Midland Financial Co.

Midland Financial Co. and MidFirst Bank are required to perform and report the results of their 2017 company run stress tests conducted in accordance with regulations of the Board of Governors of the Federal Reserve System (the Federal Reserve) and the Office of the Comptroller of the Currency (the OCC) under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Midland Financial Co. (the Company) is the holding company for MidFirst Bank (the Bank), which comprised over 99 percent of the Company's total consolidated assets as of December 31, 2016. These stress tests are a forward looking exercise under which the Company and the Bank estimate the impact of a severely adverse macroeconomic scenario and determine if they have sufficient capital to absorb losses and support operations during this hypothetical scenario.

The severely adverse scenario is prescribed by the Federal Reserve and the OCC in the form of changes in macroeconomic variables. The Company and the Bank estimate the impact of this scenario on their financial condition and regulatory capital ratios over a nine quarter planning horizon. The scenario starts in the first quarter of 2017 and extends through the first quarter of 2019.

The severely adverse scenario is characterized by a severe global recession that is accompanied by a period of heightened stress in corporate loan and commercial real estate markets. In this scenario, the level of U.S. real GDP begins to decline in the first quarter of 2017 and reaches a trough in the second quarter of 2018 that is about 6 ½ percent below pre-recession levels, and unemployment increases to 10 percent by the second and third quarters of 2018, respectively. Interest rates, housing prices, and commercial real estate prices experience considerable declines. The macroeconomic variables for the severely adverse scenario were released by the Federal Reserve on February 3, 2017.

The severely adverse scenario implies economic conditions that are more adverse than currently expected by the Federal Reserve or the Company. Accordingly, the estimates of expected losses, net income, and capital ratios produced under the company run stress tests are not based on anticipated estimated conditions. While these tests demonstrate the Company's ability to remain well capitalized after absorbing estimated losses during a period of deep recessionary pressures on the economy, the results are not forecasts of expected or most likely financial projection results for the Company or the Bank.

Summary of Results for Midland Financial Co. and MidFirst Bank

The following tables present a summary of financial results for the severely adverse supervisory scenario for Midland Financial Co. and MidFirst Bank, as well as the required regulatory ratios that are considered adequately capitalized and well capitalized at the end of the projection period (March 31, 2019). The regulatory ratios are in accordance with Basel III capital guidelines.

Summary of Results for Midland Financial Co. in the Severely Adverse Scenario

Projected Capital Ratios – Severely Adverse Scenario

	Actual	Stressed Pro Forma Capital			Minimum Capital Ratios	
Capital Ratio	Q4 2016	Q1 2019	9-Quarter Minimum	Minimum Quarter	Adequately Capitalized	Well Capitalized
Total Risk-Based Capital	15.86%	15.92%	15.35%	Q1 2018	8.00%	10.50%
Tier-1 Risk-Based Capital	14.95%	13.50%	13.50%	Q1 2019	6.00%	8.50%
Common Equity Tier-1	14.95%	13.50%	13.50%	Q1 2019	4.50%	7.00%
Tier-1 Leverage	10.54%	8.68%	8.64%	Q4 2018	4.00%	5.00%

Projected Cumulative Net Income over the Nine Quarter Horizon – Severely Adverse Scenario

Income Statement	
Consolidated	9Q Cumulative (000s):
Pre-Provision Net Revenue	$456,230
Credit Losses	$242,499
Provision for Loan Loss	$388,964
Net Income	$67,266

Summary of Results for MidFirst Bank in the Severely Adverse Scenario

Projected Capital Ratios – Severely Adverse Scenario

	Actual	Stressed Pro Forma Capital			Minimum Capital Ratios	
Capital Ratio	Q4 2016	Q1 2019	9-Quarter Minimum	Minimum Quarter	Adequately Capitalized	Well Capitalized
Total Risk-Based Capital	15.83%	15.82%	15.31%	Q1 2018	8.00%	10.50%
Tier-1 Risk-Based Capital	14.91%	13.39%	13.39%	Q1 2019	6.00%	8.50%
Common Equity Tier-1	14.91%	13.39%	13.39%	Q1 2019	4.50%	7.00%
Tier-1 Leverage	10.49%	8.59%	8.57%	Q4 2018	4.00%	5.00%

Projected Cumulative Net Income over the Nine Quarter Horizon – Severely Adverse Scenario

Income Statement	
Consolidated	9Q Cumulative (000s):
Pre-Provision Net Revenue	$483,892
Credit Losses	$242,499
Provision for Loan Loss	$388,964
Net Income	$94,928

Overview of the Stress Test Process

The 2017 Dodd-Frank Act Stress Test (DFAST) conducted by the Company incorporates a broad range of risks that impact its financial projections in the severely adverse scenario. A description of the risks included in the company run stress test is as follows:

- **Credit Risk** is the risk of loss stemming from a borrower's failure to repay a loan or meet a contractual obligation to the Company. Credit risk relating to lending activities directly affects the Allowance for Loan Losses on the balance sheet, and thus the provisions for credit losses on the income statement.

- **Interest rate risk** is the risk to earnings and capital arising from shifts in interest rates. Due to differences between the timing of rate changes and the timing of cash flows between the Company's assets, liabilities, and off-balance sheet hedges, net income can be impacted by changes in interest rates which result from changes in economic conditions or financial disruptions.

- **Market risk** results from changes in interest rates or instrument prices that may cause impairment expense, as the fair value of the Company's assets and off-balance sheet items subject to market value declines must be recognized either through earnings or through equity, depending on the type of asset or off-balance sheet item.

- **Liquidity risk** is defined as the ability of the Company to meet its debt obligations or fund new lending opportunities without disruption. As defined by the Company, liquidity risk arises from an inability to meet obligations when they come due without incurring excessive costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from failing to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Governance

The Company's stress testing effort is overseen by the Risk Committee of the Board of Directors, as well as a number of management committees that review and approve the Company's models constructed for DFAST, assumptions, inputs and methodologies, and results. The review and approval process incorporates the risks described above, as incorporated into the DFAST process, and the results relative to Board-approved policy limits and Basel III capital ratio minimums.

Description of Stress Test Methodologies Used

Completion of the Company's stress testing involves the construction of models that determine which macroeconomic variables are best correlated to the Company's historical changes in portfolio balances and credit experience. The process is subject to uncertainties and modeling limitations, such as assumptions that portfolio characteristics will remain unchanged and will maintain the same correlation to the selected macroeconomic variables over the nine quarter forecast.

Net Income

Net income consists of net interest income projections, gains or losses pertaining to the market value of the mortgage servicing portfolio, gains or losses on the sale of securities, other non-interest income and expenses, and provisions for loan losses projected to cover credit losses and reserve requirements.

Balance Sheet and Net Interest Income

The Company's balance sheet projections for the DFAST exercise are derived using models that were developed based on bank-specific historical data and the macroeconomic variables provided by the Federal Reserve and the OCC that were found to be most correlated with each respective portfolio. Projections were based on call report level detail for commercial and consumer loans, as well as commercial and retail deposits.

The Company's balance sheet and net interest income are projected based on its existing portfolios, combined with new business projected by the econometric models. New business added is assumed to have characteristics, specific to each portfolio, that are consistent with the Company's historical portfolios. Over the nine quarter horizon, the Company is assumed to execute off-balance sheet hedging contracts to mitigate interest rate risk.

Non-Interest Income

Certain non-interest income projections for the severely adverse scenario are consistent with the Company's 2016 formal budget. Other projections are the product of econometric models developed to support the stress testing process.

Non-Interest Expense

Certain non-interest expense projections for the severely adverse scenario are consistent with the Company's 2016 formal budget. Regulatory assessments were calculated using the regulatory risk-based assessment and surcharge rates, assets, capital, and noncurrent assets for the severely adverse scenario.

Other projections are the product of econometric models developed to support the stress testing process. Impairment expenses are also captured, as the Company carries mortgage servicing rights at fair value and these assets are sensitive to a declining interest rate environment, such as is projected in the severely adverse scenario.

Credit Losses

The Company's Net Charge Off (NCO) projections were derived using models that were developed based on bank-specific historical data and the macroeconomic variables provided by the Federal Reserve that were most correlated with each respective commercial and consumer loan portfolio. Projected in basis points by quarter in each supervisory scenario, the NCO forecasts are applied to the Company's business unit loan projections to derive the net charge off amount in actual dollars.

Total Credit Losses		
Consolidated	9 Q Cumulative (000s):	9 Q Cumulative Loss Rates [1]
Non-Guaranteed First Lien	29,702	3.21%
Commercial Construction	74,468	10.97%
Commercial Mortgage	94,639	2.31%
Commercial C&I	28,095	3.79%
Jr. Lien and HELOC	9,308	3.08%
Consumer	6,287	6.94%
Total	242,499	3.55%

[1] *The Portfolio loss rate is calculated by dividing the nine quarter cumulative losses by the average loan balances over the same period.*

Allowance for Possible Loan and Lease Losses (ALLL)

The Company's ALLL projections were derived using models that were developed based on bank-specific historical data, NCO projections derived from the Company's econometric models, and macroeconomic variables provided by the Federal Reserve that were most correlated with each respective portfolio.

Loan Loss Provision

Loan loss provisions were calculated based on the loan losses realized in the quarter in which they are projected to occur, and an increase in the general provisions associated with the increased risk in the loan portfolio.

Explanation for Causes for the Changes in Regulatory Capital Ratios

The stress test resulted in a moderate reduction in Tier-1 Leverage capital ratios from 10.54% to 8.68% for the Company and from 10.49% to 8.59% for the Bank. There changes result from several factors, with the most significant being:

- Earnings were diminished by an increase in loan losses.
- Capital declined, as total distributions exceeded earnings over the nine quarter horizon.
- Total assets increased, as growth in the available for sale securities portfolio was not fully offset by a decline in the Bank's loan portfolio.

Minimal changes in risk-based capital ratios were realized over the nine quarter horizon, as the projected drop in the Bank's loan portfolio essentially offsets a drop in capital over the nine quarter horizon.