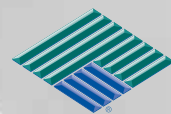


2021

STEARNS FINANCIAL SERVICES, INC.

ANNUAL REPORT



**STEARNS
BANK** N.A.

We get the job done!



REMEMBERING NORM

INNOVATOR.
BANKING PIONEER.
LEGENDARY LEADER.
GENEROUS PHILANTHROPIST.

It is not difficult to find words to describe Stearns Bank founder and Chairman Emeritus Norman C. Skalicky.

Norm was the keystone in establishing our sense of urgency, our drive to *Get the Job Done*, and our foundational financial strength. For over five decades, he fostered a culture of success that remains deeply ingrained in every aspect of our company.

Legendary Growth and Innovation

Norm Skalicky was born in Brocket, ND in 1934 and learned the value of hard work as a young boy, helping on the family farm as he attended school. He graduated from the University of North Dakota, Grand Forks, in 1955 with an accounting degree before his service in the Army, where he earned his way up to a Lieutenant.



1934 - 2021

Through opportunities presented and with the advice of his mentors, Norm began his career in insurance and eventually moved his family to Albany, MN, where he'd accepted a job as an insurance agent at the Stearns County State Bank. In 1964, he purchased a majority interest in both the Stearns County State Bank and First State Bank of Albany, which he combined into one national bank in 1965, eventually becoming Stearns Bank N.A.

A lifelong learner and believer of constant progress, Norm continually explored shifting demands and opportunities. In 1976, he created a financial leasing operation, successfully serving the agricultural, construction and medical industries

that grew over time to become our nationwide equipment finance division. In 1984, he formed an employee stock ownership plan that today owns 23 percent of the organization.

With Norm's focus on maintaining strong capital, Stearns Bank was prepared when the financial markets crashed in 2008. The bank was well-positioned to assist the FDIC with failed banks, successfully completing 10 transactions with the FDIC to take on over \$2.1 billion in assets and \$1.5 billion in deposits from failed banks from 2009 through 2012, expanding the bank's branch footprint to include Arizona and Florida.

By the time of Norm's passing, Stearns Bank had become recognized nationwide as one of the strongest financial institutions with a bulletproof balance sheet and as a high performer, consistently achieving high earnings and year-over-year top rankings for return on assets and equity.

Kelly Skalicky, President and CEO of Stearns Bank and Norm's daughter, said, "The impact that Norm had, not only on the organization but in the greater community, is legendary. He redefined community banking, developing a nationwide lending platform using the most advanced technology at the time - the landline phone and fax machine - long before branchless banks and fintechs became a part of the banking industry lexicon."

Kelly credits Norm for Stearns Bank's continued high-performance and award-winning culture, saying "Norm was a true innovator who infused our company with entrepreneurial spirit and a culture of success."





Igniting Community Spirit

Perhaps Norm's greatest impact, though immeasurable, was made through philanthropy and his passion to change the lives of others.

Among his many honors, which he always accepted with great humility, Norm received the Boys & Girls Clubs of Central Minnesota's Champion of Youth Humanitarian Award in 2013 and was awarded the Thomas A. Ritsche Lifetime Commitment to Caring Award in 2019.



Norm carried on his dedication of helping others through the Norman C. Skalicky Foundation, supporting the efforts of many organizations, including: Catholic Charities, Habitat for Humanity, The Salvation Army, United Way, various food shelf organizations, disaster relief efforts, and private and public universities, like his Alma Mater University of North Dakota and our local College of Saint Benedict and Saint John's University.

Carrying on Norm's Legacy

Throughout his life, Norm's determination was apparent. The culture of Stearns Bank grew from his high expectations, his sense of urgency and service, his entrepreneurial drive and keen focus on financial discipline.

For decades, the adage, **We get the job done!** has been associated with Stearns Bank. And, while it is our trademark inspired by Norm, the words are much more than a slogan – they drive our mission and spirit of service at Stearns Bank.



"Norm raised the bar and is held in the highest regard throughout the banking and financial industry," said Kelly Skalicky of her father.

Norm left a significant legacy and will be deeply missed by his loving family, his cherished friends, his devoted employees, both past and present, and by the communities and organizations he so generously supported. His legacy of success and entrepreneurship will surely be carried on.

A word from our President & CEO



2021 was a transformational year.

Most notable and significant, our founder and my father passed away on November 7, 2021. Norm was a transformational leader who lived for and loved Stearns Bank. Words cannot express the impact of our loss. This Annual Report and our continued success are dedicated to Norm and his legacy.

Transformational describes our agility in expanding our digital delivery through strategic partnerships* that include South End Capital and Productfy. Leveraging what we do uniquely well, we paired with best-in-class fintechs and tech innovators who excel in niches and align with our mission, vision and values.

At Stearns Bank, we believe in a marketplace of abundance, not scarcity. By partnering well, we merge our unique talents and combined resources to multiply our impact and increase access to financing, while expediting delivery through digital channels. Together, we more effectively expand offerings and accelerate adoption of mobile banking and serve more of the underbanked. Our commitment to financial inclusion and increased access to banking is backed by our serious investments in the OCC's Project REACH**.

It takes a team – More than ever, it's been exhilarating to see the entrepreneurial spirit of our team drive their innovation to *Get the Job Done* for our customers. Norm would be proud that we are carrying on his charge to "find a way." We remain first and foremost committed to our customers by *Answering on the 1st Ring*, then hustling as a team to help customers attain the success they aspire to achieve. We deliver today what our customers want and need to achieve their greatest ambitions tomorrow.

Building from strength and resilience – Stearns Bank entered 2021 with a fortress of capital and strong reserve, making us a go-to lender, providing quick decisions and funding for customers expanding and seizing new opportunities. Despite rate pressures and historically low net interest margins for banks, we built our lending volume while maintaining strong yields. By year-end 2021, our earnings were strong with after-tax net income of \$76 million, the strongest net income since 2015. We maintained our capital at 21.8% with healthy reserves at 3.56% for 2021 year-end, still higher than our 3.02% reserves at 2019 year-end.

Inspired by customers – Our 35,000+ loan and deposit customers nationwide continue to embrace change, create new opportunities and rise above unique trials. Their grit and agility to adapt their businesses and sustain through economic disruptions inspire us. It's our customers' strength that is reflected in our strong yields, high performance, low delinquencies and stable, low losses.

Confident in the year ahead – Opportunity awaits with our strong pipeline of national lending and increasing demand for our high-value deposit services. We foresee more strategic alliances in 2022 and a concentrated focus on expanding our three specialty lending pillars: national lending, equipment finance and SBA loans.

With talent, teamwork and tenacity, we are committed to carrying Norm's legacy forward, ensuring his entrepreneurial drive and our Stearns Bank culture of success lives on in our customers and team.

We have a lot to do in 2022! For Stearns Bank and our customers, this will be the Year of Production. Our commitment to diversity, equity and inclusion will continue to ignite innovation; cultivate our culture; recruit and retain top talent; and drive our competitive advantage to boost our business and grow the bottom line. Norm's legacy will persevere, and our team will *Get the Job Done!*

Best wishes,

A handwritten signature in black ink that reads "Kelly A. Slaby". The signature is written in a cursive, flowing style.

*Read more about select partnerships on page 6.

**Learn more about Project REACH on page 6.

Foundation

MISSION

We are driven by our passion to help others achieve their greatest ambitions. We get the job done with urgency, tenacity and unlimited imagination.

VISION

We are an unrivaled trailblazer, most admired for our people, our imagination, our simplicity. Business starts here and thrives here – we are the bank you can't live without.

VALUES

- Integrity & Accountability
 - Sense of Urgency
 - Employee Ownership
 - Ambitious Hard Work
 - Surpassing Expectations
- Financial Discipline
 - Proactive Communication
 - Community & Family Values
 - Trailblazing Creativity
 - Common Sense
- Culture of Success
 - Tenacious Pursuit of Excellence
 - Teamwork
 - Constant Progress

Recognition

At Stearns Bank, our personal service, sense of urgency, strong financial management and consistent performance are recognized nationally.



Recognized as one of the top-performing banks in the nation by Independent Community Bankers of America.



Listed among the Monitor 100 largest equipment finance companies.



Ranked as one of the top-performing banks in the nation, in its peer group, by American Banker magazine.



Named Minnesota's Best Bank and Best Ag Lender by readers of the Star Tribune.

History

1912

Stearns County State Bank is chartered in Albany, MN
\$300K total assets

1964

Norman C. Skalicky purchases majority ownership in Stearns County State Bank in Albany, MN
\$3.5M total assets

1966

Norm Skalicky creates a National Charter with Stearns County State Bank and First State Bank in Albany, MN
\$7.5M total assets

1976

Equipment leasing division opens in Albany, MN; Holdingford, MN charter acquired
\$32.3M total assets

1978

St. Cloud, MN branch opens; Upsala, MN charter is acquired
\$46.7M total assets

Performance

BALANCE SHEET

	2021	2020
Cash & Due	\$736,724	\$ 445,693
Securities	31,419	25,403
Loans	781,973	858,634
Equipment Finance*	871,673	1,020,631
Reserve for Loss	(58,930)	(98,071)
Loans & Equipment Finance - Net	1,594,716	1,781,194
Bank Premises & Equipment	17,695	19,307
Other Assets	56,271	57,763
Total Assets	2,436,825	2,329,360
Deposits	1,841,589	1,780,255
Other Liabilities	120,540	114,977
Total Liabilities	1,962,129	1,895,232
Total Capital	474,696	434,128
Total Liabilities & Capital	2,436,825	2,329,360

EARNINGS STATEMENT

	2021	2020
Loans	\$ 65,729	\$ 66,127
Equipment Finance**	78,573	103,766
Securities	1,445	1,064
Total Interest Income	145,747	170,957
Interest Expense	15,824	27,283
Net Interest Income	129,923	143,674
Non-Interest Income	15,372	27,567
Total Income	145,295	171,241
Salaries & Benefits	53,161	47,614
Other Expenses	20,178	20,616
Total Non-Interest Expenses	73,339	68,230
Income Before Provision (CR) & Taxes	71,956	103,011
Provision (CR) for Loss	(28,788)	55,691
Income Tax Expense	25,146	10,005
Net Income	75,598	37,315

Numbers are consolidated, dollars in thousands for years ending December 31 (unaudited) for Stearns Financial Services Inc.

*Conditional Sales Contracts included in loans for regulatory reporting.

**Income from Conditional Sales Contracts included in Loan interest for Regulatory Reporting.

1990

Stearns Financial Services Inc. (SFSI) is formed
\$136.8M total assets

1997

Scottsdale, AZ branch opens
\$589M total assets

1998

Stearns Bank establishes a dedicated Small Business Administration (SBA) Division
\$674.6M total assets

2008-2012

Stearns Bank acquires over \$2 billion in failed bank assets and \$1.5 billion in deposits from FDIC
\$1.97B total assets

2021

South End Capital Corporation acquired
\$2.4B total assets



Lending Pillars

Our 2021 loan production increased through expanded digital delivery and building on our personal touch with a focus on “Three Pillars” of lending: national lending, equipment finance and SBA loans.

NATIONAL LENDING

Within national lending, we recognized tremendous opportunity and demand for national commercial real estate (CRE) and construction financing, especially in affordable housing, workforce housing, and various mixed-use commercial development.

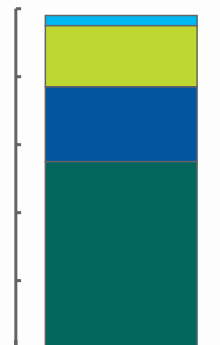
Our national lending opportunities began expanding at an impressive rate in 2021, fueled by our sense of urgency, quick decisioning, fast funding, and expertise in construction management and nationwide construction financing. In 2021, we maximized our expertise in Commercial Property Assessed Clean Energy (C-PACE) and renewable energy and green energy project financing. Our proficiency in tax credit financing and experience in state/local incentives for low-income housing property conversion helped our developer and CRE customers seize new opportunities.

Our national lending team delivered quick land takedown financing, build-to-suit project funding, versatile lines of credit and post-construction bridge financing. This and other creative financing helped developers leverage their capital, expand project portfolios and maximize market opportunities.

2021 National Lending Production Mix

by loan volume

- 58% Commercial Real Estate
- 21% C & I
- 18% USDA & Agriculture
- 3% LIHTC



EQUIPMENT FINANCE

Our equipment finance team continued to outshine with speed, customized financing options and constant delivery of our “Stearns Bank Edges” that define us and wow our customers.

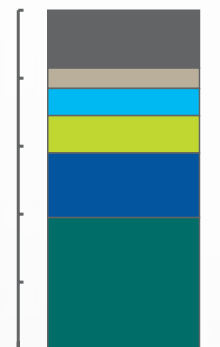
This past year saw an improvement in the nation’s economy. However, challenges continued within the equipment industry, particularly the manufacturing of new equipment, due to supply and labor shortages and shipping delays. The market challenges provided an opportunity for us to support our referral partners in new and creative ways, working with dealers, vendors and manufacturers to develop customized finance programs to secure equipment with pre-order financing for their customers. Used equipment financing programs, fast decision-making and best-in-class customer service proved our dedication to deliver for customers.

Our ability to pivot and provide solutions to meet the needs of the market allowed our team to be well-diversified in our business lines, showing strong capacity to develop new vendor and manufacturer relationships and achieve production growth with strong yields.

2021 Equipment Finance Production Mix

by dollar volume

- 39% Construction & Property
- 19% Transportation
- 11% Medical
- 8% Agriculture
- 6% Manufacturing
- 17% Other



SBA AND GOVERNMENT LOAN PROGRAMS

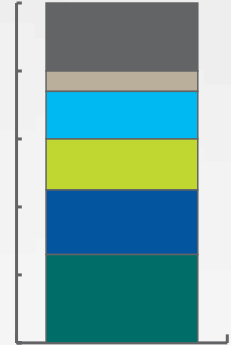
Government loan programs gained a renewed spotlight in 2021, with an emphasis on expanding our SBA and USDA loan guarantee programs.

With one of the largest SBA loan portfolios in the country, we began leveraging our South End Capital division’s digital platform to add convenience and financing options. SBA opportunities with existing bank and equipment finance customers expanded as they sought debt consolidation or pursued acquisitions or partner buyouts.

As one of few financial institutions in the nation selected by the USDA to be granted the multi-state lender designation in 2021, we embraced our advantage of being delegated a national USDA officer at the USDA’s Washington D.C. office to expedite USDA funding for our customers.

2021 SBA 7a Production Mix *by dollar volume*

- 26%** Accommodations & Foodservice
- 19%** Personal & Professional Services
- 15%** Transportation & Construction
- 14%** Retail Trade & Manufacturing
- 6%** Medical
- 20%** Other



Forward-Thinking Deposit Growth

One of our strategic priorities for 2019-2021 was to continue deposit growth with new and existing customers. This focus culminated in 2021 with deposit growth nearly 80% above our goal. We focused on organic deposit growth in our Minnesota, Florida and Arizona markets and expanded digital deposit services through bank and fintech partnerships.

We continued to demonstrate our “High-Touch + High-Tech” model by ‘Answering on the 1st Ring’ and providing personal service with a sense of urgency powered by more conveniences in digital banking. We added new online and mobile services through our

StearnsConnect banking platform and continued our strong deposit rates and low-fee account options to help customers save and grow their money, faster.

Throughout 2020 and 2021 we saw COVID-19 force fast-track adaptations across every sector, with an exponential acceleration of technology adoption and aggressive deployment of digital delivery channels. Agile, forward-thinking businesses thrived, particularly those adapting to expand customer access and increase ease and speed of delivery through multiple channels. Our focus on innovation and adding customer convenience is unwavering.

High Balance Protection

Deposit customers managing large cash balances value our specialized expertise in the IntraFi Network DepositsSM (formerly ICS and CDARS) which extends FDIC protection beyond the individual bank limit of \$250,000. Throughout 2021, our branch teams worked with municipalities and referral networks to achieve

deposit growth within this network, providing customers with added protection, convenience and the personal service through Stearns Bank. The efforts and experience of our specialized IntraFi deposit team achieved a 248% year-over-year growth through these deposits.

Reaching the Underbanked



In 2021, we launched several new initiatives with OCC-chartered Minority Deposit Institutions (MDIs) to advance our commitment to the OCC's Project REACH. Stearns Bank took the Pledge to Support MDIs, distinguishing ourselves as an influential leader.

We are contributing our resources, training, and partnering with MDIs to expand our collective impact, providing more banking services to the underbanked.

Early in 2021, President & CEO, Kelly Skalicky, was appointed by the OCC to serve on the OCC's Minority Deposit Institution Advisory Committee. Josh Hofer, Stearns Bank Chief Risk & Information Security Officer, joined the OCC's MDI Technology Roundtable to assist MDIs with security and technology development and resourcing.

"I believe in Project REACH's mission knowing how critical MDIs are to our banking system. As banks, we need to do more to increase financial inclusion and access to capital and services. By partnering well, we can serve more customers, better."

- Kelly Skalicky, Stearns Bank President & CEO, Stearns Financial Services, Inc.

Partnerships



In May 2021, Stearns Bank joined forces with Banking-as-a-Service (BaaS) provider Productfy, to change the way financial products and services are built and deployed, expediting the go-to-market path for fintechs. The partnership allows non-bank companies to expand innovative money movement, neobank, payment processing, and card issuance solutions quickly through a progressive platform to efficiently qualify, onboard, and launch a fintech program to market in as little as three weeks.

"Productfy and Stearns Bank are equally committed to collaborating and driving fintech adoption as a force for positive impact."

- Josh Hofer, Chief Risk & Information Security Officer, Stearns Bank N.A.



In June 2021, Stearns Bank acquired South End Capital, an exciting partnership that expands our digital reach and expedites our delivery with an accessible, real-time digital lending platform.

Our South End Capital platform helps businesses access customized financing and banking solutions they need and assists strategic referral partners in building their portfolios while also broadening our reach to serve underbanked businesses.

"The natural synergies present between our two organizations are unmatched. South End Capital's cutting-edge technology combined with Stearns Bank's first-in-class customer service and customized loan programs, create a new standard for the industry."

- Noah Grayson, President, South End Capital

Customer Success

Our customers create incredible success stories of their own – we’re honored to be a part of them.



Diversified Partners LLC | Las Vegas, NV
COMMERCIAL REAL ESTATE LOAN

In 2021, Walt Brown and Dr. Ruth Rassel of Diversified Partners LLC secured an incredible commercial property across the street from Allegiant Stadium in Las Vegas where they will construct an iconic In-N-Out Burger.

"We moved quick and Stearns Bank moved quick. [They] went above and beyond to get this deal and others closed." -Walt Brown



The Fish Bowl LLC | Sarasota, FL
BUSINESS BANKING

Andrejs Spalvins turned his love of fish and aquariums into his own business, The Fish Bowl LLC. Priding himself on exceptional customer service, Andrejs designs, builds and maintains fresh and saltwater aquariums.

"Stearns Bank is convenient for me and they give really great personal service. I would recommend them to anyone who owns a small business." – Andrejs Spalvins



Eye Care Associates Limited | Chicago, IL
EQUIPMENT FINANCE

Dr. Haniel Roby knows the importance of a positive customer service experience. He and his wife, Michele, also an eye doctor, have persevered through challenge to deliver high-quality, patient-focused care.

"You can pick up your phone and just call Stearns Bank. It's so rare that you can do that these days. I was very grateful for their assistance when things weren't going so well for me." –Dr. Haniel Roby



Got That Rental & Sales Inc. | Essex Junction, VT
EQUIPMENT FINANCE

Got That Rental & Sales owner Scott Guay and his team keep work moving for their customers through equipment sales, rentals and maintains equipment ranging from excavation and landscaping to scaffolding and mowers.

"When you talk to someone from Stearns Bank, it's like talking to someone next door. The conversations I have with them are genuine." –Scott Guay

Community Giving and Involvement

In recent years, despite the COVID-19 pandemic, our community commitment expanded while the way we give back to our communities was slightly altered. Needs evolved, along with health and safety factors, changing what community giving and involvement look like.

Through all the change, our passion to help our communities continued to grow. In 2021, our team dedicated over 1,600 hours to create change, lend a hand, bring communities together, and expand volunteerism by adding remote activities to broaden the reach of our support.



Responding to Crisis

Stearns Bank team members organized a donation drive to support Anna Marie's Alliance, a domestic violence shelter, collecting much-needed items such as personal care products, diapers, gently used clothing and other essentials.



Cheering for Communities

Members of our Albany, Minnesota branch volunteered to host an annual tailgating event to kick off the Albany Huskies homecoming football game. Free food and water were served to attending fans.



Helping Those In Need

The St. Petersburg, Florida branch supported Johns Hopkins All Children's Hospital's All Kids' Wonderland event, which provides toys and other gifts to pediatric patients and their families.



Building a Better Tomorrow

Central Minnesota Habitat for Humanity presented Stearns Bank with the Business Partner of the Year Award, which honors 15 years of generosity through donor support, volunteerism and serving mortgages for Habitat Homebuyers at no cost.

LEADERSHIP TEAM



Kelly Skalicky
Pres. & CEO,
Stearns Financial
Services, Inc.
10 YEARS OF SERVICE



Heather Plumski
Chief Financial
& Strategy
Officer
16 YEARS OF SERVICE



Ann Erickson
Chief
Compliance &
Audit Officer
5 YEARS OF SERVICE



Isaac Flenner
Director of Equip
Finance & Small
Business Lending
16 YEARS OF SERVICE



Josh Hofer
Chief Risk &
Information
Security Officer
6 YEARS OF SERVICE



Tom Hosier
Chief Lending
Officer
16 YEARS OF SERVICE



Al Doering
Chief M & A
Officer
2 YEARS OF SERVICE



Brian McCarthy
Chief Credit
Officer
2 YEARS OF SERVICE



Pam Bjerke
Chief Human
Resources
Officer
5 YEARS OF SERVICE



Rebecca Kronlund
General Counsel
2 YEARS OF SERVICE



Rory Bidingger
Chief Marketing
Officer
5 YEARS OF SERVICE

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Stearns
Financial
Services, Inc.



Chris Coborn
Chairman,
Pres. & CEO of
Coborn's, Inc.



Deborah Lorenzen
Head of
Enterprise Data
Governance of
State Street



Kathleen Persian
Executive Vice
Pres. & CIO
of Schwan's
Company



Mary Jepperson
Prof., College
of Saint
Benedict /Saint
John's University

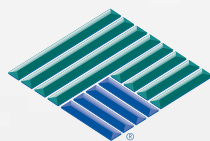


Thomas Williams
Retired CEO
of Williams
Dingmann Family
Funeral Homes

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Janice Paggen, Audrey Lange, Roger J. Voit,
Heather Plumski and Josh Hofer

Board of Directors - Stearns Bank Upsala N.A.:
Roger J. Voit, Peter Michels, Rosie Harren,
Heather Plumski and Josh Hofer

Board of Directors - Stearns Financial Services, Inc.: Kelly Skalicky, Heather Plumski, Nancy Karasch and Mary Jepperson



STEARNS
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We get the job done!

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