Katie A. Lorenson, Chief Financial Officer
952.417.3725 (Office)

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ALERUS FINANCIAL CORPORATION REPORTS FOURTH QUARTER AND FULL YEAR 2018 RESULTS

GRAND FORKS, N.D. (January 24, 2019) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $6.0 million for the fourth quarter of 2018, or $0.43 per diluted common share, compared to $0.7 million or $0.05 per diluted common share for the fourth quarter of 2017 and $7.4 million or $0.52 per diluted common share for the third quarter of 2018. Net income for the full year reached a record high $25.9 million compared to $15.0 million in 2017.

RESULTS AND RATIOS

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

	Three months ended			Percent Change Dec 31, 2018 from		Twelve months ended		
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Percent Change
Return on average assets	1.10%	1.36%	0.13%	(19.1) %	746.2 %	1.21%	0.75%	61.3 %
Return on average common equity	12.31%	15.40%	1.42%	(20.1) %	766.9 %	13.76%	8.49%	62.1 %
Net income	$ 6,033	$ 7,370	$ 653	(18.1) %	823.5 %	$ 25,866	$ 15,001	72.4 %
Net interest margin (tax equivalent basis)	3.83%	3.86%	3.84%	(0.8) %	(0.1) %	3.86%	3.76%	2.8 %
Efficiency ratio	76.61%	73.16%	73.47%	4.7 %	4.3 %	73.80%	75.35%	(2.1) %
Diluted earnings per common share	$ 0.43	$ 0.52	$ 0.05	(17.3) %	760.0 %	$ 1.84	$ 1.07	72.0 %
Dividends declared per common share	$ 0.14	$ 0.13	$ 0.12	7.7 %	16.7 %	$ 0.53	$ 0.48	10.4 %
Book value per common share	$ 14.27	$ 13.87	$ 13.11	2.9 %	8.8 %			

Fourth Quarter 2018 Highlights

Net income was $6.0 million for the fourth quarter of 2018, which was $5.4 million higher than the fourth quarter of 2017 primarily related to the adjustment to deferred taxes for the enactment of the Tax Cuts and Jobs Act of 2017. Net income was $1.3 million lower than the third quarter of 2018 due to a $1.6 million increase in noninterest expense, offset by a $0.3 million increase in net interest income.

- Loan growth of $9.2 million, or 0.5 percent, which includes a $17.3 million increase in residential real estate loans and a $2.1 million decrease in commercial loans
- Deposits decreased $18.4 million, or 1.0 percent, to $1.8 billion due to seasonality in the public funds portfolio
- Short-term borrowings increased $19.5 million
- Assets under administration (AUA) decreased $2.7 billion, or 9.4 percent, to $25.9 billion
- Assets under management (AUM) decreased $270 million, or 5.6 percent, to $4.6 billion
- Mortgage originations totaled $169.8 million, compared to $222.3 million for the third quarter of 2018

Full Year Highlights

Net income of $25.9 million for 2018 reflects an increase of $10.9 million from 2017. Income tax expense decreased $10.3 million on an increase of pre-tax net income of $0.5 million. Net interest income increased $7.6 million or 11.2 percent 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. This increase was partially offset by a $5.3 million increase in provision expense due to increasing levels of classified loans and loan growth. Non-interest income was flat year-over-year and non-interest expense increased by $1.4 million as investments in talent and technology offset decreases in professional fees and intangible expense.

- Loans increased $159.4 million, or 10.1 percent, year-over-year. Residential real estate loans originated by the mortgage division and retained on the balance sheet made up approximately 71 percent or $114 million of this increase. The Company's commercial loan portfolio contributed an additional $45.1 million in net loan growth.
- Deposits were $1.8 billion as of December 31, 2018, a decrease of $35.7 million or 1.9 percent from December 31, 2017. The decrease was directly correlated to cash held for terminated plans from the retirement division. These temporary balances were $31 million less at year-end 2018 compared to December 31, 2017. Year-over-year core deposits decreased $5.9 million or 0.4 percent to $1.6 billion. Time deposits decreased $29.8 million or 14.6 percent since the prior year period, as the Company allowed higher rate single service accounts to roll off the balance sheet. In contrast, the low cost health savings account portfolio grew $11 million during the year or nearly 12 percent. Deposits decreased $18.4 million, or 1.0 percent from the prior quarter, to $1.8 billion due to seasonality in the public funds portfolio.
- Short term borrowings were $93.5 million at December 31, 2018, an increase of $63.5 million from a year ago.
- Assets under administration and management within the retirement division decreased more than $1.5 billion during 2018. Market losses for the year were nearly $800 million. Outflows including distributions, terminated plans and lost business totaled $3.6 billion and outpaced contributions and new business of $2.8 billion.
- Assets under management within the wealth management division decreased $60 million, or 2.2 percent, to $2.5 billion. Inflows outpaced outflows in all solutions but were muted by a decline in market values.
- Mortgage originations totaled $779.7 million, compared to $867.3 million in 2017, a decline of 10.1 percent.

CEO Comments

Chairman, President, and Chief Executive Officer Randy Newman said, "We are very proud of our record financial performance in 2018. Our company continues to remain focused on performing at a high level, while simultaneously preparing for our future by building new technology solutions and engaging our workforce through our One Alerus organic growth strategy. As we look at trends within our industry, changing client behaviors, and competitive pressure, our company continues to balance growth and profitability with investments in our future."

Results of Operations

NET INTEREST INCOME

(Taxable-equivalent basis; $ in thousands)	4Q 2018	3Q 2018	4Q 2017	Change 4Q18 vs 3Q18	Change 4Q18 vs 4Q17	Full Year 2018	Full Year 2017	Change
Components of net interest income								
Income on earning assets	$ 23,230	$ 22,198	$ 19,952	$ 1,032	$ 3,278	$ 87,702	$ 75,637	$ 12,065
Expense on interest-bearing liabilities	3,979	3,269	2,138	710	1841	12,478	7,967	4,511
Net interest income	$ 19,251	$ 18,929	$ 17,814	$ 322	$ 1,437	$ 75,224	$ 67,670	$ 7,554
Average yields and rates paid								
Earning assets yield	4.62 %	4.48 %	4.36 %	0.14 %	0.26 %	4.50 %	4.20 %	0.30 %
Rate paid on interest-bearing liabilities	1.11	0.94	0.64	0.17	0.47	0.90	0.61	0.29
Gross interest margin	3.51 %	3.54 %	3.72 %	(0.03) %	(0.21) %	3.60 %	3.59 %	0.01 %
Net interest margin	3.83 %	3.82 %	3.90 %	0.01 %	(0.07) %	3.86 %	3.76 %	0.10 %
Average balances								
Investment securities (a)	$ 252,030	$ 248,568	$ 281,081	$ 3,462	$ (29,051)	$ 255,247	$ 286,313	$ (31,066)
Loans	1,726,524	1,699,048	1,548,690	27,476	177,834	1,677,885	1,475,042	202,843
Earning assets	2,004,569	1,977,314	1,865,715	27,255	138,854	1,960,721	1,824,799	135,922
Interest-bearing liabilities	1,423,484	1,381,769	1,334,232	41,715	89,252	1,384,063	1,307,089	76,974

(a) Excludes unrealized gain (loss)

Net interest income for the fourth quarter was $19.3 million, an increase of $0.3 million or 1.7 percent on a linked quarter basis. The net interest margin increased to 3.83 percent from 3.82 percent as rate increases in the deposit portfolio absorbed higher yields on loans.

Net interest income in the fourth quarter increased $1.4 million or 8.1 percent when compared with $17.8 million in the fourth quarter of 2017. The increase was attributed to an increase in average loans of $177.8 million and an increase in loan yields from 4.77 percent to 4.93 percent. The increase in loans yields was partially offset by a forty basis point rate increase on transaction deposits and higher rates on time deposits and short term borrowings.

The net interest margin calculated on a tax-equivalent basis for the full year of 2018 was 3.86 percent, compared to 3.76 percent for the same period a year ago. The increase of $7.6 million in net interest income was driven primarily by higher yields on the loan portfolio which rose from 4.64 percent in the twelve months ended December 31, 2017, to 4.81 percent at December 31, 2018. In addition, earning assets grew from $1.8 billion to $2.0 billion as the loan portfolio average balance increased $202.8 million, offset by a $31.2 million and $31.1 million decrease in interest bearing deposits in banks and investment securities, respectively. The cost of interest bearing liabilities climbed from a 2017 rate of 0.61 percent to 0.90 percent for the year-ended December 31, 2018, and average balances increased $77.0 million resulting in $4.5 million of additional interest expense in 2018.

Noninterest Income

Fourth quarter noninterest income was $26.1 million, up 1.5 percent from the fourth quarter of 2017 and 0.4 percent lower than the third quarter of 2018. These year-to-date totals were relatively flat with a $0.3 million or 0.3 percent decrease in 2018 compared to 2017.

NONINTEREST INCOME

(Dollars in thousands)
(Unaudited)

	Three months ended			Percent Change Dec 31, 2018 from		Twelve months ended		
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Percent Change
Retirement and Benefits	$ 16,443	$ 15,536	$ 16,033	5.8 %	2.6 %	$ 63,316	$ 62,390	1.5 %
Wealth Management	4,054	3,824	3,980	6.0 %	1.9 %	15,418	14,660	5.2 %
Mortgage Banking	4,074	5,322	4,237	(23.4) %	(3.8) %	17,625	19,748	(10.8) %
Service charges on deposit accounts	475	442	500	7.5 %	(5.0) %	1,808	1,854	(2.5) %
Other	1,097	1,137	1,010	(3.5) %	8.6 %	4,582	4,393	4.3 %
Total noninterest income	$ 26,143	$ 26,261	$ 25,760	(0.4) %	1.5 %	$ 102,749	$ 103,045	(0.3) %

Noninterest income for the fourth quarter was flat on a linked quarter basis as a decrease in mortgage revenue due to seasonally lower originations was offset by an increase in retirement and benefits revenue and wealth management revenue. Non-interest income increased $0.4 million or 1.5 percent in the fourth quarter of 2018 compared to the same period in 2017 as the retirement and benefits division revenue increase offset the decline in mortgage revenues.

Revenue increases in the retirement and wealth management divisions nearly offset the decline in mortgage revenue in 2018 compared to 2017. The decline in mortgage revenue was primarily due to $87.5 million of lower mortgage production in 2018.

Noninterest Expense

Total noninterest expense in the fourth quarter of 2018 was $35.9 million, up 7.6 percent when compared to the fourth quarter of 2017. Noninterest expense was $1.6 million, or 4.6 percent, higher than the third quarter of 2018.

NONINTEREST EXPENSE

(Dollars in thousands)

(Unaudited)

	Three months ended			Percent Change Dec 31, 2018 from		Twelve months ended		
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Percent Change
Compensation	$ 18,458	$ 17,795	$ 16,301	3.7 %	13.2 %	$ 69,403	$ 67,576	2.7 %
Employee benefits	4,299	4,392	3,535	(2.1) %	21.6 %	17,866	16,490	8.3 %
Occupancy and equipment expense	2,871	2,698	2,730	6.4 %	5.2 %	11,086	10,892	1.8 %
Business services, software and technology expense	4,059	3,731	3,694	8.8 %	9.9 %	14,525	12,976	11.9 %
Intangible amortization expense	1,050	1,196	1,196	(12.2) %	(12.2) %	4,638	5,623	(17.5) %
Professional fees and assessments	1,364	1,628	1,537	(16.2) %	(11.3) %	5,098	6,158	(17.2) %
Marketing and business development	1,021	857	1,618	19.1 %	(36.9) %	3,459	3,271	5.7 %
Supplies and postage	834	611	772	36.5 %	8.0 %	2,737	2,609	4.9 %
Travel	486	382	457	27.2 %	6.3 %	1,738	1,530	13.6 %
Mortgage and lending expenses	556	437	455	27.2 %	22.2 %	2,153	2,235	(3.7) %
Other	913	612	1,075	49.2 %	(15.1) %	3,622	5,560	(34.9) %
Total noninterest expense	$ 35,911	$ 34,339	$ 33,370	4.6 %	7.6 %	$ 136,325	$ 134,920	1.0 %

Noninterest expense increased $1.4 million in the twelve months ended 2018 compared to the same period a year ago. Compensation expense increased $1.8 million during 2018 consistent with the addition of 38 full time equivalent employees in 2018. Employee benefits expense also increased $1.4 million which included insurance cost increases of $0.7 million or more than 10 percent. Technology expense increased $1.5 million in 2018 which includes significant investments in software related to the Company's One Alerus organic growth strategy, partially offset by a decrease in intangible amortization expense of $1 million. The absence of non-recurring expenses in 2018 facilitated a decline of $1.1 million in professional fees and a $1.9 million decrease in other expenses compared to the same period of 2017.

Income Taxes

Income tax expense for the fourth quarter of 2018 resulted in an effective tax rate of 24.1 percent, compared with an effective tax rate of 92.6 percent in the fourth quarter of 2017, and an effective tax rate of 20.9 percent in the third quarter of 2018. The elevated tax rate in the fourth quarter of 2017 reflected the impact of tax reform legislation that was enacted during that quarter. The 2018 tax rates reflected the reduced statutory tax rate for corporations from 35 percent to 21 percent effective beginning in 2018. The third quarter of 2018 tax rates reflected a $0.3 million favorable impact of a cost segregation study.

Credit Quality

Total provision for loan losses expense was $8.6 million in 2018 compared to $3.3 million in 2017. Provision expense was consistently $1.5 million per quarter in 2018 with the exception of the second quarter where total provision expense was $4.0 million due to charge-offs totaling $2.2 million and an increase in classified loans. Net charge-offs stabilized the remainder of the year and totaled $3.0 million in 2018 or 0.18 percent.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

Non Performing Loans	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31 2017
Commercial:					
Commercial	$ 3,578	$ 2,174	$ 2,833	$ 2,643	$ 3,193
Commercial real estate	1,517	2,372	842	-	62
Total commercial	5,095	4,546	3,675	2,643	3,255
Consumer:					
Residential mortgages	1,846	1,015	1,199	2,093	2,534
Other consumer	22	41	19	28	84
Total consumer	1,868	1,056	1,218	2,121	2,618
Total nonperforming loans	$ 6,963	$ 5,602	$ 4,893	$ 5,873	$ 5,873
Other real estate	169	169	201	446	446
Other nonperforming assets	35	111	7	57	37
Total nonperforming assets	$ 7,167	$ 5,882	$ 5,101	$ 6,376	$ 6,356
Accruing loans 90 days or more past due	$ -	$ -	$ -	$ -	$ -
Nonperforming assets to loans plus ORE	0.4%	0.3%	0.3%	0.3%	0.4%
Allowance for loan losses	$ 22,174	$ 21,012	$ 19,869	$ 18,023	$ 16,564
Allowance for loan losses to total nonperforming loans	318%	375%	431%	378%	282%
Net charge-offs QTD	$ 367	$ 388	$ 2,174	$ 71	$ 123
Net charge-offs YTD	$ 3,000	$ 2,633	$ 2,245	$ 71	$ 2,331
Net charge-offs to average loans	0.18%	0.21%	0.28%	0.02%	0.15%

Capital Position

Shareholders' equity of $196.6 million at December 31, 2018, was $17.0 million, or 9.4 percent, higher than the prior year period, a result of steady earnings generation; offset by a $2.5 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 increased 28 basis points from the third quarter 2018 to 6.89 percent, as other comprehensive loss decreased $2.0 million during the quarter. Regulatory capital ratios increased compared to the year-ended 2017, 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)		Dec. 31, 2018		Sept. 30, 2018		June 30, 2018		March 31, 2018		Dec. 31 2017
Total common stockholders' equity	$	196,559	$	191,059	$	186,344	$	183,055	$	180,571
Tangible common equity to tangible assets		6.89%		6.61%		6.32%		6.37%		6.06%
Tangible common equity to risk-weighted assets		8.15%		7.76%		7.46%		7.50%		7.41%
Regulatory Capital:										
Common equity tier 1 capital	$	151,293	$	146,754	$	139,764	$	134,274	$	133,149
Tier 1 capital		159,307		154,758		147,735		142,217		141,037
Total risk-based capital		231,044		225,317		217,135		209,756		207,101
Regulatory Capital Ratios:										
Common equity tier 1 capital ratio		8.40%		8.12%		7.76%		7.76%		7.83%
Tier 1 capital ratio		8.84%		8.57%		8.20%		8.22%		8.29%
Total risk-based capital ratio		12.83%		12.47%		12.06%		12.13%		12.17%
Tier 1 leverage ratio		7.49%		7.37%		7.07%		7.06%		7.07%

On August 28, 2018, the Federal Reserve Board (the “Board”) issued an interim final rule expanding the applicability of the Board's small bank holding company policy statement, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. The interim final rule raises the small bank holding company policy statement's asset threshold from $1 billion to $3 billion in total consolidated assets, and as a result, our holding company was exempted from all regulatory capital guidelines, to which it previously had been subject, until such time as its consolidated assets exceed $3 billion.

Revisions of Previously-Issued Financial Statements

During the fourth quarter of fiscal year 2018, the Company reassessed the value of its Visa Class B stock. As a part of this reassessment, the Company determined there were revisions which affected prior periods, and recording the adjustment cumulatively in fiscal year 2018 would materially misstate the Company’s consolidated statement of income for the year ended December 31, 2018. Accordingly, the Company’s financial results for all prior periods presented herein have been restated to reflect this reassessment. These restatements were immaterial to each of the prior reporting periods affected.

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			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Tangible common equity to tangible assets					
Total stockholders' equity	$ 196,559	$ 191,059	$ 179,594		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	22,473	23,523	27,111		
Tangible common equity **(a)**	146,757	140,207	125,154		
Total assets	2,179,070	2,172,798	2,136,081		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	22,473	23,523	27,111		
Tangible assets **(b)**	2,129,268	2,121,946	2,081,641		
Tangible common equity to tangible assets **(a)/(b)**	6.89%	6.61%	6.01%		
Return on tangible common equity					
Net income	$ 6,033	$ 7,370	$ 653	$ 25,866	$ 15,001
Intangible amortization expense (net-of-tax)	830	945	777	3,664	3,655
Net income, excluding intangible amortization	6,863	8,315	1,430	29,530	18,656
Annualized net income, excluding intangible amortization **(c)**	27,228	32,989	5,674	29,530	18,656
Average total equity	194,444	189,900	181,911	187,927	176,778
Less: Average goodwill	27,329	27,329	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	18,156	19,041	17,999	19,522	19,358
Average tangible common equity **(d)**	148,959	143,530	136,583	141,076	130,091
Return on tangible common equity **(c)/(d)**	18.28%	22.98%	4.15%	20.93%	14.34%
Net interest margin (tax equivalent)					
Net interest income	$ 19,251	$ 18,929	$ 17,814	$ 75,224	$ 67,670
Tax equivalent adjustment	113	114	219	462	884
Tax equivalent net interest income **(e)**	19,364	19,043	18,033	75,686	68,554
Average earnings asset **(f)**	2,004,561	1,976,454	1,865,435	1,959,837	1,824,288
Net interest margin (tax equivalent) **(e)/(f)**	3.83%	3.86%	3.84%	3.86%	3.76%
Efficiency ratio					
Noninterest expense	35,911	34,339	33,370	136,325	134,920
Less: Intangible amortization expense	1,050	1,196	1,196	4,638	5,623
Adjusted noninterest expense **(g)**	34,861	33,143	32,174	131,687	129,297
Net interest income	19,251	18,929	17,814	75,224	67,670
Noninterest income	26,143	26,261	25,760	102,749	103,045
Tax equivalent adjustment	113	114	219	462	884
Total tax equivalent revenue **(h)**	45,507	45,304	43,793	178,435	171,599
Efficiency ratio **(g)/(h)**	76.61%	73.16%	73.47%	73.80%	75.35%

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			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Banking	$ 8,331	$ 9,325	$ 10,309	$ 33,634	$ 38,281
Mortgage	117	593	1,192	1,254	3,040
Retirement and Benefits	7,666	6,487	5,595	26,902	20,413
Wealth Management	2,399	2,132	1,891	8,107	6,541
Corporate Administration	(10,560)	(9,216)	(10,103)	(36,859)	(35,760)
Income before income taxes	7,953	9,321	8,884	33,038	32,515
Tax Expense	1,920	1,951	8,231	7,172	17,514
Net income	$ 6,033	$ 7,370	$ 653	$ 25,866	$ 15,001

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

BANKING					
(Dollars in thousands)					
(Unaudited)	Three months ended			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Condensed Income Statement					
Net interest income	$ 19,960	$ 19,568	$ 18,472	$ 77,919	$ 70,377
Noninterest income	1,761	1,710	1,878	6,921	7,180
Total net revenue	21,721	21,278	20,350	84,840	77,557
Provision for credit losses	1,530	1,530	1,320	8,610	3,280
Noninterest expense	11,860	10,423	8,722	42,596	35,996
Net income before income taxes	$ 8,331	$ 9,325	$ 10,308	$ 33,634	$ 38,281
Average Balance Sheet					
Total loans	$ 1,726,083	$ 1,698,610	$ 1,548,138	$ 1,677,487	$ 1,474,774
Goodwill	20,130	20,130	20,130	20,130	20,130
Other intangible assets	1,822	2,072	2,821	2,195	3,200
Total Assets	2,105,664	2,077,656	1,975,468	2,064,476	1,931,618
Deposits	1,801,015	1,764,940	1,692,929	1,766,952	1,664,022

Banking reported a decrease in net income before taxes of $1.0 million in the fourth quarter of 2018 compared to the third quarter of 2018, primarily due to an increase in noninterest expense of $1.4 million.

Year-to-date results reflect a decline in net income before taxes of $4.6 million compared to the prior period due to a $5.3 million increase in provision expense. Net interest income increased $7.5 million as average loans grew $202.7 million from $1.5 billion to $1.7 billion and average deposits increased by $102.9 million, from $1.7 billion to $1.8 billion during the period. Noninterest expense rose 18.3 percent or $6.6 million in the twelve months of 2018 compared to the same period in 2017, primarily due to the intercompany expense of $6.3 million which is allocated 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 the Minneapolis, Minnesota market as well as through the Banking office locations.

MORTGAGE

(Dollars in thousands)

(Unaudited)	Three months ended			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Condensed Income Statement					
Net interest income	$ 181	$ 248	$ 205	$ 834	$ 740
Noninterest income	4,327	5,673	4,766	19,094	21,402
Total net revenue	4,508	5,921	4,971	19,928	22,142
Noninterest expense	4,390	5,319	3,779	18,674	19,102
Net income before income taxes	$ 118	$ 602	$ 1,192	$ 1,254	$ 3,040
Mortgage originations	$ 169,768	$ 222,330	$ 196,441	$ 779,708	$ 867,253
Purchase origination %	80.2%	84.7%	70.3%	83.4%	79.8%
Refinance origination %	19.8%	15.3%	29.7%	16.6%	20.2%

Mortgage division net income before taxes decreased $0.5 million during the fourth quarter 2018 compared to the third quarter as origination volume fell 23.6 percent due to seasonality of the business.

Net income before taxes declined $1.8 million primarily due to decline in originations of 10.1 percent. Noninterest expense declined $0.4 million which consisted of a decrease in incentives and various lending expenses correlated to volume declines.

Purchase originations decreased in the fourth quarter to 80.2 percent of the total volume but have increased for the year, to over 83.4 percent of originations compared to 79.8 percent a year ago.

Retirement and Benefits offers retirement plan administration and investment advisory services, ESOP fiduciary services, payroll, health savings account, and other benefit services to clients nationwide. The Retirement and Benefits segment has over $25.8 billion of Assets under Administration (AUA) in all 50 states.

RETIREMENT AND BENEFITS

(Dollars in thousands)
(Unaudited)

	Three months ended			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Condensed Income Statement					
Noninterest income	$ 16,443	$ 15,536	$ 16,033	$ 63,316	$ 62,390
Total net revenue	16,443	15,536	16,033	63,316	62,390
Noninterest expense	8,777	9,049	10,438	36,414	41,977
Net income before income taxes	$ 7,666	$ 6,487	$ 5,595	$ 26,902	$ 20,413
Assets under management	$ 2,034,674	$ 2,094,689	$ 1,238,404	$ 2,034,674	$ 1,238,404
Assets under administration	25,777,475	28,447,331	28,127,961	25,777,475	28,127,961

Retirement and Benefits net income increased $1.2 million to $7.7 million for the fourth quarter of 2018 compared to net income of $6.5 million for the third quarter of 2018. Revenue increased by $0.9 million, while noninterest expense decreased $0.3 million. Net income climbed $6.5 million, or 31.8 percent, for the twelve months of 2018 compared to the twelve months of 2017. Revenues were up $0.9 million or 1.5 percent while noninterest expense declined $5.6 million or 13.3 percent. The reduction in expense was due to a $3.2 million decline in allocation expense as the division is credited for sourcing the $105 million of health savings accounts which are being held on the banking division's balance sheet and a $0.7 million decrease in intangible amortization expense.

Wealth Management offers trust and fiduciary services, investment management and financial planning services to clients, and has over $2.5 billion of Assets under Management (AUM).

WEALTH MANAGEMENT

(Dollars in thousands)
(Unaudited)

	Three months ended			Twelve months ended	
	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Condensed Income Statement					
Net interest income	$ 15	$ 17	$ 15	$ 62	$ 57
Noninterest income	4,054	3,824	3,980	15,418	14,660
Total net revenue	4,069	3,841	3,995	15,480	14,717
Noninterest expense	1,671	1,709	2,105	7,373	8,176
Net income before income taxes	$ 2,398	$ 2,132	$ 1,890	$ 8,107	$ 6,541
Assets under management	$ 2,549,685	$ 2,759,417	$ 2,609,681	$ 2,549,685	$ 2,609,681
Assets under administration	77,130	87,700	92,285	77,130	92,285
Internally managed assets	494,487	531,490	529,778	494,487	529,778

Wealth Management net income before taxes increased $0.3 million or 12.5 percent in the fourth quarter of 2018 as a result of increasing revenue on a stable expense base of $1.7 million. The division recorded record results in 2018 with a $1.6 million or 23.9 percent increase in pre-tax net income compared to year to date results of 2017. Revenue grew $0.8 million or 5.2 percent, and expenses declined $0.8 million or 9.8 percent, due primarily to a reduction in allocations correlated to the credit received from the banking division for sourced deposits.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	Dec 31, 2018	Sept 30, 2018	Dec 31, 2017
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 40,651	$ 35,837	$ 121,998
Investment securities			
Trading	1,539	1,894	1,945
Available-for-sale	253,339	244,493	272,466
Total investment securities	254,878	246,387	274,411
Mortgage loans held for sale	14,486	27,672	17,938
Loans	1,733,881	1,724,656	1,574,474
Allowance for loan losses	(22,174)	(21,012)	(16,564)
Net loans	1,711,707	1,703,644	1,557,910
Premises and equipment	21,743	21,185	21,229
Bank-owned life insurance	30,763	30,561	29,959
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	22,473	23,523	27,111
Deferred tax assets, net	10,085	12,631	9,213
Other assets	44,955	44,029	48,983
Total assets	$ 2,179,070	$ 2,172,798	$ 2,136,081
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 563,130	$ 554,876	$ 619,333
Interest-bearing	1,061,709	1,041,487	1,011,368
Time deposits	174,454	221,346	204,261
Total deposits	1,799,293	1,817,709	1,834,962
Short-term borrowings	93,460	73,930	30,000
Long-term debt	58,824	58,824	58,819
Accrued expenses and other liabilities	30,934	31,276	32,706
Total liabilities	1,982,511	1,981,739	1,956,487
Stockholders' equity			
Common stock and related surplus	41,123	40,671	39,739
Retained earnings	159,037	156,027	140,986
Accumulated other comprehensive loss, net	(3,601)	(5,639)	(1,131)
Total stockholders' equity	196,559	191,059	179,594
Total liabilities and equity	$ 2,179,070	$ 2,172,798	$ 2,136,081
Common shares outstanding	13,775	13,776	13,699
Book value per common share	$ 14.27	$ 13.87	$ 13.11

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended Dec 31, 2018	Three months ended Sept 30, 2018	Three months ended Dec 31, 2017	Twelve months ended Dec 31, 2018	Twelve months ended Dec 31, 2017
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	$ 21,564	$ 20,576	$ 18,260	$ 81,159	$ 68,799
Investment securities	1,502	1,431	1,554	5,904	6,129
Other interest income	164	191	138	639	709
Total interest income	23,230	22,198	19,952	87,702	75,637
Interest Expense					
Deposits	2,511	1,790	989	6,991	3,520
Other borrowed funds	1,468	1,479	1,149	5,487	4,447
Total interest expense	3,979	3,269	2,138	12,478	7,967
Net interest income	19,251	18,929	17,814	75,224	67,670
Provision for loan losses	1,530	1,530	1,320	8,610	3,280
Net interest income after provision for loan losses	17,721	17,399	16,494	66,614	64,390
Noninterest Income					
Retirement and benefit services	16,443	15,536	16,033	63,316	62,390
Wealth management	4,054	3,824	3,980	15,418	14,660
Mortgage banking	4,074	5,322	4,237	17,625	19,748
Service charges on deposit accounts	475	442	500	1,808	1,854
Other	1,097	1,137	1,010	4,582	4,393
Total noninterest income	26,143	26,261	25,760	102,749	103,045
Noninterest Expense					
Compensation	18,458	17,795	16,301	69,403	67,576
Employee benefits	4,299	4,392	3,535	17,866	16,490
Occupancy and equipment expense	2,871	2,698	2,730	11,086	10,892
Business services, software and technology expense	4,059	3,731	3,694	14,525	12,976
Intangible amortization expense	1,050	1,196	1,196	4,638	5,623
Professional fees and assessments	1,364	1,628	1,537	5,098	6,158
Other	3,810	2,899	4,377	13,709	15,205
Total noninterest expense	35,911	34,339	33,370	136,325	134,920
Income before income taxes	7,953	9,321	8,884	33,038	32,515
Income tax expense	1,920	1,951	8,231	7,172	17,514
Net income	6,033	7,370	653	25,866	15,001
Less: Preferred dividends	-	-	-	-	-
Net income applicable to common stock	$ 6,033	$ 7,370	$ 653	$ 25,866	$ 15,001
Diluted earnings per common share	$ 0.43	$ 0.52	$ 0.05	$ 1.84	$ 1.07
Diluted average common shares outstanding	14,071	14,070	14,024	14,063	14,007

About Alerus Financial Corporation

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

Forward-Looking Statements

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

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

Forward-looking statements speak only as of the date they are made, and Alerus Financial Corporation undertakes no obligation to update them in light of new information or future events.

Non-GAAP Financial Measures

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

Business Line Information

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