

FOR RELEASE (01.29.2016—16:00)

**ALERUS FINANCIAL CORPORATION REPORTS  
FOURTH QUARTER AND 2015 FULL YEAR RESULTS  
ALERUS FINANCIAL REPORTS \$16.5 MILLION NET INCOME FOR FULL YEAR 2015**

**GRAND FORKS, ND** (January 29, 2016) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of \$2.7 million or \$0.19 per diluted common share for the fourth quarter of 2015 (unaudited), compared to \$5.5 million or \$0.39 per diluted share for the fourth quarter of 2014. Full year net income of \$16.5 million, or \$1.17 per diluted share compares to \$20.2 million, or \$1.44 per diluted share in 2014.

*Financial results:*

- Full year 2015 (unaudited):
  - Net income of \$16.5 million, down 18.4 percent from 2014
  - Diluted earnings per share of \$1.17, down 18.8 percent from 2014
  - Return on average assets (ROA) of 1.08 percent, down from 1.42 percent in 2014
  - Return on average common equity (ROE) of 10.13 percent, down from 13.89 percent in 2014
  - Return on tangible common equity (ROTCE) of 12.99 percent, down from 16.67 percent in 2014
  - Intangible amortization expense from acquisitions of \$4.4 million or \$0.19 per diluted share, up from \$4.2 million or, \$0.18 in 2014
  - Revenue of \$146.1 million, up 12.8 percent from 2014
    - Banking division revenue of \$59.0 million, approximately equal to 2014
    - Retirement division revenue of \$51.1 million, up 24.4 percent from 2014
    - Wealth Management division revenue of \$11.4 million, up 2.7 percent from 2014
    - Mortgage division revenue of \$24.6 million, up 33.6 percent from 2014
  - Non-interest expense of \$118.1 million, up 18.0 percent from 2014
- Fourth quarter 2015:
  - Net income of \$2.7 million, down 50.7 percent from fourth quarter of 2014
  - Diluted earnings per share of \$0.19, down 51.3 percent from the fourth quarter of 2014
  - Revenue of \$36.1 million, up 5.2 percent from the fourth quarter of 2014
  - Non-interest expense of \$30.1 million, up 6.2 percent from the fourth quarter of 2014

*Fourth quarter 2015 results included:*

- Customer growth:
  - Cash and due from banks increased \$160.1 million in preparation for the two acquisitions scheduled to close during the first quarter of 2016 and the planned repayment of Small Business Lending Fund (SBLF) preferred stock.
  - Total loans decreased \$10.4 million in the fourth quarter to \$1,176 million, but were up \$45.1 million from 2014.
  - Deposits grew \$113.4 million in the fourth quarter to \$1.46 billion, up \$195.8 million from 2014, a portion of which was internal trust related funds.
  - Assets under administration increased \$506 million in the fourth quarter to \$17.5 billion, up \$1.9 billion from 2014.
  - Assets under management increased \$30 million in the fourth quarter to \$2.7 billion, up \$151 million from 2014.

- Mortgage originations of \$215 million in the fourth quarter contributed to total originations of \$988 million, a \$239 million increase from 2014.
- Credit quality:
  - Nonperforming assets of \$12.0 million, increased 85.5 percent from the fourth quarter of 2014, representing 1.0 percent of loans and ORE, below historical industry averages
  - Allowance for loan losses to nonperforming loans was 131.7 percent at December 31, 2015, compared with 427.0 percent at December 31, 2014
- Capital ratios:
  - Tier 1 capital ratio of 12.3 percent
  - Total risk based capital ratio of 17.0 percent
  - Tangible common equity to tangible asset ratio of 8.2 percent

### **CEO Comments**

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, “2015 was a challenging year for Alerus, with financial performance not meeting expectations. The two most recent retirement services acquisitions and organic growth added \$10 million of non-interest income, offset in part by expenses incurred as we integrated the companies. Our mortgage operations also increased revenues by \$6.2 million as origination volume increased. Operating expenses increased as we continued to invest in personnel and build the infrastructure to prepare the Company for continued growth. Also, a return to a more normal credit risk environment resulted in the Company setting aside \$4.2 million for provisions for credit losses.”

“I’m very proud of what we do. I’m even more proud of how we do it. Alerus is a hybrid company unlike any other with a balanced and diverse revenue stream of non-interest income and net interest income. We have a relationship-focused business model and a professional staff that is committed to helping customers achieve their financial goals. We are spread across different regional banking and wealth management markets, as well as a national retirement services market. We continue to make investments in ourselves and are committed to growing the Alerus brand and building a regional franchise. We have laid an incredibly strong foundation and I look forward to sharing more detail regarding our continued progress in the 2015 Annual Report.”

### **Earnings Summary**

Net income was \$2.7 million for the fourth quarter of 2015, 50.6 percent lower than the \$5.5 million for the fourth quarter of 2014, and is \$16.5 million for the year, 18.4 percent lower than the \$20.2 million for 2014. Diluted earnings per common share of \$0.19 in the fourth quarter of 2015 were \$0.20 lower than the fourth quarter of 2014, and \$1.17 for the year, 18.8 percent lower than the \$1.44 diluted earnings per share reported for 2014. Return on average assets and return on average common equity were 0.69 percent and 6.48 percent, respectively, for the fourth quarter of 2015, compared with 1.11 percent and 10.40 percent, respectively, for the fourth quarter of 2014. Earnings for 2015 included a number of non-recurring adjustments relating to the acquisitions of Retirement Alliance, Inc. and Interactive Retirement Systems, LTD, each further described below, \$4.4 million of intangible amortization expense, provisions for credit losses of \$4.2 million, and a number of other non-recurring items. Conversely, 2014 earnings were positively impacted by non-recurring items, including \$2.1 million of gains on the sales of securities and \$1.1 million of tax benefits from state tax revenue reapportionment, offset in part by \$2.0 million of acquisition integration expenses.

## EARNINGS SUMMARY

(Dollars in thousands)

(Unaudited)

	4Q	3Q	4Q	Percentage Change	Percentage Change	YTD	YTD	Percentage Change
	2015	2015	2014	4Q15 vs 3Q15	4Q15 vs 4Q14	2015	2014	
Net income	\$ 2,737	\$ 4,323	\$ 5,549	(36.7)	(50.7)	\$ 16,502	\$ 20,231	(18.4)
Net income applicable to common stock	\$ 2,687	\$ 4,273	\$ 5,499	(37.1)	(51.1)	\$ 16,302	\$ 20,031	(18.6)
Earnings per share	\$ 0.19	\$ 0.31	\$ 0.39	(38.7)	(51.3)	\$ 1.17	\$ 1.44	(18.8)
Return on average assets	0.69%	1.11%	1.50%	(38.1)	(54.1)	1.08%	1.42%	(23.9)
Return on average common equity	6.48%	10.40%	14.48%	(37.7)	(55.2)	10.13%	13.89%	(27.1)
Net interest margin (tax equivalent)	3.61%	3.81%	4.06%	(5.1)	(11.0)	3.81%	3.97%	(4.1)
Efficiency ratio	83.26%	84.19%	82.48%	(1.1)	0.9	80.84%	77.32%	4.6
Dividends declared per common share	\$ 0.11	\$ 0.11	\$ 0.10	-	10.0	\$ 0.42	\$ 0.38	10.7
Book value per common share	\$ 11.67	\$ 11.62	\$ 10.85	0.4	7.6			

### 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 \$852 thousand 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, N.H. 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, increased the Company's retirement services division by \$2.1 billion in retirement and individual asset managed accounts. As part of the transaction, \$10.1 million was allocated to an identified customer intangible and \$2.0 million to goodwill. The Company is amortizing the customer intangible over a 10-year period, resulting in an annualized intangible amortization expense of \$1.0 million, while the goodwill is not subject to amortization. During 2015, retrospective adjustments were made to the estimated fair values of assets acquired and liabilities assumed through the acquisition to reflect new information obtained during the measurement period, about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. The retrospective adjustments were mostly driven by refinements in the customer intangible valuation based on an independent study conducted by a third party. The revisions principally resulted in a decrease in the customer intangible and an increase in goodwill.

On January 2, 2015, the Company acquired Interactive Retirement Solutions, LTD, located in Bloomington, Minn. 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, increased the Company's retirement services division by \$1.25 billion in retirement and individual asset managed accounts. As part of the transaction, \$3.8 million was allocated to an identified customer intangible and \$420 thousand to goodwill. The Company is amortizing the customer intangible over a 10-year period, resulting in an annualized intangible amortization expense of \$378 thousand, while the goodwill is not subject to amortization.

On January 1, 2016, the Company acquired Alliance Benefit Group North Central States, Inc. (ABGNCS), located in Albert Lea and Eden Prairie, Minn. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identified intangible assets and goodwill were recorded at fair value. The purchase, consisting of approximately 900 retirement plans with more than 75,000 retirement participants, increased the Company's retirement services division by \$6.0 billion in retirement and individual asset managed accounts. The transaction will result in approximately \$22 million being allocated between goodwill and an identified customer intangible, based on the estimated value as of the acquisition date, which will be confirmed through a study performed by an independent third party.

On January 15, 2016, the Company acquired Beacon Bank, with five branches, three located in the southwestern suburbs of Minneapolis, Minn., and two in Duluth, Minn. The Company purchased approximately \$350.0 million in cash, securities, loans, and other assets and assumed approximately \$315.5 million of deposits, other liabilities, and Trust Preferred Securities (TRUPS). The Company will allocate approximately \$20 million between goodwill and a core deposit intangible, based on the estimated values as of the acquisition date. The core deposit intangible will be amortized over 5 years, resulting in an intangible amortization expense, while the goodwill is not subject to amortization. A study by an independent third party will be utilized to determine the core deposit intangible amount and life as well as the goodwill. The TRUPS will be recorded at their fair value and qualify as tier 1 capital for regulatory capital purposes.

#### **Subordinated Notes Issuance**

On December 17, 2015, the Company issued \$50 million of fixed-to-floating rate subordinated notes, through a private placement offering, that mature on December 30, 2025. The notes, which qualify as Tier 2 regulatory capital, have a fixed rate of interest of 5.75%, through December 30, 2020, and then convert to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. Through December 30, 2020, interest is payable semi-annually on June 30 and December 30, and thereafter interest is paid quarterly on March 30, June 30, September 30, and December 30. From December 30, 2020, to the maturity date, the notes can be redeemed on any interest payment date at par. The proceeds will be utilized to retire the SBLF preferred stock, subject to approval, and for the acquisitions of ABGNCS and Beacon Bank, as well as to support organic growth and future acquisitions.

# Alerus Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

	December 31, 2015	September 30, 2015	December 31, 2014
(Dollars and Shares in Thousands, Except Per Share Data)			
<b>Assets</b>	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	\$ 266,159	\$ 106,033	\$ 45,526
Investment securities			
Trading	1,947	2,594	1,960
Available-for-sale	190,396	172,906	204,141
Total investment securities	192,343	175,500	206,101
Loans and leases			
Mortgages held for sale	48,642	44,006	35,042
Loans and leases	1,126,921	1,141,987	1,095,459
Allowance for loan losses	(14,688)	(13,976)	(17,063)
Net loans and leases	1,160,875	1,172,017	1,113,438
Premises and equipment	22,419	21,216	21,456
Bank-owned life insurance	28,308	28,100	27,484
Goodwill	3,683	3,683	3,264
Other intangible assets, excluding servicing assets	17,606	18,401	18,188
Deferred tax assets, net	13,780	14,328	14,177
Other assets	39,690	35,227	38,100
Total assets	<u>\$ 1,744,863</u>	<u>\$ 1,574,505</u>	<u>\$ 1,487,734</u>
<b>Liabilities and Stockholders' Equity</b>			
Deposits			
Noninterest-bearing	\$ 425,608	\$ 402,672	\$ 330,218
Interest-bearing	815,958	714,870	721,076
Time deposits	216,455	227,058	210,873
Total deposits	1,458,021	1,344,600	1,262,167
Short-term borrowings	-	9,834	10,532
Long-term debt	21,369	21,406	21,494
Subordinated notes payable, net	49,375	-	-
Other liabilities	33,277	16,633	22,455
Total liabilities	1,562,042	1,392,473	1,316,648
Stockholders' equity			
Preferred stock	20,000	20,000	20,000
Common stock and related surplus	40,298	40,026	38,265
Retained earnings	121,474	120,196	111,451
Accumulated other comprehensive income, net	1,049	1,810	1,370
Total stockholders' equity	182,821	182,032	171,086
Total liabilities and equity	<u>\$ 1,744,863</u>	<u>\$ 1,574,505</u>	<u>\$ 1,487,734</u>
Common shares outstanding	13,954	13,945	13,922
Book value per common share	<u>\$ 11.67</u>	<u>\$ 11.62</u>	<u>\$ 10.85</u>

Alerus Financial Corporation and Subsidiaries

**Consolidated Statements of Income**

(Dollars and Shares in Thousands, Except Per Share Data) (Unaudited)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
<b>Interest Income</b>				
Loans and leases, including fees	\$ 12,879	\$ 13,000	\$ 51,731	\$ 47,876
Investment securities	1,098	1,328	4,475	6,466
Other interest income	74	13	123	52
Total interest income	14,051	14,341	56,329	54,394
<b>Interest Expense</b>				
Deposits	715	671	2,758	2,673
Short-term borrowings	1	5	18	22
Other borrowed funds	256	144	682	621
Total interest expense	972	820	3,458	3,316
Net interest income	13,079	13,521	52,871	51,078
Provision for credit losses	2,175	(400)	4,200	(400)
Net interest income after provision for credit losses	10,904	13,921	48,671	51,478
<b>Non-interest Income</b>				
Retirement services	12,743	11,732	51,060	41,058
Wealth management	3,035	2,850	11,417	11,119
Mortgage banking	5,443	4,605	24,630	18,435
Service charges on deposit accounts	404	415	1,611	1,626
Net gain (loss) on investment securities	(28)	18	(17)	2,179
Other	1,467	1,202	4,554	3,989
Total non-interest income	23,064	20,822	93,255	78,406
<b>Non-interest Expense</b>				
Salaries	14,004	13,663	59,122	48,839
Employee benefits	2,936	2,843	12,804	11,580
Net occupancy expense	1,273	1,183	5,202	4,424
Furniture and equipment expense	1,341	1,232	5,019	4,660
Intangible amortization expense	795	1,492	4,361	4,196
Other	9,744	7,914	31,627	26,416
Total non-interest expense	30,093	28,327	118,135	100,115
Income before income taxes	3,875	6,416	23,791	29,769
Applicable income taxes	1,138	867	7,289	9,538
Net income	2,737	5,549	16,502	20,231
Less: Preferred dividends	50	50	200	200
Net income applicable to common stock	\$ 2,687	\$ 5,499	\$ 16,302	\$ 20,031
Earnings per common share	\$ 0.19	\$ 0.39	\$ 1.17	\$ 1.44
Average common shares outstanding	13,951	13,922	13,947	13,887

# Alerus Financial Corporation and Subsidiaries

## Statements of Cash Flows

Twelve months ended

December 31,

(Dollars in Thousands)	2015	2014
	(Unaudited)	(Unaudited)
<b>Operating Activities</b>		
Net income	\$ 16,502	\$ 20,231
Provision for credit losses	4,200	(400)
Depreciation, amortization and other	8,727	8,160
Other adjustments to net income	927	(2,278)
Changes in liabilities	10,039	5,848
Changes in other operating activities	(16,641)	(10,730)
Total cash flows from operating activities	23,754	20,831
<b>Investing Activities</b>		
Purchases of premises and equipment	(3,906)	(2,101)
Investments, net	12,605	88,675
Loans, net	(38,722)	(88,094)
Cash paid for business combinations	(4,314)	(10,843)
Other cash flows from investing activities	2,126	3,344
Total cash flows used by investing activities	(32,211)	(9,019)
<b>Financing Activities</b>		
Dividends paid	(6,059)	(5,532)
Purchase of stock	(27)	-
Deposits	195,853	(36,359)
Net borrowings	38,718	2,522
Other cash flows from financing activities	605	539
Total cash flows from (used by) financing activities	229,090	(38,830)
Change in cash and cash equivalents	220,633	(27,018)
Cash and cash equivalents at beginning of period	45,526	72,544
Cash and cash equivalents at end of period	\$ 266,159	\$ 45,526

## Revenue

Total net revenue for the fourth quarter of 2015 was \$36.1 million, which was \$1.8 million, or 5.2 percent, higher than the fourth quarter of 2014, and reflects a 3.2 percent decrease in net interest income and a 10.8 percent increase in non-interest income. Total net revenue for the full year of 2015 was \$146.1 million, which was \$16.6 million, or 12.8 percent, higher than the full year of 2014. The increase in net revenue, year-over-year, was largely the result of higher retirement services income from the acquisitions, increased mortgage banking revenues due to higher origination volumes, and an increase in net interest income due to higher average earning assets, although at a lower margin. Non-interest income represented 63.8% of total revenue for the Company.

## Net Interest Income

Net interest income in the fourth quarter of 2015 was \$13.1 million, compared with \$13.5 million in the fourth quarter of 2014, a decrease of \$442 thousand, or 3.2 percent. The primary reason for the decrease in net interest income during the quarter was a lower yield on the loan portfolio and lower investment securities balances. During the year a number of loans matured and were renewed at lower rates, resulting in the net interest margin (tax equivalent) decreasing to

3.81 percent in 2015, from 3.97 percent in 2014. Net interest income for the full year was \$52.9 million, an increase of \$1.8 million from 2014, and was the result of higher average loans outstanding during the year. Net organic loan growth for 2015 was \$45.1 million, although during the fourth quarter the portfolio decreased by \$10.4 million as a result of repayments and maturities.

Average earning assets were \$1.4 billion for 2015, compared with \$1.3 billion for 2014, an increase of \$99.3 million, or 7.6 percent. The primary driver of the increase in earning assets was an increase in both consumer and business related loans. Net interest margin on a tax-equivalent basis in the fourth quarter of 2015 was 3.61 percent, compared with 4.06 percent in the fourth quarter of 2014, and 3.81 percent in the third quarter of 2015. During the fourth quarter, the Company issued \$50 million of subordinated debentures and retained higher than normal levels of cash for the acquisitions which closed in January 2016, thus reducing net interest margin.

Total loans as of December 31, 2015, were \$1.18 billion, compared to \$1.13 billion as of December 31, 2014, an increase of \$45.1 million, or 4.0 percent. The increases were driven by demand for loans and lines of credit by new and existing credit-worthy borrowers, and an increase in mortgages held for sale.

Total investment securities were \$192.3 million on December 31, 2015, compared to \$206.1 million as of December 31, 2014, a decrease of \$13.8 million, or 6.7 percent. The portfolio was allowed to decrease, as proceeds from maturing or called investment securities were utilized to fund additional loans during the year and in anticipation of the acquisition of the Beacon Bank investment portfolio.

Total deposits were \$1.46 billion on December 31, 2015, compared to \$1.26 billion as of December 31, 2014, an increase of \$196 million, or 15.5 percent. The increase was primarily the result of growth in both non-interest and interest bearing accounts, including new Trust related deposits. The Company's loan to deposit ratio decreased from 89.6 percent at December 31, 2014 to 80.6 percent at the end of 2015. The Company is taking prudent liquidity planning steps to manage the loan to deposit ratio utilizing the investment portfolio as a liquidity source. Total time deposits were \$216.5 million as of December 31, 2015, compared to \$210.9 million as of December 31, 2014, an increase of \$5.6 million, or 2.7 percent. Due to the low interest rate environment, time deposit rates have not been attractive resulting in rate sensitive customers seeking alternative investments.

#### **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. The carrying amount of those loans was \$10.7 million as of December 31, 2014. 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. During 2015, the FDIC reviewed a 2014 claim, under the commercial related loans loss sharing agreement, which resulted in the Company charging off \$448 thousand in 2015.

#### **Non-interest Income**

Fourth quarter non-interest income was \$23.1 million, which was \$2.2 million, or 10.8 percent, higher than the fourth quarter of 2014. For the full year, non-interest income increased by \$14.8 million from \$78.4 million to \$93.2 million, principally due to the acquisitions of Retirement Alliance, Inc., and Interactive Retirement Systems, as well as a significant increase in mortgage banking income. Retirement Services income increased \$10.0 million, or 24.4 percent year-over-year, while Wealth Management income increased to \$11.4 million, from \$11.1 million in 2014. The acquisition of Retirement Alliance, Inc. and Interactive Retirement Systems added 860 plans, 58,000 participants, and increased assets under administration by \$3.3 billion. Mortgage banking fees increased by \$6.2 million, or 33.6 percent, to \$24.6 million on mortgage originations of \$988 million. 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.

**NON-INTEREST INCOME**

(Dollars in thousands)

(Unaudited)

	4Q	3Q	4Q	Percentage Change	Percentage Change	YTD	YTD	Percentage Change
	2015	2015	2014	4Q15 vs 3Q15	4Q15 vs 4Q14	2015	2014	
Retirement services	\$ 12,743	\$ 12,026	\$ 11,732	6.0	8.6	\$ 51,060	\$ 41,058	24.4
Wealth management	3,035	2,831	2,850	7.2	6.5	11,417	11,119	2.7
Mortgage banking	5,443	7,167	4,605	(24.1)	18.2	24,630	18,435	33.6
Service charges on deposit accounts	404	436	415	(7.3)	(2.7)	1,611	1,626	(0.9)
Net gain (loss) on investment securities	(28)	16	18	(2.8)	(255.6)	(17)	2,179	(100.8)
Other	1,467	789	1,202	85.9	22.0	4,554	3,989	14.2
Total non-interest income	<u>\$ 23,064</u>	<u>\$ 23,265</u>	<u>\$ 20,822</u>	<u>(0.9)</u>	<u>10.8</u>	<u>\$ 93,255</u>	<u>\$ 78,406</u>	<u>18.9</u>

**Non-interest Expense**

Total non-interest expense in the fourth quarter of 2015 was \$30.1 million, which was \$1.8 million, or 6.2 percent, higher than the fourth quarter of 2014, and \$845 thousand, or 2.7 percent, lower than the third quarter of 2015. The increase in total noninterest expense year-over-year was primarily due to higher mortgage commissions of \$4.1 million based on loan volumes, additional salaries and benefits as a result of the acquisitions of \$3.1 million, one-time acquisition conversion expenses of \$850 thousand, reduction in mortgage servicing rights valuation of \$662 thousand, recording of unfunded commitment liabilities of \$701 thousand, and rebranding expenses of \$600 thousand. The Company also made \$1.0 million of contributions to North Dakota Housing Initiative projects that result in dollar for dollar North Dakota state income tax credits. The contributions increase non-interest expenses, but are offset with state income tax credits.

Salary expense in the fourth quarter of 2015 was \$14.0 million, which was \$341 thousand, or 2.5 percent higher than the fourth quarter of 2014, and \$1.7 million, or 11.1 percent, lower than the third quarter of 2015. Salary expense for the year ended 2015 was \$59.1 million, which was \$10.3 million, or 21.1 percent higher, than the \$48.8 million reported in 2014. The increase in salary expense, as set forth above is primarily due to higher mortgage commissions and the additional salaries resulting from the acquisitions of Retirement Alliance, Inc. and Interactive Retirement Systems. A number of additional employees were added to the organization to assist the Company in its continued growth initiatives, which added \$2.0 million of salary expense. The mortgage commissions are variable and tied directly to mortgage production and are not a permanent increase in compensation expense.

The Company has acquired sixteen companies since 2002, not including ABGNCS and Beacon Bank, creating identified intangible assets of \$17.6 million and \$3.7 million of goodwill on the balance sheet. The identified intangible assets amortize and the resulting amortization expense for 2015 was \$4.4 million, a \$200 thousand increase from the \$4.2 million reported for 2014. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of December 31, 2015, is \$17.6 million and will fully amortize by December 31, 2024. The aggregate unamortized intangible balance was \$18.4 million as of December 31, 2014. The acquisitions of Alliance Benefit Group North Central States and Beacon Bank in January 2016 created additional goodwill and identified intangibles of \$41.9 million, which the identified intangibles portion will be amortized over five years for the core deposit intangible and ten years for the customer intangible, beginning in 2016, subject to third party studies.

**NON-INTEREST EXPENSE**

(Dollars in thousands)

(Unaudited)

	4Q	3Q	4Q	Percentage Change	Percentage Change	YTD	YTD
	2015	2015	2014	4Q15 vs 3Q15	4Q15 vs 4Q14	2015	2014
Salaries	\$ 14,004	\$ 15,752	\$ 13,663	(11.1)	2.5	\$ 59,122	\$ 48,839
Employee benefits	2,936	3,254	2,843	(9.8)	3.3	12,804	11,580
Net occupancy expense	1,273	1,417	1,183	(10.2)	7.6	5,202	4,424
Furniture and equipment expense	1,341	1,154	1,232	16.2	8.8	5,019	4,660
Intangible amortization expense	795	1,316	1,492	(39.6)	(46.7)	4,361	4,196
Marketing and business development	903	1,953	772	(53.8)	17.0	3,907	2,745
Supplies, telephone and postage	1,424	1,057	1,326	34.7	7.4	4,404	3,839
FDIC insurance	334	312	288	7.1	16.0	1,175	1,040
Professional fees- legal, audit and consulting	903	558	930	61.8	(2.9)	2,552	2,675
Correspondent and other contracted services	2,820	1,955	2,149	44.2	31.2	9,394	6,984
Other	3,360	2,210	2,449	52.0	37.2	10,195	9,133
Total non-interest expense	<u>\$ 30,093</u>	<u>\$ 30,938</u>	<u>\$ 28,327</u>	<u>(2.7)</u>	<u>6.2</u>	<u>\$ 118,135</u>	<u>\$100,115</u>

**Capital**

Total common stockholder equity was \$162.8 million at December 31, 2015, compared to \$162.0 million at September 30, 2015, and \$151.1 million at December 31, 2014. Total equity was \$182.8 million at December 31, 2015, compared to \$182.0 million at September 30, 2015, and \$171.1 million at December 31, 2014. Included in total stockholder equity is \$20 million in preferred stock, representing funds received from the Small Business Lending Fund (SBLF) in August 2011. The SBLF funds have an initial rate of 1 percent for five years and were provided by the U.S. Treasury to stimulate small business lending. The interest rate on the SBLF resets to 9.0 percent on February 18, 2016. In December 2015, the Company issued \$50 million of subordinated debentures which mature on December 30, 2015. The subordinated debentures have an initial rate of 5.75 percent for five years and then convert to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. The subordinated debentures qualify as tier 2 capital for regulatory purposes. The proceeds of the subordinated debentures will be utilized for the acquisitions of ABGNCS and Beacon Bank, and potentially to retire the SBLF preferred stock prior to the rate increase.

The Tier 1 capital ratio was 12.3 percent at December 31, 2015, compared with 11.9 percent at September 30, 2015, and 12.2 percent at December 31, 2014. The tangible common equity to tangible assets ratio was 8.2 percent on December 31, 2015, compared with 8.8 percent at September 30, 2015, and 8.8 percent at December 31, 2014. The tangible common equity to risk-based assets ratio was 10.2 percent at December 31, 2015, compared with 9.2 percent at September 30, 2015, and 10.4 percent at December 31, 2014. All regulatory ratios continue to be in excess of "well-capitalized" requirements. Dividends on common shares for 2015 were \$0.42 per share, or \$5.8 million, compared to 2014 dividends of \$0.38, or \$5.3 million, an increase of \$0.5 million, or 9.9 percent.

**CAPITAL POSITION**

(Dollars in thousands)

(Unaudited)

	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
Total stockholders' equity	\$ 182,821	\$ 182,032	\$ 178,427	\$ 175,249	\$ 171,086
Common stockholders' equity	162,821	162,032	158,427	155,249	151,086
Preferred stockholders' equity	20,000	20,000	20,000	20,000	20,000
Tangible common equity to tangible assets	8.2%	8.8%	8.7%	8.8%	8.8%
Tangible common equity to risk-weighted assets <sup>(2)</sup>	10.2%	9.2%	9.4%	9.6%	10.4%

	Basel III Transitional <sup>(2)</sup>				Basel I <sup>(3)</sup>
Regulatory Capital: <sup>(1)</sup>					
Common equity tier 1 capital	150,873	148,995	144,946	141,548	N/A
Tier 1 capital	170,472	168,430	164,946	161,548	153,855
Total risk-based capital	235,160	182,406	182,852	178,572	169,563

**Regulatory Capital Ratios: <sup>(1)</sup>**

Common equity tier 1 capital ratio	10.92%	10.50%	10.12%	10.40%	N/A
Tier 1 capital ratio	12.33%	11.87%	11.52%	11.87%	12.20%
Total risk-based capital ratio	17.01%	12.86%	12.77%	13.13%	13.50%
Tier 1 leverage ratio	10.85%	11.28%	11.05%	10.97%	10.40%

(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 the Company's April 10, 2015 news release.

**Credit Quality**

Credit quality trends showed some deterioration during the year, with total nonperforming assets increasing to \$12.0 million at December 31, 2015, from \$6.5 million at December 31, 2014. Increases in nonperforming loans were primarily in the commercial loan portfolio. The Company was successful in reducing other real estate owned from \$2.5 million at December 31, 2014, to \$842 thousand at December 31, 2015. Nonperforming assets to loans plus ORE increased to 1.0 percent at December 31, 2015, which is below industry averages. The allowance for credit losses (ALLL) was \$14.7 million at December 31, 2015, compared with \$14.0 million at September 30, 2015, and \$17.1 million at December 31, 2014. The ALLL to total nonperforming loans was 131.7 percent at December 31, 2015, as compared to 427.0 percent at December 31, 2014. The Company's provision for credit losses during 2015 was \$4.2 million, as compared to a negative \$400 thousand in 2014. The Company had experienced three years of net loan recoveries leading up to 2015, but recorded net charge-offs on loans of \$6.5 million during 2015, primarily on two credit relationships, one of which was energy related. Less than 2 percent of the Company's loan portfolio is in energy related loans and only 4 percent is based in western North Dakota, which has experienced an economic slowdown due to energy.

## ASSET QUALITY

(Dollars in thousands)

(Unaudited)

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
<b>Non Performing Loans</b>					
Commercial:					
Commercial	\$ 6,224	\$ 2,526	\$ 6,766	\$ 679	\$ 573
Commercial real estate	2,580	2,598	3,654	2,171	1,844
Total commercial	8,804	5,124	10,420	2,850	2,417
Consumer:					
Residential mortgages	2,326	1,053	849	1,086	1,559
Other consumer	22	32	90	16	20
Total consumer	2,348	1,085	939	1,102	1,579
Total nonperforming loans	\$ 11,152	\$ 6,209	\$ 11,359	\$ 3,952	\$ 3,996
Other real estate	842	2,128	2,322	2,444	2,478
Other nonperforming assets	35	89	42	16	11
Total nonperforming assets	\$ 12,029	\$ 8,426	\$ 13,723	\$ 6,412	\$ 6,485
Accruing loans 90 days or more past due	\$ 1,605	\$ 666	\$ 184	\$ 350	\$ 392
Nonperforming assets to loans plus ORE	1.0%	0.7%	1.1%	0.5%	0.5%
Allowance for loan losses	\$ 14,688	\$ 13,976	\$ 18,414	\$ 18,492	\$ 17,063
Allowance for loan losses to total nonperforming loans	131.7%	225.1%	162.1%	467.9%	427.0%

## 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)

(Unaudited)

	4Q 2015	3Q 2015	4Q 2014	Percentage Change 4Q15 vs 3Q15	Percentage Change 4Q15 vs 4Q14	YTD 2015	YTD 2014	Percentage Change
Average common stockholders' equity	\$ 164,454	\$ 162,970	\$ 150,650			\$ 160,903	\$ 144,203	
Less: average goodwill	(3,327)	(3,517)	(1,415)			(2,365)	(1,090)	
Less: average other intangibles, net of tax benefit	(11,129)	(11,911)	(13,143)			(12,903)	(7,869)	
Average tangible common equity	<u>\$ 149,998</u>	<u>\$ 147,542</u>	<u>\$ 136,092</u>	1.7	10.2	<u>\$ 145,635</u>	<u>\$ 135,244</u>	7.7
Net income applicable to common stock	\$ 2,687	\$ 4,273	\$ 5,499			\$ 16,302	\$ 20,031	
Add: Intangible amortization, net of tax benefits	477	790	895			2,617	2,518	
Net cash available to common stockholders	<u>\$ 3,164</u>	<u>\$ 5,063</u>	<u>\$ 6,394</u>			<u>\$ 18,919</u>	<u>\$ 22,549</u>	(16.1)
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	6.48%	10.40%	14.48%			10.13%	13.89%	
Effect of excluding average intangibles	0.62%	1.09%	1.55%			1.06%	0.92%	
Effect of excluding intangible amortization, net of tax benefits	1.26%	2.12%	2.61%			1.80%	1.86%	
Return on average tangible common equity	<u>8.37%</u>	<u>13.61%</u>	<u>18.64%</u>	(38.5)	(55.1)	<u>12.99%</u>	<u>16.67%</u>	(22.1)
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	\$ 0.19	\$ 0.31	\$ 0.39			\$ 1.17	\$ 1.44	
Effect of excluding intangible amortization, net of tax benefits	0.04	0.05	0.07			0.19	0.18	
Adjusted cash earnings per share*	<u>\$ 0.23</u>	<u>\$ 0.36</u>	<u>\$ 0.46</u>	(37.5)	(50.6)	<u>\$ 1.36</u>	<u>\$ 1.62</u>	(16.3)

### **About Alerus Financial Corporation**

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

### **Forward-Looking Statements**

The following information appears in accordance with the Private Securities Litigation Reform Act of 1995:

This press release contains forward-looking statements about Alerus Financial Corporation. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date made. These forward-looking statements may cover, among other things, anticipated future revenue and expenses and the future plans and prospects of Alerus Financial Corporation. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Global and domestic economies could fail to recover from the recent economic downturn or could experience another severe contraction, which could adversely affect Alerus Financial Corporation's revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets, could cause additional credit losses and deterioration in asset values. In addition, Alerus Financial Corporation's business and financial performance is likely to be negatively impacted by effects of recently enacted and future legislation and regulation. Alerus Financial Corporation's results could also be adversely affected by continued deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; cyber-attacks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, residual value risk, market risk, operational risk, interest rate risk, liquidity risk, and cybersecurity.

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