



## ALERUS FINANCIAL CORPORATION Q3 2025 EARNINGS CALL

### OCTOBER 31, 2025

#### Participants

##### Executives

Katie Lorensen, President, Chief Executive Officer and Director  
Alan Villalon, Executive Vice President and Chief Financial Officer  
Karin Taylor, Executive Vice President and Chief Operating Officer  
James Collins, Executive Vice President and Chief Banking and Revenue Officer

##### Analysts

Jeff Rulis; D.A. Davidson  
Brendan Nosal; Hovde Group  
Nathan Race; Piper Sandler  
Damon Del Monte; KBW  
David Long; Raymond James

#### Presentation

##### Operator

Good morning. And welcome to Alerus Financial Corporation Earnings Conference Call. (Operator Instructions)

Today's call will reference slides that can be found on Alerus' investor relations website. You can also view the presentation slides directly within the webcast platform. (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's Corporation President and CEO, Katie Lorensen.

Please go ahead.

##### Katie Lorensen

Thank you. Good morning, everyone. And thank you for joining us for our third quarter 2025 earnings call.

Joining me today in the Twin Cities is our CFO, Al Villalon; our COO, Karin Taylor; and our Chief Banking and Revenue Officer, Jim Collins.

Joining us by phone is our Chief Retirement Services Officer, Forrest Wilson.

I plan to cover a few highlights for the quarter and then spend a few minutes recapping the progress we have made as a team and as a company.

Results for the quarter were consistent with expectations. Another pearl on the string as we continue to execute our long-term strategy, drive transformation across our commercial wealth bank and position the company for sustainable value-driven growth.

Improved results reflect our team's strategic actions and progress towards top-tier performance.

Our ultimate differentiator at Alerus is our diversified business model, which drives nearly double the average fee income compared to other banks. Due to the annuitized and capital-light businesses of Retirement and Wealth, Alerus has revenue resilience across cycles.

This enables us to deliver consistent value to our clients and consistent returns to our shareholders. This quarter, we continued to deepen client relationships and expand our reach.

Our seasoned team of bankers, both the new and long tenured at Alerus drove robust organic growth in both our commercial and private banking segments.

Our Retirement and Benefits business remains a national leader and continues to establish meaningful partnerships across the country.

In Wealth Management, we completed a major platform upgrade, enhancing both the client and advisor experience and laying the groundwork for future recruiting efforts and client growth.

We continue to derisk the balance sheet with our company-wide prioritization of proactive risk management. Last quarter, we sold a portfolio of higher risk acquired hospitality loans.

We previously marked this portfolio and realized a gain of \$2.1 million on the sale in the second quarter. Throughout this year, we have continued to diligently work through and out of credits that are not core to where we are focused or those that we think could be negatively impacted in an economic downturn.

Our emphasis on capital allocation to organic growth in full C&I relationships resulted in the investor CRE capital ratio dropping below the 300% threshold.

Another example of our conservative and proactive risk management was a large recovery during the quarter of a credit we charged off only five quarters ago, bringing the year-to-date charge-off ratio to 8 basis points which remains below our lower-than-industry long-term history of 27 basis points of net charge-offs. Nonperforming assets to total assets were 1.13%, an increase of 15 basis points from the prior quarter. The quarter-over-quarter increase in nonperforming was driven by one commercial relationship. The commercial relationship that was recently identified has been a client since 2010. They are a general equipment lessor for transportation, logging, construction and manufacturing industries.

They experienced cash flow challenges relating to one large customer going out of business and delayed work tied to FEMA funding. There is currently a 50% reserve on the relationship, pending additional information on equipment values.

Of the \$60 million in nonperforming assets, our largest exposure continues to be a large multifamily loan in the Twin Cities with a book balance of approximately \$32 million.

We saw some progress on this credit as permanent certificate of occupancy was issued in July of this year and is currently 67% leased. The property was publicly listed for sale this month.

Based on various expected outcomes, we are currently reserved at about 15% and expect resolution by midyear 2026. These two loans make up nearly 75% of our total nonperformers and we do not believe the level of nonperformers to be indicative of any widespread credit concerns.

We ended the quarter with a strong reserve level of 1.51%.

In addition, capital accretion boosted the TCE ratio to over 8%. Tangible book value grew nearly 5%, and we returned \$5.3 million to shareholders through our long-standing commitment to our dividend.

As we look back over the last several years and forward through the remainder of 2025 and beyond, our strategic positioning is exceptionally strong, and our priorities are clear.

Since 2022, Alerus has made transformational changes and substantial progress to return performance to top-tier profitability as a premier commercial wealth bank and a national retirement plan provider.

We have completed succession at the entire executive team level and beyond and have strong leaders in place throughout all parts and levels of the organization, many of which have joined Alerus from much larger institutions and are key to our progress in making Alerus, not just bigger but even better.

We have courageously transitioned the majority of our commercial banking team in our growth markets over the last several years with specialized industry veterans with deep credit acumen. Key verticals have been established and teams have positioned us to grow mid-market C&I and equipment finance.

In addition, we have added teams of deposit-rich verticals including private banking and government not for profit.

In 2023, we lifted out and added over 120 new team members while reducing head count over 10%.

We have strategically divested business lines that are not core to our franchise and successfully acquired in key markets including Arizona, Rochester and Wisconsin.

We retained #1 market share in our hometown market of Grand Forks, despite new market entries and targeted competition.

Our markets across our franchise are exceptional in terms of full relationship growth opportunities and economic and household demographics.

While performance ratios are improving, we continue to monitor and evaluate opportunities to enhance our core earnings profile. This includes the engagement of a third-party consultant to ensure we have processes and systems in place to profitably and sustainably scale and grow our business with improving margins and exceptional risk management. These challenging efforts to transform and improve the returns of our Commercial Wealth Bank were critical in order to receive the recognition of the embedded value of our stable and recurring revenue from our retirement and health businesses.

We remain bullish on our retirement business of which we are the 25th largest in the country.

We intend to continue to build organically and inorganically in this highly scalable business.

We put in place the first dedicated and experienced executive to oversee the business a year ago.

With the leadership team now in place, we are doing the work to transition the operating model to optimize margins and introduce automation and AI in an industry that is growing with the support of legislation at rates well above GDP.

Our robust wealth division at Alerus is more valuable than that of the typical community bank with nearly all of the business being full fiduciary management and advising clients. The conversion of the new platform went incredibly well.

We have a unique and differentiated value proposition for recruiting wealth advisors.

And with improved technology, we are moving forward with our plan to double the wealth advisors, mostly in our growth markets over the next several years. The fundamental foundation of the company is strong. The difficult work has been completed, and now we look forward to the ultimate goal of top-tier performance and being recognized and rewarded with a deserved top-tier valuation.

Our focus going forward is to keep growing organically by deepening client relationships and expanding in growth markets, leverage technology, data and AI to drive efficiency and deliver differentiated client experiences. Long term, we will continue to evaluate M&A opportunities, particularly in retirement and HSA businesses, where we have deep experience and catalysts to consolidation positions Alerus favorably as one of the few independent aggregators in the space.

Lastly, and as always, we intend to maintain our disciplined approach to capital allocation, risk management and expense control.

We are confident in our strategy and the opportunities ahead.

Our foundation is solid, and our team is energized.

We are committed to delivering sustainable top-tier performance for our clients, our communities and our shareholders.

With that, I will now hand it over to AI to cover the financial results.

**Alan Villalon**

Thanks, Katie. Turning to Page 11 of our investor deck that is posted on the Investor Relations part of our website.

On a reported basis, net interest income increased 0.2% over the prior quarter, while fee income decreased 7.3%. Net interest income was stable as deposit inflows and organic loan growth offset the impact of the CRE hospitality loan sale and purchase accounting accretion was stable. Excluding onetime items, mainly the gain from the loan sale from the second quarter, fee income was down only 1%.

Our fee income remains over 40% of revenues and over double the industry average.

Let's dive into the drivers of net interest income on the next slide. Turning to Page 12.

In the third quarter, net interest income continued to reach new highs at \$43.1 million, and our reported net interest margin remained stable at 3.50%. Total cost of funds remained stable at 2.34%.

We had 45 basis points of purchase accounting accretion in the quarter.

Although 45 basis points, 17 basis points were from early payoffs.

We continue to remain disciplined in pricing as we continue to not price on the inversion of the yield curve for loans.

In the third quarter, we saw a new loan spread of 259 basis points over Fed funds while new deposit costs were coming in 92 basis points below Fed funds.

With the new business margin of 351 basis points, we continue to expect purchase account accretion to be replaced by core net interest income.

Let's turn to Page 13 to talk about our earning assets.

At the end of the third quarter, loans grew 1.4% over the previous quarter. Multifamily real estate, C&I and residential real estate were the biggest drivers of loan growth.

For the fourth quarter, we're expecting around \$159 million or 4% of our loans to contractually mature.

Overall, our loan mix is around 50% fixed and 50% floating.

On investments, we continue to let the portfolio roll off and revisit the higher-yielding loans.

The portfolio has a duration of just under five years.

For the remainder of 2025, we expect another \$37 million of securities to pay down. Excluding balance sheet derivatives remain slightly liability sensitive, any 25 basis point cut in the Fed funds should help improve our net interest margin around 5 basis points. Turning to Page 14.

On a period-end basis, we were able to grow the cost by 1.7% despite the usual seasonal outflow we see from public funds. Growth was primarily driven by continued expansion to full commercial relationships.

Over 70% of our commercial deposits now have a treasury management relationship with Alerus. Loan-to-deposit ratio remained stable at 93%. Lastly, since the close of the acquisition of Home Federal, our net retention rate remains over 97%.

Turning to Page 15, I'll now talk about our banking segment, which also includes our mortgage business. A focus on the fee income components now since net interest income was previously discussed.

Overall, noninterest income for banking was \$6.4 million for the third quarter. The second quarter included a \$2.1 million gain related to the sale of hospitality loans. Excluding onetime items, net interest income was only up 1%.

Mortgage saw a slight increase in originations during the quarter.

We do expect the seasonal slowdown in mortgage for the upcoming quarters.

We also saw very little swap income this quarter, which tend to be lumpy from quarter-to-quarter.

On Page 16, I'll provide some highlights on our retirement business. Total revenue from the business increased to \$16.5 million or a 2.9% increase over the prior quarter.

Most of the increase was driven by asset-based fees coupled with a slight increase in recordkeeping fees.

Assets under administration and management increased 3.7%, mainly due to market performance.

Synergistic deposits within our retirement group grew 3.4% over the prior quarter. HSA deposits grew almost 2% over the prior quarter, to over \$202 million. HSA deposits continue to remain a strong source of funding for us as these deposits only carry cost of around 10 basis points.

Turning to Page 17, you can see highlights of our Wealth Management business.

On a linked-quarter basis, revenue decreased to \$6.6 million, while end of quarter assets under management increased 4.3%, mainly due to market performance. Revenue declined due to a decrease in transactional revenues such as brokerage and insurance commissions. Page 18 provides an overview of our noninterest expense.

During the quarter, noninterest expense increased 4.3% due to an increase from higher incentives driven by our higher loan and deposit growth, along with incentives from higher mortgage originations.

The increase in incentives was offset by decrease in benefit-related expenses.

We also saw an increase in technology expenses as we transition to a new wealth and deposit platform.

Occupancy expense increases, we opened a new office in Fargo, North Dakota to replace two older facilities. Turning to Page 19, you can see our credit metrics.

During the quarter, we had net recoveries of 17 basis points.

The quarter-over-quarter decrease was primarily driven by a \$1.9 million recovery in the third quarter of a 2025 related to a loan that had been previously been charged off. Nonperforming assets were 1.13%, an increase of 15 basis points from the prior quarter.

As Katie mentioned in her opening comments, we are currently carrying a 50% reserve in the one commercial relationship related to a general equipment lessor.

On the special capital liquidity on Page 20, our capital -- our tangible common equity ratio improved to 8.24%, which is higher than a year ago of 8.11%, right before we closed on the acquisition of Home federal.

On the bottom right, you'll see a breakdown in the sources of \$2.6 billion in potential liquidity.

We continue to utilize some broker deposits to optimize our cost of funds.

Overall, we continue to remain well positioned from both liquidity and capital standpoint to support future growth, or weather economic uncertainty. Turning to Page 21 now.

I will update you on our guidance for 2025 and provide preliminary guidance for 2026.

We expect the following: For loans, we expect the year to end with over \$4.1 billion.

For 2026, we expect to continue to grow at a mid-single-digit growth rate. Total deposits should be around \$4.3 billion at year-end.

While we expect inflows from our public funds, we are also planning on calling in around \$165 million in brokered CDs.

For 2026, we expect to grow deposits in the low single digits based on the projected ending amount of \$4.3 billion for 2025. Net interest margin for 2025 is now to be expected higher and end around 3.35% to 3.4% on a full year basis.

For the fourth quarter, we're only expecting 23 basis points of purchase accounting accretion, which includes no early payoffs.

For 2026, we're expecting our net interest margin to be around 3.35% to 3.45% which will include only about 18 basis points of purchase account accretion and no early payoffs.

In comparison, we expect around 40 basis points of purchase and account accretion for the full year 2025.

As a reminder, we do not embed any further rate costs in our guidance.

However the guidance does include the recent 25 basis point rate cut that was announced this week by the Fed.

Again, for every 25 basis points cuts in rates, expect NIM to improve about 5 basis points.

We expect our non adjusted noninterest income for the year to end around \$115 million in total. This will exclude the \$2.1 million gain on sale of loans in the second quarter.

On the mortgage side, we expect originations to see a seasonal downturn in the fourth quarter.

For 2026, we expect noninterest income to grow in the mid-single digits from the adjusted \$115 million in total reflected for 2025.

Adjusted pre-provision net revenue should end the year around \$85 million to \$86 million. Again, this is adjusted for onetime items in 2025, which is mainly the gain on sale of loans and severance and signing expenses.

For 2026, we expect low to mid-single-digit growth from the \$85 million to \$86 million in adjusted PPNR. Lastly, we expect our adjusted ROA to end 2025 greater than 1.15%, which excludes onetime items such as the loan sale.

For 2026, we expect our ROA to exceed 1.10% for the year.

We expect a normalized provision in 2026 and less purchasing account accretion relative to 2025, as previously mentioned.

With that, I'll now open up to Q&A.

## Questions and Answers

### Operator

(Operator Instructions) The first question will come from Jeff Rulis with D.A. Davidson.

### Jeff Rulis

Maybe just on that last one, AI, on the provisioning level this quarter.

I guess, pretty good growth is the lack of the provision maybe on the recovery I guess you've got some confidence on that larger credit as well.

I just wanted to kind of get to that. And then as we go forward when you say normalized provision, if you could refine that a little bit, that would be great.

### Karin Taylor

Jeff, this is Karin.

I'll start. You're correct. The lack of provision this quarter was driven primarily by the recovery as well as a decrease in the requirement for pooled loans, particularly as we move that one problem owned individual impairment and then a decrease in our unfunded commitment requirement.

In terms of provisioning going forward, that will be driven primarily by loan growth macroeconomic factors.

### Jeff Rulis

Okay.

So the normalized term is kind of reserving for growth versus kind of the inputs that we had this last quarter, recoveries and such? Is that kind of...

### Karin Taylor

That's correct.

### Jeff Rulis

All right. And I appreciate the outlook on the loan growth.

Interested in your view, Katie or others, just in terms of a mid-single-digit outlook.

But I guess where's the upside if things were to be better, would you frame that up? If we do get lower rates, kind of where do we see higher than mid-single digits, if that were to line up.

### James Collins

Jeff, this is Jim.

If we do see some lower rates, I think we could see some higher loan growth closer to the 10%, 11%, 12% loan growth.

But that's really going to be -- we're really going to be focusing on a lot of deposit growth -- at that point, for the most part, we're really sticking and focusing on full C&I relationship growth.

So depending on how that deposit full relationship goes, obviously that comes with loan growth.

So my guess is if rates do come in, we're probably inching up closer to that 9% to 10% loan growth.

**Katie Lorensen**

Yes.

I would add, Jeff, that the headwind to the loan growth is really our continued proactive work on the portfolio in terms of pushing out credits that just are core to our focus or that we don't have full relationships with and are not in our asset class priorities.

**Jeff Rulis**

Katie, you mean there's -- would you suggest that there's maybe a little more work to do in '26 to kind of keep that capped a little bit? Is that what I'm hearing?

**Katie Lorensen**

I think it will continue in -- throughout '25 and perhaps the early part of '26.

**Operator**

Our next question will come from the line of Brendan Nosal with Hovde Group.

**Brendan Nosal**

I just wanted to dig into the margin outlook a little bit. Al, thanks for the comments on the accretion expectations for '26, I guess it kind of stands to reason even without additional rate cuts, it looks like you're baking in some improvement in the level of the core margin from here through 2026 even without additional rate cuts.

Could you just maybe unpack the drivers of that a little bit?

**Alan Villalon**

Yes. That's a good question, Brendan.

I mean we are expecting what you call core margin improvement or the way we look at it here, net interest margin, excluding purchase accounting accretion, but the big drivers of that for right now is -- I commented on earlier, we're seeing really good spreads on loans, and we're also seeing good spreads on deposits.

So with that -- what we call the new business margin in excess of 350 basis points we continue to expect that net interest margin, excluding purchase accounting accretion to continue to improve.

**Brendan Nosal**

Okay. That's helpful. Maybe one for me, just turning to fee income.

If I annualize this quarter, you're around \$118 million just on what you did this quarter. The guide for next year kind of implies right around there, plus or minus a little bit.

So I just want to kind of dig into why the lack of more robust loan growth -- or sorry, more robust fee income growth and maybe what market and organic assumptions you're using for AUA and AUM in your fee businesses?

**Alan Villalon**

Yes.

I'll take the first part of this is in terms of fee income growth for next year, we do expect mortgage to be under pressure just a little bit still.

So that's just kind of where we're modeling we have to be conservative. The other part of it, too, is that we're not modeling much in terms of market growth.

**Operator**

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

**Nathan Race**

Just going back to the last discussion point on fee income. Maybe Katie, could you just touch on some of the underlying drivers that you're seeing within the wealth and retirements in the areas these days? Particularly just curious around what you're seeing in terms of capture rate increases and just how you're kind of stemming some of the natural attrition within AUA as well these days.

**Katie Lorensen**

I wouldn't say our trends are consistent in both the attrition side as well as the capture rate side on the retirement business.

In the wealth business, again, we completed a full conversion onto a platform that is an upgrade for both the client experience as well as an advisor experience.

We've had great success in recruiting and retaining exceptional advisors. And the technology now just removes a little bit of an obstacle because we do have such a differentiated recruiting profile.

So those are not layered in yet in terms of the revenue growth or the expense side, but we do expect to move full force ahead in adding advisors in our growth markets.

**Nathan Race**

That's really helpful. And just going back to the loan growth discussion, maybe for Jim.

I appreciate there's potential upside to that mid-single-digit guide with lower rates.

But curious how much of the M&A-related disruption the Twin Cities can also contribute to that.

Obviously there's been some distribution with a couple of notable competitors recently.

So just curious if you guys can attract those clients just via your existing teams or if you're seeing opportunities or any appetite to hire additional commercial folks.

**James Collins**

We are always very opportunistic on talent.

So we always look for talent, and we do the cost benefit of that talent.

We're -- certainly have upgraded talent and have a really good talented team now. And a lot of that talent has inroads to a lot of the disrupted banks in this market in the Minneapolis and some of the other markets.

So we are finding success in those disruptions.

So that will be part of the growth for 2026.

For sure, that's some of the names that I see on the pipeline, that will be part of that growth.

But we are always looking for talent, certainly in all markets where there's disruption and there's disruption in all markets, we definitely -- that is part of our strategy to take advantage of those disruptions, both with the talent and with the customer base.

**Nathan Race**

Okay. That's great. And then, Al, I appreciate the guidance around PPNR growth for next year. Just curious, what kind of legacy expense growth you're kind of thinking about an underpinning that? There were some sequential increases across a handful of line items in the third quarter.

So just wondering if there's any kind of cost that will come out as we enter fourQ or into next year? And just how you're thinking about overall legacy expense growth into 2026?

**Alan Villalon**

Thanks for that question, Dave.

We're still in the midst of the budgeting process and evaluating opportunities to reinvest and save costs as well.

So that's why there's a rate for PPNR right now it will be up low to mid-single digits.

We'll have more color for that as we get probably in the fourth quarter results when we finish the budgeting process.

**Operator**

Our next question is going to come from the line of Damon DelMonte with KBW.

**Damon Del Monte**

Al, just to circle back on the expenses, given the uptick in the software technology line there, is that kind of like a run rate level from this quarter? Or do you think there's some noise there that shakes out?

**Alan Villalon**

Yes. There's still going to be a little bit because a lot of the contracts these days have escalators in them.

So we'll still see a slight uptick in that next year.

**Damon Del Monte**

Okay. Great. And then the guide for the margin for '26, I may have missed what you said, you expect the fair value accretion impact to be that's embedded in there?

**Alan Villalon**

Yes. That's -- we're only expecting 18 basis points of purchasing accounting accretion in there, and that's with no early payoffs.

**Damon Del Monte**

Got it.

Okay. And then again, just to confirm, for each 25 basis point cut, the core margin should benefit by 5 basis points?

**Alan Villalon**

That's correct.

**Damon Del Monte**

Okay. Great. And then lastly, do you guys have any NDFI loans in your portfolio?

**Katie Lorensen**

No.

**Damon Del Monte**

Okay. Great. Everything else has been asked and answered.

**Operator**

Our next question comes from the line of David Long with Raymond James.

**David Long**

Just wanted to touch base on a couple of things on the balance sheet.

On the funding side, time deposit growth led the deposit growth in the quarter.

What are you looking at in deposit growth going forward? And what is the duration of what you've been adding and the yield on that?

**Alan Villalon**

So David, in terms of the deposits.

Let me go circle back to you on that one.

Let me just look this up what we've been adding on. Do you want to hit me another question and then?

**David Long**

Yes.

Sure. The other thing I want to ask is just on the asset side, thanks for giving us some of the repricing metrics with the loans and the deposits.

But how do you expect the mix to look over the next six to 12 months? Will that differ?

Will you -- is there any interest in moving some of the securities cash flowing into loans at this point?

**Alan Villalon**

Yes. There's definitely the interest of moving the securities into loans because I mean we basically have a low 2% yield right now in our securities book, and we're getting loans that are very much higher than Fed funds.

So we definitely want to do that.

**Operator**

Our next question is a follow-up question from Brendan Nosal with Hovde Group.

**Brendan Nosal**

Katie, I just want to kind of follow up on something you said in your prepared remarks about evaluating opportunities to enhance the return profile.

Could you just expand upon that a little bit and kind of put a scope around what sort of things you might be looking to do in that regard. And then specifically, would you folks look at securities restructuring as part of that?

**Katie Lorensen**

Sure.

Well as I mentioned, we have engaged a consultant, which is really focused primarily inside the commercial underwriting and origination processes.

We believe, first and foremost, that's about getting better, faster and a better experience for all of our team members and our clients.

But we do believe there may be some efficiencies that we realized from that, that will help us improve our profile.

In addition to a tremendous amount of work being done within the Retirement division to optimize how we deliver there.

We think that industry, in particular, is absolutely full of opportunities for AI and automation. And so we think we can continue to improve margins over the long term in that business. And then relating to the balance sheet restructuring, that's something that we are always evaluating, those opportunities and that's not a change for us, that's been over the course of the past several years.

**Alan Villalon**

Also just on the follow-up call from -- for Dave Long there. New non-maturity deposit accounts in Q3 came in at rates of less than 3%, and our CD term rates were kept short.

**Operator**

This concludes our question and answer session. And I would like to turn the conference back over to Katie Lorensen for any closing remarks.

**Katie Lorensen**

Thank you, everyone, for the questions and thank you for taking the time to join us today.

I want to thank our employees for their unwavering dedication to our clients and our shareholders for your continued trust and support. The progress we've made together reflects the strength of our

strategy, the resilience of our diversified business model. And as we look ahead, we remain focused on disciplined growth, leveraging technology and innovation, delivering sustainable top-tier performance.

Our foundation is solid.

Our team is energized, and we are confident in the opportunities ahead. Thank you, everyone.

And have a great day.

**Operator**

This conference has now concluded. Thank you for attending today's presentation.

You may now disconnect.