
For Release (04.27.2015—16:00)

ALERUS FINANCIAL CORPORATION REPORTS FIRST QUARTER 2015 RESULTS

ALERUS CONTINUES STRONG FINANCIAL PERFORMANCE - \$4.0 MILLION FIRST QUARTER 2015

GRAND FORKS, ND (April 24 2015) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$4.0 million for the first quarter of 2015 or \$0.29 per diluted common share, compared to \$4.1 million or \$0.29 per diluted common share for the first quarter of 2014. As a result of loan growth, Alerus resumed a more normalized provision for loan losses during the first quarter of 2015, increasing the provision to \$675 thousand, as compared to \$0 provision in the first quarter of 2014. The company's 2015 earnings performance includes intangible amortization expense, after tax, of \$1.0 million or \$0.07 per diluted share. The first quarter of 2014, included intangible amortization expense, after tax, of \$0.5 million or \$0.04 per diluted share. The intangible amortization expense relates to the acquisition activity in both the banking and retirement services divisions. Per share data is adjusted for a 3 for 1 stock split completed in the third quarter of 2014.

Financial Highlights:

- First quarter 2015:
 - Revenue of \$34.7 million, an increase of \$6.5 million, or 23.0 percent from 2014
 - Banking division revenue of \$15.2 million, up 12.8 percent from 2014
 - Retirement division revenue of \$12.7 million, up 30.6 percent from 2014
 - Wealth Management division revenue of \$2.2 million, up 13.7 percent from 2014
 - Mortgage division revenue of \$4.6 million, up 49.1 percent from 2014
 - Return on average assets (ROA) of 1.10 percent
 - Return on average common equity (ROE) of 10.35 percent
 - Return on tangible common equity (ROTCE) of 14.48 percent
 - Net interest margin 3.98 percent

First Quarter 2015 Results Included:

- Strong customer growth:
 - Total loans grew \$30.7 million in the first quarter to \$1,161.2 million, up \$211.6 million from 2014
 - Total deposits grew \$20.1 million in the first quarter to \$1,282.3 million, up \$114.1 million from 2014
 - Total assets under administration grew \$2.4 billion in the first quarter to \$17.9 billion, up \$4.8 billion from 2014.
 - Total assets under management grew \$100 million in the first quarter to \$2.7 billion, up \$221 million from 2014.
 - Total mortgage originations of \$205.7 million in the first quarter represented an increase of \$81.6 million from the same period in 2014

- Maintained strong credit quality:
 - Nonperforming assets decreased 23.8 percent from the first quarter of 2014
 - Allowance for loan losses to nonperforming loans was 429.8 percent at March 31, 2015, compared with 348.2 percent at March 31, 2014
- Maintained strong capital ratios:
 - Common equity tier1 capital ratio of 11.5 percent
 - Tier 1 capital ratio of 13.2 percent
 - Total risk based capital ratio of 14.4 percent
 - Tangible common equity to tangible asset ratio of 8.8 percent

Earnings Summary

Net income was \$4.0 million for the first quarter of 2015, 0.8 percent lower than the \$4.1 million for the first quarter of 2014 and \$1.5 million lower than the fourth quarter of 2014. The quarter-over-quarter reduction in earnings was as a result of resuming a normalized provision for loan losses of \$675 thousand during the first quarter of 2015, as compared to a reversal of previously recorded provision of (\$400) thousand, during the fourth quarter of 2014, a net change of \$1.1 million. Additionally, during the fourth quarter of 2014, Alerus reduced tax expense to \$867 thousand, based on a review of revenue sourcing for state income tax purposes, as compared to \$2.2 million of tax expense for the first quarter of 2015, an increase of \$1.4 million.

Diluted earnings per common share of \$0.29 in the first quarter of 2015 matched the first quarter of 2014. Per share data reflects a 3 for 1 stock split completed in the third quarter of 2014. Return on average assets and return on average common equity were 1.10 percent and 10.35 percent, respectively, for the first quarter of 2015, compared with 1.23 percent and 11.84 percent, respectively, for the first quarter of 2014.

EARNINGS SUMMARY

				Percentage	Percentage			
				Change	Change			
	1Q	4Q	1Q	1Q15	1Q15	YTD	YTD	Percentage
(Dollars in thousands)				vs	vs			
(Unaudited)	2015	2014	2014	4Q14	1Q14	2015	2014	Change
Net income	\$ 4,034	\$ 5,549	\$ 4,068	(27.3)	(0.8)	\$ 4,034	\$ 4,068	(0.8)
Net income applicable to common stock	\$ 3,984	\$ 5,499	\$ 4,018	(27.6)	(0.8)	\$ 3,984	\$ 4,018	(0.8)
Earnings per share ⁽¹⁾	\$ 0.29	\$ 0.39	\$ 0.29	(25.6)	-	\$ 0.29	\$ 0.29	-
Return on average assets	1.10%	1.50%	1.23%	(26.7)	(10.6)	1.10%	1.23%	(10.6)
Return on average common equity ⁽²⁾	10.35%	14.48%	11.84%	(28.5)	(12.6)	10.35%	11.84%	(12.6)
Net interest margin (tax equivalent)	3.98%	4.06%	3.84%	(2.0)	3.6	3.98%	3.84%	3.5
Efficiency ratio	79.95%	82.48%	77.02%	(3.1)	3.8	79.95%	77.02%	3.8
Dividends declared per common share ⁽¹⁾	\$ 0.10	\$ 0.10	\$ 0.09	-	15.4	\$ 0.10	\$ 0.09	11.1
Book value per common share ^{(1) (2)}	\$ 11.12	\$ 10.85	\$ 9.90	2.5	12.3			

(1) Adjusted for 3 for 1 stock split

(2) Adjusted for restatement of 2012 earnings. Refer to 4/10/2015 news release.

Acquisition Activity

On June 25, 2014, the Company acquired Private Bancorporation, Inc. with one branch located in downtown Minneapolis. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. The Company assumed approximately \$116.3 million of deposits and other liabilities, and purchased approximately \$130.2 million in cash, securities, loans, and other assets. As part of the transaction, the Company allocated \$1.2 million to a core deposit intangible and \$0.75 million to goodwill, the core deposit intangible is being amortized over 5 years generating an amortization expense of \$240 thousand per year, while the goodwill is not subject to amortization. The transaction also included a net operating loss tax asset valued at \$943 thousand that will be utilized to offset taxable income as permitted by applicable tax laws. The transaction generated \$2.0 million of one-time restructuring charges, all of which were incurred in 2014.

On October 1, 2014, the Company acquired Retirement Alliance, Inc. and its affiliate Fiduciary Consulting Group, LLC located in Manchester, NH. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identified intangible assets were recorded at fair value. The purchase, consisting of approximately 700 retirement plans with more than 42,000 retirement participants, grew the Company's wealth management division by \$2.1 billion in retirement and individual asset managed accounts. As part of the transaction, \$12.7 million was allocated to an identified customer intangible that the Company immediately began amortizing over a five year period, resulting in an annualized intangible amortization expense of \$2.5 million. This resulted in earnings dilution in the fourth quarter of 2014 of \$390 thousand, after giving effect to \$600 thousand of intangible amortization expense. It is anticipated that planned post conversion and integration cost savings will be realized beginning in the first quarter of 2015 and the transaction will then be accretive to earnings even after the related intangible amortization expense.

On January 2, 2015, the Company acquired Interactive Retirement Solutions, Ltd. located in Bloomington, MN. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identified intangible assets were recorded at fair value. The purchase, consisting of approximately 160 retirement plans with more than 16,200 retirement participants, grew the Company's wealth management division by \$1.25 billion in retirement and individual asset managed accounts. As part of the transaction, \$4.5 million was allocated to an identified customer intangible that the Company immediately began amortizing over a five year period, resulting in an annualized intangible amortization expense of \$899 thousand. This resulted in earnings dilution in the first quarter of 2015, after giving effect to \$225 thousand of intangible amortization expense. It is further anticipated that planned post conversion and integration cost savings will be realized by the second quarter of 2015 and the transaction will be accretive to earnings even after the related intangible amortization expense.

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, "During the first quarter of 2015 Alerus continued to grow revenues in each of our business segments as a result of organic growth and strategic acquisitions. Alerus' net income was comparable to the first quarter of 2014, as expenses were higher due to intangible amortization and personnel expenses resulting from the acquisitions which occurred during the past year. We continue to invest in our infrastructure to support future organic and strategic acquisition opportunities."

Alerus Financial Corporation
Consolidated Ending Balance Sheet

	March 31, 2015	December 31, 2014	March 31, 2014
(Dollars and Shares in Thousands, Except Per Share Data)			
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 61,440	\$ 45,526	\$ 64,781
Investment securities			
Trading	2,257	1,960	2,486
Held-to-maturity	0	0	52,927
Available-for-sale	181,449	204,141	218,750
Total Investment Securities	183,706	206,101	274,163
Loans held for sale	62,547	35,042	27,376
Loans and leases, excluding covered loans	1,093,796	1,090,027	903,973
Covered loans and leases	4,899	5,432	18,312
Allowance for loan losses	(18,492)	(17,063)	(16,788)
Net loans and leases	1,142,750	1,113,438	932,873
Premises and equipment	21,231	21,456	22,501
Goodwill	1,261	1,261	664
Other intangible assets, excluding servicing assets	23,560	20,764	10,150
Other assets	77,097	79,761	66,192
Total assets	<u>\$ 1,511,045</u>	<u>\$ 1,488,307</u>	<u>\$ 1,371,324</u>
Liabilities and Shareholders' Equity			
Deposits			
Noninterest-bearing	\$ 319,220	\$ 330,218	\$ 258,160
Interest-bearing	739,549	721,076	684,774
Time deposits	223,547	210,873	225,285
Total deposits	1,282,316	1,262,167	1,168,219
Short-term borrowings	13,390	10,532	9,329
Long-term debt	21,480	21,494	21,597
Other liabilities	18,610	23,028	14,880
Total liabilities	1,335,796	1,317,221	1,214,025
Shareholders' equity			
Preferred stock and related surplus	20,000	20,000	20,000
Common stock and related surplus ⁽¹⁾	39,447	38,265	27,562
Retained earnings ^{(1) (2)}	113,490	111,451	108,619
Accumulated other comprehensive income (loss), net	2,312	1,370	1,118
Total shareholders' equity	175,249	171,086	157,299
Total liabilities and equity	<u>\$ 1,511,045</u>	<u>\$ 1,488,307</u>	<u>\$ 1,371,324</u>
Common shares outstanding ⁽¹⁾	13,965	13,922	13,869
Book value per common share ^{(1) (2)}	<u>\$ 11.12</u>	<u>\$ 10.85</u>	<u>\$ 9.90</u>

(1) Adjusted for 3 for 1 stock split

(2) Adjusted for restatement of 2012 earnings. Refer to 4/10/2015 news release.

Alerus Financial Corporation
Consolidated Statement of Income

(Dollars and Shares in Thousands, Except Per Share Data) (Unaudited)	Three months ended March 31,	
	2015	2014
Interest Income		
Loans and leases, including fees	\$ 12,649	\$ 10,623
Investment securities	1,214	1,721
Other interest income	12	11
Total interest income	13,875	12,355
Interest Expense		
Deposits	657	677
Short-term borrowings	6	6
Long-term debt	140	145
Total interest expense	803	828
Net interest income	13,072	11,527
Provision for loan losses	675	-
Net interest income after provision for loan losses	12,397	11,527
Noninterest Income		
Retirement services income	12,673	9,701
Wealth management income	2,189	1,925
Deposit service charges	378	368
Mortgage origination and loan servicing fees	4,581	3,073
Other income	1,753	1,582
Securities gains (losses)	26	22
Total noninterest income	21,600	16,671
Noninterest Expense		
Salaries	13,369	10,503
Employee benefits	3,808	3,047
Net occupancy expense	1,312	1,139
Furniture and equipment expense	1,297	1,160
Intangible amortization expense	1,699	894
Other expense	6,236	4,974
Total noninterest expense	27,721	21,717
Income before income taxes	6,276	6,481
Applicable income taxes	2,242	2,413
Net income	4,034	4,068
Less: Preferred dividends	50	50
Net income applicable to common stock	\$ 3,984	\$ 4,018
 Earnings per common share ⁽¹⁾	 \$ 0.29	 \$ 0.29
Average common shares outstanding ⁽¹⁾	13,934	13,830

(1) Adjusted for 3 for 1 stock split

Alerus Financial Corporation

Statement of Cash Flows

Three months ended
March 31,

(Dollars in Thousands)

	2015	2014
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 4,034	\$ 4,068
Provision for loan losses	675	-
Depreciation, amortization and other	2,232	1,509
Other adjustments to net income	505	690
Changes in liabilities	(4,418)	(1,428)
Changes in other operating activities	(231)	400
Total cash flow from operating activities	2,797	5,239
Investing Activities		
Purchases of bank premises and equipment	(519)	(771)
Investments	22,395	5,509
Loans	(30,741)	(4,893)
Cash paid for business combinations	-	-
Other cash flows from investing activities	73	1,302
Total cash flows from investing activities	(8,792)	1,147
Financing Activities		
Dividends paid	(1,442)	(1,247)
Sale (purchase) of stock	-	-
Deposits	20,149	(14,384)
Net borrowings	2,844	1,421
Other cash flows from financing activities	358	60
Total cash flows from financing activities	21,909	(14,150)
Change in cash and cash equivalents	15,914	(7,764)
Cash and cash equivalents at beginning of period	45,526	72,545
Cash and cash equivalents at end of period	\$ 61,440	\$ 64,781

Revenue

Total net revenue for the first quarter of 2015 was \$34.7 million, \$6.5 million, or 23.0 percent, higher than the first quarter of 2014, reflecting a 13.4 percent increase in net interest income and 29.6 percent increase in noninterest income. The increase in net interest income quarter-over-quarter was largely the result of an increase in average earning assets partially due to the Private Bank Minnesota acquisition, rebalancing the investment portfolio to reduce risk, and continued growth in lower cost core deposit funding. Noninterest income was \$21.6 million, \$4.9 million, or 29.6 percent, higher than the first quarter of 2014. The increase in noninterest income was a combination of strong organic growth in retirement services income and wealth management income, along

with the acquisitions of Retirement Alliance, Inc. and Interactive Retirement Solutions, Ltd. Mortgage origination and loan servicing fee income increased 49.1 percent to \$4.6 million in the first quarter of 2015 from \$3.1 million in the first quarter of 2014. During the first quarter of 2015, mortgage originations were \$205.7 million, a 65.7 percent increase over the \$124.1 million during the first quarter of 2014.

Net Interest Income

Net interest income in the first quarter of 2015 was \$13.1 million, compared with \$11.5 million in the first quarter of 2014, an increase of \$1.5 million, or 13.4 percent. The increase in net interest income was the result of a corresponding increase in earning assets and net interest margin. Earning assets were \$1.38 billion as of March 31, 2015, compared with \$1.27 billion as of March 31, 2014, an increase of \$119.0 million, or 9.4 percent. Net interest margin on a tax-equivalent basis was 3.98 percent and 3.84 percent, for the quarters ending March 31, 2015 and 2014, respectively.

Total loans as of March 31, 2015, were \$1,161.2 million, compared to \$949.7 million as of March 31, 2014, an increase of \$211.6 million, or 22.3 percent. The increases were driven by demand for loans and lines by new and existing credit-worthy borrowers and the acquisition of Private Bank Minnesota.

Total investment securities were \$183.7 million on March 31, 2015, compared to \$274.2 million as of March 31, 2014, a decrease of \$90.5 million, or 33.0 percent. The investment portfolio was rebalanced during the third quarter of 2014 to reduce risk and duration. Corporate securities with a face amount of \$61 million were liquidated for a gain of \$1.8 million.

Total deposits were \$1,282.3 million on March 31, 2015, compared to \$1,168.2 million as of March 31, 2014, an increase of \$114.1 million, or 9.8 percent. The increase was the result of the Private Bank Minnesota acquisition that closed June 25, 2014, which added \$116 million in deposits. Total time deposits were \$223.5 million as of March 31, 2015, compared to \$225.3 million as of March 31, 2014, a decrease of \$1.8 million, or 0.8 percent.

Covered Asset and Related FDIC Loss Share Indemnification Asset

Effective January 1, 2015, the losses on commercial related loans (commercial, commercial real estate and construction real estate) acquired in the FDIC-assisted transaction ceased being covered under the loss-share agreement. Any recoveries, net of expenses, received on commercial related loans on which losses were incurred prior to January 1, 2015 will continue to be covered (and any such net recoveries must be shared with the FDIC in accordance with the loss-share agreement) through December 31, 2018. Any losses on single family related loans acquired in connection with the FDIC-assisted transaction will continue to be covered under the loss-share agreement through December 31, 2019.

Noninterest Income

First quarter noninterest income was \$21.6 million, \$4.9 million, or 29.6 percent, higher than the first quarter of 2014, and \$0.8 million higher than the fourth quarter of 2014. The year-over-year increase in noninterest income was principally due to a solid organic growth model in the retirement services and wealth management divisions, the acquisitions of Retirement Alliance, Inc. and Interactive Retirement Solutions, Ltd., and a significant increase in mortgage origination income. Retirement services income increased \$3.0 million, or 30.6 percent from the first quarter of 2014, while wealth management income increased \$264 thousand, or 13.7 percent year over year.

Mortgage origination and loan servicing fees increased by \$1.5 million, or 49.1 percent, to \$4.6 million during the first quarter of 2015, as compared to the first quarter of 2014. Mortgage origination volume for the first quarter of 2015 was \$205.7 million, an increase of \$81.6 million, or 65.7 percent over the \$124.1 million originated during the first quarter of 2014. This level of mortgage production may or may not continue into the future since it is dependent on the current level of interest rates and general economic conditions.

NONINTEREST INCOME

(Dollars in thousands)
(Unaudited)

	1Q	4Q	1Q	Percentage Change	Percentage Change	YTD	YTD	Percentage
	2015	2014	2014	1Q15 vs 4Q14	1Q15 vs 1Q14	2015	2014	Change
Retirement services income	\$ 12,673	\$ 11,732	\$ 9,701	8.0	30.6	\$ 12,673	\$ 9,701	30.6
Wealth management income	\$ 2,189	\$ 2,278	\$ 1,925	(3.9)	13.7	\$ 2,189	\$ 1,925	13.7
Deposit service charges	378	415	368	(8.9)	2.7	378	368	2.7
Mortgage origination and loan servicing fees	4,581	4,605	3,073	(0.5)	49.1	4,581	3,073	49.1
Fees, commissions and other	1,753	1,774	1,582	(1.2)	10.8	1,753	1,582	10.8
Securities gains (losses)	26	18	22	0.4	-	26	22	-
Total noninterest income	\$ 21,600	\$ 20,822	\$ 16,671	3.7	29.6	\$ 21,600	\$ 16,671	29.6

Noninterest Expense

Total noninterest expense in the first quarter of 2015 was \$27.7 million, \$6.0 million, or 27.6 percent, higher than the first quarter of 2014, and \$0.6 million, or 2.1 percent, lower than the fourth quarter of 2014. The increase in total noninterest expense on a linked quarter basis was driven by increased expenses assumed with the acquisitions of Private Bank Minnesota, Retirement Alliance, Inc., and Interactive Retirement Solutions, Ltd.

Salaries expense in the first quarter of 2015 was \$13.4 million, \$2.9 million, or 27.3 percent higher, than the first quarter of 2014, and \$294 thousand, or 2.2 percent, lower than the fourth quarter of 2014. The increase in salary expense on a linked quarter basis was primarily the result of the acquisitions of Private Bank Minnesota, Retirement Alliance, Inc., and Interactive Retirement Solutions, Ltd., along with adding additional resources to assist the company with its continued growth initiatives. On a pro-forma basis, the historical salary expense for these acquisitions decreased following the closing, generating cost savings relative to their historical performance. The increase in salary expense is also as a result of mortgage production based incentive compensation. These commissions are variable and tied directly to mortgage production, which increased during the quarter, increasing compensation expense.

Intangible amortization expense in the first quarter of 2015 was \$1.7 million, \$0.2 million higher than the fourth quarter of 2014 and \$0.9 million higher than the first quarter of 2014. The company has completed sixteen acquisitions since 2002 for a premium of \$41.9 million in excess of adjusted book value creating identified intangible assets of \$40.6 million and \$1.3 million of goodwill. The identified intangible assets amortize and the resulting amortization expense is reported in other noninterest expense. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of March 31, 2015, is \$23.6 million and will fully amortize by January 2, 2019. The aggregate unamortized intangible balance was \$10.2 million as of March 31, 2014.

NONINTEREST EXPENSE

(Dollars in thousands)

(Unaudited)

	1Q	4Q	1Q	Percentage Change	Percentage Change	YTD	YTD	Percentage
				1Q15 vs 4Q14	1Q15 vs 1Q14			
	2015	2014	2014			2015	2014	Change
Salaries	\$ 13,369	\$ 13,663	\$ 10,503	(2.2)	27.3	\$ 13,369	\$ 10,503	27.3
Employee benefits	3,808	2,843	3,047	33.9	25.0	3,808	3,047	25.0
Net occupancy expense	1,312	1,183	1,139	10.9	15.2	1,312	1,139	15.2
Furniture and equipment expense	1,297	1,232	1,160	5.3	11.8	1,297	1,160	11.8
Intangible amortization expense	1,699	1,492	894	13.9	90.1	1,699	894	90.1
Marketing and business development	438	772	559	(43.3)	(21.6)	438	559	(21.6)
Supplies, telephone and postage	959	1,326	743	(27.7)	29.1	959	743	29.1
FDIC insurance	265	288	232	(8.0)	14.2	265	232	14.2
Professional fees- legal, audit and consulting	642	930	405	(31.0)	58.5	642	405	58.5
Correspondent and other contracted services	2,310	2,149	1,446	7.5	59.8	2,310	1,446	59.8
Other noninterest expense	1,622	2,449	1,589	(33.8)	2.1	1,622	1,589	2.1
Total noninterest expense	<u>\$ 27,721</u>	<u>\$ 28,327</u>	<u>\$ 21,717</u>	(2.1)	27.6	<u>\$ 27,721</u>	<u>\$ 21,717</u>	27.6

Capital

Total common shareholder equity was \$155.2 million at March 31, 2015, compared to \$151.1 million at December 31, 2014, and \$137.3 million at March 31, 2014. Total equity was \$175.2 million at March 31, 2015, compared to \$171.1 million at December 31, 2014, and \$157.3 million at March 31, 2014. Included in total shareholder equity is \$20 million in preferred stock, representing funds received from the Small Business Lending Fund (SBLF) during August 2011. The SBLF funds have an initial rate of 1 percent for five years and were provided by the Treasury to stimulate small business lending. The interest rate on the SBLF resets to 9.0 percent on March 31, 2016. Retaining or replacing the SBLF will be assessed based on the cost of alternative sources of capital.

After an extended rulemaking process, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rule”). The Basel III Rule was effective on January 1, 2015, subject to phase-in periods for certain of its components and other provisions. Phase-in provisions apply to the minimum regulatory capital ratios; regulatory capital adjustments and deductions; and non-qualifying capital instruments. Phase-in provisions for the regulatory capital adjustments and deductions will change the amount deducted from capital each calendar year until the transition period ends.

As of March 31, 2015, Alerus's regulatory capital adjustments and deductions were primarily impacted by the phase-in of deductions of intangible assets other than goodwill and mortgage servicing assets. Specifically, although an identified customer account intangible in the amount of \$22.0 million was fully deducted from regulatory capital as of December 31, 2014, only 40 percent of that intangible balance is deductible from regulatory capital in 2015. Although 100 percent of the customer account intangible will be deducted in 2018, amortization of the existing intangible balance over the same time period will substantially reduce the net deduction from capital. This phase-in adjustment only affects regulatory capital calculations and not the calculation of tangible common equity to tangible assets, tangible common equity to risk weighted assets and ROTCE, all of which exclude the entire identified customer account intangible and other intangibles consistent with prior periods.

The Tier 1 capital ratio was 13.2 percent at March 31, 2015, compared with 11.8 percent at December 31, 2014, and 13.3 percent at March 31, 2014. The tangible common equity to tangible assets ratio was 8.8 percent on March 31, 2015, compared with 8.8 percent on December 31, 2014, and 9.3 percent on March 31, 2014. The tangible common equity to risk-based assets ratio was 10.6 percent at March 31, 2015, compared with 10.4 percent at December 31, 2014, and 11.6 percent at March 31, 2014.

A new regulatory capital ratio, common equity tier 1 capital ratio, is required under the Basel III Rule. Alerus' common equity tier 1 capital ratio at March 31, 2015 was 11.5 percent. All regulatory ratios continue to be in excess of "well-capitalized" requirements.

Dividends on common shares for the first quarter of 2015 were \$0.10 per share, compared to first quarter 2014 dividends of \$0.09, an increase of 11.1 percent.

CAPITAL POSITION

(Dollars in thousands)

(Unaudited)	Mar 31 2015	Dec 31 2014	Sept 30 2014	Jun 30 2014	Mar 31 2014
Total shareholders' equity	\$ 175,249	\$ 171,086	\$ 165,619	\$ 161,844	\$ 157,299
Common shareholders' equity	155,249	151,086	145,619	141,844	137,299
Preferred shareholders' equity	20,000	20,000	20,000	20,000	20,000
Tangible common equity to tangible assets	8.8%	8.8%	9.0%	8.5%	9.3%
Tangible common equity to risk-weighted assets ⁽²⁾	10.6%	10.4%	10.7%	10.4%	11.6%

	Basel III Transitional ⁽²⁾	Basel I ⁽³⁾			
Regulatory Capital: ⁽¹⁾					
Common equity tier 1 capital	141,549	N/A	N/A	N/A	N/A
Tier 1 capital	161,549	147,192	153,855	146,760	144,945
Total risk-based capital	176,933	162,778	169,563	162,235	158,651

Regulatory Capital Ratios: ⁽¹⁾

Common equity tier 1 capital ratio	11.5%	N/A	N/A	N/A	N/A
Tier 1 capital ratio	13.2%	11.8%	12.2%	11.9%	13.3%
Total risk-based capital ratio	14.4%	13.1%	13.5%	13.1%	14.5%
Leverage ratio	11.0%	10.1%	10.4%	10.8%	9.7%

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

(2) Under the banking agencies Basel III Final Rule, assets and credit equivalent amounts of off-balance sheet exposures are calculated based upon the standardized approach for risk-weighted assets. The resulting values are added together resulting in total risk-weighted assets.

(3) These capital ratios were calculated under the Supervisory Agencies general risk-based capital rules, Basel I, which was in effect prior to January 1, 2015

The equity and capital ratios have been updated to reflect the restatement of 2012 earnings. Refer to 4/10/2015 news release.

Credit Quality

Credit quality continues to be stable in the first quarter, with nonperforming assets of \$6.4 million, a 5.2% increase, as compared to the fourth quarter of 2014 and a 23.8% decrease from the first quarter of 2014. The allowance for credit losses was \$18.5 million at March 31, 2015, compared with \$17.1 million at December 31, 2014, and \$16.8 million at March 31, 2014.

The ratio of nonperforming assets to loans and other real estate was 0.6 percent at March 31, 2015, compared with 0.5 percent at December 31, 2014, and 0.9 percent at March 31, 2014. The decrease in nonperforming assets compared with a year ago was driven primarily by the improvement in the commercial real estate portfolio. The ratio of the allowance for credit losses to period-end nonperforming loans was 429.8 percent at March 31, 2015, compared with 426.9 percent at December 31, 2014, and 348.2 percent at March 31, 2014.

ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Non Performing Loans					
Commercial:					
Commercial	\$ 679	\$ 573	\$ 992	\$ 939	\$ 1,049
Commercial real estate	2,171	1,844	352	421	242
Total commercial	2,850	2,417	1,344	1,360	1,291
Consumer:					
Residential mortgages	1,086	1,168	1,745	1,475	308
Other consumer	16	20	315	66	22
Total consumer	1,102	1,188	2,060	1,541	330
Total nonperforming loans, excluding covered loans	\$ 3,952	\$ 3,605	\$ 3,404	\$ 2,901	\$ 1,621
Covered loans	-	-	2,836	2,979	3,201
Total nonperforming loans	\$ 3,952	\$ 3,605	\$ 6,240	\$ 5,880	\$ 4,822
Other real estate	2,444	2,478	2,239	3,233	1,509
Covered other real estate	0	0	1,690	2,112	2,080
Other nonperforming assets	16	11	8	3	7
Total nonperforming assets	\$ 6,412	\$ 6,094	\$ 10,177	\$ 11,228	\$ 8,418
Total nonperforming assets, excluding covered assets	\$ 6,412	\$ 6,094	\$ 5,651	\$ 6,137	\$ 3,137
Accruing loans 90 days or more past due, excluding covered loans	\$ 350	\$ 392	\$ 28	\$ 230	\$ -
Accruing loans 90 days or more past due	\$ 350	\$ 392	\$ 28	\$ 230	\$ -
Nonperforming assets to loans plus ORE, excluding covered assets	0.6%	0.5%	0.5%	0.6%	0.3%
Nonperforming assets to loans plus ORE	0.6%	0.5%	0.9%	1.0%	0.9%
Allowance for loan losses	\$ 18,492	\$ 17,063	\$ 16,892	\$ 16,905	\$ 16,788
Allowance for loan losses to total nonperforming loans, excluding covered loans	429.8%	426.9%	492.2%	539.9%	1035.7%
Allowance for loan losses to total nonperforming loans	429.8%	426.9%	269.5%	276.7%	348.2%

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 in thousands)			Percentage Change		Percentage Change			
(Unaudited)			1Q15 vs 4Q14		1Q15 vs 1Q14		YTD 2015 vs YTD 2014	
	1Q 2015	4Q 2014	1Q 2014					Percentage Change
Average common shareholders' equity	\$ 156,174	\$ 150,650	\$ 137,592			\$ 156,174	\$ 137,592	
Less: average goodwill	(1,261)	(1,415)	(664)			(1,261)	(664)	
Less: average other intangibles, net of tax benefit	(14,774)	(13,143)	(6,417)			(14,774)	(6,417)	
Average tangible common equity	<u>\$ 140,139</u>	<u>\$ 136,092</u>	<u>\$ 130,511</u>	3.0	7.4	<u>\$ 140,139</u>	<u>\$ 130,511</u>	7.4
Net income applicable to common stock	\$ 3,984	\$ 5,499	\$ 4,018			\$ 3,984	\$ 4,018	
Add: Intangible amortization, net of tax benefits	1,019	895	536			1,019	536	
Net cash available to common shareholders	<u>\$ 5,003</u>	<u>\$ 6,394</u>	<u>\$ 4,554</u>			<u>\$ 5,003</u>	<u>\$ 4,554</u>	9.9
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	10.35%	14.48%	11.84%			10.35%	11.84%	
Effect of excluding average intangibles	1.18%	1.55%	0.65%			1.18%	0.65%	
Effect of excluding intangible amortization, net of tax benefits	2.95%	2.61%	1.66%			2.95%	1.66%	
Return on average tangible common equity	<u>14.48%</u>	<u>18.64%</u>	<u>14.15%</u>	(22.3)	2.3	<u>14.48%</u>	<u>14.15%</u>	2.3
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	\$ 0.29	\$ 0.39	\$ 0.29			\$ 0.29	\$ 0.29	
Effect of excluding intangible amortization, net of tax benefits	0.07	0.07	0.04			0.07	0.04	
Adjusted cash earnings per share*	<u>\$ 0.36</u>	<u>\$ 0.46</u>	<u>\$ 0.33</u>	(22.0)	9.1	<u>\$ 0.36</u>	<u>\$ 0.33</u>	9.1

About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiaries Alerus Financial, N.A., Alerus Securities Corporation, and Alerus Investment Advisors Corporation, offers business and consumer banking products and services, residential mortgage financing, employer-sponsored retirement plan administration, and wealth management including trust, brokerage, insurance, and asset management. Alerus banking and wealth management offices are located in Grand Forks and Fargo, North Dakota; the Minneapolis-St. Paul, Minnesota metropolitan area; and Scottsdale, Arizona. Alerus Retirement Solutions plan administration offices are located in St. Paul, Minnesota; East Lansing and Troy, Michigan; and Manchester, New Hampshire.

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.