

FOR RELEASE (10.19.2017—16:00)

## **ALERUS FINANCIAL CORPORATION REPORTS THIRD QUARTER 2017 RESULTS OF \$4.9 MILLION NET INCOME**

**GRAND FORKS, N.D.** (October 19, 2017) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$4.9 million for the third quarter of 2017, or \$0.35 per diluted common share, compared to \$2.6 million or \$0.18 per diluted common share for the third quarter of 2016. For the nine months ending September 30, 2017, Alerus reported net income of \$14.5 million, or \$1.03 per diluted common share, compared to \$8.4 million or \$0.60 per diluted common share for the same period in 2016.

### *Third quarter 2017 financial highlights:*

- Revenue of \$43.9 million, an increase of \$2.9 million, or 7.0 percent from the third quarter of 2016
  - Net interest income of \$17.7 million, 40.4 percent of revenue, up 11.1 percent from the third quarter of 2016
  - Noninterest income of \$26.1 million, 59.6 percent of revenue, up 4.4 percent from the third quarter of 2016
- Noninterest expense of \$35.3 million, down 2.6 percent from the third quarter of 2016
- Return on average assets (ROA) of 0.97 percent, compared to 0.53 percent for the third quarter of 2016
- Return on average common equity (ROE) of 10.78 percent, compared to 5.99 percent for the third quarter of 2016
- Return on average tangible common equity (ROTCE) of 16.74 percent, compared to 11.77 percent for the third quarter of 2016
- Net interest margin of 3.87 percent, compared to 3.71 percent for the third quarter of 2016

### *Third quarter results included:*

- Total assets remained constant at \$2.1 billion
  - Loans increased \$53.0 million to \$1.6 billion, up 3.5 percent
  - Deposits decreased \$41.5 million, down 2.5 percent to \$1.6 billion
  - Short-term borrowings increased \$62.3 million, up from \$131.6 million in the second quarter
- Assets under administration (AUA) increased \$0.8 billion, or 3.1 percent, to \$27.3 billion
- Assets under management (AUM) increased \$67 million, or 1.8 percent, to \$3.8 billion
- Mortgage originations totaled \$253.5 million, compared to \$276.7 million for the second quarter of 2017
- Nonperforming assets of \$6.4 million, a decrease of \$3.0 million from the second quarter of 2017
- Allowance for loan losses to nonperforming loans was 261.3 percent at September 30, 2017, compared with 186.2 percent at June 30, 2017

### **CEO Comments**

Chairman, President, and Chief Executive Officer Randy Newman said, “Alerus’ 2017 financial results are showing solid improvements in net income and earnings per share, for the quarter and year-to-date, over 2016, as a result of integrating the 2016 acquisitions and a focus on improving earnings. For the first three quarters of 2017, net income and earnings per share have increased over 72 percent, with net income of \$14.5 million, up from \$8.4 million in 2016. The Alerus business model is unique to the industry, with noninterest income providing 60 percent of revenue through our retirement and health benefits, wealth management, and mortgage business lines, complimented by net interest income, representing 40 percent of revenue. Assets under administration and management have continued to grow and now exceed \$30 billion, while strong demand for loans, has increased the portfolio to over \$1.5 billion. We have continued to provide a strong return to our shareholders, while reinvesting in the company.”

**SELECTED FINANCIAL DATA**

(Dollars and shares in thousands, except per share data)

(Unaudited)

	September 30, 2017	June 30, 2017	September 30, 2016	Sep 30, 2017 vs Jun 30, 2017	Sep 30, 2017 vs Sep 30, 2016	YTD 2017	YTD 2016	Percentage Change
Net income	\$ 4,945	\$ 4,570	\$ 2,555	8.2 %	93.5 %	\$ 14,466	\$ 8,397	72.3 %
Earnings per share	\$ 0.35	\$ 0.33	\$ 0.18	6.1 %	94.4 %	\$ 1.03	\$ 0.60	71.7 %
Return on average assets	0.97%	0.93%	0.53%	4.3 %	83.0 %	0.97%	0.58%	67.2 %
Return on average common equity	10.78%	10.26%	5.99%	5.1 %	80.0 %	10.83%	6.67%	62.4 %
Net interest margin (tax equivalent)	3.87%	3.74%	3.71%	3.5 %	4.3 %	3.73%	3.64%	2.5 %
Efficiency ratio	80.35%	77.20%	88.27%	4.1 %	(9.0) %	79.76%	86.96%	(8.3) %
Dividends declared per common share	\$ 0.12	\$ 0.12	\$ 0.11	- %	9.1 %	\$ 0.36	\$ 0.33	9.1 %
Book value per common share	\$ 13.29	\$ 13.04	\$ 12.56	1.9 %	5.9 %			

**Earnings Summary**

Alerus reported net income of \$4.9 million, or \$0.35 per diluted common share, for the third quarter of 2017, compared with the \$2.6 million, or \$0.18 per diluted common share, for the third quarter of 2016 and \$4.6 million, or \$0.33 per diluted common share, for the second quarter of 2017. ROA was 0.97 percent for the third quarter of 2017, compared with 0.53 percent for the third quarter of 2016, and 0.93 for the second quarter of 2017. ROE was 10.78 percent for the third quarter of 2017, compared with 5.99 percent for the third quarter of 2016 and 10.26 percent for the second quarter of 2017. During 2016, Alerus absorbed a number of acquisition and branch closure related expenses, which impacted earnings.

**Net Interest Income**

Net interest income in the third quarter of 2017 was \$17.7 million, compared with \$16.0 million in the third quarter of 2016, an increase of \$1.8 million, or 11.1 percent. Strong loan demand throughout 2017 has increased the Company's loan portfolio to \$1.55 billion, thus enhancing net interest income. Although total assets were maintained in the \$2.0 billion range, the loan portfolio grew from 70.6 percent of assets at September 30, 2016, to 75.3 percent at September 30, 2017.

Net interest margin on a tax-equivalent basis in the third quarter of 2017 was 3.87 percent, compared with 3.71 percent in the third quarter of 2016, and 3.74 percent in the second quarter of 2017.

**Noninterest Income**

Third quarter noninterest income was \$26.1 million, up 4.4 percent from the third quarter of 2016 and 3.7 percent lower than the second quarter of 2017.

- Retirement and benefit services revenue was \$15.2 million, up 24.0 percent from the third quarter of 2016 and 2.0 percent lower than the second quarter of 2017. AUA increased from \$24.8 billion at September 30, 2016, to \$27.3 billion at September 30, 2017.
- Wealth management revenue was \$3.5 million in the third quarter of 2017, compared to \$3.2 million in the third quarter of 2016 and \$3.6 million for the second quarter of 2017. AUM increased from \$3.3 billion at September 30, 2016, to \$3.8 billion at September 30, 2017.
- Mortgage banking revenue decreased to \$6.2 million, from \$7.9 million reported for the third quarter of 2016 and decreased from the \$6.7 million reported for the second quarter of 2017. Mortgage originations for the third quarter of 2017 totaled \$253.5 million, down from \$309.6 million in the third quarter of 2016, and down from \$276.7 million in the second quarter of 2017. The level of mortgage production is seasonal and is dependent on the current level of interest rates and general economic conditions. During the quarter, Alerus retained a higher volume of mortgage originations for the loan portfolio, which decreased mortgage banking revenue, while increasing net interest margin.

**NONINTEREST INCOME**

(Dollars in thousands)

(Unaudited)

	September 30, 2017	June 30, 2017	September 30, 2016	Sep 30, 2017 vs Jun 30, 2017	Sep 30, 2017 vs Sep 30, 2016	YTD 2017	YTD 2016	Percentage Change
Retirement and Benefits	\$ 15,244	\$ 15,555	\$ 12,298	(2.0) %	24.0 %	\$ 46,358	\$ 42,071	10.2 %
Wealth Management	3,533	3,599	3,160	(1.8) %	11.8 %	10,681	9,994	6.9 %
Mortgage Banking	6,221	6,674	7,900	(6.8) %	(21.3) %	16,637	19,487	(14.6) %
Service charges on deposit accounts	470	453	511	3.8 %	(8.0) %	1,355	1,449	(6.5) %
Other	664	843	1,170	(21.2) %	(43.2) %	2,434	2,612	(6.8) %
Total noninterest income	\$ 26,132	\$ 27,124	\$ 25,039	(3.7) %	4.4 %	\$ 77,465	\$ 75,613	2.4 %

**Noninterest Expense**

Total noninterest expense in the third quarter of 2017 was \$35.3 million, a 2.6 percent decrease from the third quarter of 2016, which included a number of acquisition and branch closure related expenses. Noninterest expense was \$1.5 million, or 4.4 percent, higher than the second quarter of 2017.

- Salaries expense in the third quarter of 2017 was \$18.5 million, \$0.1 million, or 0.8 percent, lower than the third quarter of 2016, and \$1.1 million, or 6.4 percent, higher than the second quarter of 2017. The full-time equivalent number of employees has decreased from 800 at September 30, 2016, to 778 at September 30, 2017, as a result of the integration of the acquisitions and closing three branch facilities during 2016.
- Employee benefits were \$4.2 million for the third quarter of 2017, 5.6 percent higher than the same period in 2016 and a 5.4 percent higher than the second quarter of 2017.
- Intangible amortization expense for the third quarter of 2017 was \$1.4 million, compared to \$1.8 million for the third quarter of 2016, and \$1.5 million for the second quarter of 2017. Alerus has acquired eighteen companies since 2002 creating identified intangible assets of \$36.8 million and \$27.3 million of goodwill on the balance sheet. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of September 30, 2017, is \$28.3 million and will fully amortize by December 31, 2025. The acquisitions of Alliance Benefits Group North Central States, Inc. (ABGNCS) and Beacon Bank in January 2016 created additional goodwill of \$23.6 million and identified intangibles of \$21.7 million, which the identified intangibles portion is being amortized over five and ten year periods.

**NONINTEREST EXPENSE**

(Dollars in thousands)

(Unaudited)

	September 30, 2017	June 30, 2017	September 30, 2016	Sep 30, 2017 vs Jun 30, 2017	Sep 30, 2017 vs Sep 30, 2016	YTD 2017	YTD 2016	Percentage Change
Salaries	\$ 18,501	\$ 17,386	\$ 18,643	6.4 %	(0.8) %	\$ 51,275	\$ 52,181	(1.7) %
Employee benefits	4,244	4,027	4,019	5.4 %	5.6 %	12,955	12,411	4.4 %
Net occupancy expense	1,521	1,530	1,610	(0.6) %	(5.5) %	4,701	4,753	(1.1) %
Furniture and equipment expense	1,386	1,389	1,477	(0.2) %	(6.2) %	4,092	4,595	(10.9) %
Intangible amortization expense	1,410	1,450	1,762	(2.8) %	(20.0) %	4,427	5,241	(15.5) %
Marketing and business development	549	552	582	(0.5) %	(5.7) %	1,656	2,194	(24.5) %
Supplies, telephone and postage	1,148	1,054	1,226	8.9 %	(6.4) %	3,328	4,200	(20.8) %
FDIC insurance	350	325	387	7.7 %	(9.6) %	977	1,201	(18.7) %
Professional fees - legal, audit and consulting	838	1,317	399	(36.4) %	110.0 %	2,869	2,396	19.7 %
Correspondent and other contracted services	3,082	2,368	2,964	30.2 %	4.0 %	8,281	9,363	(11.6) %
Other	2,229	2,374	3,133	(6.1) %	(28.9) %	6,989	8,157	(14.3) %
Total noninterest expense	\$ 35,258	\$ 33,772	\$ 36,202	4.4 %	(2.6) %	\$101,550	\$106,692	(4.8) %

**Loans**

Loan demand continues to be strong, with total loans outstanding increasing \$185.6 million, or 13.6 percent, to \$1.55 billion at September 30, 2017, from \$1.37 billion at September 30, 2016. The loan portfolio increased \$53.0 million, or 3.5 percent, during the third quarter of 2017.

## Deposits

Total deposits were \$1.60 billion at September 30, 2017, down from \$1.68 billion at September 30, 2016. During the fourth quarter of 2017, Alerus will convert approximately \$92.5 million of Health Savings Account deposits, from the ABGNCS acquisition, on to the balance sheet, repaying a similar amount of borrowings.

## Capital

Total common stockholders' equity was \$182.1 million at September 30, 2017, compared to \$178.6 million at June 30, 2017, and \$169.8 million at September 30, 2016. Capital levels remain strong and the Company exceeded "well capitalized" levels for regulatory purposes.

Common equity tier 1 capital was 7.73 percent at September 30, 2017, up from 7.43 percent at September 30, 2016. Tier 1 capital was 8.18 percent at September 30, 2017, up from 7.90 percent at September 30, 2016. Total risk based capital was 11.95 percent at September 30, 2017, down from 11.97 percent at September 30, 2016. The tangible common equity to tangible assets ratio was 6.30 percent at September 30, 2017, compared with 5.83 percent at September 30, 2016. Dividends on common shares for the third quarter of 2017 were \$0.12 per share, as compared to \$0.11 per share for the third quarter of 2016 and \$0.12 per share for the second quarter of 2017.

Since December 2015, the Company has restructured the composition of regulatory capital, issuing \$50 million of subordinated debentures, acquiring \$7.8 million (\$10.0 million face value) of Trust Preferred Securities (TRUPS) from the parent company of Beacon Bank, and redeeming \$20 million of Small Business Lending Fund (SBLF) preferred stock.

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### CAPITAL POSITION

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(Dollars in thousands)

(Unaudited)

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Total common stockholders' equity	\$ 182,140	\$ 178,564	\$ 173,149	\$ 168,785	\$ 169,788
Tangible common equity to tangible assets	6.30%	6.14%	5.89%	5.46%	5.83%
Tangible common equity to risk-weighted assets	7.36%	7.15%	7.18%	6.78%	6.77%

#### Regulatory Capital: <sup>(1)</sup>

Common equity tier 1 capital	\$ 132,860	\$ 128,262	\$ 121,905	\$ 124,094	\$ 120,324
Tier 1 capital	140,710	136,130	130,025	131,823	127,953
Total risk-based capital	205,561	201,733	195,232	196,876	193,723

#### Regulatory Capital Ratios: <sup>(1)</sup>

Common equity tier 1 capital ratio	7.73%	7.55%	7.64%	7.74%	7.43%
Tier 1 capital ratio	8.18%	8.01%	8.15%	8.23%	7.90%
Total risk-based capital ratio	11.95%	11.87%	12.23%	12.29%	11.97%
Tier 1 leverage ratio	7.10%	7.06%	6.82%	6.85%	6.87%

(1) Estimates. Subject to change prior to filings with applicable regulatory agencies.

## Credit Quality

Total nonperforming assets decreased to \$6.4 million at September 30, 2017, from \$10.7 million at September 30, 2016, and from \$9.4 million at June 30, 2017. Nonperforming loans have decreased from \$8.8 million at September 30, 2016, to \$5.9 million at September 30, 2017. Other real estate owned (ORE) decreased from \$1.8 million at September 30, 2016, to \$0.5 million at September 30, 2017.

Nonperforming assets to loans plus ORE decreased from 0.7 percent at September 30, 2016, to 0.4 percent at September 30, 2017. The allowance for credit losses (ALLL) was \$15.4 million at September 30, 2017, down from \$16.3 million at September 30, 2016, and \$16.1 million at June 30, 2017. The ALLL to total nonperforming loans was 261.3 percent at September 30, 2017, compared to 184.8 percent at September 30, 2016, and 186.2 percent at June 30, 2017.

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**ASSET QUALITY**

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(Dollars in thousands)

(Unaudited)

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
<b>Non Performing Loans</b>					
Commercial:					
Commercial	\$ 2,129	\$ 4,432	\$ 2,379	\$ 2,866	\$ 3,341
Commercial real estate	-	245	1,001	901	2,444
Total commercial	2,129	4,677	3,380	3,767	5,785
Consumer:					
Residential mortgages	3,708	3,964	4,585	3,826	3,052
Other consumer	43	26	61	72	8
Total consumer	3,751	3,990	4,646	3,898	3,060
Total nonperforming loans	\$ 5,880	\$ 8,667	\$ 8,026	\$ 7,665	\$ 8,845
Other real estate	522	659	730	1,721	1,800
Other nonperforming assets	25	53	130	196	11
Total nonperforming assets	\$ 6,427	\$ 9,379	\$ 8,886	\$ 9,582	\$ 10,656
Accruing loans 90 days or more past due	\$ -	\$ 107	\$ 111	\$ 48	\$ 17
Nonperforming assets to loans plus ORE	0.4%	0.6%	0.6%	0.7%	0.7%
Allowance for loan losses	\$ 15,367	\$ 16,134	\$ 15,754	\$ 15,615	\$ 16,347
Allowance for loan losses to total nonperforming loans	261.3%	186.2%	196.3%	203.7%	184.8%

**Acquisition Activity**

During the first quarter of 2016, Alerus acquired ABGNCS and Beacon Bank, as detailed in the following paragraphs. These acquisitions significantly increased the banking assets and assets under administration of Alerus as well as the revenue and expenses of the Company.

On January 1, 2016, the Company acquired ABGNCS, located in Albert Lea, Minn. The purchase, consisting of approximately 900 retirement plans with more than 75,000 retirement participants, increased the Company's retirement services division by \$6.0 billion in retirement and individual asset managed accounts. The transaction resulted in \$4.8 million of goodwill and \$17.9 million of identified customer intangible assets, which is being amortized over a 10-year period, resulting in annual intangible amortization expense of \$1.8 million, while the goodwill is not subject to amortization.

On January 15, 2016, the Company acquired Beacon Bank, with five branches, three located in the southwestern suburbs of Minneapolis, Minn. and two in Duluth, Minn. The transaction included \$350.0 million in cash, securities, loans, other assets and \$315.5 million of deposits, other liabilities and Trust Preferred Securities (TRUPS). The Company allocated \$18.9 million to goodwill and \$3.8 million to core deposit intangible, based on the estimated values as of the acquisition date. The core deposit intangible is being amortized over 5 years, resulting in an annual intangible amortization expense of \$0.76 million, while the goodwill is not subject to amortization. The Company assumed \$10.0 million face value of TRUPS, which was recorded at a fair value of \$7.8 million. The TRUPS qualifies as Tier 1 capital for regulatory capital purposes.

**Non-GAAP Financial Measures**

Non-GAAP financial measures disclosed by management are meant to provide additional information and insight relative to trends in the business to investors and, in certain cases, to present financial information as measured by rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from, or inconsistent with, non-GAAP financial measures used by other companies.

**NON-GAAP FINANCIAL MEASURES**

(Dollars and shares in thousands, except per share data)

(Unaudited)

	September 2017	June 30, 2017	September 30, 2016	Sep 30, 2017 vs Sep 30, 2017	Sep 30, 2017 vs Sep 30, 2016	YTD 2017	YTD 2016	Percentage Change
Average common stockholders' equity	\$ 182,011	\$ 178,587	\$ 169,816			\$ 178,584	\$ 167,717	
Less: average goodwill	(27,329)	(27,329)	(27,682)			(27,329)	(25,042)	
Less: average other intangibles, net of tax benefit	(17,440)	(18,253)	(20,070)			(18,291)	(21,092)	
Average tangible common equity	\$ 137,242	\$ 133,005	\$ 122,064	3.2 %	12.4 %	\$ 132,964	\$ 121,583	9.4 %
Net income applicable to common stock	\$ 4,945	\$ 4,570	\$ 2,555			\$ 14,466	\$ 8,372	
Add: Intangible amortization, net of tax benefits	846	870	1,057			2,656	3,145	
Net cash available to common stockholders	\$ 5,791	\$ 5,440	\$ 3,612	6.5 %	60.3 %	\$ 17,122	\$ 11,517	48.7 %
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	10.78%	10.26%	5.99%			10.83%	6.67%	
Effect of excluding average intangibles	3.51%	3.52%	2.34%			3.72%	2.53%	
Effect of excluding intangible amortization, net of tax benefits	2.45%	2.62%	3.44%			2.67%	3.45%	
Return on average tangible common equity	16.74%	16.41%	11.77%	2.0 %	42.2 %	17.22%	12.65%	36.1 %
Adjusted cash earnings per share								
Earnings per share (U.S. GAAP basis)	\$ 0.35	\$ 0.33	\$ 0.18			\$ 1.03	\$ 0.60	
Effect of excluding intangible amortization, net of tax benefits	0.06	0.06	0.08			0.19	0.22	
Adjusted cash earnings per share	\$ 0.41	\$ 0.39	\$ 0.26	6.0 %	60.3 %	\$ 1.22	\$ 0.82	48.7 %

**Business Line Performance**

The Company defines its business lines by product type, including Banking, Mortgage, Retirement and Benefits, and Wealth Management. The Selected Financial Information presented on each business line sets forth revenue and direct noninterest expense before indirect overhead allocations. Corporate Administration includes the indirect overhead and income tax expense and is set forth in the table below along with the Consolidated Company net income. The business line net income before taxes represents direct revenue and expense before indirect allocations and income taxes. Certain reclassification adjustments have been made between Corporate Administration and the various lines of business, from previous quarters for consistency in presentation.

**NET INCOME BY BUSINESS LINE**

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Banking	\$ 9,567	\$ 9,371	\$ 8,967	\$ 27,971	\$ 23,864
Mortgage	584	1,274	1,435	1,848	3,933
Retirement and Benefits	4,284	5,455	999	14,819	9,038
Wealth Management	1,628	1,642	1,151	4,651	3,367
Corporate Administration	(11,118)	(13,172)	(9,997)	(34,823)	(31,805)
<b>Net income</b>	<b>\$ 4,945</b>	<b>\$ 4,570</b>	<b>\$ 2,555</b>	<b>\$ 14,466</b>	<b>\$ 8,397</b>

**Banking** offers a complete line of loan, deposit, cash management, and treasury services through seventeen branch offices in North Dakota, Minnesota, and Arizona. These products and services are supported through web and mobile based applications also.

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**BANKING**

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(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 18,408	\$ 17,273	\$ 16,462	\$ 51,905	\$ 48,572
Noninterest income	1,821	1,817	1,631	5,302	5,010
<b>Total net revenue</b>	<b>20,229</b>	<b>19,090</b>	<b>18,093</b>	<b>57,207</b>	<b>53,582</b>
Provision for credit losses	1,320	640	1,020	1,960	3,060
Noninterest expense	9,342	9,079	8,106	27,276	26,658
<b>Net income before income taxes</b>	<b>\$ 9,567</b>	<b>\$ 9,371</b>	<b>\$ 8,967</b>	<b>\$ 27,971</b>	<b>\$ 23,864</b>
<b>Average Balance Sheet</b>					
Total loans	\$ 1,520,198	\$ 1,454,647	\$ 1,359,347	\$ 1,450,050	\$ 1,339,400
Goodwill	20,130	20,130	20,130	20,130	17,905
Other intangible assets	3,086	3,320	4,070	3,329	3,902
Total Assets	1,959,676	1,905,872	1,822,153	1,922,288	1,833,187
Deposits	1,598,776	1,666,424	1,653,867	1,654,281	1,654,098

Banking reported net income before income taxes of \$9.6 million on revenue of \$20.2 million for the third quarter of 2017, up from net income before taxes of \$9.4 million on revenues of \$19.1 million during the second quarter of 2017. Net interest income increased \$1.1 million, or 6.6 percent, as a result of higher average loan balances during the quarter. The provision for credit losses increased by \$0.7 million during the quarter as a result of the increase in the loan portfolio. Noninterest expense increased by \$0.3 million, compared with the second quarter of 2017. Average loans increased by \$65.6 million and average deposits decreased by \$67.6 million during the quarter.

Net income before taxes increased 6.7 percent from \$9.0 million during the third quarter of 2016 to \$9.6 million in 2017 primarily as a result of a \$1.9 million increase in net interest income offset by a \$1.2 million increase in noninterest expense. Average loans increased \$160.9 million, from \$1.36 billion to \$1.52 billion, and average deposits decreased by \$55.1 million to \$1.60 billion during the period.

**Mortgage** offers first and second mortgage loans through a centralized mortgage unit in Minneapolis, Minn. as well as through the Banking branch locations.

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**MORTGAGE**

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(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 203	\$ 210	\$ 365	\$ 535	\$ 1,003
Noninterest income	6,221	6,673	7,900	16,637	19,487
<b>Total net revenue</b>	<b>6,424</b>	<b>6,883</b>	<b>8,265</b>	<b>17,172</b>	<b>20,490</b>
Noninterest expense	5,840	5,609	6,830	15,324	16,557
<b>Net income before income taxes</b>	<b>\$ 584</b>	<b>\$ 1,274</b>	<b>\$ 1,435</b>	<b>\$ 1,848</b>	<b>\$ 3,933</b>
Mortgage originations	\$ 253,476	\$ 276,737	\$ 309,553	\$ 670,811	\$ 788,197

Mortgage reported net income before taxes of \$0.6 million on revenue of \$6.4 million for the third quarter of 2017, as compared to net income of \$1.4 million on revenue of \$6.9 million for the second quarter of 2017. Mortgage originations for the quarter were \$253.5 million as compared to \$276.7 million for the second quarter of 2017. Noninterest expense increased from \$5.6 million to \$5.8 million during the quarter.

Net income before taxes for the third quarter of 2016 was \$1.4 million on revenue of \$8.3 million, as compared to \$0.5 million on revenue of \$6.4 million for the third quarter of 2017. Mortgage originations for the third quarter of 2016 were \$310.0 million compared to \$253.5 million for the third quarter of 2017. Noninterest expense was \$6.8 million in 2016 as compared to \$5.8 million in 2017, as a result of lower volume.

**Retirement and Benefits** offers retirement plan administration and investment advisory services, ESOP fiduciary services, payroll, health savings account, and other benefit services to customers nationwide. The Retirement and Benefits segment has over \$27.2 billion of Assets Under Administration (AUA) in all 50 states.

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## RETIREMENT AND BENEFITS

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(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Condensed Income Statement</b>					
Noninterest income	\$ 15,244	\$ 15,555	\$ 12,298	\$ 46,358	\$ 42,071
<b>Total net revenue</b>	<b>15,244</b>	<b>15,555</b>	<b>12,298</b>	<b>46,358</b>	<b>42,071</b>
Noninterest expense	10,960	10,100	11,299	31,539	33,033
<b>Net income before income taxes</b>	<b>\$ 4,284</b>	<b>\$ 5,455</b>	<b>\$ 999</b>	<b>\$ 14,819</b>	<b>\$ 9,038</b>
Assets under management	\$ 1,275,061	\$ 1,299,826	\$ 1,156,740		
Assets under administration	27,225,757	26,422,886	24,719,837		

Retirement and Benefits reported net income before taxes of \$4.3 million on revenue of \$15.2 million for the third quarter of 2017, compared to \$5.5 million net income before taxes on revenue of \$15.6 million for the second quarter of 2017. Noninterest expense for the third quarter of 2017 was \$11.0 million as compared to \$10.1 million for the second quarter of 2017. AUA increased to \$27.2 billion from \$26.4 billion during the quarter.

Net income before taxes for the third quarter of 2016 was \$1.0 million on revenue of \$12.3 million, compared to \$4.3 million on revenue of \$15.2 million for the third quarter of 2017. Noninterest expense decreased from \$11.3 million during the third quarter of 2016 to \$11.0 million for the third quarter of 2017. AUA increased from \$24.7 billion in the second quarter of 2016 to \$27.2 billion at September 30, 2017. AUM increased from \$1.2 billion to \$1.3 billion during the year.

**Wealth Management** offers trust and fiduciary services, investment management, and financial planning services to clients, and has \$2.6 billion of Assets Under Management (AUM).



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**WEALTH MANAGEMENT**

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(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 14	\$ 14	\$ 13	\$ 42	\$ 40
Noninterest income	3,533	3,599	3,160	10,681	9,994
<b>Total net revenue</b>	<b>3,547</b>	<b>3,613</b>	<b>3,173</b>	<b>10,723</b>	<b>10,034</b>
Noninterest expense	1,919	1,971	2,022	6,072	6,667
<b>Net income before income taxes</b>	<b>\$ 1,628</b>	<b>\$ 1,642</b>	<b>\$ 1,151</b>	<b>\$ 4,651</b>	<b>\$ 3,367</b>
Assets under management	\$ 2,570,205	\$ 2,478,089	\$ 2,176,654		
Assets under administration	81,117	72,460	71,151		

Wealth Management reported net income before taxes of \$1.6 million on revenue of \$3.5 million for the third quarter of 2017, as compared to net income before taxes of \$1.6 million on revenue of \$3.6 million for the second quarter of 2017. Noninterest expense decreased from \$2.0 million to \$1.9 million during the quarter. AUM increased from \$2.5 billion to \$2.6 billion during the quarter.

Net income before taxes increased from \$1.2 million on revenue of \$3.2 million for the third quarter of 2016 to \$1.6 million on revenue of \$3.5 million for the current quarter. Noninterest expenses decreased from \$2.0 million to \$1.9 million from the third quarter of 2016 to the same period in 2017. AUM increased from \$2.2 billion to \$2.6 billion and AUA increased from \$71.2 million to \$81.1 million during the year.

# Alerus Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	September 30, 2017	June 30, 2017	September 30, 2016
<b>Assets</b>	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 33,386	\$ 42,081	\$ 67,530
Investment securities			
Trading	1,959	1,963	2,005
Available-for-sale	283,918	296,475	268,485
Total investment securities	<u>285,877</u>	<u>298,438</u>	<u>270,490</u>
Mortgages held for sale	33,904	40,652	58,895
Loans and leases			
Loans and leases	1,554,256	1,501,276	1,368,657
Allowance for loan and lease losses	<u>(15,367)</u>	<u>(16,134)</u>	<u>(16,347)</u>
Net loans and leases	1,538,889	1,485,142	1,352,310
Premises and equipment	22,405	22,839	24,790
Bank-owned life insurance	29,752	29,545	34,311
Goodwill	27,329	27,329	27,682
Other intangible assets, excluding servicing assets	28,307	29,716	32,590
Deferred tax assets, net	15,085	15,353	14,871
Other assets	50,276	48,283	55,355
Total assets	<u>\$ 2,065,210</u>	<u>\$ 2,039,378</u>	<u>\$ 1,938,824</u>
<b>Liabilities and Stockholders' Equity</b>			
Deposits			
Noninterest-bearing	\$ 486,618	\$ 515,937	\$ 490,795
Interest-bearing	902,211	910,183	942,934
Time deposits	211,110	215,289	246,620
Total deposits	<u>1,599,939</u>	<u>1,641,409</u>	<u>1,680,349</u>
Short-term borrowings	194,395	131,630	951
Long-term debt	58,817	58,817	58,810
Accrued expenses and other liabilities	29,919	28,958	28,925
Total liabilities	<u>1,883,070</u>	<u>1,860,814</u>	<u>1,769,035</u>
Stockholders' equity			
Common stock and related surplus	39,558	39,337	37,738
Retained earnings	142,560	139,326	129,451
Accumulated other comprehensive income, net	22	(99)	2,600
Total stockholders' equity	<u>182,140</u>	<u>178,564</u>	<u>169,789</u>
Total liabilities and equity	<u>\$ 2,065,210</u>	<u>\$ 2,039,378</u>	<u>\$ 1,938,824</u>
Common shares outstanding	<u>13,700</u>	<u>13,690</u>	<u>13,521</u>
Book value per common share	<u>\$ 13.29</u>	<u>\$ 13.04</u>	<u>\$ 12.56</u>

# Alerus Financial Corporation and Subsidiaries

## Consolidated Statements of Income

(Dollars and shares in thousands, except per share data) (Unaudited)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans and leases, including fees	\$ 18,232	\$ 16,224	\$ 50,539	\$ 47,534
Investment securities	1,709	1,366	4,806	4,444
Other interest income	27	66	341	309
Total interest income	<u>19,968</u>	<u>17,656</u>	<u>55,686</u>	<u>52,287</u>
<b>Interest Expense</b>				
Deposits	793	812	2,531	2,462
Other borrowed funds	1,427	868	3,298	2,746
Total interest expense	<u>2,220</u>	<u>1,680</u>	<u>5,829</u>	<u>5,208</u>
Net interest income	17,748	15,976	49,857	47,079
Provision for credit losses	1,320	1,020	1,960	3,060
Net interest income after provision for credit losses	<u>16,428</u>	<u>14,956</u>	<u>47,897</u>	<u>44,019</u>
<b>Noninterest Income</b>				
Retirement and benefit services	15,244	12,298	46,358	42,071
Wealth management	3,533	3,160	10,681	9,994
Mortgage banking	6,221	7,900	16,637	19,487
Service charges on deposit accounts	470	511	1,355	1,449
Other	664	1,170	2,434	2,612
Total noninterest income	<u>26,132</u>	<u>25,039</u>	<u>77,465</u>	<u>75,613</u>
<b>Noninterest Expense</b>				
Salaries	18,501	18,643	51,275	52,181
Employee benefits	4,244	4,019	12,955	12,411
Net occupancy expense	1,521	1,610	4,701	4,753
Furniture and equipment expense	1,386	1,477	4,092	4,595
Intangible amortization expense	1,410	1,762	4,427	5,241
Other	8,196	8,691	24,100	27,511
Total noninterest expense	<u>35,258</u>	<u>36,202</u>	<u>101,550</u>	<u>106,692</u>
Income before income taxes	7,302	3,793	23,812	12,940
Applicable income taxes	2,357	1,238	9,346	4,543
Net income	4,945	2,555	14,466	8,397
Less: Preferred dividends	-	-	-	25
Net income applicable to common stock	<u>\$ 4,945</u>	<u>\$ 2,555</u>	<u>\$ 14,466</u>	<u>\$ 8,372</u>
Diluted earnings per common share	<u>\$ 0.35</u>	<u>\$ 0.18</u>	<u>\$ 1.03</u>	<u>\$ 0.60</u>
Diluted average common shares outstanding	<u>14,030</u>	<u>14,004</u>	<u>14,001</u>	<u>13,994</u>

## Alerus Financial Corporation and Subsidiaries

### Consolidated Statements of Cash Flows

(Dollars in thousands)	Nine months ended	
	September 30,	
	2017	2016
<b>Operating Activities</b>	(Unaudited)	(Unaudited)
Net income	\$ 14,466	\$ 8,397
Provision for credit losses	1,960	3,060
Depreciation, amortization and other	7,553	8,387
Other adjustments to net income	3,172	2,777
Changes in liabilities	(7,124)	(7,288)
Changes in other operating activities	(3,226)	(27,536)
Total cash flows from operating activities	24,354	(12,203)
<b>Investing Activities</b>		
Purchases of premises and equipment	(1,912)	(1,470)
Investments, net	(6,970)	35,598
Loans, net	(193,141)	(43,465)
Cash paid for business combinations	-	(45,441)
Other cash flows from investing activities	406	663
Total cash flows used by investing activities	(201,617)	(54,115)
<b>Financing Activities</b>		
Dividends paid	(4,902)	(4,690)
Redemption of preferred stock	-	(20,000)
Purchase of common stock	(216)	(55)
Deposits	(185,270)	(79,840)
Net borrowings	193,670	(27,726)
Total cash flows from (used by) financing activities	3,282	(132,311)
Change in cash and cash equivalents	(173,981)	(198,629)
Cash and cash equivalents at beginning of period	207,367	266,159
Cash and cash equivalents at end of period	\$ 33,386	\$ 67,530

#### About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiaries Alerus Financial, N.A. and Alerus Securities Corporation, offers business and consumer banking products and services, residential mortgage financing, employer-sponsored retirement plan and benefit administration, and wealth management including trust, brokerage, insurance, and asset management. Alerus Financial banking and wealth management offices are located in Grand Forks and Fargo, N.D., the Minneapolis-St. Paul, Minn. metropolitan area, Duluth, Minn., and Scottsdale, Ariz. Alerus Retirement and Benefits plan administration offices are located in St. Paul and Albert Lea, Minn., East Lansing and Troy, Mich., and Beford, N.H.

#### Forward-Looking Statements

The following information appears in accordance with the Private Securities Litigation Reform Act of 1995:

This press release contains forward-looking statements about Alerus Financial Corporation. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made.

These forward-looking statements may cover, among other things, anticipated future revenue and expenses and the future plans and prospects of Alerus Financial Corporation. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect Alerus Financial Corporation's revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, Alerus Financial Corporation's business and financial performance is likely to be negatively impacted by effects of recently enacted and future legislation and regulation. Alerus Financial Corporation's results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; cyber-attacks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, liquidity risk, and cybersecurity.

Forward-looking statements speak only as of the date they are made, and Alerus Financial Corporation undertakes no obligation to update them in light of new information or future events.