

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

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

The table below presents the change in the economic value of equity as of June 30, 2025 and December 31, 2024, assuming immediate parallel shifts in interest rates:

	June 30, 2025	December 31, 2024
+400 basis points	-2.5%	-6.2%
+300 basis points	-4.0%	-4.8%
+200 basis points	-1.6%	-2.4%
+100 basis points	-0.2%	-0.8%
−100 basis points	-0.5%	0.1%
−200 basis points	-2.2%	-0.9%
−300 basis points	-6.6%	-3.6%
−400 basis points	-13.8%	-8.5%

Operational Risk

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

Compliance Risk

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

Strategic and/or Reputation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the President and Chief Executive Officer, the Chief Financial Officer, and the Chief Accounting Officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the President and Chief Executive Officer and the Chief Financial 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 and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In its Annual Report on Form 10-K for the period ended December 31, 2024, management concluded that the Company's disclosure controls and procedures over financial reporting were not effective as of the end of such period, due to the existence of a material weakness related to a unique, one-time transaction, where goodwill initially calculated by the Company was inaccurate. The Company has since designed and implemented control activities to ensure that there is the appropriate periodic assessment of its business combination accounting policies and procedures, and its accounting department employees have participated in education and training related to business combination accounting and discussed with accounting experts to provide appropriate guidance in connection with accounting for business combinations. Other than disclosed herein, 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

For information regarding litigation, other disputes and regulatory proceedings see the section "Legal Contingencies" in "NOTE 12 Commitments and Contingencies" of the consolidated financial statements.

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 14, 2025.

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

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

The following table presents information related to repurchases of shares of the Company's common stock for each calendar month in the second quarter of 2025:

(dollars in thousands, except per share data)	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plan (2)
April 1-30, 2025	—	$ —	—	1,000,000
May 1-31, 2025	67,826	21.59	—	1,000,000
June 1-30, 2025	—	—	—	1,000,000
Total	67,826	$ 21.59	—	1,000,000

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

(2) On December 12, 2023, the Board of Directors of the Company approved the Program, which authorized the Company to repurchase up to 1,000,000 shares of its common stock, subject to certain limitations and conditions. The Program became effective on February 18, 2024, and replaced a prior stock repurchase program. The Program will expire on February 18, 2027. 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, 2025, the Company did not repurchase any shares of common stock under the Program. Does not include shares that may be purchased by the Company's Employee Stock Ownership Plan.

Use of Proceeds from Registered Securities

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 – Other Information

During the fiscal quarter ended June 30, 2025, 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.

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	Amendment to Third Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 on Form 8-K filed on May 12, 2025).
3.3	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)

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 5, 2025

By: /s/ Katie A. Lorenson
Name: Katie A. Lorenson
Title: President and Chief Executive Officer (Principal Executive Officer)

Date: August 5, 2025

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