![Alerus Financial Corporation]

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ALERUS FINANCIAL CORPORATION REPORTS FIRST QUARTER 2019 NET INCOME OF $6.4 MILLION

GRAND FORKS, N.D. (April 25, 2019) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $6.4 million for the first quarter of 2019, or $0.46 earnings per diluted common share, compared to $6.0 million of net income or $0.43 earnings per diluted common share for the fourth quarter of 2018 and $6.9 million of net income or $0.49 earnings per diluted common share for the first quarter of 2018.

RESULTS AND RATIOS

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

	Three months ended			Percent Change Mar 31, 2019 from	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2018	Mar 31, 2018
Return on average assets	1.20%	1.10%	1.35%	9.1 %	(11.1) %
Return on average common equity	13.06%	12.31%	15.49%	6.1 %	(15.7) %
Return on average tangible common equity (a)	18.99%	18.28%	24.10%	3.9 %	(21.2) %
Net income	$ 6,436	$ 6,033	$ 6,864	6.7 %	(6.2) %
Net interest margin (tax equivalent basis) (a)	3.86%	3.81%	3.90%	1.1 %	(1.0) %
Efficiency ratio (a)	73.31%	76.61%	73.08%	(4.3) %	0.3 %
Diluted earnings per common share	$ 0.46	$ 0.43	$ 0.49	7.0 %	(6.1) %
Dividends declared per common share	$ 0.14	$ 0.14	$ 0.13	- %	7.7 %
Book value per common share	$ 14.78	$ 14.30	$ 13.30	3.4 %	11.1 %

(a) See Non-GAAP Financial Measures reconciliation

Quarter Highlights

First quarter 2019 compared to fourth quarter 2018

Net income of $6.4 million increased $0.4 million or 6.7 percent, compared to the fourth quarter of 2018. The increase was primarily due to a decline in noninterest expense of $2.4 million driven by seasonally lower incentive compensation partially offset by seasonally higher employee benefits and payroll taxes. Other expenses declined $1.2 million including decreases in marketing and advertising expenses, professional fees and other expenses. Noninterest income decreased $1.1 million as Retirement and Benefits and Wealth Management revenues recorded in the first quarter were negatively impacted by the market volatility of the fourth quarter of 2018. Provision expense increased $0.7 million as net charge-offs and nonperforming loans increased in the first quarter of 2019.

- Loans, excluding mortgage loans held for sale, increased $8.5 million, or 0.5 percent, to $1.74 billion
- Deposits grew $103.2 million, or 5.7 percent, to $1.9 billion
- Short-term borrowings decreased $81.4 million, or 87.1 percent, to $12.1 million
- Assets under administration (AUA) increased $1.8 billion, or 7.1 percent, to $27.7 billion
- Assets under management (AUM) increased $200.1 million, or 4.4 percent, to $4.8 billion
- Mortgage originations totaled $125.5 million, compared to $169.8 million for the fourth quarter of 2018

Quarterly Highlights

First quarter 2019 compared to first quarter 2018

Net income was $0.4 million or 6.2 percent lower than the first quarter 2018 results of $6.9 million. Net interest income grew $1.0 million year over year due to strong balance sheet growth but was partially offset by an increase in provision expense of $0.7 million related to higher net charge-offs and nonperforming loans. Noninterest income increased $0.8 million driven by higher mortgage revenue related to the transition to mandatory delivery of mortgage loans to the secondary market. Noninterest expense increased $1.2 million as personnel related expenses increased $1.7 million and technology initiatives added $0.3 million. These investments were partially offset by decreases in all other expense categories, with the exception of travel expense which increased $0.1 million in the comparative period.

- Loans, excluding mortgage loans held for sale, grew $104.8 million, or 6.4 percent, to $1.7 billion
- Deposits increased $82.5 million, or 4.5 percent, to $1.9 billion
- Short-term borrowings increased $12.1 million
- Assets under administration (AUA) increased $91.9 million, or 0.3 percent, to $27.7 billion
- Assets under management (AUM) increased $218.3 million, or 4.8 percent, to $4.8 billion
- Mortgage originations totaled $125.5 million, compared to $147.7 million for the first quarter of 2018

CEO Comments

Chairman, President, and Chief Executive Officer Randy Newman said, “We continue to focus on creating long-term value for our stockholders. Through our One Alerus initiative, we’ve built a multi-year strategic plan designed to invest in our people and technology, while simultaneously adding value to client relationships through a holistic approach, which in turn delivers results to the bottom line. This past quarter, our company realized one milestone of this plan within our mortgage division, evidenced by the move to mandatory delivery and new, modernized technology simplifying the online mortgage application experience for clients. We continue to look horizontally across our company as we transform and invest in our future. We are grateful for our employees’ continued dedication and commitment to excellence, both in long-term initiatives as well as in current financial performance. We believe our ability to execute these long-term strategic plans in harmony with continued, strong performance will maximize stockholder value long-term.”

Dividend Increase

In February 2019, the Company declared a quarterly cash dividend of $0.14 per share on its common stock. Chairman, President, and Chief Executive Officer, Randy Newman commented, “The payment of a meaningful and growing dividend is an important component of our commitment to provide consistent and favorable long-term returns to our stockholders.”

Duluth Market Exit

On January 15, 2019, the Company announced that its subsidiary, bank entered into an agreement for the sale of its deposits and certain assets in Duluth, Minnesota to Frandsen Bank & Trust (FB&T). The loans and deposits associated with this transaction totaled approximately $28.7 million and $20.1 million, respectively, as of March 31, 2019. These loans and deposits are included on the Consolidated Balance Sheets. As part of the transaction FB&T will assume the Company’s existing downtown Duluth branch located at 331 W Superior St. Additionally, the Company closed its Duluth Miller Hill branch, located at 1405 Miller Trunk Hwy on April 19, 2019. The transaction has received regulatory approval and is expected to be completed on April 26, 2019.

Results of Operations

NET INTEREST INCOME					
(Dollars in thousands)					
(Unaudited)	Three months ended			Mar 31, 2019 change from	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2018	Mar 31, 2018
Components of net interest income					
Income on earning assets	$ 23,310	$ 23,230	$ 20,458	$ 80	$ 2,852
Expense on interest-bearing liabilities	4,190	3,979	2,316	211	1,874
Net interest income	$ 19,120	$ 19,251	$ 18,142	$ (131)	$ 978
Average yields and rates paid					
Earning assets yield	4.70 %	4.60 %	4.37 %	0.10 %	0.33 %
Rate paid on interest-bearing liabilities	1.19	1.11	0.70	0.08	0.49
Net interest spread	3.51 %	3.49 %	3.67 %	0.02 %	-0.16 %
Net interest margin (tax equivalent)	3.86 %	3.81 %	3.90 %	0.04 %	-0.04 %
Average balances					
Investment securities (a)	$ 263,753	$ 261,233	$ 273,550	$ 2,520	$ (9,797)
Loans	1,731,707	1,726,524	1,604,735	5,183	126,972
Earning assets	2,019,665	2,013,772	1,901,394	5,893	118,271
Interest-bearing liabilities	1,431,574	1,423,484	1,343,513	8,090	88,061

(a) Excludes unrealized gain (loss)

Net interest income for the first quarter of 2019 was steady with a decrease of $0.1 million, or 0.7 percent, to $19.1 million on a linked quarter basis. The net interest margin calculated on a tax-equivalent basis increased to 3.86 percent from 3.81 percent.

Compared to the first quarter of 2018, net interest income increased $1.0 million. Interest income on loans increased $2.8 million as average balances grew $127.0 million and the loan portfolio yield rose from 4.73 percent to 5.03 percent. Offsetting the increase in interest income was a $1.5 million increase in the cost of interest-bearing liabilities, primarily due to rising costs of interest bearing deposits from 0.40 percent in the first quarter of 2018 to 0.86 percent for the same period in 2019.

NONINTEREST INCOME					
(Dollars in thousands)					
(Unaudited)	Three months ended			Percent Change Mar 31, 2019 from	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2018	Mar 31, 2018
Retirement and Benefits	$ 15,059	$ 16,443	$ 15,943	(8.4) %	(5.5) %
Wealth Management	3,611	3,920	3,637	(7.9) %	(0.7) %
Mortgage	4,569	4,074	3,009	12.2 %	51.8 %
Service charges on deposit accounts	444	475	462	(6.5) %	(3.9) %
Other	1,391	1,231	1,205	13.0 %	15.4 %
Total noninterest income	$ 25,074	$ 26,143	$ 24,256	(4.1) %	3.4 %

First quarter noninterest income was $25.1 million, up 3.4 percent from the first quarter of 2018 total of $24.3 million, and 4.1 percent lower than the fourth quarter of 2018 total of $26.1 million.

Noninterest income for the first quarter was $1.1 million lower on a linked quarter basis as market volatility in the fourth quarter of 2018 negatively impacted the levels of assets under administration and assets under management which drove down revenue for the Retirement and Benefits and Wealth Management divisions by $1.4 million and $0.3 million, respectively. Mortgage banking offset the decrease with a $0.5 million increase in revenue, despite seasonally lower originations, due to the transition to mandatory delivery of mortgage loans to the secondary market.

Noninterest income increased $0.8 million over the first quarter of 2018 due mainly to a $1.6 million increase in mortgage division revenue driven by the previously mentioned transition to mandatory delivery of mortgage loans to the secondary market. The increase was offset by a decrease in Retirement and Benefits revenue of $0.9 million, or 5.5 percent, attributed to the market volatility in the fourth quarter of 2018 and outflows, from lost business and distributions, outpacing inflows, from new business and contributions. Other income increased $0.2 million due to gains on the sales of investment securities in the first quarter of 2019 of which there were none for the same period a year-ago.

NONINTEREST EXPENSE

(Dollars in thousands)
(Unaudited)

	Three months ended			Percent Change Mar 31, 2019 from	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2018	Mar 31, 2018
Compensation	$ 16,813	$ 17,991	$ 16,075	(6.5) %	4.6 %
Employee benefits	5,428	4,766	4,487	13.9 %	21.0 %
Occupancy and equipment expense	2,745	2,871	2,854	(4.4) %	(3.8) %
Business services, software and technology expense	3,798	4,058	3,465	(6.4) %	9.6 %
Intangible amortization expense	1,050	1,050	1,196	- %	(12.2) %
Professional fees and assessments	1,066	1,364	1,197	(21.8) %	(10.9) %
Marketing and business development	426	1,021	578	(58.3) %	(26.3) %
Supplies and postage	733	834	756	(12.1) %	(3.0) %
Travel	502	486	355	3.3 %	41.4 %
Mortgage and lending expenses	446	556	474	(19.8) %	(5.9) %
Other	507	914	833	(44.5) %	(39.1) %
Total noninterest expense	$ 33,514	$ 35,911	$ 32,270	(6.7) %	3.9 %

Total noninterest expense in the first quarter of 2019 was $33.5 million, down $2.4 million, or 6.7 percent on a linked quarter basis. Compensation expense declined $1.2 million due to seasonally lower mortgage volume and the related commissions; partially offset by a $0.7 million increase in employee benefits related to the increased costs of health insurance and seasonally higher payroll taxes and benefits. Marketing and business development expense decreased $0.6 million driven by the timing of certain marketing campaigns. Other expenses also decreased a total of $0.4 million due to a seasonal credit to the liability for unfunded commitments, coupled with the positive impact of the fourth quarter termination of loss share with the FDIC of $0.2 million.

Noninterest expense increased $1.2 million, or 3.9 percent, in the three months ended March 31, 2019 compared to the same period in 2018. Personnel related expenses drove the increase with a $0.9 million, or 21.0 percent, increase in employee benefits expense and a $0.7 million, or 4.6 percent, increase in compensation expense. The increases were the result of the number of full time equivalent employees growing from 776 to 797 and the increased costs of health insurance coverage. Technology expense increased $0.3 million, or 9.6 percent, as the Company continues to invest in initiatives related to the One Alerus organic growth strategy. The increases were partially offset by a $0.3 million decrease in other expenses and a $0.2 million decrease in marketing and business development expense.

Credit Quality

Total provision for loan losses expense increased $0.7 million, or 45.1 percent, to $2.2 million in the first quarter of 2019 compared to $1.5 million for the fourth and first quarters of 2018. The increased provision for loan loss expense was primarily related to an increase in nonperforming loans. Net charge-offs also increased during the period to $1.8 million and was largely attributable to one commercial credit. Overall credit quality remains relatively stable with total nonperforming assets to loans and other real estate of 0.5 percent.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	As of and for the periods ended				
Non Performing Loans	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018
Commercial:					
Commercial	$ 5,678	$ 3,578	$ 2,174	$ 2,833	$ 2,643
Commercial real estate	1,478	1,517	2,372	842	-
Total commercial	7,156	5,095	4,546	3,675	2,643
Consumer:					
Residential mortgages	1,088	1,846	1,015	1,199	2,093
Other consumer	23	22	41	19	28
Total consumer	1,111	1,868	1,056	1,218	2,121
Total nonperforming loans	$ 8,267	$ 6,963	$ 5,602	$ 4,893	$ 5,873
Other real estate	127	169	169	201	446
Other nonperforming assets	-	35	111	7	57
Total nonperforming assets	$ 8,394	$ 7,167	$ 5,882	$ 5,101	$ 6,376
Accruing loans 90 days or more past due	$ -	$ -	$ -	$ -	$ -
Nonperforming assets to loans plus ORE	0.48%	0.41%	0.34%	0.30%	0.30%
Allowance for loan losses	$ 22,638	$ 22,174	$ 21,012	$ 19,869	$ 18,023
Allowance for loan losses to total nonperforming loans	274%	318%	375%	431%	378%
Net charge-offs QTD	$ 1,756	$ 367	$ 388	$ 2,174	$ 71
Net charge-offs YTD	$ 1,756	$ 3,000	$ 2,633	$ 2,245	$ 71
Net charge-offs to average loans	0.41%	0.18%	0.21%	0.28%	0.02%

Capital Position

Stockholders' equity of $203.9 million at March 31, 2019 was $20.9 million, or 11.4 percent, higher than the prior year period. Steady earnings generation and a strong and growing balance sheet continue to drive higher book value per share which increased 11.1 percent to $14.78 at March 31, 2019 compared to March 31, 2018. The tangible common equity to tangible assets ratio also increased 26 basis points from the end of the fourth quarter 2018 to 7.17 percent as of March 31, 2019.

CAPITAL POSITION					
(Dollars in thousands)	As of and for the periods ended				
(Unaudited)	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018
Total common stockholders' equity	$ 203,949	$ 196,954	$ 191,059	$ 186,344	$ 183,055
Tangible common equity to tangible assets (a)	7.17%	6.91%	6.61%	6.32%	6.37%
Tangible common equity to risk-weighted assets	8.22%	8.15%	7.76%	7.46%	7.50%
Regulatory Capital:					
Common equity tier 1 capital	$ 157,639	$ 151,350	$ 146,754	$ 139,764	$ 134,274
Tier 1 capital	165,748	159,378	154,758	147,735	142,217
Total risk-based capital	237,964	231,115	225,317	217,135	209,756
Regulatory Capital Ratios:					
Common equity tier 1 capital ratio	8.35%	8.43%	8.12%	7.76%	7.76%
Tier 1 capital ratio	8.78%	8.87%	8.57%	8.20%	8.22%
Total risk-based capital ratio	12.61%	12.86%	12.47%	12.06%	12.13%
Tier 1 leverage ratio	7.76%	7.51%	7.37%	7.07%	7.06%

(a) See Non-GAAP Financial Measures reconciliation

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		
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Banking	$ 9,519	$ 8,624	$ 9,221
Mortgage	736	(136)	(650)
Retirement and Benefits	6,069	7,760	6,511
Wealth Management	1,687	2,264	1,555
Corporate Administration	(9,551)	(10,559)	(8,039)
Income before income taxes	8,460	7,953	8,598
Tax Expense	2,024	1,920	1,734
Net income	$ 6,436	$ 6,033	$ 6,864

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

BANKING			
(Dollars in thousands)			
(Unaudited)	Three months ended		
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Condensed Income Statement			
Net interest income	$ 19,900	$ 19,960	$ 18,875
Noninterest income	1,831	1,761	1,603
Total net revenue	21,731	21,721	20,478
Provision for credit losses	2,220	1,529	1,530
Noninterest expense	9,992	11,568	9,727
Net income before income taxes	$ 9,519	$ 8,624	$ 9,221
Average Balance Sheet			
Total loans	$ 1,731,216	$ 1,726,083	$ 1,604,212
Goodwill	20,130	20,130	20,130
Other intangible assets	1,573	1,822	2,572
Total Assets	2,108,324	2,105,664	2,004,744
Deposits	1,799,005	1,801,015	1,749,481

The Banking division reported net income before taxes of $9.5 million, an increase of $0.9 million, or 10.4 percent, compared to $8.6 million in the fourth quarter of 2018. The quarter-over-quarter change was primarily due to a decrease in noninterest expense of $1.6 million, due to a $0.7 million seasonal decrease in the expense for unfunded commitments and a $0.5 million decrease in the charge for deposits sourced by the other divisions. These decreases were offset by an increase of $0.7 million in provision expense related to an increase in nonperforming loans and higher net charge-offs.

Net income increased $0.3 million, or 3.2 percent, in the first quarter of 2019 compared to the same period a year ago. The year-over-year change is largely due to an increase in net interest income of $1.0 million, as average loans grew $127.0 million, or 7.9 percent, and average deposits grew $49.5 million, or 2.8 percent.

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

MORTGAGE						
(Dollars in thousands)						
(Unaudited)	Three months ended					
		Mar 31, 2019		Dec 31, 2018		Mar 31, 2018
Condensed Income Statement						
Net interest income	$	129	$	181	$	138
Noninterest income		4,569		4,074		3,009
Total net revenue		4,698		4,255		3,147
Noninterest expense		3,962		4,391		3,797
Net income before income taxes	$	736	$	(136)	$	(650)
Mortgage originations	$	125,536	$	169,768	$	147,673
Purchase origination %		80.0%		80.2%		72.2%
Refinance origination %		20.0%		19.8%		27.8%

Mortgage division net income before taxes increased $0.9 million during the first quarter of 2019 compared to the fourth quarter of 2018 due primarily to an increase in mortgage loan sale revenue of $0.5 million related to the transition to mandatory delivery of mortgage loans to the secondary market. In addition, seasonally lower origination volume lead to a decline in noninterest expense of $0.4 million.

Mortgage division net income before taxes increased $1.4 million compared to the first quarter of 2018 as increased revenue related to the change to mandatory delivery of mortgage loans to the secondary market more than offset a decline in origination volume of $22.1 million or 15.0 percent. Noninterest expense increased in the comparative period by $0.2 million due to an increase in technology expense and allocations.

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 $27.6 billion of Assets under Administration (AUA) and services clients in all 50 states.

RETIREMENT AND BENEFITS						
(Dollars in thousands)						
(Unaudited)	Three months ended					
		Mar 31, 2019		Dec 31, 2018		Mar 31, 2018
Condensed Income Statement						
Noninterest income	$	15,059	$	16,443	$	15,943
Total net revenue		15,059		16,443		15,943
Noninterest expense		8,990		8,683		9,432
Net income before income taxes	$	6,069	$	7,760	$	6,511
Assets under management	$	2,145,209	$	2,034,674	$	1,929,548
Assets under administration		27,615,611		25,777,475		27,520,609

Retirement and Benefits net income before taxes decreased $1.7 million to $6.1 million for the first quarter of 2019 compared to net income of $7.8 million for the fourth quarter of 2018. Noninterest income decreased $1.4 million, or 8.4 percent, a decline correlated to the 8.2 percent decrease in the market value of assets under administration, as well as, outflows from lost business and distributions exceeding inflows from new business and contributions in the fourth quarter of 2018. Noninterest expense increased $0.3 million due largely to a $0.2 decline in credit for deposits sourced to the Banking division.

Net income before taxes decreased $0.4 million, or 6.8 percent, when compared to the first quarter of 2018. Noninterest income decreased $0.9 million, or 5.5 percent, and noninterest expense decreased $0.4 million, or 4.7 percent. The decline in noninterest income is related to the impact of the previously mentioned general stock market decline and outflows from lost business and distributions outpacing inflows from new business and contributions in the fourth quarter of 2018. The decrease in noninterest expense was principally tied to a $0.8 million increase in credit for deposits sourced to the banking division.

Wealth Management offers trust and fiduciary, investment management and financial planning services to clients, and has over $2.6 billion of assets under management.

WEALTH MANAGEMENT			
(Dollars in thousands)			
(Unaudited)	Three months ended		
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Condensed Income Statement			
Net interest income	$ -	$ 15	$ 14
Noninterest income	3,611	3,920	3,637
Total net revenue	3,611	3,935	3,651
Noninterest expense	1,924	1,671	2,096
Net income before income taxes	$ 1,687	$ 2,264	$ 1,555
Assets under management	$ 2,639,239	$ 2,549,685	$ 2,636,598
Assets under administration	82,089	77,130	85,154
Internally managed assets	518,444	494,487	518,020

Wealth Management net income before taxes decreased $0.6 million, or 25.5 percent, to $1.7 million for the first quarter of 2019 compared to $2.3 million in the fourth quarter of 2018. Noninterest income decreased $0.3 million, or 7.9 percent, consistent with the market value of assets under management in the fourth quarter of 2018. Noninterest expense increased $0.3 million, or 15.1 percent, for that same time period due to a decrease in the credit for deposits sourced to the Banking division.

Net income before taxes increased $0.1 million, or 8.5 percent, when compared to the first quarter of 2018. Noninterest income was flat and noninterest expense decreased $0.2 million, or 8.3 percent, for the same time period. The decrease in non-interest expense was principally attributable to a decrease in incentive compensation.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 44,848	$ 40,651	$ 27,206
Investment securities			
Trading	-	1,539	1,918
Available-for-sale	258,817	253,339	257,485
Total investment securities	258,817	254,878	259,403
Mortgage loans held for sale	27,555	14,486	24,414
Loans	1,742,351	1,733,881	1,637,580
Allowance for loan losses	(22,638)	(22,174)	(18,023)
Net loans	1,719,713	1,711,707	1,619,557
Premises and equipment	31,795	21,743	20,919
Bank-owned life insurance	30,959	30,763	30,160
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	21,422	22,473	25,915
Deferred tax assets, net	8,843	10,085	10,708
Other assets	42,477	44,955	43,993
Total assets	$ 2,213,758	$ 2,179,070	$ 2,089,604
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 540,166	$ 563,130	$ 570,180
Interest-bearing	1,180,587	1,061,709	1,054,461
Time deposits	181,741	174,454	195,387
Total deposits	1,902,494	1,799,293	1,820,028
Short-term borrowings	12,050	93,460	-
Long-term debt	58,823	58,824	58,822
Accrued expenses and other liabilities	36,442	30,539	27,699
Total liabilities	2,009,809	1,982,116	1,906,549
Stockholders' equity			
Common stock and related surplus	41,846	41,518	39,942
Retained earnings	163,429	159,037	146,808
Accumulated other comprehensive loss, net	(1,326)	(3,601)	(3,695)
Total stockholders' equity	203,949	196,954	183,055
Total liabilities and equity	$ 2,213,758	$ 2,179,070	$ 2,089,604
Common shares outstanding	13,801	13,775	13,760
Book value per common share	$ 14.78	$ 14.30	$ 13.30

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	$ 21,573	$ 21,564	$ 18,815
Investment securities	1,553	1,502	1,509
Other interest income	184	164	134
Total interest income	23,310	23,230	20,458
Interest Expense			
Deposits	2,748	2,511	1,236
Other borrowed funds	1,442	1,468	1,080
Total interest expense	4,190	3,979	2,316
Net interest income	19,120	19,251	18,142
Provision for loan losses	2,220	1,530	1,530
Net interest income after provision for loan losses	16,900	17,721	16,612
Noninterest Income			
Retirement and benefit services	15,059	16,443	15,943
Wealth management	3,611	3,920	3,637
Mortgage banking	4,569	4,074	3,009
Service charges on deposit accounts	444	475	462
Other	1,391	1,231	1,205
Total noninterest income	25,074	26,143	24,256
Noninterest Expense			
Compensation	16,813	17,991	16,075
Employee benefits	5,428	4,766	4,487
Occupancy and equipment expense	2,745	2,871	2,854
Business services, software and technology expense	3,798	4,058	3,465
Intangible amortization expense	1,050	1,050	1,196
Professional fees and assessments	1,066	1,364	1,197
Other	2,614	3,811	2,996
Total noninterest expense	33,514	35,911	32,270
Income before income taxes	8,460	7,953	8,598
Income tax expense	2,024	1,920	1,734
Net income	6,436	6,033	6,864
Less: Preferred dividends	-	-	-
Net income applicable to common stock	$ 6,436	$ 6,033	$ 6,864
Diluted earnings per common share	$ 0.46	$ 0.43	$ 0.49
Diluted average common shares outstanding	14,078	14,070	14,024

About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiary Alerus Financial, N.A., 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

This press release contains forward-looking statements about Alerus Financial Corporation. Forward-looking statements are neither historical facts nor assurances about future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Forward-looking statements can be identified by words such as: “intend,” “plan,” “believe,” “estimate,” “expect,” “strategy,” “future,” “may,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding our projected growth, anticipated future financial performance, financial condition, credit quality and management’s long-term performance goals and the future plans and prospects of Alerus Financial Corporation.

Forward-looking statements involve inherent risks and uncertainties that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: business and economic conditions nationally and in our target markets; our need to maintain sufficient capital to satisfy minimum regulatory requirements and for growth purposes; changes and volatility in interest rates; our ability to execute our business strategy; deterioration in the credit quality of our loan portfolio or in the value of the collateral securing those loans; deterioration in the value of securities held in our investment securities portfolio; effects of recently enacted and future legislation and regulation; competition in the banking, wealth management and mortgage industries; declines in mortgage originations or profitability due to rising interest rates and increased competition and regulation; reductions in the market value of wealth management assets under administration; increasing occurrences of cyber-attacks, hacks and identity theft; failure to keep pace with technological change or difficulties when implementing new technologies; 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.

Business Line Information

Alerus Financial Corporation operates four principal business lines: banking; mortgage; retirement and benefits; and wealth management. This press release includes separate operating results and other financial information for each business line. The business line information was prepared by management and has not been audited by our independent accounting firm. Accordingly, you should review such information only in conjunction with a review of the audited financial statements published on our investor relations website: investors.alerus.com

Non-GAAP Financial Measures

This press release includes certain ratios and amounts that do not conform to U.S. Generally Accepted Accounting Principles, or GAAP. Management uses certain non-GAAP financial measures to evaluate financial performance and business trends from period to period and believes that disclosure of these non-GAAP financial measures will help investors, rating agencies and analysts evaluate the financial performance and condition of Alerus Financial Corporation.

NON-GAAP FINANCIAL MEASURES

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

(Unaudited)

	Three months ended		
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Tangible common equity to tangible assets			
Total stockholders' equity	$ 203,949	$ 196,954	$ 183,055
Less: Goodwill	27,329	27,329	27,329
Less: Other intangible assets (ex: servicing assets)	21,422	22,473	25,915
Tangible common equity **(a)**	155,198	147,152	129,811
Total assets	2,213,758	2,179,070	2,089,604
Less: Goodwill	27,329	27,329	27,329
Less: Other intangible assets (ex: servicing assets)	21,422	22,473	25,915
Tangible assets **(b)**	2,165,007	2,129,268	2,036,360
Tangible common equity to tangible assets **(a)/(b)**	7.17%	6.91%	6.37%
Return on tangible common equity			
Net income	$ 6,436	$ 6,033	$ 6,864
Intangible amortization expense (net-of-tax)	830	830	945
Net income, excluding intangible amortization	7,266	6,863	7,809
Annualized net income, excluding intangible amortization **(c)**	29,468	27,228	31,670
Average total equity	199,853	194,444	179,697
Less: Average goodwill	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	17,329	18,156	20,934
Average tangible common equity **(d)**	155,195	148,959	131,434
Return on tangible common equity **(c)/(d)**	18.99%	18.28%	24.10%
Net interest margin (tax equivalent)			
Net interest income	$ 19,120	$ 19,251	$ 18,142
Tax equivalent adjustment	91	113	120
Tax equivalent net interest income **(e)**	19,211	19,364	18,262
Average earnings asset **(f)**	2,019,665	2,013,772	1,901,394
Net interest margin (tax equivalent) **(e)/(f)**	3.86%	3.81%	3.90%
Efficiency ratio			
Noninterest expense	33,514	35,911	32,270
Less: Intangible amortization expense	1,050	1,050	1,196
Adjusted noninterest expense **(g)**	32,464	34,861	31,074
Net interest income	19,120	19,251	18,142
Noninterest income	25,074	26,143	24,256
Tax equivalent adjustment	91	113	120
Total tax equivalent revenue **(h)**	44,285	45,507	42,518
Efficiency ratio **(g)/(h)**	73.31%	76.61%	73.08%