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ALERUS FINANCIAL CORPORATION REPORTS FOURTH QUARTER AND 2016 FULL YEAR RESULTS

ALERUS FINANCIAL REPORTS $14.0 MILLION NET INCOME FOR FULL YEAR 2016

GRAND FORKS, ND (January 26, 2017) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $5.6 million or $0.40 per diluted common share for the fourth quarter of 2016 (unaudited), compared to $2.8 million or $0.20 per diluted share for the fourth quarter of 2015. Full year net income of $14.0 million, or $1.00 per diluted share compares to $17.1 million, or $1.21 per diluted share in 2015.

Financial results:

- Full year 2016 (unaudited):
  - Net income of $14.0 million, down 18.0 percent from 2015
  - Diluted earnings per share of $1.00, down 17.4 percent from 2015
  - Return on average assets (ROA) of 0.73 percent, down from 1.12 percent in 2015
  - Return on average common equity (ROE) of 8.30 percent, down from 10.51 percent in 2015
  - Return on tangible common equity (ROTCE) of 14.88 percent, up from 13.41 percent in 2015
  - Revenue of $168.0 million, up 15.0 percent from 2015
    - Banking division revenue of $69.3 million, up 17.4 percent from 2015
    - Retirement and Benefits division revenue of $57.8 million, up 13.2 percent from 2015
    - Wealth Management division revenue of $12.6 million, up 10.7 percent from 2015
    - Mortgage division revenue of $28.3 million, up 14.9 percent from 2015
  - Non-interest expense of $143.8 million, up 21.7 percent from 2015
  - Intangible amortization expense from acquisitions of $7.0 million or $0.30 per diluted share, up from $4.4 million or, $0.19 per diluted share in 2015; net of tax benefits
  - Non-reoccurring expenses of $6.7 million, including acquisition expenses of $4.0 million, branch closure expenses of $1.5 million, and FHLB prepayment fees of $0.42 million

- Fourth quarter 2016:
  - Net income of $5.6 million, up 99.0 percent from the fourth quarter of 2015
  - Diluted earnings per share of $0.40, up 100.0 percent from the fourth quarter of 2015
  - Revenue of $44.4 million, up 22.9 percent from the fourth quarter of 2015
  - Non-interest expense of $36.2 million, up 20.3 percent from the fourth quarter of 2015
  - ROA of 1.09 percent and ROE of 13.04 percent

Fourth quarter 2016 results included:

- Customer growth:
  - Total assets increased $112.0 million in the fourth quarter to $2.05 billion, up $305.4 million from 2015
  - Total loans decreased $1.7 million in the fourth quarter to $1.37 billion, but were up $240.0 million from 2015, primarily as a result of the Beacon Bank acquisition
  - Deposits grew $104.9 million in the fourth quarter to $1.79 billion, up $327.2 million from 2015, largely a result of the Beacon Bank acquisition
  - Assets under administration increased $807.8 million in the fourth quarter to $25.0 billion, up $7.5 billion from 2015, mostly attributed to the acquisition of Alliance Benefit Group North Central States, Inc.
  - Assets under management increased $75.0 million in the fourth quarter to $3.4 billion, up $680 million from 2015.

- Mortgage originations of $276.9 million in the fourth quarter contributed to total originations of $1.1 billion, a $77.1 million increase from 2015

- Credit quality:
  - Nonperforming assets of $9.6 million, decreased 20.3 percent from the fourth quarter of 2015, representing 0.7 percent of loans and Other Real Estate (ORE)
  - Allowance for loan losses to nonperforming loans was 203.7 percent at December 31, 2016, compared with 131.7 percent at December 31, 2015

- Capital ratios:
  - Tier 1 capital ratio of 8.23 percent
  - Total risk based capital ratio of 12.29 percent
  - Tangible common equity to tangible asset ratio of 5.46 percent

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, "Alerus began 2016 with the two largest acquisitions in company history, Beacon Bank and Alliance Benefit Group North Central States, Inc., and ended the year with a stronger well positioned company. We devoted most of the year to integrating and assimilating those companies into Alerus and in consolidating branches and other facilities. The acquisitions have increased both revenues and expenses, while adding new products and locations to our growing organization, but the costs of the conversions and branch closures decreased short term profitability. We acknowledge net income and earnings per share, for the year, were below historical levels, but believe the investments made during the year position the Company for solid growth in the future."

"Our relationship-focused business model delivers products and services through our primary business segments, banking, mortgage, retirement and benefits, and wealth management, to help customers achieve their financial goals. We are spread across different regional banking and wealth management markets, as well as a national retirement services market. We have laid an incredibly strong foundation and I look forward to sharing more detail regarding our continued progress in the 2016 Annual Report."

Earnings Summary

Net income was $5.6 million for the fourth quarter of 2016, 99.0 percent higher than the $2.8 million for the fourth quarter of 2015, and is $14.0 million for the year, 18.0 percent lower than the $17.1 million for 2015. Diluted earnings per common share of $0.40 in the fourth quarter of 2016 were $0.20 higher than the fourth quarter of 2015, and $1.00 for the year, 17.4 percent lower than the $1.21 diluted earnings per share reported for 2015. The adjusted cash earnings per share, excluding the impact of intangible amortization, for 2016 were $1.30, a 7.1 percent decrease from the $1.40 in 2015. Return on average assets and return on average common equity were 1.09 percent and 13.04 percent, respectively, for the fourth quarter of 2016, compared with 0.71 percent and 6.71 percent, respectively, for the fourth quarter of 2015. Earnings for 2016 included $6.7 million of non-recurring expenses relating to the acquisitions of Alliance Benefit Group North Central States, Inc. (ABGNCS) and Beacon Bank of $4.0 million, $1.5 million for branch closure expenses, $0.42 million for prepayment fees on FHLB advances and a number of other non-recurring items. The intangible amortization expense increased from $4.4 million in 2015 to $7.0 million in 2016, as a result of the acquisitions of ABGNCS and Beacon Bank. These non-cash expenses will decrease over time, as the intangibles are amortized over their estimated lives.

SELECTED FINANCIAL DATA								
(Dollars in thousands)				Percentage Change	Percentage Change			
(Unaudited)	4Q 2016	3Q 2016	4Q 2015	4Q16 vs 3Q16	4Q16 vs 4Q15	YTD 2016	YTD 2015	Percentage Change
Net income	$ 5,634	$ 2,555	$ 2,831	120.5	99.0	$ 14,031	$ 17,108	(18.0)
Net income applicable to common stock	$ 5,634	$ 2,555	$ 2,781	120.5	102.6	$ 14,006	$ 16,908	(17.2)
Earnings per share	$ 0.40	$ 0.18	$ 0.20	122.2	100.0	$ 1.00	$ 1.21	(17.4)
Return on average assets	1.09%	0.53%	0.71%	106.5	54.1	0.73%	1.12%	(34.8)
Return on average common equity	13.04%	5.99%	6.71%	117.8	94.4	8.30%	10.51%	(21.0)
Net interest margin (tax equivalent)	3.59%	3.71%	3.61%	(3.3)	(0.6)	3.62%	3.81%	(5.0)
Efficiency ratio	81.48%	88.34%	83.26%	(7.8)	(2.1)	85.58%	80.84%	5.9
Dividends declared per common share	$ 0.11	$ 0.11	$ 0.11	-	-	$ 0.44	$ 0.42	4.8
Book value per common share	$ 12.47	$ 12.56	$ 11.67	(0.7)	6.9			

Acquisition Activity

On January 2, 2015, the Company acquired Interactive Retirement Systems, LTD, located in Bloomington, Minn. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identified intangible assets were recorded at fair value. The purchase, consisting of approximately 160 retirement plans with more than 16,200 retirement participants, increased the Company's retirement services division by $1.25 billion in retirement and individual asset managed accounts. As part of the transaction, $3.8 million was allocated to an identified customer intangible and $420 thousand to goodwill. The Company is amortizing the customer intangible over a 10-year period, resulting in an annualized intangible amortization expense of $378 thousand, while the goodwill is not subject to amortization.

On January 1, 2016, the Company acquired Alliance Benefit Group North Central States, Inc. (ABGNCS), located in Albert Lea and Eden Prairie, Minn. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identified intangible assets and goodwill were recorded at fair value. 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, based on the estimated value as of the acquisition date, confirmed through a study performed by an independent third party. The Company is amortizing the customer intangible over a 10-year period, resulting in an annualized 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 Company purchased approximately $350.0 million in cash, securities, loans, and other assets and assumed approximately $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 annual intangible amortization expense of $0.76 million, while the goodwill is not subject to amortization. A study by an independent third party was utilized to determine the core deposit intangible amount and life as well as the goodwill. The TRUPS were recorded at their fair value and qualify as tier 1 capital for regulatory capital purposes.

Subordinated Notes Issuance

On December 17, 2015, the Company issued $50 million of fixed-to-floating rate subordinated notes, through a private placement offering, that mature on December 30, 2025. The notes, which qualify as Tier 2 regulatory capital, have a fixed rate of interest of 5.75 percent, through December 30, 2020, and then convert to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. Through December 30, 2020, interest is payable semi-annually on June 30 and December 30, and thereafter interest is paid quarterly on March 30, June 30, September 30, and December 30. From December 30, 2020, to the maturity date, the notes can be redeemed on any interest payment date at par. The proceeds were utilized to retire the SBLF preferred stock and for the acquisitions of ABGNCS and Beacon Bank, as well as to support organic growth and future acquisitions. The annual interest expense on the subordinated notes for 2016 was $2.875 million.

Accounting Changes

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee "Share-Based Payment Accounting", an update that changes the accounting for certain aspects of share-based payments to employees. The updated guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. Previously, excess tax benefits and certain tax deficiencies were recorded in additional paid-in capital. During the fourth quarter of 2016 the Company elected to adopt ASU 2016-09, effective January 1, 2016, the impact of which lowered tax expense and increased net income by $543 thousand in 2016. The early adoption resulted in a cumulative effect adjustment of $606 thousand to lower 2015 tax expense and increase net income. The 2015 financial results have been amended to reflect the effect of these adjustments.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	December 31, 2016	September 30, 2016	December 31, 2015
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 207,367	$ 67,530	$ 266,159
Investment securities			
Trading	1,959	2,005	1,947
Available-for-sale	276,952	268,485	190,396
Total investment securities	278,911	270,490	192,343
Mortgages held for sale	35,063	58,895	48,642
Loans and leases			
Loans and leases	1,366,952	1,368,657	1,126,921
Allowance for loan losses	(15,615)	(16,347)	(14,688)
Net loans and leases	1,351,337	1,352,310	1,112,233
Premises and equipment	24,262	24,790	22,419
Bank-owned life insurance	29,139	34,311	28,308
Goodwill	27,329	27,682	3,683
Other intangible assets, excluding servicing assets	32,730	32,590	17,606
Deferred tax assets, net	19,521	14,871	13,780
Other assets	44,610	54,760	39,690
Total assets	$ 2,050,269	$ 1,938,229	$ 1,744,863
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 554,490	$ 490,795	$ 425,608
Interest-bearing	990,186	942,934	815,958
Time deposits	240,533	246,620	216,455
Total deposits	1,785,209	1,680,349	1,458,021
Short-term borrowings	729	951	0
Long-term debt	9,066	9,078	21,369
Subordinated notes payable, net	49,437	49,422	49,375
Other liabilities	37,043	28,640	33,277
Total liabilities	1,881,484	1,768,440	1,562,042
Stockholders' equity			
Preferred stock and related surplus	-	-	20,000
Common stock and related surplus	37,416	37,738	40,298
Retained earnings	133,307	129,451	121,474
Accumulated other comprehensive income, net	(1,938)	2,600	1,049
Total stockholders' equity	168,785	169,789	182,821
Total liabilities and equity	$ 2,050,269	$ 1,938,229	$ 1,744,863
Common shares outstanding	13,534	13,521	13,954
Book value per common share	$ 12.47	$ 12.56	$ 11.67

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended December 31,		Twelve months ended December 31,	
(Unaudited)	2016	2015	2016	2015
Interest Income				
Loans and leases, including fees	$ 16,110	$ 12,879	$ 63,644	$ 51,731
Investment securities	1,424	1,098	5,868	4,475
Other interest income	121	74	430	123
Total interest income	17,655	14,051	69,942	56,329
Interest Expense				
Deposits	923	715	3,385	2,758
Other borrowed funds	818	257	3,783	700
Total interest expense	1,741	972	7,168	3,458
Net interest income	15,914	13,079	62,774	52,871
Provision for credit losses	-	2,175	3,060	4,200
Net interest income after provision for credit losses	15,914	10,904	59,714	48,671
Non-interest Income				
Retirement and benefit services	15,733	12,743	57,804	51,060
Wealth management	3,685	3,035	12,640	11,417
Mortgage banking	7,639	5,443	28,296	24,630
Service charges on deposit accounts	467	404	1,916	1,611
Other	985	1,439	4,591	4,537
Total non-interest income	28,509	23,064	105,247	93,255
Non-interest Expense				
Salaries	18,558	14,004	70,739	59,122
Employee benefits	3,564	2,936	15,975	12,804
Net occupancy expense	1,684	1,273	6,437	5,202
Furniture and equipment expense	1,425	1,341	6,020	5,019
Intangible amortization expense	1,770	795	7,005	4,361
Other	9,193	9,744	37,616	31,627
Total non-interest expense	36,194	30,093	143,792	118,135
Income before income taxes	8,229	3,875	21,169	23,791
Applicable income taxes	2,595	1,044	7,138	6,683
Net income	5,634	2,831	14,031	17,108
Less: Preferred dividends	-	50	25	200
Net income applicable to common stock	$ 5,634	$ 2,781	$ 14,006	$ 16,908
Diluted earnings per common share	$ 0.40	$ 0.20	$ 1.00	$ 1.21
Diluted average common shares outstanding	14,019	13,951	14,000	13,947

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)	Twelve months ended December 31, 2016	2015
Operating Activities	(Unaudited)	(Unaudited)
Net income	$ 14,031	$ 16,502
Provision for credit losses	3,060	4,200
Depreciation, amortization and other	11,185	8,727
Other adjustments to net income	(5,712)	927
Changes in liabilities	1,174	10,039
Changes in other operating activities	(7,475)	(16,036)
Total cash flows from operating activities	16,263	24,359
Investing Activities		
Purchases of premises and equipment	(6,290)	(3,906)
Investments, net	(86,568)	12,605
Loans, net	(225,525)	(38,722)
Cash paid for business combinations	(46,919)	(4,314)
Other cash flows from investing activities	1,116	2,126
Total cash flows used by investing activities	(364,186)	(32,211)
Financing Activities		
Dividends paid	(6,188)	(6,059)
Redemption of preferred stock	(20,000)	-
Purchase of common stock	(357)	(27)
Deposits	327,188	195,853
Net borrowings	(11,512)	38,718
Total cash flows from (used by) financing activities	289,131	228,485
Change in cash and cash equivalents	(58,792)	220,633
Cash and cash equivalents at beginning of period	266,159	45,526
Cash and cash equivalents at end of period	$ 207,367	$ 266,159

Revenue

Total net revenue for the fourth quarter of 2016 was $44.4 million, which was $8.3 million, or 22.9 percent, higher than the fourth quarter of 2015, and reflects a 21.7 percent increase in net interest income and a 24.0 percent increase in non-interest income. Total net revenue for the full year of 2016 was $168.0 million, which was $21.9 million, or 15.0 percent, higher than the full year of 2015. The increase in net revenue, year-over-year, included an increase of $9.9 million in net interest income, primarily from the Beacon Bank acquisition, $6.7 million higher retirement services income primarily from the ABGNCS acquisition, increased mortgage banking revenues of $3.7 million, due to higher origination volumes, and an increase in wealth management revenues of $1.2 million. Non-interest income represented 62.6% of total revenue for the Company in 2016 as compared to 63.8 percent in 2015.

Net Interest Income

Net interest income in the fourth quarter of 2016 was $15.9 million, compared with $13.1 million in the fourth quarter of 2015, an increase of $2.8 million, or 21.7 percent. The primary reason for the increase in net interest income during the quarter was the acquisition of Beacon Bank's loan and investment securities balances. The Company did not record any provision for credit losses during the quarter, as the Allowance for Loan and Lease Losses (ALLL) was adequate and credit quality improving. The net interest margin continued to decline, as during the year a number of loans matured and were renewed at lower rates, resulting in the net interest margin (tax equivalent) decreasing to 3.62 percent in 2016, from 3.81 percent in 2015. Net interest income for the full year was $62.8 million, an increase of $9.9 million from 2015, and was the result of higher average loans outstanding during the year from the Beacon Bank acquisition.

Average earning assets were $1.75 billion for 2016, compared with $1.40 billion for 2015, an increase of $350.5 million, or 25.0 percent. The primary driver of the increase in earning assets was the acquisition of Beacon Bank. Net interest margin on a tax-equivalent basis in the fourth quarter of 2016 was 3.59 percent, compared with 3.61 percent in the fourth quarter of 2015, and 3.71 percent in the third quarter of 2016. During the fourth quarter of 2015, the Company issued $50 million of subordinated debentures and retained higher than normal levels of cash for the acquisitions which closed in January 2016, thus reducing net interest margin.

Total loans as of December 31, 2016, were $1.37 billion, compared to $1.13 billion as of December 31, 2015, an increase of $240 million, or 21.3 percent. The increases were driven by the acquisition of Beacon Bank and by new and existing credit-worthy borrowers.

Total investment securities were $278.9 million on December 31, 2016, compared to $192.3 million as of December 31, 2015, an increase of $86.6 million, or 45.0 percent. The acquisition of Beacon Bank and additional purchases of securities increased the investment securities portfolio during 2016.

Total deposits were $1.79 billion on December 31, 2016, compared to $1.46 billion as of December 31, 2015, an increase of $327.2 million, or 22.4 percent. The increase was primarily the result of the acquisition of Beacon Bank and growth in both non-interest and interest bearing accounts, including new Trust related deposits. The Company's loan to deposit ratio decreased from 80.6 percent at December 31, 2015, to 78.5 percent at the end of 2016, as deposit balances increased more than loans.

Non-interest Income

Fourth quarter non-interest income was $28.5 million, which was $5.4 million, or 23.6 percent, higher than the fourth quarter of 2015. For the full year, non-interest income increased by $12.0 million from $93.3 million to $105.3 million, principally due to the acquisition of ABGNCS, as well as increases in mortgage banking and wealth management income. Retirement Services income increased $6.7 million, or 13.2 percent year-over-year, while Wealth Management income increased 10.7 percent to $12.6 million, from $11.4 million in 2015. The acquisition of ABGNCS added over 900 plans, 75,000 participants, and increased assets under administration by $6.0 billion. Mortgage banking fees increased by $3.7 million, or 14.9 percent, to $28.3 million on mortgage originations of $1.1 billion. 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)	4Q 2016	3Q 2016	4Q 2015	Percentage Change 4Q16 vs 3Q16	Percentage Change 4Q16 vs 4Q15	YTD 2016	YTD 2015	Percentage Change
Retirement and benefit services	$ 15,733	$ 12,780	$ 12,743	23.1	23.5	$ 57,804	$ 51,060	13.2
Wealth management	3,685	2,669	3,035	38.1	21.4	12,640	11,417	10.7
Mortgage banking	7,639	8,222	5,443	(7.1)	40.3	28,296	24,630	14.9
Service charges on deposit accounts	467	511	404	(8.6)	15.6	1,916	1,611	18.9
Other	985	1,211	1,439	(18.7)	(31.5)	4,591	4,537	1.2
Total non-interest income	$ 28,509	$ 25,393	$ 23,064	12.3	23.6	$105,247	$ 93,255	12.9

Non-interest Expense

Total non-interest expense in the fourth quarter of 2016 was $36.2 million, which was $6.1 million, or 20.3 percent, higher than the fourth quarter of 2015, and equal to the third quarter of 2016. The increase in total noninterest expense year-over-year was primarily due to additional salaries and benefits of $1.9 million as a result of the acquisitions, one-time acquisition conversion expenses of $2.1 million, increased intangible amortization expenses of $2.3 million from the ABGNCS and Beacon Bank acquisitions, higher mortgage commissions of $1.3 million based on loan volumes, costs associated with the closure of three branch offices of $1.5 million, and $0.41 million of prepayment penalties on FHLB advances. With the acquisitions, the Company acquired seven additional facilities, which increased occupancy expenses for the year. During the year the Company closed three branch offices and consolidated two retirement services offices, which will result in savings in future periods.

Salary expense in the fourth quarter of 2016 was $18.6 million, which was $4.5 million, or 32.5 percent higher than the fourth quarter of 2015, and equal to the third quarter of 2016. Salary expense for the year ended 2016 was $70.7 million, which was $11.6 million, or 19.6 percent higher, than the $59.1 million reported in 2015. The increase in salary expense, as set forth above is primarily due to the additional salaries resulting from the acquisitions of ABGNCS and Beacon Bank and higher mortgage commissions. The Company had 783 Full Time Equivalent (FTEs) employees at the end of 2016, an increase of 136 FTEs, or 21 percent over year end 2015. The mortgage commissions are variable and tied directly to mortgage production and are not a permanent increase in compensation expense.

The Company has acquired eighteen companies since 2002, including ABGNCS and Beacon Bank, creating identified intangible assets of $32.7 million and $27.3 million of goodwill on the balance sheet, a significant increase over 2015 intangible assets of $17.6 million and $3.7 million of goodwill. The identified intangible assets amortize and the resulting noncash amortization expense for 2016 was $7.0 million, a $2.6 million increase from the $4.4 million reported for 2015. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of December 31, 2016, is $32.7 million and will fully amortize by December 31, 2025. The aggregate unamortized intangible balance was $17.6 million as of December 31, 2015. The acquisitions of ABGNCS and Beacon Bank in January 2016 created additional goodwill of $23.6 million and identified intangibles of $21.7 million, with the identified intangibles portion amortized over five years for the core deposit intangible and ten years for the customer intangible, beginning in 2016.

NON-INTEREST EXPENSE

(Dollars in thousands) (Unaudited)	4Q 2016	3Q 2016	4Q 2015	Percentage Change 4Q16 vs 3Q16	Percentage Change 4Q16 vs 4Q15	YTD 2016	YTD 2015	Percentage Change
Salaries	$ 18,558	$ 18,643	$ 14,004	(0.5)	32.5	$ 70,739	$ 59,122	19.6
Employee benefits	3,564	4,019	2,936	(11.3)	21.4	15,975	12,804	24.8
Net occupancy expense	1,684	1,610	1,273	4.6	32.3	6,437	5,202	23.7
Furniture and equipment expense	1,425	1,477	1,341	(3.5)	6.3	6,020	5,019	19.9
Intangible amortization expense	1,770	1,760	795	0.6	122.7	7,005	4,361	60.6
Marketing and business development	1,044	581	903	79.7	15.6	3,239	3,907	(17.1)
Supplies, telephone and postage	1,344	1,248	1,424	7.7	(5.6)	5,538	4,404	25.7
FDIC insurance	257	387	334	(33.6)	(23.1)	1,458	1,175	24.1
Professional fees- legal, audit and consulting	985	399	903	146.9	9.1	3,381	2,552	32.5
Correspondent and other contracted services	3,455	2,956	2,820	16.9	22.5	12,826	9,394	36.5
Other	2,108	3,397	3,360	(37.9)	(37.3)	11,174	10,195	9.6
Total non-interest expense	$ 36,194	$ 36,477	$ 30,093	(0.8)	20.3	$ 143,792	$118,135	21.7

Capital

Total common stockholder equity was $168.8 million at December 31, 2016, compared to $169.8 million at September 30, 2016, and $162.8 million at December 31, 2015. Total equity was $168.8 million at December 31, 2016, compared to $169.8 million at September 30, 2016, and $182.8 million at December 31, 2015. Included in total stockholder equity at December 31, 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 rate of 1 percent for five years and were provided by the U.S. Treasury to stimulate small business lending. The interest rate on the SBLF was scheduled to reset to 9.0 percent on February 18, 2016 and the Company redeemed the preferred stock in February 2016, reducing total stockholder equity. In December 2015, the Company issued $50 million of subordinated debentures which mature on December 30, 2025. The subordinated debentures have an initial rate of 5.75 percent for five years and then convert to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. The subordinated debentures qualify as tier 2 capital for regulatory purposes. The proceeds of the subordinated debentures were utilized for the acquisitions of ABGNCS and Beacon Bank, and to retire the SBLF preferred stock.

The Tier 1 capital ratio was 8.23 percent at December 31, 2016, compared with 7.90 percent at September 30, 2016, and 12.33 percent at December 31, 2015. The tangible common equity to tangible assets ratio was 5.46 percent on December 31, 2016, compared with 5.83 percent at September 30, 2016, and 8.19 percent at December 31, 2015. The tangible common equity to risk-based assets ratio was 6.79 percent at December 31, 2016, compared with 6.77 percent at September 30, 2016, and 10.21 percent at December 31, 2015. All regulatory ratios are in excess of "well-capitalized" requirements at December 31, 2016 and 2015. Dividends on common shares for 2016 were $0.44 per share, or $6.2 million, compared to 2015 dividends of $0.42, or $5.9 million, an increase of 5.2 percent.

CAPITAL POSITION

(Dollars in thousands)

(Unaudited)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Total stockholders' equity	$ 168,785	$ 169,789	$ 168,537	$ 165,933	$ 182,821
Common stockholders' equity	168,785	169,789	168,537	165,933	162,821
Preferred stockholders' equity	-	-	-	-	20,000
Tangible common equity to tangible assets	5.46%	5.83%	5.69%	5.15%	8.19%
Tangible common equity to risk-weighted assets (2)	6.79%	6.77%	6.41%	6.37%	10.21%
Regulatory Capital: (1)					
Common equity tier 1 capital	124,094	120,324	116,829	114,200	150,873
Tier 1 capital	131,822	127,953	124,361	121,704	170,472
Total risk-based capital	196,875	193,722	189,997	186,553	235,160
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	7.74%	7.43%	7.03%	7.12%	10.92%
Tier 1 capital ratio	8.23%	7.90%	7.49%	7.59%	12.33%
Total risk-based capital ratio	12.29%	11.97%	11.44%	11.63%	17.01%
Tier 1 leverage ratio	6.85%	6.87%	6.58%	6.50%	10.85%

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

Credit Quality

Credit quality trends improved during the year, with total nonperforming assets decreasing to $9.6 million at December 31, 2016, from $12.0 million at December 31, 2015, even with the addition of Beacon Bank. Decreases in nonperforming loans were primarily in the commercial loan portfolio. Other real estate owned (ORE) increased from $842 thousand at December 31, 2015, to $1.7 million at December 31, 2016, primarily as a result of ORE acquired in the Beacon acquisition. Nonperforming assets to loans plus ORE decreased to 0.7 percent from 1.0 percent at December 31, 2015. The allowance for credit losses (ALLL) was $15.6 million at December 31, 2016, compared with $16.3 million at September 30, 2016, and $14.7 million at December 31, 2015. The ALLL to total nonperforming loans was 203.7 percent at December 31, 2016, as compared to 131.7 percent at December 31, 2015. The Company's provision for credit losses during 2016 was $3.1 million, as compared to $4.2 million in 2015. Net charge-offs on loans during 2016 were $2.1 million, as compared to $6.5 million during 2015. The Company has limited exposure to the energy industry; less than 0.5 percent of the Company's loan portfolio is in energy related loans and only 2.2 percent is based in western North Dakota, which has experienced an economic slowdown due to energy.

ASSET QUALITY					
(Dollars in thousands)					
(Unaudited)	December 31,	September 30,	June 30,	March 31,	December 31,
Non Performing Loans	2016	2016	2016	2016	2015
Commercial:					
Commercial	$ 2,866	$ 3,341	$ 2,915	$ 4,926	$ 6,224
Commercial real estate	901	2,444	4,065	3,725	2,580
Total commercial	3,767	5,785	6,980	8,651	8,804
Consumer:					
Residential mortgages	3,826	3,052	3,552	5,227	2,326
Other consumer	72	8	6	13	22
Total consumer	3,898	3,060	3,558	5,240	2,348
Total nonperforming loans	$ 7,665	$ 8,845	$ 10,538	$ 13,891	$ 11,152
Other real estate	1,721	1,800	1,851	1,543	842
Other nonperforming assets	196	11	14	16	35
Total nonperforming assets	$ 9,582	$ 10,656	$ 12,403	$ 15,450	$ 12,029
Accruing loans 90 days or more past due	$ 48	$ 17	$ 403	$ 550	$ 1,605
Nonperforming assets to loans plus ORE	0.7%	0.7%	0.9%	1.1%	1.0%
Allowance for loan losses	$ 15,615	$ 16,347	$ 16,229	$ 15,458	$ 14,688
Allowance for loan losses to total nonperforming loans	203.7%	184.8%	154.0%	111.3%	131.7%

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	Percentage			
(Unaudited)				Change	Change			
	4Q	3Q	4Q	4Q16	4Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2016	2015	3Q16	4Q15	2016	2015	Change
Average common stockholders' equity	$ 171,834	$ 169,816	$ 164,454			$ 168,742	$ 160,903	
Less: average goodwill	(27,655)	(27,682)	(3,327)			(25,699)	(2,365)	
Less: average other intangibles, net of tax benefit	(19,268)	(20,070)	(11,129)			(20,651)	(12,903)	
Average tangible common equity	$ 124,911	$ 122,064	$ 149,998	2.3	(16.7)	$ 122,392	$ 145,635	(16.0)
Net income applicable to common stock	$ 5,634	$ 2,555	$ 2,781			$ 14,006	$ 16,908	
Add: Intangible amortization, net of tax benefits	1,062	1,056	477			4,203	2,617	
Net cash available to common stockholders	$ 6,696	$ 3,611	$ 3,258			$ 18,209	$ 19,525	(6.7)
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	13.04%	5.99%	6.71%			8.30%	10.51%	
Effect of excluding average intangibles	4.90%	2.34%	0.64%			3.14%	1.10%	
Effect of excluding intangible amortization, net of tax benefits	3.38%	3.44%	1.26%			3.43%	1.80%	
Return on average tangible common equity	21.33%	11.77%	8.62%	81.2	147.5	14.88%	13.41%	11.0
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	$ 0.40	$ 0.18	$ 0.20			$ 1.00	$ 1.21	
Effect of excluding intangible amortization, net of tax benefits	0.08	0.08	0.03			0.30	0.19	
Adjusted cash earnings per share*	$ 0.48	$ 0.26	$ 0.23	85.8	104.5	$ 1.30	$ 1.40	(7.1)

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 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.