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ALERUS FINANCIAL CORPORATION

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ALERUS FINANCIAL CORPORATION REPORTS SECOND QUARTER 2018 RESULTS OF $5.6 MILLION NET INCOME

GRAND FORKS, N.D. (July 25, 2018) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $5.6 million for the second quarter of 2018, or $0.40 per diluted common share, compared to $4.6 million or $0.33 per diluted common share for the second quarter of 2017 and $6.9 million or $.49 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 June 30, 2018 from		Six months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Percent Change
Net income	$ 5,599	$ 6,864	$ 4,570	(18.4) %	22.5 %	$ 12,463	$ 9,521	30.9 %
Diluted earnings per common share	$ 0.40	$ 0.49	$ 0.33	(18.4) %	21.2 %	$ 0.89	$ 0.68	30.9 %
Return on average assets	1.05%	1.35%	0.93%	(22.2) %	12.9 %	1.20%	0.98%	22.4 %
Return on average common equity	12.13%	15.29%	10.30%	(20.7) %	17.8 %	13.69%	10.97%	24.8 %
Net interest margin (tax equivalent)	3.88%	3.91%	3.74%	(0.8) %	3.7 %	3.90%	3.66%	6.5 %
Efficiency ratio	72.30%	73.08%	73.57%	(1.1) %	(1.7) %	72.68%	75.48%	(3.7) %
Dividends declared per common share	$ 0.13	$ 0.13	$ 0.12	- %	8.3 %	$ 0.26	$ 0.24	8.3 %
Book value per common share	$ 13.52	$ 13.30	$ 13.04	1.7 %	3.7 %			

The net income increase of $2.9 million in year-to-date 2018 compared to the same period of 2017 was highlighted by the following:

- An increase of $4.9 million or 15.4% in net interest income principally driven by the impact of rising interest rates and loan growth, partially offset by an increase in deposit rates and a shift in funding mix
- offset by a $4.9 million increase in provision expense due to increasing levels of classified loans and loan growth
- a decrease of $0.9 million in noninterest income due primarily to the retention of mortgage originations
- a decrease of $0.2 million in noninterest expense as decreases in professional fees and intangible expense offset investments in talent and technology

The net income decrease of $1.3 million between the second quarter of 2018 and the first quarter of 2018 was the result of the following:

- A $2.5 million increase in provision expense due to increasing levels of classified loans and adjustments to required reserves for pass rated loans
- partially offset by a $1.8 million increase in noninterest income driven by an increase in mortgage division revenue of $2.2 million
- a $1.5 million increase in noninterest expense also driven by increased commissions relating to the mortgage division results

CEO Comments

Chairman, President, and Chief Executive Officer Randy Newman said, “During the second quarter classified loans increased by $15.1 million or 33.4% from the first quarter. As we prudently manage our overall loan portfolio, the increased classified loans warranted higher reserves and we increased provision by an additional $2.5 million over last quarter’s provision of $1.5 million. The Company continues to maintain strong core operating earnings as evidenced by increasing the provision while also reporting a 22.4% increase in a year-to-date return on average assets ratio of 1.20%.”

Financial Highlights

- Loan growth of $68.2 million, or 4.2%, which includes a $32.5 million increase in residential real estate loans and a $20.8 million increase in commercial loans.
- Deposits decreased $31.5 million, or 1.7%, to $1.8 billion due to seasonality in the public funds portfolio
- Short-term borrowings increased $112.3 million, up from $0 at March 31, 2018
- Assets under administration (AUA) increased $0.4 billion, or 1.4%, to $28.0 billion
- Assets under management (AUM) increased $184 million, or 4.0%, to $4.7 billion
- Mortgage originations totaled $239.9 million, compared to $147.7 million for the first quarter of 2018
- Nonperforming assets of $4.8 million, decreased $0.4 million from the first quarter of 2018
- Allowance for loan losses to nonperforming loans was 431% at June 30, 2018, compared with 378% at March 31, 2018

Results of Operations

Net Interest Income

Net interest income for the second quarter was $18.9 million, an increase of $0.8 million or 4.2% compared with $18.1 million in the first quarter of 2018. Average earning assets of $1.9 billion for the first quarter of 2018 climbed $73.0 million in the second quarter of 2018. Average loan balances grew 4.7% or $75.4 million and the yield on the loan portfolio increased by 5 basis points from 4.74% to 4.79%.

The investment portfolio average balance declined $11.3 million between the first and second quarters of 2018, but the yield grew 7 basis points in the comparable period which allowed investment interest income to remain at $1.7 million for both periods.

Interest expense increased $0.6 million or 25.9% to $2.9 million for the second quarter of 2018 from $2.3 million in the first quarter, primarily due to a rise in the cost of interest bearing non-time deposits of 8 basis points. Additionally, the average balance short term borrowings rose to $113 million, resulting in $0.4 million of additional interest expense between the comparable periods.

The net interest margin calculated on a taxable-equivalent basis in the second quarter of 2018 was 3.88%, a slight decline from the first quarter results of 3.91% due to elevated funding costs. Net interest income in the second quarter of 2018 was $18.9 million, compared with $16.6 million in the second quarter of 2017, an increase of $2.3 million, or 13.7%.

The net interest margin calculated on a tax-equivalent basis for the first six months of 2018 was 3.90%, compared to 3.66% for the same period a year ago. The increase of $4.9 million in net interest income was driven primarily by increased yields on the loan portfolio which rose from 4.56% in the first six months ended June 30, 2017, to 4.77% at June 30, 2018. In addition, earning assets increased from $1.8 billion to $1.9 billion as the loan portfolio average balances moved up $227.8 million, offset by a $60.2 million and $25 million decrease in interest bearing deposits in banks and investment securities, respectively. Offsetting the increases in interest income was a 20 basis point increase in the cost of interest bearing liabilities on an average balance increase of $86.2 million.

Provision for Loan Losses

The provision for loan losses was $4.0 million in the second quarter of 2018 compared to $0.6 million a year ago, and $1.5 million in the first quarter of 2018. While the Company's nonperforming loans and the related identified credit losses have continued to trend down, the level of classified assets have increased $29.6 million from a year ago and $15.7 million in the second quarter. This migration of credits caused the need for increased provisions. In addition, because these credits were not specific to a market or industry, additional reserves were added to the overall portfolio.

"We have a low level of non-performing assets that have declined for the fourth consecutive quarter; yet, the level of classified assets have increased. These assets require higher levels of allocated reserve and we believe warrant higher qualitative factor adjustments to non-classified loans. 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 1.05% a year ago to 1.14% at the end of June," said Chairman, President, and Chief Executive Officer, Randy Newman.

Noninterest Income

Second quarter noninterest income was $26.1 million, down 3.8% from the second quarter of 2017 and 7.6% higher than the first quarter of 2018.

NONINTEREST INCOME

(Dollars in thousands)
(Unaudited)

	Three months ended			Percent Change June 30, 2018 from		Six months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Percent Change
Retirement and Benefits	$ 15,394	$ 15,943	$ 15,555	(3.4) %	(1.0) %	$ 31,337	$ 31,114	0.7 %
Wealth Management	3,764	3,775	3,599	(0.3) %	4.6 %	7,539	7,147	5.5 %
Mortgage Banking	5,224	3,009	6,284	73.6 %	(16.9) %	8,233	9,843	(16.4) %
Service charges on deposit accounts	429	462	453	(7.1) %	(5.3) %	891	885	0.7 %
Other	1,284	1,067	1,233	20.3 %	4.1 %	2,351	2,344	0.3 %
Total noninterest income	$ 26,095	$ 24,256	$ 27,124	7.6 %	(3.8) %	$ 50,351	$ 51,333	(1.9) %

The increase in noninterest income for the second quarter compared to the first quarter was driven by the results of the mortgage division and the related seasonality of the business. The decline in noninterest income for first six months of 2018 compared to the same period in 2017 was also driven by the mortgage division, due to the retention of $91.2 million on the Company's balance sheet compared to $61.4 million a year ago. Revenue increases of $0.4 million and $0.2 million from the wealth management and retirement and benefits divisions offset this decline.

"Although revenue in the mortgage banking division has declined from a year ago, our decision to retain a portion of the volume on the balance sheet will benefit our company long-term. Retaining additional mortgages on our balance sheet allows us not only to increase net interest income and margin but also continue to meet our clients' needs, grow our balance sheet and diversify our portfolio," said Chairman, President, and Chief Executive Officer, Randy Newman.

Noninterest Expense

Total noninterest expense in the second quarter of 2018 was $33.8 million, flat when compared to the second quarter of 2017. Noninterest expense was $1.5 million, or 4.8%, higher than the first quarter of 2018.

NONINTEREST EXPENSE

(Dollars in thousands)
(Unaudited)

	Three months ended			Percent Change June 30, 2018 from		Six months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Percent Change
Salaries	$ 17,366	$ 15,784	$ 17,386	10.0 %	(0.1) %	$ 33,150	$ 32,774	1.1 %
Employee benefits	4,397	4,778	4,027	(8.0) %	9.2 %	9,175	8,712	5.3 %
Occupancy and equipment expense	2,663	2,854	2,666	(6.7) %	(0.1) %	5,517	5,453	1.2 %
Business services, software and technology expense	3,271	3,465	2,685	(5.6) %	21.8 %	6,736	5,828	15.6 %
Intangible amortization expense	1,196	1,196	1,450	- %	(17.5) %	2,392	3,018	(20.7) %
Professional fees and assessments	909	1,197	1,882	(24.1) %	(51.7) %	2,106	3,131	(32.7) %
Marketing and business development	1,004	578	551	73.7 %	82.2 %	1,582	1,104	43.3 %
Supplies and postage	535	756	595	(29.2) %	(10.1) %	1,291	1,204	7.2 %
Travel	515	355	412	45.1 %	25.0 %	870	700	24.3 %
Mortgage and lending expenses	686	474	642	44.7 %	6.9 %	1,160	1,201	(3.4) %
Other	1,266	833	1,476	52.0 %	(14.2) %	2,099	3,168	(33.7) %
Total noninterest expense	$ 33,808	$ 32,270	$ 33,772	4.8 %	0.1 %	$ 66,078	$ 66,293	(0.3) %

The second quarter of 2018 increase compared to the first quarter was due in large part to increased commissions for seasonally higher mortgage originations. Increases in other expenses included $0.4 million of other real estate related expenses and write-downs and increases in marketing expense were recognized as several major initiatives began during the quarter.

Noninterest expense has decreased $0.2 million in the first six months of 2018 compared to the same period a year ago. The most significant change is a $1.0 million decline in professional fees relating to legal expenses incurred in 2017 and a settlement received in 2018. In addition, other expenses decreased $0.9 million from 2017 including one-time accruals absent in 2018 results. These declines were offset by an increase in salaries and the related facilities and equipment, consistent with the increase in full time equivalents count which rose from 772 at June 30, 2017, to 784 at June 30, 2018. Business services, software and technology expense increased by $0.9 million, or 15.6%, as the Company continues to invest in the future with enhanced delivery of speed and access to our clients. In turn, the intangible amortization expense continued to decline and was down $0.6 million in the comparable period.

Financial Position

Total assets of $2.2 billion for the second quarter of 2018 were up $137.5 million or 6.7% from the second quarter of 2017; the period also included a shift of $50.3 million from cash and investments to the loan portfolio. Total assets were up $87.3 million or 4.2% from the first quarter of 2018 due primarily to a $68.2 million or 4.2% increase in loans, a $12.4 million increase in cash and due from banks, and a $11.4 million increase in loans held for sale; additionally, total assets was offset by a $8.9 million decrease in investment securities.

Loans at June 30, 2018, increased $204.5 million, or 13.6%, year-over-year, which includes $172.4 million in residential real estate originated by the mortgage division and retained on the balance sheet. In addition solid organic growth in the Company's commercial loan portfolio contributed an additional $25.8 million in net loan growth. Loan balances grew $68.2 million or 4.2% on a linked quarter-basis which was comprised of a $32.5 million, or 8.7%, increase in residential real estate loans and $20.8 million, or 4.4%, increase in commercial loans.

Investment securities totaled $250.5 million at June 30, 2018, down $8.9 million from the first quarter, and reflective of limited reinvestment of securities cash flows, specifically in mortgage backed securities.

Total deposits were $1.8 billion as of June 30, 2018, a decrease of $31.5 million or 1.7% over the linked quarter and an increase of $147.1 million or 9.0% from June 30, 2017. Year-over-year core deposit growth was strong at $172.1 million or 12.1%. Time deposits continued to decline and dropped $24.9 million or 11.6% since the prior year period, as the Company allowed higher rate single service accounts to roll off the balance sheet.

Short term borrowings were $112.3 million at June 30, 2018, a decrease of $19.4 million from a year ago. The increase from the first quarter when there were no short term borrowings is due to a seasonal low point in deposits and high demand on lines of credit within the loan portfolio.

Shareholders' equity of $186.3 million at June 30, 2018, was $7.8 million, or 4.4%, higher than the prior year period, a result of steady earnings generation; offset by a $4.5 million increase in other comprehensive loss due to unrealized losses in the investment portfolio attributable to a rising interest rate environment. The tangible common equity to tangible assets ratio decreased 5 basis points from the first quarter 2018 to 6.32%, as the other comprehensive loss increased $0.9 million during the quarter and asset growth outpaced earnings retention and intangible amortization. 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.

CAPITAL POSITION

(Dollars in thousands) (Unaudited)	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017
Total common stockholders' equity	$ 186,344	$ 183,055	$ 180,571	$ 182,140	$ 178,564
Tangible common equity to tangible assets	6.32%	6.37%	6.06%	6.30%	6.13%
Tangible common equity to risk-weighted assets	7.46%	7.50%	7.41%	7.36%	7.15%
Regulatory Capital: (1)					
Common equity tier 1 capital	$ 139,763	$ 134,274	$ 133,149	$ 132,860	$ 128,262
Tier 1 capital	147,734	142,217	141,037	140,710	136,130
Total risk-based capital	217,134	209,756	207,101	205,561	201,733
Regulatory Capital Ratios: (1)					
Common equity tier 1 capital ratio	7.76%	7.76%	7.83%	7.73%	7.55%
Tier 1 capital ratio	8.20%	8.22%	8.29%	8.18%	8.01%
Total risk-based capital ratio	12.06%	12.13%	12.17%	11.95%	11.87%
Tier 1 leverage ratio	7.07%	7.06%	7.07%	7.10%	7.06%

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

Asset Quality

Non-performing loan levels and trends continue to improve and remain minimal at 0.3% of total loans and other real estate. In the second quarter net charge-offs increased in the second quarter to total $2.1 million compared to $.1 million in the first quarter.

"Although the trends in nonperforming loans remain positive, classified loans have increased $29.6 million from a year-ago and $15.7 million from the first quarter. Classified credits require higher reserves under our disciplined methodology and because these credits were not isolated to one industry or market, overall reserves on non-classified credits were also increased," said Chairman, President, and Chief Executive Officer, Randy Newman.

ASSET QUALITY

(Dollars in thousands)

(Unaudited) **Non Performing Loans**	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017
Commercial:					
Commercial	$ 2,833	$ 2,643	$ 3,193	$ 2,129	$ 4,432
Commercial real estate	842	-	62	-	245
Total commercial	3,675	2,643	3,255	2,129	4,677
Consumer:					
Residential mortgages	921	2,093	2,534	3,708	3,964
Other consumer	19	28	84	43	26
Total consumer	940	2,121	2,618	3,751	3,990
Total nonperforming loans	$ 4,615	$ 4,764	$ 5,873	$ 5,880	$ 8,667
Other real estate	201	446	446	522	659
Other nonperforming assets	7	57	37	25	53
Total nonperforming assets	$ 4,823	$ 5,267	$ 6,356	$ 6,427	$ 9,379
Accruing loans 90 days or more past due	$ -	$ -	$ -	$ -	$ 107
Nonperforming assets to loans plus ORE	0.3%	0.3%	0.4%	0.4%	0.6%
Allowance for loan losses	$ 19,869	$ 18,023	$ 16,564	$ 15,367	$ 16,134
Allowance for loan losses to total nonperforming loans	431%	378%	282%	261%	186%
Net charge-offs YTD	$ 2,245	$ 71	$ 2,331	$ 2,208	$ 121
Net charge-offs to average loans	0.28%	0.02%	0.15%	0.18%	0.01%

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			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Tangible common equity to tangible assets					
Total stockholders' equity	$ 186,344	$ 183,055	$ 178,564		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	24,719	25,915	29,716		
Tangible common equity **(a)**	134,296	129,811	121,519		
Total assets	2,176,862	2,089,604	2,039,378		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	24,719	25,915	29,716		
Tangible assets **(b)**	2,124,814	2,036,360	1,982,333		
Tangible common equity to tangible assets **(a)/(b)**	6.32%	6.37%	6.13%		
Return on tangible common equity					
Net income	$ 5,599	$ 6,864	$ 4,570	$ 12,463	$ 9,521
Intangible amortization expense (net-of-tax)	945	945	943	1,890	1,962
Net income, excluding intangible amortization	6,544	7,809	5,513	14,353	11,483
Annualized net income, excluding intangible amortization **(c)**	26,248	31,670	22,111	28,944	23,156
Average total equity	185,197	182,008	178,001	183,611	175,075
Less: Average goodwill	27,329	27,329	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	19,988	20,934	19,774	20,458	24,653
Average tangible common equity **(d)**	137,880	133,745	130,898	135,824	123,093
Return on tangible common equity **(c)/(d)**	19.04%	23.68%	16.89%	21.31%	18.81%
Net interest margin (tax equivalent)					
Net interest income	$ 18,899	$ 18,142	$ 16,622	$ 37,041	$ 32,110
Tax equivalent adjustment	115	120	190	235	389
Tax equivalent net interest income **(e)**	19,014	18,262	16,812	37,276	32,499
Average earnings asset **(f)**	1,965,299	1,892,984	1,802,347	1,929,330	1,790,607
Net interest margin (tax equivalent) **(e)/(f)**	3.88%	3.91%	3.74%	3.90%	3.66%
Efficiency ratio					
Noninterest expense	33,808	32,270	33,772	66,078	66,293
Less: Intangible amortization expense	1,196	1,196	1,450	2,392	3,018
Adjusted noninterest expense **(g)**	32,612	31,074	32,322	63,686	63,275
Net interest income	18,899	18,142	16,622	37,041	32,110
Noninterest income	26,095	24,256	27,124	50,351	51,333
Tax equivalent adjustment	115	120	190	235	389
Total tax equivalent revenue **(h)**	45,109	42,518	43,936	87,627	83,832
Efficiency ratio **(g)/(h)**	72.30%	73.08%	73.57%	72.68%	75.48%

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			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Banking	$ 7,251	$ 8,727	$ 9,371	$ 15,978	$ 18,404
Mortgage	740	(195)	1,274	545	1,264
Retirement and Benefits	6,336	6,413	5,455	12,749	10,534
Wealth Management	1,883	1,693	1,642	3,576	3,022
Corporate Administration	(9,044)	(8,040)	(8,408)	(17,084)	(16,715)
Income before income taxes	7,166	8,598	9,334	15,764	16,509
Tax Expense	1,567	1,734	4,764	3,301	6,989
Net income	$ 5,599	$ 6,864	$ 4,570	$ 12,463	$ 9,520

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			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Condensed Income Statement					
Net interest income	$ 19,517	$ 18,875	$ 17,273	$ 38,392	$ 33,496
Noninterest income	1,846	1,603	1,817	3,449	3,481
Total net revenue	21,363	20,478	19,090	41,841	36,977
Provision for credit losses	4,020	1,530	640	5,550	640
Noninterest expense	10,093	10,220	9,080	20,313	17,933
Net income before income taxes	$ 7,250	$ 8,728	$ 9,370	$ 15,978	$ 18,404
Average Balance Sheet					
Total loans	$ 1,679,469	$ 1,604,212	$ 1,454,647	$ 1,642,049	$ 1,414,395
Goodwill	20,130	20,130	20,130	20,130	20,130
Other intangible assets	2,322	2,572	3,320	2,446	3,452
Total Assets	2,074,690	2,010,807	1,905,872	2,042,925	1,903,284
Deposits	1,751,828	1,749,481	1,666,424	1,750,661	1,682,494

Banking reported a decline in net income before taxes of $1.5 million in the second quarter of 2018 compared to the first quarter of 2018. The decrease was due to an increased provision expense of $2.5 million offset by an increase in net interest income of $0.6 million and noninterest income of $0.2 million.

Year-to-date results reflect a decline in net income before taxes of $2.4 million compared to the prior period due to a $4.9 million increase in provision expense. Net interest income increased $4.9 million as average loans grew $227.7 million from $1.4 billion to $1.6 billion and average deposits increased by $139.6 million, from $1.7 billion to $1.8 billion during the period. Noninterest expense rose 13.2% or $2.4 million in the first six months of 2018 compared to the same period in 2017, primarily due to an elevated intercompany expense of $1.8 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			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Condensed Income Statement					
Net interest income	$ 267	$ 138	$ 210	$ 405	$ 331
Noninterest income	5,630	3,464	6,674	9,094	10,416
Total net revenue	5,897	3,602	6,884	9,499	10,747
Noninterest expense	5,157	3,797	5,609	8,954	9,482
Net income before income taxes	$ 740	$ (195)	$ 1,275	$ 545	$ 1,265
Mortgage originations	$ 239,938	$ 147,673	$ 276,737	$ 387,611	$ 417,336
Purchase origination %	90.2%	72.2%	87.2%	83.4%	82.1%
Refinance origination %	9.8%	27.8%	12.8%	16.6%	17.9%

Mortgage division net income before taxes increased $0.9 million in the second quarter 2018 compared to the first quarter as origination volume jumped up 62.5% due to seasonality of the business. Noninterest expense increased $1.4 million due primarily to increases in incentive pay correlated to origination volume.

Net income before taxes declined $0.7 million due to decline in originations of 7.1% and the placement of $91.2 million of mortgage origination volume on the Company's balance sheet compared to $61.4 million a year ago. Noninterest expense declined $0.5 million which consisted of a decrease in incentives and various lending expenses correlated to volume declines.

Purchase originations increased in the second quarter to over 90% of the total volume and have increased for the year to over 83% of originations compared to 82% 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 $27.9 billion of Assets under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS					
(Dollars in thousands)					
(Unaudited)	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Condensed Income Statement					
Noninterest income	$ 15,394	$ 15,943	$ 15,555	$ 31,337	$ 31,114
Total net revenue	15,394	15,943	15,555	31,337	31,114
Noninterest expense	9,058	9,530	10,100	18,588	20,580
Net income before income taxes	$ 6,336	$ 6,413	$ 5,455	$ 12,749	$ 10,534
Assets under management	$ 2,077,383	$ 1,929,548	$ 1,299,826	$ 2,077,383	$ 1,299,826
Assets under administration	27,910,785	27,520,609	26,422,886	27,910,785	26,422,886

Retirement and Benefits net income decreased $0.1 million to $6.3 million for the second quarter of 2018 compared to net income of $6.4 million for the first quarter of 2018. Revenue decreased by $0.5 million due to repricing and profit margin compression on several large retirement plans, offset by a decline in noninterest expense of $0.5 million due to lower personnel and intangible amortization expense. Net income climbed $2.2 million, or 20.4%, from the first six months of 2017 compared to the first six months of 2018. Revenues were up $0.2 million or 0.7% while noninterest expense declined $1.9 million or 9.4%. The reduction in expense was due to a $1.0 million decline in allocation expense as the division is credited for sourcing the $103 million of health savings accounts which are being held on the banking division's balance sheet and a $0.6 million decrease in intangible amortization expense.

Wealth Management offers trust and fiduciary services, investment management and financial planning services to clients, and has over $2.7 billion of Assets under Management (AUM).

WEALTH MANAGEMENT					
(Dollars in thousands)					
(Unaudited)	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Condensed Income Statement					
Net interest income	$ 16	$ 14	$ 14	$ 30	$ 28
Noninterest income	3,764	3,775	3,599	7,539	7,147
Total net revenue	3,780	3,789	3,613	7,569	7,175
Noninterest expense	1,896	2,097	1,972	3,993	4,153
Net income before income taxes	$ 1,884	$ 1,692	$ 1,641	$ 3,576	$ 3,022
Assets under management	$ 2,672,342	$ 2,636,598	$ 2,478,089	$ 2,672,342	$ 2,478,089
Assets under administration	83,876	85,154	72,460	83,876	72,460
Internally managed assets	512,153	518,020	547,916	512,153	547,916

Wealth Management net income increased $0.2 million or 8.1% in the quarter of 2018 as a result of sustained revenue on a declining expense base of $1.9 million compared to $2.1 million in the first quarter. Results for the division improved $0.5 million or 18.3% in the first six months of 2018 compared to the first six months of 2017 as revenue grew $0.4 million or 5.5%, and expenses declined $0.2 million or 3.9% due primarily to reduced allocations as the division receives credit from the banking division for the agency money market it sources – totaling approximately $40.0 million for the period ended June 30, 2018.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	June 30, 2018	March 31, 2018	June 30, 2017
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 39,642	$ 27,206	$ 42,081
Investment securities			
Trading	1,907	1,918	1,963
Available-for-sale	248,612	257,485	296,475
Total investment securities	250,519	259,403	298,438
Mortgage loans held for sale	35,816	24,414	40,652
Loans	1,705,780	1,637,580	1,501,276
Allowance for loan losses	(19,869)	(18,023)	(16,134)
Net loans	1,685,911	1,619,557	1,485,142
Premises and equipment	21,589	20,919	22,839
Bank-owned life insurance	30,359	30,160	29,545
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	24,719	25,915	29,716
Deferred tax assets, net	11,732	10,708	15,353
Other assets	49,246	43,993	48,283
Total assets	$ 2,176,862	$ 2,089,604	$ 2,039,378
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 601,333	$ 570,180	$ 515,937
Interest-bearing	996,850	1,054,461	910,183
Time deposits	190,351	195,387	215,289
Total deposits	1,788,534	1,820,028	1,641,409
Short-term borrowings	112,260	-	131,630
Long-term debt	58,823	58,822	58,817
Accrued expenses and other liabilities	30,901	27,699	28,958
Total liabilities	1,990,518	1,906,549	1,860,814
Stockholders' equity			
Common stock and related surplus	40,442	39,942	39,337
Retained earnings	150,519	146,808	139,326
Accumulated other comprehensive loss, net	(4,617)	(3,695)	(99)
Total stockholders' equity	186,344	183,055	178,564
Total liabilities and equity	$ 2,176,862	$ 2,089,604	$ 2,039,378
Common shares outstanding	13,778	13,760	13,690
Book value per common share	$ 13.52	$ 13.30	$ 13.04

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

	Three months ended			Six months ended	
(Dollars and shares in thousands, except per share data)	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	$ 20,203	$ 18,815	$ 16,835	$ 39,018	$ 32,307
Investment securities	1,462	1,509	1,530	2,971	2,997
Other interest income	150	134	126	284	414
Total interest income	21,815	20,458	18,491	42,273	35,718
Interest Expense					
Deposits	1,455	1,236	869	2,691	1,737
Other borrowed funds	1,461	1,080	1,000	2,541	1,871
Total interest expense	2,916	2,316	1,869	5,232	3,608
Net interest income	18,899	18,142	16,622	37,041	32,110
Provision for loan losses	4,020	1,530	640	5,550	640
Net interest income after provision for loan losses	14,879	16,612	15,982	31,491	31,470
Noninterest Income					
Retirement and benefit services	15,394	15,943	15,555	31,337	31,114
Wealth management	3,764	3,775	3,599	7,539	7,147
Mortgage banking	5,224	3,009	6,284	8,233	9,843
Service charges on deposit accounts	429	462	453	891	885
Other	1,284	1,067	1,233	2,351	2,344
Total noninterest income	26,095	24,256	27,124	50,351	51,333
Noninterest Expense					
Salaries	17,366	15,784	17,386	33,150	32,774
Employee benefits	4,397	4,778	4,027	9,175	8,712
Occupancy and equipment expense	2,663	2,854	2,666	5,517	5,453
Business services, software and technology expense	3,271	3,465	2,685	6,736	5,828
Intangible amortization expense	1,196	1,196	1,450	2,392	3,018
Professional fees and assessments	909	1,197	1,882	2,106	3,131
Other	4,006	2,996	3,676	7,002	7,377
Total noninterest expense	33,808	32,270	33,772	66,078	66,293
Income before income taxes	7,166	8,598	9,334	15,764	16,510
Income tax expense	1,567	1,734	4,764	3,301	6,989
Net income	5,599	6,864	4,570	12,463	9,521
Less: Preferred dividends	-	-	-	-	-
Net income applicable to common stock	$ 5,599	$ 6,864	$ 4,570	$ 12,463	$ 9,521
Diluted earnings per common share	$ 0.40	$ 0.49	$ 0.33	$ 0.89	$ 0.68
Diluted average common shares outstanding	14,067	14,044	13,998	14,056	13,987

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.