

STEARNS FINANCIAL SERVICES, INC.

ANNUAL REPORT

2022



**STEARNS
BANK**_{N.A.}

We get the job done!

A word from our President & CEO



In 2022, milestones were met, production was powerful, and collaborations were impactful.

Our declared "Year of Production" began with establishing high-performance KPIs and finished with double-digit, credit-strong growth. Dedicated to investing in our employee-owners' professional and personal growth, we continued to maximize our collective talents. Through diversity, equity, and inclusion* we enrich and energize our culture, customers, and communities.

Reflecting on 2022, I can proudly say, we got the job done!

High-Performance KPIs – Our formidable goals included reaching ambitious return on assets (ROA) and net income targets; improving our already-strong efficiency ratio; and fulfilling team growth through rigorous promotion and recruitment metrics. We remained driven to keep customer service #1 by setting a reception ring time KPI of answering 99% of inbound calls on the first ring.

Credit-Strong Growth & Profitability – Within each of our lending pillars – equipment finance, SBA lending, and national construction/CRE finance – our nationwide lending teams produced strong results in 2022.

With teamwork and tenacity, our lending teams surpassed expectations, funding 59% year-over-year growth in equipment financing and reaching 103% of the original SBA loan goal. Our national construction/commercial real estate (CRE) finance team embraced ambitious hard work, increasing new originations to an impressive 90% growth over the prior three-year average. Being selective to ensure strong credit quality, we achieved significant loan growth while decreasing nonperforming assets by 46% from year-end 2021. Profitability in 2022 was powerful, with a bottom-line net income of \$65.3 million and a healthy reserve of 2.7%.

Rates & Economic Preparedness – As the Fed raised rates to slow inflation, we maintained our financial discipline. By year-end 2022, our capital increased to \$530 million resulting in 25% Tier 1 capital – a fortress of strength, over two times our peers – while maintaining solid, stable asset quality.

Partnerships & Financial Empowerment – Collaboration was key, as we continued to build strong strategic alliances, which included deepening existing partnerships** with Minority Deposit Institutions (MDIs) and fostering new ventures with partners like SecureSave, WireFX and Array.

Remarkable Teammates – When I consider 2022, our greatest asset was, and continues to be, our people. I am extremely proud of our highly skilled and dedicated employee-owners. Owning 22% of our company, team members exemplify our culture of success and represent the future of banking. I am honored to work with them. They inspire and drive me to do more and be better.

Our leadership team is one of the brightest, most tenacious, and most energized in the country. Together, they have faced immense challenges and seized opportunities to achieve industry-leading profits and risk management, year-after-year. Through the diversity of their ideas and skills, they execute with excellence and inspire beyond compare. They are a dream team. Meet them on page 9.

Strength Ahead – Like many, we have been anticipating economic challenges in 2023-2024, but unlike most, we operate with financial discipline and are uniquely strong and safe with our bullet-proof balance sheet.

At Stearns Bank, we strive to evolve to reach new, ambitious goals. With that said, 2023 will be our Year of Strength. We will strengthen our people and our processes through empowerment, equity, and education. We will continue to build and strengthen diversity in business today, tomorrow and beyond. Strength today and even stronger tomorrow.

All the best,

*Learn about our DE&I actions on page 4.

**Read about select partnerships & tools 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

We are grateful to continually gain national honors for our financial strength, performance and workplace culture.



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 in the top 15 on American Banker's Best Banks to Work For listing.



Named Minnesota's Best Bank and Best Ag Lender, two years in a row, 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

A national charter is established with Stearns County State Bank and First State Bank in Albany, MN

\$7.5M total assets

1976

Equipment finance 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

	2022	2021
Cash & Due	\$ 196,144	\$ 736,724
Securities	66,648	31,419
Loans	1,086,073	781,973
Equipment Finance*	960,844	871,673
Reserve for Loss	(55,579)	(58,930)
Loans & Equipment Finance - Net	1,991,338	1,594,716
Bank Premises & Equipment	12,531	17,695
Other Real Estate Owned	18,982	161
Other Assets	75,120	56,110
Total Assets	2,360,763	2,436,825
Deposits	\$1,703,259	1,841,589
Other Liabilities	127,062	120,540
Total Liabilities	1,830,321	1,962,129
Total Capital	530,442	474,696
Total Liabilities & Capital	2,360,763	2,436,825

EARNINGS STATEMENT

	2022	2021
Loans	\$ 83,675	\$ 65,729
Equipment Finance**	78,042	78,573
Securities	4,077	1,445
Total Interest Income	165,794	145,747
Interest Expense	16,166	15,824
Net Interest Income	149,628	129,923
Non-Interest Income	15,729	15,372
Total Income	165,357	145,295
Salaries & Benefits	58,926	53,161
Other Expenses	21,132	20,178
Total Non-Interest Expenses	80,058	73,339
Income Before Provision (CR) & Taxes	85,299	71,956
Provision (CR) for Loss	(200)	(28,788)
Income Tax Expense	20,209	25,146
Net Income	65,290	75,598

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.

History

1990	1997	1998	2008-2012	2021
Stearns Financial Services Inc. (SFSI) is formed \$136.8M total assets	Scottsdale, AZ branch opens \$589M total assets	Stearns Bank establishes a dedicated Small Business Administration (SBA) Division \$674.6M total assets	Stearns Bank acquires over \$2 billion in failed bank assets and \$1.5 billion in deposits from FDIC \$1.97B total assets	South End Capital Corporation acquired \$2.4B total assets

Diversity, Equity & Inclusion

At Stearns Bank, we highly value diversity, equity, and inclusion (DEI). We also recognize that DE&I is a constantly evolving journey for individuals, companies and communities. In 2022, we set out to grow and evolve through DE&I to enrich our culture and communities in many proactive ways that include:

- Collaborating with thought leaders to create more community empowerment and economic opportunities
- Investing in a multi-year consultancy with a DE&I leader
- Formalizing our vision for a transformational DE&I journey
- Identifying DE&I strengths and gaps
- Expanding intentional inclusiveness and allyship
- Establishing measurable metrics with shared accountability

An in-depth anonymous (and voluntary) survey of employees confirmed that DE&I is highly valued and a top priority for our team. With more than 80% survey participation, our employees are energized and eager to grow, both collectively and individually.

True to our Stearns Bank values, we never “arrive” and constantly challenge ourselves to improve. We are the future of banking, and committed to lead the way to equity in all we do.

Highlights



Through a ground-breaking collaboration with African Development Center of Minnesota (ADC), we pledge to expand our financial and resource support and serve as an ally to increase financial access and empower those in underserved communities. This effort includes increased access to riba-free Sharia-compliant financing.



We partnered with UpTurnships, which connects racially diverse college students with employers invested in building an equitable workforce. We began to hire interns and provide mentoring to these highly motivated, underrepresented program participants.



Kelly Skalicky continued her appointment to the OCC’s select 10-member Minority Deposit Institution (MDI) Advisory Committee. Stearns Bank continued its partnership with MDIs to advance the OCC’s Project REACH initiative to support MDIs and reduce structural barriers to financial inclusion.



We invested in a new Community Development Coordinator role in 2022 which includes a donation of time and resources to expand our partnership with ADC.



Kelly Skalicky committed to the CEO Pledge with CEO Action for Diversity & Inclusion, with our team joining leaders across the nation in sharing best practices and collaborating to commit resources and take action to achieve diversity and inclusion.

Lending Pillars

Production thrived in 2022 across the Stearns Bank lending pillars, which include our national construction/CRE lending, equipment finance, and Small Business Administration (SBA) lending.

More than half of our new loan production in 2022 came from existing customers who value our responsiveness, speed, and our drive to deliver:

Speed & simplicity: Swift decision-making is crucial. Our sense of urgency produced quick turnaround, with our customer experience very simple, streamlined, and transparent.

Experience & creativity: Our customers have the edge because of our decades of specialized expertise in lending. We are uniquely skilled in customizing the timing and terms of financing across a multitude of industries and business types at every stage of their growth and development.

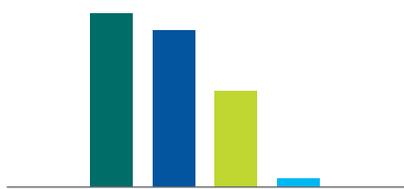
High-touch service: From answering thousands of calls on the first ring to fast funding and being a safe haven for depositors, we deliver with gusto, like personally-vested employee owners – because we are!

Answering calls on the first ring
98%
on 130,009 incoming calls

Our **national lending** team delivered strong production with CRE and construction financing, including land takedowns, mixed-use commercial development, workforce housing, and affordable housing – to date, funding over \$1.2 billion to help provide affordable housing in the U.S. Our in-house construction management team provided quick draw funding and construction budget quality control, helping our nationwide developers achieve stabilization and timely project completion.

Our **equipment finance** team mastered the year of production by focusing on three priorities: volume, credit strength, and high-yield production. The team achieved an incredible 59% year-over-year growth in 2022, attaining strong profitability and credit quality.

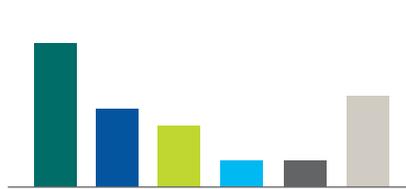
Our **SBA and government loan** team continued to prove that the best relationships are those that grow and expand. Building on decades of experience, the team exceeded their production goals and helped new businesses open their doors and others expand their products, services or locations. The team continued to look at every loan request as an opportunity to help a customer achieve their greatest ambitions. With one of the largest SBA loan portfolios in the country, our team substantially increased new SBA 7(a) and SBA 504 loan originations over previous years. They achieved a remarkable year-over-year growth of 242%.



2022 National Lending Production Mix

by loan volume

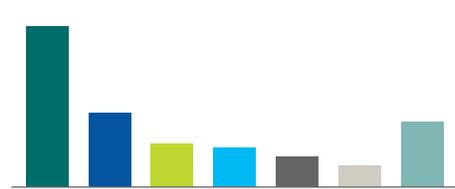
- 40% **USDA, Agriculture, Consumer**
- 36% **Commercial Real Estate**
- 22% **C & I**
- 2% **LIHTC**



2022 Equipment Finance Production Mix

by dollar volume

- 34% **Construction & Property**
- 18% **Transportation**
- 14% **Healthcare**
- 6% **Agriculture**
- 6% **Manufacturing**
- 22% **Other**



2022 SBA 7a Production Mix

by dollar volume

- 37% **Car Wash & Auto Detailing**
- 17% **Accommodation & Foodservice**
- 10% **Transportation & Construction**
- 9% **Personal & Professional Services**
- 7% **Retail Trade & Manufacturing**
- 5% **Healthcare**
- 15% **Other**

Deposits

Throughout 2022 our customers learned that by keeping their deposits with us during and after the pandemic, they earned and saved far more than the national average. Most financial institutions offered low or no interest on deposits during that time and continued to charge account fees. However, we maintained strong deposit interest rates and reduced fees to help the people and businesses we serve.

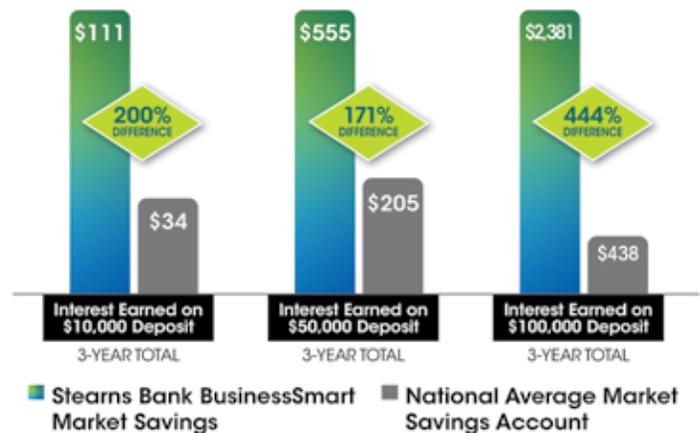
Our customers benefited greatly; outperforming the national average in interest earned by, in some cases, nearly 450%.

High-balance deposits and treasury management

Customers carrying large balances exceeding the standard FDIC insurance limit of \$250,000 thrived with our expertise in obtaining 100% FDIC insurance for deposits in excess of \$250,000 through our ICS/CDARS program which is unique and free. We also introduced a \$500,000+ tier on BusinessSmart™ and Above the Norm™ money market accounts, along with limited-time CD promotions, so our customers could earn and save even more.

These customer-centered deposit accounts are among the many reasons we proudly earned accolades from LendVer as the 2022 Best Business Bank Account provider.

*Charts reflect an estimated comparison of compounding monthly interest earned on a Stearns Bank BusinessSmart market savings account compared to the national average of interest earned on a market savings account from 2020-2022 with a minimum \$10,000 balance based on data from RateWatch.



Partnerships



Our partnership with SecureSave offers an impactful financial collaboration that delivers emergency savings accounts and financial empowerment to employers for the benefit of their employees. Research overwhelmingly affirms that financially secure employees are happier, more productive, more invested, and less distracted.

Through SecureSave, participating employers provide tools and savings incentives, such as matching contributions, to boost employees' emergency savings and reinforce financial wellness.



In a fast-paced world with credit and identity fraud on the rise, we sought out leading fintech partner, Array, to provide free credit and financial data monitoring tools for our customers.

Our Array partnership introduced two free financial tools: My Credit Manager and ID Protection. My Credit Manager provides a real-time feed of credit scores and credit activity updates. ID Protection provides security tools to supervise financial data and dark web monitoring, and includes \$1 million ID Theft Insurance Restoration.



Our partnership with fintech WireFX powers end-to-end digital cross-border payments and domestic wires and ACH payments. WireFX modernizes and expedites retail and business money movement, substantially reducing costs to customers.

Customer Success

Throughout the U.S. and in a vast array of industries, our customers' success inspires all we do. We are honored to share their stories and be a part of their growth and success.



Gorgon Capital, LLC | Miami, FL
COMMERCIAL REAL ESTATE LOAN

Commercial real estate investment firm Gorgon Capital, LLC saw potential in acquiring a brand-new TopGolf facility in Fort Myers, Florida. TopGolf leases the property from the firm, creating a sensible business structure that takes collaboration and strong working relationships to be successful. Stearns Bank, with outside-the-box thinking as a national lender, stepped in with a CRE loan making Gorgon's vision a reality.



Holdingsford Mill | Holdingsford, MN
BUSINESS LOAN & BUSINESS BANKING

Jeff and Sue Burg help keep agriculture rolling forward in Central Minnesota, supplying custom dairy mix rations for area dairy farmers along with other animal feed, lawn fertilizer and softener salt. As a community staple, the mill thrives as lifelong customers keep coming back. They trust the Burgs, who chose Stearns Bank as their SBA lender and continued business banking partner.



Roy White Enterprises | Hemlock, NY
EQUIPMENT FINANCE

With over 40 years of experience in construction, Roy White knows it takes the right attitude to be effective in the industry; he also knows that the right equipment is needed to make the job successful. With Stearns Bank's financing, he preserved his cash flow and got the equipment he needed, fast.



Fed-Ex Hub | Tyler, TX
EQUIPMENT FINANCE

Dr. Cody Cox, an emergency room doctor, saw opportunity in Fed-Ex. He was looking for a way to build financial independence to help him eventually transition out of medicine. He liked that Fed-Ex continues to grow and he was able to pursue his dream because of the customized equipment financing options and friendly help offered by Stearns Bank.

Community Impact

Contributing our profits and time to support and grow our communities is at the heart of who we are as a company and as individuals. With compassion and collaboration, our team dedicated more than 2,000 hours to volunteerism in 2022. As one of our most treasured benefits, we provide employees with 4 full days of paid time off to volunteer.

Across the nation, team members continually mentor, fundraise, serve, clean, and build to help communities thrive. Through volunteerism and philanthropy, we are determined and inspired to advance a healthy society and a hope-filled future.



GROCERY DASH FOR ANNA MARIE'S

Members of our BSA, Internal Audit and Compliance teams came together for an impactful grocery dash competition. They gathered ingredients for holiday dinners, which were donated to Anna Marie's Alliance, a shelter for victims of domestic violence.



HABITAT FOR HUMANITY - AZ

Members of our Scottsdale, Arizona team volunteered with Habitat for Humanity. They helped complete finishing work, painting, and landscaping during a home renovation project.



HABITAT FOR HUMANITY - MN

Heidi Edin volunteered her time to help with the Habitat for Humanity Women Build. A house donated by the Sisters of the Order of Saint Benedict.



CELEBRATING JUNETEENTH

Stearns Bank team members, along with our partners at the African Development Center participated in the 25th Annual Juneteenth Celebration in St. Cloud, MN, of which Stearns Bank was a proud sponsor.

Leadership Team



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



Heather Plumski
EVP, Chief
Financial &
Strategy Officer
17 YEARS OF SERVICE

Alphabetical, by first name



Al Doering
Chief M & A
Officer
3 YEARS OF SERVICE



Ann Erickson
Chief
Compliance &
Audit Officer
6 YEARS OF SERVICE



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



Jill Molitor
Chief Credit
Officer
22 YEARS OF SERVICE



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



Pam Bjerke
Chief Human
Resources Officer
6 YEARS OF SERVICE



Rebecca Kronlund
General Counsel
3 YEARS OF SERVICE



Rory Bidingler
Chief Marketing
Officer
6 YEARS OF SERVICE



Tom Hosier
Chief Lending
Officer
17 YEARS OF SERVICE

Board of Directors - Stearns Bank, N.A.



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



Deborah Lorenzen
Head of
Enterprise Data
Governance,
State Street



Isaura Gaeta
VP, Security
Research, Intel
Corporation



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



Sharena Ali
President,
CONNECT,
powered by
American Family
Insurance



Thomas Williams
Retired CEO,
Williams
Dingmann Family
Funeral Homes

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

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



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