

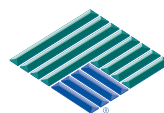


TOGETHER

2020

STEARNS FINANCIAL SERVICES, INC.

ANNUAL REPORT



STEARNS
BANK^{N.A.}

We get the job done!

Together we are... **Optimistic.**

➤ A word from Kelly



Kelly Skalicky
President and CEO,
Stearns Financial
Services, Inc.

When challenges arise, we pull together with focus and determination. Grounded in our core values, we draw upon the strength, tenacity and resourcefulness of our people.

In 2020, with COVID-19 emerging as a global pandemic, threatening lives and upending every sector of the economy, we at Stearns Bank pulled together. We focused on what matters most: the health and safety of our employees, their families, our customers and communities. We immediately mobilized to transition all non-branch staff (419 employees/87 percent of all staff) to work remotely within one week of the World Health Organization declaring COVID-19 a pandemic.

Our #1 business priority was to deliver for our customers with a sense of urgency that is core to our values. The Paycheck Protection Program (PPP) demanded fast action and teamwork to intake, process and advance critical funding to over 2,600 small business customers. We shifted on a dime to high-frequency portfolio management, proactively making customer care calls to our 30,000+ loan and deposit customers. Listening and assessing the impact of COVID-19 on their businesses, families and clients, we learned what more we could do to help.

Always determined to stay strong for our customers, we continued building upon our bullet-proof balance sheet. By year-end 2020, our strength of capital grew to 21 percent – nearly twice the average capital of our peers – while adding to our reserves to achieve 2-3 times those of our peers. With ambitious hard work and steadfast financial discipline, we built more strength and stability.

In 2020, the resilience of our customers to overcome was awe-inspiring, and the determination of our employees to rise to every challenge and deliver was moving. Together, we discovered new strengths in ourselves and in each other; strengths that could only be forged working together in the face of never-imagined perils, driven by a sense of purpose and unity.

Together, we learned that unprecedented challenges require unprecedented teamwork, commitment, focus, fortitude and decisive action.

For 2021, we sincerely wish good health and much success,

Together we are... **Resilient.**

➤ Responding to COVID-19/PPP

In the face of the COVID-19 pandemic, we focused on serving our customers quickly and compassionately, prioritizing the health and safety of employees and customers. With the pandemic forcing dislocation, travel restrictions, and scarcity in many common goods and services, we committed to being more connected and offering even more services.

Our customers had the distinct advantage of already having 24/7 all-access banking through our StearnsConnect mobile app and online digital banking platform, which gave them the comfort and safety of remote banking from anywhere. Following federal and state guidelines, we limited contact at branch locations, implemented safety protocols and altered in-person transactions with socially distanced safeguards. We extended our hours throughout the company with a singular, unified mission to be even more available for our local and nationwide customers.

As the nation scrambled to access funding through the CARES Act, we worked around the clock and through weekends to get PPP financing in place for over 2,600 businesses (discussed more on page 5). We also

mobilized our customer care initiative, reaching out to our 30,000+ deposit and loan customers nationwide to ask what more we could do. The extraordinary resilience and resourcefulness of our customers inspired and fueled us to press on and deliver this critical relief to them.

With the expertise of our Stearns Bank Small Business Administration (SBA) and legal teams, our online resources and social media feeds kept borrowers current on the rapid PPP updates by the SBA and the new benefits provided by the CARES Act and its amendments that went beyond PPP. Thanks to our team member expertise, we're the go-to resource for our customers and communities on the CARES Act and the state and local government programs nationwide that support small businesses.

We honor the extraordinary resilience and determination of our small business customers. They have inspired us with their tenacity, integrity and resourcefulness and we are grateful to be their go-to bank in the most trying time.



Scott Putman, Wetzel's Pretzels - Los Angeles, CA

"Within two hours after contacting Stearns Bank, we had our SBA number in hand. We got funded a week later. It was a great process."

Together we are...

Strong.

Since 1912, Stearns Bank

has grown stronger with every hill and valley. Standing alongside customers to push through economic challenges while remaining humble and cautious in prosperous times has prepared us to manage and thrive throughout 2020.

When today's Chairman of the Board, Norm Skalicky, purchased majority ownership of what was then Stearns County State Bank in 1964, he established a culture and set into motion a way of business that was strong and would withstand – and even prosper in – any economic condition.

In 2020, Norm's legacy was more important than ever. Kelly, Norm's daughter, took his no-nonsense approach to "getting the job done," amplified it and put it into action with unprecedented urgency.



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



Norm Skalicky
Chairman of
Stearns Financial
Services, Inc.

Our Norm
is the difference

- Exceptional** is the Norm
- Relentless** is the Norm
- Strength** is the Norm
- Urgency** is the Norm
- Creativity** is the Norm

Together we are...

Safe.



Balance Sheet

	2020	2019
Cash & Due	\$ 445,693	\$ 107,721
Securities	25,403	24,742
Loans	858,634	916,372
Equipment Finance*	1,020,631	1,388,341
Reserve for Loss	(98,071)	(69,665)
Loans & Equipment Finance - Net	1,781,194	2,235,048
Bank Premises & Equipment	19,307	20,445
Other Assets	57,763	52,968
Total Assets	2,329,360	2,440,924
Deposits	1,780,255	1,923,918
Other Liabilities	114,977	113,219
Total Liabilities	1,895,232	2,037,137
Total Capital	434,128	403,787
Total Liabilities & Capital	2,329,360	2,440,924

Earnings Statement

	2020	2019
Loans	\$ 66,127	\$ 69,218
Equipment Finance**	103,766	112,478
Securities	1,064	2,425
Total Interest Income	170,957	184,121
Interest Expense	27,283	37,701
Net Interest Income	143,674	146,420
Non-interest Income	27,567	31,500
Total Income	171,241	177,920
Salaries & Benefits	47,614	57,450
Other Expenses	20,616	29,121
Total Non-interest Expenses	68,230	86,571
Income Before Provision & Taxes	103,011	91,349
Provision for Loss	55,691	23,139
Income Tax Expense	10,005	15,896
Net Income	37,315	52,314

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.

Together we are... Innovative.

➤ Lending

In this unusual time in our lending history, our speed in specialty lending proved extremely beneficial for our customers, both existing and new. Those needing financing or accommodations relied upon our fast decisions and funding.

We've always valued relationship-building and our customers trust us because of our proven record of stepping up. They came to us first, sharing their concerns about their project delays, revenues and cash flow, overhead burdens and staffing. We assured them of our willingness to help. For many, this included a PPP loan or help navigating payments and terms.

Our in-house construction loan team, having decades of experience working with project developers and contractors through big economic challenges, worked day and night

with borrowers experiencing pandemic-related delays to help advance their projects whenever possible. Experience and fast access to key decision-makers were clear value-adds for our borrowers, giving them an edge in on-time project construction.

As a bank built on speed, we are excited to announce our new distinction as a USDA Multi-State Lender, which was awarded in 2020 to a select few institutions in the country. This distinction provides a faster turnaround in USDA approval and solidifies our continued commitment to deliver fast funding for our customers, which puts them in the driver's seat. From nationwide commercial construction and real estate lending to expedited SBA lending as an SBA Preferred Lender, our customers have the advantage of an expedited path to financing.



Rod and Kim Cullum, Cullum Homes Inc. - Scottsdale, AZ

"We really needed a strong bank to support us on this project. Stearns Bank stepped up and provided the majority of the financing for us."



Dallas Nestvold, Revived Iron Auto Repair - North Branch, MN

"I value Stearns Bank's hands-on approach. They always answered my questions with ease."

Together we are... Adaptable.

➤ Equipment Finance

One key strategy that unified and drove our equipment finance team in 2020 is adaptability. Our adaptability and skill to pivot quickly during the pandemic provided our customers, dealers and vendors more access and more options. Our fast decisioning and simple, efficient delivery provided reassurance and stability for them during the uncertainty of 2020.

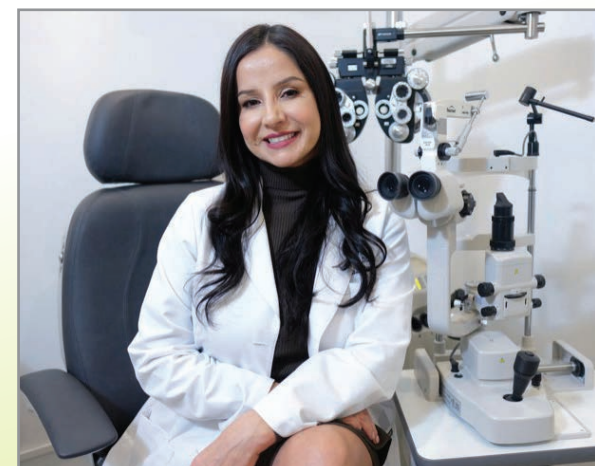
With the worldwide pandemic unfolding rapidly, we embarked on a methodical series of proactive communications with our equipment finance customers.

Our 200-plus member equipment finance team adapted their roles, shifting seamlessly from production to customer care and portfolio management. Through tens of thousands of phone conversations, we heard and felt the impact of COVID-19 on our customers.

With our focus on adaptability, over 10,000 modifications and deferrals were provided, creating a sense of control and relief many of our small businesses needed.

We shifted quickly to deploy our customer care initiative with a unified vision of ensuring the sustainability and success of our customers' businesses. Our equipment finance team remained committed to new money financing, continuing with a sense of urgency to fund in as little as 82 minutes, from application to funding.

As we look ahead, we're eager to expand our dedicated customer care program and further strengthen our customer, dealer and third-party relationships, exploring new niche market growth nationwide. Stay tuned as we enhance our adaptability for 2021.



Dr. Angela Dussan, Dussan Eye Care - Long Island, NY

"Everybody I worked with at Stearns Bank was so efficient. Anything I asked about, they had an answer right away. Getting an answer so fast when you're under a lot of pressure really makes a difference. I know I wouldn't have gotten to this point without Stearns Bank."



Jason Miller, Spartan Construction and Tree Service - Henrico, VA

"Stearns Bank helped simplify my finances. It's so convenient. They have a high attention to detail."

Together we are... Growing.

Growth Relationships

In 2020, we continued to build and grow the ways we support our customers with a focus on:

- Customer relationships, beyond financing, with our BusinessSmart™ and Above the Norm™ account options.
- Expanding FDIC insurance for funds up to \$120 million in deposits through the Stearns Bank ICS® (Insured Cash Sweep) program, and up to \$50 million in deposits through CDARS® (Certificate of Deposit Registry Service).
- Leveraged technology with the StearnsConnect mobile app and digital banking platform, with new options that increase convenience and money management solutions.

Our branch staff and electronic banking teams made personal calls to thousands of deposit customers in 2020. Our team heard, firsthand, the impact COVID-19 had on customers. Many expressed their deep appreciation that we cared enough to call.

We remain honored to serve small businesses across the nation and sincerely thank our customers for entrusting us with the awesome privilege of serving them. We recognize the severity of all that was confronting our customers, and we're inspired by their resilience and entrepreneurial spirit in the face of the pandemic and the remaining challenges of 2020. Connecting with each one of them has strengthened our relationships and motivates us to always do more and better.



Chuck Minser, St Cloud Electric, LLC - St Cloud, MN
"Customer service is really important to me. Stearns Bank employees are always really friendly and courteous and always meet our needs."



Darren and Sarah Hendren, Hendren Construction Inc. - Salem, OR
"We feel like everybody who works at Stearns Bank are just good people. I can always call them and keep them in my back pocket. I depend on them to help me with the checks and balances."

Together we are... Leading.

The Leadership Team



Kelly Skalicky
Pres. and CEO,
Stearns Financial
Services, Inc.
9 YEARS OF SERVICE



Al Doering
Chief M & A
Officer
1 YEAR OF SERVICE



Ann Erickson
Chief
Compliance and
Audit Officer
4 YEARS OF SERVICE



Brian McCarthy
Chief Credit
Officer
1 YEAR OF SERVICE



David Feriancek
Senior Vice Pres.
National Lending
17 YEARS OF SERVICE



Heather Plumski
Chief Financial
and Strategy
Officer
15 YEARS OF SERVICE



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



Josh Hofer
Chief Risk and
Information
Security Officer
5 YEARS OF SERVICE



Pam Bjerke
Chief Human
Resources
Officer
4 YEARS OF SERVICE



Rebecca Kronlund
General Counsel
1 YEAR OF SERVICE



Rory Bidingier
Chief Marketing
Officer
4 YEARS OF SERVICE



Tom Hosier
Senior Vice
Pres. / Arizona
Market Manager
15 YEARS OF SERVICE

Board of Directors - Stearns Bank, N.A.



Norman Skalicky
Chairman
of Stearns
Financial
Services, Inc.



Kelly Skalicky
Pres. and
CEO, Stearns
Financial
Services, Inc.



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



Deborah Lorenzen
Head of
Enterprise Data
Governance of
State Street



Kathleen Persian
Executive Vice
Pres. and 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

Board of Directors - Stearns Bank Holdingford N.A.:
Norm Skalicky, Janice Paggen, Audrey Lange,
Roger J. Voit, Heather Plumski and Josh Hofer

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

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

Together we are...

Giving Back.

Deeply committed to our communities,

Stearns Bank offers 32 hours of paid volunteer time a year to each employee as part of the strong employee benefits package. Our core values include community and family values, and Stearns Bank and all our employee owners truly value sharing time and talent in our communities. Our company and personal commitment to giving intensified in 2020 when the need was so great and non-profits and local charitable organizations were struggling.

In addition to sharing our personal time as volunteers, Stearns Bank remained steadfast in making substantial financial contributions to various organizations, like those supporting the United Way of Central Minnesota, Habitat for Humanity, and Anna Marie's Alliance.



Improving a place of refuge

As a result of COVID-19, Anna Marie's Alliance, in St. Cloud, MN, experienced an increased need for support.

Serving as a haven for women and children facing domestic violence, Anna Marie's Alliance is a necessary community resource. Stearns Bank committed a total of \$500,000 to help lead efforts through the Building Hope Campaign to improve living spaces and opportunities for those seeking refuge.

In addition to financial support, members of the Stearns Bank team devoted themselves to help promote the campaign and support Anna Marie's Alliance in alternative ways that accommodated economic and health concerns.



Recognized in the 2020 National Community Banks Service Awards listing by the Independent Community Bankers of America® for community support and volunteerism, most notably, a \$500,000 contribution to Anna Marie's Alliance.



Stearns Bank Scottsdale (Arizona) employees helped volunteer on three different occasions with Habitat for Humanity of Central Arizona on a home build for the Mosqueda family. SVP/Arizona Market President Tom Hosier was on hand for the family's key ceremony and gave them lemon and tangerine trees as a housewarming gift.



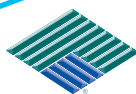
Equipment Finance Division account manager Dominic Bonacci started volunteering for the St. Joseph (Minnesota) Fire Department in 2020. Dominic, who went through training in the summer and fall, wanted to give back to his hometown in a meaningful way.



Many Stearns Bank employees responded to mask shortages across the country in 2020. Copywriter Liz Vos teamed up with her mom and son, Will, to sew multi-layered, medical-grade masks to support the "braveFACEmasks" effort through the St. Cloud Hospital in Minnesota.



Stacie Kuefler, an SBA servicing specialist at our Financial Center, volunteered as an election judge in November 2020. Election judges are a bipartisan group working together to achieve a common goal of helping citizens complete the voting process. There was a national shortage of election judges this year due to the COVID-19 pandemic.



STEARNS
BANK N.A.

We get the job done!®

4140 Thielman Lane
St. Cloud, MN 56301
(800) 320-7262
StearnsBank.com

