

FOR RELEASE (7.25.2019)

**ALERUS FINANCIAL CORPORATION REPORTS
SECOND QUARTER 2019 NET INCOME OF \$8.3 MILLION**

GRAND FORKS, N.D. (July 25, 2019) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$8.3 million for the second quarter of 2019, or \$0.59 earnings per diluted common share, compared to \$6.4 million of net income, or \$0.46 earnings per diluted common share for the first quarter of 2019 and \$5.6 million of net income, or \$0.40 earnings per diluted common share for the second quarter of 2018.

Net income for the six months ended June 30, 2019, was \$14.8 million, or \$1.05 earnings per diluted common share, compared to \$12.5 million of net income, or \$0.89 earnings per diluted common share for the six months ended June 30, 2018.

RESULTS AND RATIOS

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

(Unaudited)

	Three months ended			Percent Change		Six months ended		Percent Change
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019 from Mar 31, 2019	Jun 30, 2019 from Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	
Return on average assets	1.52%	1.20%	1.05%	26.7 %	44.8 %	1.36%	1.20%	13.3 %
Return on average common equity	15.82%	13.06%	12.13%	21.1 %	30.4 %	14.49%	13.78%	5.2 %
Return on average tangible common equity (a)	21.94%	18.99%	19.04%	15.5 %	15.2 %	20.53%	21.50%	(4.5) %
Net income	\$ 8,348	\$ 6,436	\$ 5,599	29.7 %	49.1 %	\$ 14,784	\$ 12,463	18.6 %
Net interest margin (tax equivalent basis) (a)	3.62%	3.86%	3.86%	(6.2) %	(6.3) %	3.74%	3.88%	(3.6) %
Efficiency ratio (a)	70.74%	73.30%	72.30%	(3.5) %	(2.1) %	71.97%	72.68%	(1.0) %
Diluted earnings per common share	\$ 0.59	\$ 0.46	\$ 0.40	28.3 %	47.5 %	\$ 1.05	\$ 0.89	18.0 %
Dividends declared per common share	\$ 0.14	\$ 0.14	\$ 0.13	- %	7.7 %	\$ 0.28	\$ 0.26	7.7 %
Book value per common share	\$ 15.47	\$ 14.78	\$ 13.45	4.7 %	15.0 %			

(a) See Non-GAAP Financial measures reconciliation

Quarterly Highlights

Second quarter 2019 compared to first quarter 2019

Net income of \$8.3 million increased \$1.9 million, or 29.7 percent, compared to the first quarter of 2019. The increase was primarily due to a realized after tax gain on the sale of our Duluth branch of \$1.1 million in addition to a \$423 thousand decrease in the provision for loan losses.

- Loans, excluding mortgage loans held for sale, decreased \$28.9 million, or 1.7 percent, to \$1.7 billion, due primarily to the sale of our Duluth branch
- Deposits decreased \$149.1 million, or 7.8 percent, to \$1.8 billion, due primarily to seasonality within the commercial and public funds' portfolios and the sale of our Duluth branch
- Short-term borrowings increased \$129.4 million to \$141.4 million
- Assets under administration (AUA) increased \$156.4 million, or 0.6 percent, to \$27.9 billion due primarily to market appreciation
- Assets under management (AUM) increased \$475.8 million, or 10.0 percent, to \$5.3 billion
- Mortgage originations totaled \$246.1 million compared to \$125.5 million

Year-to-Date Highlights

Six months ended June 30, 2019 compared to June 30, 2018

Net income for the six months ended June 30, 2019, increased \$2.3 million to \$14.8 million, or 18.6 percent, compared to the same period in 2018. The increase was primarily due to a \$3.4 million or 40.9 percent increase in mortgage revenue, a decrease of \$1.5 million in the provision for loans losses in addition to the \$1.5 million realized gain on the sale of our Duluth branch offset by a \$1.7 million increase in noninterest expense.

- Loans, excluding mortgage loans held for sale, increased \$7.7 million, or 0.5 percent, to \$1.7 billion
- Deposits decreased \$35.2 million, or 2.0 percent, to \$1.8 billion
- Short-term borrowings increased \$29.2 million, or 26.0 percent to \$141.4 million
- AUA decreased \$140.7 million, or 0.5 percent, to \$27.9 billion
- AUM increased \$510.5 million, or 10.8 percent, to \$5.3 billion
- Mortgage originations totaled \$371.7 million compared to \$387.6 million

CEO Comments

Chairman, President, and Chief Executive Officer Randy Newman said, “The earnings power of our diversified business model shines through in our quarterly results as the banking industry continues to face an extended low interest rate environment. For instance, although net interest income was down \$0.8 million from the linked quarter, our noninterest income divisions produced revenue of nearly \$30 million, up \$4.9 million from the second quarter of 2018. We believe this diversified business model benefits stockholders long-term. Charge-offs were higher than our recent historical experience, primarily attributable to one large commercial credit charged off this past quarter. Payments continue to be received on this credit and we expect further recoveries. The company’s credit quality continues to improve and we’re pleased with the continued reduction in classified assets. Additionally, our company remains committed to our multi-year, organic growth, strategic plan called One Alerus. Through One Alerus, we are more collaborative and strategic across the entire company, evident by our decision to divest of the Duluth market so we can reinvest in our existing footprint and formalized national market. Under the One Alerus umbrella, our team is delivering more value to clients through guidance and advice, helping these clients be in a position to make better financial decisions. To this end, we recently unveiled MY ALERUS to our employees and paired the holistic, financial wellness technology with participant education. This effort resulted in 13 percent of our employees increasing their retirement savings contribution and improving their financial wellness, and we believe we will see this behavior replicated within our existing client base of more than 355,000 retirement participants.”

Dividends Declared

In May 2019, the Company declared a quarterly cash dividend of \$0.14 per share on its common stock, a 7.7 percent increase over the dividend paid a year ago. Mr. Newman commented, “The payment of a meaningful and growing dividend is an important component of our commitment to provide consistent and favorable long-term returns to our stockholders.”

Duluth Market Exit

On April 26, 2019, the Company completed the sale of its deposits and certain assets in Duluth, Minnesota to Frandsen Bank & Trust. The loans and deposits associated with this transaction totaled approximately \$28.3 million and \$19.4 million, respectively, as of the closing date. A pre-tax gain on the sale was recognized in the amount of \$1.5 million.

Results of Operations

NET INTEREST INCOME

(Dollars in thousands)

(Unaudited)

	Three months ended			Jun 30, 2019 change from	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Mar 31, 2019	Jun 30, 2018
Components of net interest income					
Income on earning assets	\$ 23,478	\$ 23,310	\$ 21,816	\$ 168	\$ 1,662
Expense on interest-bearing liabilities	5,187	4,190	2,916	997	2,271
Net interest income	\$ 18,291	\$ 19,120	\$ 18,900	\$ (829)	\$ (609)

Average yields and rates paid

Earning assets yield	4.64 %	4.70 %	4.45 %	-0.06 %	0.19 %
Rate paid on interest-bearing liabilities	1.41	1.19	0.84	0.23	0.57
Gross interest margin	3.23 %	3.51 %	3.61 %	-0.29 %	-0.38 %
Net interest margin (tax equivalent)	3.62 %	3.86 %	3.86 %	-0.24 %	-0.24 %

Average balances

Investment securities	\$ 265,970	\$ 263,753	\$ 265,006	\$ 2,217	\$ 964
Loans	1,724,080	1,731,708	1,679,876	(7,628)	44,204
Earning assets	2,037,604	2,019,666	1,976,370	17,938	61,234
Interest-bearing liabilities	1,472,835	1,431,573	1,386,632	41,262	86,203

Net interest income for the second quarter was \$18.3 million, a decrease of \$0.8 million, or 4.3 percent, compared to \$19.1 million in the first quarter of 2019. Net interest margin calculated on a tax-equivalent basis decreased to 3.62 percent from 3.86 percent, primarily due to an increase in total deposit costs of 18 basis points.

NONINTEREST INCOME

(Dollars in thousands)

(Unaudited)

	Three months ended			Percent Change		Six months ended		Percent Change
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019 from Mar 31, 2019	Jun 30, 2019 from Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	
Retirement and Benefits	\$ 15,776	\$ 15,059	\$ 15,394	4.8 %	2.5 %	\$ 30,835	\$ 31,337	(1.6) %
Wealth Management	3,878	3,611	3,626	7.4 %	6.9 %	7,489	7,263	3.1 %
Mortgage Banking	7,035	4,569	5,224	54.0 %	34.7 %	11,604	8,233	40.9 %
Service charges on deposit accounts	430	444	429	(3.2) %	0.2 %	874	891	(1.9) %
Other	2,865	1,391	1,421	106.0 %	101.6 %	4,256	2,626	62.1 %
Total noninterest income	\$ 29,984	\$ 25,074	\$ 26,094	19.6 %	14.9 %	\$ 55,058	\$ 50,350	9.4 %

Noninterest income for the second quarter of \$30.0 million, increased \$4.9 million, or 19.6%, from the \$25.1 million in the first quarter. The increase was primarily due to an increase in mortgage banking revenue as a result of seasonally higher mortgage originations. Additionally, other noninterest income increased due to the \$1.5 million gain recognized on the sale of our Duluth branch.

NONINTEREST EXPENSE

(Dollars in thousands)

(Unaudited)

	Three months ended			Jun 30, 2019 from		Six months ended		Percent Change
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	
Compensation	\$ 18,143	\$ 16,813	\$ 16,958	7.9 %	7.0 %	\$ 34,956	\$ 33,033	5.8 %
Employee benefits	5,160	5,428	4,805	(4.9) %	7.4 %	10,588	9,292	13.9 %
Occupancy and equipment expense	2,641	2,745	2,663	(3.8) %	(0.8) %	5,386	5,517	(2.4) %
Business services, software and technology expense	4,022	3,798	3,271	5.9 %	23.0 %	7,820	6,736	16.1 %
Intangible amortization expense	1,050	1,051	1,196	(0.1) %	(12.2) %	2,101	2,392	(12.2) %
Professional fees and assessments	1,029	1,066	909	(3.5) %	13.2 %	2,095	2,106	(0.5) %
Marketing and business development	706	426	1,004	65.7 %	(29.7) %	1,134	1,580	(28.2) %
Supplies and postage	663	733	535	(9.5) %	23.9 %	1,397	1,291	8.2 %
Travel	398	502	515	(20.7) %	(22.7) %	900	870	3.4 %
Mortgage and lending expenses	769	446	686	72.4 %	12.1 %	1,215	1,160	4.7 %
Other	680	506	1,266	34.4 %	(46.3) %	1,183	2,101	(43.7) %
Total noninterest expense	\$ 35,261	\$ 33,514	\$ 33,808	5.2 %	4.3 %	\$ 68,775	\$ 66,078	4.1 %

Noninterest expense in the second quarter of 2019 was \$35.3 million, an increase of \$1.8 million, or 5.2 percent, on a linked quarter basis. Compensation expense increased \$1.3 million primarily due to increases in mortgage banking incentives driven by seasonally higher mortgage originations. Similarly, mortgage and lending expense increased \$323 thousand as a result of increased mortgage originations. In addition, business services, software and technology expense increased \$224 thousand related to our One Alerus initiative.

Noninterest expense increased \$1.5 million, or 4.3 percent, as compared to the second quarter of 2018. Compensation expense increased \$1.2 million due to the increase in the number of employees. Business services, software and technology expense increased \$751 thousand as a result of additional investments for our One Alerus initiative.

Financial Condition

Total assets were \$2.2 billion at June 30, 2019, an increase of \$31.2 million compared to \$2.2 billion at June 30, 2018. The increase in total assets was primarily due to increases of \$8.8 million in loans held for sale, \$7.7 million in loans, \$7.6 million in available-for-sale investment securities, \$9.7 million in premises and equipment, and \$5.3 million in cash and due from banks. These increases were offset by a \$4.3 million decrease in other intangible assets and a \$4.1 decrease in deferred tax assets. The increase in loans held for sale was primarily due to higher volume of applications compared to the prior year. The increase in loans was primarily driven by growth in our commercial real estate and commercial and industrial portfolios. The increase in the securities available-for-sale was a result of management's decision to extend the duration while increasing the portfolio yield, and harvesting gains on lower yielding and shorter duration securities. The increase in cash and cash equivalents was primarily due to an increase in cash balances held with the Federal Reserve Bank. We maintain a cash balance at the Federal Reserve and manage this liquidity balance on a daily basis as required, and may have significant cash balance fluctuations in the ordinary course of business based on inflows and outflows from changing loan totals, investment activity, and deposit flows.

Total deposits decreased \$35.2 million or 2.0% to \$1.8 billion at June 30, 2019 as compared to June 30, 2018. The decrease was due to a decrease in noninterest bearing transactions accounts of \$95.3 million offset by an increase in interest-bearing transaction accounts of \$67.1 million. Total deposits represented 88.0% of total liabilities as of June 30, 2019. Interest-bearing deposit costs were 0.98% and 0.44% for the six months ended June 30, 2019 and 2018,

respectively. The increase in interest-bearing deposit costs has been impacted by the changing mix of deposit types, as well as the increasing interest rate environment.

Credit Quality

The provision for loan losses decreased \$423 thousand, or 19.1 percent, to \$1.8 million in the second quarter of 2019 compared to \$2.2 million for the first quarter of 2019. The decrease was primarily related to a \$9.8 million decrease in classified loans and the related required reserves for those loans. Net charge-offs increased during the quarter to \$3.2 million and was largely attributable to one commercial credit. Total nonperforming assets to loans and other real estate dropped to 0.3 percent and the balance of the allowance for loan losses was 460.0 percent of nonperforming loans.

The allowance for loan losses was \$21.2 million at June 30, 2019, a \$1.4 million, or 6.9 percent, increase from \$19.9 million at June 30, 2018. Net charge-offs increased for the six months ended June 30, 2019 to \$4.9 million compared to \$2.2 million at the same time last year primarily due to the same commercial credit previously mentioned.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
Nonperforming Loans			
Commercial:			
Commercial	\$ 2,056	\$ 5,678	\$ 2,833
Commercial real estate	1,439	1,478	842
Total commercial	3,495	7,156	3,675
Consumer:			
Residential mortgages	1,120	1,088	1,199
Other consumer	8	23	19
Total consumer	1,128	1,111	1,218
Total nonperforming loans	\$ 4,623	\$ 8,267	\$ 4,893
Other real estate (ORE)	381	127	201
Other nonperforming assets	-	22	7
Total nonperforming assets	\$ 5,004	\$ 8,416	\$ 5,101
Accruing loans 90 days or more past due	\$ 28	\$ -	\$ -
Nonperforming assets to loans plus ORE	0.29%	0.48%	0.30%
Allowance for loan losses	\$ 21,246	\$ 22,638	\$ 19,869
Allowance for loan losses to total nonperforming loans	460%	274%	431%
Net charge-offs QTD	\$ 3,189	\$ 1,756	\$ 2,173
Net charge-offs YTD	\$ 4,945	\$ 1,756	\$ 2,245
Net charge-offs to average loans	0.58%	0.41%	0.28%

Capital Position

Stockholders' equity of \$213.8 million at June 30, 2019 was \$28.4 million, or 15.3 percent, higher than June 30, 2018. Steady earnings generation coupled with a strong balance sheet continue to drive higher book value per share which increased 15.0 percent to \$15.47 at June 30, 2019 compared to June 30, 2018. The tangible common equity to tangible assets ratio also increased 52 basis points from the end of the first quarter 2019 to 7.69 percent as of June 30, 2019.

CAPITAL POSITION

(Dollars in thousands)

(Unaudited)	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
Total common stockholders' equity	\$ 213,765	\$ 203,949	\$ 185,367
Tangible common equity to tangible assets (a)	7.69%	7.17%	6.28%
Tangible common equity to risk-weighted assets	8.91%	8.22%	7.41%

Regulatory Capital:

Common equity tier 1 capital	\$ 165,840	\$ 157,639	\$ 138,787
Tier 1 capital	173,978	165,749	146,758
Total risk-based capital	244,818	237,965	216,158

Regulatory Capital Ratios:

Common equity tier 1 capital ratio	8.90%	8.35%	7.71%
Tier 1 capital ratio	9.34%	8.78%	8.15%
Total risk-based capital ratio	13.14%	12.61%	12.01%
Tier 1 leverage ratio	8.08%	7.76%	7.02%

(a) See Non-GAAP Financial Measures reconciliation

Business Line Performance

The Company defines its business lines by the service provided, including Banking, Mortgage, Retirement and Benefits, and Wealth Management. The selected financial information presented on each business line sets forth revenue and direct noninterest expense before indirect overhead allocations. Corporate Administration includes marketing, technology, indirect overhead and income tax expense and is set forth in the table below along with the Consolidated Company net income. The business line net income does not include these allocations and income taxes.

NET INCOME BY BUSINESS LINE

(Dollars in thousands)

(Unaudited)	Three months ended			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Banking	\$ 8,798	\$ 9,477	\$ 7,693	\$ 18,275	\$ 16,917
Mortgage	1,375	736	335	2,110	(316)
Retirement and Benefits	7,175	6,069	6,435	13,244	12,947
Wealth Management	1,701	1,687	1,884	3,388	3,300
Corporate Administration	(7,832)	(9,509)	(9,181)	(17,340)	(17,084)
Income before income taxes	11,217	8,460	7,166	19,677	15,764
Tax Expense	2,869	2,024	1,567	4,893	3,301
Net income	\$ 8,348	\$ 6,436	\$ 5,599	\$ 14,784	\$ 12,463

Banking offers a complete line of loan, deposit, cash management, and treasury services through sixteen 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			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Condensed Income Statement					
Net interest income	\$ 18,893	\$ 19,900	\$ 19,517	\$ 38,794	\$ 38,392
Noninterest income	1,747	1,831	1,846	3,578	3,449
Total net revenue	20,640	21,731	21,363	42,372	41,841
Provision for loan losses	1,797	2,220	4,020	4,017	5,550
Noninterest expense	10,045	10,034	9,650	20,080	19,374
Net income before income taxes	\$ 8,798	\$ 9,477	\$ 7,693	\$ 18,275	\$ 16,917
Average Balance Sheet					
Total loans	\$ 1,723,430	\$ 1,731,216	\$ 1,679,469	\$ 1,727,302	\$ 1,642,049
Goodwill	20,130	20,130	20,130	20,130	20,130
Other intangible assets	1,323	1,573	2,322	1,447	2,446
Total Assets	2,109,350	2,108,323	2,068,584	2,108,840	2,036,841
Deposits	1,777,002	1,799,005	1,751,828	1,787,943	1,750,661

Banking reported net income before taxes of \$8.8 million for the second quarter of 2019, a decrease of \$679 thousand from the first quarter of 2019. The change was primarily due to a decrease in net interest income of \$1.0 million as a result of increased rates paid on interest bearing deposit liabilities, offset by a \$423 thousand decrease in the provision for loan losses.

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			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Condensed Income Statement					
Net interest income	\$ 304	\$ 129	\$ 267	\$ 434	\$ 405
Noninterest income	7,035	4,569	5,225	11,604	8,233
Total net revenue	7,339	4,698	5,492	12,038	8,638
Noninterest expense	5,964	3,962	5,157	9,928	8,954
Net income before income taxes	\$ 1,375	\$ 736	\$ 335	\$ 2,110	\$ (316)
Mortgage originations	\$ 246,115	\$ 125,536	\$ 239,938	\$ 371,651	\$ 387,611
Purchase origination %	82.4%	80.0%	90.2%	81.6%	83.4%
Refinance origination %	17.6%	20.0%	9.8%	18.4%	16.6%

Mortgage reported net income before taxes of \$1.4 million for the second quarter of 2019, an increase of \$639 thousand from the first quarter of 2019. The increase was primarily due to seasonally higher mortgage origination volume. Mortgage originations totaled \$246.1 million for the second quarter, an increase of \$120.6 million compared to the first quarter of 2019.

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 \$27.8 billion of AUA and services clients in all 50 states.

RETIREMENT AND BENEFITS

(Dollars in thousands)

(Unaudited)

	Three months ended			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Condensed Income Statement					
Noninterest income	\$ 15,776	\$ 15,059	\$ 15,394	\$ 30,835	\$ 31,337
Total net revenue	15,776	15,059	15,394	30,835	31,337
Noninterest expense	8,601	8,990	8,959	17,591	18,390
Net income before income taxes	\$ 7,175	\$ 6,069	\$ 6,435	\$ 13,244	\$ 12,947
Assets under management	\$ 2,598,407	\$ 2,145,209	\$ 2,077,383	\$ 2,598,407	\$ 2,077,383
Assets under administration	27,771,440	27,615,611	27,910,785	27,771,440	27,910,785

Retirement and Benefits net income before taxes increased \$1.1 million to \$7.2 million for the second quarter of 2019 compared to net income of \$6.1 million for the first quarter of 2019. Noninterest income increased \$0.7 million, or 4.8 percent, while noninterest expense decreased \$389 thousand.

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

WEALTH MANAGEMENT

(Dollars in thousands)

(Unaudited)

	Three months ended			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Condensed Income Statement					
Net interest income	\$ -	\$ -	\$ 16	\$ -	\$ 30
Noninterest income	3,878	3,611	3,764	7,489	7,263
Total net revenue	3,878	3,611	3,780	7,489	7,293
Noninterest expense	2,177	1,924	1,896	4,101	3,993
Net income before income taxes	\$ 1,701	\$ 1,687	\$ 1,884	\$ 3,388	\$ 3,300
Assets under management	\$ 2,661,826	\$ 2,639,239	\$ 2,672,342	\$ 2,661,826	\$ 2,672,342
Assets under administration	82,612	82,089	83,876	82,612	83,876
Internally managed assets	521,466	518,444	512,153	521,466	512,153

Wealth Management net income before taxes remained relatively flat at \$1.7 million for the second quarter of 2019 compared to the first quarter of 2019 as a result of equal increases of noninterest income and noninterest expense.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
(Dollars and shares in thousands, except per share data)			
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 44,920	\$ 44,848	\$ 39,642
Investment securities			
Trading	-	-	1,907
Available-for-sale	256,252	258,817	248,612
Total investment securities	256,252	258,817	250,519
Mortgage loans held for sale	44,616	27,555	35,816
Loans	1,713,452	1,742,351	1,705,780
Allowance for loan losses	(21,246)	(22,638)	(19,869)
Net loans	1,692,206	1,719,713	1,685,911
Premises and equipment	31,298	31,795	21,589
Bank-owned life insurance	31,159	30,959	30,359
Goodwill	27,329	27,329	27,329
Other intangible assets, excluding servicing assets	20,372	21,422	24,719
Deferred tax assets, net	7,601	8,843	11,732
Other assets	51,376	42,477	48,269
Total assets	<u>\$ 2,207,129</u>	<u>\$ 2,213,758</u>	<u>\$ 2,175,885</u>
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	\$ 506,021	\$ 540,166	\$ 601,333
Interest-bearing	1,063,955	1,180,587	996,850
Time deposits	183,389	181,741	190,351
Total deposits	1,753,365	1,902,494	1,788,534
Short-term borrowings	141,445	12,050	112,260
Long-term debt	58,808	58,823	58,823
Accrued expenses and other liabilities	39,746	36,442	30,901
Total liabilities	1,993,364	2,009,809	1,990,518
Stockholders' equity			
Common stock and related surplus	42,492	41,846	40,442
Retained earnings	169,788	163,429	149,542
Accumulated other comprehensive loss, net	1,485	(1,326)	(4,617)
Total stockholders' equity	213,765	203,949	185,367
Total liabilities and equity	<u>\$ 2,207,129</u>	<u>\$ 2,213,758</u>	<u>\$ 2,175,885</u>
Common shares outstanding	13,816	13,801	13,778
Book value per common share	<u>\$ 15.47</u>	<u>\$ 14.78</u>	<u>\$ 13.45</u>

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

	Three months ended			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
(Dollars and shares in thousands, except per share data)					
Interest Income	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans and leases, including fees	\$ 21,712	\$ 21,573	\$ 20,203	\$ 43,285	\$ 39,018
Investment securities	1,549	1,553	1,463	3,102	2,972
Other interest income	217	184	150	401	284
Total interest income	23,478	23,310	21,816	46,788	42,274
Interest Expense					
Deposits	3,548	2,748	1,455	6,296	2,691
Other borrowed funds	1,639	1,442	1,461	3,081	2,541
Total interest expense	5,187	4,190	2,916	9,377	5,232
Net interest income	18,291	19,120	18,900	37,411	37,042
Provision for loan losses	1,797	2,220	4,020	4,017	5,550
Net interest income after provision for loan losses	16,494	16,900	14,880	33,394	31,492
Noninterest Income					
Retirement and benefit services	15,776	15,059	15,394	30,835	31,337
Wealth management	3,878	3,611	3,626	7,489	7,263
Mortgage banking	7,035	4,569	5,224	11,604	8,233
Service charges on deposit accounts	430	444	429	874	891
Other	2,865	1,391	1,421	4,256	2,626
Total noninterest income	29,984	25,074	26,094	55,058	50,350
Noninterest Expense					
Compensation	18,143	16,813	16,958	34,956	33,033
Employee benefits	5,160	5,428	4,805	10,588	9,292
Occupancy and equipment expense	2,641	2,745	2,663	5,386	5,517
Business services, software and technology expense	4,022	3,798	3,271	7,820	6,736
Intangible amortization expense	1,050	1,051	1,196	2,101	2,392
Professional fees and assessments	1,029	1,066	909	2,095	2,106
Other	3,216	2,613	4,006	5,829	7,002
Total noninterest expense	35,261	33,514	33,808	68,775	66,078
Income before income taxes	11,217	8,460	7,166	19,677	15,764
Income tax expense	2,869	2,024	1,567	4,893	3,301
Net income	8,348	6,436	5,599	14,784	12,463
Less: Preferred dividends	-	-	-	-	-
Net income applicable to common stock	\$ 8,348	\$ 6,436	\$ 5,599	\$ 14,784	\$ 12,463
Diluted earnings per common share	\$ 0.59	\$ 0.46	\$ 0.40	\$ 1.05	\$ 0.89
Diluted average common shares outstanding	14,100	14,078	14,024	14,089	14,056

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, ND, the Minneapolis-St. Paul, MN metropolitan area and Scottsdale and Mesa, AZ. Alerus Retirement and Benefits plan administration offices are located in St. Paul and Albert Lea, MN, East Lansing and Troy, MI, and Bedford, NH.

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, retirement, 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 management; increasing occurrences of cyber-attacks, hacks and identity theft; failure to keep pace with technological change or difficulties when implementing new technologies; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management’s ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, liquidity risk and cybersecurity.

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

Business Line Information

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

Non-GAAP Financial Measures

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

NON-GAAP FINANCIAL MEASURES

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

(Unaudited)

	Three months ended			Six months ended	
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018
Tangible common equity to tangible assets					
Total stockholders' equity	\$ 213,765	\$ 203,949	\$ 185,367		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	20,372	21,422	24,719		
Tangible common equity (a)	166,064	155,198	133,319		
Total assets	2,207,129	2,213,758	2,175,885		
Less: Goodwill	27,329	27,329	27,329		
Less: Other intangible assets (ex: servicing assets)	20,372	21,422	24,719		
Tangible assets (b)	2,159,428	2,165,007	2,123,837		
Tangible common equity to tangible assets (a)/(b)	7.69%	7.17%	6.28%		
Return on tangible common equity					
Net income	\$ 8,348	\$ 6,436	\$ 5,599	\$ 14,784	\$ 12,463
Intangible amortization expense (net-of-tax)	830	830	945	1,660	1,890
Net income, excluding intangible amortization	9,178	7,266	6,544	16,444	14,353
Annualized net income, excluding intangible amortization (c)	36,813	29,468	26,248	33,161	28,944
Average total equity	211,653	199,854	185,197	205,785	182,407
Less: Average goodwill	27,329	27,329	27,329	27,329	27,329
Less: Average other intangible assets (ex: servicing assets)	16,498	17,329	19,988	16,912	20,459
Average tangible common equity (d)	167,826	155,196	137,880	161,544	134,619
Return on tangible common equity (c)/(d)	21.94%	18.99%	19.04%	20.53%	21.50%
Net interest margin (tax equivalent)					
Net interest income	\$ 18,291	\$ 19,120	\$ 18,900	\$ 37,411	\$ 37,042
Tax equivalent adjustment	84	92	115	176	234
Tax equivalent net interest income (e)	18,375	19,212	19,015	37,587	37,276
Average earnings asset (f)	2,037,604	2,019,666	1,976,370	2,028,685	1,938,980
Net interest margin (tax equivalent) (e)/(f)	3.62%	3.86%	3.86%	3.74%	3.88%
Efficiency ratio					
Noninterest expense	35,261	33,514	33,808	68,775	66,078
Less: Intangible amortization expense	1,050	1,051	1,196	2,101	2,392
Adjusted noninterest expense (g)	34,211	32,463	32,612	66,674	63,686
Net interest income	18,291	19,120	18,900	37,411	37,042
Noninterest income	29,984	25,074	26,094	55,058	50,350
Tax equivalent adjustment	84	92	115	176	234
Total tax equivalent revenue (h)	48,359	44,286	45,109	92,645	87,626
Efficiency ratio (g)/(h)	70.74%	73.30%	72.30%	71.97%	72.68%