

FOR RELEASE (07.20.2017—16:00)

## **ALERUS FINANCIAL CORPORATION REPORTS SECOND QUARTER 2017 RESULTS OF \$4.6 MILLION NET INCOME**

**GRAND FORKS, N.D.** (July 20, 2017) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$4.6 million for the second quarter of 2017, or \$0.33 per diluted common share, compared to \$2.9 million or \$0.21 per diluted common share for the second quarter of 2016. For the six months ending June 30, 2017, Alerus reported net income of \$9.5 million, or \$0.68 per diluted common share, compared to \$5.8 million or \$0.42 per diluted common share for the same period in 2016.

### *Second quarter 2017 financial highlights:*

- Revenue of \$43.7 million, an increase of \$0.9 million, or 2.2 percent from the second quarter of 2016
  - Net interest income of \$16.6 million, 38.0 percent of revenue, up 1.2 percent from the second quarter of 2016
  - Noninterest income of \$27.1 million, 62.0 percent of revenue, up 2.2 percent from the second quarter of 2016
- Noninterest expense of \$33.8 million, down 9.5 percent from the second quarter of 2016
- Return on average assets (ROA) of 0.93 percent, compared to 0.61 percent for the second quarter of 2016
- Return on average common equity (ROE) of 10.26 percent, compared to 7.07 percent for the second quarter of 2016
- Return on average tangible common equity (ROTCE) of 16.41 percent, compared to 13.57 percent for the second quarter of 2016
- Net interest margin of 3.74 percent, compared to 3.79 percent for the second quarter of 2016

### *Second quarter results included:*

- Total assets remained constant at \$2.0 billion
  - Loans increased \$106.2 million to \$1.5 billion, up 7.6 percent
  - Deposits decreased \$101.7 million, down 5.8 percent to \$1.64 billion
  - Short-term borrowings increased \$131.6 million, up from \$0 in the first quarter
- Assets under administration (AUA) increased \$0.6 billion, or 2.3 percent, to \$26.5 billion
- Assets under management (AUM) increased \$157 million, or 4.3 percent, to \$3.8 billion
- Mortgage originations totaled \$276.7 million, compared to \$140.6 million for the first quarter of 2017
- Nonperforming assets of \$9.4 million, increased \$0.5 million from the first quarter of 2017
- Allowance for loan losses to nonperforming loans was 186.2 percent at June 30, 2017, compared with 196.3 percent at March 31, 2017

### **CEO Comments**

Chairman, President, and Chief Executive Officer Randy Newman said, “Second quarter results demonstrate improvement over the prior year, as a result of the ongoing efforts of our staff in integrating the acquisitions from 2016, process improvements and the growth of our various business lines. We are continuing to advance a number of initiatives, under “One Alerus,” to more effectively and efficiently deliver our diversified portfolio of products and services, across all business lines to our customer base. The strong operating results allow Alerus to reinvest in our core businesses, while providing solid returns to our stockholders.”

**SELECTED FINANCIAL DATA**

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

(Unaudited)

	June 30, 2017	March 31, 2017	June 30, 2016	Jun 30, 2017 vs Mar 31, 2017	Jun 30, 2017 vs Jun 30, 2016	YTD 2017	YTD 2016	Percentage Change
Net income	\$ 4,570	\$ 4,952	\$ 2,940	(7.7) %	55.4 %	\$ 9,521	\$ 5,842	63.0 %
Earnings per share	\$ 0.33	\$ 0.35	\$ 0.21	(5.7) %	57.1 %	\$ 0.68	\$ 0.42	61.9 %
Return on average assets	0.93%	1.03%	0.61%	(9.7) %	52.5 %	0.98%	0.61%	60.7 %
Return on average common equity	10.26%	11.46%	7.07%	(10.5) %	45.1 %	10.85%	7.03%	54.3 %
Net interest margin (tax equivalent)	3.74%	3.58%	3.79%	4.5 %	(1.3) %	3.66%	3.60%	1.7 %
Efficiency ratio	77.20%	81.92%	87.22%	(5.8) %	(11.5) %	79.45%	86.30%	(7.9) %
Dividends declared per common share	\$ 0.12	\$ 0.12	\$ 0.11	- %	9.1 %	\$ 0.24	\$ 0.22	9.1 %
Book value per common share	\$ 13.04	\$ 12.72	\$ 12.49	2.5 %	4.5 %			

**Earnings Summary**

Alerus reported net income of \$4.6 million, or \$0.33 per diluted common share, for the second quarter of 2017, compared with the \$2.9 million, or \$0.21 per diluted common share, for the second quarter of 2016 and \$5.0 million, or \$0.35 per diluted common share, for the first quarter of 2017. ROA was 0.93 percent for the second quarter of 2017, compared with 0.61 percent for the second quarter of 2016 and 1.03 for the first quarter of 2017. ROE was 10.26 percent for the second quarter of 2017, compared with 7.07 percent for the second quarter of 2016 and 11.46 percent for the first quarter of 2017.

During the second quarter of 2017 the Company recorded additional expenses for the settlement of outstanding litigation and the impairment of a deferred tax asset. These items negatively impacted earnings during the quarter, increasing professional fees, other noninterest expense and income tax expense by \$3.0 million.

**Net Interest Income**

Net interest income in the second quarter of 2017 was \$16.6 million, compared with \$16.4 million in the second quarter of 2016, an increase of \$0.2 million, or 1.2 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 70.9 percent of assets at June 30, 2016, to 73.6 percent at June 30, 2017, enhancing net interest income.

Net interest margin on a tax-equivalent basis in the second quarter of 2017 was 3.74 percent, compared with 3.79 percent in the second quarter of 2016, and 3.58 percent in the first quarter of 2017.

**Noninterest Income**

Second quarter noninterest income was \$27.1 million, up 2.8 percent from the second quarter of 2016 and 12.0 percent higher than the first quarter of 2017.

- Retirement and benefit services revenue was \$15.6 million, up 9.1 percent from the second quarter of 2016 and consistent with the first quarter of 2017. AUA increased from \$24.0 billion at June 30, 2016 to \$26.5 billion at June 30, 2017.
- Wealth management revenue was \$3.6 million in the second quarter of 2017, compared to \$3.1 million in the second quarter of 2016 and \$3.5 million for the first quarter of 2017. AUM increased from \$3.3 billion at June 30, 2016, to \$3.8 billion at June 30, 2017.
- Mortgage banking revenue decreased to \$6.7 million, from \$7.2 million reported for the second quarter of 2016 and increased from the \$3.6 million reported for the first quarter of 2017. Mortgage originations for the second quarter of 2017 totaled \$276.7 million, down from \$310.7 million in the second quarter of 2016, and up from \$140.6 million in the first quarter of 2017. 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)

	June 30, 2017	March 31, 2017	June 30, 2016	Jun 30, 2017 vs Mar 31, 2017	Jun 30, 2017 vs Jun 30, 2016	YTD 2017	YTD 2016	Percentage Change
Retirement and Benefits	\$ 15,555	\$ 15,559	\$ 14,259	(0.0) %	9.1 %	\$ 31,114	\$ 29,773	4.5 %
Wealth Management	3,599	3,549	3,062	1.4 %	17.5 %	7,147	6,834	4.6 %
Mortgage Banking	6,674	3,742	7,153	78.4 %	(6.7) %	10,416	11,586	(10.1) %
Service charges on deposit accounts	453	432	458	4.9 %	(1.1) %	885	938	(5.7) %
Other	843	927	1,449	(9.1) %	(41.8) %	1,771	1,443	22.7 %
Total noninterest income	<u>\$ 27,124</u>	<u>\$ 24,209</u>	<u>\$ 26,381</u>	<u>12.0 %</u>	<u>2.8 %</u>	<u>\$ 51,333</u>	<u>\$ 50,574</u>	<u>1.5 %</u>

**Noninterest Expense**

Total noninterest expense in the second quarter of 2017 was \$33.8 million, a 9.5 percent decrease from the second quarter of 2016, which included a number of acquisition related expenses. Noninterest expense was \$1.2 million, or 3.8 percent, higher than the first quarter of 2017.

- Salaries expense in the second quarter of 2017 was \$17.4 million, \$0.6 million, or 3.2 percent, lower than the second quarter of 2016, and \$2.0 million, or 13.0 percent, higher than the first quarter of 2017. The higher mortgage originations and the related compensation during the second quarter were the primary reason for the increase in salary expense. The full-time equivalent number of employees has decreased from 801 at June 30, 2016, to 772 at June 30, 2017, as a result of the integration of the acquisitions and closing of branch facilities during 2016.
- Employee benefits were \$4.0 million for the second quarter of 2017, 8.3 percent higher than the same period in 2016 and a 14.0 percent lower than the first quarter of 2017. 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 second quarter of 2017 was \$1.5 million, compared to \$1.8 million for the second quarter of 2016, and \$1.6 million for the first quarter of 2017. Alerus has acquired eighteen companies since 2002 creating identified intangible assets of \$36.8 million and \$27.3 million of goodwill on the balance sheet. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of June 30, 2017, is \$29.7 million and will fully amortize by December 31, 2025. The acquisitions of Alliance Benefits Group North Central States, Inc. (ABGNCS) and Beacon Bank in January 2016 created additional goodwill of \$23.6 million and identified intangibles of \$21.7 million, which the identified intangibles portion is being amortized over five and ten year periods.
- Professional fees in the second quarter of 2017 were \$1.3 million, an 84.5 percent increase over the first quarter of 2017, as a result of the settlement of outstanding legal issues during the quarter.

**NONINTEREST EXPENSE**

(Dollars in thousands)

(Unaudited)

	June 30, 2017	March 31, 2017	June 30, 2016	Jun 30, 2017 vs Mar 31, 2017	Jun 30, 2017 vs Jun 30, 2016	YTD 2017	YTD 2016	Percentage Change
Salaries	\$ 17,386	\$ 15,388	\$ 17,961	13.0 %	(3.2) %	\$ 32,774	\$ 33,538	(2.3) %
Employee benefits	4,027	4,685	3,718	(14.0) %	8.3 %	8,712	8,392	3.8 %
Net occupancy expense	1,530	1,650	1,586	(7.3) %	(3.5) %	3,180	3,137	1.4 %
Furniture and equipment expense	1,389	1,317	1,538	5.5 %	(9.7) %	2,705	3,118	(13.2) %
Intangible amortization expense	1,450	1,568	1,779	(7.5) %	(18.5) %	3,018	3,478	(13.2) %
Marketing and business development	552	555	872	(0.5) %	(36.7) %	1,106	1,612	(31.4) %
Supplies, telephone and postage	1,054	1,125	1,676	(6.3) %	(37.1) %	2,178	2,974	(26.8) %
FDIC insurance	325	302	438	7.6 %	(25.8) %	627	814	(23.0) %
Professional fees- legal, audit and consulting	1,317	714	1,024	84.5 %	28.6 %	2,031	1,997	1.7 %
Correspondent and other contracted services	2,368	2,829	3,666	(16.3) %	(35.4) %	5,199	6,396	(18.7) %
Other	2,374	2,388	3,076	(0.6) %	(22.8) %	4,763	5,028	(5.3) %
Total noninterest expense	<u>\$ 33,772</u>	<u>\$ 32,521</u>	<u>\$ 37,334</u>	<u>3.8 %</u>	<u>(9.5) %</u>	<u>\$ 66,293</u>	<u>\$ 70,484</u>	<u>(5.9) %</u>

## Income Tax Expense

During the second quarter of 2017, the Company recorded additional income tax expense of \$1.4 million related to the impairment of a deferred tax asset recorded as part of the Private Bank Minnesota acquisition in 2014. The impairment increased the effective tax rate to 51.0 percent for the second quarter of 2017 up from 33.9 percent for the second quarter of 2016.

## Loans

Loan demand continues to be strong, with total loans outstanding increasing \$129.4 million, 9.4 percent, to \$1.50 billion at June 30, 2017, from \$1.37 billion at June 30, 2016. The loan portfolio increased \$106.2 million, or 7.6 percent, during the second quarter of 2017.

## Deposits

Total deposits were \$1.64 billion at June 30, 2017, down from \$1.68 billion at June 30, 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 6.2 percent to \$515.9 million and time deposits decreased 14.6 percent to \$215.3 million, lowering the cost of deposits.

## Capital

Total common stockholders' equity was \$178.6 million at June 30, 2017, compared to \$173.1 million at March 31, 2017, and \$168.5 million at June 30, 2016. Capital levels remain strong and the Company exceeded "well capitalized" levels for regulatory purposes.

Common equity tier 1 capital was 7.55 percent at June 30, 2017, up from 7.03 percent at June 30, 2016. Tier 1 capital was 8.01 percent at June 30, 2017, up from 7.49 percent at June 30, 2016. Total risk based capital was 11.87 percent at June 30, 2017, up from 11.44 percent at June 30, 2016. The tangible common equity to tangible assets ratio was 6.14 percent at June 30, 2017, compared with 5.69 percent at June 30, 2016. Dividends on common shares for the second quarter of 2017 were \$0.12 per share, as compared to \$0.11 per share for the second quarter of 2016 and \$0.12 per share for the first quarter of 2017.

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

### CAPITAL POSITION

(Dollars in thousands)

(Unaudited)

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Total common stockholders' equity	\$ 178,564	\$ 173,149	\$ 168,785	\$ 169,788	\$ 168,537
Tangible common equity to tangible assets	6.14%	5.89%	5.46%	5.83%	5.69%
Tangible common equity to risk-weighted assets	7.15%	7.18%	6.78%	6.77%	6.41%

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

Common equity tier 1 capital	\$ 128,262	\$ 121,905	\$ 124,094	\$ 120,324	\$ 116,829
Tier 1 capital	136,130	130,025	131,823	127,953	124,361
Total risk-based capital	201,733	195,232	196,876	193,723	189,996

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

Common equity tier 1 capital ratio	7.55%	7.64%	7.74%	7.43%	7.03%
Tier 1 capital ratio	8.01%	8.15%	8.23%	7.90%	7.49%
Total risk-based capital ratio	11.87%	12.23%	12.29%	11.97%	11.44%
Tier 1 leverage ratio	7.06%	6.82%	6.85%	6.87%	6.58%

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

## Credit Quality

Total nonperforming assets decreased to \$9.4 million at June 30, 2017, from \$12.4 million at June 30, 2016, and increased from \$8.9 million at March 31, 2017. Nonperforming loans have decreased from \$10.5 million at June 30, 2016, to \$8.7 million at June 30, 2017. Other real estate owned (ORE) decreased from \$1.9 million at June 30, 2016, to \$0.7 million at June 30, 2017.

Nonperforming assets to loans plus ORE decreased from 0.9 percent at June 30, 2016, to 0.7 percent at June 30, 2017. The allowance for credit losses (ALLL) was \$16.1 million at June 30, 2017, in line with June 30, 2016, and March 31, 2017. The ALLL to total nonperforming loans was 186.2 percent at June 30, 2017, compared to 154.0 percent at June 30, 2016, and 196.3 percent at March 31, 2017.

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## ASSET QUALITY

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(Dollars in thousands)

(Unaudited)

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
<b>Non Performing Loans</b>					
Commercial:					
Commercial	\$ 4,432	\$ 2,379	\$ 2,866	\$ 3,341	\$ 2,915
Commercial real estate	245	1,001	901	2,444	4,065
Total commercial	4,677	3,380	3,767	5,785	6,980
Consumer:					
Residential mortgages	3,964	4,585	3,826	3,052	3,552
Other consumer	26	61	72	8	6
Total consumer	3,990	4,646	3,898	3,060	3,558
Total nonperforming loans	\$ 8,667	\$ 8,026	\$ 7,665	\$ 8,845	\$ 10,538
Other real estate	659	730	1,721	1,800	1,851
Other nonperforming assets	53	130	196	11	14
Total nonperforming assets	\$ 9,379	\$ 8,886	\$ 9,582	\$ 10,656	\$ 12,403
Accruing loans 90 days or more past due	\$ 107	\$ 111	\$ 48	\$ 17	\$ 403
Nonperforming assets to loans plus ORE	0.7%	0.6%	0.7%	0.7%	0.9%
Allowance for loan losses	\$ 16,134	\$ 15,754	\$ 15,615	\$ 16,347	\$ 16,229
Allowance for loan losses to total nonperforming loans	186.2%	196.3%	203.7%	184.8%	154.0%

## Acquisition Activity

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

On January 1, 2016, the Company acquired ABGNCS, located in Albert Lea, Minn. The purchase, consisting of approximately 900 retirement plans with more than 75,000 retirement participants, increased the Company's retirement services division by \$6.0 billion in retirement and individual asset managed accounts. The transaction resulted in \$4.8 million of goodwill and \$17.9 million of identified customer intangible assets, which is being amortized over a 10-year period, resulting in 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 and shares in thousands, except per share data)

(Unaudited)

	June 30, 2017	March 31, 2017	June 30, 2016	Jun 30, 2017 vs Mar 31, 2017	Jun 30, 2017 vs Jun 30, 2016	YTD 2017	YTD 2016	Percentage Change
Average common stockholders' equity	\$ 178,587	\$ 175,181	\$ 167,376			\$ 176,879	\$ 166,670	
Less: average goodwill	(27,330)	(27,330)	(27,060)			(27,330)	(23,706)	
Less: average other intangibles, net of tax benefit	(18,253)	(19,198)	(21,493)			(18,723)	(21,643)	
Average tangible common equity	<u>\$ 133,004</u>	<u>\$ 128,653</u>	<u>\$ 118,823</u>	3.4 %	11.9 %	<u>\$ 130,826</u>	<u>\$ 121,321</u>	7.8 %
Net income applicable to common stock	\$ 4,570	\$ 4,952	\$ 2,940			\$ 9,521	\$ 5,817	
Add: Intangible amortization, net of tax benefits	870	941	1,067			1,811	2,087	
Net cash available to common stockholders	<u>\$ 5,440</u>	<u>\$ 5,893</u>	<u>\$ 4,008</u>	(7.7) %	35.7 %	<u>\$ 11,332</u>	<u>\$ 7,904</u>	43.4 %
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	10.26%	11.46%	7.07%			10.85%	7.03%	
Effect of excluding average intangibles	3.52%	4.15%	2.88%			3.83%	2.61%	
Effect of excluding intangible amortization, net of tax benefits	2.62%	2.97%	3.61%			2.79%	3.46%	
Return on average tangible common equity	<u>16.41%</u>	<u>18.58%</u>	<u>13.57%</u>	(11.7) %	20.9 %	<u>17.47%</u>	<u>13.10%</u>	33.3 %
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	\$ 0.33	\$ 0.35	\$ 0.21			\$ 0.68	\$ 0.42	
Effect of excluding intangible amortization, net of tax benefits	0.06	0.07	0.08			0.13	0.15	
Adjusted cash earnings per share*	<u>\$ 0.39</u>	<u>\$ 0.42</u>	<u>\$ 0.29</u>	(7.8) %	35.7 %	<u>\$ 0.81</u>	<u>\$ 0.57</u>	43.4 %

### Business Line Performance

The Company defines its business lines by product type, including Banking, Mortgage, Retirement and Benefits, and Wealth Management. The Selected Financial Information presented on each business line sets forth revenue and direct noninterest expense before indirect overhead allocations. Corporate Administration includes the indirect overhead and income tax expense and is set forth in the table below along with the Consolidated Company net income. The business line net income before taxes represents direct revenue and expense before indirect allocations and income taxes.

#### NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Banking	\$ 9,733	\$ 8,700	\$ 8,199	\$ 18,433	\$ 14,897
Mortgage	1,354	(81)	1,742	1,273	2,498
Retirement and Benefits	5,879	4,674	2,947	10,553	8,039
Wealth Management	1,700	1,328	1,064	3,027	2,216
Corporate Administration	(14,096)	(9,670)	(11,012)	(23,765)	(21,808)
<b>Net income</b>	<u>\$ 4,570</u>	<u>\$ 4,951</u>	<u>\$ 2,940</u>	<u>\$ 9,521</u>	<u>\$ 5,842</u>

**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)

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 17,273	\$ 16,223	\$ 16,935	\$ 33,496	\$ 32,110
Noninterest income	1,817	1,664	1,986	3,481	3,379
<b>Total net revenue</b>	<b>19,090</b>	<b>17,887</b>	<b>18,921</b>	<b>36,978</b>	<b>35,489</b>
Provision for credit losses	640	-	1,020	640	2,040
Noninterest expense	8,717	9,187	9,702	17,905	18,552
<b>Net income before income taxes</b>	<b>\$ 9,733</b>	<b>\$ 8,700</b>	<b>\$ 8,199</b>	<b>\$ 18,433</b>	<b>\$ 14,897</b>
<b>Average Balance Sheet</b>					
Total loans	\$ 1,454,647	\$ 1,373,697	\$ 1,360,144	\$ 1,414,395	\$ 1,329,318
Goodwill	20,130	20,130	20,130	20,130	16,780
Other intangible assets	3,320	3,585	4,323	3,452	3,817
Total Assets	1,878,961	1,793,320	1,786,920	1,836,377	1,746,642
Deposits	1,666,424	1,698,742	1,672,459	1,682,494	1,654,215

Banking reported net income before income taxes of \$9.7 million on revenue of \$19.1 million for the second quarter of 2017, up from net income before taxes of \$8.7 million on revenues of \$17.9 million during the first quarter of 2017. Net interest income increased \$1.0 million, or 6.5 percent, as a result of higher average loan balances during the quarter. Noninterest expense decreased by \$0.5 million, compared with the first quarter of 2017. Average loans increased by \$81.0 million and average deposits decreased by \$32.3 million during the quarter.

Net income before taxes increased 18.7 percent from \$8.2 million during the second quarter of 2016 to \$9.7 million in 2017, primarily as a result of a 10.2 percent decrease in noninterest expense and lower provision for credit losses. Average loans increased \$94.5 million, from \$1.36 billion to \$1.45 billion and average deposits decreased by \$6.0 million, to \$1.67 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)

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 210	\$ 122	\$ 328	\$ 331	\$ 638
Noninterest income	6,674	3,742	7,153	10,416	11,586
<b>Total net revenue</b>	<b>6,884</b>	<b>3,864</b>	<b>7,481</b>	<b>10,747</b>	<b>12,224</b>
Provision for credit losses	-	-	-	-	-
Noninterest expense	5,529	3,945	5,739	9,474	9,727
<b>Net income before income taxes</b>	<b>\$ 1,354</b>	<b>\$ (81)</b>	<b>\$ 1,742</b>	<b>\$ 1,273</b>	<b>\$ 2,498</b>
Mortgage originations	\$ 276,737	\$ 140,599	\$ 310,655	\$ 417,336	\$ 478,644

Mortgage reported net income before taxes of \$1.4 million on revenue of \$6.9 million for the second quarter of 2017, as compared to net loss of \$81.0 thousand on revenue of \$3.9 million for the first quarter of 2017. Mortgage originations for the quarter were \$276.7 million as compared to \$140.6 million for the first quarter of 2017. Noninterest expense increased from \$3.9 million to \$5.5 million during the quarter as a result of the higher volume.

Net income before taxes for the second quarter of 2016 was \$1.7 million on revenue of \$7.5 million, as compared to \$1.4 million on revenue of \$6.9 million for the second quarter of 2017. Mortgage originations for the second quarter of 2016 were \$310.7 million compared to \$276.7 million for the second 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 \$26.4 billion of Assets Under Administration (AUA) in all 50 states.

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## RETIREMENT AND BENEFITS

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(Dollars in thousands)

(Unaudited)

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Condensed Income Statement</b>					
Net interest income	\$ -	\$ -	\$ -	\$ -	\$ -
Noninterest income	15,555	15,559	14,259	31,114	29,773
<b>Total net revenue</b>	<b>15,555</b>	<b>15,559</b>	<b>14,259</b>	<b>31,114</b>	<b>29,773</b>
Provision for credit losses	-	-	-	-	-
Noninterest expense	9,676	10,885	11,313	20,561	21,735
<b>Net income before income taxes</b>	<b>\$ 5,879</b>	<b>\$ 4,674</b>	<b>\$ 2,947</b>	<b>\$ 10,553</b>	<b>\$ 8,039</b>
Assets under management	\$ 1,299,826	\$ 1,179,158	\$ 1,130,173		
Assets under administration	26,422,886	25,816,019	23,913,983		

Retirement and Benefits reported net income before taxes of \$5.9 million on revenue of \$15.6 million for the second quarter of 2017, a 25.8 percent increase in net income before taxes on comparable revenue over the first quarter of 2017. Noninterest expense for the second quarter of 2017 was \$9.7 million as compared to \$10.9 million for the first quarter of 2017. AUA increased to \$26.4 billion from \$25.8 billion during the quarter.

Net income before taxes for the second quarter of 2016 was \$2.9 million on revenue of \$14.3 million, compared to \$5.9 million on revenue of \$15.6 million for the second quarter of 2017. Noninterest expense decreased from \$11.3 million during the second quarter of 2016 to \$9.7 million for the second quarter of 2017, primarily as a result of the integration of ABGNCS. AUA increased from \$23.9 billion in the second quarter of 2016 to \$26.4 billion at June 30, 2017. AUM increased from \$1.1 billion to \$1.3 billion during the year.

**Wealth Management** offers trust and fiduciary services, investment management, and financial planning services to clients, and has \$2.5 billion of Assets Under Management (AUM).

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**WEALTH MANAGEMENT**

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(Dollars in thousands)

(Unaudited)

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Condensed Income Statement</b>					
Net interest income	\$ 14	\$ 14	\$ 13	\$ 28	\$ 26
Noninterest income	3,599	3,549	3,062	7,147	6,834
<b>Total net revenue</b>	<b>3,613</b>	<b>3,563</b>	<b>3,075</b>	<b>7,175</b>	<b>6,860</b>
Provision for credit losses	-	-	-	-	-
Noninterest expense	1,913	2,235	2,012	4,148	4,645
<b>Net income before income taxes</b>	<b>\$ 1,700</b>	<b>\$ 1,328</b>	<b>\$ 1,064</b>	<b>\$ 3,027</b>	<b>\$ 2,216</b>
Assets under management	\$ 2,478,089	\$ 2,441,643	\$ 2,128,256		
Assets under administration	72,460	81,512	69,160		

Wealth Management reported net income before taxes of \$1.7 million on revenue of \$3.6 million for the second quarter of 2017, as compared to net income before taxes of \$1.3 million on revenue of \$3.6 million for the first quarter of 2017. Noninterest expense decreased from \$2.2 million to \$1.9 million during the quarter. AUM increased from \$2.4 billion to \$2.5 billion during the quarter.

Net income before taxes increased from \$1.0 million on revenue of \$3.1 million for the second quarter of 2016 to \$1.7 million on revenue of \$3.6 million for the current quarter. Noninterest expenses decreased from \$2.0 million to \$1.9 million from the second quarter of 2016 to the same period in 2017. AUM increased from \$2.1 billion to \$2.5 billion and AUA increased from \$69.2 million to \$72.5 million during the year.

# Alerus Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

	June 30, 2017	March 31, 2017	June 30, 2016
(Dollars and shares in thousands, except per share data)			
<b>Assets</b>	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 42,081	\$ 156,843	\$ 71,477
Investment securities			
Trading	1,963	1,958	2,018
Available-for-sale	296,475	273,453	269,305
Total investment securities	298,438	275,411	271,323
Mortgages held for sale	40,652	24,471	56,859
Loans and leases			
Loans and leases	1,501,276	1,395,028	1,371,917
Allowance for loan and lease losses	(16,134)	(15,754)	(16,229)
Net loans and leases	1,485,142	1,379,274	1,355,688
Premises and equipment	22,839	23,379	25,799
Bank-owned life insurance	29,545	29,340	34,073
Goodwill	27,329	27,329	27,682
Other intangible assets, excluding servicing assets	29,716	31,166	34,350
Deferred tax assets, net	15,353	18,839	12,618
Other assets	48,283	38,427	44,454
Total assets	<u>\$ 2,039,378</u>	<u>\$ 2,004,479</u>	<u>\$ 1,934,323</u>
<b>Liabilities and Stockholders' Equity</b>			
Deposits			
Noninterest-bearing	\$ 515,937	\$ 524,599	\$ 485,732
Interest-bearing	910,183	995,799	938,025
Time deposits	215,289	222,707	252,071
Total deposits	1,641,409	1,743,105	1,675,828
Short-term borrowings	131,630	-	2,647
Long-term debt	58,817	58,815	58,806
Accrued expenses and other liabilities	28,958	29,410	28,505
Total liabilities	1,860,814	1,831,330	1,765,786
Stockholders' equity			
Common stock and related surplus	39,337	37,458	37,027
Retained earnings	139,326	136,440	128,437
Accumulated other comprehensive income, net	(99)	(749)	3,073
Total stockholders' equity	178,564	173,149	168,537
Total liabilities and equity	<u>\$ 2,039,378</u>	<u>\$ 2,004,479</u>	<u>\$ 1,934,323</u>
Common shares outstanding	13,690	13,610	13,497
Book value per common share	<u>\$ 13.04</u>	<u>\$ 12.72</u>	<u>\$ 12.49</u>

# Alerus Financial Corporation and Subsidiaries

## Consolidated Statements of Income

(Dollars and shares in thousands, except per share data) (Unaudited)	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans and leases, including fees	\$ 16,835	\$ 16,528	\$ 32,307	\$ 31,309
Investment securities	1,580	1,483	3,097	3,078
Other interest income	76	75	314	242
Total interest income	<u>18,491</u>	<u>18,086</u>	<u>35,718</u>	<u>34,629</u>
<b>Interest Expense</b>				
Deposits	869	751	1,737	1,650
Other borrowed funds	1,000	910	1,871	1,878
Total interest expense	<u>1,869</u>	<u>1,661</u>	<u>3,608</u>	<u>3,528</u>
Net interest income	16,622	16,425	32,110	31,101
Provision for credit losses	640	1,020	640	2,040
Net interest income after provision for credit losses	<u>15,982</u>	<u>15,405</u>	<u>31,470</u>	<u>29,061</u>
<b>Noninterest Income</b>				
Retirement and benefit services	15,555	14,259	31,114	29,773
Wealth management	3,599	3,062	7,147	6,834
Mortgage banking	6,674	7,153	10,416	11,586
Service charges on deposit accounts	453	458	885	938
Other	843	1,449	1,771	1,443
Total noninterest income	<u>27,124</u>	<u>26,381</u>	<u>51,333</u>	<u>50,574</u>
<b>Noninterest Expense</b>				
Salaries	17,386	17,961	32,774	33,538
Employee benefits	4,027	3,718	8,712	8,392
Net occupancy expense	1,530	1,586	3,180	3,137
Furniture and equipment expense	1,389	1,538	2,705	3,118
Intangible amortization expense	1,450	1,779	3,018	3,478
Other	7,990	10,752	15,904	18,821
Total noninterest expense	<u>33,772</u>	<u>37,334</u>	<u>66,293</u>	<u>70,484</u>
Income before income taxes	9,334	4,452	16,510	9,151
Applicable income taxes	4,764	1,512	6,989	3,309
Net income	4,570	2,940	9,521	5,842
Less: Preferred dividends	-	-	-	25
Net income applicable to common stock	<u>\$ 4,570</u>	<u>\$ 2,940</u>	<u>\$ 9,521</u>	<u>\$ 5,817</u>
Diluted earnings per common share	<u>\$ 0.33</u>	<u>\$ 0.21</u>	<u>\$ 0.68</u>	<u>\$ 0.42</u>
Diluted average common shares outstanding	<u>13,998</u>	<u>14,002</u>	<u>13,987</u>	<u>13,989</u>

## Alerus Financial Corporation and Subsidiaries

### Consolidated Statements of Cash Flows

Six months ended  
June 30,

(Dollars in thousands)	2017	2016
<b>Operating Activities</b>	(Unaudited)	(Unaudited)
Net income	\$ 9,521	\$ 5,842
Provision for credit losses	640	2,040
Depreciation, amortization and other	5,030	5,162
Other adjustments to net income	2,744	(307)
Changes in liabilities	(8,085)	(4,175)
Changes in other operating activities	(3,661)	(7,965)
Total cash flows from operating activities	11,219	597
<b>Investing Activities</b>		
Purchases of premises and equipment	(1,531)	(1,120)
Investments, net	(19,527)	34,890
Loans, net	(139,394)	(46,843)
Cash paid for business combinations	-	(45,441)
Other cash flows from investing activities	240	220
Total cash flows used by investing activities	(160,212)	(58,294)
<b>Financing Activities</b>		
Dividends paid	(3,218)	(3,151)
Redemption of preferred stock	-	(20,000)
Purchase of common stock	(180)	(55)
Deposits	(143,800)	(84,361)
Net borrowings	130,905	(29,418)
Total cash flows from (used by) financing activities	(16,293)	(136,985)
Change in cash and cash equivalents	(165,286)	(194,682)
Cash and cash equivalents at beginning of period	207,367	266,159
Cash and cash equivalents at end of period	\$ 42,081	\$ 71,477

#### About Alerus Financial Corporation

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

#### Forward-Looking Statements

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

This press release contains forward-looking statements about Alerus Financial Corporation. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements may cover, among other things, anticipated future revenue and expenses and the future plans and prospects of Alerus Financial Corporation. Forward-looking statements involve inherent risks and

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

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