

**25 years and still
growing strong.**

**bank^{of}
ann arbor**

Member FDIC

**We reached
several major
milestones in 2021.**

DEAR FELLOW SHAREHOLDERS:

In 2021, we celebrated our 25th anniversary. We also grew significantly.

FIRST—THE REALLY GOOD NEWS.

On December 1, our merger with First National Bank in Howell added \$670 million in assets to Bank of Ann Arbor. At yearend, our assets exceeded \$3.3 billion, up from \$2.2 billion a year ago.

With the merger, we now have more than 300 employees—including 100 highly talented bankers from First National—at 17 locations in Washtenaw, Livingston, Oakland and western Wayne counties.

The merger with First National was attractive for many reasons. Livingston County's median household income is tops in Michigan and third highest in the Michigan-Indiana-Ohio tri-state area. This is especially appealing to our Trust and Investment Management Group. First National has grown its deposit market to 12.1%, third highest in the county. Our teams share a similar credit quality culture, and we are adding a seasoned group of lending professionals and a strong credit administration team. First National is particularly strong in consumer lending.

We proudly welcome Stan Dickson, largest shareholder and Vice Chairman of the First National Board, to the Arbor Bancorp and Bank of Ann Arbor Board of Directors. A new Livingston County Community Advisory Board includes First National legacy directors Tim Corrigan, Phil Utter, and Mike Yost, all experienced and longtime members of the Livingston County community.

BIRMINGHAM GETS BIGGER AND BETTER.

On September 7, we announced the purchase of the downtown Birmingham branch of Nicolet National Bank. The branch was previously acquired by Nicolet as part of its merger with mBank. When combined with our existing branch on Woodward Avenue, our presence in the Birmingham market includes loans of more than \$465 million and deposits of \$314 million.

The acquisition of this branch allowed us to redeploy over \$140 million of liquidity, earning a yield of .15% into a portfolio yielding approximately 4.5%. In addition, the branch's Asset Based Lending Group is poised to grow, thanks to the expanded number of commercial lenders throughout the bank who can serve as prime referral sources for those customers who might better fit the ABL model. We welcomed all 13 remarkable bankers to the Bank of Ann Arbor team.

Welcome to the family, First National and Nicolet National.

GROWING ABOVE AND BEYOND.

Bank of Ann Arbor achieved record-level growth in a number of areas in 2021.

Our net income exceeded \$37.5 million, topping our previous high in 2019 of \$30.3 million. This growth was aided by our commercial loan portfolio greatly exceeding planned levels, and strong fee income generated by our commercial lenders, trust and investment team, and mortgage lending group. We reserved nearly \$19 million in 2020 to prepare for a possibly painful recession. With credit quality holding up better than anticipated, we released some of those reserves, which positively impacted earnings. We closely monitor our operating expenses and remain dedicated to operating one of the most efficient banks in the country.

Congratulations to our Trust and Investment Management Group, which continued to grow. Assets under management exceeded \$2 billion for the first time in our history. Revenue grew 16% from the prior year to nearly \$9.4 million. Five years ago, revenue was \$5.1 million. We are grateful for our growing list of clients and their legal and accounting professionals who refer us new business.

Our Commercial Loan Group experienced above-budget growth in 2021, finishing the year with over \$1.4 billion in their portfolio. This group generates over 68% of the bank's total revenue. We welcome fourteen new commercial lenders from First National and Nicolet to help continue our growth in commercial loans.

A record year for net income.

UniFi Equipment Finance, a wholly owned subsidiary of the bank specializing in small ticket equipment financing, generated record-level earnings of \$2.7 million, a 225% increase from the prior year. The bank provides UniFi with a line of credit to support its lease portfolio. This generated an additional \$3.3 million in interest income. UniFi's lease originations in 2021 exceeded \$100 million for the first time in its history, an increase of \$23 million from the previous year.

WELL-DESERVED ACCOLADES.

The bank and our colleagues continue to be recognized throughout the year. In 2021, we were again featured as one of *Crain's Detroit* Fast 50 in growth, and one of the largest banks and thrifts in Metro Detroit. At yearend we were the fifth largest headquartered bank in the State of Michigan. Patti Judson, our Executive Vice President and Chief Operating Officer, was honored by *Crain's* as a Notable Woman in Banking. For the sixth time, we won the Michigan Bankers Association's Financial Literacy Award for the Fraud Seminar Program put on by our Cash Management team. And, we

High praise for the World's Best Bankers.

received an Honorable Mention award for our Mortgage Assistance Program from the American Banker Association for their annual Community

Commitment Awards. The program targets first-time homebuyers in low and moderate census tracts. We also introduced the Upside Banking Account. According to the FDIC, nearly 5.4% of U.S. households or approximately 7.1 million households, were unbanked. This product helps them become more financially independent.

GOING OUT ON A HIGH NOTE.

Executive Vice President and Chief Revenue Officer Charlie Crone, has announced his retirement at the end of April. In 2009, when Charlie took over the management of the commercial lending team, our commercial loan portfolio was \$263 million. At the end of 2021, the Ann Arbor and Plymouth portfolio was \$896 million, generating nearly 50% of the total revenue of the bank.

Thank you, Charlie.

Charlie will be missed not only for the growth he achieved but also for his strong credit quality skills. We wish Charlie the best and thank him for his immeasurable contributions to our success.

RISING TO THE CHALLENGE.

The performance of the bank and the notable growth achieved during these challenging two years is due to the terrific work being done by all of our colleagues, the World's Best Bankers; the oversight of our impressive group of Board members; and the continued support from all of our shareholders and the communities we serve. We look forward to more exceptional performance in 2022.



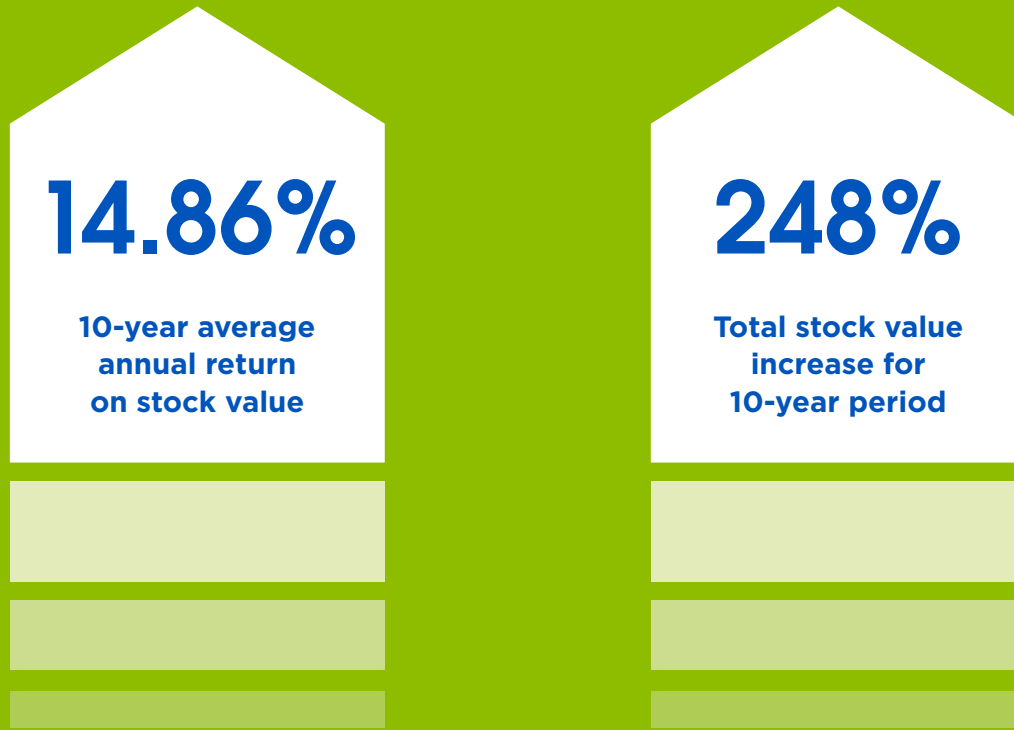
Timothy G. Marshall
President & CEO



William C. Martin
Chairman of the Board

**Unprecedented times.
Unprecedented growth.**

STOCK VALUE

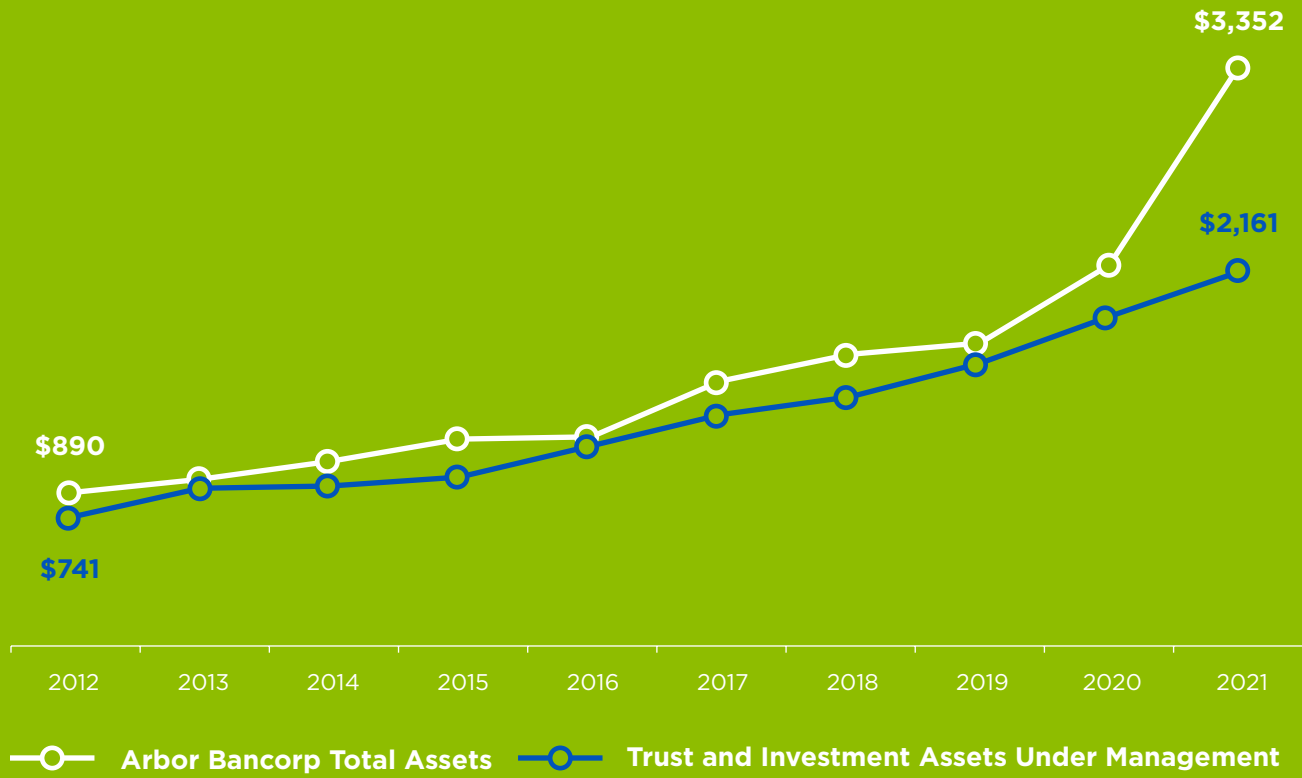


2021 RETURN ON ASSETS COMPARISON



Industry comparisons as of 9/30/21

ASSETS (\$ in millions)



2021 RETURN ON EQUITY



Industry comparisons as of 9/30/21

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and due from banks	\$ 1,041,758	\$ 458,318
Federal funds sold	10,265	—
Cash and cash equivalents	1,052,023	458,318
Interest-bearing deposits with other financial institutions	1,489	—
Securities available-for-sale	271,305	75,908
Loans held for sale	2,921	4,954
Loans, net of allowance of \$33,289 and \$36,969 as of December 31, 2021 and 2020, respectively	1,854,499	1,576,323
Federal Home Loan Bank stock, at cost	9,083	8,100
Premises and equipment, net	26,108	19,686
Cash surrender value of life insurance	48,411	31,410
Other real estate owned (OREO)	457	716
Goodwill	59,272	13,087
Core deposit intangible, net	3,362	1,674
Accrued interest receivable and other assets	23,274	19,229
TOTAL ASSETS	\$ 3,352,204	\$ 2,209,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$ 1,068,571	\$ 685,066
Interest bearing	1,797,675	1,148,639
Total deposits	2,866,246	1,833,705
Federal Home Loan Bank advances	90,000	110,000
Repurchase agreements	31,217	35,465
Subordinated debentures	78,710	27,446
Accrued expense and other liabilities	19,178	13,542
Total liabilities	3,085,351	2,020,158
Shareholders' equity		
Preferred stock, series A, \$1,000 par value; 2,650 shares authorized; no shares issued and outstanding at December 31, 2021, no liquidation value and 15,000 shares authorized, 12,350 shares issued and outstanding at December 31, 2020, liquidation value of \$12,350	—	12,196
Preferred stock, series B, \$10,000 par value; 2,000 shares authorized; 1,339 shares issued and outstanding at December 31, 2021, liquidation value of \$13,390 at December 31, 2021	13,390	—
Common stock, no par value; 10,000,000 shares authorized; 3,455,901 and 2,853,631 shares issued and outstanding at December 31, 2021 and 2020	101,233	61,245
Retained earnings	152,867	115,287
Accumulated other comprehensive income/(loss)	(637)	519
Total shareholders' equity	266,853	189,247
TOTAL LIABILITIES AND SHAREHOLDER EQUITY	\$ 3,352,204	\$ 2,209,405

Dollar amounts in thousands except per share data.

CONSOLIDATED STATEMENTS OF INCOME, YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Interest income		
Loans, including fees	\$ 77,400	\$ 78,526
Securities available-for-sale:		
Taxable	1,896	1,208
Tax exempt	363	544
Federal funds sold and other	1,032	1,037
	80,691	81,315
Interest expense		
Deposits	2,015	3,138
Federal Home Loan Bank advances	1,661	2,522
Subordinated debentures	1,859	1,778
Other borrowings	—	—
Repurchase agreements	68	82
	5,603	7,520
Net interest income	75,088	73,795
Provision for loan losses	(3,684)	18,939
Net interest income after provision for loan losses	78,772	54,856
Non-interest income		
Service charges on deposit accounts	795	700
Income from fiduciary activities	9,384	8,091
Net gains on sales of loans held for sale	2,710	3,276
Gain on sales of OREO	848	555
Other	4,678	3,510
	18,415	16,132
Non-interest expense		
Salaries and employee benefits	29,956	28,056
Occupancy and equipment	4,864	4,530
Marketing and business promotion	2,185	1,996
FDIC expense	1,152	470
Other	10,635	11,161
	48,792	46,213
Income before income taxes	48,395	24,775
Income tax expense	10,003	4,547
Net income	38,392	20,228
Preferred stock dividends	812	741
Net income available to common shareholders	\$ 37,580	\$ 19,487
Basic earnings per share	\$ 12.94	\$ 6.84
Diluted earnings per share	11.80	6.06

Dollar amounts in thousands except per share data.

BOARD OF DIRECTORS

Joshua T. Borders

Vice President-Mortgage Lending,
Independent Bank

Stanley B. Dickson, Jr.

President
Dickson & Associates, P.C.

Jan L. Garfinkle

Founder & Managing Director,
Arboretum Ventures

Timothy G. Marshall

President & Chief Executive Officer,
Bank of Ann Arbor

Michael C. Martin

President,
First Martin Corporation

William C. Martin, Chairman

Athletic Director Emeritus,
University of Michigan

Ernest G. Perich

President,
Perich + Partners, Ltd.

David R. Sarns

Managing Partner,
360 Advisors, LLC

Joseph A. Sesi

President & Owner,
Sesi Motors, Inc.

Michael T. Tirico

Host & Play-by-Play,
NBC Sports Group

Cynthia H. Wilbanks

Vice President Emeritus,
University of Michigan

Jeffrey S. Williams

Chairman of the Board,
Strata Oncology, Inc.

Directors Emeritus**Thomas P. Borders**

President,
Midtown Group, Inc.

Richard P. Eidswick

Founding Director,
Arbor Partners

Isadore J. King

President & Owner,
King Consultant Group, LLC

Jan Barney Newman

Trustee,
Ann Arbor District Library Board

Richard N. Robb, DDS

Regent Emeritus,
Eastern Michigan University

BIRMINGHAM COMMUNITY AND ADVISORY BOARD

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John Hamaty

President,
Vibra-Tite

Brian J. Hunter

Managing Partner,
Fenner Melstrom & Dooling PLC

Tom Murray

President,
Stratadyne, LLC

Alison Orlans

President &
Chief Executive Officer,
Orlans Group

Bernd M. Ronnisch

President,
Ronnisch Construction Group

Michael G. Sarafa

Managing Partner,
Vision Growth Partners

LIVINGSTON COMMUNITY AND ADVISORY BOARD

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Vice President & Co-Owner,
Corrigan Oil

Philip C. Utter

Retired President & Owner,
Specialty Contract Carriers, Inc.

R. Michael Yost

Retired CEO, MPY Group, LLC
Retired Managing Director,
The Auto Club Group

OFFICE LOCATIONS

Ann Arbor

125 South Fifth Avenue
801 West Ellsworth Road
2204 West Stadium Boulevard
2601 Plymouth Road, Suite A

Birmingham

33583 Woodward Avenue
260 East Brown Street

Brighton

8080 Challis Road
9911 East Grand River Avenue

Fowlerville

760 South Grand Avenue

Hartland

10700 East Highland Road

Howell

101 East Grand River Avenue
4299 East Grand River Avenue
2400 West Grand River Avenue

Plymouth

1333 West Ann Arbor Road

Saline

179 East Michigan Avenue

Whitmore Lake

9775 M-36

Ypsilanti

7 West Michigan Avenue

New locations

New board members

New employees

New growth records

New shareholder value

New ways to help

bank^{of}
ann arbor

Member FDIC



NMLS #718852