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Earnings Call

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Call Participants

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Jim R. Collins

Executive VP and Chief Banking & Revenue Officer

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Damon Paul DelMonte

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David Joseph Long

Raymond James & Associates, Inc., Research Division

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Nathan James Race

Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, afternoon and evening, and welcome to the Alerus Financial Corporation Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

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's President and CEO, Katie Lorenson, to begin. Please go ahead.

Katie A. Lorenson

President, CEO & Director

Thank you. Good morning, everyone, and thank you for joining us today to discuss Alerus Financial Corporation's Fourth Quarter and Full Year 2024 Financial Results. I'm Katie Lorenson, President and CEO, and I'm pleased to be here with our Chief Financial Officer, Al Villalon; our Chief Operating Officer, Karin Taylor; our Chief Banking and Revenue Officer, Jim Collins; and our Chief Retirement Services Officer, Forrest Wilson. Each of these leaders continues to play a crucial role in driving our company's progress to transformational growth and top-tier performance. Before we dive into the details, I want to express my heartfelt gratitude to our dedicated employees, our loyal clients and the shareholders and supportive communities we serve. Your trust and confidence in Alerus have been instrumental in our historical success, and we are deeply appreciative of your continued support. Now let's get into the highlights of our performance.

We ended 2024 on a strong note with performance improving, including an adjusted return on tangible equity eclipsing 14%. This quarter marked meaningful and deliberate progress in our journey back to top-tier profitability. The clear highlight for the quarter was the successful closing and conversion of our acquisition of Home Federal and our launch into the vibrant Rochester and Southern Minnesota markets. This acquisition is the largest in our company's history, pushed our total assets to over \$5 billion and increased our client base by nearly 50%. In addition, we are on track with our projected cost savings and deal expenses were 5% less than our original estimates.

When we announced this transaction last year, we expected the combination to help drive top quartile performance metrics, and we fully anticipate this to be the case. I'm pleased to share with all of you within the more than 30% reported growth of loans and deposits, we continue to see robust organic growth in all Alerus markets on both sides of our balance sheet. I'm beyond proud of the talented team members we have attracted and retained at Alerus. Our continued success in gaining market share and adding new clients throughout our footprint and in our various verticals, including C&I, government not-for-profit, equipment leasing have been transformational. Even with this organic growth and our continued focus on being highly selective and allocating our capital and dry powder to franchise accretive holistic relationships, the pipelines moving into 2025 remain robust.

We are disciplined and vigilant in our proactive monitoring and identification of credit as trends are normalizing. This involves closely tracking loan performance and making adjustments as needed to mitigate risk. Meanwhile, we continue to build reserves with balances increasing to 1.5% at the end of the year.

Our net interest income saw a substantial increase of nearly 70%, and our net interest margin improved by 97 basis points to 3.2%. Al will get into specifics and all the moving parts, but I wanted to commend the team for their concerted efforts to improve pricing disciplines. Noninterest income, which represents nearly half of our total revenues, grew by almost 20% quarter-over-quarter supported by improvements across all fee-based businesses and gains on sale of offices as we constantly look to invest and optimize

our branch footprint. It is important to note, our core fee income grew 10% on a year-over-year basis across all business lines and is our ultimate differentiator.

In our retirement business, we saw core year-over-year growth in revenue of 6% with another record level of new planned sales in 2024. Our talented team continues to execute on several key strategic initiatives to grow our business our core revenues and making meaningful operational improvements. We remain especially bullish on this business given the tailwinds coming with SECURE Act 2.0, which aims to increase the number of businesses offering retirement plans and has provisions to support higher participation in those plans, in addition to growing opportunities for M&A.

Aside from the top line revenue growth, the value of the retirement business is multifaceted due to the stability and the durability it brings to our company in addition to the synergies we leverage in deposits and the capture of wealth business. In our wealth business, we saw year-over-year growth of 19% in revenues. We are focused on growing our wealth business with a long-term goal to have our AUM match the asset side of our bank. We intend to continue to add to our deep bench of talented producers as well as reinvest in systems, automation and process improvement. Our focus is on improving the client experience in addition to creating more capacity for our talented team members to keep growing the clients.

Although it was a noisy quarter from an expense management perspective, we achieved a notable improvement in our adjusted efficiency ratio, which decreased to 68.97% from 77.71% in the third quarter. Process improvement, automation and continued progress to higher profitability through prudent expense management remains key priorities into 2025 and beyond. Capital levels decreased as expected during the quarter due to the acquisition and organic growth. The acquisition is highly accretive to earnings, and we expect to continue to build back capital levels with our superior business mix delivering superior returns. As we look to capital allocation, we will continue to prioritize franchise building organic growth, in addition to maintaining a long dividend history.

Thank you, and I'll now turn it over to AI for a more detailed review of our financial results.

Alan A. Villalon
Executive VP & CFO

Thanks, Katie. I'll start my commentary on Page 11 of our investor deck that's posted in the Investor Relations part of our website.

Let's start on key revenue drivers. On a reported basis, net interest income increased 69.8% over the prior quarter while fee income grew 19.4%. The increase in both was primarily driven by the acquisition of Home Federal. Fee income represented almost 47% of revenues during the quarter. Let's dive into the drivers of net interest income on the next slide. Turning to Page 12, in the fourth quarter, net interest income increased to \$38.3 million, and our reported net interest margin increased 97 basis points to 3.2%. As you can see on the bottom left, our adjusted net interest margin was 2.81% or a 46 basis point improvement over the last quarter. Our net interest margin improved mainly due to acquisition of Home Federal, organic balance sheet growth and repricing of both loans and the deposits. We saw a 54 basis point improvement in our cost of funds, mainly due to the Home Federal acquisition as our cost of funds dropped from 3.07% to 2.53%.

Of the 100 basis point decline in the Fed's funds so far, we have seen our deposit beta around 30%. We anticipate our deposit beta to be around 45% once all Fed cuts have been fully priced in. Total earning asset yield increased 48 basis points to 5.6%, again, due to the acquisition of Home Federal and remixing of the investment portfolio.

Let's turn to Page 13 to talk about our earning assets. Total loans grew 31.7% over the prior quarter, mainly due to the acquisition of Home Federal. Outside of the acquisition, Alerus still saw organic loan growth of \$157 million or over 5% from the prior quarter.

Turning to Page 14. On a period ending basis, our deposits also increased 31.7% from the prior quarter. Excluding the acquisition of Home Federal, Alerus still saw organic deposit growth of \$93 million or almost

3% from the prior quarter. Given the increase in deposits, our loan-to-deposit ratio remained steady at 91.2% and still below our target level of 95%.

Turning to Page 15. I will now talk about our banking segment, which also includes our mortgage business. I'll focus on the fee income components now since net interest income was previously discussed. Overall, noninterest income for banking was up \$4.8 million or over 87% from the prior quarter. Most of the increase was from a \$3.5 million gain recognized in the sale of one of our offices in the Fargo market. Excluding gains on properties from both quarters, noninterest income was up over 37%. In the fourth quarter, there was \$1 million of fee income related to client swaps. As a reminder, these swap fees tend to be lumpy from quarter-to-quarter based on client appetite.

On Page 16, I'll provide some highlights on our Retirement business. Total revenue of the business increased 2.1%, mainly due to nonmarket-based fees from our HSA business. While assets under management decreased 1.3%, mainly due to market performance, we did see organic net inflows of over \$37 million. We continue to see steady organic growth in plan participants as well. Participants within retirement grew 1.6% during the quarter. New business production continues to be strong as over 500 opportunities were won this year. Synergistic deposits within retirement grew 6.6% over the prior quarter. HSA deposits, which carry a low cost of funds around 10 basis points, grew 2.2% over the previous quarter.

Turning to Page 17, you can see highlights for our wealth management business. On a linked quarter basis, revenues increased 4.9%, while end-of-quarter assets under management increased 4.1%, mainly due to the acquisition of Home Federal. Synergistic deposits here grew over 3.7% from the previous quarter.

Page 18 provides an overview of our noninterest expense. During the quarter, noninterest expense increased 32% over the quarter -- over the previous quarter, mainly due to the acquisition of Home Federal. Within the quarter, we had \$3.3 million of merger-related expenses and \$2.3 million in severance and signing bonus expenses. Excluding these onetime expenses, our adjusted efficiency ratio was 68.97% versus 77.71% in the prior quarter.

Turning to Page 19, you can see our credit metrics. During the quarter, net charge-offs were 13 basis points. Nonperforming assets increased to \$62.9 million, mainly due to One construction land and development deal. As a percentage of total assets NPAs increased from 1.18% in the prior quarter to 1.19%. Our allowance from credit losses is now at 1.5% of total loans. Within the allowance, we have over \$6.9 million related to non-PCD loans acquired in the Home Federal deal, although it's known as the CECL double count.

I'll discuss our capital and liquidity on Page 20. We continue to remain well capitalized as our Tier 1 equity capital to risk-weighted assets is at 10%, while our tangible common equity ratio is at 7.15%. On the bottom right, you'll see a breakdown in the sources of \$2.9 billion in potential liquidity. Overall, we continue to remain well positioned from both a liquidity and capital standpoint to support future growth or weather any economic uncertainty.

Turning to Page 21 now. I'll provide some guidance. On this slide, you will see the 2024 starting points used for guidance given for 2025. So we expect the following, first, loan growth of low to mid-single digits is based on a bigger combined balance sheet at the end of 2024. Deposit growth of low single digits. Our net interest margin greater than 3% for 2025 with no further rate cuts by the Fed being factored in.

Within the reported margin, we also expect 30 to 35 basis points of purchase accounting accretion each quarter. We will start the year closer to 3%. If the improvement in our margin was linear, which it won't be due to timing of projected balance sheet growth and the timing of purchase account accretion, you would see a 3 to 4 basis point improvement each quarter in the margin. Reminder that in the second and third quarters of each year, we typically see seasonal flows from our public funds, which will affect the margin.

Next, with no market appreciation being factored in or revenue synergies from the Home Federal deal, we continue to expect our fee income to remain stable year-over-year on a reported basis that you see here. Reminder that our reported fee income of \$114.9 million had gains from properties sold and fee income

from client swaps. So on an adjusted basis, excluding both property gains and swaps, our core fee income would be up mid-single digits.

Lastly, we expect our adjusted efficiency ratio for onetime items to be below 70% for 2025 as we continue to realize cost saves from Home Federal. There will be some volatility from quarter-to-quarter due to the timing of expected cost saves and seasonality of some expenses.

To summarize on Page 22, excluding the largest merger in company history, we continue to see both strong organic loan and strong deposit growth in the quarter. For fourth quarter, our adjusted pre-provision net revenue grew nearly 90% over the prior quarter. For the full year, we saw our adjusted PPNR increased almost 25% compared to 2023. While we are a little over 3 months since the official completion of the merger, we continue to see a strong momentum in our new markets. Beyond growth, as Katie mentioned, process improvement, automation and continued improvement of profitability through prudent expense management remains key priorities heading into 2025 and beyond.

With that, I will now open up for Q&A.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Nathan Race with Piper Sandler.

Nathan James Race

Piper Sandler & Co., Research Division

I appreciate all the commentary around kind of the reported margin outlook and just kind of the impact from accretion going forward. But if we take kind of the 2.81% core margin, coming out of the fourth quarter. Can you kind of just speak to some of the repricing benefits that you have on the right side of the balance sheet and kind of what that implies for kind of the trajectory of the core margin over the first half of 2025?

Alan A. Villalon

Executive VP & CFO

Yes. So Nate, our deposit beta right now is around 30%. So we have another, we think it's going to get to 45% sometime in the first half of this year. So there's still a little bit more room for that to move. So if you really think about it from a simple math terms, the 30% beta on 100 basis points, we had 30 basis points of improvement. So that's roughly \$9-plus million of improvement. So you can probably expect another \$4-plus million on the right side of the balance sheet to improve from there. And then on the left side of the balance sheet, we're thinking that we have some loans that are contractually going to be paying down during the course of the year, and we expect another 3 to 4 basis points of improvement each quarter there.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Got it. That's helpful. Maybe a question for Katie. Now that you have HMNF combined and you guys operate on a consolidated basis going forward. Just curious what you view are some of the challenges or major opportunities as you kind of continue to integrate that franchise across the -- going forward?

Katie A. Lorensen

President, CEO & Director

Sure. Thanks, Nate. Well, I would say our opportunities and our priorities are very much aligned in all markets, and that relates to a focus on continued organic growth, specifically full relationships, C&I, private banking, government not-for-profit business, all verticals that we've had good success in the markets that we're in and that we view we will have continued success as we enter into our new markets. We will also continue to invest in wealth management business, as I mentioned. Our goal there is to have our assets under management keep pace with our banking assets as well as some opportunities for expansion of our retirement business.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. That's really helpful. And maybe you could just kind of speak to capital management priorities for this year. Obviously, TCE took a step back with the addition of the acquisition. Well, just curious how you're thinking about managing capital and kind of where you'd like to see some of the capital ratios get back to by the end of 2025?

Katie A. Lorensen

President, CEO & Director

Yes. From a capital position standpoint, it's in line with where we expected it to be subsequent to closing the deal. The earnings accretion from the acquisition is strong. And so we expect to continue to build that back throughout the year. And then, of course, our capital-light annuitized business from wealth and

retirement will aid in a faster build back of capital than most. And so our priority is on organic growth, on our dividends, and we're always looking at opportunities to optimize our balance sheet and profitably grow our company. Regulatory, we're above our regulatory ratios. From a safety and soundness standpoint, obviously, that's very important. But we'll look to build back that TCE ratio over the course of 2025.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Great. And then if I could just sneak one more in for AI. Just curious if there's any more kind of balance sheet optimization initiatives that you guys are planning on undertaking as HMNF is integrated?

Alan A. Villalon

Executive VP & CFO

Yes. Thanks for that, Nate. We're always looking at opportunities out there to optimize our balance sheet. There's a lot of things we're looking at. Timing of that is still TBD right now because we're -- as we kind of go through this right now, we want to make sure there's very little disruption to our clients, especially if it comes -- especially we're in new markets and with new clients.

Operator

The next question comes from Brendan Nosal with Hovde Group.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

Maybe just to start off, I wonder if you could help us unpack the fee guide a little bit more. I mean if I look at core fees for the quarter, they were like \$30.4 million. I guess if you annualize that, that's like \$122 million but the outlook is calling for flat fees in the range of \$115 million versus the annualized \$122 million. Just help us understand why the kind of the quarterly run rate is going to step down about 6% from the core run rate in the fourth quarter and what those main drivers are?

Alan A. Villalon

Executive VP & CFO

Yes. So thanks for that, Brendan. If you really want to think about it in this way, that you have to take a step back and take out about at least \$3.5 million from the sale of our Fargo property, that's onetime in nature. That gain was recognized in our total fee income. And then we also had another -- we had swap fees totaling about \$1 million in that run rate. So we gave the full year run rate. We're looking at it as a calendar year basis, let's just call it, \$115 million for simple math purposes. I mean, if you take out probably anywhere to the tune of \$4 million to \$5 million from that number, that's kind of your starting point from a fee income basis because if you kind of look at swap income, and some income from our client-related swaps and also to property sales to be kind of lumpy and onetime in nature.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

Okay. All right. That's helpful color. Maybe moving on to the cost base. I guess, versus what I was looking for cost maybe came in a little bit heavier than I was expecting even after backing out the merger charges and the severance and signing bonuses. Can you just help us kind of pinpoint the run rate on the expense base as we turn the calendar here and how you expect it to progress across the year as cost savings when the deal come through?

Alan A. Villalon

Executive VP & CFO

Yes. As we think about cost saves, Brendan, I would think about that is probably going to be a little bit more front-end loaded than back-end loaded because as we just closed on the merger back on October 9, and we converted in December. So there's going to take time for a lot of the contracts and other things to

roll off, so that's going to be more in the front half of this year. So you'll get a cleaner number as the year progresses and probably more in the back half of the year.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

And then is there any kind of thoughts on the actual dollar run rate as we move through the year at this point?

Alan A. Villalon

Executive VP & CFO

No, because right now, a lot of it is going to -- the one thing that's a variable in there, too, because we have some moving parts especially when it comes to production. So as we have loan and deposit production coming in, that's going to create some volatility in there in terms of -- because our biggest comp -- our biggest line is going to be comp in terms of expenses. So there's going to be some volatility there based on production. So I would just say that if you're looking on a quarter-to-quarter basis is that it will probably be more a little bit lumpy in the first half than the back half.

But that's why I gave the guide, if you look at the full year run rate because if we're basing on the full year you've got that \$170-plus million that is for a full year run rate, and we're looking for low single-digit growth in there. So you can separate it out by quarter and then just say like, okay, a little front half will be a little more heavy than the back half. I apologize, growth rate was low double digits, sorry.

Operator

The next question comes from Jeff Rulis with D.A. Davidson.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Al, just to clarify that, you said the full year core '24 expenses were \$170 million and expect to grow those low double digit in '25?

Alan A. Villalon

Executive VP & CFO

Yes. Well, if you look at it in terms of efficiency ratio, that's from the simple math that I was doing. So that's how I get to less than 70%.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. Okay. If I were to circle back to the margin, kind of if we think about reported at 3.20% adjusted at 2.80% and the expectation for 3% or greater, is there -- do you anticipate a step back in accretion in the first quarter? Or another way to put that, what is the accretion amount in '25 expected?

Alan A. Villalon

Executive VP & CFO

Yes. So we're averaging -- what we're looking at is going to be on an average around just call it low 30s from an accretion standpoint. So 30 to 35 basis points is the range I've given and then probably a little higher in the front end of the year, and it's going to go to the lower end in the back half of the year.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Do you have a dollar figure, Al, on the accretion for the full year?

Alan A. Villalon

Executive VP & CFO

I can get to you that offline. Let me get that for you.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. And just again, thinking about that, I appreciate the basis point addition. You talked about the core, sounds like some tailwinds, so expectation is that continues to lift as you get positive impact. But maybe as you say, the second half accretion tails off a bit kind of on net, barring other changes looking like a fairly stable margin across the year as those puts and takes occur?

Alan A. Villalon

Executive VP & CFO

Yes. The way I would think about it is that we'd still see core margin improvement during the course of the year from where we start to end. But again, what I'm saying is that our margin will probably be lumpy here and there given the timing of deposit inflows. So as we start the year, we'll probably have a little bit lower margin as we end the year, it will be higher margin and then we'll have core margin improvement year-over-year. And to think about the total purchasing accounting accretion, I found the number here, we're thinking anywhere from around -- approximately around \$4 million a quarter.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Perfect. Okay. And then just housekeeping, you said the organic loan and deposit growth in the quarter, that was \$157 million and \$93 million, respectively.

Alan A. Villalon

Executive VP & CFO

Let me just double check here. That is correct. So, I have \$157 million for organic loan growth and \$93 million for organic deposit growth.

Operator

Our next question comes from Damon DelMonte with KBW.

Damon Paul DelMonte

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

Just to kind of follow up on the loan growth question there. So very strong. I think that you annualized that linked quarters, it's about 20%. And I think the guide going forward for this year is low to mid-single digits. So you guys have had numerous quarters in a row of very strong loan growth. So just kind of curious as to what leads to the guidance in that low to mid-single-digit range.

Jim R. Collins

Executive VP and Chief Banking & Revenue Officer

Thanks, Damon. I will tell you, we do have some -- the strategy that we've invoked the last couple of years we're continuing on bringing on talent that we did the last couple of years. We picked up some pretty good talent from Southern Minnesota, both in leadership and C&I talent. We will continue to focus on C&I and slow -- kind of slow down a little bit on investor CRE. But as the investor CRE slows down a little bit, we still have a lot of fundings of current loans and the commitments that will fund up on the CRE side. And the C&I side, we're really focused on that higher-end business banking and commercial, which comes with a lot of lines of credit, different levels of usage and full relationships.

So there's still a lot of work to do. The teams built pretty good pipelines. And even with some of the disruptions in a lot of our markets with other acquisitions, we'll be opportunistic with. But that really continues to be the focus, and that's where we're at from that standpoint.

Damon Paul DelMonte

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

Got it. Okay. Appreciate that. And then with regard to the credit trends this quarter, again, that was just driven by 1 or 2 credits. I may have missed that in the initial commentary.

Karin M. Taylor
Executive VP & COO

Yes. Damon, this is Karin. Yes, the increase in nonperforming was primarily driven by advances on that large multifamily construction project we've talked about in the past. And then, of course, there was that one deal that was over 90 days past due and accruing, that loan is now current.

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

Got it. Okay. And then just lastly, just to circle back on expenses, Al. So if I'm understanding this correctly, if you're putting core operating expenses for '24, around \$170 million. You're talking low double-digit growth when you layer in the impact from the transaction, understanding that the cost saves will come as the year progresses?

Alan A. Villalon
Executive VP & CFO

That's correct. And I'm looking at core expenses somewhere in like mid-\$170s million, like \$175 million, \$176 million is where my starting point is.

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

Okay. And then depending on low double digits to that?

Alan A. Villalon
Executive VP & CFO

Right. Right. So because as we think about it, too, because as the cost saves, the timing of those contracts and cost saves happen, it's going to just -- it's going to take time. So we've only been closed for -- I believe the merger is only about 3 months old right now.

Operator

The next question comes from David Long with Raymond James.

David Joseph Long
Raymond James & Associates, Inc., Research Division

Within the Retirement Benefit Services division, your synergistic deposits had some very nice growth over time. What is the competitive backdrop there? And can we expect deposit growth from that -- from these synergistic deposits to continue to outperform?

Forrest Rexford Wilson
Executive Vice President & Chief Retirement Services Officer

Yes. David, this is Forrest Wilson. Thanks for the question. As far as synergistic deposits go, I think you can expect the continued kind of steady trend. There is some opportunity in the HSA space, which has a much higher margin, I think, as Al mentioned in his deck. The cost of those funds to us is only 10 or so basis points. So there's a nice spread there, and that market is growing pretty rapidly. We have not taken advantage of that historically. I think there's some opportunity there. So we're working right now to see if we can do better in that market in terms of growth. But I don't think you'll see any big changes in the short term in terms of our trends.

David Joseph Long
Raymond James & Associates, Inc., Research Division

Got it. And then as we're talking about assets under management here and maybe even talk a little bit about wealth too, but market appreciation has contributed. How much do you attribute to the appreciation versus Alerus bringing in net new business?

Forrest Rexford Wilson

Executive Vice President & Chief Retirement Services Officer

Yes, I can take that on the retirement side. And then AI, maybe you'll have a couple of comments, but that's something that I look at very closely. We -- I'm very pleased to see that we're growing participants and plans very nicely. The assets, as you point out, have been fueled by market performance quite a bit. And that's been a little concerning. I was happy in the fourth quarter. We turned that corner, and we saw -- if you take out the market performance, it was actually a loss in the fourth quarter. But if you take that out, we grew assets about \$38 million on the retirement side.

Just when you look at cash flow coming in minus money going out, so that would be sales and participant contributions, things like that and taking away any terminations or even on a participant level or a plan level. So kind of had on that net basis turned the corner in the fourth quarter, albeit just a little bit, but that's a good leading indicator of where we want to continue to grow and find that organic growth even in the asset side. So that's kind of the status. Hopefully, that helps, David.

Jim R. Collins

Executive VP and Chief Banking & Revenue Officer

David, this is Jim Collins, on the wealth side, David, yes, we've had some good market growth. But I will tell you, as we're working on improving platforms on the wealth side, we've had tremendous customer growth, new relationships, specifically in North Dakota and specifically in Minneapolis. We're working on all markets to continue that. But client acquisition has been very strong the last 2 quarters, and I think we'll continue that trend the next going forward, specifically as we swap out platforms and have a more streamlined back room. But we will continue to invest in talent and wealth.

As Katie mentioned earlier, the strategy of building a strong commercial bank and segueing that wealth in through private banking and then into wealth advisory service is clearly working for us.

David Joseph Long

Raymond James & Associates, Inc., Research Division

Got it. And AI, I assume with your question on the expenses, any increase in talent is already incorporated into that?

Alan A. Villalon

Executive VP & CFO

Yes, that's correct. And David, since you brought up the expense, I just want to make sure what I was commenting earlier on an earlier question that I was referring to an unadjusted noninterest expense number of \$176 million. So that's the growth rate people should be basing off of.

Operator

So our next question comes from Nathan Race with Piper Sandler.

Nathan James Race

Piper Sandler & Co., Research Division

Yes. Just, again, to clarify on expenses, the low double-digit growth from \$176 million in 2024. That doesn't include any onetime costs tied to the acquisition, correct?

Alan A. Villalon

Executive VP & CFO

No, it does not. It includes just basically everything that's rolling off from the cost saves.

Operator

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And the next question comes from Jeff Rulis with D.A. Davidson.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Al, the merger costs by line item, can we assume a piece of that was in professional fees? Do you have any other detail that we can map that?

Alan A. Villalon

Executive VP & CFO

Yes. I'd say chunk of it was also in salary and compensation line.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. Okay. If that's the...

Alan A. Villalon

Executive VP & CFO

That'll probably be a good chunk of it. Yes.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. And then, Karin, on the -- to go back to that multifamily construction project, is that completed? And are there more advances expected in the first quarter or beyond?

Karin M. Taylor

Executive VP & COO

Yes. We determined that funding completion of that project is going to result in the most viable option to get it completed quickly and to reduce potential losses. So we will continue to fund that. It is over 90% complete. The interior is expected to be complete by the end of the first quarter. Exterior work will continue into the second quarter, just given the climate in which we live. And so you will see our exposure on that increase over the next couple of quarters.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Do you have a dollar figure on additional funding through completion?

Karin M. Taylor

Executive VP & COO

Yes. So our current book balance is about \$28 million, and that would increase to \$36 million to \$37 million.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

And then sort of the path of resolution beyond that is the expectation that the project is completed, what are the -- I guess, your -- the game plan beyond that and possible timeline?

Karin M. Taylor

Executive VP & COO

Our agreement includes the expectation that is listed for sale immediately upon completion. In addition, they have started leasing. And to date, they are ahead of the agreed-upon leasing milestones.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. And the completion date, roughly, is it summer or..

Karin M. Taylor
Executive VP & COO

We expect it in the May, June timeframe in order to get all that outside completion done.

Operator

Thank you. And 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. Thank you to everyone for joining our call today. Looking ahead, we remain committed to driving sustainable and profitable growth while building and delivering value to our shareholders. Our strategic mantra is all about getting better and not just bigger. And our mission for 2025 is to focus and execute, keep bringing in profitable business and managing our expenses.

We will continue to prioritize our organic growth opportunities and selectively take market share while maintaining strong asset quality. We've made meaningful progress in our performance. We're optimistic about the opportunities that lie ahead and are confident in our ability to navigate the evolving financial landscape.

In closing, I want to reiterate my gratitude to our team members, our clients and our shareholders. Your dedication and support has been the foundation of our success. And together, we will continue to build on our progress, our achievements and navigate the future with discipline and optimism. Thank you, everyone.

Operator

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

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