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ALERUS FINANCIAL CORPORATION REPORTS FIRST QUARTER 2017 RESULTS OF $5.0 MILLION NET INCOME

GRAND FORKS, N.D. (April 21, 2017) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $5.0 million for the first quarter of 2017, or $0.35 per diluted common share, compared to $3.2 million or $0.23 per diluted common share for the first quarter of 2016.

First quarter 2017 financial highlights:

- Revenue of $39.7 million, an increase of $0.8 million, or 2.2 percent from the first quarter of 2016
  - Net interest income of $15.5 million, 39.0 percent of revenue, up 5.5 percent from the first quarter of 2016
  - Noninterest income of $24.2 million, 61.0 percent of revenue, in line with the first quarter of 2016
- Noninterest expense of $32.5 million was in line with the first quarter of 2016
- Return on average assets (ROA) of 1.03 percent, compared to 0.67 percent for the first quarter of 2016
- Return on average common equity (ROE) of 11.46 percent, compared to 7.70 percent for the first quarter of 2016
- Return on average tangible common equity (ROTCE) of 18.57 percent, compared to 13.62 percent for the first quarter of 2016
- Net interest margin of 3.58 percent, compared to 3.40 percent for the first quarter of 2016

First quarter results included:

- Total assets remained constant at $2.0 billion
  - Loans increased $28.1 million to $1.40 billion
  - Deposits decreased $42.1 million to $1.74 billion
- Assets under administration (AUA) increased $0.9 billion, or 3.5 percent, to $25.9 billion
- Assets under management (AUM) increased $241 million, or 7.1 percent, to $3.6 billion
- Mortgage originations totaled $140.6 million, compared to $276.9 million for the fourth quarter of 2016
- Nonperforming assets of $8.9 million, decreased $0.7 million from the fourth quarter of 2016
- Allowance for loan losses to nonperforming loans was 196.3 percent at March 31, 2017, compared with 203.7 percent at December 31, 2016

CEO Comments

Chairman, President, and Chief Executive Officer Randy Newman said, "The first quarter's results represent the successful conversion and integration of Beacon Bank and Alliance Benefit Group North Central States, Inc. into Alerus. The earnings power of a diversified business model with an expanded customer base has provided us the opportunity to grow each of our business lines. We have seen improved credit quality; through the introduction of a new "customer-centric" organizational structure and an expansion of our leadership team we are able to insure improvement in both customer effectiveness and financial performance. In addition, our new structure and leadership will facilitate the development of leaders from within our company and with the "Alerus Culture," as we plan for the future."

SELECTED FINANCIAL DATA

(Dollars in thousands)

(Unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016	Mar 31, 2017 vs Dec 31, 2016	Mar 31, 2017 vs Mar 31, 2016
Net income	$ 4,951	$ 5,634	$ 3,202	(12.1) %	54.6 %
Net income applicable to common stock	$ 4,951	$ 5,634	$ 3,177	(12.1) %	55.8 %
Earnings per share	$ 0.35	$ 0.40	$ 0.23	(12.5) %	52.2 %
Return on average assets	1.03%	1.09%	0.67%	(5.9) %	53.1 %
Return on average common equity	11.46%	13.04%	7.70%	(12.1) %	48.9 %
Net interest margin (tax equivalent)	3.58%	3.59%	3.40%	(0.4) %	5.2 %
Efficiency ratio	81.93%	81.48%	85.34%	0.6 %	(4.0) %
Dividends declared per common share	$ 0.12	$ 0.11	$ 0.11	9.1 %	9.1 %
Book value per common share	$ 12.72	$ 12.47	$ 12.29	2.0 %	3.5 %

Earnings Summary

Alerus reported net income of $5.0 million, or $0.35 per diluted common share, for the first quarter of 2017, compared with the $3.2 million, or $0.23 per diluted common share, for the first quarter of 2016 and $5.6 million, or $0.40 per diluted common share, for the fourth quarter of 2016. ROA was 1.03 percent for the first quarter of 2017, compared with 0.67 percent for the first quarter of 2016 and 1.09 for the fourth quarter of 2016. ROE was 11.46 percent for the first quarter of 2017, compared with 7.70 percent for the first quarter of 2016 and 13.04 percent for the fourth quarter of 2016.

Net Interest Income

Net interest income in the first quarter of 2017 was $15.5 million, compared with $14.7 million in the first quarter of 2016, an increase of $0.8 million, or 5.5 percent. Throughout 2016, the Company focused on retention of the Beacon Bank loan and deposit customers and organic growth of the loan portfolio. Although total assets were maintained in the $2.0 billion range, the loan portfolio grew from 65.0 percent of assets at March 31, 2016, to 69.6 percent at March 31, 2017, enhancing net interest income.

Net interest margin on a tax-equivalent basis in the first quarter of 2017 was 3.58 percent, compared with 3.40 percent in the first quarter of 2016, and 3.59 percent in the fourth quarter of 2016. During the year, the Company repaid $27.9 million of borrowings and increased the level of noninterest bearing deposits to 30 percent of deposits at March 31, 2017, compared to 26 percent at March 31, 2016, improving the net interest margin.

Noninterest Income

First quarter noninterest income was $24.2 million, in line with the first quarter of 2016 and $3.7 million lower than the fourth quarter of 2016. Mortgage banking fees have declined as interest rates increased, resulting in lower mortgage originations.

- Retirement and benefit services income was $15.6 million, consistent with the first and fourth quarters of 2016. During 2016, the Company focused on retaining the newly acquired clients from the Alliance Benefits Group North Central States, Inc. (ABGNCS) acquisition and organic growth. AUA increased from $23.7 billion at March 31, 2016, to $25.9 billion at March 31, 2017.
- Wealth management revenue was $3.5 million in the first quarter of 2017, compared to $3.1 million in the first quarter of 2016 and $3.6 million for the fourth quarter of 2016. AUM increased from $3.1 billion at March 31, 2016, to $3.6 billion at March 31, 2017.
- Mortgage banking revenue decreased to $3.6 million, from $4.0 million reported for the first quarter of 2016 and $7.3 million for the fourth quarter of 2016. Mortgage originations for the first quarter of 2017 totaled $140.6 million, down from $168.0 million in the first quarter of 2016, and $276.9 million in the fourth quarter of

2016. The level of mortgage production is seasonal and is dependent on the current level of interest rates and general economic conditions.

NONINTEREST INCOME

(Dollars in thousands)

(Unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016	Mar 31, 2017 vs Dec 31, 2016	Mar 31, 2017 vs Mar 31, 2016
Retirement and benefit services	$ 15,559	$ 15,733	$ 15,514	(1.1) %	0.3 %
Wealth management	3,549	3,635	3,071	(2.4) %	15.6 %
Mortgage banking	3,567	7,347	4,020	(51.4) %	(11.3) %
Service charges on deposit accounts	432	467	481	(7.5) %	(10.2) %
Other	1,111	725	1,105	53.2 %	0.5 %
Total noninterest income	$ 24,218	$ 27,907	$ 24,191	(13.2) %	0.1 %

Noninterest Expense

Total noninterest expense in the first quarter of 2017 was $32.5 million, in line with the first quarter of 2016 and $3.1 million, or 8.6 percent, lower than the fourth quarter of 2016.

- Salaries expense in the first quarter of 2016 was $15.4 million, $0.2 million, or 1.2 percent, lower than the first quarter of 2016, and $3.2 million, or 17.1 percent, lower than the fourth quarter of 2016. .The full-time equivalent number of employees has decreased from 815 at March 31, 2016, to 773 at March 31, 2017, as a result of the integration of the acquisitions and closing of branch facilities during 2016.
- Employee benefits were $4.7 million for the first quarter of 2017, consistent with the same period in 2016 and a 31.5 percent increase over the fourth quarter of 2016. Benefit expenses are typically higher during the first quarter of the year, due to the payroll tax limits and increases in insurance costs.
- Intangible amortization expense for the first quarter of 2017 was $1.6 million, compared to $1.7 million for the first quarter of 2016, and $1.8 million for the fourth quarter of 2016. 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 March 31, 2017, is $31.2 million and will fully amortize by December 31, 2025. The acquisitions of 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)

	March 31, 2017	December 31, 2016	March 31, 2016	Mar 31, 2017 vs Dec 31, 2016	Mar 31, 2017 vs Mar 31, 2016
Salaries	$ 15,388	$ 18,558	$ 15,578	(17.1) %	(1.2) %
Employee benefits	4,685	3,564	4,674	31.5 %	0.2 %
Net occupancy expense	1,651	1,684	1,554	(2.0) %	6.2 %
Furniture and equipment expense	1,317	1,425	1,580	(7.6) %	(16.6) %
Intangible amortization expense	1,564	1,770	1,699	(11.6) %	(8.0) %
Marketing and business development	554	1,044	739	(46.9) %	(25.0) %
Supplies, telephone and postage	1,087	1,344	1,293	(19.1) %	(15.9) %
FDIC insurance	302	257	376	17.5 %	(19.7) %
Professional fees- legal, audit and consulting	714	985	974	(27.5) %	(26.7) %
Correspondent and other contracted services	2,858	3,455	2,738	(17.3) %	4.4 %
Other	2,411	1,506	1,947	60.1 %	23.8 %
Total noninterest expense	$ 32,531	$ 35,592	$ 33,152	(8.6) %	(1.9) %

Loans

Loan demand continues to be strong, with total loans outstanding increasing $62.8 million, 4.7 percent, to $1.40 billion at March 31, 2017, from $1.33 billion at March 31, 2016. Throughout 2016, the Company focused on retention of Beacon Bank loan customers and organic growth of the loan portfolio.

Deposits

Total deposits were $1.74 billion at March 31, 2017, down from $1.77 billion at March 31, 2016. During the year the Company focused on retaining and aligning the Beacon Bank deposit base with the Company's existing portfolio. As a result noninterest bearing deposits increased 14.1 percent to $524.6 billion and time deposits decreased 14.3 percent to $222.7 million, enhancing the net interest margin.

Capital

Total common stockholders' equity was $173.1 million at March 31, 2017, compared to $168.8 million at December 31, 2016, and $165.9 million at March 31, 2016. Capital levels remain strong and the Company exceeded "well capitalized" levels for regulatory purposes.

Common equity tier 1 capital was 7.64 percent at March 31, 2017, up from 7.12 percent at March 31, 2016. Tier 1 capital was 8.15 percent at March 31, 2017, up from 7.59 percent at March 31, 2016. Total risk based capital was 12.23 percent at March 31, 2017, up from 11.63 percent at March 31, 2016. The tangible common equity to tangible assets ratio was 5.89 percent at March 31, 2017, compared with 5.15 percent at March 31, 2016. Dividends on common shares for the first quarter of 2017 were $0.12 per share, as compared to $0.11 per share for the fourth and first quarters of 2016.

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.

CAPITAL POSITION					
(Dollars in thousands)					
(Unaudited)	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total common stockholders' equity	$ 173,149	$ 168,785	$ 169,789	$ 168,537	$ 165,933
Tangible common equity to tangible assets	5.89%	5.46%	5.83%	5.69%	5.15%
Tangible common equity to risk-weighted assets	6.81%	6.79%	6.77%	6.41%	6.37%
Regulatory Capital: (1)					
Common equity tier 1 capital	$ 121,905	$ 124,094	$ 120,324	$ 116,829	$ 114,200
Tier 1 capital	130,025	131,822	127,953	124,361	121,704
Total risk-based capital	195,232	196,875	193,722	189,997	186,553
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	7.64%	7.74%	7.43%	7.03%	7.12%
Tier 1 capital ratio	8.15%	8.23%	7.90%	7.49%	7.59%
Total risk-based capital ratio	12.23%	12.29%	11.97%	11.44%	11.63%
Tier 1 leverage ratio	6.82%	6.85%	6.87%	6.58%	6.50%

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

Credit Quality

Total nonperforming assets decreased to $8.9 million at March 31, 2017, from $9.6 million at December 31, 2016, and $15.5 million at March 31, 2016. Nonperforming loans have decreased from $13.9 million at March 31, 2016, to $8.0 million at March 31, 2017. Other real estate owned (ORE) decreased from $1.5 million at March 31, 2016, to $0.7 million at March 31, 2017.

Nonperforming assets to loans plus ORE decreased from 1.1 percent at March 31, 2016, to 0.6% at March 31, 2017. The allowance for credit losses (ALLL) was $15.7 million at March 31, 2017, in line with December 31, 2016, and March 31, 2016. The ALLL to total nonperforming loans was 196.3 percent at March 31, 2017, compared to 203.7 percent at December 31, 2016, and 111.3 percent at March 31, 2016. The Company's ALLL was adequate to cover anticipated losses during the first quarter of 2017 and no provision for credit losses was recorded during the first quarter of 2017 or the fourth quarter of 2016, as compared to a provision of $1.0 million in the first quarter of 2016. Less than 0.3 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 energy.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

Non Performing Loans	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Commercial:					
Commercial	$ 2,379	$ 2,866	$ 3,341	$ 2,915	$ 4,926
Commercial real estate	1,001	901	2,444	4,065	3,725
Total commercial	3,380	3,767	5,785	6,980	8,651
Consumer:					
Residential mortgages	4,585	3,826	3,052	3,552	5,227
Other consumer	61	72	8	6	13
Total consumer	4,646	3,898	3,060	3,558	5,240
Total nonperforming loans	$ 8,026	$ 7,665	$ 8,845	$ 10,538	$ 13,891
Other real estate	730	1,721	1,800	1,851	1,543
Other nonperforming assets	130	196	11	14	16
Total nonperforming assets	$ 8,886	$ 9,582	$ 10,656	$ 12,403	$ 15,450
Accruing loans 90 days or more past due	$ 111	$ 48	$ 17	$ 403	$ 550
Nonperforming assets to loans plus ORE	0.6%	0.7%	0.7%	0.9%	1.1%
Allowance for loan losses	$ 15,754	$ 15,615	$ 16,347	$ 16,229	$ 15,458
Allowance for loan losses to total nonperforming loans	196.3%	203.7%	184.8%	154.0%	111.3%

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 assets and assets under administration of Alerus as well as the revenue and expenses of the Company. The first quarter of 2017 represents the first quarter over quarter comparison of the impact of the acquisitions.

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 an 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, and 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 in thousands)

(Unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016	Mar 31, 2017 vs Dec 31, 2016	Mar 31, 2017 vs Mar 31, 2016
Average common stockholders' equity	$ 175,181	$ 171,834	$ 165,977		
Less: average goodwill	(27,330)	(27,655)	(20,313)		
Less: average other intangibles, net of tax benefit	(19,198)	(19,268)	(21,737)		
Average tangible common equity	$ 128,653	$ 124,911	$ 123,927	3.0 %	3.8 %
Net income applicable to common stock	$ 4,951	$ 5,634	$ 3,177		
Add: Intangible amortization, net of tax benefits	938	1,062	1,019		
Net cash available to common stockholders	$ 5,889	$ 6,696	$ 4,196	(12.0) %	40.4 %
Return on average tangible common equity					
Return on average common equity (U.S. GAAP basis)	11.46%	13.04%	7.70%		
Effect of excluding average intangibles	4.15%	4.90%	2.61%		
Effect of excluding intangible amortization, net of tax benefits	2.96%	3.38%	3.31%		
Return on average tangible common equity	18.57%	21.32%	13.62%	(12.9) %	36.3 %
Adjusted cash earnings per share					
Earnings per share* (U.S. GAAP basis)	$ 0.35	$ 0.40	$ 0.23		
Effect of excluding intangible amortization, net of tax benefits	0.07	0.08	0.07		
Adjusted cash earnings per share*	$ 0.42	$ 0.48	$ 0.30	(12.5) %	39.7 %

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 represents direct revenue and expense before indirect allocations and income taxes.

NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016
Banking	$8,882	$11,097	$7,116
Mortgage	($264)	$1,577	$337
Retirement & benefits	4,674	4,692	5,092
Wealth management	1,253	1,750	981
Corporate administration	(9,594)	(13,482)	(10,324)
Net Income	**$4,951**	**$5,634**	**$3,202**

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.

BANKING			
(Dollars in thousands)			
(Unaudited)			
	March 31, 2017	December 31, 2016	March 31, 2016
Condensed Income Statement			
Net interest income	$ 16,223	$ 16,418	$ 15,180
Noninterest income	1,664	1,888	1,659
Total net revenue	17,887	18,306	16,839
Provision for credit losses	-	-	1,020
Noninterest expense	9,005	7,209	8,702
Income before income taxes	8,882	11,097	7,116
Income taxes	-	-	-
Net income	$ 8,882	$ 11,097	$ 7,116
Average Balance Sheet			
Total loans	$ 1,379,142	$ 1,362,085	$ 1,335,942
Goodwill	20,130	20,130	17,217
Other intangible assets	3,532	3,781	4,017
Total Assets	1,874,013	1,875,410	1,773,441
Deposits	$ 1,705,920	$ 1,735,746	$ 1,719,933

Banking reported net income of $8.9 million on revenue of $17.9 million for the first quarter of 2017, down from net income of $11.1 million on revenues of $18.3 million during the fourth quarter of 2016. No provision for credit losses were recorded in either quarter. Noninterest expense increased by $1.8 million, compared with fourth quarter of 2016, due to seasonally higher personnel expense. Average loans increased by $17.0 million and average deposits decreased by $29.8 million during the quarter. Average assets were comparable in both quarters at $1.87 billion.

Net income increased 24.8 percent from $7.1 million during the first quarter of 2016 to $8.9 million in 2017 on revenue increases of 6.2 percent. During the first quarter of 2016, Banking recorded $1.0 million of provision for credit losses, while no provision was recorded in the current quarter. Noninterest expenses increased 3.5 percent from $8.7 million in the first quarter of 2016 to $9.0 million in 2017. Average loans increased from $1.34 billion to $1.38 billion and average deposits decreased by $14.0 million, from $1.72 billion to $1.71 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.

MORTGAGE			
(Dollars in thousands)			
(Unaudited)			
	March 31, 2017	December 31, 2016	March 31, 2016
Condensed Income Statement			
Net interest income	$ 122	$ 299	$ 305
Noninterest income	3,567	7,347	4,020
Total net revenue	3,689	7,646	4,325
Provision for credit losses	-	-	-
Noninterest expense	3,952	6,068	3,989
Income before income taxes	(264)	1,577	337
Income taxes	-	-	-
Net income	$ (264)	$ 1,577	$ 337
Mortgage originations	$ 140,599	$ 276,936	$ 167,989

Mortgage reported a net loss of $0.3 million on revenue of $3.7 million for the first quarter of 2017, as compared to net income of $1.6 million on revenue of $7.6 million for the fourth quarter of 2016. Mortgage originations for the quarter were $140.6 million as compared to $276.9 million for the fourth quarter of 2016. The increase in interest rates and seasonality of the mortgage market impacted volumes. Noninterest expense decreased from $6.1 million to $3.9 million during the quarter as expenses are driven by volume.

Net income for the first quarter of 2016 was $0.3 million on revenue of $4.3 million, as compared to a net loss of $0.3 million on revenue of $3.7 million for the first quarter of 2017. Mortgage originations for the first quarter of 2016 were $168.0 compared to $140.6 for the first quarter of 2017. Noninterest expense was comparable for the two quarters.

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 $25.8 billion of Assets Under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS			
(Dollars in thousands)			
(Unaudited)			
	March 31, 2017	December 31, 2016	March 31, 2016
Condensed Income Statement			
Net interest income	$ -	$ -	$ -
Noninterest income	15,559	15,733	15,514
Total net revenue	15,559	15,733	15,514
Provision for credit losses	-	-	-
Noninterest expense	10,885	11,041	10,422
Income before income taxes	4,674	4,692	5,092
Income taxes	-	-	-
Net income	$ 4,674	$ 4,692	$ 5,092
Assets under management	$ 1,179,158	$ 1,158,340	$ 1,027,229
Assets under administration	25,816,019	24,948,335	23,604,195

Retirement and Benefits reported net income of $4.7 million on revenue of $15.6 million for the first quarter of 2017, comparable to the fourth quarter of 2016. Noninterest expense for the first quarter of 2017 was $10.9 million as compared to $11.0 million for the fourth quarter of 2016. AUA increased from $24.9 billion to $25.8 billion during the quarter.

Net income for the first quarter of 2016 was $5.1 million on revenue of $15.5 million, compared to $4.7 million on revenue of $15.6 million for the current period. Noninterest expense was $10.9 million during the first quarter of 2017 as compared to $10.4 million for the first quarter of 2016. AUA increased from $23.6 billion in the first quarter of 2016 to $25.8 billion at March 31, 2017. AUM increased from $1.0 billion to $1.2 billion during the year. During the year margins have compressed resulting in comparable revenue on higher AUA.

Wealth Management offers trust and fiduciary services, investment management and financial planning services to clients, and has over $2.4 billion of Assets Under Management (AUM).

WEALTH MANAGEMENT

(Dollars in thousands)

(Unaudited)

	March 31, 2017	December 31, 2016	March 31, 2016
Condensed Income Statement			
Net interest income	$ 14	$ 14	$ 13
Noninterest income	3,549	3,635	3,071
Total net revenue	3,562	3,649	3,084
Provision for credit losses	-	-	-
Noninterest expense	2,235	1,861	1,931
Income before income taxes	1,327	1,788	1,153
Income taxes	75	38	172
Net income	$ 1,253	$ 1,750	$ 981
Assets under management	$ 2,441,643	$ 2,221,447	$ 2,078,064
Assets under administration	81,512	77,545	70,080

Wealth Management reported net income of $1.3 million on revenue of $3.6 million for the first quarter of 2017, as compared to net income of $1.7 million on revenue of $3.6 million for the fourth quarter of 2016. Noninterest expense increased from $1.9 million to $2.2 million during the quarter. AUM increased from $2.2 billion to $2.4 billion during the quarter.

Net income increased from $1.0 million on revenue of $3.1 million for the first quarter of 2016 to $1.3 million on revenue of $3.6 million for the current quarter. Noninterest expenses increased from $1.9 million to $2.2 million from the first quarter of 2016 to the same period in 2017. AUM increased from $2.1 billion to $2.4 billion and AUA increased from $70.1 million to $81.5 million during the year.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	March 31, 2017	December 31, 2016	March 31, 2016
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 156,843	$ 207,367	$ 214,193
Investment securities			
Trading	1,958	1,959	1,998
Available-for-sale	273,453	276,952	291,279
Total investment securities	275,411	278,911	293,277
Mortgages held for sale	24,471	35,063	43,331
Loans and leases			
Loans and leases	1,395,028	1,366,952	1,332,239
Allowance for loan and lease losses	(15,754)	(15,615)	(15,458)
Net loans and leases	1,379,274	1,351,337	1,316,781
Premises and equipment	23,378	24,262	26,089
Bank-owned life insurance	29,340	29,139	33,861
Goodwill	27,329	27,329	27,053
Other intangible assets, excluding servicing assets	31,165	32,730	36,754
Deferred tax assets, net	18,840	19,521	13,071
Other assets	38,428	44,920	43,830
Total assets	$ 2,004,479	$ 2,050,579	$ 2,048,240
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 524,599	$ 554,490	$ 459,965
Interest-bearing	995,799	990,186	1,046,205
Time deposits	222,707	240,533	259,914
Total deposits	1,743,105	1,785,209	1,766,084
Short-term borrowings	-	729	8,174
Long-term debt	58,815	58,813	78,492
Accrued expenses and other liabilities	29,410	37,043	29,557
Total liabilities	1,831,330	1,881,794	1,882,307
Stockholders' equity			
Common stock and related surplus	37,458	37,416	36,311
Retained earnings	136,440	133,307	127,337
Accumulated other comprehensive income, net	(749)	(1,938)	2,285
Total stockholders' equity	173,149	168,785	165,933
Total liabilities and equity	$ 2,004,479	$ 2,050,579	$ 2,048,240
Common shares outstanding	13,610	13,534	13,496
Book value per common share	$ 12.72	$ 12.47	$ 12.29

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended March 31,	
(Unaudited)	2017	2016
Interest Income		
Loans and leases, including fees	$ 15,472	$ 14,782
Investment securities	1,517	1,595
Other interest income	238	169
Total interest income	17,227	16,546
Interest Expense		
Deposits	868	899
Other borrowed funds	871	968
Total interest expense	1,739	1,867
Net interest income	15,488	14,679
Provision for credit losses	-	1,020
Net interest income after provision for credit losses	15,488	13,659
Noninterest Income		
Retirement and benefit services	15,559	15,514
Wealth management	3,549	3,071
Mortgage banking	3,567	4,020
Service charges on deposit accounts	432	481
Other	1,111	1,105
Total noninterest income	24,218	24,191
Noninterest Expense		
Salaries	15,388	15,578
Employee benefits	4,685	4,674
Net occupancy expense	1,651	1,554
Furniture and equipment expense	1,317	1,580
Intangible amortization expense	1,564	1,699
Other	7,926	8,067
Total noninterest expense	32,531	33,152
Income before income taxes	7,175	4,698
Applicable income taxes	2,224	1,496
Net income	4,951	3,202
Less: Preferred dividends	-	25
Net income applicable to common stock	$ 4,951	$ 3,177
Diluted earnings per common share	$ 0.35	$ 0.23
Diluted average common shares outstanding	13,975	13,977

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)	Three months ended March 31, 2017	2016
Operating Activities	(Unaudited)	(Unaudited)
Net income	$ 4,951	$ 2,902
Provision for credit losses	-	1,020
Depreciation, amortization and other	2,382	2,587
Other adjustments to net income	1,123	(858)
Changes in liabilities	(7,633)	(3,123)
Changes in other operating activities	8,044	(7,123)
Total cash flows from operating activities	8,867	(4,595)
Investing Activities		
Purchases of premises and equipment	(1,058)	(614)
Investments, net	3,500	12,936
Loans, net	(17,345)	5,592
Cash paid for business combinations	-	(45,441)
Other cash flows from investing activities	64	131
Total cash flows used by investing activities	(14,839)	(27,396)
Financing Activities		
Dividends paid	(1,541)	(1,610)
Redemption of preferred stock	-	(20,000)
Purchase of common stock	(180)	(55)
Deposits	(42,104)	5,895
Net borrowings	(727)	(4,205)
Total cash flows from (used by) financing activities	(44,552)	(19,975)
Change in cash and cash equivalents	(50,524)	(51,966)
Cash and cash equivalents at beginning of period	207,367	266,159
Cash and cash equivalents at end of period	$ 156,843	$ 214,193

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.