

2018 Annual Report

FOLLOW  
YOUR DESTINY.



**ALERUS**  
FINANCIAL CORPORATION

# BY YOUR SIDE, WHEREVER THE JOURNEY TAKES YOU.

WE BELIEVE THAT WITHIN EACH AND EVERY ONE OF US LIES A STEADY PURSUIT TO GROW, TO IMPROVE, TO MAKE BETTER – TO FOLLOW ONE’S DESTINY.

The path to each destiny is all your own, but most certainly, it’s a path filled with decisions and challenges all along the way. Whether it’s a business owner deciding how to transition their business to the employees who helped build it, or the recent college graduate balancing saving for retirement with paying off their college debt, the course we chart is often filled with complexity and uncertainty.

The good news: you don’t have to navigate this financial journey alone. Alerus is here to help. Whatever your path is, Alerus can help you achieve your goals and find your path to financial confidence.

## COMPANY PORTFOLIO

Diversified financial services company  
\$2.2 billion banking assets  
\$4.6 billion assets under management  
\$25.9 billion assets under administration  
\$779.7 million mortgage loans originated

## STOCKHOLDER RETURN

Diluted earnings per common share: \$1.84  
Dividends per share: \$0.53  
Stock price range 2018: \$19.25 - \$26.50  
Last trade 2018: \$19.25  
Last trade 2017: \$20.45  
Total stockholder return: -3.28%\*

*\*Calculated as Last Trade 2018 minus Last Trade 2017 plus dividends per share divided by Last Trade 2017.*

## DIVERSIFIED REVENUE STREAM

NET REVENUE

\$177.9 million

● **\$75.2 MILLION** NET INTEREST INCOME

● **\$102.7 MILLION** NON-INTEREST INCOME

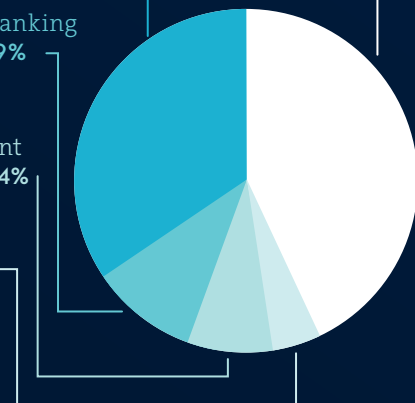
Retirement and benefits revenue: 35.6%

Net interest income: 42.3%

Mortgage banking revenue: 9.9%

Wealth management revenue: 8.4%

Banking fees: 3.9%



## CORE STRENGTHS

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Strong balance sheet  
Diversified earnings  
Relationship-oriented business model focused on advice  
Highly skilled professional service employee base  
Commitment to business expansion opportunities  
Commitment to leadership development  
Commitment to technology and innovation  
Loyal client base

## CLIENT BASE

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46,200 consumers  
11,175 businesses  
6,700 employer-sponsored retirement plans  
355,000 employer-sponsored retirement plan participants  
44,500 health savings account participants  
15,600 flexible spending account/health reimbursement arrangement participants

## CORE BUSINESS LINES

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### BUSINESS BANKING

- Commercial and commercial real estate lending
- Agriculture lending
- Treasury management
- Deposit services

### CONSUMER BANKING

- Deposit products and services
- Consumer lending
- Private banking

### MORTGAGE

- Residential mortgage lending
- Purchasing or refinancing
- Residential construction lending
- Home equity/second mortgages

### RETIREMENT AND BENEFITS

- Retirement plan administration
- Retirement plan investment advisory
- ESOP fiduciary services
- Payroll administration services
- HSA/FSA/HRA administration
- COBRA

### WEALTH MANAGEMENT

- Advisory services
- Trust and fiduciary services
- Investment management
- Insurance and health planning
- Financial planning
- Education planning

## ALERUS TEAM

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821 employees

## MARKET PRESENCE

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### GRAND FORKS, ND

- Five full-service banking and wealth management offices

### FARGO/WEST FARGO, ND

- Three full-service banking and wealth management offices

### TWIN CITIES, MN

- Six full-service banking and wealth management offices
- Two residential mortgage offices
- One loan production and deposit production office


### PHOENIX, AZ

- One full-service banking and wealth management office
- One loan production office

## NATIONAL PRESENCE

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- Three retirement and benefits offices in Minnesota
- Two retirement and benefits offices in Michigan
- One retirement and benefits office in New Hampshire
- Serve clients in all 50 states through retirement and benefit services



THIS IS THE  
DESTINY WE CREATED —  
AND WE CALL IT

*One Alerus.*

# DEAR STOCKHOLDERS, CLIENTS, AND FRIENDS,

AS WE LOOK BACK AT THE PAST YEAR, WE ARE INCREDIBLY PROUD  
OF THE PERFORMANCE AND PROGRESS OF OUR COMPANY.

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Alerus reached new financial milestones in 2018 as total revenue and net income for the year ending December 31, 2018, were \$177.9 million and \$25.9 million, respectively. These financial results are commendable; however, they are not by chance. We believe they are the result of disciplined strategic planning by our leadership team, meticulous focus and execution by our employees, and continued success with our clients.

Historically, Alerus carefully balances growth, risk, profitability, and strategic investments for the long-term benefit of our stockholders. Never was this more evident than in 2018, a year in which we achieved record breaking financial performance while simultaneously investing in our future. These investments in technology, people, and the overall client experience are all cohesively aligned to ensure we continue to add value to client relationships through proactive financial advice, offer innovative and seamless technology solutions for our clients, and bring together our entire organization to grow in new ways not previously achieved.

## THE ONE ALERUS STORY

One Alerus is a multi-year strategic plan designed to organically grow our company. It brings together the full power of Alerus in a unified manner unlike any other. Born out of our innovative and collaborative culture, One Alerus lays the strategic foundation for current and future technology investments balanced with the synergistic growth strategies of a diverse financial services firm. In its purest form, One Alerus unites five key areas: technology, people, client experience, synergistic growth opportunities, and financial reporting.

Technology is essential in our industry — being driven not only by changing client expectations, but also by new and existing competitors, in all business lines. As we establish our technology, we recognize the need to align our investments with specific priorities designed to drive stockholder value. To that end, our careful selection of technology investments is focused on solutions that will help our clients make better financial decisions, help improve the client experience by unifying the digital experience of our diverse product line, and help our employees better serve clients and improve efficiencies. During the past year, our team spent a tremendous amount of time working behind the scenes to implement new technology solutions, which will be introduced to clients in 2019. We believe the groundwork laid during the past year is incredible, especially given our team's ability to simultaneously perform at unprecedented financial levels.

Relationships have always been the cornerstone of our work with clients. Although technology solutions can aid and enhance our relationships with clients, we firmly believe our clients still want to interact with our people. Financial services remains a relationship-driven business; however, it continues to become more and more complex for our clients. We strive to understand our clients' full financial situation and guide clients in their financial path. As we look to the future, we recognize the need to align our staff with the needs of our clients. By becoming a much more advisory based organization, we intend to have more client intimacy, provide career paths for our employees, and align the talent within our organization with their highest and best use.

Client experience is inherently woven throughout every aspect of our company. Whether it's improving the digital client experience, leveraging technology to help clients make better financial decisions, or reimagining existing processes, our entire leadership team is focused on aligning everything we do around our clients. This is no small undertaking, as it involves numerous initiatives — some of which were introduced in 2018 and many of which our clients will see and feel in 2019.

Alerus is a unique organization because of its diverse revenue stream. Our diverse product and services offerings affords us additional growth opportunities as we begin offering our highly complementary, full suite of services to every client. In 2018, we grew \$84.5 million in Blueprint IRAs, \$73.4 million in money market balances, and \$11.2 million in HSAs. These accomplishments require strong divisional collaboration, steadfast execution, and continued focus. As Alerus continues to grow, we maintain the ability to operate like a much smaller company. We are pleased with the progress of these synergistic growth opportunities and look forward to building on this momentum.

Finally, the last key area of our strategic growth plan is financial reporting. We know the more data we bring together in the right way, the better our team can leverage this data to make better decisions. We implemented a new financial reporting system in 2018, and continue to enhance this important management tool.

Since embarking upon One Alerus several years ago, it is now a new way of life for our organization. We don't view One Alerus as a one-time project, task, or finish line — it is a continuous initiative that is — and will remain — a vital part of our culture. Our leadership team is passionate, yet accountable. Our employees are engaged and energized. And soon, we believe our clients will experience the spirited beginnings of this great adventure designed to improve their financial lives.

#### **WELCOMING OUR NEWEST DIRECTOR**

We are pleased to welcome Michael S. Mathews to the Alerus Board of Directors. Mr. Mathews brings over 20 years of technology experiences with acumen of the financial industry and expertise in digital transformation, cloud and mobility, cybersecurity, artificial intelligence and machine learning, and application development. He has served as chief information officer of Deluxe Corporation since 2013. In addition to leadership roles with UnitedHealth Group and Merrill Lynch, Mr. Mathews also founded and built his own management consulting business, The Infology Group, Inc., which he later transitioned to key partners. Mr. Mathews' deep experience in technology innovation will benefit Alerus as we continue to transform our company for long-term growth.



### WELCOMING OUR NEW CRO

Please welcome our new chief risk officer, Karin Taylor, who joined Alerus in November. Ms. Taylor brings years of industry experience including a distinct background in risk management, having held numerous leadership roles in risk management at other financial institutions. With a deep background in risk, financial regulations, and compliance, Ms. Taylor embodies the perfect combination of balance — prudently growing the company while concurrently managing the overall risk.



### FAREWELL TO TWO LEADERS

This past year, we said goodbye to chief development officer Dan Cheever in the planned succession of our CFO role. Dan first joined Alerus in March 2015 as interim chief financial officer, and the interim label was removed in September 2015. Dan's vision for financial reporting, including divisional reports by banking, mortgage, retirement, and wealth management, as well as his outlook for modeling and forecasting added significant value to our company. Katie Lorenson joined Alerus in late 2017, working closely alongside Dan to create a seamless transition of leadership.

Next, we extend our sincerest appreciation to our most tenured corporate director, Harold "Hal" Gershman, who will retire in May 2019. Hal joined Alerus as a corporate director in 1989. He's helped lead our company not only through the best of times, but also the worst of times. Whether it was rebuilding the company after the devastating Grand Forks flood and fire of 1997, to opportunistically growing Alerus through acquisitions shortly after the 2008 financial crisis, he has made significant contributions to our company. Equally matched to his leadership at Alerus is his leadership in the local Grand Forks community, which will continue to live on for years to come.

### ONE PRINCIPLE REMAINS

Throughout our company's history, we've remained true to one guiding client principle. As a trusted financial advisor, we believe it is our fiduciary responsibility to work in our clients' best interests at every turn. We aspire to do the right thing, every time. This philosophy is the cornerstone of our culture and the foundation of our board of directors. Whether it's our longest tenured employee or our most recent hire, our operational staff or our client service center team, everyone in our company embodies this promise and continues to hold it dearly. For this, I am truly grateful. Alerus is a special place because of the people who represent it. Thank you to each and every one of you. 2018 was a remarkable year.

*We sincerely appreciate your investment in our company and look forward to following our destiny together.*



A handwritten signature in black ink that reads "Randy L. Newman".

**Randy L. Newman**

*Chairman, President, and  
Chief Executive Officer*

*Alerus Financial Corporation*

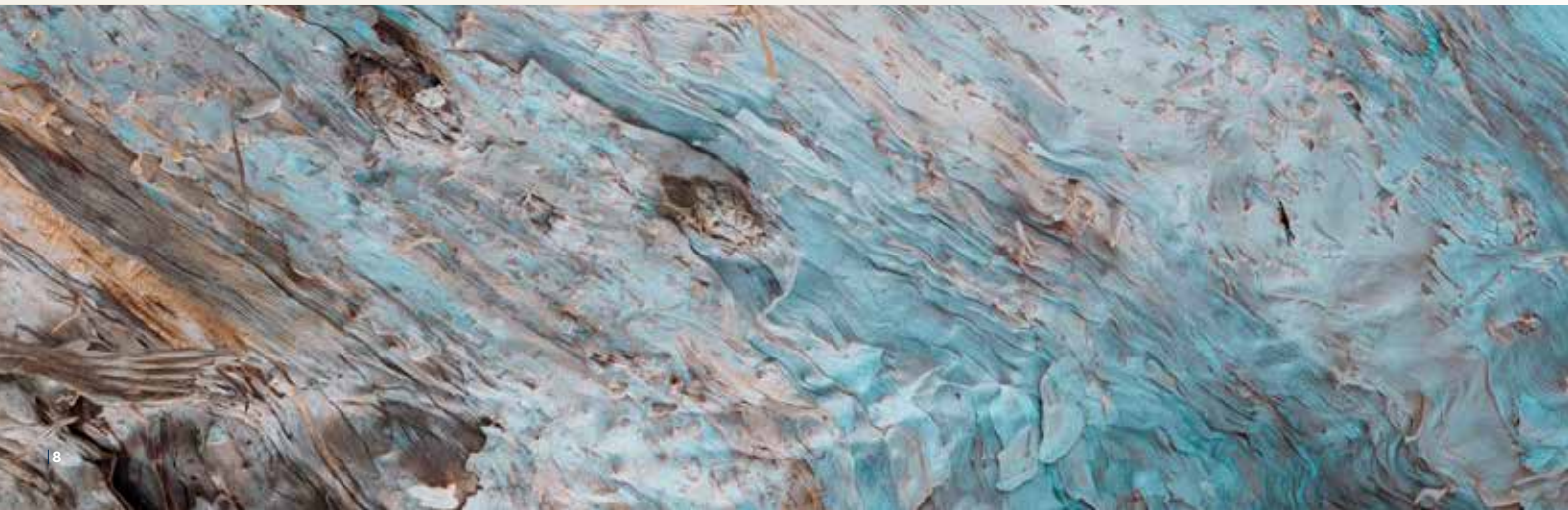
## SHARE IN OUR DESTINY.

AS WE REFLECT ON THE HISTORIC PERFORMANCE OF OUR COMPANY, WE ARE PLEASED WITH THE GROWTH RESULTS AND CONTINUED ADVANCEMENT OF THE ALERUS FRANCHISE.

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We believe in prudently managing results over the long run to provide maximum value to our stockholders. This long-term approach has proven its strength in not only providing a return to stockholders, but also developing the company into a high-value, professional services company.

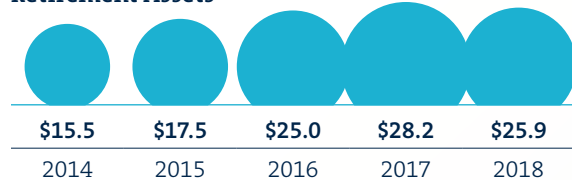
Whether growth is in the form of organic, acquisition, or lift out strategies, Alerus demonstrates a high level of performance with our ability to accomplish the blueprint we set forth. We do not view our success by chance, but rather the result of our commitment to long-term planning. These accomplishments are the foundation of a strong leadership team which is further magnified by the Alerus culture — a culture rooted with the Midwestern work ethic and supported by the determination to continuously raise the bar.



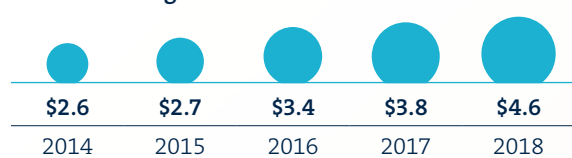


## ASSET GROWTH (IN BILLIONS)

### Retirement Assets



### Wealth Management Assets



### Banking Assets



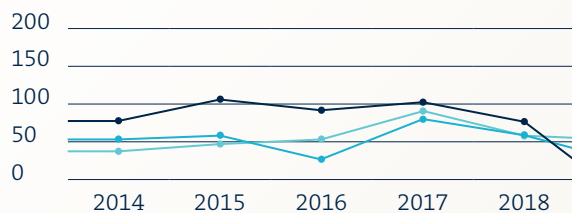
## STOCKHOLDER TOTAL RETURN

(% CUMULATIVE)

**ALRS +28.83%**

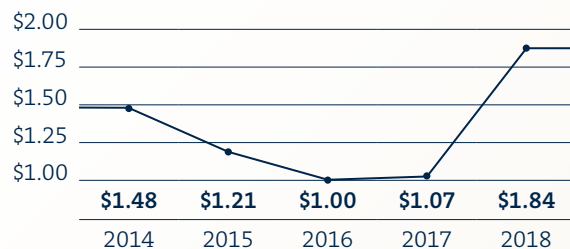
**SNL U.S. Financial Services +44.27%**

**S&P 500 +51.65%**

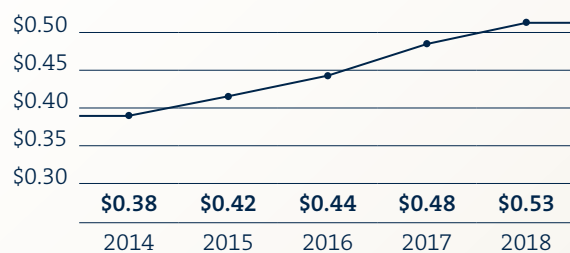


## EARNINGS PER SHARE AND DIVIDENDS

### Diluted Earnings Per Common Share (EPS)

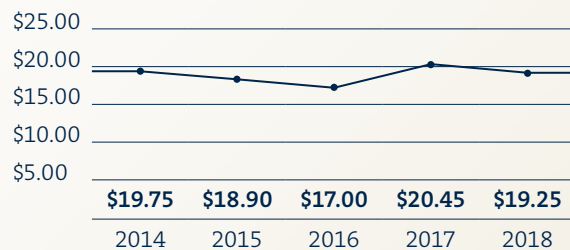


### Dividends Per Share (DPS)

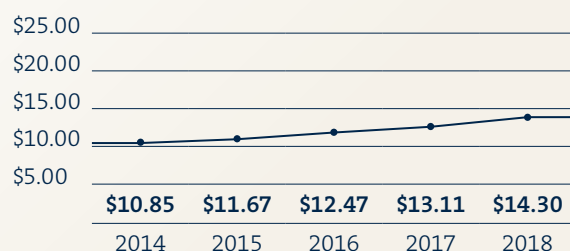


## STOCKHOLDER VALUE

### Year-End Stock Price



### Book Value Per Share



## FINANCIAL PERFORMANCE

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Reported net income of \$25.9 million, up 72.4% from 2017.

Diluted earnings per common share increased 71.9% from \$1.07 to \$1.84 per share.

Cash dividends per share increased 10.4% from \$0.48 to \$0.53 per share.

Return on average (ROA) assets of 1.21%, up 46 basis points from 2017.

Return on equity (ROE) of 13.76%, up from 8.49% in 2017.

Return on tangible common equity (ROTCE) of 20.93%, up from 14.34% in 2017.

Efficiency ratio of 73.80%, down from 75.35% in 2017.

Company revenue of \$177.9 million, up 4.25% from 2017.

Business line revenue

- Banking division revenue of \$82.1 million, up 10.3% from 2017.
- Mortgage division revenue of \$17.6 million, down 11.3% from 2017.
- Retirement and benefits division revenue of \$63.3 million, up 1.5% from 2017.
- Wealth management division revenue of \$14.9 million, up 6.8% from 2017.

## CREDIT QUALITY

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Total nonperforming loans increased \$1.1 million or 18.6% from December 31, 2017; nonperforming assets to total loans plus other nonperforming assets equaled 0.41% at year-end 2018 compared to 0.40% at year-end 2017.

Allowance for loan losses to nonperforming loans was 318% at year-end 2018, compared to 282% at year-end 2017.

## YEAR-OVER-YEAR RESULTS

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Total loans grew \$159.4 million to \$1.73 billion from 2017.

Total deposits decreased \$35.7 million to \$1.80 billion from 2017.

Total assets under administration decreased \$2.37 billion to \$25.9 billion from 2017.

Total assets under management grew \$736.3 million to \$4.6 billion from 2017.

## MAINTAINED STRONG CAPITAL RATIOS, YEAR-END 2018

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Common equity tier 1 ratio of 8.43%.

Tier 1 capital ratio of 8.87%.

Total risk-based capital ratio of 12.86%.

Tier 1 leverage ratio of 7.51%.

## CLIENT ENHANCEMENTS

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Introduced updated and modernized statements to clients with banking or retirement accounts.

Unified our two banking and retirement call centers into one client service center, allowing us to holistically work with clients across all products and services.

Updated our system to allow for real-time fraud detection, while also introducing text message alerts for potentially fraudulent transactions — simplifying the process in which clients can confirm or deny fraudulent activity on their account.

Added electronic signature, allowing for continued improvement as we reimagine processes and the manner in which clients interact with us by electronically signing various documentation.

## COMPANY DEVELOPMENTS

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Centralized our operations staff across the divisional product lines under common leadership to capitalize on operational synergies and create unified service level agreements.

Opened a new loan production office in Mesa, Ariz., supported by the addition of new staff in business development to further grow our Phoenix market share.

Remodeled our office in Scottsdale, Ariz., expanded our office in Minnetonka, Minn., and entered into an agreement with a developer to rebuild our Express office in Grand Forks, N.D., as part of an economic revitalization project designed to repurpose the existing land on and around our Express office into commercial and residential space.

Dissolved the separate subsidiary, Alerus Securities, as we transitioned broker-dealers services to Infinex Investments, Inc. and Pershing, LLC, allowing our team more time to focus on client needs and personalized service instead of regulatory and compliance functions.

Invested in our employees by raising our hourly minimum wage to \$15 per hour, reflecting our long-term approach to employee retention and recruitment.

Announced our plans to exit the Duluth, Minn., market in April 2019 by selling our deposits and assets to another local financial institution committed to the long-term advancement of Duluth.



# FIND YOUR PATH TO FINANCIAL CONFIDENCE.

AS TECHNOLOGY ADVANCES AND CLIENT EXPECTATIONS CHANGE, WE MUST RESPOND IN A MANNER CONSISTENT WITH OUR BUSINESS STRATEGY AND CLIENT-FOCUSED CULTURE.

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At our core, Alerus has a relationship-oriented business model driven by an advisor focus. We believe in providing great technology to aid the client experience, but also recognize the important value of a personal relationship.

## **SERVING CLIENTS HOLISTICALLY WITH PROACTIVE ADVICE AND EASE OF DOING BUSINESS**

Alerus is in the midst of a multi-year transformation designed to enhance the value we provide to clients by realigning our staff around business and consumer clients. Complementing the reorganization and development of staff is a robust technology roadmap designed to help clients in seamless and engaging ways.

Clients want to do business with companies that are not only easy to work with, but also provide enjoyable digital experiences. These technology solutions have never been more critical to an organization's success — including ours. By collaborating with critical technology partners, we've built a robust roadmap designed to make it easier for clients to both interact with us and make better financial decisions. Throughout the past year, we made tremendous progress in advancing the technology solutions within our roadmap, which will be introduced to clients throughout 2019.

While clients may choose to only interact with us through technology, we recognize a growing need to amplify our guidance-based approach through our people. Staff resources are finite, so we must manage our employees to their best and highest use of time and talents. By aligning our teams around business clients or consumer clients, Alerus is focused on shifting our workforce to serve clients into the future, rather than continuing to operate as the status quo. The focused execution of this transformative initiative requires immense planning and preparation. By taking the time last year to ensure we do it right, we're positioning Alerus for the future and in turn — better serving clients holistically with the full offering of our diverse products and services.

## **PROACTIVELY GUIDING CLIENTS THROUGH A SHARED PHILOSOPHY**

Personal financial stress is a common challenge facing many individual clients and business organizations today. There is an increasing amount of research behind consumers' increased debt levels, decreased savings levels, and growing financial stress. This stress follows employees to work creating decreased productivity, more sick days, and fewer on-time retirements. By focusing our team on this segment of our clients, we strive to provide clients with peace of mind by helping guide them in their path towards financial confidence. In turn, we're not only helping individual clients but also offering a unique employee benefit for our business clients.



FOR EVERY PERSON,  
A PLAN.

FOR EVERY JOURNEY,  
A PATH.

FOR EVERY STEP,  
A PARTNER.

*Wherever you are in life,  
we'll meet you there.*



**OUR FUNDAMENTAL BELIEFS.  
THE FOUNDATION OF OUR  
CORE PRINCIPLES REFLECTS A  
COMMITMENT TO OUR CLIENTS  
AND EACH OTHER.**

**DO THE RIGHT THING.**  
*People do business with  
people they trust.*

**CHERISH PEOPLE.**  
*Take care of your co-workers  
so everyone can take care of clients.*

**SERVE WITH PASSION.**  
*Foster a culture of service.*

**RESPECT EVERYONE.**  
*Mutual respect is an important  
building block of good teamwork.*

**EMPOWER WITH KNOWLEDGE.**  
*Knowledge drives confidence  
and positive action.*

**EMBRACE CHANGE.**  
*Success is never final.*

# FACES OF DEDICATION.

EVERYTHING WE DO BEGINS AND ENDS WITH OUR EMPLOYEES.  
AND JUST AS CLIENT EXPECTATIONS AND EXPERIENCES ARE  
CHANGING, SO ARE THOSE OF OUR TEAM.

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We recognize the close link between our ongoing successful financial performance with our strength to attract, retain, and engage our employees.

## COMMITMENT TO BEING AN “EMPLOYER OF CHOICE”

Our ability to bring new, high performing talent to our organization is equally matched with our approach to not only retain employees, but also maximize their full potential. This “Employer of Choice” mentality begins with our leadership team and cascades throughout the organization as key initiatives are put in motion to further engage employees.

Following the Tax Cuts and Jobs Act signed in late 2017, we increased our minimum wage for all employees to \$15 per hour in early 2018. True to form, we’ve established a history of disciplined planning and thinking about the long-term — in everything we do. By utilizing a portion of the decreased tax liability to increase our hourly minimum rate, we were able to retain valuable employees critical to the success of our business, as well as recruit new staff.

As our organization transforms to remain relevant long-term, we know communication is critical at every level. It is why we bring external experiences like blogging, likes, and internet search to our employees through a dynamic, web based intranet and mobile app. We’ve also utilized technology to hold quarterly calls streamed to every employee, and recorded videos to share key messages. We pair technology-aided communication with in-person all-employee meetings and conferences with key teams. It is a well-orchestrated plan designed to engage employees at multiple touchpoints throughout the year, from various company leaders.

In 2018, we reorganized our training and development team under common leadership within human resources. As we look ahead to the future needs of our organization in transforming to meet client needs, we recognize the need to holistically train our employees across all products and solutions, technologies, and value added services. Additionally, our training team is nimble in its approach, as resources can shift in response to internal or external factors. We’ve already realized positive momentum with our employees simply by establishing a central team of trainers who share a vision for continuous improvement and growth.

## PARAMOUNT ENGAGEMENT WITH OUR TEAM

Over the past year, we were able to align numerous organizational structures, implement new employee technology, and continue to transform our company all while achieving high employee engagement survey results. This survey covers a broad spectrum of employee engagement metrics surrounding work environment, management and team dynamics, work engagement, benefits and compensation, and career development. We are very proud of this accomplishment as our organization continues to adapt for even greater success.

Cultures are not built overnight. They are built day by day, year after year. Alerus’ culture is unique to us and treasured amongst our team. Alerus employees work hard, don’t take shortcuts, and focus on the client. Our employees align their personal values with our company values. And everyone works together to carry out the company’s vision. It’s a consistency built over many years, and a steady force that continues to propel Alerus forward.

# ONE ALERUS FOR EVERYONE.

OPERATIONAL EFFECTIVENESS IS NOT ONLY ABOUT EFFICIENCY; IT MUST ALSO INCLUDE SCALABLE PROCESSES DESIGNED AROUND OUR CLIENTS.

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In 2018, we centralized our product operations teams under common leadership to capitalize on operational synergies and create unified service level agreements. Although we are in the beginning stages of a unified operations team, we are already making significant progress to realign our staff, reimagine processes, and improve efficiency.

## A COLLABORATIVE ENVIRONMENT

Throughout our diverse product set, there are natural connections of familiar processes and methods. Whether it's incorporating best practices from one area into another or shifting resources as workload demands change, our operational area is focused on breaking down silos and working together to help each other be successful. The collaborative and empowered spirit within our operations team is transforming how we work — and how we support clients.

As our operations team designs forward-thinking, scalable processes, they continually build momentum at an accelerated pace. Two achievements from the past year are working with a single statement vendor and streamlining our product offering.

Throughout every area of our company, we provide client account statements; however, our approach and our client experience were not consistent. We made tremendous progress towards this goal in 2018 by selecting our statement partner and moving retirement account statements and deposit account statements to our new partner. The end result culminated with a better client experience, a consistent process, and a favorable cost savings as the full purchasing power of the entire organization was leveraged across all product statements.

## STREAMLINING FOR EFFICIENCY AND GROWTH

Over the last decade, Alerus has successfully completed a dozen acquisitions. As we've grown, we've realized the need to streamline product structure in order to further scale our business and better serve clients. This past year, we simplified our consumer deposit product portfolio from seven products to three products. Backed by a deep understanding of the competitive landscape and a keen focus on client retention, our team reduced the number of deposit product offerings without significant attrition in the overall portfolio. Furthermore, we are in the midst of a multi-year project to reduce the number of fee structures within our retirement services. We made significant progress throughout 2018 to align our retirement services fee structure to industry best practices and benchmarks, allowing a modernized approach to retirement fees while continuing to maintain clients.

As our operations team forges ahead, we further harness efficiencies. As our platforms and processes become even more connected, our design and delivery require an innovative approach, and our ecosystem must center on the client. We are committed to reinventing our operational area to strengthen our infrastructure and advance the agile approach of a broader team.





THROUGH THE TIMELY  
AND ACCURATE DELIVERY  
OF FINANCIAL SOLUTIONS,  
OUR OPERATIONS' MISSION  
IS TO PROVIDE EFFICIENT  
PROCESSES IN AN EMPOWERED  
AND COLLABORATIVE  
ENVIRONMENT

*where employees are  
empowered with knowledge  
and innovation.*



**WE SEE  
THE CHALLENGES.**

**WE SEE  
THE OPPORTUNITIES.**

*We're focused  
on our strategy.*

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WE VIEW ALERUS AS A DIVERSE TAPESTRY WOVEN  
TOGETHER THROUGH STEADY PERSEVERANCE AND DIRECTION.  
WHEN WE LOOK BACK AT OUR HISTORY, WE ARE VERY PROUD  
OF OUR ACCOMPLISHMENTS. WHEN WE LOOK AHEAD,  
**WE'RE INSPIRED FOR OUR FUTURE.**

2018 certainly was highlighted by our financial performance; however, even more satisfying were the nonfinancial accomplishments of our team, which we believe will benefit the organization for years to come. Through a shared single vision to help clients make better financial decisions, we're renewing our role in clients' lives and creating new meaning.

Anchored by a collaborative leadership team, our company is pivoting many interconnected pieces to create long-term stockholder value. Nothing we do is because of chance. We plan for the challenges that lie ahead and are energized by the opportunities. We are a thriving organization pursuing continued prosperity.

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# ALERUS LEADERSHIP.

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## SENIOR EXECUTIVE TEAM



**RANDY L. NEWMAN**  
Chairman, President,  
and Chief Executive Officer  
*38 years with Alerus*



**KATIE LORENSEN**  
Executive Vice President  
and Chief Financial Officer  
*2 years with Alerus*



**KRIS COMPTON**  
Executive Vice President  
and Chief Strategy Officer  
*44 years with Alerus*



**ANN MCCONN**  
Executive Vice President  
and Chief Business Officer  
*17 years with Alerus*



**KARIN TAYLOR**  
Executive Vice President  
and Chief Risk Officer  
*Joined Alerus in 2018*

## ALERUS LEADERSHIP COUNCIL

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### **Maria Biessener Duncan**

Director of Operations

*Joined Alerus in 2018*

### **Lori Day**

Director of Mortgage

*2 years with Alerus*

### **Scott Fenske**

Ex Officio

General Counsel and  
Corporate Secretary

*3 years with Alerus*

### **Jon Hendry**

Chief Information Officer

*35 years with Alerus*

### **Travis Ingebrigtsen**

Director of Finance

*4 years with Alerus*

### **Chad Johnson, CPA**

Ex Officio

Director of Internal Audit

*16 years with Alerus*

### **Missy Keney**

Director of Marketing and  
Client Experience

*14 years with Alerus*

### **Karna Loyland**

Director of Deposits

*20 years with Alerus*

### **Chip Norris**

Group President, Director  
of Sales and Service

*12 years with Alerus*

### **Brian Overby**

President of Retirement  
and Benefits

*24 years with Alerus*

### **Brian Schumacher**

Director of Wealth  
Management

*8 years with Alerus*

### **Teresa Wasvick**

Director of Human Resources

*28 years with Alerus*

## BOARD OF DIRECTORS

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### **Randy L. Newman**

Grand Forks, ND

Chairman, President, and  
Chief Executive Officer,  
Alerus Financial, N.A., Alerus  
Financial Corporation

### **Karen M. Bohn**

Edina, MN

President, Galeo Group, LLC

Former Chief Administrative  
Officer, Piper Jaffray Companies

Former Chief Executive Officer,  
Piper Trust Company

### **Lloyd G. Case**

Fargo, ND

Past President and CEO of Forum  
Communications Company

Board of Directors,  
Forum Communications

### **Daniel E. Coughlin**

Chicago, IL

Former Managing Director and  
Co-Head of Financial Services,  
Raymond James & Associates

Former Chairman and CEO,  
Howe Barnes Hoefer & Arnett

### **Harold A. Gershman**

Grand Forks, ND

President, Gershman  
Enterprises, LLC

President, Happy Harry's  
Bottle Shops

## MARKET PRESIDENTS

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### **Chris Wolf, CPA, Grand Forks**

*9 years with Alerus*

### **Dan Doeden, Fargo**

*15 years with Alerus*

### **Sara Ausman, Twin Cities**

*7 years with Alerus*

### **Rob Schwister, Phoenix**

*9 years with Alerus*

### **Kevin D. Lemke**

Grand Forks, ND

President, Virtual Systems, Inc.

### **Michael S. Mathews**

Minneapolis, MN

Chief Information Officer,  
Deluxe Corporation

Former SVP, Technology  
and Enterprise Programs,  
UnitedHealth Group

Former Global Head/Director,  
Global Technology, Operations  
and Six Sigma, Merrill Lynch

### **Sally Smith**

Minneapolis, MN

Retired President and Chief  
Executive Officer, Buffalo  
Wild Wings, Inc.

### **Galen G. Vetter**

Minneapolis, MN

Former Global Chief Financial  
Officer, Franklin Templeton  
Investments

Former Partner-in-Charge, Upper  
Midwest Region, McGladrey

## TWIN CITIES ADVISORY BOARD

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### **Hillary Feder**

Hillary's

### **Larry Gamst**

Franklin Partners, Inc.

### **Julie Gilbert**

The Julie Gilbert Group

### **Larry Lauth**

Great West Ventures, LLC

### **Lisa Meyer**

Marketing and  
Management Executive

### **Dennis Monroe**

Monroe Moxness Berg PA

### **James Nichols**

James L. Nichols CPA, LLC

### **Julie Tanaka**

Compendium Capital Group  
Compendium Business  
Strategies, LLC

The 1870s

**1879**

Founded as the Bank of Grand Forks, one of the first chartered in the Dakota Territory.

The 1930s

**1933**

First National Bank in Grand Forks opened its doors in Grand Forks, North Dakota.

The 1980s

**1985**

Acquired Northwood State Bank in Northwood, North Dakota.

**1986**

Created Employee Stock Ownership Plan for our employees.

**1987**

Entered the Fargo market by purchasing West Fargo State Bank in West Fargo, North Dakota.

**1989**

Purchased Dakota Bank in Grand Forks, North Dakota.

The 1990s

**1991**

First National Bank in Grand Forks purchased the North Dakota branches of First Federal Savings & Loan in Fargo, North Dakota, and changed its name to First National Bank North Dakota.

**1997**

Historic flood and fire devastated Grand Forks and First National Bank North Dakota's buildings.

The 2000s

**2000**

First National Bank North Dakota changed its name to Alerus Financial to reflect the evolution from a traditional bank to a diversified financial services company.

**2002**

Acquired a branch of BNC National Bank in Fargo, North Dakota.

**2003**

Purchased Pension Solutions, Inc., a retirement plan services company located in St. Paul, Minnesota.

## 2006

Opened a trust and investment office in the Twin Cities; purchased Stanton Trust Company in Minneapolis, Minnesota.

## 2007

Opened a business banking office in Minnetonka, Minnesota; purchased the retirement recordkeeping services unit of Acclaim Benefits, Inc. in Minneapolis, Minnesota; acquired Stanton Investment Advisors, Inc., a Minneapolis-based investment advisory firm.

## 2009

Expanded into Phoenix, Arizona; purchased the retirement plan practice of Eide Bailly, LLP in Minneapolis, Minnesota; acquired deposits from BankFirst in Minneapolis, Minnesota; acquired Prosperan Bank in Oakdale, Maplewood, and Minnetonka, Minnesota; acquired Residential Mortgage Group in Minnetonka and Arden Hills, Minnesota.

## 2011

Acquired a branch in Arizona and selected loans and deposits in Minnesota and Arizona from BNC National Bank in Scottsdale, Arizona.

## 2012

Purchased PensionTrend Inc. and PensionTrend Investment Advisers, LLC, in Okemos, Michigan.

## 2013

Purchased Tegrit Administrators, LLC.

## 2014

Purchased Private Bank Minnesota in Minneapolis, Minnesota; purchased Retirement Alliance, Inc., in Manchester, New Hampshire.

## 2015

Purchased Interactive Retirement Systems, LTD, in Bloomington, Minnesota.

## 2016

Purchased Beacon Bank in Shorewood, Excelsior, Eden Prairie, and Duluth, Minnesota; purchased Alliance Benefit Group North Central States, Inc., in Albert Lea and Eden Prairie, Minnesota.

## 2018

Opened a loan production office in Mesa, Arizona.

## SELECTED FINANCIAL DATA

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

	As of and for the years ended December 31				
	2018	2017	2016	2015	2014
<b>Income Statement Data</b>					
Interest income	\$ 87,702	\$ 75,637	\$ 69,942	\$ 56,328	\$ 54,394
Interest expense	12,478	7,967	7,002	3,458	3,316
Net interest income	75,224	67,670	62,940	52,870	51,078
Provision for loan losses	8,610	3,280	3,060	4,200	(400)
Net interest income, after provision for loan losses	66,614	64,390	59,880	48,670	51,478
Noninterest income	102,749	103,045	105,089	93,105	78,306
Other noninterest expense	136,325	134,920	143,792	118,134	100,115
Income before income taxes	33,038	32,515	21,177	23,641	29,669
Income tax expense	7,172	17,514	7,141	6,631	8,964
Net income	\$ 25,866	\$ 15,001	\$ 14,036	\$ 17,010	\$ 20,705
<b>Per Common Share</b>					
Earnings per common share	\$ 1.88	\$ 1.10	\$ 1.04	\$ 1.26	\$ 1.55
Diluted earnings per common share	1.84	1.07	1.00	1.21	1.48
Dividends declared per common share	0.53	0.48	0.44	0.42	0.38
Average common shares outstanding	13,763	13,653	13,495	13,413	13,290
Diluted average common shares outstanding	14,063	14,007	14,000	13,947	13,877
<b>Performance Ratios</b>					
Net interest margin (taxable-equivalent basis)	3.86%	3.76%	3.63%	3.81%	3.97%
Return on average total assets	1.21%	0.75%	0.73%	1.12%	1.45%
Return on average common equity	13.76%	8.49%	8.29%	10.51%	14.26%
Return on average tangible common equity	20.93%	14.34%	15.40%	13.73%	17.42%
Noninterest income as a % of revenue	57.58%	60.05%	62.32%	63.52%	60.46%
Efficiency ratio	73.80%	75.35%	81.11%	77.69%	73.84%
<b>Average Balances</b>					
Loans	\$ 1,677,885	\$ 1,475,042	\$ 1,345,209	\$ 1,124,601	\$ 994,047
Investment securities	255,247	286,313	279,992	183,103	258,705
Earnings assets	1,960,723	1,824,287	1,750,105	1,399,587	1,299,646
Assets	2,131,110	2,001,347	1,934,195	1,533,397	1,424,331
Noninterest-bearing deposits	528,552	488,295	443,453	327,654	278,005
Deposits	1,766,951	1,664,022	1,666,791	1,295,987	1,191,846
Short-term borrowings	86,851	72,445	5,059	12,599	29,007
Long-term debt	58,813	58,803	65,102	23,480	21,562
Stockholders' equity	187,927	176,778	168,742	180,931	164,203
<b>Period End Balances</b>					
Loans	\$ 1,733,881	\$ 1,574,474	\$ 1,366,952	\$ 1,126,921	\$ 1,095,458
Allowance for loan losses	(22,174)	(16,564)	(15,615)	(14,688)	(17,063)
Investment securities	254,878	274,411	278,911	192,343	206,101
Assets	2,179,070	2,136,081	2,050,045	1,744,324	1,487,290
Deposits	1,799,293	1,834,962	1,785,209	1,458,021	1,262,168
Long-term debt	58,824	58,819	58,813	70,744	21,494
Total stockholders' equity	196,954	179,594	168,251	182,282	170,644
<b>Capital Ratios</b>					
Common equity tier 1	8.43%	7.83%	7.74%	10.92%	N/A
Tier 1 capital	8.87%	8.29%	8.23%	12.33%	11.76%
Total capital	12.86%	12.17%	12.29%	17.01%	13.02%
Tier 1 leverage	7.51%	7.07%	6.85%	10.85%	10.07%
Tangible common equity / tangible assets	6.91%	6.01%	5.44%	8.18%	8.65%
Tangible common equity per common share	\$ 10.68	\$ 9.14	\$ 7.99	\$ 10.50	\$ 9.49
Dividend payout ratio	28.8%	44.8%	44.0%	34.7%	25.7%



## CONSOLIDATED BALANCE SHEETS

At December 31,

(dollars in thousands, except share and per share amounts)

	2018	2017 <i>Restated</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 34,909	\$ 40,336
Interest-bearing deposits	5,742	81,662
Cash and due from banks	40,651	121,998
Investment securities		
Trading	1,539	1,945
Available-for-sale	250,174	267,021
Equity, at fair value	3,165	5,445
Loans held for sale	14,486	17,938
Loans	1,733,881	1,574,474
Less allowance for loan losses	(22,174)	(16,564)
Net loans	1,711,707	1,557,910
Land, premises and equipment, net	21,743	21,229
Accrued interest receivable	7,645	6,817
Bank-owned life insurance	30,763	29,959
Goodwill	27,329	27,329
Other intangible assets	22,473	27,111
Servicing rights	4,623	4,686
Deferred income taxes	10,085	9,213
Other assets	32,687	37,480
Total assets	<u>\$ 2,179,070</u>	<u>\$ 2,136,081</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits		
Noninterest-bearing transaction	\$ 563,130	\$ 619,333
Interest-bearing transaction	1,061,709	1,011,368
Time deposits	174,454	204,261
Total deposits	1,799,293	1,834,962
Short-term borrowings	93,460	30,000
Long-term debt	58,824	58,819
Accrued expenses and other liabilities	30,539	32,706
Total liabilities	<u>1,982,116</u>	<u>1,956,487</u>
Stockholders' equity		
Common stock, \$1 par value, 30,000,000 shares authorized; 13,775,327 and 13,669,066 issued and outstanding	13,775	13,699
Additional paid-in capital	27,743	26,040
Retained earnings	159,037	140,986
Accumulated other comprehensive income (loss)	(3,601)	(1,131)
Total stockholders' equity	<u>196,954</u>	<u>179,594</u>
Total liabilities and stockholders' equity	<u>\$ 2,179,070</u>	<u>\$ 2,136,081</u>

## CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,

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

	2018	2017 <i>Restated</i>	2016 <i>Restated</i>
<b>Interest Income</b>			
Loans, including fees	\$ 81,159	\$ 68,799	\$ 63,644
Investment securities			
Taxable	4,670	4,773	4,584
Exempt from federal income taxes	1,234	1,356	1,089
Other	639	709	625
Total interest income	<u>87,702</u>	<u>75,637</u>	<u>69,942</u>
<b>Interest Expense</b>			
Deposits	6,991	3,520	3,385
Short-term borrowings	1,896	942	11
Long-term debt	3,591	3,505	3,606
Total interest expense	<u>12,478</u>	<u>7,967</u>	<u>7,002</u>
Net interest income	75,224	67,670	62,940
Provision for loan losses	8,610	3,280	3,060
Net interest income after provision for loan losses	<u>66,614</u>	<u>64,390</u>	<u>59,880</u>
<b>Noninterest Income</b>			
Retirement and benefit services	63,316	62,390	57,804
Wealth management	14,900	13,953	12,640
Mortgage banking	17,630	19,882	26,528
Service charges on deposit accounts	1,808	1,854	1,916
Net gain (losses) on investment securities	85	(13)	(24)
Other	5,010	4,979	6,225
Total noninterest income	<u>102,749</u>	<u>103,045</u>	<u>105,089</u>
<b>Noninterest Expense</b>			
Compensation	69,403	67,576	70,359
Employee benefits	17,866	16,490	15,888
Occupancy and equipment expense	11,086	10,892	11,736
Business services, software and technology expense	14,525	12,976	14,510
Intangible amortization expense	4,638	5,623	7,005
Professional fees and assessments	5,098	6,158	6,301
Marketing and business development	3,459	3,271	3,237
Supplies and postage	2,737	2,609	2,930
Travel	1,738	1,530	1,721
Mortgage and lending expenses	2,153	2,235	2,439
Other	3,622	5,560	7,666
Total noninterest expense	<u>136,325</u>	<u>134,920</u>	<u>143,792</u>
Income before income taxes	33,038	32,515	21,177
Income tax expense	7,172	17,514	7,141
Net income	<u>25,866</u>	<u>15,001</u>	<u>14,036</u>
Less preferred stock dividends	-	-	25
Net income applicable to common stock	<u>\$ 25,866</u>	<u>\$ 15,001</u>	<u>\$ 14,011</u>
Earnings per common share	\$ 1.88	\$ 1.10	\$ 1.04
Diluted earnings per common share	\$ 1.84	\$ 1.07	\$ 1.00
Dividends declared per common share	\$ 0.53	\$ 0.48	\$ 0.44
Average common shares outstanding	13,763	13,653	13,495
Diluted average common shares outstanding	14,063	14,007	14,000

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings Restated	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance December 31, 2015</b>	\$ 20	\$ 13,434	\$ 42,617	\$ 125,162	\$ 1,049	\$ 182,282
Net income	-	-	-	14,036	-	14,036
Other comprehensive income (loss)	-	-	-	-	(2,987)	(2,987)
Common stock repurchased	-	(18)	(102)	(237)	-	(357)
Preferred stock dividends	-	-	-	(25)	-	(25)
Common stock dividends	-	-	-	(6,163)	-	(6,163)
Stock-based compensation expense	-	20	1,445	-	-	1,465
Vesting of restricted stock	-	98	(98)	-	-	-
Preferred stock redeemed	(20)	-	(19,980)	-	-	(20,000)
<b>Balance December 31, 2016</b>	-	<b>13,534</b>	<b>23,882</b>	<b>132,773</b>	<b>(1,938)</b>	<b>168,251</b>
Net income	-	-	-	15,001	-	15,001
Other comprehensive income (loss)	-	-	-	172	807	979
Common stock repurchased	-	(16)	(47)	(231)	-	(294)
Common stock issued	-	64	1,384	-	-	1,448
Common stock dividends	-	-	-	(6,729)	-	(6,729)
Stock-based compensation expense	-	17	921	-	-	938
Vesting of restricted stock	-	100	(100)	-	-	-
<b>Balance December 31, 2017</b>	-	<b>13,699</b>	<b>26,040</b>	<b>140,986</b>	<b>(1,131)</b>	<b>179,594</b>
Net income	-	-	-	25,866	-	25,866
Adjustment for adoption of ASU 2016-01	-	-	-	(71)	71	-
Other comprehensive income (loss)	-	-	-	-	(2,541)	(2,541)
Common stock repurchased	-	(15)	(53)	(288)	-	(356)
Common stock dividends	-	-	-	(7,456)	-	(7,456)
Stock-based compensation expense	-	11	1,836	-	-	1,847
Vesting of restricted stock	-	80	(80)	-	-	-
<b>Balance December 31, 2018</b>	\$ -	\$ 13,775	\$ 27,743	\$ 159,037	\$ (3,601)	\$ 196,954





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