Bremer Financial Corporation and Bremer Bank, National Association:

2017 Dodd-Frank Act Stress Test Public Disclosure

Disclosure

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act” or “DFA”) and regulations issued by the Board of Governors of the Federal Reserve System (“Federal Reserve” or “FRB”), banks with total consolidated assets of between $10 billion and $50 billion (covered companies), including Bremer Financial Corporation (“BFC”) and Bremer Bank, National Association (“Bremer Bank” or “Bank”), are required to conduct company-run annual stress tests and disclose a summary of the qualitative and quantitative results pertaining to the Supervisory Severely Adverse Scenario as defined by DFA. When used throughout this disclosure, unless otherwise noted, “Bremer” refers to BFC and Bremer Bank.

The annual Dodd-Frank Act company-run stress test (“DFAST”) is a forward looking exercise under which a financial institution must estimate the impact of hypothetical baseline, adverse and severely adverse macroeconomic scenarios provided by the FRB on its financial condition and regulatory capital ratios over a nine-quarter planning period (the stress period). For the 2017 stress test, the stress period covers the period of January 1, 2017 through March 31, 2019. The test is designed to help assess whether BFC and Bremer Bank have sufficient capital to absorb losses and support operations during hypothetical severely adverse economic conditions.

The Supervisory Severely Adverse Scenario for the 2017 company-run stress test was released by the Federal Reserve on February 10, 2017. It is important to note that this is a hypothetical scenario that involves economic conditions that are more adverse than expected by the FRB. The severely adverse scenario is characterized by a severe global recession, accompanied by a period of heightened stress in corporate loan and commercial real estate markets. U.S. real GDP declines 6.5% from its pre-recession peak, with unemployment reaching 10% and CPI inflation falling as low as 1.25% at an annual rate. Bremer’s current DFAST framework does not include any additional scenario variables than those provided by the FRB. Bremer has developed its own methodologies and models to evaluate its ability to withstand hypothetical adverse conditions. Taking into consideration Bremer’s corporate structure, lending practices, operating footprint, exposures, and methodologies which differ considerably from those of other banks, the results of Bremer’s stress test may not be comparable to other financial institutions.

Bremer’s capital ratios remain in excess of the regulatory minimum capital requirements, as well as above internal DFAST limits throughout the nine-quarter stress test horizon in all three scenarios, indicating that BFC and Bremer Bank have sufficient capital to sustain losses and continue to lend in a serious recession. It is important to note that the stress test projections do not represent Bremer’s expected future results of operations, financial condition and regulatory capital levels, but rather reflect possible results under regulatory defined hypothetical scenarios.

Summary Description of Risks

The key risk exposures incorporated into the DFAST framework within BFC and Bremer Bank are credit risk, interest rate risk, market risk, liquidity risk, and operational risk. BFC and the Bank project the impact of these risks to its net income, balance sheet, and capital positions and also consider other financial impacts of stressed economic factors on the performance of the organization as a whole.

Credit Risk

Credit risk is the potential of losing principal or interest on a loan or other investment asset due to inability of the underlying borrower or counterparty to honor its financial or contractual obligations to BFC or Bremer Bank. Credit risk for Bremer may be present in both lending and capital markets based on activities within the organization. Credit risk has a direct impact on the balance sheet through the allowance for loan losses and on the income statement through the provision for credit losses.

Interest Rate Risk

Interest rate risk is a potential reduction of net interest income due to fluctuating interest rate changes in the market. The interest rate risk affects the repricing of assets and liabilities differently, where a mortgage-related asset shortens when rates fall and extends when rates rise, compared to a structured funding liability that lengthens when rates fall and shortens when rates rise. The macroeconomic scenarios provided by the FRB include assumptions about key interest rates, which are incorporated in the BFC and Bremer Bank DFAST framework to estimate its effect on the yield on assets and funding costs as well as in the composition of balance sheet.

Market Risk

Market risk may arise from adverse movements in interest rates or market prices which may result in changes in the values of financial instruments carried at fair value, such as trading and available-for-sale securities, mortgage loans held for sale, mortgage servicing rights, and derivatives. BFC and Bremer Bank consider the impact of these risks in the projections under the stressed economic conditions.

Liquidity Risk

Liquidity risk is an institution's capacity to readily meet its cash and collateral obligations at a reasonable cost in a timely manner. For Bremer, deposits, securities and loans are the main source of liquidity via sales or pledging transactions. Market conditions and other events could adversely affect Bremer's access to funds or borrowing costs. An impact on the funding needs and access to liquidity are assessed during the stress period and reflected in the stress testing results.

Operational Risk

Operational risk is a potential loss resulting from inadequate or failed internal processes, people or systems, or from external events. It also encompasses compliance and legal risk, as well as failures by third parties with which Bremer does business. BFC and Bremer Bank estimate and quantify operational losses and their effect on the income and capital over the stress period.

Operational risk, including fraud and process failure related losses, is incorporated into Bremer's 2017 annual DFAST results with losses estimated based on the Bank's historical operational risk matrix, relevant internal factors, and scenario analysis applied within the stress testing model. Operational risk losses are included within other noninterest expense projections on the income statement.

Summary of Stress Test Results - Bremer Financial Corporation

The following table presents the summary financial results for the Supervisory Severely Adverse Scenario for BFC. Income statement items represent nine quarters of cumulative results from January 1, 2017 through March 31, 2019.

Ratio Type	Actual Q4 2016	Severely Adverse	
		Q1 2019	Lowest
Common Equity Tier 1	10.78%	9.52%	9.52%
Tier 1 Risk-Based Capital	11.43%	10.17%	10.17%
Tier 1 Leverage	9.14%	8.07%	8.07%
Total Risk-Based Capital	13.79%	12.53%	12.53%

Income Statement	9 Quarter Cumulative *(000s)*
Pre-Provision Net Revenue	$ 231,236
Aggregated Losses	$ 199,946
Provision for Loan Loss	$ 222,965
Net Income	$ 5,975

Under the Supervisory Severely Adverse Scenario, the BFC pro forma Tier 1 Risk-Based Capital ratio, calculated under Basel III was projected to decrease from 11.43% at December 31, 2016 to 10.17% at March 31, 2019, the end of the stress test period. The material drivers of changes to the projected pro forma Tier 1 Risk-Based Capital ratio include projected positive pre-provision net revenue primarily offset by credit losses and forecasted capital actions. Risk-weighted assets decline over the stress test period under the Supervisory Severely Adverse Scenario primarily due to a decline in loan balances as a result of charge-offs and weakening loan growth.

At the consolidated level and relative to the value on December 31, 2016:

- Ending pro forma Common Equity Tier 1 ratio was 126 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 4.5% regulatory minimum.
- Ending pro forma Tier 1 Risk-Based Capital ratio was 126 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 6.0% regulatory minimum.
- Ending pro forma Tier 1 Leverage ratio was 107 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 4.0% regulatory minimum.
- Ending pro forma Total Risk-Based Capital ratio was 126 bps lower in the Supervisory Severely Adverse Scenario, and remained well above the 8.0% regulatory minimum.

Summary of Stress Test Results – Bremer Bank

The following table presents the summary financial results for the Supervisory Severely Adverse Scenario for Bremer Bank. Income statement items represent nine quarters of cumulative results from January 1, 2017 through March 31, 2019.

Ratio Type	Actual Q4 2016	Severely Adverse	
		Q1 2019	Lowest
Common Equity Tier 1	11.04%	10.63%	10.50%
Tier 1 Risk-Based Capital	11.04%	10.63%	10.50%
Tier 1 Leverage	8.82%	8.43%	8.40%
Total Risk-Based Capital	12.29%	11.88%	11.75%

Income Statement	9 Quarter Cumulative *(000s)*
Pre-Provision Net Revenue	$ 281,060
Aggregated Losses	$ 199,946
Provision for Loan Loss	$ 222,965
Net Income	$ 41,521

Under the Supervisory Severely Adverse Scenario, Bremer Bank pro forma Tier 1 Risk-Based Capital ratio, calculated under Basel III, is projected to decrease from 11.04% at December 31, 2016 to 10.63% at March 31, 2019, the end of the stress test period. The material drivers of changes to the projected pro forma Tier 1 Risk-Based Capital ratio include projected positive pre-provision net revenue primarily offset by credit losses and forecasted capital actions. Risk-weighted assets decline over the stress test period under the Supervisory Severely Adverse Scenario primarily due to a decline in loan balances as a result of charge-offs and weakening loan growth.

At the consolidated level and relative to the value on December 31, 2016:

- Ending pro forma Common Equity Tier 1 ratio was 41 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 4.5% regulatory minimum.
- Ending pro forma Tier 1 Risk-Based Capital ratio was 41 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 6.0% regulatory minimum.
- Ending pro forma Tier 1 Leverage ratio was 39 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 4.0% regulatory minimum.
- Ending pro forma Total Risk-Based Capital ratio was 41 bps lower in the Supervisory Severely Adverse Scenario, and remained above the 8.0% regulatory minimum.

Most Significant Causes for the Changes in Regulatory Capital Ratios

Capital levels remain well-above both regulatory and management targets for both BFC and Bremer Bank over the severely adverse scenario. The reduced earnings are primarily driven by a deep global economic recession that produces a significant flattening of the yield curve. Primary variables driving the global recession are dramatically reduced real GDP growth and severe unemployment rates. They also include a surge in equity market volatility, considerable commercial real estate price declines, and stressed corporate financial conditions. The forecasted weak economic indicators lead to reduced balance sheet growth and net interest margin compression. When combined, all of these factors lead to dramatically reduced pre-provision net revenue and show significant stress to earnings.

The major drivers of changes to the pro forma capital ratios in the severely adverse scenario are driven by positive pre-provision net revenue primarily offset by credit losses and forecasted capital actions. Risk-weighted assets declined over the stress test period under the Supervisory Severely Adverse Scenario primarily due to a decline in loan balances as a result of charge-offs and weakening loan growth.

Methodologies Used in the Stress Test

Bremer's stress testing methodologies focus on predicting financial outcomes over the stress testing horizon by applying macroeconomic variables against historical performance and measuring their impact on business growth, revenues, expenses, and losses. These methodologies include quantitative and qualitative approaches to determine potential risks and forecast financial positions. Stress testing methodologies are subject to uncertainties and modeling limitations, including uncertainty about the extent to which historical relationships between macroeconomic factors and business outcomes will continue to be relevant in a hypothetical macroeconomic scenarios provided by the regulators. To remediate those uncertainties and better reflect Bremer's portfolio and business characteristics within the stressed scenario, senior management and subject matter experts analyze Bremer's risk profile, historical experience, and management expectations to assess model output and adjust model results. Bremer routinely considers uncertainties and limitations of its models as part of the stress testing results review and documents them accordingly.

About Bremer Financial Corporation

Bremer Financial Corporation is a privately held, $11 billion regional financial services company jointly owned by the Otto Bremer Trust and Bremer employees. Founded in 1943 by Otto Bremer, the company is headquartered in St. Paul, Minnesota and provides a comprehensive range of banking, wealth management, investment, trust and insurance products and services throughout Minnesota, North Dakota and Wisconsin. Clients include individuals and families, mid-sized corporations, small businesses, agribusinesses, nonprofits, and public and government entities.