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ALERUS FINANCIAL CORPORATION REPORTS FOURTH QUARTER 2017 NET INCOME OF $1.0 MILLION FULL YEAR 2017 RESULTS OF $15.4 MILLION AFTER NET IMPACT OF TAX LAW OF $4.6 MILLION

GRAND FORKS, ND (January 25, 2018) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $1.0 million, or $0.07 per diluted common share, for the fourth quarter of 2017, compared to $5.6 million, or $0.40 per diluted share, for the fourth quarter of 2016. Full year net income of $15.4 million, or $1.10 per diluted share compares to $14.0 million, or $1.00 per diluted share in 2016. As a result of the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA), Alerus recognized a $4.6 million charge for re-measurement of the Company's deferred tax assets, reducing fourth quarter and full year earnings by the same amount. Excluding the impact of the TCJA, net income would have been $5.6 million for the fourth quarter and $20.0 million for the full year of 2017, or $0.40 per diluted common share for the fourth quarter and $1.43 for the full year.

Financial results:

- Full year 2017:
  - Net income of $15.4 million, up 10.1 percent from 2016
  - Diluted earnings per share of $1.10, up 10.0 percent from 2016
  - Return on average assets (ROA) of 0.77 percent, up from 0.73 percent in 2016
  - Return on average common equity (ROE) of 8.74 percent, up from 8.29 percent in 2016
  - Return on tangible common equity (ROTCE) of 14.30 percent, down from 14.88 percent in 2016
  - Write down of deferred tax assets of $6.0 million in 2017, $1.4 million in June, $4.6 million in December
  - Net revenue of $171.1 million, up 2.4 percent from 2016
    - Net interest income of $67.7 million, 39.5 percent of net revenue, up 7.5 percent from 2016
    - Noninterest income of $103.5 million, 60.5 percent of net revenue, down 1.0 percent from 2016
  - Business line revenue of $176.8 million, up 3.0 percent from 2016
    - Banking division revenue of $77.6 million, up 7.9 percent from 2016
    - Retirement and Benefits division revenue of $62.4 million, up 7.9 percent from 2016
    - Wealth Management division revenue of $14.7 million, up 7.6 percent from 2016
    - Mortgage division revenue of $22.1 million, down 21.6 percent from 2016
  - Noninterest expense of $134.9 million, down 5.6 percent from 2016
  - Intangible amortization expense from acquisitions of $5.6 million or $0.24 per diluted share, down from $7.0 million or, $0.30 per diluted share in 2016; net of tax benefits

- Fourth quarter 2017:
  - Net income of $1.0 million, $5.6 million excluding the impact of TCJA
  - Write down of deferred tax assets of $4.6 million resulting from the TCJA
  - Diluted earnings per share of $0.07, $0.40 excluding the impact of TCJA
  - Revenue of $43.8 million, down 1.4 percent from the fourth quarter of 2016
  - Noninterest expense of $33.4 million, down 7.8 percent from the fourth quarter of 2016
  - ROA of 0.19 percent, 1.09 percent, excluding impact of TCJA
  - ROE of 2.13 percent, 12.25 percent excluding impact of TCJA

Fourth quarter and full year 2017 results included:

- Customer growth:
  - Total assets increased $71.8 million in the fourth quarter to $2.1 billion, up $86.5 million from 2016
  - Total loans increased $20.2 million in the fourth quarter to $1.57 billion, and were up $207.5 million, or 15.2 percent from 2016. The increases were driven by retention of mortgage loans for portfolio and new and existing commercial loans. During 2017, Alerus retained $176.5 million of single family mortgages as compared to $48.7 million in 2016, resulting in a net increase in the portfolio of $144.1 million.
  - Deposits grew $235.0 million in the fourth quarter to $1.83 billion, up $49.8 million from 2016. The Company added $94.9 million of Health Savings Account (HSA) deposits in the fourth quarter as the accounts were converted from the 2016 acquisition of Alliance Benefit Group North Central States (ABGNCS). Intercompany deposits, which are temporary, increased $94.9 million during the quarter, as a result of retirement plan terminations, which are seasonal.
  - Loan to deposit ratio increased from 76.6 percent at December 31, 2016, to 85.8 percent at December 31, 2017, as loans increased more than deposit balances
  - Assets under administration increased $913 million in the fourth quarter to $28.2 billion, up $3.2 billion from 2016
  - Assets under management increased $3.0 million in the fourth quarter to $3.8 billion, up $468 million from 2016
  - Mortgage originations of $196.4 million in the fourth quarter contributed to total originations of $867.3 million, a $197.9 million decrease from the $1.1 billion originated in 2016

- Credit quality:
  - Nonperforming assets of $6.4 million decreased $3.2 million, or 33.7 percent, from the fourth quarter of 2016, representing 0.4 percent of loans and other real estate (ORE)
  - Allowance for loan losses to nonperforming loans was 282.0 percent at December 31, 2017, compared with 203.7 percent at December 31, 2016

- Capital ratios:
  - Tier 1 capital ratio of 8.29 percent
  - Total risk based capital ratio of 12.17 percent
  - Tangible common equity to tangible asset ratio of 6.06 percent

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, “During 2017 we continued to build on the One Alerus business model of providing Alerus’ unique products and services across our customer base. I am proud to say that Alerus has continued to grow and prosper over the past year, with banking assets of $2.1 billion, retirement and benefits assets under administration of over $28.2 billion and wealth management assets under management of $3.8 billion. Pretax earnings of $32.9 million in 2017 are a record high for Alerus. The enactment of tax reform will benefit Alerus over time, but negatively impacted fourth quarter and full year results by $4.6 million. 2017 was an outstanding year and 2018 promises to be even better, as we execute on our business strategies and provide long-term value to our shareholders.”

Earnings Summary

Net income was $1.0 million for the fourth quarter of 2017, 82.7 percent lower than the $5.6 million for the fourth quarter of 2016, and was $15.4 million for the year, or 10.1 percent higher than the $14.0 million for 2016. The fourth quarter 2017 results were driven by a $4.6 million charge related to the re-measurement of Alerus’ deferred tax assets, arising from the lower corporate tax rate due to the enactment of the TCJA. Excluding the impact, net income would have been $5.6 million for the quarter and $20.0 million for the year.

Diluted earnings per common share of $0.07 in the fourth quarter of 2017 were $0.33 lower than the $0.40 per share for the fourth quarter of 2016. For the full year, diluted earnings per common share were $1.10, which was 10.0 percent higher than the $1.00 reported for 2016. The impact of the TCJA was $0.33 diluted earnings per common share and would have resulted in $0.40 in the fourth quarter and $1.43 for the full year. The adjusted cash earnings per share, excluding the impact of intangible amortization, for 2017 were $1.34, a 3.0 percent increase from the $1.30 in 2016.

Return on average assets and return on average common equity were 0.19 percent and 2.13 percent, respectively, for the fourth quarter of 2017, compared with 1.10 percent and 13.08 percent, respectively, for the fourth quarter of 2016. The intangible amortization expense decreased from $7.0 million in 2016 to $5.6 million in 2017. These non-cash expenses will continue to decrease over time, as the intangibles are amortized over their estimated lives.

SELECTED FINANCIAL DATA

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

	QTD December 31, 2017	QTD September 30, 2017	QTD December 31, 2016	Dec 31, 2017 vs Sep 30, 2017	Dec 31, 2017 vs Dec 31, 2016	YTD 2017	YTD 2016	Percentage Change
Net income	$ 978	$ 4,944	$ 5,649	(80.2) %	(82.7) %	$ 15,444	$ 14,031	10.1 %
Earnings per share	$ 0.07	$ 0.35	$ 0.40	(80.0) %	(82.5) %	$ 1.10	$ 1.00	10.0 %
Return on average assets	0.19%	0.97%	1.10%	(80.4) %	(82.7) %	0.77%	0.73%	5.5 %
Return on average common equity	2.13%	11.02%	13.08%	(80.7) %	(83.7) %	8.74%	8.29%	5.4 %
Net interest margin (tax equivalent)	3.84%	3.87%	3.59%	(0.8) %	7.0 %	3.76%	3.62%	3.9 %
Efficiency ratio	76.17%	80.35%	81.45%	(5.2) %	(6.5) %	78.84%	85.50%	(7.8) %
Dividends declared per common share	$ 0.12	$ 0.12	$ 0.11	- %	9.1 %	$ 0.48	$ 0.44	9.1 %
Book value per common share	$ 13.18	$ 13.29	$ 12.47	(0.9) %	5.7 %			

Acquisition Activity

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.

Revenue

Total net revenue for the fourth quarter of 2017 was $43.8 million, which was 1.4 percent lower than the fourth quarter of 2016, and reflects a 12.3 percent increase in net interest income and a 9.0 percent decrease in noninterest income. Total net revenue for the full year of 2017 was $171.1 million, which was $4.0 million, or 2.4 percent, higher than the full year of 2016. The increase in net revenue, year-over-year, included increases of $4.7 million in net interest income, $4.6 million of retirement and benefits revenue, $1.0 million of wealth management revenue, offset by a decrease in mortgage banking revenues of $5.5 million, due to lower origination volumes and retention of more loans for the bank loan portfolio. Noninterest income represented 60.5 percent of total revenue for the Company in 2017 as compared to 62.3 percent in 2016.

Net Interest Income

Net interest income in the fourth quarter of 2017 was $17.8 million, compared with $15.9 million in the fourth quarter of 2016, an increase of $1.9 million, or 12.3 percent. The primary reason for the increase in net interest income during the quarter was higher loan balances and the addition of the HSA deposits replacing higher cost borrowings. Net interest income for the full year was $67.7 million, an increase of $4.7 million from 2016, and was the result of higher average loans outstanding during the year.

Average earning assets were $1.82 billion for 2017 compared with $1.75 billion for 2016, an increase of $74.2 million, or 4.2 percent. The primary driver of the increase in earning assets was strong growth in the commercial and mortgage loan portfolios. Net interest margin on a tax-equivalent basis for 2017 was 3.76 percent compared with 3.62 percent for 2016. Net interest margin on a tax-equivalent basis in the fourth quarter of 2017 was 3.84 percent compared with 3.59 percent in the fourth quarter of 2016 and 3.87 percent in the third quarter of 2017.

Noninterest Income

Fourth quarter noninterest income was $26.0 million, down 9.0 percent from the fourth quarter of 2016 and 0.5 percent lower than the third quarter of 2017. For the full year, noninterest income was $103.5 million compared to $104.2 million, a decrease of $0.7 million, as a result of lower mortgage banking revenue.

- Retirement and benefits revenue was $16.0 million, up 1.9 percent from the fourth quarter of 2016 and 5.2 percent higher than the third quarter of 2017. Revenue for the full year increased 7.9 percent from $57.8 million in 2016 to $62.4 million in 2017. AUA increased from $25.0 billion at December 31, 2016, to $28.2 billion at December 31, 2017, representing a 12.8 percent increase.
- Wealth management revenue was $4.0 million in the fourth quarter of 2017 compared to $3.6 million in the fourth quarter of 2016 and $3.5 million for the third quarter of 2017. Revenue for the full year increased 7.6 percent from $13.7 million in 2016 to $14.7 million in 2017. AUM increased from $3.4 billion at December 31, 2016, to $3.8 billion at December 31, 2017, representing a 13.8 percent increase.
- Mortgage banking noninterest income decreased to $4.8 million from $7.5 million, reported for the fourth quarter of 2016, and decreased from the $6.2 million reported for the third quarter of 2017. Noninterest income for the full year decreased 20.6 percent from $26.9 million in 2016 to $21.4 million in 2017. Mortgage originations for the fourth quarter of 2017 totaled $196.4 million, down from $276.9 million in the fourth quarter of 2016, and down from $253.5 million in the third quarter of 2017. For the full year, mortgage originations decreased 18.6 percent from $1.1 billion in 2016 to $867.3 million in 2017. The level of mortgage production is seasonal and is dependent on the current level of interest rates and general economic conditions. During the year, Alerus retained a higher volume of mortgage originations for the loan portfolio, which decreased mortgage banking revenue, while increasing net interest margin.

NONINTEREST INCOME

(Dollars in thousands)

(Unaudited)

	QTD December 31, 2017	QTD September 30, 2017	QTD December 31, 2016	Dec 31, 2017 vs Sep 30, 2017	Dec 31, 2017 vs Dec 31, 2016	YTD 2017	YTD 2016	Percentage Change
Retirement and Benefits	$ 16,033	$ 15,244	$ 15,733	5.2 %	1.9 %	$ 62,390	$ 57,804	7.9 %
Wealth Management	3,980	3,533	3,635	12.7 %	9.5 %	14,660	13,629	7.6 %
Mortgage Banking	4,766	6,221	7,463	(23.4) %	(36.1) %	21,402	26,949	(20.6) %
Service charges on deposit accounts	500	470	467	6.4 %	7.1 %	1,854	1,916	(3.2) %
Other	715	664	1,277	7.7 %	(44.0) %	3,153	3,891	(19.0) %
Total noninterest income	$ 25,994	$ 26,132	$ 28,575	(0.5) %	(9.0) %	$ 103,459	$ 104,189	(0.7) %

Noninterest Expense

Total noninterest expense in the fourth quarter of 2017 was $33.4 million, a 7.8 percent decrease from the fourth quarter of 2016 and a 5.4 percent decrease from the third quarter of 2017. For the full year, noninterest expense was $134.9 million, or 5.6 percent, lower than 2016. During 2016, Alerus closed three branches and completed two acquisitions, resulting in higher noninterest expenses in 2016.

- Salaries expense in the fourth quarter of 2017 was $16.3 million, 12.2 percent, lower than the fourth quarter of 2016, and 11.9 percent lower than the third quarter of 2017. For the full year, salaries expense was $67.6 million as compared to $70.7 million for 2016, representing a 4.5 percent decrease. The full-time equivalent number of employees decreased from 783 at December 31, 2016, to 764 at December 31, 2017.
- Employee benefits were $3.5 million for the fourth quarter of 2017, or 0.8 percent lower than the same period in 2016 and 16.7 percent lower than the third quarter of 2017. For the full year, employee benefits were $16.5 million, compared to $16.0 million in 2016.
- Intangible amortization expense for the fourth quarter of 2017 was $1.2 million compared to $1.8 million for the fourth quarter of 2016, and $1.4 million for the third quarter of 2017. For the full year, intangible amortization was $5.6 million as compared to $7.0 million in 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 December 31, 2017, is $27.1 million and will fully amortize by December 31, 2025.
- Marketing and business development expense for the fourth quarter of 2017 was $1.6 million compared to $1.0 million for the fourth quarter of 2016 and $0.5 million for the third quarter of 2017. The company made additional charitable contributions of $0.6 million during the fourth quarter of 2017. For the full year, marketing and business development expense was $3.3 million, 1.0 percent higher than 2016.

NONINTEREST EXPENSE

(Dollars in thousands)
(Unaudited)

	QTD December 31, 2017	QTD September 30, 2017	QTD December 31, 2016	Dec 31, 2017 vs Sep 30, 2017	Dec 31, 2017 vs Dec 31, 2016	YTD 2017	YTD 2016	Percentage Change
Salaries	$ 16,301	$ 18,501	$ 18,557	(11.9) %	(12.2) %	$ 67,576	$ 70,739	(4.5) %
Employee benefits	3,535	4,244	3,564	(16.7) %	(0.8) %	16,490	15,975	3.2 %
Net occupancy expense	1,566	1,521	1,684	3.0 %	(7.0) %	6,266	6,437	(2.7) %
Furniture and equipment expense	1,476	1,386	1,425	6.5 %	3.6 %	5,568	6,018	(7.5) %
Intangible amortization expense	1,196	1,410	1,770	(15.2) %	(32.4) %	5,623	7,005	(19.7) %
Marketing and business development	1,619	549	1,044	194.9 %	55.1 %	3,273	3,239	1.0 %
Supplies, telephone and postage	1,312	1,148	1,344	14.3 %	(2.4) %	4,640	5,538	(16.2) %
FDIC insurance	334	350	257	(4.6) %	30.0 %	1,311	1,458	(10.1) %
Professional fees - legal, audit and consulting	569	838	985	(32.1) %	(42.2) %	3,438	3,381	1.7 %
Correspondent and other contracted services	3,011	3,082	3,455	(2.3) %	(12.9) %	11,291	12,826	(12.0) %
Other	2,451	2,229	2,108	10.0 %	16.3 %	9,444	10,284	(8.2) %
Total noninterest expense	$ 33,370	$ 35,258	$ 36,193	(5.4) %	(7.8) %	$ 134,920	$ 142,900	(5.6) %

Income Tax Expense

Fourth quarter income tax expense was $8.1 million, which reflected additional charges of $4.6 million related to the re-measurement of the Company’s deferred tax assets, resulting from the corporate tax rate being reduced from 35 percent to 21 percent. Alerus’ deferred tax assets arise primarily from the timing difference between book and tax recognition of credit losses and intangible amortization from acquisitions. The impact of the charge was to increase the Company’s effective tax rate from 31.5 percent to 89.3 percent for the fourth quarter of 2017. For the full year income tax expense was $17.5 million, which includes $6.0 million of deferred tax asset charges. The impact of these charges was to increase the Company’s effective tax rate from 33.7 percent to 53.1 percent for the full year. The Company expects its full year 2018 effective income tax rate to be approximately 23 percent.

Capital

Total common stockholder equity was $180.6 million at December 31, 2017, compared to $182.1 million at September 30, 2017, and $168.8 million at December 31, 2016. The Company exceeded all regulatory “well capitalized” standards for all reporting periods. Common equity tier 1 capital was 7.83 percent at December 31, 2017, up from 7.74 percent at December 31, 2016. Tier 1 capital was 8.29 percent at December 31, 2017, up from 8.23 percent at December 31, 2016. Total risk based capital was 12.17 percent at December 31, 2017, down from 12.29 percent at December 31, 2016. The tangible common equity to tangible assets ratio was 6.06 percent at December 31, 2017, compared with 5.46 percent at

December 31, 2016. Dividends on common shares for the fourth quarter of 2017 were $0.12 per share compared to $0.11 per share for the fourth quarter of 2016 and $0.12 per share for the third quarter of 2017. Dividends on common shares for the full year were $0.48 per share compared to $0.44 per share for 2016.

CAPITAL POSITION

(Dollars in thousands)

(Unaudited)	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Total common stockholders' equity	$ 180,571	$ 182,140	$ 178,564	$ 173,149	$ 168,785
Tangible common equity to tangible assets	6.06%	6.30%	6.14%	5.89%	5.46%
Tangible common equity to risk-weighted assets	7.41%	7.36%	7.15%	7.18%	6.78%
Regulatory Capital: (1)					
Common equity tier 1 capital	$ 133,149	$ 132,860	$ 128,262	$ 121,905	$ 124,094
Tier 1 capital	141,037	140,710	136,130	130,025	131,823
Total risk-based capital	207,101	205,561	201,733	195,232	196,876
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	7.83%	7.73%	7.55%	7.64%	7.74%
Tier 1 capital ratio	8.29%	8.18%	8.01%	8.15%	8.23%
Total risk-based capital ratio	12.17%	11.95%	11.87%	12.23%	12.29%
Tier 1 leverage ratio	7.07%	7.10%	7.06%	6.82%	6.85%

(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 $6.4 million at December 31, 2017, from $9.6 million at December 31, 2016. Decreases in nonperforming loans were primarily in the commercial loan portfolio. Other real estate owned (ORE) decreased from $1.7 million at December 31, 2016, to $0.4 million at December 31, 2017. Nonperforming assets to loans plus ORE decreased to 0.4 percent from 0.7 percent at December 31, 2016. The allowance for credit losses (ALLL) was $16.6 million at December 31, 2017, compared with $15.6 million at December 31, 2016. The ALLL to total nonperforming loans was 282.0 percent at December 31, 2017, as compared to 203.7 percent at December 31, 2016. The Company’s provision for credit losses during 2017 was $3.3 million, as compared to $3.1 million in 2016. Net charge-offs on loans during 2017 were $2.3 million, as compared to $2.1 million during 2016.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

Non Performing Loans	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Commercial:					
Commercial	$ 3,193	$ 2,129	$ 4,432	$ 2,379	$ 2,866
Commercial real estate	62	-	245	1,001	901
Total commercial	3,255	2,129	4,677	3,380	3,767
Consumer:					
Residential mortgages	2,534	3,708	3,964	4,585	3,826
Other consumer	84	43	26	61	72
Total consumer	2,618	3,751	3,990	4,646	3,898
Total nonperforming loans	$ 5,873	$ 5,880	$ 8,667	$ 8,026	$ 7,665
Other real estate	446	522	659	730	1,721
Other nonperforming assets	37	25	53	130	196
Total nonperforming assets	$ 6,356	$ 6,427	$ 9,379	$ 8,886	$ 9,582
Accruing loans 90 days or more past due	$ -	$ -	$ 107	$ 111	$ 48
Nonperforming assets to loans plus ORE	0.4%	0.4%	0.6%	0.6%	0.7%
Allowance for loan losses	$ 16,564	$ 15,367	$ 16,134	$ 15,754	$ 15,615
Allowance for loan losses to total nonperforming loans	282.0%	261.3%	186.2%	196.3%	203.7%
Net Chargeoffs QTD	$ 123	$ 2,087	$ 260	$ (139)	$ 732
Net Chargeoffs YTD	$ 2,331	$ 2,208	$ 121	$ (139)	$ 2,132

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)

	QTD December 31, 2017	QTD September 30, 2017	QTD December 31, 2016	Dec 31, 2017 vs Sep 30, 2017	Dec 31, 2017 vs Dec 31, 2016	YTD 2017	YTD 2016	Percentage Change
Average common stockholders' equity	$ 181,929	$ 178,071	$ 171,834			$ 176,778	$ 168,742	
Less: average goodwill	(27,329)	(27,329)	(27,655)			(27,329)	(25,699)	
Less: average other intangibles, net of tax benefit	(16,615)	(17,440)	(19,268)			(17,869)	(20,651)	
Average tangible common equity	$ 137,985	$ 133,302	$ 124,911	3.5 %	10.5 %	$ 131,580	$ 122,392	7.5 %
Net income applicable to common stock	$ 978	$ 4,944	$ 5,649			$ 15,444	$ 14,006	
Add: Intangible amortization, net of tax benefits	718	846	1,062			3,374	4,203	
Net cash available to common stockholders	$ 1,696	$ 5,790	$ 6,711	(70.7) %	(74.7) %	$ 18,818	$ 18,209	3.3 %
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	2.13%	11.02%	13.08%			8.74%	8.29%	
Effect of excluding average intangibles	0.68%	3.68%	4.91%			3.00%	3.15%	
Effect of excluding intangible amortization, net of tax benefits	2.06%	2.52%	3.38%			2.56%	3.42%	
Return on average tangible common equity	4.88%	17.23%	$ 0	(71.7) %	(77.2) %	14.30%	14.88%	(3.9) %
Adjusted cash earnings per share								
Earnings per share (U.S. GAAP basis)	$ 0.07	$ 0.35	$ 0.40			$ 1.10	$ 1.00	
Effect of excluding intangible amortization, net of tax benefits	0.05	0.06	0.08			0.24	0.30	
Adjusted cash earnings per share	$ 0.12	$ 0.41	$ 0.48	(70.8) %	(74.7) %	$ 1.34	$ 1.30	3.3 %

Business Line Performance

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

NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)	Three months ended			Twelve months ended December 31,	
	December 31, 2017	September 30, 2017	December 31, 2016	2017	2016
Banking	$ 10,309	$ 9,567	$ 10,647	$ 38,281	$ 34,511
Mortgage	1,192	584	1,622	3,040	5,555
Retirement and Benefits	5,595	4,284	4,287	20,413	13,325
Wealth Management	1,891	1,628	1,735	6,541	5,102
Corporate Administration	(18,009)	(11,118)	(12,642)	(52,831)	(44,462)
Net income	**$ 978**	**$ 4,945**	**$ 5,649**	**$ 15,444**	**$ 14,031**

Assets Under Administration (AUA) & Assets Under Management (AUM)

The table below sets forth the business lines where assets are administered and assets are managed. AUA include assets that are administered in both Retirement and Benefits and Wealth Management. AUM for Retirement and Benefits includes assets that are also administered and are included in the AUA number for Retirement and Benefits. Internally managed assets include the bank's investment portfolio and certain funds that are internally managed by the Wealth Management business line.

AUA & AUM BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)

	December 31, 2017	September 30, 2017	December 31, 2016
Assets Under Administration (AUA)			
Retirement & Benefits	$ 28,127,961	$ 27,225,757	$ 24,950,545
Wealth Management	92,285	81,117	77,545
Total Assets Under Administration	$ 28,220,246	$ 27,306,874	$ 25,028,090
Assets Under Management (AUM)			
Retirement & Benefits	$ 1,238,404	$ 1,275,061	$ 1,158,340
Wealth Management	2,609,681	2,570,206	2,221,447
Total Assets Under Management	$ 3,848,085	$ 3,845,267	$ 3,379,787
Internally Managed Assets	$ 529,778	$ 542,979	$ 514,021

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			Twelve months ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Condensed Income Statement					
Net interest income	$ 18,472	$ 18,408	$ 16,418	$ 70,377	$ 64,990
Noninterest income	1,878	1,821	1,885	7,180	6,895
Total net revenue	20,350	20,229	18,303	77,557	71,885
Provision for credit losses	1,320	1,320	-	3,280	3,060
Noninterest expense	8,721	9,342	7,656	35,996	34,314
Net income before income taxes	$ 10,309	$ 9,567	$ 10,647	$ 38,281	$ 34,511
Average Balance Sheet					
Total loans	$ 1,548,138	$ 1,520,198	$ 1,354,549	$ 1,474,774	$ 1,343,208
Goodwill	20,130	20,130	20,130	20,130	18,464
Other intangible assets	2,821	3,086	3,819	3,200	3,881
Total Assets	1,980,439	1,959,676	1,883,950	1,936,945	1,845,947
Deposits	1,692,929	1,598,776	1,704,597	1,664,022	1,666,792

Banking reported net income before income taxes of $10.3 million on revenue of $20.4 million for the fourth quarter of 2017, up from net income before taxes of $9.6 million on revenues of $20.2 million during the third quarter of 2017. Net interest income, noninterest income and provision for credit losses were comparable for the third and fourth quarters of 2017. Noninterest expense decreased by $0.6 million, compared with the third quarter of 2017. Average loans increased by $27.9 million and average deposits increased by $94.1 million during the quarter.

Net income before taxes for the fourth quarter of 2017 of $10.3 million was comparable to the $10.6 million for the same period in 2016. Net interest income increased 12.5 percent from $16.4 million to $18.5 million. There was no provision for credit losses in the fourth quarter of 2016 as compared to $1.3 million in the fourth quarter of 2017. Noninterest expenses increased 13.9 percent from $7.7 million to $8.7 million, primarily as a result of increased marketing and business development expense. Average loans increased $193.6 million from $1.35 billion to $1.55 billion, and average deposits decreased by $11.7 million to $1.70 billion during the period.

For the full year of 2017, net income before income taxes was $38.3 million, a 10.9 percent increase from 2016. Net interest income increased 8.3 percent from $65.0 million to $70.4 million. Noninterest income and provision for credit losses were comparable year over year. Noninterest expense increased 4.9 percent from $34.3 million in 2016 to $36.0 million in 2017. Average loans increased 9.8 percent from $1.34 billion to $1.47 billion and average deposits were unchanged at $1.66 billion.

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			Twelve months ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Condensed Income Statement					
Net interest income	$ 205	$ 203	$ 299	$ 740	$ 1,302
Noninterest income	4,766	6,221	7,463	21,402	26,949
Total net revenue	4,971	6,424	7,762	22,142	28,251
Noninterest expense	3,779	5,840	6,140	19,102	22,696
Net income before income taxes	$ 1,192	$ 584	$ 1,622	$ 3,040	$ 5,555
Mortgage originations	$ 196,441	$ 253,476	$ 276,935	$ 867,253	$ 1,065,132

Mortgage reported net income before taxes of $1.2 million on revenue of $5.0 million for the fourth quarter of 2017, as compared to net income of $0.6 million on revenue of $6.4 million for the third quarter of 2017. Mortgage originations for the quarter were $196.4 million as compared to $253.5 million for the third quarter of 2017. Noninterest expense decreased from $5.8 million to $3.8 million during the quarter on lower commission expense due to lower volumes, and the deferral of loan origination expenses associated with portfolio loans.

Net income before taxes for the fourth quarter of 2016 was $1.6 million on revenue of $7.8 million, as compared to $1.2 million on revenue of $5.0 million for the fourth quarter of 2017. Mortgage originations for the fourth quarter of 2016 were $276.9 million compared to $196.4 million for the fourth quarter of 2017. Noninterest expense was $6.1 million in 2016 as compared to $3.8 million in 2017, as a result of lower volume and the deferral of loan origination expenses associated with portfolio loans.

For the full year of 2017, net income before income taxes was $3.0 million on revenues of $22.1 million as compared to $5.6 million on revenues of $28.3 million in 2016. Revenues decreased by 21.6 percent as mortgage originations decreased by 18.6 percent from $1.1 billion in 2016 to $867.3 million in 2017. Noninterest expense was $19.1 million in 2017 compared to $22.7 million in 2016.

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 $28.1 billion of Assets Under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS

(Dollars in thousands)

(Unaudited)	Three months ended			Twelve months ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Condensed Income Statement					
Noninterest income	$ 16,033	$ 15,244	$ 15,733	$ 62,390	$ 57,804
Total net revenue	16,033	15,244	15,733	62,390	57,804
Noninterest expense	10,438	10,960	11,446	41,977	44,479
Net income before income taxes	$ 5,595	$ 4,284	$ 4,287	$ 20,413	$ 13,325
Assets under management	$ 1,238,404	$ 1,275,061	$ 1,158,340	$ 1,238,404	$ 1,158,340
Assets under administration	28,127,961	27,225,757	24,950,545	28,127,961	24,950,545

Retirement and Benefits reported net income before taxes of $5.6 million on revenue of $16.0 million for the fourth quarter of 2017 compared to $4.3 million net income before taxes on revenue of $15.2 million for the third quarter of 2017. Noninterest expense for the fourth quarter of 2017 was $10.4 million as compared to $11.0 million for the third quarter of 2017. AUA increased to $28.1 billion from $27.2 billion during the quarter.

Net income before taxes for the fourth quarter of 2016 was $4.3 million on revenue of $15.7 million compared to $5.6 million on revenue of $16.0 million for the fourth quarter of 2017. Noninterest expense decreased from $11.4 million during the fourth quarter of 2016 to $10.4 million for the fourth quarter of 2017.

For the full year of 2017, net income before taxes was $20.4 million on revenues of $62.4 million compared to $13.3 million on revenue of $57.8 million. Noninterest expense was $42.0 million in 2017 compared to $44.5 million in 2016, which included a number of acquisition related expenses for the ABGNCS transaction. During 2017, AUA increased from $25.0 billion to $28.1 billion and AUM increased from $1.16 billion to $1.24 billion.

Wealth Management offers trust and fiduciary services, investment management, and financial planning services to clients, and has $3.1 billion of Assets Under Management (AUM).

WEALTH MANAGEMENT

(Dollars in thousands)

(Unaudited)	Three months ended			Twelve months ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Condensed Income Statement					
Net interest income	$ 15	$ 14	$ 14	$ 57	$ 54
Noninterest income	3,980	3,533	3,635	14,660	13,629
Total net revenue	3,995	3,547	3,649	14,717	13,683
Noninterest expense	2,104	1,919	1,914	8,176	8,581
Net income before income taxes	$ 1,891	$ 1,628	$ 1,735	$ 6,541	$ 5,102
Assets under management	$ 2,609,681	$ 2,570,206	$ 2,221,447	$ 2,609,681	$ 2,221,447
Assets under administration	92,285	81,117	77,545	92,285	77,545
Internally managed assets	529,778	542,979	514,021	529,778	514,021

Wealth Management reported net income before taxes of $1.9 million on revenue of $4.0 million for the fourth quarter of 2017 as compared to net income before taxes of $1.6 million on revenue of $3.5 million for the third quarter of 2017. Noninterest expense increased from $1.9 million to $2.1 million during the quarter. AUM increased from $3.11 billion to $3.14 billion during the quarter.

Net income before taxes increased from $1.7 million on revenue of $3.6 million for the fourth quarter of 2016 to $1.9 million on revenue of $4.0 million for the current quarter. Noninterest expenses increased from $1.9 million to $2.1 million from the fourth quarter of 2016 to the same period in 2017.

For the full year of 2017, net income before income taxes was $6.5 million on revenues of $14.7 million as compared to $5.1 million on revenues of $13.7 million. Noninterest expense decreased from $8.6 million in 2016 to $8.2 million in 2017. During 2017, assets under management increased from $2.74 billion to $3.14 billion and assets under administration increased from $77.5 million to $92.3 million.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	December 31, 2017	September 30, 2017	December 31, 2016
Assets	(Unaudited)	(Unaudited)	(Audited)
Cash and due from banks	$ 121,998	$ 33,386	$ 207,367
Investment securities			
Trading	1,945	1,959	1,959
Available-for-sale	272,466	283,918	276,952
Total investment securities	274,411	285,877	278,911
Mortgages held for sale	17,938	33,904	35,063
Loans and leases			
Loans and leases	1,574,474	1,554,256	1,366,952
Allowance for loan and lease losses	(16,564)	(15,367)	(15,615)
Net loans and leases	1,557,910	1,538,889	1,351,337
Premises and equipment	21,229	22,405	24,262
Bank-owned life insurance	29,959	29,752	29,139
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	27,111	28,307	32,730
Deferred tax assets, net	9,213	15,085	19,521
Other assets	49,960	50,276	44,920
Total assets	$ 2,137,058	$ 2,065,210	$ 2,050,579
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 619,333	$ 486,618	$ 554,490
Interest-bearing	1,011,368	902,211	990,186
Time deposits	204,261	211,110	240,533
Total deposits	1,834,962	1,599,939	1,785,209
Short-term borrowings	30,000	194,395	729
Long-term debt	58,819	58,817	58,813
Accrued expenses and other liabilities	32,706	29,919	37,043
Total liabilities	1,956,487	1,883,070	1,881,794
Stockholders' equity			
Common stock and related surplus	39,739	39,558	37,416
Retained earnings	141,963	142,560	133,307
Accumulated other comprehensive income, net	(1,131)	22	(1,938)
Total stockholders' equity	180,571	182,140	168,785
Total liabilities and equity	$ 2,137,058	$ 2,065,210	$ 2,050,579
Common shares outstanding	13,699	13,700	13,534
Book value per common share	$ 13.18	$ 13.29	$ 12.47

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Loans and leases, including fees	$ 18,260	$ 16,110	$ 68,799	$ 63,644
Investment securities	1,554	1,382	6,129	5,673
Other interest income	138	164	709	625
Total interest income	19,952	17,656	75,637	69,942
Interest Expense				
Deposits	989	923	3,520	3,385
Other borrowed funds	1,149	871	4,447	3,617
Total interest expense	2,138	1,794	7,967	7,002
Net interest income	17,814	15,862	67,670	62,940
Provision for credit losses	1,320	-	3,280	3,060
Net interest income after provision for credit losses	16,494	15,862	64,390	59,880
Noninterest Income				
Retirement and benefit services	16,033	15,733	62,390	57,804
Wealth management	3,980	3,635	14,660	13,629
Mortgage banking	4,766	7,463	21,402	26,949
Service charges on deposit accounts	500	467	1,854	1,916
Other	715	1,277	3,153	3,891
Total noninterest income	25,994	28,575	103,459	104,189
Noninterest Expense				
Salaries	16,301	18,557	67,576	70,739
Employee benefits	3,535	3,564	16,490	15,975
Net occupancy expense	1,566	1,684	6,266	6,437
Furniture and equipment expense	1,476	1,425	5,568	6,018
Intangible amortization expense	1,196	1,770	5,623	7,005
Other	9,296	9,193	33,397	36,726
Total noninterest expense	33,370	36,193	134,920	142,900
Income before income taxes	9,118	8,244	32,929	21,169
Applicable income taxes	8,140	2,595	17,485	7,138
Net income	978	5,649	15,444	14,031
Less: Preferred dividends	-	-	-	25
Net income applicable to common stock	$ 978	$ 5,649	$ 15,444	$ 14,006
Diluted earnings per common share	$ 0.07	$ 0.40	$ 1.10	$ 1.00
Diluted average common shares outstanding	14,024	14,019	14,007	14,000

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)	Twelve months ended December 31, 2017	2016
Operating Activities	(Unaudited)	(Audited)
Net income	$ 15,444	$ 14,031
Provision for credit losses	3,280	3,060
Depreciation, amortization and other	9,856	11,166
Other adjustments to net income	11,836	(744)
Changes in liabilities	(6,631)	(6,315)
Changes in other operating activities	14,105	12,791
Total cash flows from operating activities	47,890	33,989
Investing Activities		
Purchases of premises and equipment	(2,946)	(1,684)
Investments, net	4,344	20,229
Loans, net	(210,286)	(38,884)
Cash paid for business combinations	-	(45,441)
Other cash flows from investing activities	3,795	6,371
Total cash flows used by investing activities	(205,093)	(59,409)
Financing Activities		
Dividends paid	(6,729)	(6,188)
Redemption of preferred stock	-	(20,000)
Purchase of common stock	(294)	(357)
Deposits	49,754	25,020
Net borrowings	29,103	(31,847)
Total cash flows from (used by) financing activities	71,834	(33,372)
Change in cash and cash equivalents	(85,369)	(58,792)
Cash and cash equivalents at beginning of period	207,367	266,159
Cash and cash equivalents at end of period	$ 121,998	$ 207,367

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 Bedford, 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.