

# Alerus Financial Corporation NasdaqCM:ALRS

## FQ1 2023 Earnings Call Transcripts

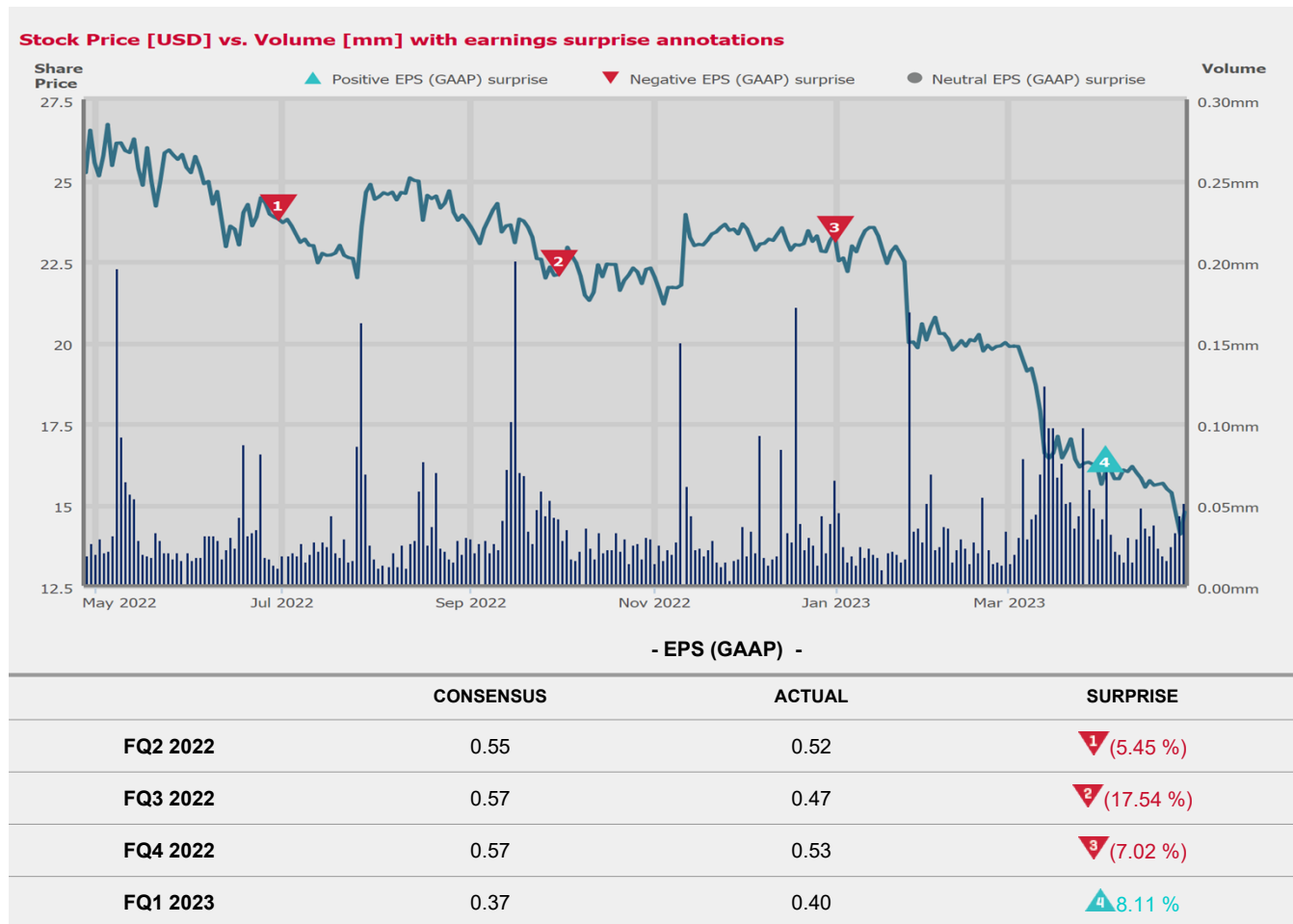
Thursday, April 27, 2023 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.37	0.40	▲ 8.11	0.43	1.69	NA
Revenue (mm)	49.31	48.91	▼ (0.81 %)	50.87	203.91	NA

Currency: USD

Consensus as of Apr-27-2023 5:35 AM GMT



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# Call Participants

## EXECUTIVES

**Alan A. Villalon**  
*Executive VP & CFO*

**Barret Lahm**

**James R. Collins**  
*Executive VP and Chief Banking & Revenue Officer*

**Karin M. Taylor**  
*Executive VP & Chief Risk Officer*

**Katie A. Lorenson**  
*President, CEO & Director*

## ANALYSTS

**Damon Paul DeMonte**  
*Keefe, Bruyette, & Woods, Inc.,  
Research Division*

**Eric Spector**

**Jeffrey Allen Rulis**  
*D.A. Davidson & Co., Research Division*

**Nathan James Race**  
*Piper Sandler & Co., Research Division*

# Presentation

## Operator

Good morning, and welcome to the Alerus Financial Corporation Earnings Conference Call. [Operator Instructions] This call may include forward-looking statements and the company's actual results may differ materially from those indicated in any forward-looking statements. Important factors that could cause actual results to differ materially from those indicated in the forward-looking statements are listed in the earnings release and the company's SEC filings. I would now like to turn the conference over to Alerus Financial Corporation President and CEO, Katie Lorenson. Please go ahead.

## **Katie A. Lorenson** *President, CEO & Director*

Good morning. Thank you, Bethany, and thank you to our investors and our analysts joining our call today. We appreciate your time and interest in Alerus. I know we always have good engagement by our employees listening in, and I want to take this opportunity to thank them for their dedication and their client outreach efforts throughout March following the bank failures. The efforts of our team across the company are instrumental in retaining and acquiring our holistic client relationships. This morning, I will provide some commentary on Alerus' strategic positioning in the current environment, along with some comments on the first quarter. Alerus' CFO, Al Villalon will discuss our financial performance and results for the quarter. Afterwards, Karin Taylor, our Chief Risk Officer; and James Collins, our Chief Banking Office and Revenue Officer; and Barret Lahm, our Treasurer, will join us to answer any questions you may have about the quarter.

Let me begin first by highlighting Aleris' strong balance sheet and liquidity in light of the recent market events. As I will describe in more detail, our capital remains strong. Our diverse and relationship-oriented deposit base grew 4% over the quarter. Our sources of liquidity more than cover our uninsured and not lateralized deposits and our asset quality remains sound. Despite the industry-wide challenging conditions, Alerus is strategically positioned to navigate the current operating environment. Alerus is one of the most uniquely diversified financial institutions in the country with over 50% of revenue derived fee income, of which a vast majority of this revenue is recurring and annuitized in nature with little to no capital allocation. The value of these businesses is significant, especially in the face of rapidly changing interest rate environment. Diversification goes beyond the business model and revenue mix is a fundamental tenet of our long-term strategies of this company. Alerus is well diversified within its client base in both the deposit and the loan portfolio.

I'll start first with the deposit portfolio, which is 98% core positive relationships. -- most with long-tenured relationships with the company. Insured deposits totaled 74% of total deposits. And although we saw migration from noninterest-bearing to interest-bearing, our overall noninterest-bearing balances of 26% remains above peer averages. Overall, our liquidity position remains robust, primarily driven by our highly granular deposit portfolio built to relationships. While we naturally have some large balances, most are part of relationships with integrated treasury management solutions and services. Our fee income businesses not only contribute to our relationship-focused differentiated business model, but they also are leveraged to provide significant synergies, both notably over \$750 million or 25% of our deposit portfolio is sourced through our fee income businesses, which helps mitigate funding pressure created by intense deposit competition. These deposits include low-cost HSA deposits in addition to retirement and wealth management money markets, which carried index market rates but minimal acquisition or servicing costs.

Growing our core deposit franchise has been a consistent and constant focus for this company and a key component of our one-area strategy and initiatives. This is evidenced by 68% of our lending relationships having a multiproduct relationship with the bank and highlighted by our current loan-to-deposit ratio of 82%, consistent with our long-term average of 78%. The company's loan portfolio is also well diversified by type, by industry and by market. Our nonowner-occupied office exposure is 2.9% of total loans. Alerus has a strong history of outperforming peers during economic downturns with a long-term historical net charge-off ratio of less than 30 basis points. This quarter's net charge-off ratio was 3 basis points. Reserve levels remained robust at 1.41% of allowance for credit losses to total loans. Our credit and risk management teams have completed a review of our office portfolio and conducted bottom-up stress testing on our commercial real estate portfolio.

Our diversification strategy has also anchored the company in stable legacy markets while expanding to larger growth markets in unison and Arizona. We will continue to be selective in our growth opportunities and add quality clients, relationships and credits to our company while supporting our current clients through the cycle. Adding to the company's solid balance sheet pristine credit quality and ample liquidity are strong capital levels with CDT of 13.3% and TCE levels around 7%, even when including unrealized losses on the HTM portfolio.

While near-term margin pressure remains a headwind to earnings, we continue to execute on initiatives to fundamentally improve the profitability of this organization. We have added dedicated and experienced talent to the treasury role. And while we are continually evaluating opportunities to reposition the balance sheet, we are also strategically focused on transformational opportunities that return to our 10-year historical performance levels of a greater than 1.25% ROA and a greater than 12% ROE. This transformation is focused on improving the long-term core organic growth of the organization, including enhancing synergistic opportunities across the [ niselines ], while consistently generating positive operating leverage.

In January, we have structured our banking division and organized our team members to serve clients in our Dedicated segment, improving our speed to market and the client experience. During the quarter, we added team members focused on mid-market commercial banking and treasury management. We recently completed an additional rightsizing as revenue headwinds persist. As a result of these moves, expenses have remained well managed despite inflationary pressures. We will continue to see opportunities to improve our efficiency while attracting highly experienced and reputable revenue-producing talent to the company. While we have work to do and the battle in the near-term pressure on margins, we continue to build tailwinds in client acquisition and synergistic expansion on our wealth management and retirement platform. The long-term value embedded in these discussions is substantial and a substantial differentiator in the community bank space from a client and a talent acquisition standpoint as well as for delivering top-tier shareholder returns. These capital-light businesses will continue to contribute to Alerus' long history of historical cash dividend payout, currently yielding over 4.5% and 1/3 greater facility on the economic price potential share repurchases. With that, I will turn it over to AI for financial commentary on the quarter.

**Alan A. Villalon**  
Executive VP & CFO

Thanks, Katie. I'll start my commentary on Page 11 of our investor deck that is posted in the Investor Relations part of our website. Given all the market uncertainty, this highly shows how strong and stable Alerus is. We have a high-quality deposit base, superior liquidity, strong capital and conservative credit. I'll go into further details about each of these strengths later in the slide deck. Let's go to Page 15 now. First, for the quarter -- for the first quarter of 2023, reported average loans increased 4.1% on a linked-quarter basis. The increase in core average loans was driven by growth across most commercial and consumer loan categories. Average deposits declined 1% on a linked quarter basis. Average balances were impacted as clients continue to put liquidity to work early in the quarter, but we did see meaningful core deposit growth in the latter half of the quarter, which I will discuss later. Turning to Page 16.

Credit continues to remain very strong. We had net charge-offs of 3 basis points in the first quarter. Our nonperforming assets was 5 basis points compared to 10 basis points in the prior quarter. Our allowance for credit losses on loans to total loans is 1.41%, which is a 14 basis point increase from the prior quarter as we transition to CECL. In addition, we have a fair value mark of \$6.9 million on the Metro Phoenix acquired loans. We incurred a day 1 adjustment in the allowance for credit losses of \$5.9 million and an after-tax adjustment to retained earnings of \$4.5 million. \$4 million of the adjustment was related to loans, while \$1.9 million was related to unfunded commitments. On Page 17, we saw our cost deposits fund with our cost of funds increased to 1.71% for the first quarter of 2023. Despite the highly competitive environment for deposits, our interest-bearing beta was 36% at this point in the cycle. On a period-ending basis, our deposits grew 4% from the prior quarter. We saw very solid client retention and deposit inflows from our core commercial and consumer deposit base and from new clients as we continue to expand our presence in existing markets. We continue to not have any broker deposits.

As you'll see on the right-hand side of the slide, our deposit base is well diversified. The strength in our unique and differentiated business model shined in the quarter as synergistic deposits grew 9.6% from the prior quarter to \$758 million. Synergies in deposits sourced from our retirement and most businesses now account for 25% of our deposit base. On Page 18, you'll see further detail of our core deposit franchise. Noninterest-bearing deposits currently account for 29.5% of total deposits. As you'll see on the top right-hand chart, Aleris has typically operated with a higher percentage of noninterest-bearing deposits relative in the banking industry. On the bottom left part of the slide, you'll see that uninsured and not collateralized deposits account for only 25.1% of total deposits or approximately \$800 million. We hold up about \$800 million of on-balance sheet liquidity, which can cover all of the uninsured and not collateralized deposits. In addition to in addition to our on-balance sheet liquidity, we have another \$1.4 billion of balance sheet liquidity. This brings our total liquidity to \$2.2 billion.

Our total liquidity to uninsured and uncollateralized deposits is 286%. We have substantial liquidity, as you can see, to cover those uninsured and not Polaris deposits. As we look forward to the second quarter, we do expect our usual seal outflow from our public loans, but for the remainder of the year, we continue to expect deposit balances to be stable or show modest growth. Turning to Page 19. Our capital base remains very strong as our common equity Tier 1 ratio is at 13.6%. In comparison, our common equity Tier 1 ratio is 550 basis points higher than 8%, the median for the largest financial institutions subjected to the [ Safran ] stress test. Our current tangible equity to tangible asset ratio is 7.6%. While only 31% of our securities are held to maturity, if we mark these

securities to mark to market, our tangible equity ratio would still be around 7%. And -- on the bottom right, you'll see the breakdown in the sources of our \$2.2 billion in potential liquidity.

Overall, we continue to remain all position from both a liquidity and a capital standpoint to weather economic uncertainty. We currently have 770,000 share repurchase authorization in place. We will refer to stock when market uncertainty subsides. Page 20 shows some key revenue metrics. On a reported basis, net interest income declined 12.3% on a linked quarter basis. The decline was driven primarily by continued increase in funding costs. Noninterest income declined 1% on a linked quarter basis, mainly due to continued headwinds in mortgage. I will go into detail about our fee income segments in later slides. Our fee income was 51.6% of total revenues. Our fee -- our high fee income mix is a big differentiator, especially as over 90% of the income is recurring and annuitized in nature. Our strength continues to be provided a politic financial solutions to our clients. Turning to Page 21.

Net interest margin was 2.7% in the first quarter, a decrease of 39 basis points from the prior quarter. a 29 basis point increase in our earning asset yields was offset with a 7 point increase in our interest-bearing liabilities. Based on the latest beds, we continue to expect our net interest margin to compress at a more modest pace in the second quarter. Earning asset yields will continue to improve with next shift and loan repricing where our cost of funds is stabilizing. Turning to Page 22, over \$1 billion or almost 41% of our loans are floating, as you can see at the top left of the slide. As you see, almost over variable loans are above their stated floors or have no floors. For 2023, we continue to expect modest loan growth.

Turning to Page 23, you'll see details about our investment portfolio. Currently, 69% of our securities are available for sale versus 31% in health maturity. Within the health and maturity portfolio, 42% are in municipal securities, while the rest are in [ MBS ] as we restructure and transform our banking division, we are strategically focused on growing commercial relationships, which will add higher yielding and barbaric loans with deposit and treasury management relationships. We'll continue to lift investment oil rundown from approximately 28% of earning assets to a long-term target of 15% to 20% of total earning assets.

Today, our investment portfolio has an effective duration slightly over 5 years. As we right size our investment portfolio, we plan to maintain the duration of around 3 years. On Page 24, I'll provide some highlights on our retirement business. And for assets under management increased 4% due to higher domestic bonded equity markets in the first quarter and continued client wins. Revenues declined on a linked quarter basis, mainly due to lower average assets during the quarter and transaction fees are seasonally higher in the fourth quarter. Our retired business accounts for almost 70% of our synergistic deposits. For the second quarter, excluding any market impact, we expect fee income from our turn business to be up slightly.

Turning to Page 25, you can see highlights of our Wealth Management business. Revenues increased 1% while end of quarter assets under management increased 2.6%. We continue to see strong client acquisition in our geographical markets and retirement rollovers in our national and established markets as we execute on our one-letter strategy. We continue to retain deposit dollars with our synergistic wealth money market offering, which represents 30% of our synergistic deposits. For the second quarter, excluding any market impact, we expect fee income from our wealth business to be up slightly. Turning to Page 26, I will talk about our mortgage business. Mortgage revenues declined \$454,000 from the prior quarter due to lower originations as the macro and local environment remain challenged. Mortgage originations decreased approximately 38% from the prior quarter as the first quarter is typically slow.

Inventory of homes available for sales continue to remain at a very low 1.5 month supply versus a typical level of 3 to 4 months in the 20 cities. We do expect a pickup in the mortgage business in the second quarter. However, the increase in volume may be more muted than the NDA forecast of a 36% increase in the purchase volume due to low supply homes for sale in the 20 cities. Page 27 provides an over or noninterest expense. During the quarter, noninterest expense decreased 30 basis points from the prior quarter, which was in line with original expectations of expenses being stable. Compensation expense increased due to seasonality, but also due to a onetime expense of \$900,000 related to talent acquisition and severance expense. Despite inflationary pressures, we do expect expenses to be down low single digits for 2020 on a year-over-year basis. We continue to be focused on improving our profitability by reducing expenses, increasing capacity throughout our organization. We recently made continued progress on rightsizing our expense infrastructure through numerous initiatives. Some of these expense saves will be reinvested in efficiency improvements and revenue production initiatives.

To summarize on Page 28, we remain well presented from both a liquidity and capital standpoint. We have ample liquidity and weather economic volatility and capital ratios remain very solid, even if you factor in the unrealized losses from our held to maturity investments as our tangible common equity ratio will be around 7%. Credit remains strong. Lastly, we continue to see growth in our core existing deposit base and with new customers as people value the holistic approach of our professional and business value provides. With that, I will now open it up for Q&A.

# Question and Answer

## Operator

We will now begin the question-and-answer session -- [Operator Instructions] At this time, we will pause momentarily to assemble our roster. Our first question comes from the line of Jeff Rulis with DA Davidson.

### Jeffrey Allen Rulis

*D.A. Davidson & Co., Research Division*

I wanted to check in on the margin, all continue to recall your [ coiled ] spring commentary. Just I guess, first question would be, do you have a March net interest margin average? And then I guess, as we look at 2Q, I think you talked about some compression, but the balance of the year and timing in terms of the sensitivity, just update from what you left us now in the prior quarter.

### Alan A. Villalon

*Executive VP & CFO*

Thanks for the question, Jeff. So, for end of March, our net interest margin was around 2.5%. And -- going for the second quarter, we do think there will be a little bit of compression from there. But I'd say that the worst is behind us. We're probably thinking that with our 60% of our deposits being indexed with the last Fed price hike of about 25 basis points. That will price our money market index deposits in July. And then from their own for our asset share price higher. So, the[ coil ] spring is in effect still.

### Jeffrey Allen Rulis

*D.A. Davidson & Co., Research Division*

Okay. Appreciate it. And then more of the housekeeping, pretty good detail on the expenses and fee income. I guess in the let's see, the fee income side, there was that [ BOLI ] benefit. What is that about \$1 million in the quarter? And I guess, could we effectively back that out going forward?

### Alan A. Villalon

*Executive VP & CFO*

Yes. Just impact that outlook... Yes. It was about \$1 million with give or take. Yes, \$1.2 million.

### Jeffrey Allen Rulis

*D.A. Davidson & Co., Research Division*

Okay. Got it. And then last one, maybe, Katie, just looking at the credit statistics, I mean, they're phenomenal. And I know this is work you've done years prior in terms of addressing some choppy credit figures and now certainly in a great spot, and you talked about your exposures going forward. Just wanted to check back in on credit, and I know that we're all sort of guided for maybe tougher economic times, but your thoughts on credit overall from your perspective, how you're positioned.

### Karin M. Taylor

*Executive VP & Chief Risk Officer*

Jeff, this is Karin. I'll take that question. We've obviously benefited as the rest of the industry has over the last couple of years and had historically low asset quality issues. We expect -- we continue to expect that credit will normalize over time, and then we'll return to more historical metrics. That said, with the work that we've done on our portfolio, we believe we're really well positioned to withstand the downturn.

### Katie A. Lorenson

*President, CEO & Director*

And I would add -- thank you, Karin. I would add from a talent standpoint and from the risk management and the credit in infrastructure standpoint. That's what we've been working on for the past 4 years is building that team to take the organic growth and [Indiscernible] market on the lending side and the credit side. So, I believe in all facets, we are well positioned to do so with the right clients. And

### Jeffrey Allen Rulis

*D.A. Davidson & Co., Research Division*

I guess on a related front, then, Katie, you heard your comments about maybe guarded on a buyback or on hold, but capital priorities and thoughts on the income acquisition or anything else, should we also consider that things are on hold for right now? Or what is the update there?

**Katie A. Lorenson**  
*President, CEO & Director*

Sure. We are clearly in a very strong capital position. We have a long history of paying a strong dividend. So that is also a priority for us. When it comes to buybacks, the environment is uncertain right now, but we will absolutely move forward if the financial metrics make sense. We do see continued opportunities on the commercial banking side in terms of taking market share, again, growing with the right companies and the right people even in this environment. On the acquisition side, in the retirement space, we're actually seeing more opportunities, and we're seeing less competition as some of the PE firms on their cost of capital has increased significantly. So still very active in that space, but remaining very disciplined in our pricing.

**Operator**

Our next question comes from the line of Eric Spector with Raymond James.

**Eric Spector**

This is Eric, on the line for David Feaster. You guys talked about it a little bit in the prepared remarks, but it was nice to see the team higher in the quarter. I'm just curious how you think about hiring near term. Obviously, expense controls and focus is now a time to be greedy and maybe pick off some talent. Just curious if you have any thoughts on the hiring front and maybe what you think is attractive folks to Alerus.

**James R. Collins**  
*Executive VP and Chief Banking & Revenue Officer*

Eric, James Collins. I'll take that one. This is definitely the time that we're going to continue to look for more talent. As we see banks that tend to have to buy brokered CDs and tend to have to reduce their accrued compensation. That gives us the opportunity to go after talent in the marketplace. So as talent gets nervous and we're well positioned, we're definitely in all of our markets going after top-tier talent.

**Eric Spector**

Okay. And what do you think is attracting folks to Alerus, -- what's your guys' competitive advantage -- do you have any thoughts on that in...

**James R. Collins**  
*Executive VP and Chief Banking & Revenue Officer*

Yes. Certainly, our markets, we are in fantastic markets. The infrastructure that's been built in this organization in the past 5 years puts us in a great position with the balance sheet. We already have great employee base now, and we're poised for a lot of growth. So being in a situation to accelerate that growth by just adding talent, I think, is what's encouraging most people to talk to us. Obviously, our values and our culture is fantastic on the reasons I came here. But really, it's the fact that we're poised to really grow this organization in a very thoughtful and profitable way. That's what energizes top producers, and that's why they're interested in markets...

**Eric Spector**

Got it. I appreciate the color. And then just kind of going off that, just curious if you have any thoughts on the loan growth side of things and where you're seeing strong risk-adjusted returns and how new loan yields are trending so far this quarter? Just kind of general color on your loan growth outlook going forward?

**James R. Collins**  
*Executive VP and Chief Banking & Revenue Officer*

Certainly, the pipelines are a little soft for everybody. But as I said earlier, I mean, this is our opportunity to take talent and market share from other banks. We're pricing 63.4% to 7.5%. That's kind of the market right now in most of our markets. But again, I think with where we're positioned and as we pick off talent, we'll have good loan growth to our budget. Certainly won't be gutting for double-digit loan growth in this economic times, but we certainly will build a team that will perform that in later years.

**Eric Spector**

Got it. Congrats on a good quarter. Step back...

**Operator**

Thank you. Our next question comes from the line of Nathan Race with Piper Sandler.

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Maybe balance sheet dynamics. It sounds like you guys have a pretty strong pipeline of deposit gathering across both the energy deposit platform and also kind of info within the win. I'm just curious, with the pretty solid deposit growth dollars, particularly relative to peers. Is there an opportunity to win the wholesale borrowings that are added to the balance sheet over the back half of last year?

**Alan A. Villalon**

*Executive VP & CFO*

So, Nate, in terms of the borrowings, I mean, we are trying to work those down right now because we're borrowing at [ FHLB ] overnight. So, we're trying to -- with some of the core deposit that we're seeing, we'd like to pay those down, but also try to maintain some ample cash level just in case there's any liquidity needs in the short term.

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. Got it. And then just kind of think about the drivers for loan growth and just kind of the profitability of the loan growth that you guys have generated recently given the incrementally higher cost of funds look like a lot of the growth in the first quarter was commercial real estate driven. So just curious if there's going to be a mix of changes in terms of kind of the type of growth that you guys are willing to add to the portfolio going forward, just given kind of the incrementally higher cost of deposits in wholesale? -- in these days.

**James R. Collins**

*Executive VP and Chief Banking & Revenue Officer*

I will tell you, our major focus is mid-market, lower mid-market C&I. So, we're aggressively hiring and going after in that niche. So, more lines of credit, equipment term debt. That's really where we see our focus. And hopefully, that will yield some of that growth later on this year and going forward, but that's certainly our focus. There will still be some CRE growth for sure. We have a great team and we're great markets, and we have the opportunity of seeing some of the nicest deals in the markets. So, we will have continued CRE growth. But again, the focus will be mid-market C&I..

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. Great. And Jim, just how does that C&I pipeline back up coming out of the first quarter? I know a lot of these team additions were pretty recent, but just kind of any thoughts on just kind of overall C&I growth expectations over the course of this year and just how we should generally be thinking about the overall rate of loan growth for 3Q and 4Q?

**James R. Collins**

*Executive VP and Chief Banking & Revenue Officer*

Sure. Obviously, we just went to line of business just under 3 months ago and then added some solid mid-market players right in that same time frame. C&I is a little bit longer life cycle to recruit into a banking organization. So -- and we will continue to add talent in that space. So those pipelines will generally start growing. But again, you have some issues with obviously rates with non-solicitations that Nolan will break and just overall time to engage with those customers. But certainly, we will generally see that trend getting -- the pipeline getting heavier as the year flows and then end of 2024.

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. Great. And if I could just add, just in terms of some of the success you guys have had in terms of going over some of your retirement clients on to the wealth platform. I know this is more of a longer story component to the Alere story, but has there been any recent changes in terms of the capture rate in terms of onboarding clients retro the retirement platform into wealth more recently.

**Katie A. Lorenson**

*President, CEO & Director*

Nate, I'll take that one. This is Katie. I would say the business has been pretty consistent. Again, our focus on any approach to a client is what's best for them and what aligns with their goals on how can we help them be more successful with those goals. And so, it is an opportunity at times with clients. But at other times, they may want to move in for instance, to transition to the money markets like we saw in this quarter. So consistent outreach, great engagement with the client base. And then the results are in various components of the company's divisions...

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. Got it. And just another question just going back to deposits. Obviously, noninterest bearing was down in the quarter, and it's come down from around 30% deposits close to 20% over the last year. So, any thoughts on just if we're nearing a trough there looking clients move into higher cost products, perhaps products, I should say, and perhaps kind of what inning are we in, in terms of some additional attrition and just the proportion of that deposit bucket...

**Barret Lahm**

This is Barret. I can take this one. We did see noninterest-bearing deposits decrease from under 30% to 26% in the quarter. We do, as I believe we have in the investor presentation, we remain at a high level with an industry. So, I think if you look at maybe what the risk is, I think that puts it into context. But I think we expect to say about the industry.

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. And if I could just ask one more on just kind of the reserve trajectory and just maybe for Karin. I don't think the criticized classified trends were disclosed in the slide deck. So perhaps any update there and just kind of how you think about the reserve or ACL trajectory, I should say, from here?

**Karin M. Taylor**

*Executive VP & Chief Risk Officer*

Yes. The criticized classified combined remained about the same quarter-over-quarter. In terms of the trajectory of the reserve, it's really going to depend on loan growth and the economic forecast that we're using within the methodology.

**Nathan James Race**

*Piper Sandler & Co., Research Division*

Okay. Great. you guys taking all the questions colored.

**Operator**

Our next question comes from the line of Damon DelMonte with KBW.

**Damon Paul DelMonte**

*Keefe, Bruyette, & Woods, Inc., Research Division*

I wanted to just start off with expenses. Alex, if you exclude the severance and the talent acquisition cost, I think that puts operating expenses somewhere around \$37 million. Can you just talk a little bit about your outlook over the coming quarters? Or is there some opportunities to maybe reduce some of the expense base? Or kind of how do you see that playing out?

**Alan A. Villalon**

*Executive VP & CFO*

Yes, Damon, we're still looking at niches we just had enacted some here in the past month. There's definitely more work to chop there when it comes to expenses, but there's going to be a little like volatility from quarter-to-quarter, but we do expect it to be down overall single digits for the year.

**Damon Paul DelMonte**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. All right. And going off from last year's like what 158 159.

**Alan A. Villalon**  
*Executive VP & CFO*

Yes. Yes, correct. That is starting point.

**Damon Paul DelMonte**  
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. That's helpful. And with respect to the margin, I apologize if I missed this in the release, but what was the accretable yield included in the margin this quarter?

**Alan A. Villalon**  
*Executive VP & CFO*

Yes. There was about 2 basis points from Metro. 2 basis points.

**Damon Paul DelMonte**  
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And is that something we should model going forward? I know it's kind of tough to do, but is that how you schedule looks like?

**Alan A. Villalon**  
*Executive VP & CFO*

Yes, I would say that's about right.

**Damon Paul DelMonte**  
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. Great. And then you kind of touched on this with the loan growth outlook. You said it appears that will be kind of modest growth from this point forward. So, it should we kind of factor in kind of low single digits on a quarterly basis after this quarter's stronger start?

**Alan A. Villalon**  
*Executive VP & CFO*

Yes, I'd say low to is fine as a comment on modest.

**Damon Paul DelMonte**  
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. All right. Great. That's all that I had everything else we asked and answered. Thanks a lot.

**Alan A. Villalon**  
*Executive VP & CFO*

Thanks, David.

**Operator**

Thank you -- this concludes our question-and-answer session. I would like to turn the conference back over to Katie Lorenson for any closing remarks.

**Katie A. Lorenson**  
*President, CEO & Director*

Thank you, and thank you, everyone, listening in and for the questions. I'll close with Alerus is a resilient company with a fundamentally differentiated business model and a strong foundation. We will continue to take a long-term view and will be protective of credit, capital and our culture as we consider growth and work with urgency to continue to implement efficiency enhancing opportunities. We thank you, our shareholders and our clients for the trust that you put in us and our team members for your constant efforts in taking a letter to heights. Thank you, and have a good day, everyone.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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