

WE GET THE JOB DONE!®

2018

ANNUAL REPORT

PEOPLE

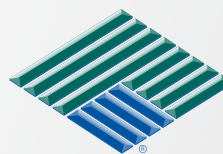
Committed to
your success

IMAGINATION

Devoted to
your vision

SIMPLICITY

Focused on fast
and easy, for you



STEARNS
BANK N.A.

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 and accountability
- Sense of urgency
- Employee ownership
- Ambitious hard work
- Surpassing expectations
- Financial discipline
- Proactive communication
- Community and family values
- Trailblazing creativity
- Common sense
- Culture of success
- Tenacious pursuit of excellence
- Teamwork
- Constant progress



The Stearns Bank Financial Center is located in St. Cloud, Minnesota

^{*}
100
BEST COMPANIES
TO WORK FOR
2018

^{**}
TOP
PERFORMING
BANK
IN THE NATION

^{***}
CONSISTENT
HIGH
PERFORMER

^{****}
BULLETPROOF
BALANCE
SHEET

*Stearns Bank was named "Best in Class" among large companies in *Minnesota Business Magazine's* "100 Best Companies to Work For."

***American Banker* magazine ranks Stearns Bank as a "Top Performing Bank in the Nation" among banks in the \$2 to \$10 billion asset class based on return on average equity over a three-year period.

*** Stearns Bank is recognized by the Independent Community Bankers of America® as a "consistent high performer" among banks with assets greater than \$1 billion.

**** Listed in Trepp's top 20 banks best positioned to withstand a downturn in the economy based on high capital ratios.



GREETINGS FROM NORM AND KELLY

We are pleased to share that Stearns Bank, N.A., once again delivered industry-leading performance in 2018. We are credit-strong with a bullet-proof balance sheet and high capital ratios, and we are well-positioned for high performance and long-term growth.

We Get The Job Done by staying grounded in our mission to help others achieve their greatest ambitions. We continue to be a leader in innovation, delivering faster, easier mobile options to help our customers succeed in this fast-moving, ever-changing economy. True to our entrepreneurial roots, continuous innovation and relentless determination are core to our DNA. We remain deeply connected to our rural Minnesota origins. Community and personal relationships mean everything to us. Providing unrivaled personal service is our top priority – we take great joy and pride in fulfilling our promise to answer calls on the first ring!

We are best known for our people and the hard work, tenacity, and sense of urgency they devote to customer success. Our high-performance rankings by *American Banker* and Independent Community Bankers of America are testaments to our drive and determination. We are consistently ranked in the top 20 most active U.S. Small Business Administration (SBA) lenders and among the top 50 largest equipment finance companies in the nation. Our employee owners are the backbone of our success and they inspire every day in pursuit of excellence and customer success. We are extremely proud of the generous benefits package designed by our employee owners, and we have achieved the top award as “Best in Class” among large companies in *Minnesota Business Magazine’s* “100 Best Companies to Work For.”

Looking forward, we will continue to focus on our customers’ success. We will capitalize on technological advancements by delivering even more mobility and cutting-edge conveniences through multi-channel options. We will continue our legendary personal service and answering on the first ring, while providing even more personalized offerings through our proprietary Customized Portal

and any-time access StearnsConnect app that allows our customers to run their business from our StearnsConnect financial hub. Easy access deposit services include our nationally recognized Above the Norm™ money market accounts and BusinessSmart™ transaction accounts, offering customized, high-interest, mobile-friendly conveniences that are fast, easy and profitable.

Stearns Bank will continue to be an industry trailblazer through imaginative foresight and good old-fashioned hard work, focused on customer success. We are the bank our customers can’t live without, and we will continue to *Get The Job Done* in 2019!

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



Norman C. Stearns Kelly A. Stearns

OUR PERFORMANCE

Balance Sheet* combined, dollars in thousands for years ending December 31 (unaudited)

	2018	2017
Cash & Due	\$ 81,588	\$ 45,062
Securities	24,912	26,044
Federal Funds	15,650	14,575
Loans	819,982	807,420
Leases & Conditional Sales Contracts**	1,289,540	1,229,606
Loan Loss Reserve	(63,755)	(58,120)
Loans & Leases - Net	2,045,767	1,978,906
Bank Premises	15,259	14,846
Other Real Estate Owned	1,219	6,007
Other Assets	40,114	50,098
Total Assets	2,224,509	2,135,538
Demand	183,921	200,273
Time & Savings	1,565,906	1,494,740
Other Liabilities	42,027	48,096
Total Liabilities	1,791,854	1,743,109
Common Stock & Surplus	10,159	10,159
Undivided Profits	422,463	381,687
Unrealized Gain/Loss on Securities	33	583
Total Capital	432,655	392,429
Total Liability & Capital	2,224,509	2,135,538

* Includes Stearns Bank N.A., Stearns Bank Holdingford N.A., and Stearns Bank Upsala N.A.

**Conditional Sales Contracts included in loans for regulatory reporting

Statement has not been reviewed or confirmed for accuracy or relevance by Office of the Comptroller of the Currency

Earnings Statement* combined, dollars in thousands for years ending December 31 (unaudited)

	2018	2017
Loans	\$ 66,657	\$ 67,887
Leases & Conditional Sales Contracts**	90,965	84,051
Securities	1,330	1,381
Federal Funds	134	48
Total Interest Income	159,086	153,367
Interest Expense	23,176	16,017
Net Interest Income	135,910	137,350
Service Charges	295	352
Other Non-interest Income	26,369	34,482
Total Income	162,574	172,184
Salaries & Benefits	33,459	29,609
Other Expenses	44,451	36,539
Total Non-interest Expenses	77,910	66,148
Income Before Provision & Taxes	84,664	106,036
Loan Loss Provision	19,200	19,705
Net Income Before Taxes	65,464	86,331
Income Tax Expense	13,827	39,232
Net Income (Loss)	51,637	47,099

* Includes Stearns Bank N.A., Stearns Bank Holdingford N.A., and Stearns Bank Upsala N.A.

**Income from Conditional Sales Contracts included in loan interest for regulatory reporting

Statement has not been reviewed or confirmed for accuracy or relevance by Office of the Comptroller of the Currency



OUR CULTURE, OUR STRENGTH

Stearns Bank is synonymous with stability. It begins with our chairman and owner, Norm Skalicky, who first purchased majority ownership in Stearns County State Bank in 1964, and First State Bank in Albany in 1966. Our stability is continuing with Kelly Skalicky as CEO and president.



Our culture mirrors the values and beliefs of Norm and the Skalicky family. Under their direction, Stearns Bank has grown from a small rural bank to a nationwide, results-driven commercial banking company, demonstrating a keen appreciation for risk and reward.

Under Norm and Kelly's leadership, the future is bright. Technology advances have made our customers' journey faster, easier and more secure. Our strategic plan builds on past success – strong credit and a rock-solid capital position. The Stearns Financial Services Tier 1 leverage ratio in 2018 was 19.97 percent, nearly twice as strong as our peer group. Total assets rose from \$2.129 billion in 2017 to \$2.225 billion in 2018. Steady asset growth and a strong capital position will enable Stearns Bank to thrive in any economic climate.

We continue to deliver outstanding financial performance. With over \$1.2 billion of new business lending in 2018, we maintain sound asset quality through our more than four decades experience in nationwide lending and a strong credit culture. Our strength is driven by the experience and contributions of our dedicated employees.

Our employees' drive, commitment and hard work help our customers succeed and achieve their dreams. At Stearns Bank, we foster positivity and collaboration. Our employees are the foundation that Stearns Bank is built upon.

**TOTAL
ASSETS**

COMBINED IN MILLIONS

\$2,225

**TOTAL
CAPITAL**

COMBINED IN MILLIONS

\$433

OUR HISTORY

1912 – Stearns County State Bank is chartered in Albany, MN

– **Total Assets: \$300,000**

1964 – Norman C. Skalicky purchases majority ownership in Stearns County State Bank in Albany, MN

– **Total Assets: \$3.5 million**

1966 – Norman C. Skalicky purchases majority ownership in First State Bank in Albany, MN and combines both into a National Charter

– **Total Assets: \$7.5 million**

1976 – Stearns Bank purchases National Machine Tool. Begins leasing operations; Holdingford, MN charter is acquired

– **Total Assets: \$32.3 million**

1978 – Stearns Bank opens a branch location in St. Cloud, MN; Upsala, MN charter is acquired

– **Total Assets: \$46.7 million**

1984 – Stearns Bank starts an Employee Stock Ownership Plan

– **Total Assets: \$82.1 million**

1990 – Stearns Bank and other banks form a holding company, Stearns Financial Services Inc. (SFSI)

– **Total Assets: \$136.8 million**

1997 – Stearns Bank opens a location in Scottsdale, AZ

– **Total Assets: \$589 million**

1998 – Stearns Bank establishes a dedicated Small Business Administration (SBA) Division

– **Total Assets: \$674.6 million**

1999 – Stearns Bank opens the financial center in St. Cloud, MN

– **Total Assets: \$916.8 million**

2008-2012 – Stearns Bank acquires from FDIC over \$2 billion in failed bank assets and \$1.2 billion in deposits

– **Total Assets: \$1.97 billion**

2016 – Stearns Bank exceeds the benchmark of over \$2 billion in assets

– **Total Assets: \$2.048 billion**

2018 – Stearns Bank expands Equipment Finance facility in Albany, MN

– **Total Assets: \$2.225 billion**

NATIONWIDE BUSINESS LOANS

Stearns Bank has a national footprint with U.S. Small Business Administration (SBA) customers in every state throughout the U.S. Our mission is to create imaginative financing solutions for our customers while providing a simple and fast approval process with quick funding.

We continue to build upon relationships with referral sources and customers, specifically with the expansion of our Customized Portal. Our custom-designed, proprietary portal provides an easy and convenient way to submit loan documents and follow every step of loan approval and funding. Greatly improving efficiency, our portal gives customers peace of mind with real-time, full visibility on their loan request and faster funding.

In 2018, Stearns Bank funded \$249 million in small business loans. Our FastTrack program continues to improve efficiency by reducing time from loan origination to closing, delivering same-day approval and funding in days – not weeks or months.

We believe in *personal* service and focus on taking care of our customers throughout the life of a relationship. We provide our customers anytime access and the ability to move and manage money from anywhere through our convenient digital banking platform. And, if customers want to talk to us in person, we answer calls on the first ring!

Our unique combination of technology and in-person customer service is what sets us apart from other SBA lenders. And our decades of national lending experience and strength of capital gives us more capabilities than local lenders.

Stearns Bank remains a true nationwide SBA lender. When we consider a loan application, geography doesn't matter. In 2018, Stearns Bank funded 775 SBA loans in a number of states throughout the U.S. Our commitment is to *Get The Job Done* for our customers.

SBA 7A LOAN
PRODUCTION
COMBINED IN MILLIONS

\$249

SBA 7A LOAN
PRODUCTION
TOTAL NUMBER OF LOANS

775



"There are so many moving parts going on when you start a franchise. Financing is a major one and I was glad Stearns Bank was there for us."

Troy Ather

Owner, John Smith Subs
Oviedo, Florida



"Stearns Bank's ability to help us through this process went beyond what we expected. Their level of engagement was so high. They supported and guided us."

Dr. Seema Awatramani

Co-Owner, UrgiKids
Naperville, Illinois

NATIONWIDE EQUIPMENT FINANCE

The growth and expansion taking place at Stearns Bank's Equipment Finance Division was unprecedented in 2018.

As a direct result of the hard work, innovation and dedication of our employees, we broke ground on an 11,000-square-foot addition to our Equipment Finance Division. This expansion provided space for our growing employee base, which saw a 50 percent increase from the prior year.

Our investment in technology, including our StearnsConnect app and our Customized Portal, has helped drive growth through convenience with anytime access and the ability for referral sources to submit leads directly into our system for faster approval and funding. Our referral sources can track the financing process, confident that their customers are receiving excellent service.

Stearns Bank received honors for its equipment finance performance in 2018. For instance, in *Monitor Daily's* "Top 100" issue, Stearns Bank was listed at No. 50 among the largest equipment financing companies in the United States.

We had a record month in October 2018 – \$74.9 million financed. For the year, we financed 12,202 contracts for \$586.1 million.

As one of the nation's leading equipment lenders, our expertise and in-depth industry knowledge will keep our relationships strong and growing with our customers. At the time of this printing, we have 40 Certified Lease Finance Professionals (CLFP). That is the second most of any financial institution in the country. Our commitment to answer on the first ring – along with our customized terms, extraordinary service and speed – define the Stearns Bank difference.

That's the kind of personal service Stearns Bank always has and always will provide our customers.



"Sometimes when you work with financial institutions, it can take a while to get an answer, but not with Stearns Bank."

Brittney Muenster

Muenster's Olde Homestead Farms
Seymour, Wisconsin



"The paperwork went so quickly with very clear communication! I wouldn't hesitate to refer Stearns Bank to anyone in the woodworking industry."

Nicole Kenefic

Owner, KDA Furniture & Interiors, Inc.
Fort Wayne, Indiana

EFD PORTFOLIO
ASSETS
COMBINED IN MILLIONS
\$1,255

EFD PORTFOLIO
PRODUCTION
TOTAL NUMBER OF CONTRACTS
12,202

NATIONWIDE COMMERCIAL FINANCE

Stearns Bank is the first choice for financing when speed and timing are critical. These include projects with unique or complex financial structures, such as construction financing. We create ways to *Get The Job Done*, which results in imaginative financing solutions.

We specialize in all types of commercial lending, including real estate and construction lending, Low Income Housing Tax Credit (LIHTC) affordable housing, United States Department of Agriculture (USDA) rural development, renewable energy, tribal financing, tax lien financing and other bridge lending.

Our experienced credit team provides quick answers and simply put: we deliver. We understand our customers' time constraints and we always make sure we are ahead of schedule, so our customers can close on *their* timetable. That's why Stearns Bank's approval process is simple and fast, right from the start.

The experience and proficiency of our construction lending team is a high-value differentiator and a primary reason developers and construction borrowers call on Stearns Bank for their loans. The team works directly with customers throughout construction to monitor progress, collect lien waivers and ensure a timely completion.

Our decision-making team can meet on short notice. Fast decisions and clear commitments make Stearns Bank the best choice.

Our lenders are personal resources for customers, active in the transaction from the initial call through payoff to ensure that the borrower's needs are represented.



"I've been in investment real estate since 2001 and Stearns Bank always gives you confidence that the deal will get done when you work with them."

David Lagat

Owner, Bella Asset Management
Dallas, Texas



"We needed somebody who was able to process and make decisions quickly. Stearns Bank really stood out in that way."

Stewart Boyd pictured with Gerald Fritts (L)
American Covenant
Senior Housing Foundation, Inc.
St. George, Utah

COMMERCIAL
PRODUCTION
MIX
BY LOAN VOLUME

35% Multifamily Affordable Housing
29% National Construction Finance
19% Investor Financing
13% Business Acquisition/Rehab-Refi
4% Land Acquisition/Pre-Development

GROWTH RELATIONSHIPS

A relationship with a bank should go deeper than bank accounts or financing. Stearns Bank's mission is to help others achieve their greatest ambitions for success.

At Stearns Bank, we pride ourselves on getting to know our customers and establishing long-term, growth relationships. For us, it's not just about having customers, it's about helping people and their businesses succeed and grow.

We are attentive to customer needs and their dreams, from the time they walk into one of our branches or call us on the phone.

Stearns Bank has the resources of a large bank, and the values and culture of our Central Minnesota roots. We are dedicated employee-owners committed to our customers: answering on the first ring, knowing and serving them, and delivering our personal touch in all the ways needed for them to grow.

We have more than 100 years of banking experience and a deep appreciation of our customers' needs and dreams. Stearns Bank offers convenient multi-channel delivery of all our banking services, from loans and any type of financing to checking and savings accounts to cash management, remote deposit, online and mobile banking. Our FDIC-insured accounts, up to \$750,000 with our affiliates, offer terms at competitive rates to help you reach your financial goals.

Stearns Bank is focused on providing innovative approaches and creative solutions for customers. Whether a customer calls, emails, clicks online or by mobile device, or walks into a branch, we respond with a sense of urgency and sincerity – just like our own family would expect of us.

That's what personalized customer service means to us. That small-town personal commitment and hard work, which started in Albany, Minnesota, will always set us apart from the competition. It's how *We Get The Job Done!*

COMMUNITY BANKS LOAN MIX

40%	Commercial & Agriculture
29%	Commercial Real Estate
26%	Construction & Development
5%	Residential



"Stearns Bank is a great place to go. You have the resources of a large bank, but you have that personal touch. It's nice to feel like someone is working with you."

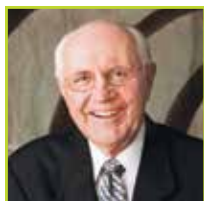
Drs. John and David Collier
K.O.A.L.A. Dental Care
St. Cloud, Minnesota



"There is a lot of value banking with Stearns Bank. You never feel nickel and dimed by Stearns Bank like you might with other financial institutions. It always comes back to great customer service."

Kim and Stephen Kildahl
Owners, Central Marine
Sarasota, Florida

THE EXECUTIVE TEAM



Norman Skalicky
Chairman of Stearns
Financial Services, Inc.
55 YEARS OF SERVICE



Kelly Skalicky
President and CEO,
Stearns Bank*
7 YEARS OF SERVICE



Harley Vestrum
Chief Risk Officer
13 YEARS OF SERVICE



Matt Geist
Chief Financial Officer
10 YEARS OF SERVICE



Greg Misterman
Chief Credit Officer
3 YEARS OF SERVICE



Steve Domine
President Minnesota
Community Banking /
SVP National Lending
42 YEARS OF SERVICE



Tom Hosier
Vice President /
Arizona Manager
13 YEARS OF SERVICE



Heather Plumski
Vice President / Director
of StearnsConnect**
13 YEARS OF SERVICE

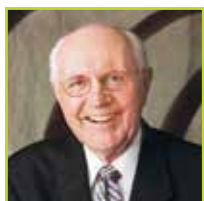


Pam Bjerke
Chief Human
Resources Officer
2 YEARS OF SERVICE



Rory Bidinger
Chief Marketing Officer
2 YEARS OF SERVICE

BOARD OF DIRECTORS – STEARNS BANK N.A.



Norman C. Skalicky
Chairman and CEO
of Stearns Financial
Services, Inc.



Kelly Skalicky
President, Stearns Bank*



Thomas Williams
Retired CEO of Williams
Dingmann Family
Funeral Homes



Donald Weeres
Founder / President /
CEO of Spee-Dee
Delivery Service, Inc.



Chris Coborn
President, CEO of
Coborn's, Inc.



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

Board of Directors - Stearns Bank Holdingford N.A.
Norm Skalicky, Steve Domine, Harley Vestrum,
Roger Voit, Audrey Lange and Janice Paggen

Board of Directors - Stearns Bank Upsala N.A.
Norm Skalicky, Steve Domine, Harley Vestrum,
Roger Voit, Rosie Harren and Pete Michels

*President and Chief Executive Officer of Stearns Financial Services, Inc., effective February 2019

**Chief Financial & Strategy Officer, effective February 2019



OUR COMMITMENT TO COMMUNITY

Stearns Bank and its employees have a strong tradition of supporting community causes.

Stearns Bank employees logged 1,730 volunteer service hours in 2018. Volunteering and giving back have always been priorities for our employees. We're focused on making a positive impact in our communities.

Our "Pay It Forward" program, started in late 2018, enables Stearns Bank employees to give back to their communities. Stearns Bank gave each employee \$25, and invited them to use the funds to help a needy individual, family or organization.

More than 300 employees followed up with stories of how they donated the \$25 in inspiring ways. Some combined their efforts to give back in a bigger way and others chose smaller ways such as paying for another person's gas at a convenience store or buying someone dinner.

One Stearns Bank group sent a care package to a relative serving in the military. Other groups pooled their money together to donate to local children in need of winter clothing, while some donated to families in need during the holiday season.

It's that type of spirit and commitment to do something positive that makes our employees so special.

Throughout the year, our employees also volunteered in numerous ways, such as:

- Supporting United Way of Central Minnesota's "Day of Caring"
- Bell ringing for The Salvation Army during the holiday season
- Supporting local school fundraisers
- Teaching in elementary classrooms through Junior Achievement
- Supporting Catholic Charities' holiday clothing drive
- Wrapping gifts at Johns Hopkins All Children's Hospital (Florida)
- Supporting Habitat for Humanity Central Arizona and Pinellas County (Florida)
- Hosting blood drives through the American Red Cross and SunCoast Blood Bank (Florida)

Stearns Bank and the Norman C. Skalicky Foundation also made significant donations to more than 50 organizations throughout Central Minnesota, Florida and Arizona. These included a \$100,000 donation to Quiet Oaks Hospice House in St. Augusta, Minnesota; a \$30,000 donation to Habitat for Humanity South Sarasota County, Florida; and \$25,000 to ICM Food & Clothing Bank in Phoenix, Arizona.

The Norman C. Skalicky Foundation partnered with the Central Minnesota Community Foundation once again on the annual Charity Challenge. The Skalicky Foundation matched every dollar donated to three area food shelves. In total, \$621,652 was raised.



In 2018 Stearns Bank donated over \$100,000 to Wounded Warriors Family Support as part of its Stearns Salutes Veterans Day campaign.



Our Scottsdale (Arizona) branch collected toys for the Marine Toys for Tots Foundation in Dec. 2018.



We are a proud supporter of the American Red Cross here at Stearns Bank.



Some of our employees volunteered to help our community for a "Day of Caring" with the United Way of Central Minnesota in Sept. 2018.



STEARNS
BANK_{N.A.}

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1-800-320-7262 | StearnsBank.com

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