

FOR RELEASE (10.24.2018—16:00)

**ALERUS FINANCIAL CORPORATION REPORTS
THIRD QUARTER 2018 RESULTS OF \$7.4 MILLION NET INCOME**

GRAND FORKS, N.D. (October 24, 2018) – Alerus Financial Corporation (OTCQX: ALRS) reported record net income of \$7.4 million for the third quarter of 2018 which was 49.0 percent higher than the \$4.9 million for the third quarter of 2017, and 31.6 percent higher than the \$5.6 million for the second quarter of 2018. Diluted earnings per common share were \$0.52 in the third quarter of 2018, compared with \$0.35 per diluted common share for the third quarter of 2017, and \$0.40 in the second quarter of 2018.

RESULTS AND RATIOS

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

(Unaudited)

	Three months ended			Percent Change Sept 30, 2018 from		Nine months ended		Percent Change
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017	
Net income	\$ 7,370	\$ 5,599	\$ 4,945	31.6 %	49.0 %	\$ 19,833	\$ 14,466	37.1 %
Diluted earnings per common share	\$ 0.52	\$ 0.40	\$ 0.35	30.0 %	48.6 %	\$ 1.41	\$ 1.03	36.9 %
Return on average assets	1.36%	1.05%	0.97%	29.5 %	40.2 %	1.26%	0.97%	29.9 %
Return on average common equity	15.40%	12.13%	10.83%	27.0 %	42.2 %	14.28%	10.92%	30.8 %
Net interest margin (tax equivalent)	3.82%	3.88%	3.87%	(1.5) %	(1.1) %	3.87%	3.73%	3.8 %
Efficiency ratio	73.16%	72.30%	76.66%	1.2 %	(4.6) %	72.84%	75.89%	(4.0) %
Dividends declared per common share	\$ 0.13	\$ 0.13	\$ 0.12	- %	8.3 %	\$ 0.39	\$ 0.36	8.3 %
Book value per common share	\$ 13.87	\$ 13.52	\$ 13.29	2.5 %	4.3 %			

The \$5.4 million increase in net income year-over-year was largely due to the following:

- An increase of \$6.1 million (12.3 percent) in net interest income, mainly a result of the impact of rising interest rates and loan growth, partially offset by higher rates on deposits and a shift in funding mix
- offset by a \$5.1 million increase in provision expense due to increasing levels of criticized loans and strong loan growth
- noninterest income declined \$0.9 million (1.1 percent) due to decreases in mortgage revenue, partially offset by growth in wealth management and retirement and benefits revenue
- noninterest expense declined \$1.1 million (1.1 percent) as decreases in professional fees and intangible expense were partially offset by investments in technology, business development, and marketing.

The net income increase of \$1.7 million between the third quarter of 2018 and the second quarter of 2018 was the result of the following:

- A \$2.5 million reduction in provision expense due to a decrease in net charge-offs of \$1.7 million
- a \$0.5 million increase in noninterest expense which included a \$1.1 million decrease in other noninterest expense due to changes in accruals related to legal matters and a decline in other real estate losses and expenses. This decrease was offset by a \$0.7 million increase in professional fees, a \$0.5 million increase in technology expense, and a \$0.4 million increase in incentive compensation in the mortgage division.

Chairman, President, and Chief Executive Officer Randy Newman said, "Alerus continues to balance growth, return, and risk for the long-term benefit of our stockholders. This past quarter, we achieved record quarterly results while growing the Alerus franchise. In July, we opened a new business development office in Mesa, Arizona and we continue to make planned investments in our technology to support our long-term growth strategies."

Business Driver Highlights

- Linked quarter loan growth of \$18.9 million (1.1 percent), which includes a \$26.7 million increase in residential real estate loans and a \$12.2 million decrease in commercial loans.
- Deposits increased \$29.2 million (1.6 percent) on a linked quarter basis, which includes a \$31.0 million (16.3 percent) increase in time deposits.
- Assets under administration (AUA) increased \$0.5 billion (1.9 percent) to \$28.5 billion
- Assets under management (AUM) increased \$104 million (2.2 percent) to \$4.9 billion
- Mortgage originations totaled \$222.3 million, compared to \$239.9 million for the second quarter of 2018

Financial Position

Total assets of \$2.2 billion for the third quarter of 2018 were up \$107.6 million (5.2 percent) from the third quarter of 2017; the period also included a shift of \$39.0 million from investments to the loan portfolio. Total assets were stable on a linked quarter basis as an \$18.9 million (1.1 percent) increase in loans was offset by an \$8.1 million decrease in loans held for sale, a \$7.9 million decrease in cash and investments, and a \$5.2 million decrease in other assets.

Total deposits were \$1.8 billion as of September 30, 2018, an increase of \$29.2 million (1.6 percent) over the linked quarter and an increase of \$217.8 million (13.6 percent) from September 30, 2017. Year-over-year core deposit growth was strong at \$207.5 million (14.9 percent), driving a decrease of \$121.0 million in short-term borrowings.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the third quarter was \$18.9 million, which is stable with the second quarter of 2018 as average earning assets remained at \$1.9 billion. Average loan balances of \$1.7 billion grew \$19.1 million (1.1 percent) and the yield on the loan portfolio decreased by 2 basis points from 4.79 percent to 4.77 percent due to purchase accounting premium amortization in the third quarter.

The investment portfolio average balance declined \$6.1 million to \$248.6 million in the third quarter of 2018, but the yield grew 2 basis points in the comparable period which allowed investment interest income to remain at \$1.4 million for both periods.

Average interest bearing liabilities declined \$4.9 million from the second quarter of 2018 to \$1.3 billion in the third quarter. Interest expense increased \$0.4 million (12.1 percent) to \$3.3 million for the third quarter of 2018 from \$2.9 million in the second quarter, primarily due to a rise in the cost of interest bearing deposits.

The net interest margin calculated on a taxable-equivalent basis in the third quarter of 2018 was 3.82 percent, a decline from the second quarter results of 3.88 percent, due to an increase in funding costs 10 basis points.

Net interest income in the third quarter of 2018 was \$18.9 million, compared with \$17.7 million in the third quarter of 2017, an increase of \$1.2 million (6.7 percent). The increase was principally driven by the shift and growth in earning assets, principally the increase in residential real estate mortgages with average balances of \$161.1 million.

The net interest margin calculated on a tax-equivalent basis for the first nine months of 2018 was 3.87 percent, compared to 3.73 percent for the same period a year ago. The increase of \$6.1 million in net interest income was due to higher yields on the loan portfolio which rose from 4.63 percent in the first nine months ended September 30, 2017, to 4.77 percent at September 30, 2018. In addition, average earning assets increased \$135 million to \$1.9 billion as the loan portfolio average balances moved up \$211.2 million, offset by a \$39.7 million and \$31.7 million decrease in interest

bearing deposits in banks and investment securities, respectively. Offsetting the increases in interest income was a 23 basis point increase in the cost of interest bearing liabilities on an average balance increase of \$72.9 million.

NONINTEREST INCOME

(Dollars in thousands)

(Unaudited)

	Three months ended			Sept 30, 2018 from		Nine months ended		Percent Change
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017	
Retirement and Benefits	\$ 15,536	\$ 15,394	\$ 15,244	0.9 %	1.9 %	\$ 46,873	\$ 46,358	1.1 %
Wealth Management	3,824	3,764	3,533	1.6 %	8.2 %	11,363	10,681	6.4 %
Mortgage Banking	5,322	5,224	5,667	1.9 %	(6.1) %	13,555	15,510	(12.6) %
Service charges on deposit accounts	442	429	470	3.0 %	(6.0) %	1,333	1,355	(1.6) %
Other	1,137	1,284	1,218	(11.4) %	(6.7) %	3,488	3,561	(2.0) %
Total noninterest income	\$ 26,261	\$ 26,095	\$ 26,132	0.6 %	0.5 %	\$ 76,612	\$ 77,465	(1.1) %

Third quarter noninterest income of \$26.3 million was \$0.1 million (0.5 percent) higher than the third quarter of 2017, led by strong growth in wealth management revenue and stable growth in the retirement and benefits division. These increases were partially offset by lower mortgage banking revenue due to lower production volume driven by increasing interest rates

Noninterest income was \$0.2 million (0.6 percent) higher in the third quarter of 2018 compared with the second quarter of 2018, reflecting stable revenue increases in each business line offset by a decrease in other income due to a lack of securities gains in the third quarter compared to \$0.2 million in the second quarter.

“Our wealth management division continues to deliver record results due to strong business growth, our holistic approach to working with clients, and favorable market conditions,” said Chairman, President, and Chief Executive Officer, Randy Newman. “Additionally, we continue to enhance growth through synergistic strategies within our diverse product lines, including bringing health savings accounts from our retirement division onto our balance sheet to grow deposits, and mortgages funding our balance sheet to reach new clients all while further diversifying our portfolio and driving revenue.”

NONINTEREST EXPENSE

(Dollars in thousands)

(Unaudited)

	Three months ended			Percent Change		Nine months ended		Percent Change
	Sept 30,	June 30,	Sept 30,	Sept 30, 2018 from		Sept 30,	Sept 30,	
	2018	2018	2017	June 30,	Sept 30,	2018	2017	
Salaries	\$ 17,795	\$ 17,366	\$ 18,501	2.5 %	(3.8) %	\$ 50,945	\$ 51,275	(0.6) %
Employee benefits	4,392	4,397	4,244	(0.1) %	3.5 %	13,567	12,955	4.7 %
Occupancy and equipment expense	2,698	2,663	2,709	1.3 %	(0.4) %	8,215	8,162	0.6 %
Business services, software and technology expense	3,731	3,271	3,454	14.1 %	8.0 %	10,467	9,282	12.8 %
Intangible amortization expense	1,196	1,196	1,410	- %	(15.2) %	3,588	4,427	(19.0) %
Professional fees and assessments	1,628	909	1,490	79.1 %	9.3 %	3,734	4,621	(19.2) %
Marketing and business development	857	1,004	548	(14.6) %	56.4 %	2,438	1,654	47.4 %
Supplies and postage	611	535	633	14.2 %	(3.5) %	1,902	1,837	3.5 %
Travel	382	515	373	(25.8) %	2.4 %	1,252	1,074	16.6 %
Mortgage and lending expenses	437	686	579	(36.3) %	(24.5) %	1,597	1,780	(10.3) %
Other	612	1,266	1,317	(51.7) %	(53.5) %	2,712	4,483	(39.5) %
Total noninterest expense	\$ 34,339	\$ 33,808	\$ 35,258	1.6 %	(2.6) %	\$ 100,417	\$ 101,550	(1.1) %

Third quarter noninterest expense of \$34.3 million was \$0.9 million (2.6 percent) lower than the third quarter of 2017, primarily due to lower salaries and a decrease in other non-interest expense, and partially offset by the planned increased investments in technology, business development and digital marketing. Salary expense decreased \$0.7 million (3.8 percent) due to lower variable compensation related to production within the mortgage division. Other noninterest expense decreased \$0.7 million (53.5 percent) due to adjustments to accruals related to legal matters. Intangible amortization expense continued to decline and is \$0.2 million (15.2 percent) lower than the third quarter of 2017.

Noninterest expense rose \$0.5 million (1.6 percent) on a linked quarter basis. One-time professional fees of \$0.5 million during the quarter coupled with proceeds from an insurance settlement of \$0.3 million in the second quarter of 2018 contributed to a \$0.7 million (79.1 percent) increase in professional fees. Salary expense increased \$0.4 million (2.5 percent) due to seasonally higher mortgage volume and related incentives. Continued implementation of One Alerus investments resulted in a \$0.5 million (14.1 percent) increase in technology expenses. Other noninterest expense decreased \$0.7 million (51.7 percent) due to a change in accruals related to legal matters of \$0.4 million and a decrease in losses and expenses on other real estate owned of \$0.3 million.

“As we position our company for long-term success, Alerus is currently in the midst of a strategic initiative to digitally transform our company both internally with employees and externally with clients, coupled with enhanced personal development of our client facing employees to better meet client needs holistically,” said Chairman, President, and Chief Executive Officer, Randy Newman. “The delivery of financial services requires significant investments in technology and human talent to not only meet clients’ financial needs, but also be recognized as a viable competitor in our industry. Our professional services business model and strong core operating earnings allow Alerus to report strong financial results while investing in our future for the benefit of both our client’s financial future and increasing stockholder value.”

Income Tax Expense

The provision for income taxes for the third quarter of 2018 resulted in an effective tax rate of 20.9 percent, compared with 32.3 percent in the third quarter of 2017, and 21.9 percent in the second quarter of 2018. The decline in the tax expense on a linked quarter basis was due to a one-time tax benefit of \$0.3 million in the third quarter of 2018. The lower 2018 tax rates reflect the tax reform legislation enacted during the fourth quarter of 2017.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017
Non Performing Loans					
Commercial:					
Commercial	\$ 2,174	\$ 2,833	\$ 2,643	\$ 3,193	\$ 2,129
Commercial real estate	2,372	842	-	62	-
Total commercial	4,546	3,675	2,643	3,255	2,129
Consumer:					
Residential mortgages	889	921	2,093	2,534	3,708
Other consumer	41	19	28	84	43
Total consumer	930	940	2,121	2,618	3,751
Total nonperforming loans	\$ 5,476	\$ 4,615	\$ 4,764	\$ 5,873	\$ 5,880
Other real estate	169	201	446	446	522
Other nonperforming assets	111	7	57	37	25
Total nonperforming assets	\$ 5,756	\$ 4,823	\$ 5,267	\$ 6,356	\$ 6,427
Accruing loans 90 days or more past due	\$ -	\$ -	\$ -	\$ -	\$ -
Nonperforming assets to loans plus ORE	0.3%	0.3%	0.3%	0.4%	0.4%
Allowance for loan losses	\$ 21,012	\$ 19,869	\$ 18,023	\$ 16,564	\$ 15,367
Allowance for loan losses to total nonperforming loans	384%	431%	378%	282%	261%
Net charge-offs QTD	\$ 388	\$ 2,174	\$ 71	\$ 123	\$ 2,087
Net charge-offs YTD	\$ 2,633	\$ 2,245	\$ 71	\$ 2,331	\$ 2,208
Net charge-offs to average loans	0.21%	0.28%	0.02%	0.15%	0.18%

The Company's provision for credit losses for the third quarter was \$1.5 million, which was \$2.5 million less than the prior quarter and \$0.2 million higher than the third quarter of 2017. Total net charge-offs in the third quarter of 2018 declined to \$0.4 million, from \$2.2 million in the second quarter of 2018, and \$2.1 million in the third quarter of 2017.

The allowance for loan losses was \$21.0 million at September 30, 2018, a \$1.1 million (5.8 percent) increase from the \$19.9 million balance at June 30, 2018, and a \$5.6 million (36.7 percent) increase from the September 30, 2017 balance of \$15.4 million. The allowance for loan losses to nonperforming loans was 384 percent at September 30, 2018, compared with 431 percent at June 30, 2018, and 261 percent a year ago.

"Net charge-offs declined \$1.8 million, or 82 percent, returning the net charge-off ratio to the Company's historical average of approximately 20 basis points. As Alerus continues to expand through strong loan growth, we recognize the need to further build the allowance for loan losses in order to maintain a position of strength within our balance sheet. The increased provisions have moved our reserve as a percentage of total loans from 0.99 percent a year ago to 1.22 percent at the end of September," said Chairman, President, and Chief Executive Officer, Randy Newman.

CAPITAL POSITION

(Dollars in thousands)

(Unaudited)

	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017
Total common stockholders' equity	\$ 191,059	\$ 186,344	\$ 183,055	\$ 180,571	\$ 182,140
Tangible common equity to tangible assets	6.61%	6.32%	6.37%	6.06%	6.30%
Tangible common equity to risk-weighted assets	7.76%	7.46%	7.50%	7.41%	7.36%
Regulatory Capital:					
Common equity tier 1 capital	\$ 146,754	\$ 139,764	\$ 134,274	\$ 133,149	\$ 132,859
Tier 1 capital	154,758	147,735	142,217	141,037	140,709
Total risk-based capital	225,317	217,135	209,756	207,101	205,560
Regulatory Capital Ratios:					
Common equity tier 1 capital ratio	8.12%	7.76%	7.76%	7.83%	7.73%
Tier 1 capital ratio	8.57%	8.20%	8.22%	8.29%	8.18%
Total risk-based capital ratio	12.47%	12.06%	12.13%	12.17%	11.95%
Tier 1 leverage ratio	7.37%	7.07%	7.06%	7.07%	7.10%

Stockholders' equity of \$191.1 million at September 30, 2018, was \$8.9 million, or 4.9 percent, higher than the prior year period, a result of steady earnings generation; offset by a \$5.7 million increase in other comprehensive loss due to unrealized losses in the investment portfolio attributable to a rising interest rate environment.

All regulatory ratios continue to be in excess of "well-capitalized" requirements. Regulatory capital ratios increased from a year ago despite the impact in 2018 of the full phase-in of the goodwill and selected intangible assets as required under the new capital rule (Title 12 of the CFR in Part 324) – or Basel III.

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)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Tangible common equity to tangible assets					
Total stockholders' equity	\$ 191,059	\$ 186,344	\$ 182,140		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	23,523	24,719	28,307		
Tangible common equity (a)	140,207	134,296	126,504		
Total assets	2,172,798	2,176,862	2,065,210		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	23,523	24,719	28,307		
Tangible assets (b)	2,121,946	2,124,814	2,009,574		
Tangible common equity to tangible assets (a)/(b)	6.61%	6.32%	6.30%		
Return on tangible common equity					
Net income	\$ 7,370	\$ 5,599	\$ 4,945	\$ 19,833	\$ 14,466
Intangible amortization expense (net-of-tax)	945	945	917	2,835	2,878
Net income, excluding intangible amortization	8,315	6,544	5,862	22,668	17,344
Annualized net income, excluding intangible amortization (c)	32,989	26,248	23,257	30,307	23,189
Average total equity	189,900	185,197	181,180	185,730	177,132
Less: Average goodwill	27,329	27,329	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	19,041	19,988	18,893	19,982	24,083
Average tangible common equity (d)	143,530	137,880	134,958	138,419	125,720
Return on tangible common equity (c)/(d)	22.98%	19.04%	17.23%	21.90%	18.44%
Net interest margin (tax equivalent)					
Net interest income	\$ 18,929	\$ 18,899	\$ 17,748	\$ 55,970	\$ 49,857
Tax equivalent adjustment	114	115	276	349	665
Tax equivalent net interest income (e)	19,043	19,014	18,024	56,319	50,522
Average earnings asset (f)	1,976,454	1,965,299	1,849,501	1,945,182	1,810,400
Net interest margin (tax equivalent) (e)/(f)	3.82%	3.88%	3.87%	3.87%	3.73%
Efficiency ratio					
Noninterest expense	34,339	33,808	35,258	100,417	101,550
Less: Intangible amortization expense	1,196	1,196	1,410	3,588	4,427
Adjusted noninterest expense (g)	33,143	32,612	33,848	96,829	97,123
Net interest income	18,929	18,899	17,748	55,970	49,857
Noninterest income	26,261	26,095	26,132	76,612	77,465
Tax equivalent adjustment	114	115	276	349	665
Total tax equivalent revenue (h)	45,304	45,109	44,156	132,931	127,987
Efficiency ratio (g)/(h)	73.16%	72.30%	76.66%	72.84%	75.89%

Business Line Performance

The Company defines its business lines by the service provided, 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 marketing, technology, 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 does not include these allocations and income taxes.

NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Banking	\$ 9,325	\$ 7,251	\$ 9,567	\$ 25,303	\$ 27,971
Mortgage	593	740	584	1,137	1,848
Retirement and Benefits	6,487	6,336	4,284	19,236	14,819
Wealth Management	2,132	1,883	1,628	5,708	4,651
Corporate Administration	(9,216)	(9,044)	(8,761)	(26,299)	(25,476)
Income before income taxes	9,321	7,166	7,302	25,085	23,813
Tax Expense	1,951	1,567	2,357	5,252	9,346
Net income	\$ 7,370	\$ 5,599	\$ 4,945	\$ 19,833	\$ 14,467

Banking offers a complete line of loan, deposit, cash management, and treasury services through eighteen offices in North Dakota, Minnesota, and Arizona. The Company delivers these products and services through a relationship-driven model supported by technology.

BANKING

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Condensed Income Statement					
Net interest income	\$ 19,568	\$ 19,517	\$ 18,408	\$ 57,960	\$ 51,905
Noninterest income	1,710	1,846	1,821	5,159	5,302
Total net revenue	21,278	21,363	20,229	63,119	57,207
Provision for credit losses	1,521	4,020	1,320	7,071	1,960
Noninterest expense	10,432	10,093	9,342	30,745	27,275
Net income before income taxes	\$ 9,325	\$ 7,250	\$ 9,567	\$ 25,303	\$ 27,972
Average Balance Sheet					
Total loans	\$ 1,698,610	\$ 1,679,469	\$ 1,520,198	\$ 1,661,110	\$ 1,450,050
Goodwill	20,130	20,130	20,130	20,130	20,130
Other intangible assets	2,072	2,322	3,086	2,320	3,329
Total Assets	2,077,656	2,068,584	1,954,009	2,050,595	1,916,841
Deposits	1,764,940	1,751,828	1,598,776	1,755,473	1,654,281

Banking reported an increase in net income before taxes of \$2.1 million in the third quarter of 2018 compared to the second quarter of 2018, primarily due to a decrease in provision expense of \$2.5 million.

Year-to-date results reflect a decline in net income before taxes of \$2.7 million compared to the prior period due to a \$5.1 million increase in provision expense. Net interest income increased \$6.1 million as average loans grew \$211.1 million from \$1.5 billion to \$1.7 billion and average deposits increased by \$101.2 million, from \$1.7 billion to \$1.8 billion during the period. Noninterest expense rose 12.7 percent (\$3.5 million) in the first nine months of 2018 compared to the same period in 2017, primarily due to an elevated intercompany expense of \$4.0 million which is paid to the mortgage and retirement and benefits divisions for the residential real estate loans and health savings accounts delivered to the bank's balance sheet.

Mortgage offers first and second mortgage loans through a centralized mortgage unit in Minneapolis, Minnesota as well as through the Banking office locations.

MORTGAGE

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Condensed Income Statement					
Net interest income	\$ 248	\$ 267	\$ 203	\$ 653	\$ 535
Noninterest income	5,673	5,630	6,221	14,767	16,637
Total net revenue	5,921	5,897	6,424	15,420	17,172
Noninterest expense	5,328	5,157	5,841	14,283	15,322
Net income before income taxes	\$ 593	\$ 740	\$ 583	\$ 1,137	\$ 1,850
Mortgage originations	\$ 222,330	\$ 239,938	\$ 253,476	\$ 609,940	\$ 670,811
Purchase origination %	84.7%	90.2%	84.0%	84.3%	82.5%
Refinance origination %	15.3%	9.8%	16.0%	15.7%	17.5%

The Mortgage division net income before taxes decreased \$0.1 million during the third quarter 2018 compared to the second quarter as origination volume fell 7.3 percent due to seasonality of the business.

Net income before taxes declined \$0.7 million, from the nine months of 2018 compared to the same period in 2017 primarily due to decline in originations of 9.1 percent and pricing compression. Noninterest expense declined \$1.1 million, which consisted of a decrease in incentives and various lending expenses correlated to volume declines.

Purchase originations decreased in the third quarter to 84.7 percent of the total volume and have increased for the year to over 84.3 percent of originations, compared to 82.5 percent a year ago.

Retirement and Benefits offers retirement plan administration and investment advisory services, ESOP fiduciary services, payroll, health savings account, and other benefit services to clients nationwide. The Retirement and Benefits segment has over \$28.5 billion of Assets under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Condensed Income Statement					
Noninterest income	\$ 15,536	\$ 15,394	\$ 15,244	\$ 46,873	\$ 46,358
Total net revenue	15,536	15,394	15,244	46,873	46,358
Noninterest expense	9,049	9,058	10,960	27,637	31,539
Net income before income taxes	\$ 6,487	\$ 6,336	\$ 4,284	\$ 19,236	\$ 14,819
Assets under management	\$ 2,094,689	\$ 2,077,383	\$ 1,275,061	\$ 2,094,689	\$ 2,077,383
Assets under administration	28,447,331	27,910,785	27,225,757	28,447,331	27,225,757

Retirement and Benefits net income increased \$0.2 million to \$6.5 million for the third quarter of 2018 compared to net income of \$6.3 million for the second quarter of 2018. Revenue increased by \$0.1 million, while noninterest expense remained flat. Net income climbed \$4.4 million, or 29.8 percent, from the first nine months of 2018 compared to the first nine months of 2017. Revenues were up \$0.5 million (1.1 percent) while noninterest expense declined \$3.9 million (12.4 percent). The reduction in expense was due to a \$2.8 million decline in allocation expense as the division is credited for sourcing the \$104 million of health savings accounts which are being held on the banking division's balance sheet. Intangible amortization expense continues to decline and contributed to the decrease in expense by \$0.8 million.

Wealth Management offers trust and fiduciary services, investment management and financial planning services to clients, and has over \$2.8 billion of Assets under Management (AUM).

WEALTH MANAGEMENT

(Dollars in thousands)

(Unaudited)

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Condensed Income Statement					
Net interest income	\$ 17	\$ 16	\$ 14	\$ 47	\$ 42
Noninterest income	3,824	3,764	3,533	11,363	10,681
Total net revenue	3,841	3,780	3,547	11,410	10,723
Noninterest expense	1,709	1,896	1,920	5,702	6,072
Net income before income taxes	\$ 2,132	\$ 1,884	\$ 1,627	\$ 5,708	\$ 4,651
Assets under management	\$ 2,759,417	\$ 2,672,342	\$ 2,570,205	\$ 2,759,417	\$ 2,570,205
Assets under administration	87,700	83,876	81,117	87,700	81,117
Internally managed assets	531,490	512,153	542,980	531,490	542,980

Wealth Management net income before taxes increased \$0.2 million (13.1 percent) in the third quarter of 2018 as a result of sustained revenue on a declining expense base of \$1.7 million compared to \$1.9 million in the second quarter. Results for the division improved \$1.1 million (22.7 percent) in the first nine months of 2018 compared to the first nine months of 2017 as revenue grew \$0.7 million (6.4 percent) due to business growth and favorable market conditions. Expenses declined \$0.4 million (6.1 percent) due primarily to reduced allocations as the division receives credit from the banking division for the agency money market balances of approximately \$39.1 million for the period ended September 30, 2018.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	Sept 30, 2018	June 30, 2018	Sept 30, 2017
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 35,837	\$ 39,642	\$ 33,386
Investment securities			
Trading	1,894	1,907	1,959
Available-for-sale	244,493	248,612	283,918
Total investment securities	246,387	250,519	285,877
Mortgage loans held for sale	27,672	35,816	33,904
Loans	1,724,656	1,705,780	1,554,256
Allowance for loan losses	(21,012)	(19,869)	(15,367)
Net loans	1,703,644	1,685,911	1,538,889
Premises and equipment	21,185	21,589	22,405
Bank-owned life insurance	30,561	30,359	29,752
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	23,523	24,719	28,307
Deferred tax assets, net	12,631	11,732	15,085
Other assets	44,029	49,246	50,276
Total assets	<u>\$ 2,172,798</u>	<u>\$ 2,176,862</u>	<u>\$ 2,065,210</u>
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	\$ 554,876	\$ 601,333	\$ 486,618
Interest-bearing	1,041,487	996,850	902,211
Time deposits	221,346	190,351	211,110
Total deposits	1,817,709	1,788,534	1,599,939
Short-term borrowings	73,930	112,260	194,395
Long-term debt	58,824	58,823	58,817
Accrued expenses and other liabilities	31,276	30,901	29,919
Total liabilities	1,981,739	1,990,518	1,883,070
Stockholders' equity			
Common stock and related surplus	40,671	40,442	39,558
Retained earnings	156,027	150,519	142,560
Accumulated other comprehensive loss, net	(5,639)	(4,617)	22
Total stockholders' equity	191,059	186,344	182,140
Total liabilities and equity	<u>\$ 2,172,798</u>	<u>\$ 2,176,862</u>	<u>\$ 2,065,210</u>
Common shares outstanding	13,776	13,778	13,700
Book value per common share	<u>\$ 13.87</u>	<u>\$ 13.52</u>	<u>\$ 13.29</u>

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

	Three months ended			Nine months ended	
	Sept 30, 2018	June 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
<i>(Dollars and shares in thousands, except per share data)</i>					
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	\$ 20,576	\$ 20,203	\$ 18,232	\$ 59,594	\$ 50,539
Investment securities	1,431	1,462	1,709	4,402	4,806
Other interest income	191	150	27	475	341
Total interest income	22,198	21,815	19,968	64,471	55,686
Interest Expense					
Deposits	1,790	1,455	793	4,481	2,531
Other borrowed funds	1,479	1,461	1,427	4,020	3,298
Total interest expense	3,269	2,916	2,220	8,501	5,829
Net interest income	18,929	18,899	17,748	55,970	49,857
Provision for loan losses	1,530	4,020	1,320	7,080	1,960
Net interest income after provision for loan losses	17,399	14,879	16,428	48,890	47,897
Noninterest Income					
Retirement and benefit services	15,536	15,394	15,244	46,873	46,358
Wealth management	3,824	3,764	3,533	11,363	10,681
Mortgage banking	5,322	5,224	5,667	13,555	15,510
Service charges on deposit accounts	442	429	470	1,333	1,355
Other	1,137	1,284	1,218	3,488	3,561
Total noninterest income	26,261	26,095	26,132	76,612	77,465
Noninterest Expense					
Salaries	17,795	17,366	18,501	50,945	51,275
Employee benefits	4,392	4,397	4,244	13,567	12,955
Occupancy and equipment expense	2,698	2,663	2,709	8,215	8,162
Business services, software and technology expense	3,731	3,271	3,454	10,467	9,282
Intangible amortization expense	1,196	1,196	1,410	3,588	4,427
Professional fees and assessments	1,628	909	1,490	3,734	4,621
Other	2,899	4,006	3,450	9,901	10,828
Total noninterest expense	34,339	33,808	35,258	100,417	101,550
Income before income taxes	9,321	7,166	7,302	25,085	23,812
Income tax expense	1,951	1,567	2,357	5,252	9,346
Net income	7,370	5,599	4,945	19,833	14,466
Less: Preferred dividends	-	-	-	-	-
Net income applicable to common stock	\$ 7,370	\$ 5,599	\$ 4,945	\$ 19,833	\$ 14,466
Diluted earnings per common share	\$ 0.52	\$ 0.40	\$ 0.35	\$ 1.41	\$ 1.03
Diluted average common shares outstanding	14,070	14,067	14,030	14,061	14,001

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 and Mesa, 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.