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ALERUS FINANCIAL CORPORATION REPORTS FIRST QUARTER 2016 RESULTS OF $2.9 MILLION NET INCOME

GRAND FORKS, ND (April 29, 2016) – Alerus Financial Corporation (OTCQX: ALRS) reported net income of $2.9 million for the first quarter of 2016, or $0.21 per diluted common share, compared to $4.0 million or $0.29 per diluted common share for the first quarter of 2015.

First quarter 2016 financial highlights:

- Revenue of $39.0 million, an increase of $4.3 million, or 12.5 percent from the first quarter of 2015
  - Banking division revenue of $16.3 million, an increase of 11.2 percent from first quarter of 2015
  - Retirement division revenue of $15.5 million, an increase of 22.4 percent from first quarter of 2015
  - Mortgage division revenue of $4.3 million, a decrease of 5.2 percent from first quarter of 2015
  - Wealth management division revenue of $2.8 million, an increase of 2.9 percent from first quarter of 2015
- Non-interest expense increased $5.6 million from the first quarter of 2015, primarily attributable to acquisition and conversion related expenses
- Return on average assets (ROA) of 0.61 percent, compared to 1.10 percent for the first quarter of 2015
- Return on average common equity (ROE) of 6.97 percent, compared to 10.35 percent for the first quarter of 2015
- Return on tangible common equity (ROTCE) of 12.65 percent, compared to 14.48 percent for the first quarter of 2015
- Net interest margin of 3.40 percent, compared to 3.98 percent for the first quarter of 2015

First quarter results included:

- Acquisitions of Beacon Bank and Alliance Benefit Group North Central States, Inc. (ABGNCS) in January 2016
- Total assets increased $303.4 million, or 17.4 percent, during the quarter, to $2.0 billion
  - Loans increased $205.3 million, the increase reflects $205.1 million acquired from Beacon Bank
  - Investment securities increased $100.9 million, the increase reflects $113.9 million acquired from Beacon Bank
  - Deposits increased $308.1 million, the increase reflects $309.7 million acquired from Beacon Bank
- Assets under administration increased $7.6 billion, or 43 percent, to $25.1 billion, $6.0 billion acquired from ABGNCS
- Assets under management increased $173 thousand, or 7 percent, to $2.9 billion
- Mortgage originations totaled $168.0 million, compared to $205.7 million for the first quarter of 2015
- Nonperforming assets of $15.5 million, increased $3.4 million from the fourth quarter of 2015, $2.8 million related to Beacon Bank
- Allowance for loan losses to nonperforming loans was 111.3 percent at March 31, 2016, compared with 131.7 percent at December 31, 2015

CEO Comments

Alerus Financial Corporation Chairman, President, and Chief Executive Officer Randy Newman stated, “The acquisitions of Beacon Bank and ABGNCS in January 2016 will have a positive impact on the profitability of Alerus, once fully integrated. We are focused on making sure the conversions go smoothly and our customers’ experience is positive. These acquisitions increased revenue, however anticipated non-recurrring conversion and integration expenses offset some of these revenue gains in the first quarter. Operating expenses also increased as we continued to invest in the future of our Company.”

"The recent acquisitions increased banking assets to over $2 billion and retirement services assets under administration to in excess of $25 billion. In order to insure our continued success, we have invested in personnel and systems to maintain the high level of service our customers deserve. 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."

Acquisition Activity

On January 1, 2016, the Company acquired Alliance Benefit Group North Central States, Inc. (ABGNCS), located in Albert Lea, MN. 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 resulted in approximately $21.5 million being allocated between goodwill and an identified customer intangible, based on the estimated value as of the acquisition date. The customer intangible will be amortized over the estimated life, resulting in an intangible amortization expense, while the goodwill is not subject to amortization.

On January 15, 2016, the Company acquired Beacon Bank, with five branches, three located in the southwestern suburbs of Minneapolis, MN and two in Duluth, MN. The transaction included $348.9 million in cash, securities, loans, and other assets and $317.8 million of deposits, other liabilities and Trust Preferred Securities (TRUPS). The Company allocated $22.7 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 the estimated life, resulting in an intangible amortization expense, while the goodwill is not subject to amortization. The Company assumed $10.0 million face value of TRUPS, which was recorded at a fair value of $7.8 million. The TRUPS qualifies as Tier 1 capital for regulatory capital purposes.

SELECTED FINANCIAL DATA

(Dollars in thousands) (Unaudited)	1Q 2016	4Q 2015	1Q 2015	Percentage Change 1Q16 vs 4Q15	Percentage Change 1Q16 vs 1Q15	YTD 2016	YTD 2015	Percentage Change
Net income	$ 2,902	$ 2,737	$ 4,034	6.0	(28.1)	$ 2,902	$ 4,034	(28.1)
Net income applicable to common stock	$ 2,877	$ 2,687	$ 3,984	7.1	(27.8)	$ 2,877	$ 3,984	(27.8)
Earnings per share	$ 0.21	$ 0.19	$ 0.29	10.5	(27.6)	$ 0.21	$ 0.29	(27.6)
Return on average assets	0.61%	0.69%	1.10%	(12.1)	(44.9)	0.61%	1.10%	(44.5)
Return on average common equity	6.97%	6.48%	10.35%	7.6	(32.6)	6.97%	10.35%	(32.6)
Net interest margin (tax equivalent)	3.40%	3.61%	3.98%	(5.7)	(14.4)	3.40%	3.98%	(14.4)
Efficiency ratio	85.34%	83.26%	79.95%	2.5	6.7	85.34%	79.95%	6.7
Dividends declared per common share	$ 0.11	$ 0.11	$ 0.10	-	10.0	$ 0.11	$ 0.10	10.2
Book value per common share	$ 12.29	$ 12.12	$ 11.58	1.4	6.2			

Earnings Summary

Alerus reported net income of $2.9 million, or $0.21 per diluted common share, for the first quarter of 2016, compared with the $4.0 million, or $0.29 per diluted common share, for the first quarter of 2015 and $2.7 million, or $0.19 per diluted common share, for the fourth quarter of 2015. Return on average assets was 0.61 percent for the first quarter of 2016, compared with 1.10 percent for the first quarter of 2015 and 0.69 for the fourth quarter of 2015. Return on average common equity was 6.97 percent for the first quarter of 2016, compared with 10.35 percent for the first quarter of 2015 and 6.48 percent for the fourth quarter of 2015. First quarter results included $1.3 million of non-recurring expenses related to the acquisitions of ABGNCS and Beacon Bank.

Alerus Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars and shares in thousands, except per share data)	March 31, 2016	December 31, 2015	March 31, 2015
Assets	(Unaudited)	(Unaudited)	(Unaudited)
Cash and due from banks	$ 214,193	$ 266,159	$ 61,440
Investment securities			
Trading	1,998	1,947	2,257
Available-for-sale	291,279	190,396	181,449
Total investment securities	293,277	192,343	183,706
Mortgages held for sale	43,331	48,642	62,547
Loans and leases			
Loans and leases	1,332,239	1,126,921	1,098,695
Allowance for loan losses	(15,458)	(14,688)	(18,492)
Net loans and leases	1,316,781	1,112,233	1,080,203
Premises and equipment	26,089	22,419	21,231
Bank-owned life insurance	33,861	28,308	27,687
Goodwill	27,053	3,683	3,683
Other intangible assets, excluding servicing assets	36,754	17,606	21,138
Deferred tax assets, net	13,071	13,780	13,637
Other assets	43,830	39,690	35,773
Total assets	$ 2,048,240	$ 1,744,863	$ 1,511,045
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 459,965	$ 425,608	$ 319,220
Interest-bearing	1,046,205	815,958	739,549
Time deposits	259,914	216,455	223,547
Total deposits	1,766,084	1,458,021	1,282,316
Short-term borrowings	8,174	-	13,390
Long-term debt	29,101	21,369	21,480
Subordinated notes payable, net	49,391	49,375	-
Other liabilities	29,557	33,277	18,610
Total liabilities	1,882,307	1,562,042	1,335,796
Stockholders' equity			
Preferred stock and related surplus	-	20,000	20,000
Common stock and related surplus	36,611	36,071	35,092
Retained earnings	127,037	125,701	117,845
Accumulated other comprehensive income, net	2,285	1,049	2,312
Total stockholders' equity	165,933	182,821	175,249
Total liabilities and equity	$ 2,048,240	$ 1,744,863	$ 1,511,045
Common shares outstanding	13,496	13,434	13,412
Book value per common share	$ 12.29	$ 12.12	$ 11.58

Alerus Financial Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars and shares in thousands, except per share data)	Three months ended March 31,	
(Unaudited)	2016	2015
Interest Income		
Loans and leases, including fees	$ 14,782	$ 12,649
Investment securities	1,595	1,214
Other interest income	169	12
Total interest income	16,546	13,875
Interest Expense		
Deposits	899	657
Other borrowed funds	1,031	146
Total interest expense	1,930	803
Net interest income	14,616	13,072
Provision for credit losses	1,020	675
Net interest income after provision for credit losses	13,596	12,397
Non-interest Income		
Retirement services	15,514	12,673
Wealth management	2,827	2,747
Mortgage banking	4,342	4,581
Service charges on deposit accounts	481	378
Other	1,221	1,221
Total non-interest income	24,385	21,600
Non-interest Expense		
Salaries	15,578	13,369
Employee benefits	4,674	3,808
Net occupancy expense	1,554	1,312
Furniture and equipment expense	1,580	1,297
Intangible amortization expense	1,699	1,699
Other	8,198	6,236
Total non-interest expense	33,283	27,721
Income before income taxes	4,698	6,276
Applicable income taxes	1,796	2,242
Net income	2,902	4,034
Less: Preferred dividends	25	50
Net income applicable to common stock	$ 2,877	$ 3,984
Diluted earnings per common share	$ 0.21	$ 0.29
Diluted average common shares outstanding	13,977	13,934

Alerus Financial Corporation and Subsidiaries

Statements of Cash Flows

(Dollars in Thousands)	Three months ended March 31, 2016	Three months ended March 31, 2015
Operating Activities	(Unaudited)	(Unaudited)
Net income	$ 2,902	$ 4,034
Provision for credit losses	1,020	675
Depreciation, amortization and other	2,587	2,232
Other adjustments to net income	(858)	505
Changes in liabilities	(3,123)	(4,418)
Changes in other operating activities	(25,334)	(231)
Total cash flows from operating activities	(22,806)	2,797
Investing Activities		
Purchases of premises and equipment	(4,518)	(519)
Investments, net	(100,934)	22,395
Loans, net	(199,539)	(30,741)
Cash paid for business combinations	(46,919)	-
Other cash flows from investing activities	131	73
Total cash flows used by investing activities	(351,779)	(8,792)
Financing Activities		
Dividends paid	(1,610)	(1,442)
Purchase of stock	(55)	-
Deposits	308,063	20,149
Net borrowings	15,922	2,844
Other cash flows from financing activities	299	358
Total cash flows from (used by) financing activities	322,619	21,909
Change in cash and cash equivalents	(51,966)	15,914
Cash and cash equivalents at beginning of period	266,159	45,526
Cash and cash equivalents at end of period	$ 214,193	$ 61,440

Revenue
Total net revenue for the first quarter of 2016 was $39.0 million, $4.3 million, or 12.5 percent, higher than the first quarter of 2015, reflecting an 11.8 percent increase in net interest income and a 12.9 percent increase in non-interest income. The increase in net revenue was largely the result of higher retirement services income from the acquisition of ABGNCS and an increase in net interest income, due to higher average earning assets from the acquisition of Beacon Bank. Non-interest income represented 62.5 percent of total revenue for the Company.

Net Interest Income
Net interest income in the first quarter of 2016 was $14.6 million, compared with $13.1 million in the first quarter of 2015, an increase of $1.5 million, or 11.8 percent. The primary reason for the increase in net interest income was the higher earning asset balances resulting from the Beacon Bank acquisition. Average earning assets were $1.7 billion for the first quarter of 2016, compared with $1.3 billion for the same period in 2015, an increase of $393 million, or 29.2 percent. During the first quarter, earning assets increased by $292 million from the fourth quarter of 2015. Net interest margin on a tax-equivalent basis in the first quarter of 2016 was 3.40 percent, compared with 3.98 percent in the first quarter of 2015, and 3.61 percent in the fourth quarter of 2015. The net interest margin has continued to decrease due to the lower interest rate environment with the repricing of loans at lower rates. During the fourth quarter of 2015, the Company issued $50 million of subordinated debentures and retained higher than normal levels of cash for the acquisitions which closed in January 2016, reducing the net interest margin.

Total loans as of March 31, 2016, were $1.33 billion, compared to $1.10 billion as of March 31, 2015, an increase of $233.5 million, or 21.2 percent. During the quarter, the loan portfolio increased by $205.3 million, as a result of the Beacon Bank acquisition, which added $205.1 million.

Total investment securities were $293.2 million on March 31, 2016, compared to $183.7 million as of March 31, 2015, an increase of $109.6 million, or 59.6 percent, which included the addition of $113.9 million from the Beacon Bank acquisition.

Total deposits were $1.77 billion on March 31, 2015, compared to $1.28 billion as of March 31, 2015, an increase of $484 million, or 37.7 percent. During the quarter, deposits increased by $308.1 million, primarily as a result of the acquisition of Beacon Bank, which added $309.7 million.

Non-Interest Income
First quarter non-interest income was $24.4 million, $2.8 million, or 12.9 percent, higher than the first quarter of 2015 and 5.7 percent higher than the fourth quarter of 2015. Retirement Services income was $15.5 million, an increase of $2.8 million, or 22.4 percent from the first quarter of 2015 and 21.7 percent higher than the fourth quarter of 2015. The growth in retirement services income has been a result of higher assets under administration, which have increased from $17.9 billion at March 31, 2015, to $25.1 billion at March 31, 2016, an increase of $7.2 billion, including $6.0 billion from the acquisition of ABGNCS. Mortgage banking fees decreased to $4.3 million, or 5.2 percent, from $4.6 million reported for the first quarter of 2015. Mortgage originations for the first quarter of 2016 totaled $168 million, 65 percent from purchase mortgages and 35 percent from refinancing existing mortgages. 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)				Percentage	Percentage			
(Unaudited)				Change	Change			
	1Q	4Q	1Q	1Q16	1Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2015	2015	4Q15	1Q15	2016	2015	Change
Retirement services	$ 15,514	$ 12,743	$ 12,673	21.7	22.4	$ 15,514	$ 12,673	22.4
Wealth management	2,827	3,035	2,747	(6.9)	2.9	2,827	2,747	2.9
Mortgage banking	4,342	5,443	4,581	(20.2)	(5.2)	4,342	4,581	(5.2)
Service charges on deposit accounts	481	404	378	19.1	27.2	481	378	27.2
Net gain (loss) on investment securities	29	(28)	26	(2.0)	11.5	29	26	11.5
Other	1,192	1,467	1,195	(18.7)	(0.3)	1,192	1,195	(0.3)
Total non-interest income	$ 24,385	$ 23,064	$ 21,600	5.7	12.9	$ 24,385	$ 21,600	12.9

Non-Interest Expense

Total non-interest expense in the first quarter of 2016 was $33.3 million, $5.6 million, or 20.1 percent, higher than the first quarter of 2015, and $3.2 million, or 10.6 percent, higher than the fourth quarter of 2015. The increase in total non-interest expense was partially due to expenses related to the acquisitions of ABGNCS and Beacon Bank, which include one-time conversion and integration expenses and personnel and other legacy costs of the acquired companies, planned reductions in which have not yet been realized. Non-recurring acquisition related expenses were $1.3 million during the first quarter of 2016.

Salaries expense in the first quarter of 2015 was $15.6 million, $2.2 million, or 16.5 percent higher than the first quarter of 2015, and $1.6 million, or 11.2 percent, higher than the fourth quarter of 2015. The increase in salary expense is primarily due to the additional salaries resulting from the acquisitions of ABGNCS and Beacon Bank, as well as the addition of a number of employees to strengthen the infrastructure of the Company during the past year. Employee benefits were $4.7 million for the first quarter of 2016, a 22.7 percent increase over the same period in 2015 and a 59.2 percent increase over the fourth quarter of 2015. Benefit expenses are typically higher during the first quarter of the year, due to the payroll tax limits and increases in insurance costs. The full-time equivalent number of employees has increased from 635 at March 31, 2015, to 810 at March 31, 2016, as a result of the acquisitions and the addition of a number of employees to further strengthen the infrastructure of the Company.

Alerus has acquired eighteen companies since 2002 creating identified intangible assets of $36.8 million and $27.1 million of goodwill on the balance sheet. The identified intangible assets amortize and the resulting amortization expense for the first quarter of 2016 was $1.7 million, the same as the first quarter of 2015, but $904 thousand higher than the fourth quarter of 2015. The amortization schedules vary based on the attributes of the identified intangibles. The aggregate unamortized intangible balance as of March 31, 2016, is $36.8 million and will fully amortize by December 31, 2025. The acquisitions of ABGNCS and Beacon Bank in January 2016 created additional goodwill of $23.4 million and identified intangibles of $20.8 million, which the identified intangibles portion will be amortized over five and ten year periods.

NON-INTEREST EXPENSE

(Dollars in thousands) (Unaudited)	1Q 2016	4Q 2015	1Q 2015	Percentage Change 1Q16 vs 4Q15	Percentage Change 1Q16 vs 1Q15	YTD 2016	YTD 2015	Percentage Change
Salaries	$ 15,578	$ 14,004	$ 13,369	11.2	16.5	$ 15,578	$ 13,369	16.5
Employee benefits	4,674	2,936	3,808	59.2	22.7	4,674	3,808	22.7
Net occupancy expense	1,554	1,273	1,312	22.1	18.4	1,554	1,312	18.4
Furniture and equipment expense	1,580	1,341	1,297	17.8	21.8	1,580	1,297	21.8
Intangible amortization expense	1,699	795	1,699	113.7	0.0	1,699	1,699	0.0
Marketing and business development	739	903	438	(18.2)	68.7	739	438	68.7
Supplies, telephone and postage	1,293	1,424	959	(9.2)	34.8	1,293	959	34.8
FDIC insurance	376	334	265	12.6	41.9	376	265	41.9
Professional fees- legal, audit and consulting	974	903	642	7.9	51.7	974	642	51.7
Correspondent and other contracted services	2,738	2,820	2,310	(2.9)	18.5	2,738	2,310	18.5
Other	2,078	3,360	1,622	(38.2)	28.1	2,078	1,622	28.1
Total non-interest expense	$ 33,283	$ 30,093	$ 27,721	10.6	20.1	$ 33,283	$ 27,721	20.1

Capital

Total common stockholders' equity was $165.9 million at March 31, 2016, compared to $162.8 million at December 31, 2015, and $155.2 million at March 31, 2015. Total equity was $165.9 million at March 31, 2016, compared to $182.8 million at December 31, 2015, and $175.2 million at March 31, 2015. Included in total stockholders' equity, throughout 2015, was $20 million in preferred stock, representing funds received from the Small Business Lending Fund (SBLF) in August 2011. The SBLF funds had an initial dividend rate of 1 percent for five years and were provided by the U.S. Treasury to stimulate small business lending. The Company redeemed the SBLF preferred stock on February 16, 2016, as the dividend rate was scheduled to reset to 9.0 percent. The SBLF preferred stock qualified as Tier 1 capital for regulatory purposes.

In December 2015, the company issued $50 million of subordinated debentures with an initial interest rate of 5.75 percent for five years and then converting to floating rate notes that reset quarterly to an interest rate equal to three month LIBOR plus 412 basis points. The proceeds of the subordinated debentures was utilized to retire the SBLF preferred stock and for the acquisitions of ABGNCS and Beacon Bank. The subordinated debentures qualify as Tier 2 capital for regulatory purposes, but are classified as long term debt on the Company's balance sheet.

The Company assumed $10.0 million of Trust Preferred Securities (TRUPS) from the parent company of Beacon Bank in the acquisition, which was recorded at fair value of $7.8 million. The TRUPS are classified as long term debt on the balance sheet, but qualify as Tier 1 capital for regulatory purposes.

The acquisitions of ABGNCS and Beacon Bank increased the Company's goodwill by $23.4 million and intangible assets by $20.8 million, which impacts regulatory and tangible capital ratios. Goodwill is deducted from regulatory capital and intangible assets are deducted on a phased-in basis, currently at 60 percent of the outstanding balance. Tangible capital and tangible assets are reduced by the total $63.8 million of goodwill and intangible assets on the balance sheet.

The transactions set forth above had a significant impact on the regulatory capital levels of the Company. The common equity Tier 1 capital ratio was 7.01 percent at March 31, 2016, as compared to 10.92 percent at December 31, 2015, and 10.40 percent at March 31, 2015. The Tier 1 capital ratio was 7.48 percent at March 31, 2016, compared with 12.33 percent at December 31, 2015, and 11.87 percent at March 31, 2015. The total risk based capital ratio was 11.52 percent at March 31, 2016, compared to 17.01 percent at December 31, 2015, and 13.13 percent at March 31, 2015. Tier 1 leverage ratio was 6.41 percent at March 31, 2016, as compared to 10.85 percent at December 31, 2015, and 10.97 percent at March 31, 2015.

The Company exceeded “well capitalized” levels for regulatory purposes on all, except the Tier 1 capital ratio at March 31, 2016, which was “adequately capitalized.” Based on the Company’s risk weighted assets as of March 31, 2016, Tier 1 capital was $9.4 million below the amount required to be considered “well capitalized” for Tier 1 capital ratio purposes. Alerus Financial N.A., the Bank, exceeded “well capitalized” levels for all regulatory capital ratios.

The tangible common equity to tangible assets ratio was 5.1 percent at March 31, 2016, compared with 8.2 percent at December 31, 2015, and 8.8 percent on March 31, 2015. Dividends on common shares for the first quarter of 2016 were $0.11 per share, the same as the fourth quarter of 2015, compared to $0.10 per share for the first quarter of 2015.

CAPITAL POSITION

(Dollars in thousands)
(Unaudited)

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total stockholders' equity	$ 165,933	$ 182,821	$ 182,032	$ 178,427	$ 175,249
Common stockholders' equity	165,933	162,821	162,032	158,427	155,249
Preferred stockholders' equity	-	20,000	20,000	20,000	20,000
Tangible common equity to tangible assets	5.1%	8.2%	8.8%	8.7%	8.8%
Tangible common equity to risk-weighted assets [2]	6.4%	10.2%	9.2%	9.4%	9.6%
Regulatory Capital: [1]					
Common equity tier 1 capital	112,329	150,873	148,995	144,946	141,548
Tier 1 capital	119,833	170,472	168,430	164,946	161,548
Total risk-based capital	184,682	235,160	182,406	182,852	178,572
Regulatory Capital Ratios: [1]					
Common equity tier 1 capital ratio	7.01%	10.92%	10.50%	10.12%	10.40%
Tier 1 capital ratio	7.48%	12.33%	11.87%	11.52%	11.87%
Total risk-based capital ratio	11.52%	17.01%	12.86%	12.77%	13.13%
Tier 1 leverage ratio	6.41%	10.85%	11.28%	11.05%	10.97%

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

Credit Quality

Total nonperforming assets increased to $15.5 million at March 31, 2016, from $12.0 million at December 31, 2015, and $6.4 million at March 31, 2015. Nonperforming assets increased by $3.5 million during the quarter, of which $2.8 million was attributable to Beacon Bank. Increases in nonperforming loans were primarily in the commercial real estate and residential mortgage portfolios, while the commercial loan portfolio decreased. Other real estate owned increased from $842 thousand at December 31, 2015, to $1.5 million at March 31, 2016, with the addition of $851 thousand from the Beacon Bank acquisition. Nonperforming assets to loans plus ORE increased by 0.1 percent to 1.1 percent at March 31, 2016, from December 31, 2015. At March 31, 2015, the ratio was 0.5 percent. The allowance for credit losses (ALLL) was $15.5 million at March 31, 2016, compared with $14.7 million at December 31, 2015, and $18.5 million at March 31, 2015. The ALLL to total nonperforming loans was 111.3 percent at March 31, 2016, compared to 131.7 percent at December 31, 2015, and 467.9 percent at March 31, 2015. The Company’s provision for credit losses during the first quarter of 2016 was $1.0 million, compared to $675 thousand in the first quarter of 2015. Less than 2 percent of the Company’s loan portfolio is in energy related loans and less than 4 percent is based in western North Dakota, which has experienced an economic slowdown due to energy.

ASSET QUALITY					
(Dollars in thousands)					
(Unaudited)	March 31,	December 31,	September 30,	June 30,	March 31,
Non Performing Loans	2016	2015	2015	2015	2015
Commercial:					
Commercial	$ 4,926	$ 6,224	$ 2,526	$ 6,766	$ 679
Commercial real estate	3,725	2,580	2,598	3,654	2,171
Total commercial	8,651	8,804	5,124	10,420	2,850
Consumer:					
Residential mortgages	5,227	2,326	1,053	849	1,086
Other consumer	13	22	32	90	16
Total consumer	5,240	2,348	1,085	939	1,102
Total nonperforming loans	$ 13,891	$ 11,152	$ 6,209	$ 11,359	$ 3,952
Other real estate	1,543	842	2,128	2,322	2,444
Other nonperforming assets	16	35	89	42	16
Total nonperforming assets	$ 15,450	$ 12,029	$ 8,426	$ 13,723	$ 6,412
Accruing loans 90 days or more past due	$ 550	$ 1,605	$ 666	$ 184	$ 350
Nonperforming assets to loans plus ORE	1.1%	1.0%	0.7%	1.1%	0.5%
Allowance for loan losses	$ 15,458	$ 14,688	$ 13,976	$ 18,414	$ 18,492
Allowance for loan losses to total nonperforming loans	111.3%	131.7%	225.1%	162.1%	467.9%

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	Percentage			
(Unaudited)				Change	Change			
	1Q	4Q	1Q	1Q16	1Q16	YTD	YTD	
				vs	vs			Percentage
	2016	2015	2015	4Q15	1Q15	2016	2015	Change
Average common stockholders' equity	$ 165,977	$ 164,454	$ 156,174			$ 165,977	$ 156,174	
Less: average goodwill	(20,313)	(3,327)	(1,261)			(20,313)	(1,261)	
Less: average other intangibles, net of tax benefit	(21,737)	(11,129)	(14,774)			(21,737)	(14,774)	
Average tangible common equity	$ 123,927	$ 149,998	$ 140,139	(17.4)	(11.6)	$ 123,927	$ 140,139	(11.6)
Net income applicable to common stock	$ 2,877	$ 2,687	$ 3,984			$ 2,877	$ 3,984	
Add: Intangible amortization, net of tax benefits	1,019	477	1,019			1,019	1,019	
Net cash available to common stockholders	$ 3,896	$ 3,164	$ 5,003			$ 3,896	$ 5,003	(22.1)
Return on average tangible common equity								
Return on average common equity (U.S. GAAP basis)	6.97%	6.48%	10.35%			6.97%	10.35%	
Effect of excluding average intangibles	2.37%	0.63%	1.18%			2.37%	1.18%	
Effect of excluding intangible amortization, net of tax benefits	3.31%	1.26%	2.95%			3.31%	2.95%	
Return on average tangible common equity	12.65%	8.37%	14.48%	51.1	(12.7)	12.65%	14.48%	(12.7)
Adjusted cash earnings per share								
Earnings per share* (U.S. GAAP basis)	$ 0.21	$ 0.19	$ 0.29			$ 0.21	$ 0.29	
Effect of excluding intangible amortization, net of tax benefits	0.07	0.04	0.07			0.07	0.07	
Adjusted cash earnings per share*	$ 0.28	$ 0.23	$ 0.36	23.6	(22.4)	$ 0.28	$ 0.36	(22.4)

About Alerus Financial Corporation

Alerus Financial Corporation, through its subsidiaries Alerus Financial, N.A. and Alerus Securities Corporation, offers business and consumer banking products and services, residential mortgage financing, employer-sponsored retirement plan and benefit administration, and wealth management including trust, brokerage, insurance, and asset management. Alerus Financial banking and wealth management offices are located in Grand Forks and Fargo, ND, the Minneapolis-

St.Paul, MN metropolitan area, Duluth, MN, and Scottsdale, AZ. Alerus Retirement Solutions plan administration offices are located in St. Paul, MN, East Lansing and Troy, MI, and Manchester, NH.

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.