

FOR RELEASE (04.26.2018—16:00)

ALERUS FINANCIAL CORPORATION REPORTS RECORD QUARTER RESULTS OF \$6.9 MILLION NET INCOME

GRAND FORKS, N.D. (April 26, 2018) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$6.9 million for the first quarter of 2018, or \$0.49 per diluted common share, compared to \$5.0 million or \$0.35 per diluted common share for the first quarter of 2017 and \$1.0 million or \$.07 per diluted common share for the fourth quarter of 2017. Return on average assets was 1.35% for the first quarter of 2018, compared with 1.03% for the first quarter of 2017 and 0.19% for the fourth quarter of 2017. Return on average common equity was 15.39% for the first quarter of 2018, compared with 11.61% for the first quarter of 2017 and 2.13% for the fourth quarter of 2017.

The net income increase of \$1.9 million between the first quarter of 2018 and the same period in 2017 was highlighted by the following:

- An increase of \$2.7 million or 17.1% 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
- a \$0.5 million or 22.0% decrease in income tax expense
- an increase in provision expense of \$1.5 million compared to \$0 in 2017 due primarily to loan growth
- a decrease of \$0.3 million in noninterest expense

Earnings comparisons between the first quarter of 2018 and the fourth quarter of 2017 were highlighted by the following:

- A \$6.4 million decrease in income tax expense
- a \$1.1 million decrease in non-interest expense due to a \$0.7 million decrease in charitable contributions and a \$0.5 million decrease in marketing and advertising expense, these expenses are typically lowest in the first quarter
- a \$1.7 million decrease in non-interest income related to a \$1.2 million decrease in the mortgage division, \$0.2 in other income and the wealth management division all driven by seasonally lower revenue

CEO Commentary

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, “We took advantage of two strategic and opportunistic acquisitions in early 2016, both the largest in our company’s history. As we have successfully integrated both of these companies, our core operating earnings have continued to increase quarter over quarter, and highlighted by a 23.9% return on average tangible common equity for the current quarter. The earnings of the Company continue to benefit from the execution of our One Alerus organic growth strategy and the related synergies it provides due to our diversified business model. Our continued strong core earnings, now lifted by tax reform, allow us to sustain our commitment to build our allowance of loan losses and reinvest in new technology necessary to compete long-term while simultaneously delivering bottom line returns to our stockholders.”

SELECTED FINANCIAL DATA

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

(Unaudited)

	QTD March 31, 2018	QTD December 31, 2017	QTD March 31, 2017	Mar 31, 2018 vs Dec 31, 2017	Mar 31, 2018 vs Mar 31, 2017
Net income	\$ 6,864	\$ 978	\$ 4,951	601.8 %	38.6 %
Earnings per share	\$ 0.49	\$ 0.07	\$ 0.35	600.0 %	40.0 %
Return on average assets	1.35%	0.19%	1.03%	610.5 %	31.1 %
Return on average common equity	15.39%	2.13%	11.61%	622.5 %	32.6 %
Net interest margin (tax equivalent)	3.91%	3.84%	3.58%	1.8 %	9.2 %
Efficiency ratio	73.08%	73.08%	77.60%	0.0 %	(5.8) %
Dividends declared per common share	\$ 0.13	\$ 0.12	\$ 0.12	8.3 %	8.3 %
Book value per common share	\$ 13.30	\$ 13.18	\$ 12.72	0.9 %	4.6 %

Results of Operations**Net interest income**

Net interest income in the first quarter of 2018 was \$18.1 million, an increase of \$2.7 million or 17.1% compared with \$15.5 million in the first quarter of 2017. Average earning assets of \$1.9 billion for the first quarter of 2018 were up \$114.9 million from the first quarter of 2017. Average loan balances grew 16.8% or \$230.6 million and the yields in the commercial loan portfolio surged by 36 basis points. These two factors contributed to most of the \$3.4 million increase or 22.2% in loan interest income.

The investment portfolio average balance declined \$13.8 million between the first quarters of 2018 and 2017, but the yield grew 8 basis points in the comparable period causing investment interest income to grow \$0.2 million between the comparable periods. Offsetting was a \$0.2 million decline in interest income from deposits with banks as the average balance decreased from \$108.2 million to \$9.3 million.

Interest expense increased \$0.6 million or 33.2% to \$2.3 million for the first quarter of 2018 from \$1.7 million for the same period in 2017, primarily due to a rise in the cost of interest bearing deposits of 11 basis points on an expanded average balance of \$24.5 million. Additionally, the average of balance short term borrowings rose to \$46 million, resulting in \$0.2 million of additional interest expense between the comparable periods.

The net interest margin calculated on a taxable-equivalent basis in the first quarter of 2018 was 3.91% or 33 basis points higher than the net interest margin of 3.58% in the first quarter of 2017. A higher yield received on investments and loans of 8 and 21 basis points, respectively offset an increase of 15 basis points on the cost of interest bearing liabilities.

Provision for loan losses

The provision for loan losses was \$1.5 million in the first quarter of 2018 compared to \$0 in the first quarter of 2017. The increase was driven by net loan growth of \$63.1 million during the quarter compared to \$28.1 million the first quarter of 2017. The provision for loan losses and credit quality were relatively stable compared to the fourth quarter of 2017.

“Our disciplined credit culture has paved the way for very strong credit quality. We have a low level of non-performing assets that have declined for the third consecutive quarter. 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; as such, we increased our provision for loan losses \$1.5 million in the first quarter of 2018,” said Chairman, President, and Chief Executive Officer, Randy Newman.

Noninterest Income

First quarter noninterest income was \$24.3 million, slightly above the first quarter of 2017 of \$24.2 million.

NONINTEREST INCOME

(Dollars in thousands)

(Unaudited)

	QTD March 31, 2018	QTD December 31, 2017	QTD March 31, 2017	Mar 31, 2018 vs Dec 31, 2017	Mar 31, 2018 vs Mar 31, 2017
Retirement and Benefits	\$ 15,943	\$ 16,033	\$ 15,559	(0.6) %	2.5 %
Wealth Management	3,775	3,980	3,549	(5.2) %	6.4 %
Mortgage Banking	3,009	4,237	3,560	(29.0) %	(15.5) %
Service charges on deposit accounts	462	500	432	(7.6) %	6.9 %
Other	1,067	1,244	1,118	(14.2) %	(4.6) %
Total noninterest income	<u>\$ 24,256</u>	<u>\$ 25,994</u>	<u>\$ 24,218</u>	<u>(6.7) %</u>	<u>0.2 %</u>

In the year-over-year comparison the retirement and benefits division revenue growth is attributable to the growth in assets under administration. Wealth management revenue increased due to organic growth of assets under management. The mortgage banking division revenue declined due to the placement of mortgage loans totaling \$47.6 million on the Company's balance sheet in the first quarter of 2018 compared to \$17.9 million in the comparable period of 2017.

"Although the revenue in the mortgage banking division has declined, our decision to retain a portion of the volume on the balance sheet has increased our net interest income and margin while allowing us to continue to meet our clients' needs and also maintain solid asset quality," said Chairman, President, and Chief Executive Officer, Randy Newman

Noninterest Expense

Total noninterest expense in the first quarter of 2018 was \$32.3 million, a slight decrease of \$0.3 million from the first quarter of 2017. Other expenses declined \$0.9 million in the comparable periods due primarily to a decrease in other real estate losses and write-downs of \$0.5 million, and a one-time legal settlement of \$0.4 million, all occurring in the first quarter of 2017; neither of these items existed in the first quarter of 2018. This decline was offset by a modest increase in salaries and employee benefits as the full time equivalents count remained stable at 776 on March 31, 2018, compared to 773 on March 31, 2017. Business services, software and technology expense expanded by \$0.3 million or 10.2% as the Company continues to invest in the future and delivery of speed and access to our clients. In turn, the intangible amortization expense continued to decline and was down \$0.4 million in the comparable period.

NONINTEREST EXPENSE

(Dollars in thousands)

(Unaudited)

	QTD March 31, 2018	QTD December 31, 2017	QTD March 31, 2017	Mar 31, 2018 vs Dec 31, 2017	Mar 31, 2018 vs Mar 31, 2017
Salaries	\$ 15,784	\$ 16,301	\$ 15,388	(3.2) %	2.6 %
Employee benefits	4,778	3,535	4,685	35.2 %	2.0 %
Net occupancy and equipment expense	2,854	2,730	2,786	4.5 %	2.4 %
Business services, software and technology expense	3,465	3,694	3,143	(6.2) %	10.2 %
Intangible amortization expense	1,196	1,196	1,564	- %	(23.5) %
Professional fees and assessments	1,197	1,537	1,249	(22.1) %	(4.2) %
Marketing and business development	578	1,619	554	(64.3) %	4.3 %
Supplies and postage	756	772	617	(2.1) %	22.5 %
Travel	355	457	289	(22.3) %	22.8 %
Mortgage and lending expenses	474	455	559	4.2 %	(15.2) %
Other	833	1,074	1,697	(22.4) %	(50.9) %
Total noninterest expense	<u>\$ 32,270</u>	<u>\$ 33,370</u>	<u>\$ 32,531</u>	<u>(3.3) %</u>	<u>(0.8) %</u>

Financial Position

Total assets of \$2.1 billion for the first quarter of 2018 were up \$85.1 million or 4.2% from the first quarter of 2017, the period also included a shift of \$129.6 million from cash to the loan portfolio. Total assets were down \$47.5 million or 2.2% from the fourth quarter of 2017 due a \$94.8 million decrease in cash balances.

Ending loans at March 31, 2018, increased \$242.6 million, or 17.4%, year-over-year, reflecting the retention of \$186.4 million in residential real estate from the secondary market to the balance sheet. In addition solid organic growth in the Company's commercial and commercial real estate lending portfolios contributed an additional \$36 million and \$29 million, respectively. Loan balances grew \$63.1 million or 4.0% on a linked quarter-basis which was comprised of a \$37.7 million or 8.5% increase in commercial loans and \$33.8 million or 11.0% increase in residential real estate loans.

Investment securities totaled \$259.4 million at March 31, 2018, down \$15 million from the fourth quarter, and reflective of limited reinvestment of securities cash flows, specifically in mortgage backed securities.

Total deposits were \$1.8 billion as of March 31, 2018, a decrease of \$14.9 million or 0.8% over the linked quarter and an increase of \$76.9 million or 4.4% from March 31, 2017. The decline in total deposits over the linked quarter was driven by the run-out of temporary deposits held at year end relating to terminated plans within the retirement and benefits division. Year-over-year core deposit growth was robust at \$104.2 million or 6.9%. Time deposits continued to decline and dropped \$27.3 million or 12.3% since the prior year period, as the Company allowed higher rate single service accounts to roll off the balance sheet.

Shareholders' equity of \$183.1 million at March 31, 2018, was \$9.9 million, or 5.7%, higher than the prior year period, a result of steady earnings generation; offset by a \$2.9 million increase in other comprehensive loss due to unrealized losses attributable to interest rate changes in the investment portfolio. The tangible common equity to tangible assets ratio had a buildup of 31 basis points from the fourth quarter 2017 to 6.37%. Regulatory capital ratios declined slightly on a linked quarter basis due to 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)

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total common stockholders' equity	\$ 183,055	\$ 180,571	\$ 182,140	\$ 178,564	\$ 173,149
Tangible common equity to tangible assets	6.37%	6.06%	6.30%	6.14%	5.89%
Tangible common equity to risk-weighted assets	7.50%	7.41%	7.36%	7.15%	7.18%

Regulatory Capital: ⁽¹⁾

Common equity tier 1 capital	\$ 134,274	\$ 133,149	\$ 132,860	\$ 128,262	\$ 121,905
Tier 1 capital	142,217	141,037	140,710	136,130	130,025
Total risk-based capital	209,756	207,101	205,561	201,733	195,232

Regulatory Capital Ratios: ⁽¹⁾

Common equity tier 1 capital ratio	7.76%	7.83%	7.73%	7.55%	7.64%
Tier 1 capital ratio	8.22%	8.29%	8.18%	8.01%	8.15%
Total risk-based capital ratio	12.13%	12.17%	11.95%	11.87%	12.23%
Tier 1 leverage ratio	7.06%	7.07%	7.10%	7.06%	6.82%

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

Dividend Increase

In February 2018, the Company declared a quarterly cash dividend of \$0.13 per share on its common stock, marking the 23rd consecutive year of dividend increases. 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."

Asset Quality

The Company continues to report strong asset quality metrics. Net charge-offs remained minimal at \$0.1 million for the first quarter of 2018 and fourth quarter of 2017, compared to a small net recovery of \$0.1 million in the first quarter of 2017.

Nonperforming loans as a percentage of total loans at March 31, 2018, were 0.4%, consistent with December 31, 2017, and improved from 0.6% at March 31, 2017. The allowance for loan losses to nonperforming loans was 326% at March 31, 2018, compared with the 282% and 196% levels at the end of the fourth quarter and first quarter of 2017, respectively.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Non Performing Loans					
Commercial:					
Commercial	\$ 2,684	\$ 3,193	\$ 2,129	\$ 4,432	\$ 2,379
Commercial real estate	542	62	-	245	1,001
Total commercial	3,226	3,255	2,129	4,677	3,380
Consumer:					
Residential mortgages	2,277	2,534	3,708	3,964	4,585
Other consumer	28	84	43	26	61
Total consumer	2,305	2,618	3,751	3,990	4,646
Total nonperforming loans	\$ 5,531	\$ 5,873	\$ 5,880	\$ 8,667	\$ 8,026
Other real estate	446	446	522	659	730
Other nonperforming assets	57	37	25	53	130
Total nonperforming assets	\$ 6,034	\$ 6,356	\$ 6,427	\$ 9,379	\$ 8,886
Accruing loans 90 days or more past due	\$ -	\$ -	\$ -	\$ 107	\$ 111
Nonperforming assets to loans plus ORE	0.4%	0.4%	0.4%	0.6%	0.6%
Allowance for loan losses	\$ 18,023	\$ 16,564	\$ 15,367	\$ 16,134	\$ 15,754
Allowance for loan losses to total nonperforming loans	326%	282%	261%	186%	196%
Net charge-offs QTD	\$ 72	\$ 123	\$ 2,087	\$ 260	\$ (139)
Net charge-offs YTD	\$ 72	\$ 2,331	\$ 2,208	\$ 121	\$ (139)
Net charge-offs to average loans	0.02%	0.15%	0.18%	0.01%	-0.04%

Non-GAAP Financial Measures

Non-GAAP financial measures disclosed by management are meant to provide additional information and insight relative to trends in the business to investors and, in certain cases, to present financial information as measured by rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from, or inconsistent with, non-GAAP financial measures used by other companies.

NON-GAAP FINANCIAL MEASURES

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

(Unaudited)

	QTD March 31, 2018	QTD December 31, 2017	QTD March 31, 2017
Return on tangible common equity			
Net income	\$ 6,864	\$ 978	\$ 4,951
Intangible amortization expense (net-of-tax)	945	777	1,017
Net income, excluding intangible amortization	7,809	1,755	5,968
Annualized net income, excluding intangible amortization (a)	31,670	6,963	23,677
Average total equity	180,919	181,829	175,181
Less: Average goodwill	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	20,934	16,615	19,198
Average tangible common equity	132,656	137,885	128,654
Return on tangible common equity (a)/(b)	23.87%	5.05%	18.40%
Tangible common equity to tangible assets			
Total stockholders' equity	\$ 183,055	\$ 180,571	\$ 173,149
Less: Goodwill	27,329	27,329	27,329
Less: Other intangible assets (ex: servicing assets)	25,915	27,111	31,165
Tangible common equity (c)	129,811	126,131	114,655
Total assets	2,089,604	2,137,058	2,004,479
Less: Goodwill	27,329	27,329	27,329
Less: Other intangible assets (ex: servicing assets)	25,915	27,111	31,165
Tangible assets (d)	2,036,360	2,082,618	1,945,985
Tangible common equity to tangible assets (c)/(d)	6.37%	6.06%	5.89%
Net interest margin (tax equivalent)			
Net interest income	\$ 18,142	\$ 17,814	\$ 15,488
Tax equivalent adjustment	120	219	199
Tax equivalent net interest income (e)	18,262	18,033	15,687
Average earnings asset (f)	1,892,984	1,865,435	1,778,092
Net interest margin (tax equivalent) (e)/(f)	3.91%	3.84%	3.58%
Efficiency ratio			
Noninterest expense	32,270	33,370	32,531
Less: Intangible amortization expense	1,196	1,196	1,564
Adjusted noninterest expense (g)	31,074	32,174	30,967
Net interest income	18,142	17,814	15,488
Noninterest income	24,256	25,994	24,218
Tax equivalent adjustment	120	219	199
Total tax equivalent revenue (h)	42,518	44,027	39,905
Efficiency ratio (g)/(h)	73.08%	73.08%	77.60%

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 the indirect overhead and income tax expense and is set forth in the table below along with the Consolidated Company net income. The business line net income does not include indirect allocations and income taxes.

NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Banking	\$ 8,727	\$ 10,309	\$ 9,034
Mortgage	(195)	1,192	(10)
Retirement and Benefits	6,413	5,595	5,080
Wealth Management	1,693	1,891	1,380
Corporate Administration	(8,040)	(9,869)	(8,309)
Income before income taxes	8,598	9,118	7,175
Tax Expense	1,734	8,140	2,224
Net income	\$ 6,864	\$ 978	\$ 4,951

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 products and services through a relationship-driven model supported by technology.

BANKING

(Dollars in thousands)

(Unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Condensed Income Statement			
Net interest income	\$ 18,875	\$ 18,472	\$ 16,223
Noninterest income	1,603	1,878	1,664
Total net revenue	20,478	20,350	17,887
Provision for credit losses	1,530	1,320	-
Noninterest expense	10,221	8,721	8,853
Net income before income taxes	\$ 8,727	\$ 10,309	\$ 9,034

Average Balance Sheet

Total loans	\$ 1,604,212	\$ 1,548,138	\$ 1,373,697
Goodwill	20,130	20,130	20,130
Other intangible assets	2,572	2,821	3,585
Total Assets	2,010,807	1,980,439	1,900,666
Deposits	1,749,481	1,692,929	1,698,742

Banking reported net income of \$8.7 million on revenue of \$20.5 million for the first quarter of 2018, down from net income of \$10.3 million on revenues of \$20.4 million during the fourth quarter of 2017. During the first quarter of 2018, Banking recorded \$1.5 million of provision for credit losses, which was comparable to the fourth quarter of 2017. Noninterest expense increased by \$1.5 million, compared with fourth quarter of 2017, due to seasonally higher employee benefits and tax expense. Average loans grew by \$56.1 million and average deposits decreased by \$56.6 million during the quarter. Average assets were comparable in both quarters at \$2.0 billion.

Division net income dropped 3.4% from \$9.0 million during the first quarter of 2017 to \$8.7 million in 2018. Increases in net interest income of \$2.7 million were partially offset by a bolstered provision expense of \$1.5 million. Noninterest expenses rose 15.4% from \$8.9 million in the first quarter of 2017 to \$10.2 million in 2018 primarily due to an elevated intercompany expense of \$1 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. In addition, marketing expense rose \$0.2 million while an increase in personnel expense of \$0.6 million was offset by a decrease in other real estate owned write-downs and losses of \$0.5 million. Average loans grew from \$1.37 billion to \$1.60 billion and average deposits increased by \$50.7 million, from \$1.70 billion to \$1.75 billion during the period.

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		
	March 31, 2018	December 31, 2017	March 31, 2017
Condensed Income Statement			
Net interest income	\$ 138	\$ 205	\$ 122
Noninterest income	3,464	4,766	3,742
Total net revenue	3,602	4,971	3,864
Noninterest expense	3,797	3,779	3,874
Net income before income taxes	\$ (195)	\$ 1,192	\$ (10)
Mortgage originations	\$ 147,673	\$ 196,441	\$ 140,599

Mortgage reported a net loss of \$0.2 million on revenue of \$3.6 million for the first quarter of 2018, as compared to net income of \$1.2 million on revenue of \$5.0 million for the fourth quarter of 2017. Mortgage originations for the quarter were \$147.7 million as compared to \$196.4 million for the fourth quarter of 2017. The seasonality of the mortgage market impacts volumes and the related revenue. Noninterest expense was comparable for the two quarters as the increase in employment taxes and benefits was offset by a decrease in incentives expense, due to the aforementioned seasonality.

Results for the first quarter of 2017 were near break-even compared to a net loss of \$0.2 million for the first quarter of 2018, despite a 5.0% increase in originations from \$140.6 million in the first quarter of 2017 to \$147.7 million in the first quarter of 2018. The decline in noninterest income between the two periods was due to a decline in gain on sale income of \$0.6 million offset by a credit from the banking division of \$0.3 million received for the mortgage loans originated and retained on the bank's balance sheet. Noninterest expense was consistent for the first quarters of 2018 and 2017.

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 \$27.5 billion of Assets under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS

(Dollars in thousands)

(Unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Condensed Income Statement			
Noninterest income	\$ 15,943	\$ 16,033	\$ 15,559
Total net revenue	15,943	16,033	15,559
Noninterest expense	9,530	10,438	10,479
Net income before income taxes	\$ 6,413	\$ 5,595	\$ 5,080
Assets under management	\$ 1,929,548	\$ 1,238,404	\$ 1,179,158
Assets under administration	27,520,609	28,127,961	25,816,019

Retirement and Benefits net income increased \$0.8 million to \$6.4 million for the first quarter of 2018 compared to net income of \$5.6 million for the fourth quarter of 2017. Revenue decreased marginally by \$0.1 million and noninterest expense declined \$0.9 million due to lower personnel and intangible amortization expense.

Net income climbed \$1.3 million or 26.2% to \$6.4 million from the first quarter of 2017 to 2018. An increase in revenue of \$0.4 million correlated to the change in AUA from \$25.8 billion in the first quarter of 2017 to \$27.5 billion at March 31, 2018, driven by favorable market conditions.

In addition, a \$0.9 million or 9.1% decline in noninterest expense between the comparable periods significantly benefited the bottom line for the division. The drop in expense was due to a \$0.4 million decline in allocations as the division received credit for the \$101 million of health savings accounts it has sourced and are being held on the banking division's balance sheet. In addition, intangible amortization expense declined \$0.4 million and salary and benefits expense dropped \$0.2 million between the comparable periods.

Wealth Management offers trust and fiduciary services, investment management and financial planning services to clients, and has over \$2.6 billion of Assets under Management (AUM).

WEALTH MANAGEMENT

(Dollars in thousands)

(Unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Condensed Income Statement			
Net interest income	\$ 14	\$ 15	\$ 14
Noninterest income	3,775	3,980	3,549
Total net revenue	3,789	3,995	3,563
Noninterest expense	2,096	2,104	2,183
Net income before income taxes	\$ 1,693	\$ 1,891	\$ 1,380
Assets under management	\$ 2,636,598	\$ 2,609,681	\$ 2,441,643
Assets under administration	85,154	92,285	81,512
Internally managed assets	518,020	529,778	520,180

Wealth Management net income declined \$0.2 million or 10.5% to \$1.7 million in the first quarter of 2018 resulting from a decrease in noninterest income related to seasonality of fees. Both noninterest expense and AUM were comparable for the two quarters.

First quarter year-over-year comparison net income improved from \$1.4 million on revenue of \$3.6 million for the first quarter of 2017 to \$1.7 million on revenue of \$3.8 million for the current quarter. Noninterest expenses was comparable for the two quarters. AUM grew from \$2.4 billion to \$2.6 billion due to business growth and market appreciation.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	March 31, 2018	December 31, 2017	March 31, 2017
Assets	(Unaudited)	(Audited)	(Unaudited)
Cash and due from banks	\$ 27,206	\$ 121,998	\$ 156,843
Investment securities			
Trading	1,918	1,945	1,958
Available-for-sale	257,485	272,466	273,453
Total investment securities	259,403	274,411	275,411
Mortgages held for sale	24,414	17,938	24,471
Loans	1,637,580	1,574,474	1,395,028
Allowance for loan losses	(18,023)	(16,564)	(15,754)
Net loans	1,619,557	1,557,910	1,379,274
Premises and equipment	20,919	21,229	23,378
Bank-owned life insurance	30,160	29,959	29,340
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	25,915	27,111	31,165
Deferred tax assets, net	10,708	9,213	18,840
Other assets	43,993	49,960	38,428
Total assets	<u>\$ 2,089,604</u>	<u>\$ 2,137,058</u>	<u>\$ 2,004,479</u>
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	\$ 570,180	\$ 619,333	\$ 524,599
Interest-bearing	1,054,461	1,011,368	995,799
Time deposits	195,387	204,261	222,707
Total deposits	1,820,028	1,834,962	1,743,105
Short-term borrowings	-	30,000	-
Long-term debt	58,822	58,819	58,815
Accrued expenses and other liabilities	27,699	32,706	29,410
Total liabilities	1,906,549	1,956,487	1,831,330
Stockholders' equity			
Common stock and related surplus	39,942	39,739	37,458
Retained earnings	146,808	141,963	136,440
Accumulated other comprehensive loss, net	(3,695)	(1,131)	(749)
Total stockholders' equity	183,055	180,571	173,149
Total liabilities and equity	<u>\$ 2,089,604</u>	<u>\$ 2,137,058</u>	<u>\$ 2,004,479</u>
Common shares outstanding	13,760	13,699	13,610
Book value per common share	<u>\$ 13.30</u>	<u>\$ 13.18</u>	<u>\$ 12.72</u>

Alerus Financial Corporation and Subsidiaries
Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	\$ 18,815	\$ 18,260	\$ 15,472
Investment securities	1,509	1,554	1,467
Other interest income	134	138	288
Total interest income	20,458	19,952	17,227
Interest Expense			
Deposits	1,236	989	868
Other borrowed funds	1,080	1,149	871
Total interest expense	2,316	2,138	1,739
Net interest income	18,142	17,814	15,488
Provision for loan losses	1,530	1,320	-
Net interest income after provision for loan losses	16,612	16,494	15,488
Noninterest Income			
Retirement and benefit services	15,943	16,033	15,559
Wealth management	3,775	3,980	3,549
Mortgage banking	3,009	4,237	3,560
Service charges on deposit accounts	462	500	432
Other	1,067	1,244	1,118
Total noninterest income	24,256	25,994	24,218
Noninterest Expense			
Salaries	15,784	16,301	15,388
Employee benefits	4,778	3,535	4,685
Net occupancy and equipment expense	2,854	2,730	2,786
Business services, software and technology expense	3,465	3,694	3,143
Intangible amortization expense	1,196	1,196	1,564
Professional fees and assessments	1,197	1,537	1,249
Other	2,996	4,377	3,716
Total noninterest expense	32,270	33,370	32,531
Income before income taxes	8,598	9,118	7,175
Income tax expense	1,734	8,140	2,224
Net income	6,864	978	4,951
Less: Preferred dividends	-	-	-
Net income applicable to common stock	\$ 6,864	\$ 978	\$ 4,951
Diluted earnings per common share	\$ 0.49	\$ 0.07	\$ 0.35
Diluted average common shares outstanding	14,044	14,024	13,975

About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiaries Alerus Financial, N.A. and Alerus Securities Corporation, offers business and consumer banking products and services, residential mortgage financing, employer-sponsored retirement plan and benefit administration, and wealth management including trust, brokerage, insurance, and asset management. Alerus Financial banking and wealth management offices are located in Grand Forks and Fargo, N.D., the Minneapolis-St. Paul, Minn. metropolitan area, Duluth, Minn., and Scottsdale, Ariz. Alerus Retirement and Benefits plan administration offices are located in St. Paul and Albert Lea, Minn., East Lansing and Troy, Mich., and Beford, 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.