

# Alerus



INVESTOR PRESENTATION

JULY 2020

ALERUS

# DISCLAIMERS

## **Forward-Looking Statements**

This presentation contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of Alerus Financial Corporation. These statements are often, but not always, identified by words such as “may”, “might”, “should”, “could”, “predict”, “potential”, “believe”, “expect”, “continue”, “will”, “anticipate”, “seek”, “estimate”, “intend”, “plan”, “projection”, “would”, “annualized”, “target” and “outlook”, or the negative version of those words or other comparable words of a future or forward-looking nature. Examples of forward-looking statements include, among others, statements we make regarding our projected growth, anticipated future financial performance, financial condition, credit quality, management’s long-term performance goals and the future plans and prospects of Alerus Financial Corporation.

Forward-looking statements are neither historical facts nor assurances of 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. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances 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: the effects of the COVID-19 pandemic, including its effects on the economic environment, our clients and our operations, as well as any changes to federal, state or local government laws, regulations or orders in connection with the pandemic; our ability to successfully manage credit risk and maintain an adequate level of allowance for loan losses; new or revised accounting standards, including as a result of the future implementation of the new Current Expected Credit Loss Standard; business and economic conditions generally and in the financial services industry, nationally and within our market areas; the overall health of the local and national real estate market; concentrations within our loan portfolio; the level of nonperforming assets on our balance sheet; our ability to implement our organic and acquisition growth strategies; the impact of economic or market conditions on our fee-based services; our ability to continue to grow our retirement and benefit services business; our ability to continue to originate a sufficient volume of residential mortgages; the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity related incidents; interruptions involving our information technology and telecommunications systems or third-party servicers; potential losses incurred in connection with mortgage loan repurchases; the composition of our executive management team and our ability to attract and retain key personnel; rapid technological change in the financial services industry; increased competition in the financial services industry; our ability to successfully manage liquidity risk; the effectiveness of our risk management framework; the commencement and outcome of litigation and other legal proceedings and regulatory actions against us or to which we may become subject; potential impairment to the goodwill we recorded in connection with our past acquisitions; the extensive regulatory framework that applies to us; the impact of recent and future legislative and regulatory changes; interest rate risks associated with our business; fluctuations in the values of the securities held in our securities portfolio; governmental monetary, trade and fiscal policies; severe weather, natural disasters, widespread disease or pandemics, such as the COVID-19 global pandemic, acts of war or terrorism or other adverse external events; any material weaknesses in our internal control over financial reporting; our success at managing the risks involved in the foregoing items; and any other risks described in the “Risk Factors” sections of the reports filed by Alerus Financial Corporation with the Securities and Exchange Commission.

Any forward-looking statement made by us in this presentation is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

## **Non-GAAP Financial Measures**

This presentation 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. This presentation includes a reconciliation of each non-GAAP financial measure to the most comparable GAAP equivalent.

## **Miscellaneous**

Except as otherwise indicated, this presentation speaks as of the date hereof. The delivery of this presentation shall not, under any circumstances, create any implication that there has been no change in the affairs of Alerus Financial Corporation after the date hereof. Certain of the information contained herein may be derived from information provided by industry sources. We believe that such information is accurate and that the sources from which it has been obtained are reliable. We cannot guarantee the accuracy of such information, however, and we have not independently verified such information.

# COVID-19 RESPONSE



# COVID-19 RESPONSE SUMMARY

## PROACTIVELY RESPONDING WITH AGILITY AND SUPPORT

### LEADING DURING THE PANDEMIC CRISIS

- Activated Business Continuity Planning team and Pandemic Policy; frequent meetings with key leadership teams
- Response guided by safety of employees and clients; being a good corporate citizen; and encouraging digital use
- Benefit of past crisis experience; 1997 historic Flood and Fire in Grand Forks, ND

### TAKING CARE OF EMPLOYEES

- Early adoption and continuation of self-quarantine recommendations and restricting non-essential business travel
- 82% of staff transitioned to working remote in 1 week; 85% remain working remote
- Established On-Site Pay for staff in offices; introduced Relief Pay for office closures or daycare/school closures
- Frequent all employee virtual calls hosted by C\*Suite; 75% of staff attends live; completed 9 in Q2

### LEVERAGING INFRASTRUCTURE INVESTMENTS

- Robotic Process Automation: continue to add robots to automate operational processes
- Leveraged DocuSign to develop pre-filled, dynamic Paycheck Protection Program Forgiveness Application
- Simplified client experience, moving various loan, wealth management, and investment documents to DocuSign

### INCREASED DIGITAL ENGAGEMENT

- Consumer clients focused on personal finances as engagement with financial fitness workouts rose 34% in Q2
- Launched new website, Alerus.com, designed to engage clients in our full service suite and provide financial guidance through content, financial calculators, and engaging with an Alerus advisor

### SERVING IN THE BEST INTEREST OF CLIENTS

- Paycheck Protection Program: helped over 1,580 new and existing clients secure ~ \$363 million in funding relief
- Introduced virtual webinar series to provide guidance and help clients with their financial issues on various topics
- Waived fees on loan extensions, loan payment deferrals, or early CD withdrawals due to COVID-19 related hardship
- Proactively helping participants navigate retirement distributions or other lending options

### THE NEW NORMAL

- Continue to encourage virtual business; reopening approach is guided by market conditions
- **ND:** lobbies closed in mid-March, open by appointment only in early June, lobbies reopened in mid-June, markets were never subject to stay at home order and markets are widely open for business
- **MN:** lobbies closed in mid-March, drive-ups remain open, stay at home order lifted in mid-May, open by appointment only in August, continued progress of state's four-phased approach to businesses reopening
- **AZ:** lobbies closed in mid-March, drive-up remains open, virtual and digital engagement strongly encouraged as positive cases surge

# COVID-19 RELIEF PROGRAMS

## PAYMENT DEFERRALS, MATURITY EXTENSIONS, AND PAYMENT MODIFICATIONS

- 515 Deferrals totaling \$148M in outstanding balances

### Payment Deferral

Loan Group	# of Deferrals	Total Outstanding (\$ in 000's)	% of Loan Group
Consumer	126	\$ 1,782	2.30%
Residential Real Estate Serviced	61	26,419	6.86%
Residential Real Estate Non-serviced	71	10,085	4.75%
Commercial Real Estate	57	52,500	9.29%
Commercial & Industrial	152	27,262	5.91%
<b>Total</b>	<b>467</b>	<b>\$ 118,048</b>	

### Interest-Only Payments

Loan Group	# of Deferrals	Total Outstanding (\$ in 000's)	% of Loan Group
Consumer	1	\$ 24	0.03%
Residential Real Estate Serviced	—	—	—%
Residential Real Estate Non-serviced	1	186	0.09%
Commercial Real Estate	19	25,059	5.15%
Commercial & Industrial	27	4,751	1.08%
<b>Total</b>	<b>48</b>	<b>\$ 30,020</b>	

Figures as of 06/30/2020.

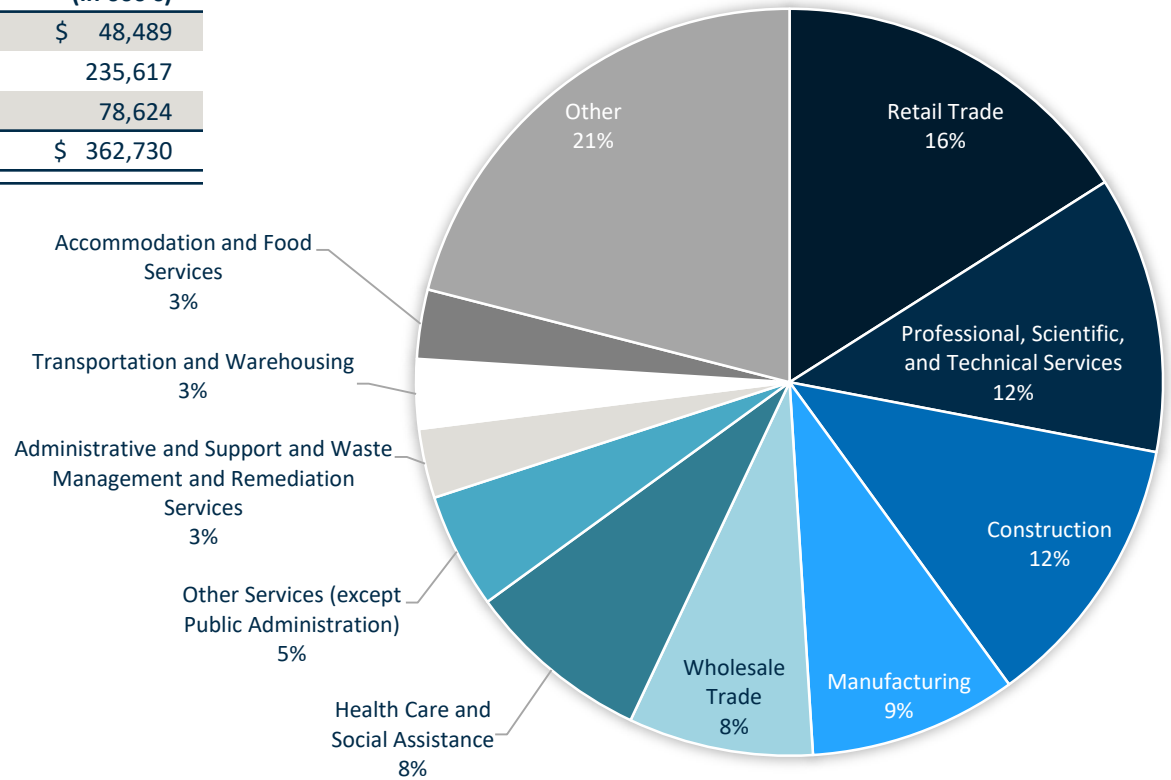
# COVID-19 RELIEF PROGRAMS

## SBA PAYCHECK PROTECTION PROGRAM

### INDUSTRY BREAKDOWN OF PPP LOANS MADE TO BORROWERS

THROUGH 6/30/2020 SECURED SBA FINANCING FOR 1,580 LOANS FOR \$363MM

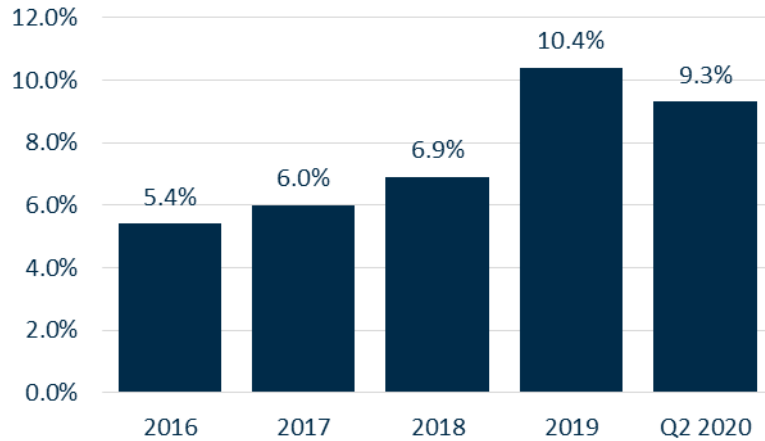
Loan Amount Group	# of Loans	\$ Originated (in 000's)
\$150M or less	1,105	\$ 48,489
\$150M to \$2MM	449	235,617
\$2MM+	26	78,624
<b>Total</b>	<b>1,580</b>	<b>\$ 362,730</b>



As of 6/30/2020.

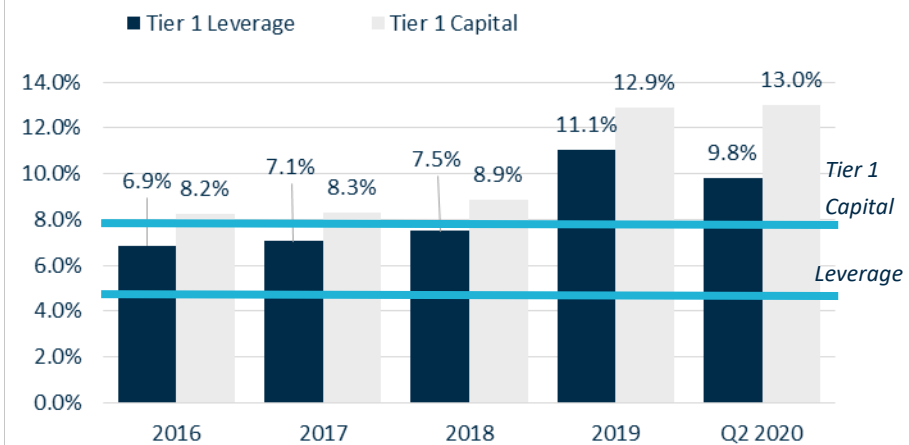
# STRONG CAPITAL AND SOURCES OF LIQUIDITY

## TANGIBLE COMMON EQUITY/TANGIBLE ASSETS

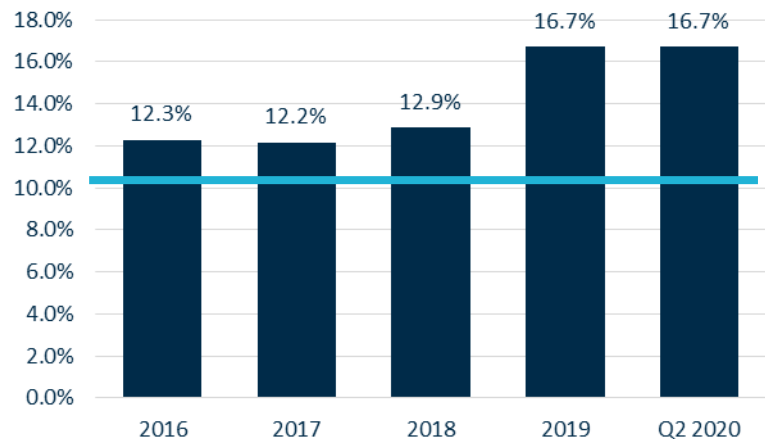


Excluding PPP, Tangible Common Equity/Tangible Assets for June 30, 2020 was 10.55%

## TIER 1 CAPITAL/TIER 1 LEVERAGE RATIOS



## TOTAL RISK BASED CAPITAL



— Basel III Regulatory Capital Minimum to be considered well capitalized

## PRIMARY AND SECONDARY SOURCES OF LIQUIDITY

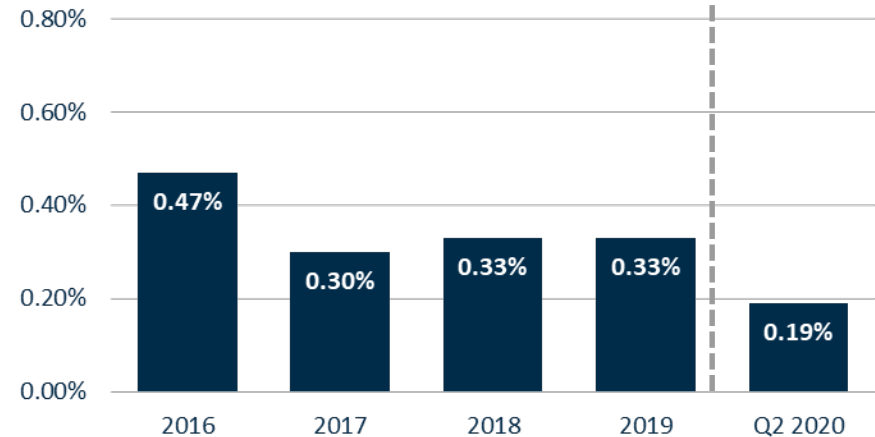
Cash and Cash equivalents	\$210,437
Unencumbered securities	272,406
FHLB Borrowing availability	579,900
Brokered CD Capacity	574,703
Fed funds lines	102,000
<b>Total as of 06/30/2020</b>	<b>\$1,739,446</b>

# ASSET QUALITY AND RESERVE LEVELS

## OVERVIEW

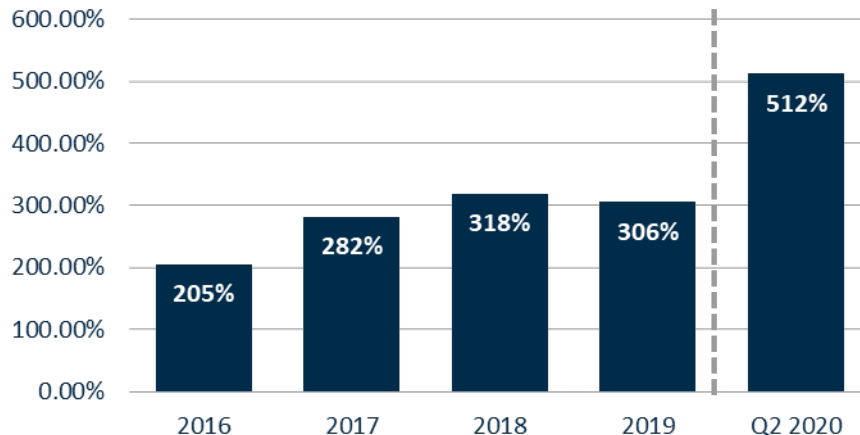
- Solid asset quality and reserve levels
- Strengthened credit department to support growth
- Proactive approach to classification of assets

## NPAS / ASSETS (%)

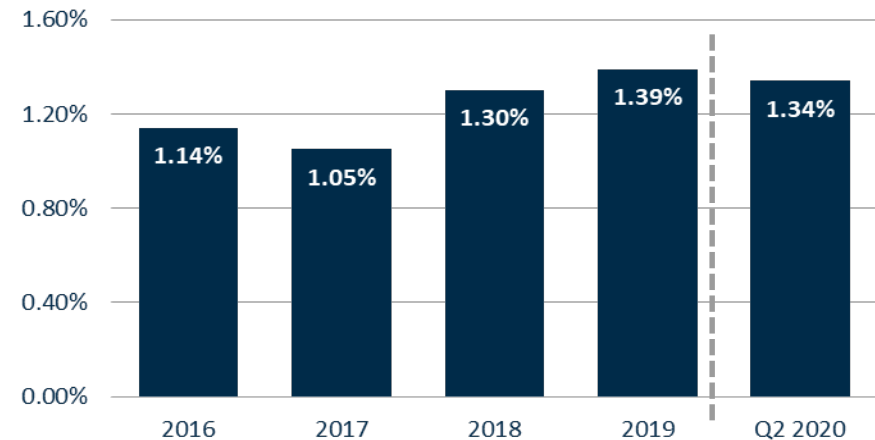


Excluding PPP, NPAs/Assets as of June 30, 2020 was 0.21%

## RESERVES / NPLS (%)



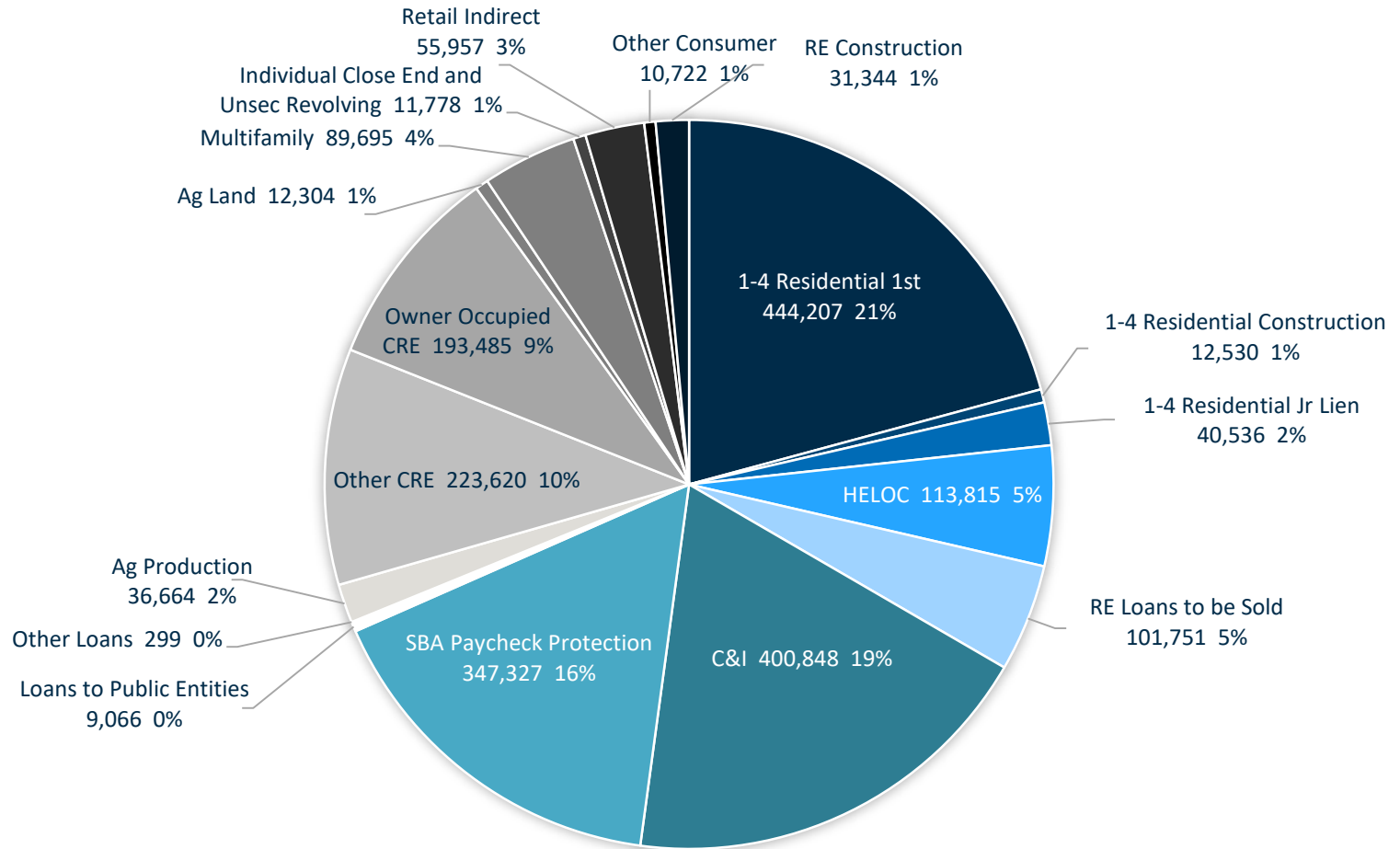
## RESERVES / LOANS (%)



Excluding PPP, Reserves/Loans as of June 30, 2020 was 1.62%

# SUMMARY BY LOAN TYPE

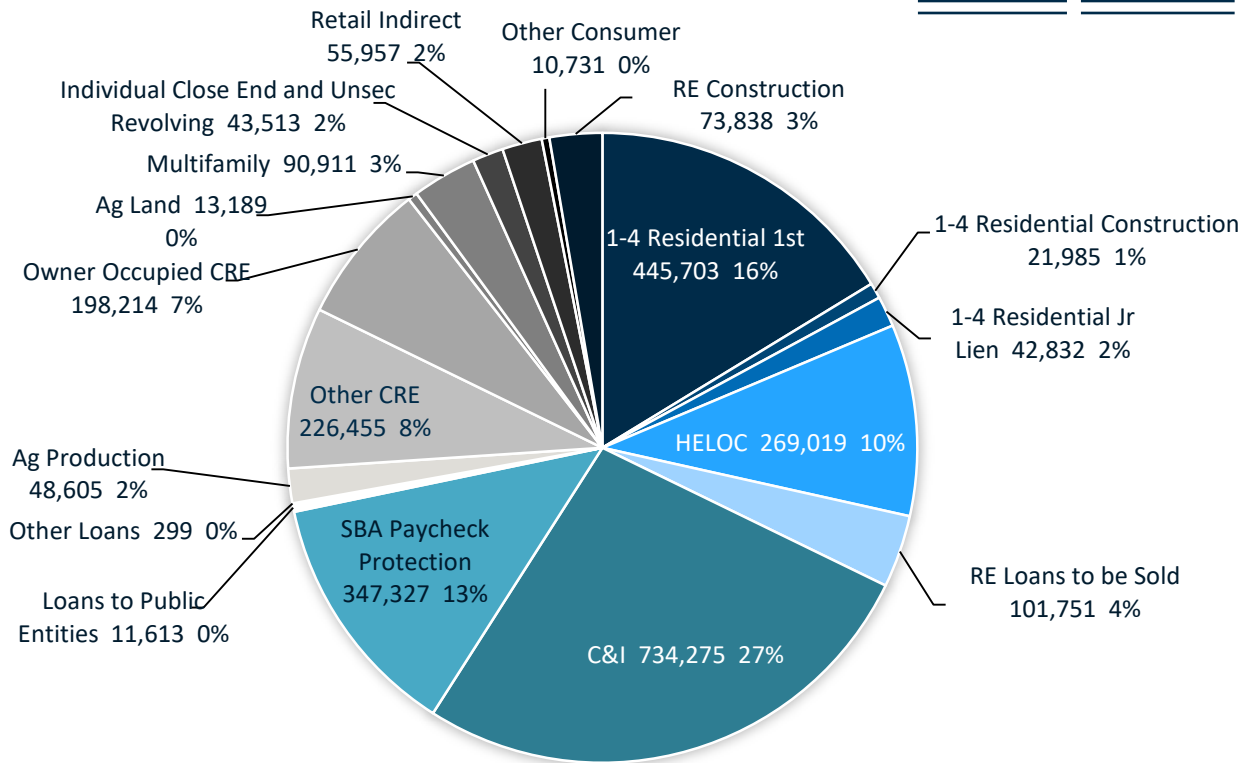
BY OUTSTANDING BALANCES (\$ IN 000'S)



# SUMMARY BY LOAN TYPE

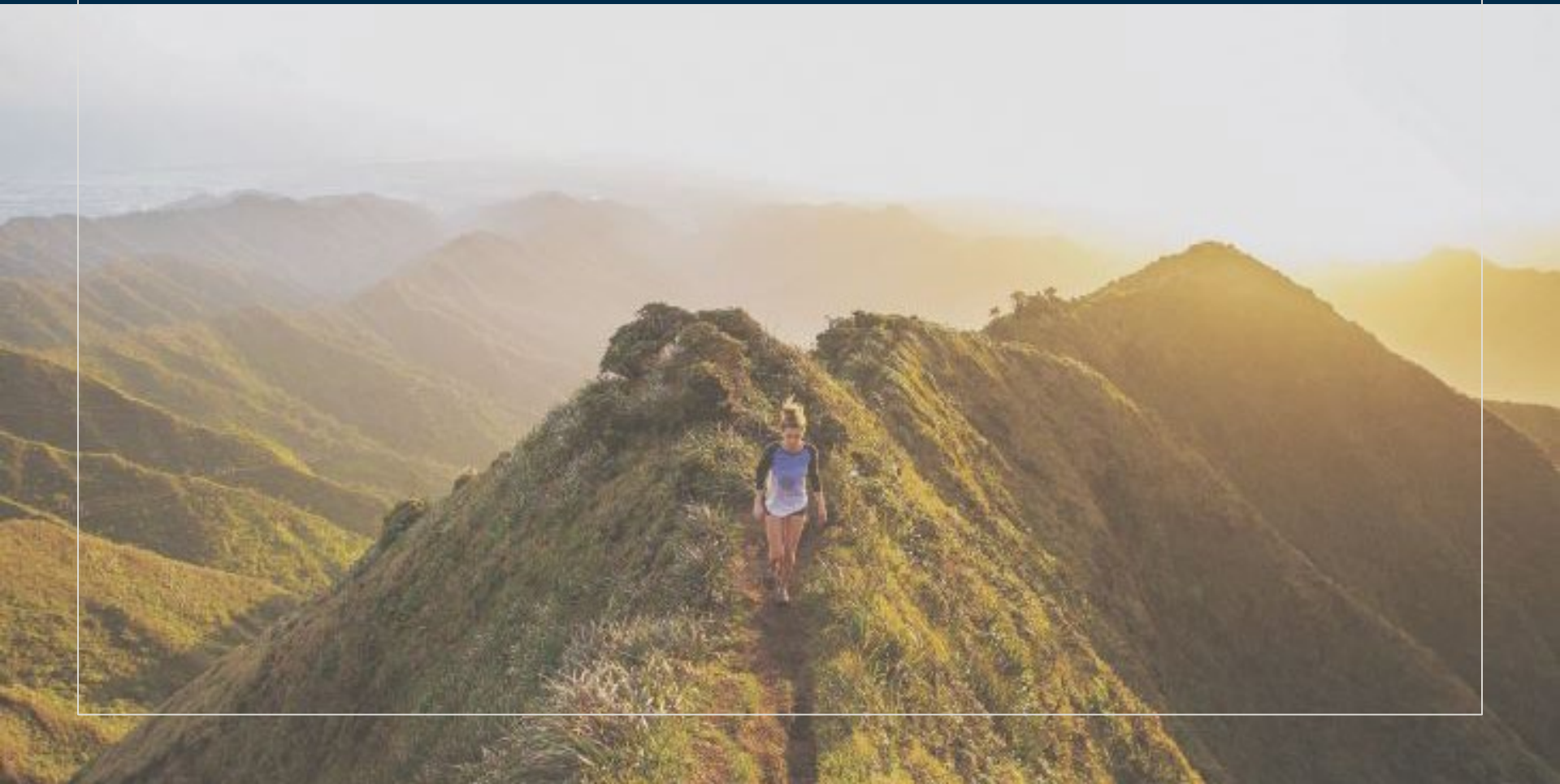
BY TOTAL COMMITMENT INCLUDING UNFUNDED COMMITMENT (\$ IN 000'S)

	Consumer	Residential Real estate	CRE	Real Estate Const	C&I
<b>Total Balance</b>	\$ 78,457	\$ 712,839	\$ 519,104	\$ 31,344	\$ 794,204
<b>Unfunded</b>	31,744	168,451	9,665	42,494	347,915
<b>Total Commitment</b>	<u>\$ 110,201</u>	<u>\$ 881,290</u>	<u>\$ 528,769</u>	<u>\$ 73,838</u>	<u>\$ 1,142,119</u>



The table includes the following loan groupings; Consumer Individual close end and unsec revolving, retail indirect, and other consumer; RRE includes 1-4 Family 1st lien mortgages, 1-4 family construction, junior lien, HELOC's, and RE Loans to be Sold; CRE includes Other CRE, Owner Occupied CRE, and Ag Land; C&I includes Commercial & Industrial, SBA Paycheck Protection, Ag Production, and Other Loans.

# SECOND QUARTER HIGHLIGHTS



# 2Q FINANCIAL HIGHLIGHTS

## INCOME STATEMENT

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
<b>(dollars and shares in thousands, except per share data)</b>			
Net Interest Income	\$ 20,091	\$ 18,837	\$ 18,291
Provision for Loan Losses	3,500	2,500	1,797
Net Interest Income After Provision for Loan Losses	16,591	16,337	16,494
Noninterest Income	38,230	27,189	29,984
Noninterest Expense	39,734	36,726	35,261
Income Before Income Taxes	15,087	6,800	11,217
Income Tax Expense	3,613	1,437	2,869
<b>Net Income</b>	<b>\$ 11,474</b>	<b>\$ 5,363</b>	<b>\$ 8,348</b>
<b>Per Common Share Data</b>			
Earnings Per Common Share – Diluted	\$ 0.65	\$ 0.30	\$ 0.59
Diluted Average Common Shares Outstanding	17,445	17,405	14,100
<b>Performance Ratios</b>			
Return on Average Total Assets	1.68%	0.89%	1.52%
Return on Average Tangible Common Equity <sup>(1)</sup>	18.88%	9.76%	21.94%
Noninterest Income as a % of Revenue	65.55%	59.07%	62.11%
Net Interest Margin (Tax-Equivalent) <sup>(1)</sup>	3.14%	3.35%	3.62%
Efficiency Ratio <sup>(1)</sup>	66.31%	77.47%	70.74%

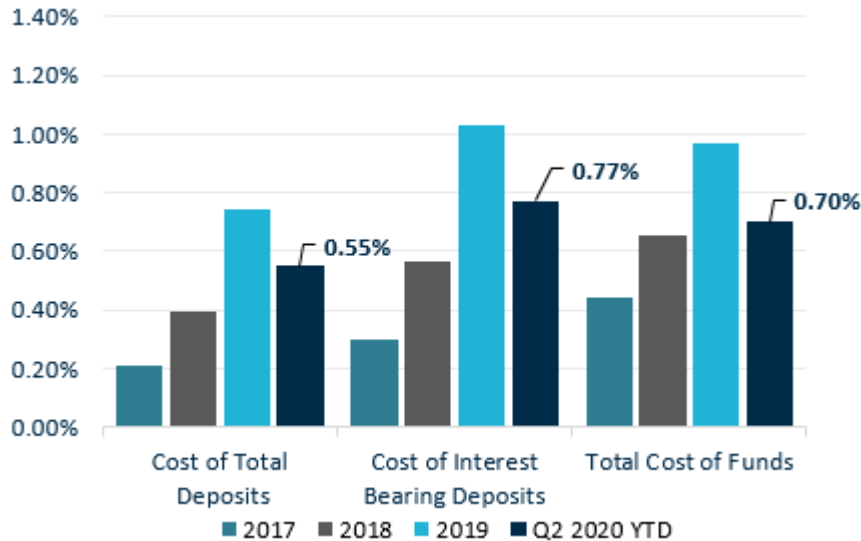
1 – Represents a non-GAAP Financial measure. See “Non-GAAP Disclosure Reconciliation.”

# STRONG CORE FUNDING MIX

## OVERVIEW AS OF JUNE 30, 2020

- Commercial transaction accounts totaled \$1.1 billion and increased 38.8% YTD. Consumer transaction accounts totaled \$486.7 million and increased 7.6%
- HSA deposits sourced through retirement plan, totaled \$128.6 million in deposits, with a cost of 0.19%
- CD portfolio is primarily 6 month flex CD of which over 50% have been clients for 10+ years.
- Stable deposit relationships with 22 year average tenure on 10 largest depositors
- National Market deposits totaled \$512.1 million

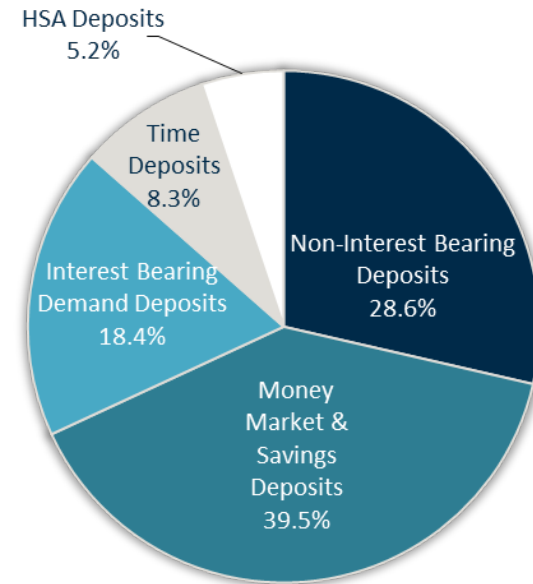
## LOW COST OF FUNDS



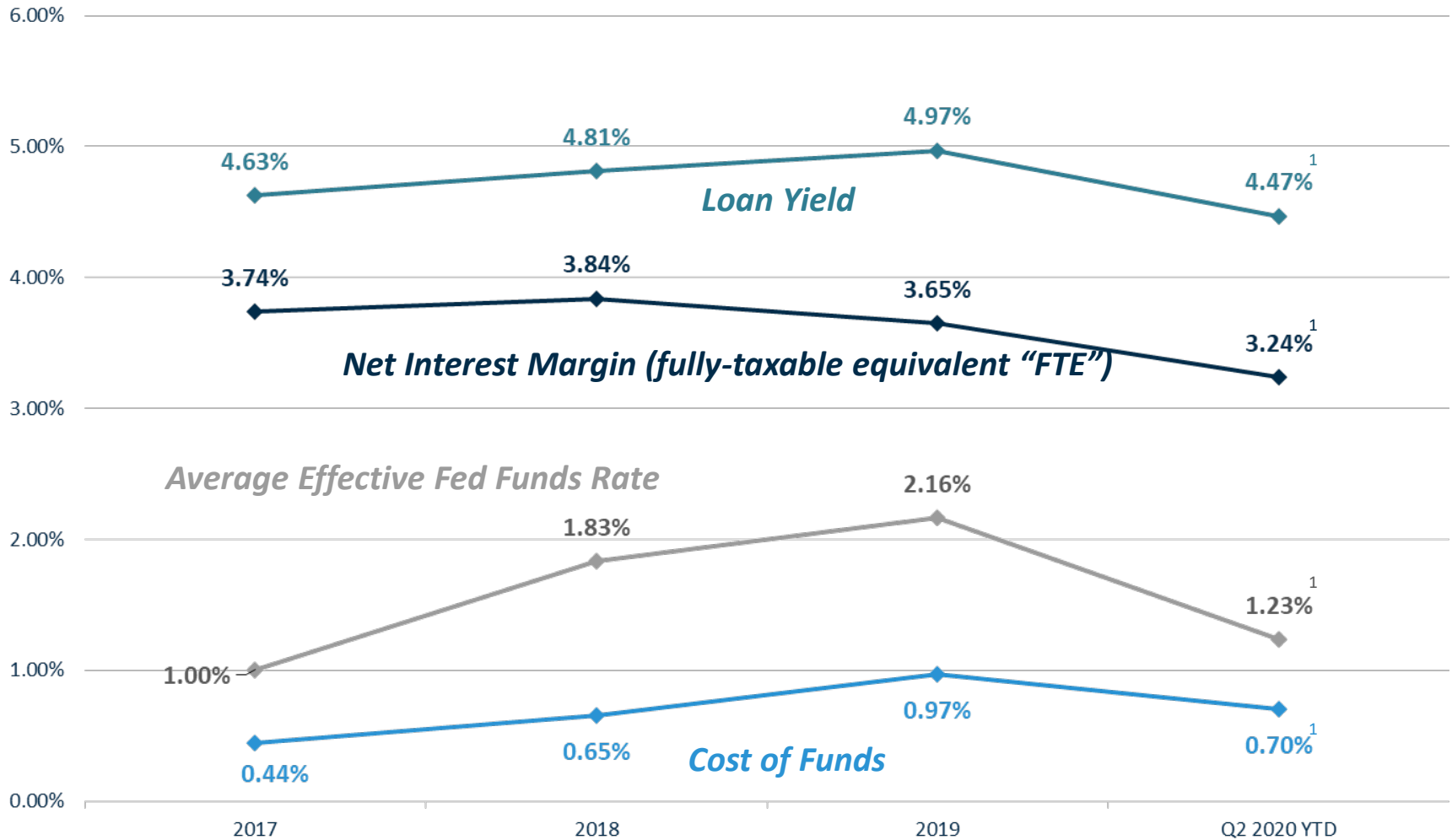
Revenue data YTD as of 6/30/2020.

## JUNE 30, 2020 DEPOSIT FUNDING (\$2,453MM)

*As of June 30, 2020, core deposits totaled \$2.4 billion or 97.8% of our total deposits*



# NET INTEREST MARGIN



1 - Rates have been annualized for interim periods.

Source: Alerus Financial Corporation; Federal Reserve

Note: Net interest margin (FTE) is a non-GAAP financial measure; See "Non-GAAP Disclosure Reconciliation" in the Appendix to this presentation

# NIM AND LOAN FLOORS

## VARIABLE RATE FLOORS BY INDEX

<i>\$ in Millions</i> Index	In the Money	Out of the Money	No Floor	Total	Total %
Prime	\$ 303	\$ 12	\$ 20	\$ 335	42.9%
1 Month LIBOR	9	2	120	131	16.8%
12 Month LIBOR	1	89	140	230	29.5%
FHLB 5 Year	40	3	10	53	6.8%
Other	25	–	6	31	4.0%
<b>Total</b>	<b>\$ 378</b>	<b>\$ 106</b>	<b>\$ 296</b>	<b>\$ 780</b>	<b>100.0%</b>

Percent of Total      48.5%      13.6%      37.9%      100.0%

## NET INTEREST MARGIN ROLL FORWARD

	NIM <sup>1</sup>	Average Earning Assets
<b>1Q 2020</b>	<b>3.35%</b>	<b>2,271,003,843</b>
Lower Asset Yields	-0.47%	
Asset Balance/Mix	0.04%	
Deposit Balance/Mix	0.01%	
Lower Deposit Rate	0.19%	
Other Borrowings	0.02%	
<b>2Q 2020</b>	<b>3.14%</b>	<b>2,584,036,032</b>

1 – NIM excluding PPP for the six months ended June 30, 2020 was 3.16%

## VARIABLE RATE FLOORS

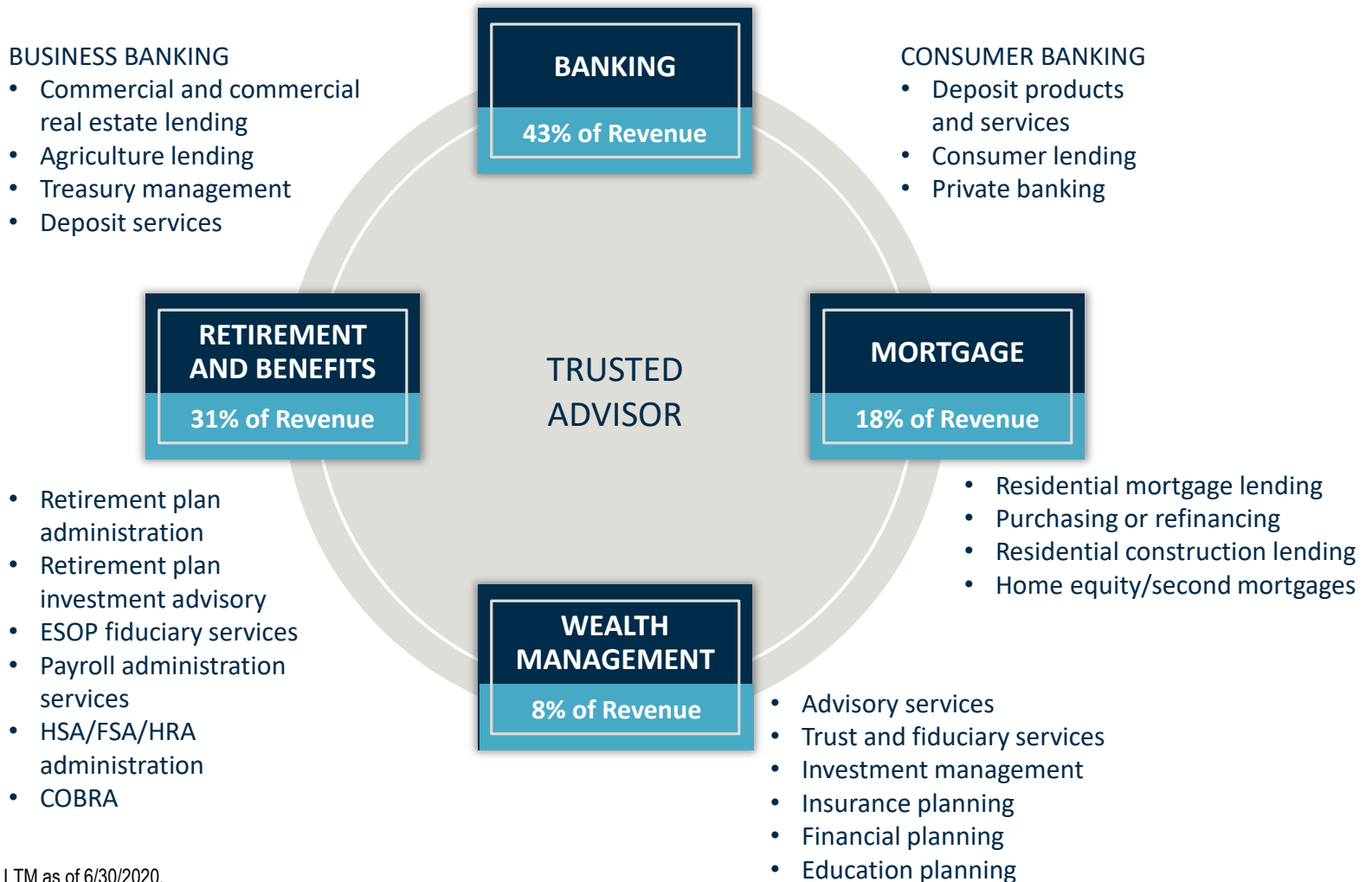
<i>\$ in Millions</i>	Balance	% of Total Balance	Cumulative % of Total Balance
No Floors	\$ 296	37.9%	37.9%
Floors Reached	378	48.5%	86.4%
0-50 bps to reach floor	101	12.9%	99.3%
>50bps to reach floor	5	0.7%	100.0%
<b>Total</b>	<b>\$ 780</b>	<b>100.0%</b>	

## COMMENTS

- Quarter over quarter highlights:
  - Lower asset yields driven by lower loan yields of 48bps, C&I yields down 1.14% driven by \$363 million of C&I loans at 1% plus deferred loan fees yield on PPP loans for Q2 was 3.01%
  - Lower cash yields of 1.08%
  - Lower investment yield of 20bps
  - Lower yields offset by increased earning asset of \$313 million
  - Total deposit costs were down 23bps and interest-bearing deposit costs were down 30bps
  - Increased MM balances of \$84 million offset rate reductions

# OUR DIVERSE BUSINESS LINES

A BIG COMPANY MODEL WITH SMALL COMPANY EXECUTION



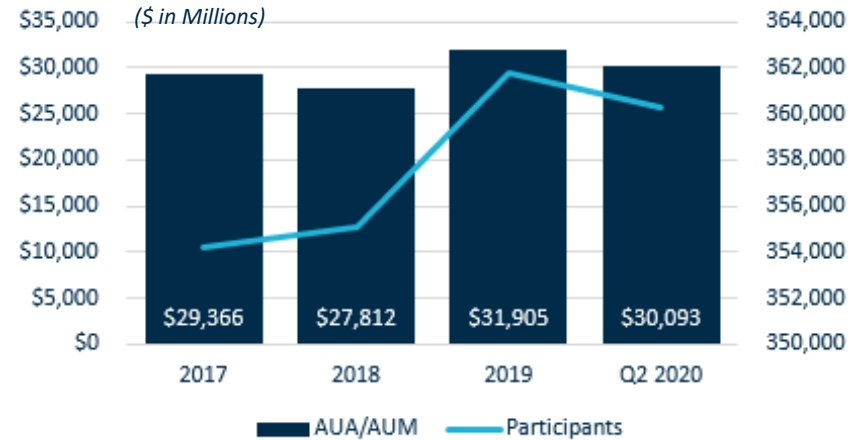
Revenue data LTM as of 6/30/2020.

# RETIREMENT AND BENEFITS

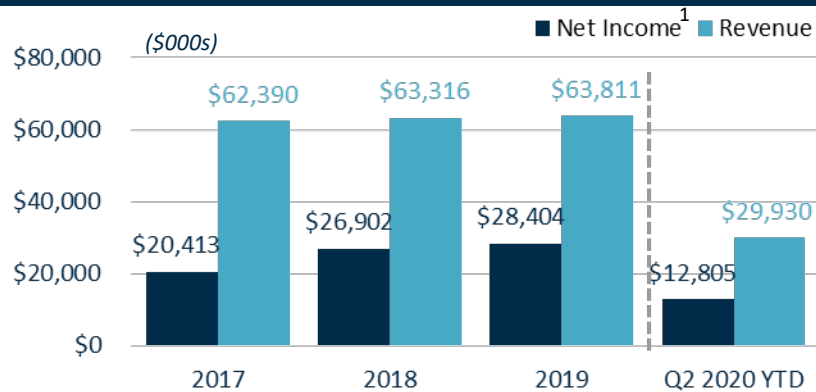
## OVERVIEW OF SERVICES

- **RETIREMENT** - Provide recordkeeping and administration services to qualified retirement plans
- **ESOP** - Provide trustee, recordkeeping and administration to employee stock ownership plans
- **ADVISORY SERVICES** - Provide investment fiduciary services to retirement plans
- **HEALTH AND WELFARE** - Provide HSA, FSA, COBRA recordkeeping and administration services to employers
- **PAYROLL** - Provide payroll and HRIS services for employers
- **ONE ALERUS SYNERGIES**
  - IRA rollovers
  - Deposits - HSA deposits, 401(k) Money Market Funds, Emergency Savings, Terminated Participants
  - Managed accounts

## ASSETS UNDER ADMINISTRATION/MANAGEMENT



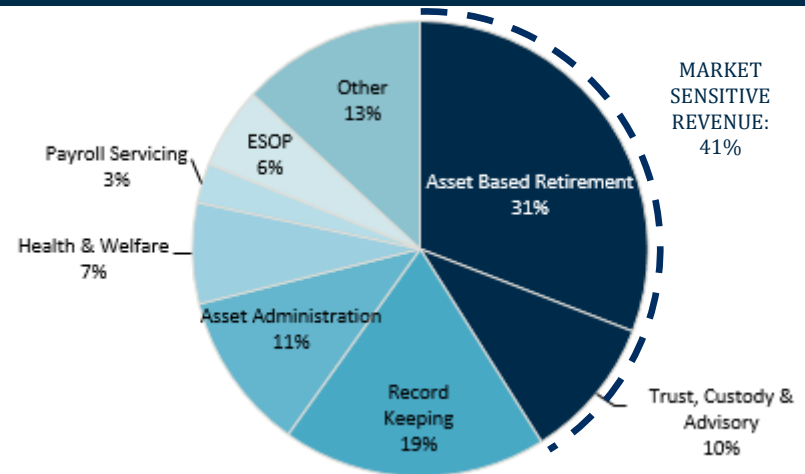
## PROFIT MARGIN



Profit Margin:	32.7%	42.5%	44.5%	42.8%
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<sup>1</sup> Net Income before Tax and Indirect Allocations.

## REVENUE MIX (Q2 2020 YTD)

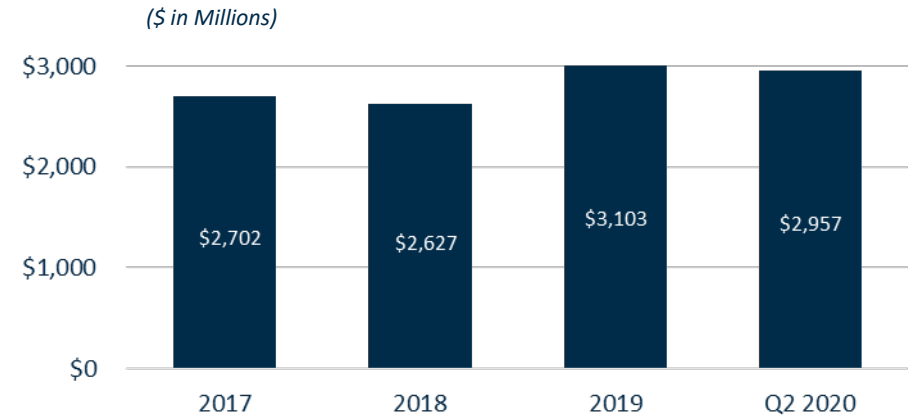


# WEALTH MANAGEMENT SERVICES

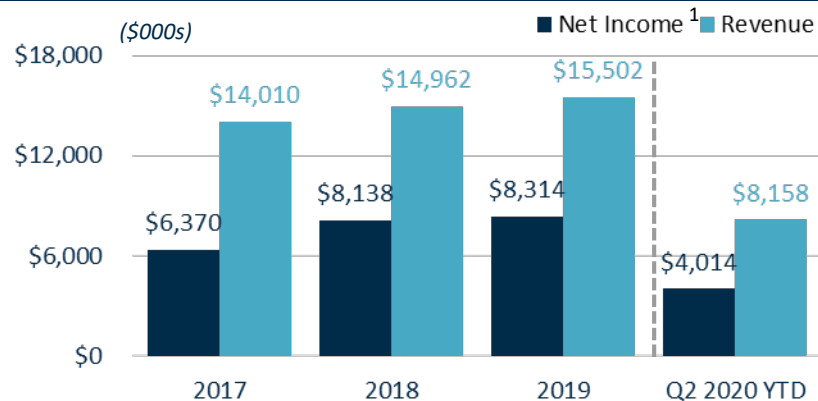
## OVERVIEW OF SERVICES

- **ADVISORY AND PLANNING SERVICES**
  - Retirement Planning, Tax Planning, Insurance Planning, Wealth Transfer Planning and Business Transition Planning
- **ASSET MANAGEMENT**
  - Personalized SMA strategies, Tax Management and Global Perspective
- **FIDUCIARY SERVICES**
  - IRA, Agency and Personal Trust
- **ONE ALERUS SYNERGIES**
  - IRA rollovers
  - 401(k) managed accounts

## ASSETS UNDER ADMINISTRATION/MANAGEMENT

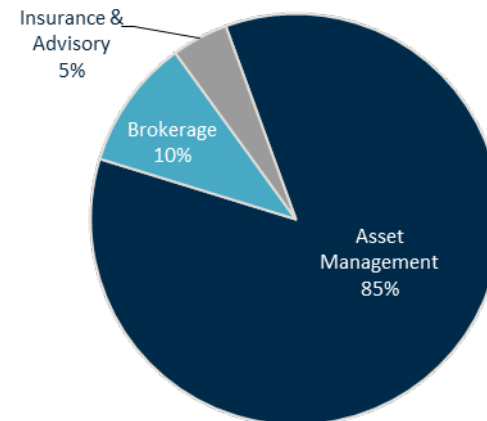


## PROFIT MARGIN



Profit Margin:	45.5%	54.4%	53.6%	49.2%

## REVENUE MIX (Q2 2020 YTD)



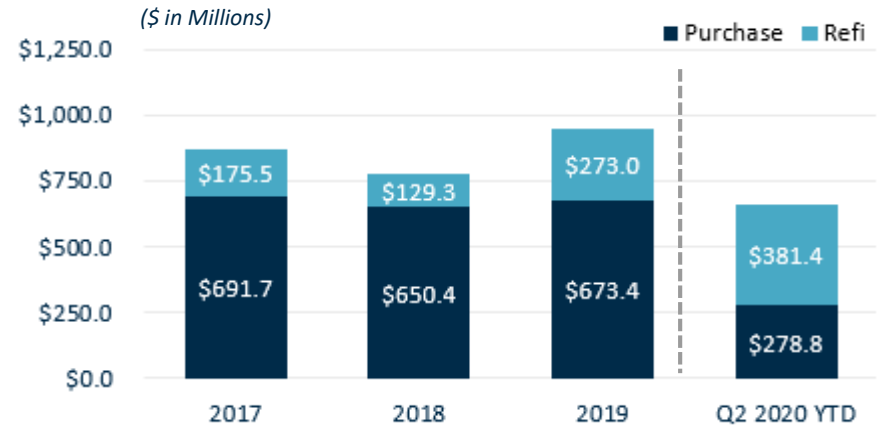
<sup>1</sup> Net Income before Tax and Indirect Allocations.

# MORTGAGE BANKING

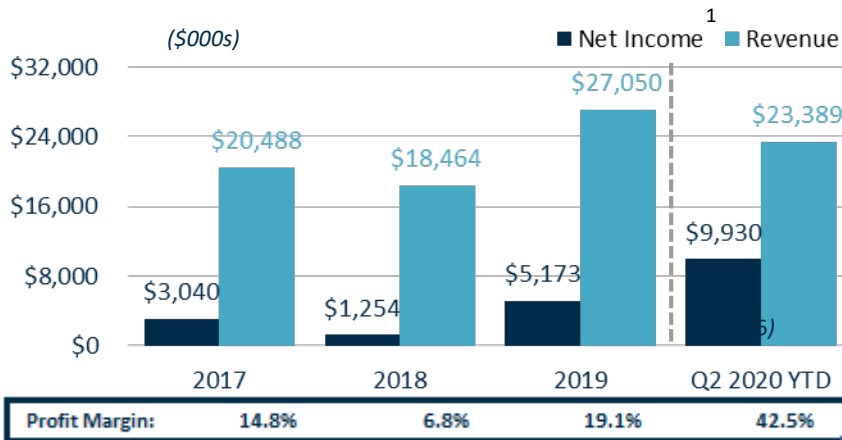
## OVERVIEW OF SERVICES

- 1st and 2nd mortgage product offerings through centralized mortgage operations in Minnesota
- Our Twin Cities originators averaged \$30+ million in volume in 2019
- YTD, approximately 42% purchase originations, with approximately 90% sourced from the Twin Cities MSA
- ONE ALERUS SYNERGIES**
  - Through enhanced technology, offer digital application and transitioned to a paperless delivery in Q1 2020. Key initiatives necessary to expand mortgage products nationwide to our retirement plan participants.
  - As of June 30, 2020, originations retained on the banking division's balance sheet totaled \$52 million

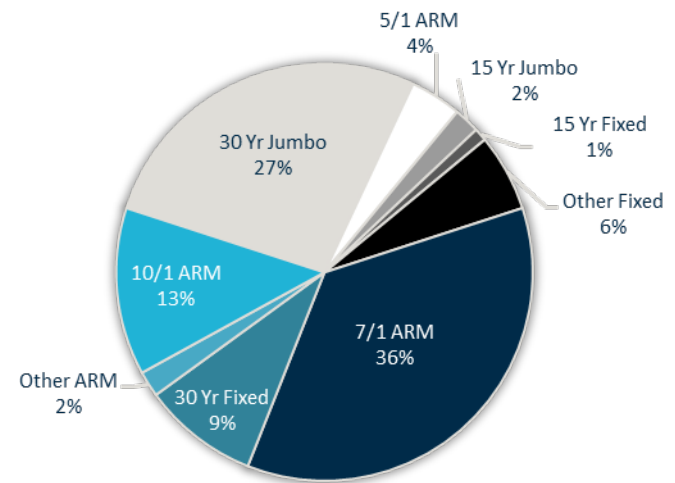
## MORTGAGE ORIGINATIONS



## PROFIT MARGIN



## 1-4 FAMILY PORTFOLIO PRODUCT MIX



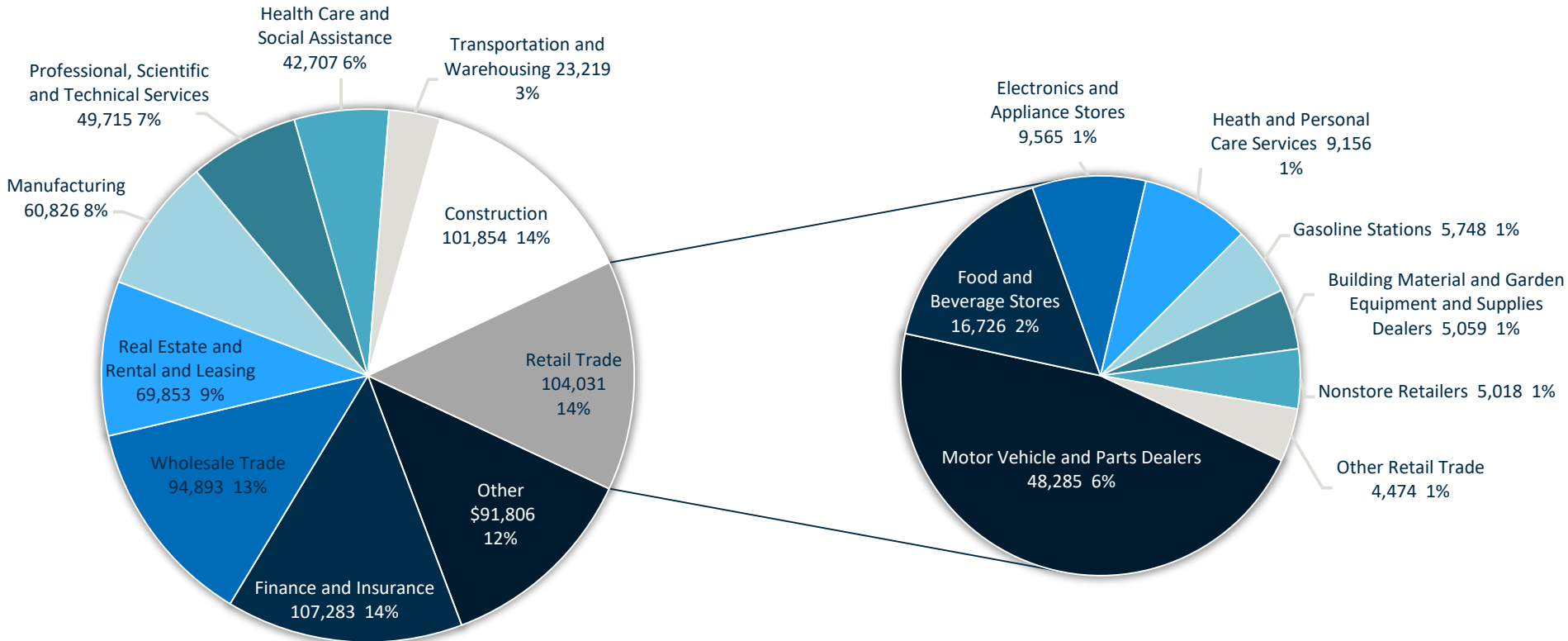
<sup>1</sup> Net Income before Tax and Indirect Allocations.

# LOAN PORTFOLIO AND CREDIT QUALITY



# SUMMARY BY INDUSTRY TYPE

## TOTAL COMMITMENT COMMERCIAL & INDUSTRIAL<sup>1</sup>



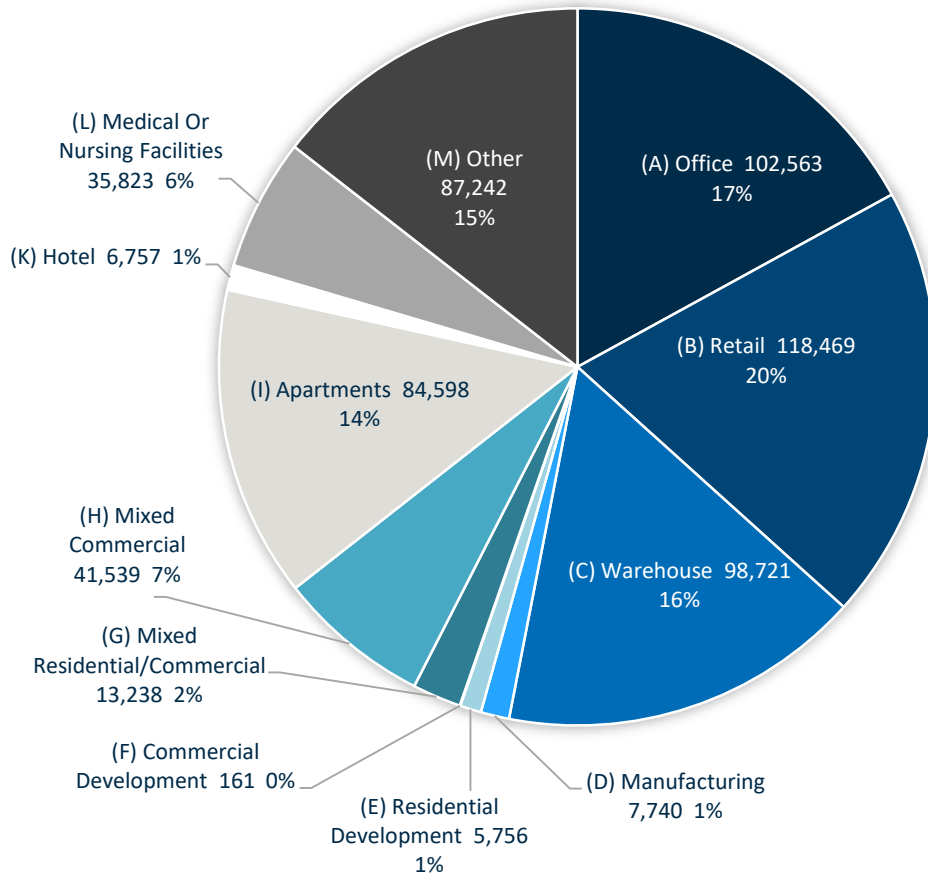
<sup>1</sup> – Commercial and industrial loans includes C & I, Loans to Public Entities, and Other Loans.

"Other" refers to the following industries (1) Nonclassifiable establishments, (2) Management of Companies and Enterprises, (3) Administrative and Support and Waste Management and Remediation Services, (4) Accommodation and Food Services, (5) Educational Services, (6) Other Services (except Public Administration), (7) Information, (8) Arts, Entertainment, and Recreation, (9) Agriculture Forestry, Fishing, and Hunting, (10) Public Administration, (11) Mining Quarrying, and Oil and Gas Extraction, (12) Utilities

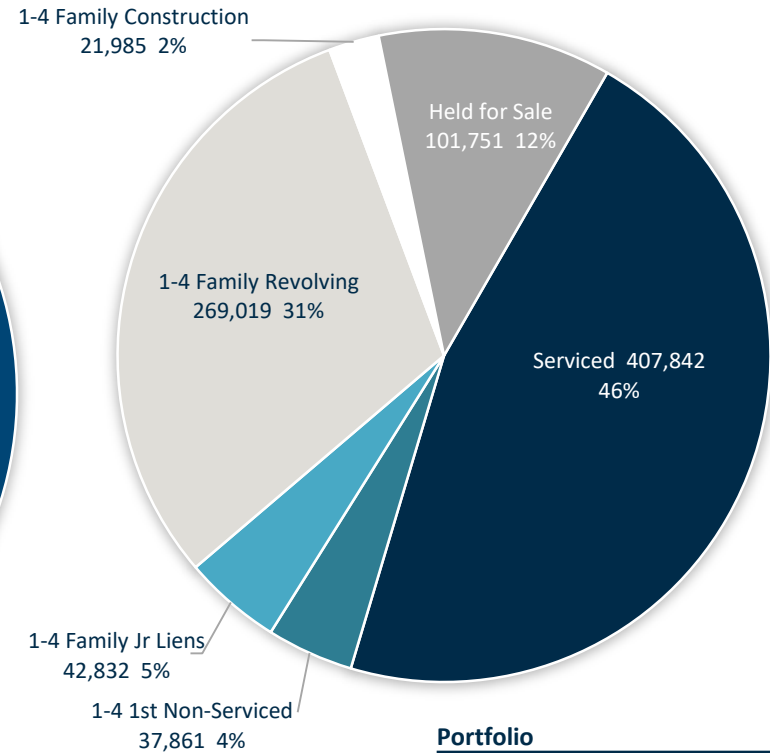
"Other Retail Trade" refers to the following sub-industries within Retail Trade: (1) Miscellaneous Store Retailers, (2) Furniture and Home Furnishings Stores, (3) Sporting Goods, Hobby, Musical Instrument, and Book Stores, (4) Clothing and Clothing Accessories Stores, and (5) General Merchandise Stores

# LOANS SECURED BY REAL ESTATE

TOTAL COMMITMENT  
COMMERCIAL REAL ESTATE<sup>1</sup> (\$ IN 000'S)



TOTAL COMMITMENT  
RESIDENTIAL REAL ESTATE (\$ IN 000'S)

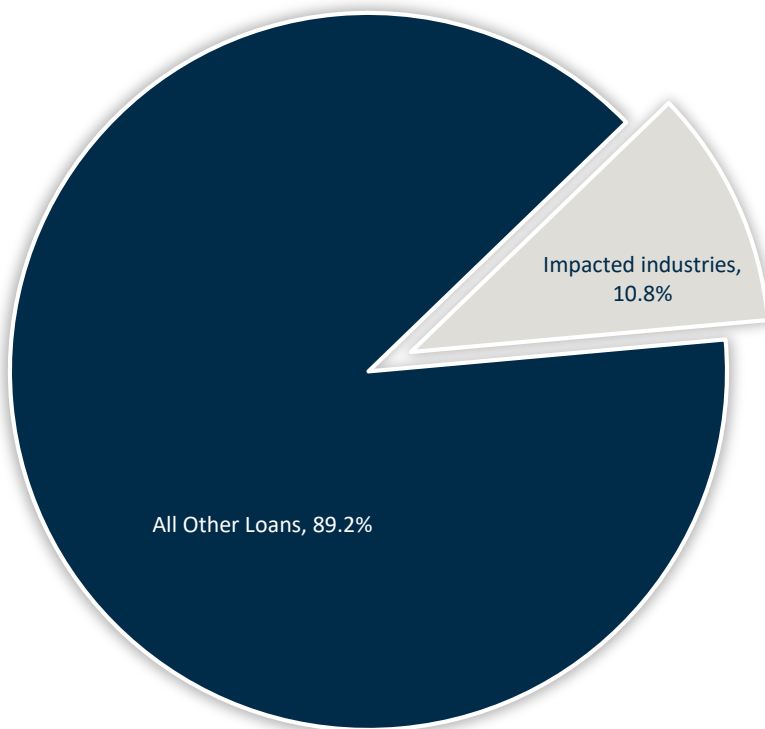


Portfolio	FICO
Serviced	752
Non-Serviced	771
Junior	761
HELOC	793

1 – Loans secured by commercial real estate include Multifamily loans, Ag land, Other CRE, Owner Occupied CRE, and Ag production  
'Other' above refers to (1) Agricultural land loans, (2) Construction and Land Development Loans, and (3) any non-identified property types.

# INDUSTRIES DIRECTLY IMPACTED BY COVID-19

## COMMERCIAL AND INDUSTRIAL AND COMMERCIAL REAL ESTATE



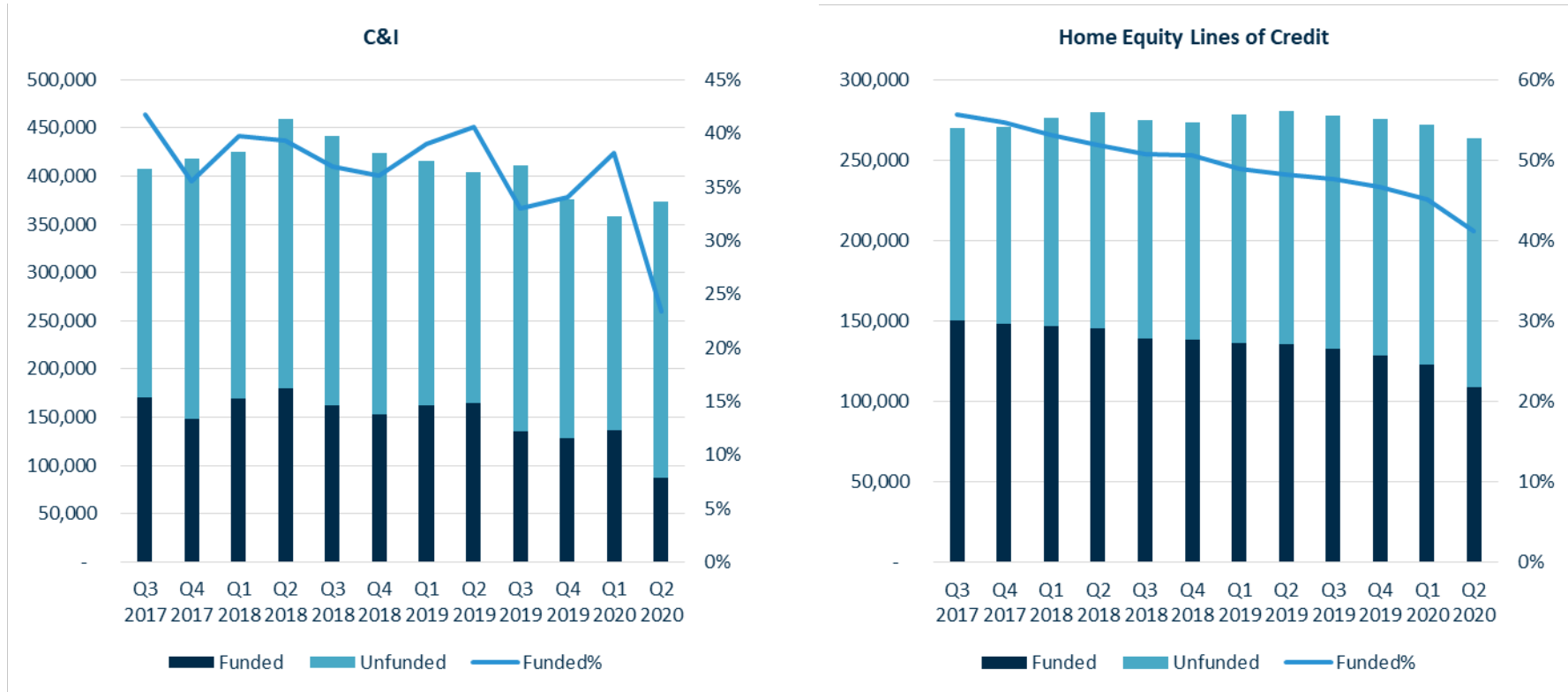
C&I	Total Commitment (\$ in 000's)	% of Total
Accommodation and Food Services	\$ 10,430	0.62%
Arts, Entertainment, and Recreation	4,403	0.26%
Mining, Quarrying, and Oil and Gas Services	2,212	0.13%
Other Retail Trade	4,474	0.27%
<b>Total</b>	<b>\$ 21,519</b>	<b>1.28%</b>

CRE	Total Commitment (\$ in 000's)	% of Total
Retail	\$ 118,469	7.02%
Medical or Nursing Facilities	35,823	2.12%
Hotel	6,757	0.40%
<b>Total</b>	<b>\$ 161,049</b>	<b>9.55%</b>

As of 6/30/2020.

# LINE OF CREDIT UTILIZATION

## C&I AND HOME EQUITY LINES OF CREDIT



- Line of credit usage for commercial borrowers fell sharply to 23% for Q2. This is well below the three year historical average of 37%
- Home equity lines of credit - steady declines in overall average line utilization since 2017. Peaking at 56% in Q3 2017, it has fallen to 41% in Q2 2020.

# ALLOWANCE FOR LOAN LOSSES

## CHANGES IN THE ALL BY PORTFOLIO SEGMENT

<i>(dollars in thousands)</i>	Six months ended June 30, 2020				
	Beginning Balance	Provision for Loan Losses	Loan Charge-offs	Loan Recoveries	Ending Balance
<b>Commercial</b>					
Commercial and industrial	\$ 12,270	\$ 348	\$ (2,735)	\$ 914	\$ 10,797
Real estate construction	303	140	—	—	443
Commercial real estate	6,688	4,125	(865)	—	9,948
Total commercial	19,261	4,613	(3,600)	914	21,188
<b>Consumer</b>					
Residential real estate first mortgage	1,448	1,220	—	5	2,673
Residential real estate junior lien	671	349	(12)	94	1,102
Other revolving and installment	352	263	(153)	84	546
Total consumer	2,471	1,832	(165)	183	4,321
Unallocated	2,192	(445)	—	—	1,747
Total	\$ 23,924	\$ 6,000	\$ (3,765)	\$ 1,097	\$ 27,256

# ALLOWANCE FOR LOAN LOSSES

## ALLOCATION BY PORTFOLIO SEGMENT

<i>(dollars in thousands)</i>	June 30, 2020		December 31, 2019	
	Allocated Allowance	Percentage of loans to total loans	Allocated Allowance	Percentage of loans to total loans
Commercial and industrial	\$ 10,797	39.0%	\$ 12,270	27.8%
Real estate construction	443	1.5%	303	1.5%
Commercial real estate	9,948	25.5%	6,688	28.8%
Residential real estate first mortgage	2,673	22.5%	1,448	26.6%
Residential real estate junior lien	1,102	7.6%	671	10.3%
Other revolving and installment	546	3.9%	352	5.0%
Unallocated	1,747	—%	2,192	—%
Total loans	\$ 27,256	100.0%	\$ 23,924	100.00%

# ALLOWANCE FOR LOAN LOSSES

## ALLOCATION BY RISK SEGMENT (\$ IN 000'S)

Risk Level	Total Loans	Unguaranteed Balance	Reserve Amount	Reserve / Unguaranteed Loans	Reserve/Total Loans
Pass	\$ 1,966,376	\$ 1,625,073	\$ 20,146	1.24%	1.02%
Special Mention	18,499	11,744	473	4.03%	2.56%
Substandard	43,159	39,253	4,341	11.06%	10.06%
Total Loans Evaluated Collectively	2,028,034	1,676,070	24,960	1.49%	1.23%
Total Loans Evaluated Individually	6,163	5,875	549	9.34%	8.91%
Unallocated	–	–	1,747	–	–
<b>Total</b>	<b>\$ 2,034,197</b>	<b>\$ 1,681,945</b>	<b>\$ 27,256</b>	<b>1.62%</b>	<b>1.34%</b>

As of 6/30/2020.

# APPENDIX



# COMPANY PROFILE

## COMPANY PORTFOLIO

### OUR MISSION

- To always act in the best interest of our clients by providing innovative and comprehensive financial solutions that are delivered through a relationship-oriented single point of contact and supported by client-friendly technology.

### DIVERSIFIED FINANCIAL SERVICES COMPANY

- \$2.9 billion Banking assets
- \$30.1 billion Retirement and Benefits AUA/AUM
- \$3.0 billion Wealth Management AUA/AUM

### ALERUS BUSINESS LINES

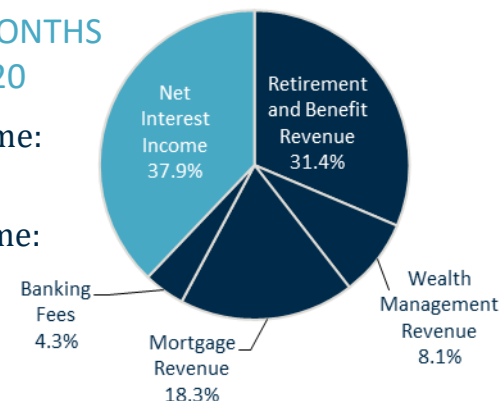
- Banking
- Retirement and Benefits
- Wealth Management
- Mortgage

Data as of 6/30/2020.

## DIVERSIFIED REVENUE STREAM

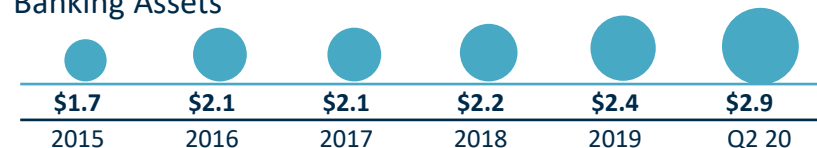
FOR THE TWELVE MONTHS ENDED JUNE 30, 2020

- Noninterest income: \$124.6 million
- Net interest income: \$76.1 million

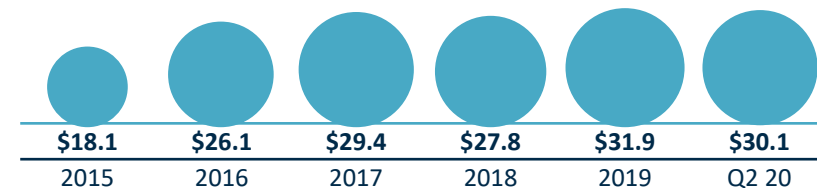


### ASSET GROWTH (IN BILLIONS)

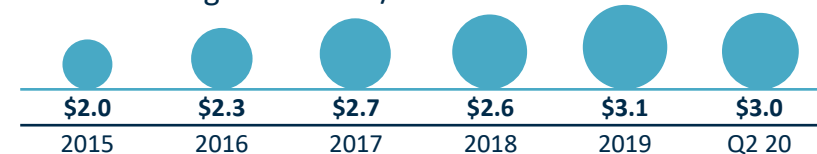
#### Banking Assets



#### Retirement and Benefit Services AUA/AUM



#### Wealth Management AUA/AUM



# FRANCHISE FOOTPRINT

## FULL-SERVICE BANKING OFFICES

*Alerus offers banking, retirement and benefits, mortgage and wealth management services at all full-service banking offices*

### Grand Forks, ND

- 3 full-service banking offices

### Fargo, ND

- 3 full-service banking offices

### Twin Cities, MN

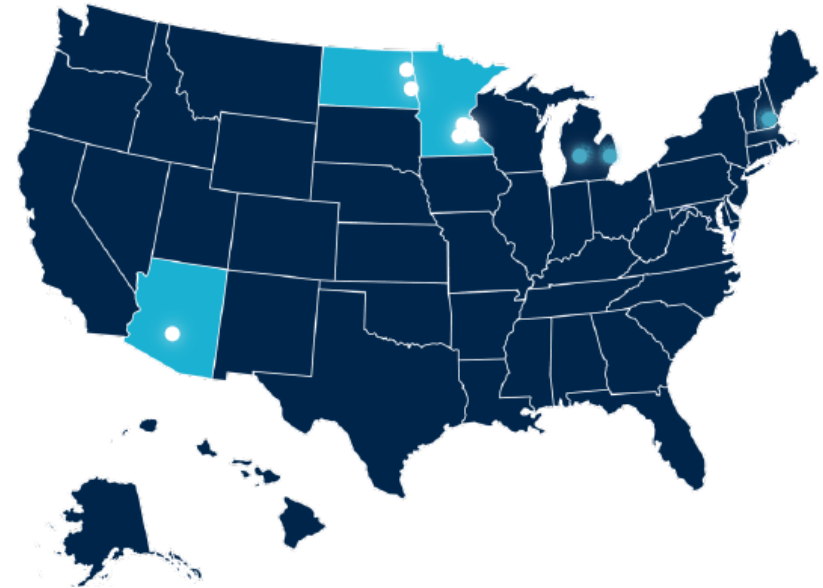
- 6 full-service banking offices
- 1 mortgage office
- 1 deposit and loan production office

### Phoenix, AZ

- 2 full-service banking offices

## RETIREMENT AND BENEFITS SERVICES OFFICES

- 2 retirement and benefits offices in Minnesota
- 2 retirement and benefits offices in Michigan
- 1 retirement and benefits office in New Hampshire
- Serve clients in all 50 states through retirement plan services



## DIVERSIFIED CLIENT BASE

- 48,700 consumers
- 10,400 businesses
- 6,900 employer-sponsored retirement plans
- 360,700 employer-sponsored retirement plan participants
- 50,300 health savings account participants
- 21,500 flexible spending account/health reimbursement arrangement participants

Data as of 6/30/2020.

# ONE ALERUS

## ONE ALERUS STRATEGY

One Alerus enables us to bring all of our product and service offerings to clients in a cohesive and seamless manner. We believe the One Alerus initiative will enable us to achieve future organic growth by leveraging our existing client base and help us continue to provide strong returns to our stockholders

## TECHNOLOGY INVESTMENT

We have proactively invested in technology which will allow us to effectively integrate our various departments and business lines

We believe these initiatives will reduce the amount of technology expenditures needed in the future

## TAILORED ADVICE

We strive to provide each client with a primary point of contact—a trusted advisor—who deals with individual needs and integrates other department's expertise when necessary

## DIVERSIFIED SERVICES

Through our four divisions, we are able to offer a comprehensive service package to our clients

## REINVENTION OF PROCESSES

We have aligned processes, policies, and procedures throughout all departments to enhance client experience and improve our Company's efficiency

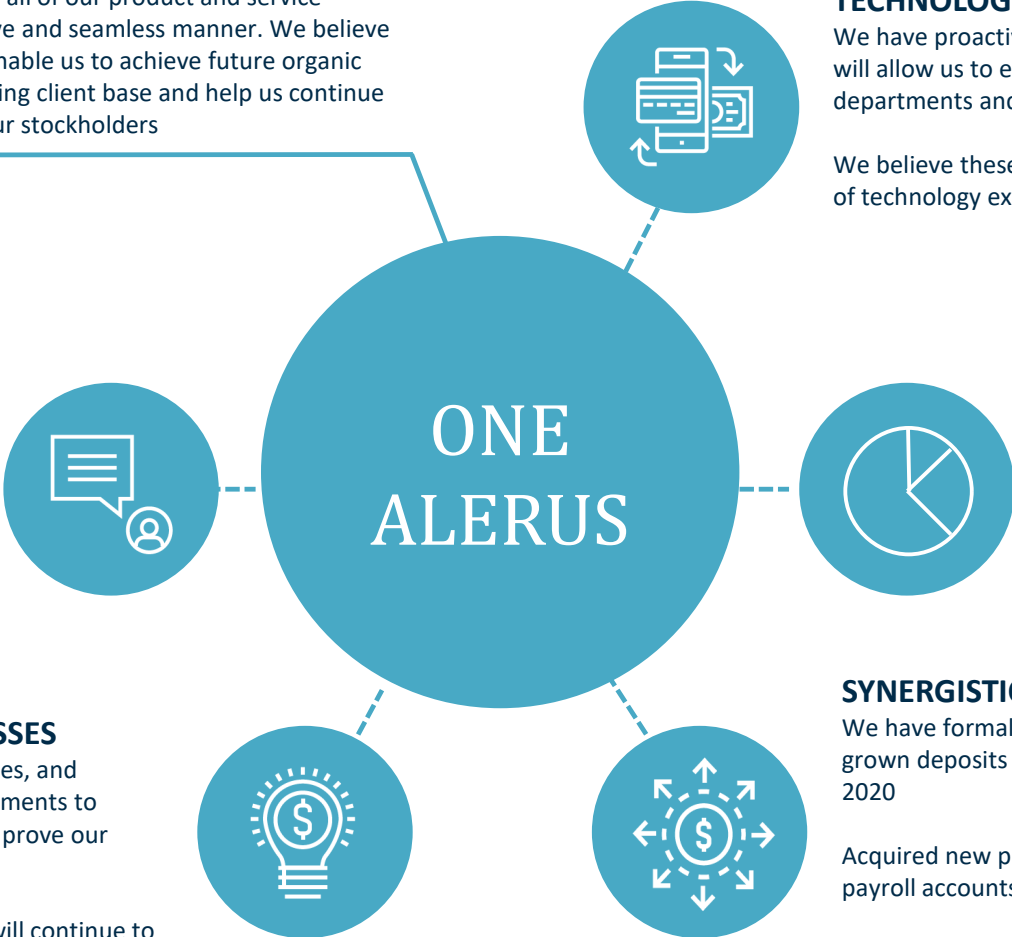
Our expectation is this initiative will continue to improve our scalability and operating costs

## SYNERGISTIC GROWTH

We have formalized our National Market which has grown deposits to \$512.1 million as of June 30, 2020

Acquired new product lines including HSA and payroll accounts

We expect the 401(k) money market accounts to continue to grow and reduce funding costs



# THE PATH TO FINANCIAL CONFIDENCE

IMPROVING CLIENTS' FINANCIAL WELLBEING THROUGH PEOPLE + TECHNOLOGY

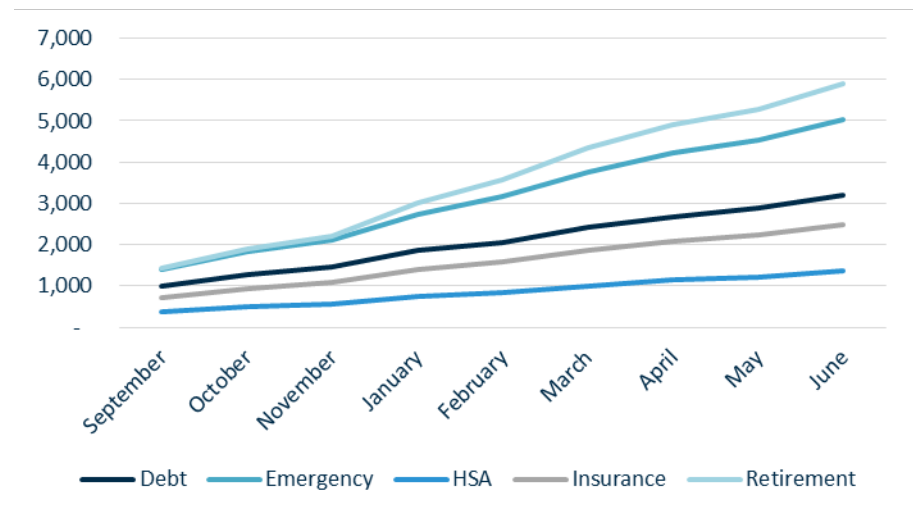
## SKILLED ADVISORS AND FINANCIAL GUIDES

- Team is organized around consumer or business; focuses on holistic needs of clients; depth and breadth of Alerus service offering
- Proprietary Financial Fitness Playbook delivers consistency and augments Financial Workout technology
- Clients expectations driven by advice and guidance versus transactions

## EMPOWERING CLIENTS WITH RESPONSIVE TECHNOLOGY

- **Omni-Channel**  
Seamless experience via desktop and mobile
- **Leading Account Aggregation**  
Holistic view of entire financial life
- **Single Sign On**  
Remove friction in being an Alerus client
- **Financial Wellness Score**  
Your most current financial data is used to create easy, intuitive workouts

WORKOUTS COMPLETED BY CLIENTS SINCE LAUNCH



# KEY STRATEGIC INITIATIVES

## GROWING THE ALERUS FRANCHISE

### LEVERAGE OUR EXISTING CLIENT BASE

- Diversified client base consists of **48,700** consumers, **10,400** businesses and over **360,700** employer-sponsored retirement plan participants
- Harness **product synergies** unavailable to traditional banking organizations

### EXECUTE STRATEGIC ACQUISITIONS

- Capitalize on **strategic opportunities** to grow in our existing markets or new markets
- Acquisition targets include **banks and fee income** companies with **complementary** business models, cultural similarities, and growth opportunities

### PURSUE TALENT ACQUISITION

- Recruit **top talent** to **accelerate growth** in our existing markets or jumpstart our entrance into new markets
- Market disruption caused by M&A activity provides **lift-out opportunities**

### ENHANCE BRAND AWARENESS

- Proactively position ourselves as an **acquirer and employer of choice**
- Invested in one of the **leading marketing automation technologies**

### STRENGTHEN AND BUILD INFRASTRUCTURE

- Provide **secure and reliable** technology that meets evolving client expectations
- Integrate our full product and service offerings through our **fast-follower** strategy

### ORGANIC GROWTH “ONE ALERUS”

- Collaborative leadership team focused on **growing organically** by deepening relationships with existing clients through our expansive services
- Maintain **relationship-driven** business model while diversifying our composition of revenue

# OFFICERS AND DIRECTORS

OUR MOTIVATED, DEDICATED, AND ENERGETIC LEADERS KEEP US ON THE RIGHT PATH

## SENIOR EXECUTIVE TEAM



**KATIE LORENSEN**  
Executive Vice President and  
Chief Financial Officer  
*3 years with Alerus*



**ANN MCCONN**  
Executive Vice President and  
Chief Shared Services Officer  
*18 years with Alerus*



**RYAN GOLDBERG**  
Executive Vice President and  
Chief Revenue Officer  
*Joined Alerus in 2020*



**KARIN TAYLOR**  
Executive Vice President and  
Chief Risk Officer  
*2 years with Alerus*



**RANDY NEWMAN**  
Chairman, President, and  
Chief Executive Officer  
*39 years with Alerus*



**KEVIN LEMKE**  
*Since 1994*  
President  
Virtual Systems, Inc.  
Grand Forks, ND



**KAREN BOHN**  
*Since 1999*  
President, Galeo Group, LLC  
Former Chief Administrative Officer  
Piper Jaffray Co.  
Edina, MN



**LLOYD CASE**  
*Since 2005*  
Past President and CEO  
Forum Communications Co.  
Director, Forum Communications  
Fargo, ND



**SALLY SMITH**  
*Since 2007*  
Former President and CEO  
Buffalo Wild Wings, Inc.  
Minneapolis, MN

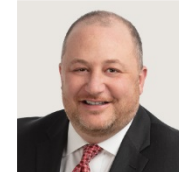
## BOARD OF DIRECTORS



**GALEN VETTER**  
*Since 2013*  
Former Global CFO, Franklin Templeton  
Investments; Former Partner-in-Charge,  
Upper Midwest Region, RSM  
Minneapolis, MN



**DAN COUGHLIN**  
*Since 2016*  
Former MD & Co-Head – Fin'l Services Inv.  
Banking, Raymond James; Former Chairman  
& CEO, Howe Barnes Hoefler & Arnett  
Chicago, IL



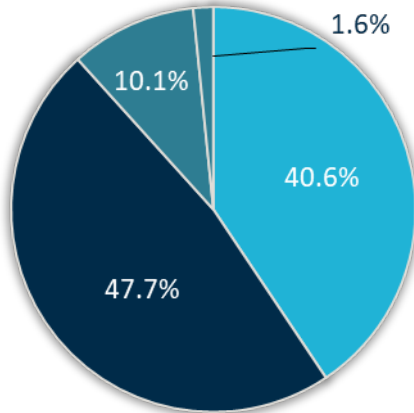
**MICHAEL MATHEWS**  
*Since 2019*  
CIO, Deluxe Corporation  
Former SVP – Technology and Enterprise  
Programs, UnitedHealth Group  
Minneapolis, MN

# MARKET DISTRIBUTION

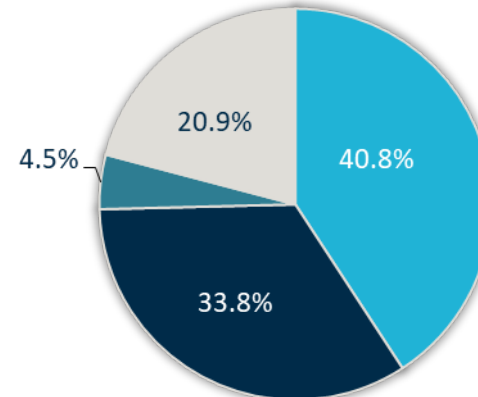
STRONG GROWTH MARKETS AND STABLE CORE FUNDING

(\$ IN MILLIONS)

LOANS (\$2,034)



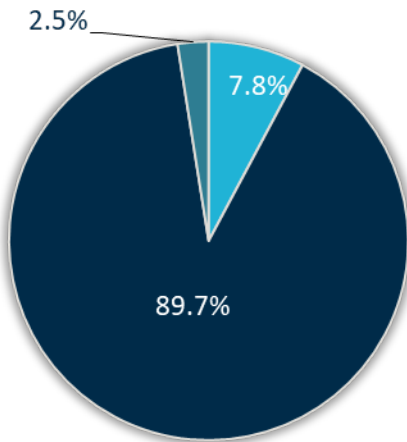
DEPOSITS (\$2,453)



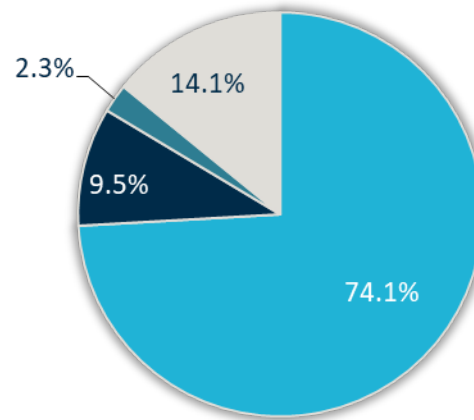
LEGEND

- North Dakota
- Minnesota
- Arizona
- National

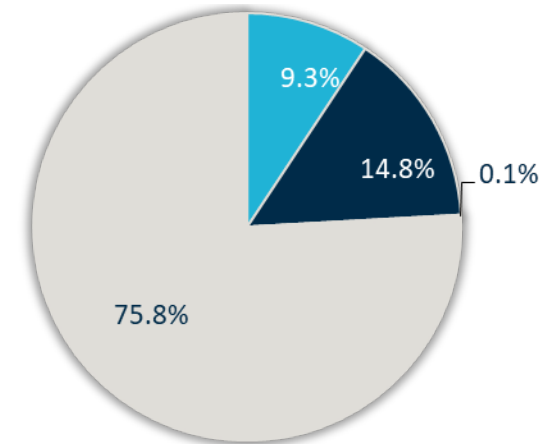
MORTGAGE ORIGINATIONS (\$660.2)



WM ASSETS UNDER ADMIN/MGMT. (\$2,957)



ARB ASSETS UNDER ADMIN/MGMT. (\$30,093)



Data as of 6/30/2020.

# FINANCIAL HIGHLIGHTS

(\$000s, except where otherwise noted)	Annual				'16-'19	Year-to-date	
	2016	2017	2018	2019	CAGR	Q2 2019	Q2 2020
Total Assets	\$ 2,050,045	\$ 2,136,081	\$ 2,179,070	\$ 2,356,878	4.8%	\$ 2,207,129	\$ 2,875,457
Total Loans	1,366,952	1,574,474	1,701,850	1,721,279	8.0%	1,713,452	2,034,197
Total Deposits	1,785,209	1,834,962	1,775,096	1,971,316	3.4%	1,753,365	2,453,153
Tangible Common Equity <sup>1</sup>	108,193	125,154	147,152	240,008	30.4%	166,064	261,992
Net Income	\$ 14,036	\$ 15,001	\$ 25,866	\$ 29,540		\$ 14,784	\$ 16,837
ROAA (%)	0.72	0.75	1.21	1.34		1.36	1.31
ROATCE (%)	15.81	18.04	21.02	17.46		20.53	14.39
Net Interest Margin (FTE) (%) <sup>1</sup>	3.63	3.74	3.84	3.65		3.74	3.24
Efficiency Ratio (FTE) (%) <sup>1</sup>	81.12	75.36	73.80	73.22		71.97	71.23
Non-Int. Income / Op. Rev. (%)	62.54	60.36	57.73	60.50		59.54	62.69
Total Equity / Total Assets (%)	8.21	8.41	9.04	12.12		9.69	10.63
Tang. Cmn. Equity / Tang. Assets (%) <sup>1,2</sup>	5.44	6.01	6.91	10.38		7.69	9.25
Loans / Deposits (%)	76.57	85.80	95.87	87.32		97.72	82.92
NPLs / Loans (%) <sup>2</sup>	0.56	0.37	0.41	0.45		0.58	0.26
NPAs / Assets (%) <sup>2</sup>	0.47	0.30	0.33	0.33		0.23	0.19
Allowance / NPLs (%)	205.03	282.04	318.45	305.66		459.57	511.56
Allowance / Loans (%) <sup>2</sup>	1.14	1.05	1.30	1.39		1.24	1.34
NCOs / Average Loans (%) <sup>2</sup>	0.16	0.16	0.18	0.33		0.58	0.29

1 Represents a non-GAAP financial measure. See "Non-GAAP Disclosure Reconciliation" in the Appendix to this presentation.

2 Excluding PPP, the following ratios were TCE/TA 10.55% NPLs/Loans 0.32%, NPAs/Assets 0.21%, Allowance/Loans 1.62%, and NCOs/Average Loans 0.31%

# NON-GAAP DISCLOSURE RECONCILIATION

	Annual				Year-to-date	
	2016	2017	2018	2019	Q2 2019	Q2 2020
<i>(\$000s, except where otherwise noted )</i>						
<b>Tangible common equity to tangible assets</b>						
Total common stockholders' equity	\$ 168,251	\$ 179,594	\$ 196,954	\$ 285,728	\$ 213,765	\$ 305,732
Less: Goodwill	27,329	27,329	27,329	27,329	27,329	27,329
Less: Other intangible assets	32,729	27,111	22,473	18,391	20,372	16,411
Tangible common equity (a)	108,193	125,154	147,152	240,008	166,064	261,992
<b>Total assets</b>	2,050,045	2,136,081	2,179,070	2,356,878	2,207,129	2,875,457
Less: Goodwill	27,329	27,329	27,329	27,329	27,329	27,329
Less: Other intangible assets	32,729	27,111	22,473	18,391	20,372	16,411
Tangible assets (b)	1,989,987	2,081,641	2,129,268	2,311,158	2,159,428	2,831,717
Tangible common equity to tangible assets (a)/(b)	5.44%	6.01%	6.91%	10.38%	7.69%	9.25%
<b>Tangible common equity per common share</b>						
Total stockholders' equity	\$ 168,251	\$ 179,594	\$ 196,954	\$ 285,728	\$ 213,765	\$ 305,732
Less: Goodwill	27,329	27,329	27,329	27,329	27,329	27,329
Less: Other intangible assets	32,729	27,111	22,473	18,391	20,372	16,411
Tangible common equity (c)	108,193	125,154	147,152	240,008	166,064	261,992
Common shares outstanding (d)	13,534	13,699	13,775	17,050	13,816	17,120
Tangible common equity per common share (c)/(d)	\$ 7.99	\$ 9.14	\$ 10.68	\$ 14.08	\$ 12.02	\$ 15.30
<b>Return on average tangible common equity</b>						
Net income	\$ 14,036	\$ 15,001	\$ 25,866	\$ 29,540	\$ 14,784	\$ 16,837
Less: Preferred stock dividends	25	-	-	-	-	-
Add: Intangible amortization expense (net of tax)	4,553	3,655	3,664	3,224	1,660	1,565
Remeasurement due to tax reform	-	4,818	-	-	-	-
Net income, excluding intangible amortization (e)	18,564	23,474	29,530	32,764	16,444	18,402
Average total equity	168,039	176,779	187,341	231,084	205,785	298,221
Less: Average preferred stock	2,514	-	-	-	-	-
Less: Average goodwill	25,698	27,329	27,329	27,329	27,329	27,329
Less: Average other intangible assets (net of tax)	22,372	19,358	19,522	16,101	16,912	13,737
Average tangible common equity (f)	117,455	130,092	140,490	187,654	161,544	257,155
Return on average tangible common equity (e)/(f)	15.81%	18.04%	21.02%	17.46%	20.53%	14.39%
<b>Net interest margin (tax equivalent)</b>						
Net interest income	\$ 62,940	\$ 67,670	\$ 75,224	\$ 74,551	\$ 37,411	\$ 38,928
Tax equivalent adjustment	599	865	462	347	176	209
Tax equivalent net interest income (g)	63,539	68,535	75,686	74,898	37,587	39,137
Average earning assets (h)	1,750,104	1,833,002	1,970,004	2,052,758	2,028,685	2,427,519
Net interest margin (tax equivalent) (g)/(h)	3.63%	3.74%	3.84%	3.65%	3.74%	3.24%
<b>Efficiency Ratio</b>						
Noninterest expense	\$ 143,792	\$ 134,920	\$ 136,325	\$ 142,537	\$ 68,775	\$ 76,460
Less: Intangible amortization expense	7,005	5,623	4,638	4,081	2,101	1,981
Adjusted noninterest expense (i)	136,787	129,297	131,687	138,456	66,674	74,479
Net interest income	62,940	67,670	75,224	74,551	37,411	38,928
Noninterest income	105,089	103,045	102,749	114,194	55,058	65,419
Tax equivalent adjustment	599	865	462	347	176	209
Total tax equivalent revenue (j)	168,628	171,580	178,435	189,092	92,645	104,556
Efficiency ratio (i)/(j)	81.12%	75.36%	73.80%	73.22%	71.97%	71.23%