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ALERUS FINANCIAL CORPORATION REPORTS THIRD QUARTER 2016 RESULTS OF $2.6 MILLION NET INCOME

GRAND FORKS, ND (October 28, 2016) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $2.6 million for the third quarter of 2016, or $0.18 per diluted common share, compared to $4.3 million or $0.31 per diluted common share, for the third quarter of 2015.

Third quarter 2016 financial highlights:

- Revenue of $41.3 million, an increase of $4.5 million, or 12.4 percent, from third quarter of 2015
  - Banking division revenue of $17.6 million, an increase of 15.0 percent from third quarter of 2015
  - Retirement division revenue of $12.8 million, an increase of 6.3 percent from third quarter of 2015
  - Mortgage division revenue of $8.2 million, an increase of 14.7 percent from third quarter of 2015
  - Wealth management division revenue of $2.7 million, an increase of 19.7 percent from third quarter of 2015
- Non-interest expense increased $5.5 million from the third quarter of 2015, primarily due to the expenses associated with the acquisitions of Alliance Benefit Group North Central States, Inc. (ABGNCS) and Beacon Bank as well as expenses associated with the announced closure of three branch facilities
- Return on average assets (ROA) of 0.53 percent, compared to 1.11 percent for the third quarter of 2015
- Return on average common equity (ROE) of 5.99 percent, compared to 10.40 percent for the third quarter of 2015
- Return on tangible common equity (ROTCE) of 11.77 percent, compared to 13.61 percent for the third quarter of 2015
- Net interest margin of 3.71 percent, compared to 3.81 percent for the third quarter of 2015

Third quarter results included:

- Total assets increased $4.2 million, or 0.2 percent, during the quarter, to $1.9 billion
- Assets under administration increased $807.8 million, or 3.4 percent, to $24.8 billion
- Assets under management increased $75.0 million, or 2.3 percent, to $3.3 billion
- Mortgage originations totaled $309.6 million, compared to $257.9 million for the third quarter of 2015
- Nonperforming assets decreased $1.7 million from the second quarter of 2016, to $10.7 million
- Allowance for loan losses to nonperforming loans was 184.8 percent at September 30, 2016, compared with 154.0 percent at June 30, 2016

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, “We are continuing to build a high value financial services firm, which will provide quality financial products and services to our customer base. In January of 2016, we acquired Beacon Bank and Alliance Benefit Group North Central States, Inc. to enhance our product offerings and grow our customer base. These acquisitions increased revenue, however anticipated non-recurring conversion and integration expenses offset some of these revenue gains in the first three quarters. As we review our current footprint and changing customer behaviors, which favor digital technology, we have been able to reduce our dependency on physical facilities and announced the closure of three retail branch facilities on August 24, 2016. The cost of closing these branches was recorded in the third quarter of 2016, with the benefits being realized in future periods.”

SELECTED FINANCIAL DATA								
(Dollars in thousands)				Percentage Change	Percentage Change			
(Unaudited)	3Q 2016	2Q 2016	3Q 2015	3Q16 vs 2Q16	3Q16 vs 3Q15	YTD 2016	YTD 2015	Percentage Change
Net income	$ 2,555	$ 2,940	$ 4,323	(13.1)	(40.9)	$ 8,397	$ 13,765	(39.0)
Net income applicable to common stock	$ 2,555	$ 2,940	$ 4,273	(13.1)	(40.2)	$ 8,372	$ 13,615	(38.5)
Earnings per share	$ 0.18	$ 0.21	$ 0.31	(14.3)	(41.9)	$ 0.60	$ 0.98	(38.8)
Return on average assets	0.53%	0.61%	1.11%	(12.7)	(52.0)	0.58%	1.22%	(52.5)
Return on average common equity	5.99%	7.06%	10.40%	(15.2)	(42.4)	6.67%	11.40%	(41.5)
Net interest margin (tax equivalent)	3.71%	3.79%	3.81%	(2.2)	(2.7)	3.64%	3.89%	(6.3)
Efficiency ratio	88.34%	87.37%	84.19%	1.1	4.9	87.05%	80.05%	8.7
Dividends declared per common share	$ 0.11	$ 0.11	$ 0.11	-	-	$ 0.33	$ 0.31	6.7
Book value per common share	$ 12.56	$ 12.49	$ 11.62	0.6	8.1			

Earnings Summary

Alerus reported net income of $2.6 million, or $0.18 per diluted common share, for the third quarter of 2016, compared with the $4.3 million, or $0.31 per diluted common share, for the third quarter of 2015 and $2.9 million, or $0.21 per diluted common share, for the second quarter of 2016. Return on average assets was 0.53 percent for the third quarter of 2016, compared with 1.11 percent for the third quarter of 2015 and 0.61 percent for the second quarter of 2016. Return on average common equity was 5.99 percent for the third quarter of 2016, compared with 10.40 percent for the third quarter of 2015 and 7.06 percent for the second quarter of 2016. Year-to-date non-interest expenses include $3.8 million of non-recurring expenses related to the acquisitions of ABGNCS and Beacon Bank, both of which were acquired in January 2016, and are in the process of being integrated into Alerus.

Balance Sheet Highlights

Total assets at September 30, 2016 were $1.9 billion, an increase of $363.4 million from September 30, 2015. The increase from 2015 is primarily a result of the acquisition of Beacon Bank in January 2016. Loans and leases have increased by $226.7 million, investments by $95.0 million and goodwill and intangible assets by $37.9 million. Deposits have increased by $335.7 million, through organic growth and the acquisition of Beacon Bank. Total borrowings have increased since September 30, 2015, from $31.2 million to $59.5 million, as the result of the issuance of $49.4 million of subordinated notes payable and the assumption of $7.8 million of Trust Preferred Securities, less the repayment of $20 million of FHLB advances. The proceeds of the borrowings were utilized to acquire Beacon Bank and ABGNCS, and to redeem $20 million of Small Business Lending Fund (SBLF) preferred stock.

During the quarter, the balance sheet remained consistent with the prior quarter, reflecting a nominal increase of $4.2 million in total assets. Loans and deposits were stable, reflecting the retention efforts from the recent acquisitions.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	September 30, 2016	June 30, 2016	September 30, 2015
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 67,530	$ 71,477	$ 106,033
Investment securities			
Trading	2,005	2,018	2,594
Available-for-sale	268,485	269,305	172,906
Total investment securities	270,490	271,323	175,500
Mortgages held for sale	58,895	56,859	44,006
Loans and leases			
Loans and leases	1,368,657	1,371,917	1,141,987
Allowance for loan losses	(16,347)	(16,229)	(13,976)
Net loans and leases	1,352,310	1,355,688	1,128,011
Premises and equipment	24,790	25,799	21,216
Bank-owned life insurance	34,311	34,073	28,100
Goodwill	27,682	27,682	3,264
Other intangible assets, excluding servicing assets	32,590	34,349	19,116
Deferred tax assets, net	14,871	12,618	14,328
Other assets	54,760	44,116	35,227
Total assets	$ 1,938,229	$ 1,933,984	$ 1,574,801
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 490,795	$ 485,734	$ 402,672
Interest-bearing	942,934	938,025	714,870
Time deposits	246,620	252,071	227,058
Total deposits	1,680,349	1,675,830	1,344,600
Short-term borrowings	951	2,647	9,834
Long-term debt	9,078	9,090	21,406
Subordinated notes payable, net	49,422	49,406	-
Other liabilities	28,640	28,474	16,929
Total liabilities	1,768,440	1,765,447	1,392,769
Stockholders' equity			
Preferred stock and related surplus	-	-	20,000
Common stock and related surplus	37,738	37,027	40,026
Retained earnings	129,451	128,437	120,196
Accumulated other comprehensive income, net	2,600	3,073	1,810
Total stockholders' equity	169,789	168,537	182,032
Total liabilities and equity	$ 1,938,229	$ 1,933,984	$ 1,574,801
Common shares outstanding	13,521	13,497	13,945
Book value per common share	$ 12.56	$ 12.49	$ 11.62

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
(Unaudited)	2016	2015	2016	2015
Interest Income				
Loans and leases, including fees	$ 16,224	$ 13,213	$ 47,534	$ 38,852
Investment securities	1,366	1,094	4,444	3,377
Other interest income	66	26	309	49
Total interest income	17,656	14,333	52,287	42,278
Interest Expense				
Deposits	812	708	2,462	2,043
Other borrowed funds	947	143	2,965	443
Total interest expense	1,759	851	5,427	2,486
Net interest income	15,897	13,482	46,860	39,792
Provision for credit losses	1,020	675	3,060	2,025
Net interest income after provision for credit losses	14,877	12,807	43,800	37,767
Non-interest Income				
Retirement and benefit services	12,780	12,026	42,071	38,316
Wealth management	2,669	2,230	8,955	6,598
Mortgage banking	8,222	7,167	20,657	19,187
Service charges on deposit accounts	511	436	1,449	1,207
Other	1,211	1,406	3,606	4,883
Total non-interest income	25,393	23,265	76,738	70,191
Non-interest Expense				
Salaries	18,643	15,752	52,181	45,118
Employee benefits	4,019	3,254	12,411	9,868
Net occupancy expense	1,610	1,417	4,753	3,929
Furniture and equipment expense	1,477	1,154	4,595	3,678
Intangible amortization expense	1,760	1,316	5,235	3,566
Other	8,968	8,045	28,423	21,883
Total non-interest expense	36,477	30,938	107,598	88,042
Income before income taxes	3,793	5,134	12,940	19,916
Applicable income taxes	1,238	811	4,543	6,151
Net income	2,555	4,323	8,397	13,765
Less: Preferred dividends	-	50	25	150
Net income applicable to common stock	$ 2,555	$ 4,273	$ 8,372	$ 13,615
Diluted earnings per common share	$ 0.18	$ 0.31	$ 0.60	$ 0.98
Diluted average common shares outstanding	14,004	13,937	13,994	13,946

Alerus Financial Corporation and Subsidiaries

Statements of Cash Flows

(Dollars in Thousands)	Nine months ended September 30, 2016	2015
Operating Activities	(Unaudited)	(Unaudited)
Net income	$ 8,397	$ 13,765
Provision for credit losses	3,060	2,025
Depreciation, amortization and other	7,165	4,526
Other adjustments to net income	(1,848)	1,682
Changes in liabilities	(4,637)	(6,099)
Changes in other operating activities	(27,306)	(3,601)
Total cash flows from operating activities	(15,169)	12,298
Investing Activities		
Purchases of premises and equipment	(5,377)	(2,049)
Investments, net	(88,147)	30,601
Loans, net	(250,330)	(55,492)
Cash paid for business combinations	(46,919)	(3,722)
Other cash flows from investing activities	581	1,045
Total cash flows used by investing activities	(390,192)	(29,617)
Financing Activities		
Dividends paid	(4,690)	(4,332)
Purchase of stock	(55)	-
Deposits	222,328	82,433
Net borrowings	(11,293)	(786)
Other cash flows from financing activities	442	511
Total cash flows from (used by) financing activities	206,732	77,826
Change in cash and cash equivalents	(198,629)	60,507
Cash and cash equivalents at beginning of period	266,159	45,526
Cash and cash equivalents at end of period	$ 67,530	$ 106,033

Revenue

Total net revenue for the third quarter of 2016 was $41.3 million, $4.5 million, or 12.4 percent, higher than the third quarter of 2015, reflecting a 17.9 percent increase in net interest income and a 9.1 percent increase in non-interest income. The increase in net revenue was largely the result of higher retirement services income from the acquisition of ABGNCS and an increase in net interest income, due to higher average earning assets from the acquisition of Beacon Bank. Non-interest income represented 61.5 percent of total revenue for the third quarter of 2016, as compared to 63.3 percent for the same period in 2015.

Net Interest Income

Net interest income in the third quarter of 2016 was $15.9 million, compared with $13.5 million in the third quarter of 2015, an increase of $2.4 million, or 17.9 percent. The primary reason for the increase in net interest income was the higher earning asset balances resulting from the Beacon Bank acquisition. Average earning assets were $1.7 billion for the third quarter of 2016, compared with $1.4 billion for the same period in 2015, an increase of $307 million, or 21.7

percent. Earning assets decreased by $25.3 million from the second quarter of 2016. Net interest margin on a tax-equivalent basis in the third quarter of 2016 was 3.71 percent, compared with 3.81 percent in the third quarter of 2015, and 3.79 percent in the second quarter of 2016. The net interest margin has continued to trend downward due to the lower interest rate environment with the repricing of loans at lower rates, the addition of $50 million of subordinated debt and the assumption of $10 million of TRUPs The impact of the additional debt, on the net interest margin, was offset by the accretion of discounts on the loan portfolio, acquired in the Beacon acquisition.

Total loans as of September 30, 2016, were $1.37 billion, compared to $1.14 billion as of September 30, 2015, an increase of $226.7 million, or 19.8 percent. During the quarter, the loan portfolio decreased by $3.3 million, or 0.2 percent.

Total investment securities were $270.5 million on September 30, 2016, compared to $175.5 million as of September 30, 2015, an increase of $95.0 million, or 54.1 percent, primarily due to the Beacon Bank acquisition.

Total deposits were $1.68 billion on September 30, 2016, compared to $1.34 billion as of September 30, 2015, an increase of $335.7 million, or 25.0 percent, primarily as a result of the acquisition of Beacon Bank in January 2016 and organic growth. During the third quarter, deposits increased by $4.5 million.

Non-Interest Income

Third quarter non-interest income was $25.4 million, $2.1 million, or 9.1 percent, higher than the third quarter of 2015 and 5.8 percent lower than the second quarter of 2016. For the nine months ending September 30, 2016, non-interest income was $76.7 million, $6.5 million, or 9.3 percent, higher than the same period in 2015. Retirement Services income was $12.8 million, an increase of $0.8 million, or 6.3 percent, from the third quarter of 2015 and 10.4 percent lower than the second quarter of 2016. The decrease from the second quarter resulted from the reversal of fees recognized in previous quarters. For the nine months ending September 30, 2016, Retirement Services income was 9.8 percent higher than the same period in 2015. The growth in retirement services income has been a result of higher assets under administration, which have increased to $24.8 billion from $17.0 billion at September 30, 2015, primarily as a result of the ABGNCS acquisition. Mortgage banking fees increased to $8.2 million, or 14.7 percent, from $7.2 million reported for the third quarter of 2015. Mortgage originations for the third quarter of 2016 totaled $309.6 million, 78 percent from purchase mortgages and 22 percent from refinancing existing mortgages. This level of mortgage production may or may not continue into the future since it is dependent on the current level of interest rates and general economic conditions.

NON-INTEREST INCOME

(Dollars in thousands) (Unaudited)	3Q 2016	2Q 2016	3Q 2015	Percentage Change 3Q16 vs 2Q16	Percentage Change 3Q16 vs 3Q15	YTD 2016	YTD 2015	Percentage Change
Retirement and benefit services	$ 12,780	$ 14,259	$ 12,026	(10.4)	6.3	$ 42,071	$ 38,316	9.8
Wealth management	2,669	2,977	2,230	(10.3)	19.7	8,955	6,598	35.7
Mortgage banking	8,222	8,093	7,167	1.6	14.7	20,657	19,187	7.7
Service charges on deposit accounts	511	457	436	11.8	17.2	1,449	1,207	20.0
Other	1,211	1,175	1,406	3.1	(13.9)	3,606	4,883	(26.2)
Total non-interest income	$ 25,393	$ 26,961	$ 23,265	(5.8)	9.1	$ 76,738	$ 70,191	9.3

Non-Interest Expense

Total non-interest expense in the third quarter of 2016 was $36.5 million, $5.5 million, or 17.9 percent, higher than the third quarter of 2015, and $1.4 million, or 3.6 percent, lower than the second quarter of 2016. The increase in total non-interest expense, from the prior year, was primarily due to the acquisitions of ABGNCS and Beacon Bank, which added 133 employees and eight facilities. Non-recurring acquisition related expenses were $0.4 million during the third quarter of 2016 and $3.8 million for 2016. During the third quarter of 2016, Alerus announced the closure of three branch facilities and recorded $750 thousand of expenses related to the closures. The branches are scheduled to close during the fourth quarter.

Salaries expense in the third quarter of 2016 was $18.6 million, $2.9 million, or 18.4 percent, higher than the third quarter of 2015, and $0.7 million, or 3.8 percent, higher than the second quarter of 2016. The increase in salary expense from 2015 to 2016 is due to the additional salaries from the acquisitions of ABGNCS and Beacon Bank, the addition of employees to strengthen the infrastructure of the Company during the past year and higher mortgage production based incentive compensation. Employee benefits were $4.0 million for the third quarter of 2016, a 23.5 percent increase over the same period in 2015, and an 8.1 percent increase over the second quarter of 2016. The full-time equivalent number of employees has increased from 637 at September 30, 2015, to 791 at September 30, 2016, as a result of the acquisitions and the addition of a number of employees to further strengthen the infrastructure of the Company.

Alerus has acquired eighteen companies since 2002 creating identified intangible assets of $32.6 million and $27.7 million of goodwill on the balance sheet. The identified intangible assets amortize and the resulting amortization expense for the third quarter of 2016 was $1.8 million, or $0.4 million higher than the third quarter of 2015. For the first nine months of 2016, Alerus has amortized $5.2 million of intangible assets, an increase of $1.7 million, or 46.8 percent, compared to the first nine months of 2015. The amortization schedules vary based on the attributes of the identified intangibles and will fully amortize by December 31, 2025.

NON-INTEREST EXPENSE

(Dollars in thousands) (Unaudited)	3Q 2016	2Q 2016	3Q 2015	Percentage Change 3Q16 vs 2Q16	Percentage Change 3Q16 vs 3Q15	YTD 2016	YTD 2015	Percentage Change
Salaries	$ 18,643	$ 17,960	$ 15,752	3.8	18.4	$ 52,181	$ 45,118	15.7
Employee benefits	4,019	3,718	3,254	8.1	23.5	12,411	9,868	25.8
Net occupancy expense	1,610	1,589	1,417	1.3	13.6	4,753	3,929	21.0
Furniture and equipment expense	1,477	1,538	1,154	(4.0)	28.0	4,595	3,678	24.9
Intangible amortization expense	1,760	1,776	1,316	(0.9)	33.8	5,235	3,566	46.8
Marketing and business development	581	875	1,953	(33.6)	(70.3)	2,195	3,004	(26.9)
Supplies, telephone and postage	1,248	1,653	1,057	(24.5)	18.1	4,194	2,980	40.7
FDIC insurance	387	438	312	(11.6)	24.0	1,201	841	42.8
Professional fees- legal, audit and consulting	399	1,023	558	(61.0)	(28.5)	2,396	1,649	45.3
Correspondent and other contracted services	2,956	3,677	1,955	(19.6)	51.2	9,371	6,574	42.5
Other	3,397	3,592	2,211	(5.4)	53.6	9,066	6,835	32.6
Total non-interest expense	$ 36,477	$ 37,839	$ 30,939	(3.6)	17.9	$ 107,598	$ 88,042	22.2

Capital

Total common stockholders' equity was $169.8 million at September 30, 2016, compared to $168.5 million at June 30, 2016, and $162.0 million at September, 2015. Total equity was $169.8 million at September 30, 2016, compared to $168.5 million at June 30, 2016, and $182.0 million at September 30, 2015. Included in total stockholders' equity, throughout 2015, was $20 million in preferred stock, representing funds received from the Small Business Lending Fund (SBLF) in August 2011. The SBLF funds had an initial dividend rate of 1 percent for five years and were provided by the U.S. Treasury to stimulate small business lending. The Company redeemed the SBLF preferred stock on February 16, 2016, as the dividend rate was scheduled to reset to 9.0 percent. The SBLF preferred stock qualified as Tier 1 capital for regulatory purposes.

In December 2015, the company issued $50 million of subordinated debentures with an initial interest rate of 5.75 percent for five years and then converting to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. The proceeds of the subordinated debentures was utilized to retire the SBLF preferred stock and for the acquisitions of ABGNCS and Beacon Bank. The subordinated debentures qualify as Tier 2 capital for regulatory purposes, but are classified as long term debt on the Company's balance sheet.

The Company assumed $10.0 million of Trust Preferred Securities (TRUPS) from the parent company of Beacon Bank in the acquisition, which was recorded at fair value of $7.8 million. The TRUPS are classified as long term debt on the balance sheet, but qualify as Tier 1 capital for regulatory purposes.

The common equity Tier 1 capital ratio was 7.24 percent at September 30, 2016, as compared to 6.95 percent at June 30, 2016, and 10.50 percent at September 30, 2015. The Tier 1 capital ratio was 7.72 percent at September 30, 2016, compared with 7.41 percent at June 30, 2016, and 11.87 percent at September 30, 2015. The total risk based capital ratio was 11.81 percent at September 30, 2016, compared to 11.36 percent at June 30, 2016, and 12.86 percent at September 30, 2015. Tier 1 leverage ratio was 6.67 percent at September 30, 2016, as compared to 6.50 percent at June 30, 2016, and 11.28 percent at September 30, 2015.

The Company exceeded “well capitalized” levels for regulatory purposes on all, except the Tier 1 capital ratio at September 30, 2016, which was “adequately capitalized.” Based on the Company’s risk weighted assets as of September 30, 2016, Tier 1 capital was $4.5 million below the amount required to be considered “well capitalized” for Tier 1 capital ratio purposes. Alerus Financial N.A., the Bank, exceeded “well capitalized” levels for all regulatory capital ratios.

The tangible common equity to tangible assets ratio was 5.8 percent at September 30, 2016, compared with 5.7 percent at June 30, 2016, and 8.8 percent on September 30, 2015. Dividends on common shares for the third quarter of 2016 were $0.11 per share, the same as the second quarter of 2016 and the third quarter of 2015.

CAPITAL POSITION

(Dollars in thousands) (Unaudited)	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Total stockholders' equity	$ 169,789	$ 168,537	$ 165,933	$ 182,821	$ 182,032
Common stockholders' equity	169,789	168,537	165,933	162,821	162,032
Preferred stockholders' equity	-	-	-	20,000	20,000
Tangible common equity to tangible assets	5.83%	5.69%	5.15%	8.19%	8.80%
Tangible common equity to risk-weighted assets (2)	6.81%	6.42%	6.37%	10.21%	9.20%
Regulatory Capital: (1)					
Common equity tier 1 capital	116,467	115,221	112,329	150,873	148,995
Tier 1 capital	124,096	122,753	119,833	170,472	168,430
Total risk-based capital	189,865	188,389	184,682	235,160	182,406
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	7.24%	6.95%	7.01%	10.92%	10.50%
Tier 1 capital ratio	7.72%	7.41%	7.48%	12.33%	11.87%
Total risk-based capital ratio	11.81%	11.36%	11.52%	17.01%	12.86%
Tier 1 leverage ratio	6.67%	6.50%	6.41%	10.85%	11.28%

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

Credit Quality

Total nonperforming assets decreased to $10.7 million at September 30, 2016, from $12.4 million at June 30, 2016, and $8.4 million at September 30, 2015. Other real estate owned decreased from $1.9 million at June 30, 2016, to $1.8 million at September 30, 2016. Nonperforming assets to loans plus ORE decreased by 0.2 percent to 0.7 percent at September 30, 2016, from June 30, 2016. At September 30, 2015, the ratio was 0.7 percent, also. The allowance for loan losses (ALLL) was $16.3 million at September 30, 2016, compared with $16.2 million at June 30, 2016, and $14.0 million at September 30, 2015. The ALLL to total nonperforming loans was 184.8 percent at September 30, 2016, compared to 154.0 percent at June 30, 2016, and 225.1 percent at September 30, 2015. The Company’s provision for credit losses during the third quarter of 2016 was $1.0 million, compared to $675 thousand in the third quarter of 2015. Less than 0.5 percent of the Company’s loan portfolio is in energy related loans and less than 2.2 percent is based in western North Dakota, which has experienced an economic slowdown due to lower oil prices.

ASSET QUALITY										
(Dollars in thousands)										
(Unaudited)	September 30,		June 30,		March 31,		December 31,		September 30,	
Non Performing Loans	2016		2016		2016		2015		2015	
Commercial:										
Commercial	$	3,341	$	2,915	$	4,926	$	6,224	$	2,526
Commercial real estate		2,444		4,065		3,725		2,580		2,598
Total commercial		5,785		6,980		8,651		8,804		5,124
Consumer:										
Residential mortgages		3,052		3,552		5,227		2,326		1,053
Other consumer		8		6		13		22		32
Total consumer		3,060		3,558		5,240		2,348		1,085
Total nonperforming loans	$	8,845	$	10,538	$	13,891	$	11,152	$	6,209
Other real estate		1,800		1,851		1,543		842		2,128
Other nonperforming assets		11		14		16		35		89
Total nonperforming assets	$	10,656	$	12,403	$	15,450	$	12,029	$	8,426
Accruing loans 90 days or more past due	$	17	$	403	$	550	$	1,605	$	666
Nonperforming assets to loans plus ORE		0.7%		0.9%		1.1%		1.0%		0.7%
Allowance for loan losses	$	16,347	$	16,229	$	15,458	$	14,688	$	13,976
Allowance for loan losses to total nonperforming loans		184.8%		154.0%		111.3%		131.7%		225.1%

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 in thousands)				Percentage Change	Percentage Change			
(Unaudited)	3Q	2Q	3Q	3Q16 vs 2Q16	3Q16 vs 3Q15	YTD	YTD	Percentage
	2016	2016	2015			2016	2015	Change
Average common stockholders' equity	$ 169,816	$ 167,376	$ 162,970			$ 167,717	$ 159,727	
Less: average goodwill	(27,682)	(27,060)	(3,517)			(25,042)	(2,041)	
Less: average other intangibles, net of tax benefit	(20,070)	(21,493)	(11,911)			(21,092)	(13,500)	
Average tangible common equity	$ 122,064	$ 118,823	$ 147,542	2.7	(17.3)	$ 121,583	$ 144,186	(15.7)
Net income applicable to common stock	$ 2,555	$ 2,940	$ 4,273			$ 8,372	$ 13,615	
Add: Intangible amortization, net of tax benefits	1,056	1,065	790			3,141	2,140	
Net cash available to common stockholders	$ 3,611	$ 4,005	$ 5,063			$ 11,513	$ 15,755	(26.9)
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	5.99%	7.06%	10.40%			6.67%	11.40%	
Effect of excluding average intangibles	2.34%	2.89%	1.09%			2.53%	1.23%	
Effect of excluding intangible amortization, net of tax benefits	3.44%	3.61%	2.12%			3.45%	1.98%	
Return on average tangible common equity	11.77%	13.56%	13.61%	(13.2)	(13.5)	12.65%	14.61%	(13.4)
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	$ 0.18	$ 0.21	$ 0.31			$ 0.60	$ 0.98	
Effect of excluding intangible amortization, net of tax benefits	0.08	0.08	0.05			0.22	0.15	
Adjusted cash earnings per share*	$ 0.26	$ 0.29	$ 0.36	(10.1)	(29.0)	$ 0.82	$ 1.13	(27.2)

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 Benefits plan administration offices are located in St. Paul and Albert Lea, Minn., East Lansing and Troy, Mich., and Manchester, 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.