

Helping

It will never go out of style.

In 2020, there was a lot of good help going around.

DEAR FELLOW SHAREHOLDERS:

In 2020, there was a lot of good help going around.

Our entire team of the World's Best Bankers helped. Our board of directors helped. And in abundant return, health care workers, firefighters, EMS, police, truck drivers, grocery workers, homeless shelters, and manufacturing workers helped us all conduct our lives as close to normally as possible.

2020 really did prove to us that helping will never go out of style.

At Bank of Ann Arbor, the health and well-being of our entire team will always be our top priority. In March, we enabled nearly **70% of our team members to work remotely and safely from home** by providing new laptops and increased internet bandwidth. Meanwhile, our branch team provided **uninterrupted banking services throughout the year** in each of our eight branch locations. We applaud and thank them for their incredible effort.

We helped over 1,400 small businesses with Paycheck Protection Program (PPP) loans of more than \$279 million. This was and continues to be a huge undertaking, to say the least. First, all loans must be approved by the Small Business Administration (SBA). Then, proper documentation is required so that funds can be disbursed accurately and quickly. It's truly been a Herculean effort. By February 2021, we were squarely in round 2 of PPP loan processing which generated an additional \$135 million in loans to over 775 business customers. **Payment relief was also provided** to 22% of Bank of Ann Arbor commercial loan customers and 16% of UniFi Equipment Finance customers. A good sign: very few customers asked for additional relief.

As a result, our **credit quality continues to outperform the industry**. According to FDIC reporting, our ratio of noncurrent loans to total loans was 0.73%. That compares favorably to all banks in the country (1.17%) and all banks in Michigan (1.29%).

In response to the economic shutdowns, GDP contraction, and unprecedented job losses, we strengthened our balance sheet by significantly **fortifying our allowance for loan loss** in anticipation

of some clients not surviving this economic downturn. By year-end, our annual provision for loan losses was \$18,939,000, up from \$1,923,000 in 2019. As a result, our total allowance for loan loss ended the year at nearly \$37 million on our balance sheet. Still, we generated net income of \$19.5 million, **our third highest level of annual earnings in the bank history**. And, our balance sheet continues to grow, finishing 2020 at \$2.2 billion, an increase since 2015 of more than a billion dollars.

Helping our communities? We've always done it, and 2020 was certainly no exception as we steadfastly maintained our **support of over 200 nonprofits**. Since the bank was founded, more than \$7.7 million has been contributed to nonprofit organizations, schools, faith-based institutions, the arts, and others.

Our board of directors approved a **dividend of \$2.50 per share**, the largest in the history of the bank by more than double. Though the bank's earnings declined in 2020 from record levels in 2019, **our regulatory capital levels have never been higher**. Given our reserve positions and shareholders' equity of nearly \$190 million, the board deemed the \$2.50 dividend appropriate. The response from you, our trusted shareholders, has been decidedly positive.

The performance of the bank during a most challenging 2020 is a great compliment to the work done by all of our colleagues at the bank; the oversight provided by our board members; and the continued support from shareholders. In 2021, we will continue to be laser-focused on maintaining the health and safety of our employees, and helping our customers, the communities we serve, and our shareholders. **Helping is what we do**, and it will never go out of style.

Sincerely,



Timothy G. Marshall
President & CEO



William C. Martin
Chairman of the Board

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and due from financial institutions	\$ 54,004	\$ 25,972
Interest-bearing balances in banks	404,314	232,822
Cash and cash equivalents	458,318	258,794
Securities available-for-sale	75,908	67,774
Loans held for sale	4,954	2,720
Loans, net of allowance of \$36,969 and \$19,333 as of December 31, 2020 and 2019, respectively	1,576,323	1,340,020
Federal Home Loan Bank stock, at cost	8,100	5,400
Premises and equipment, net	19,686	19,858
Cash surrender value of life insurance	31,410	30,383
Other real estate owned (OREO)	716	729
Goodwill	13,087	13,087
Core deposit intangible, net	1,674	2,093
Accrued interest receivable and other assets	19,229	17,198
TOTAL ASSETS	\$ 2,209,405	\$ 1,758,056
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$ 685,066	\$ 477,425
Interest bearing	1,148,639	912,523
Total deposits	1,833,705	1,389,948
Federal Home Loan Bank advances	110,000	120,000
Repurchase agreements	35,465	26,549
Subordinated debentures	27,446	27,412
Accrued expense and other liabilities	13,542	12,858
Total liabilities	2,020,158	1,576,767
Shareholders' equity		
Preferred stock, \$1,000 par value; 15,000 shares authorized; 12,350 shares issued and outstanding at both December 31, 2020 and 2019, liquidation value of \$12,350,000 at both December 31, 2020 and 2019	12,196	12,196
Common stock, no par value; 10,000,000 shares authorized; 2,853,631 and 2,849,594 shares issued and outstanding at December 31, 2020 and 2019	61,245	63,093
Retained earnings	115,287	105,916
Accumulated other comprehensive income/(loss)	519	84
Total shareholders' equity	189,247	181,289
TOTAL LIABILITIES AND SHAREHOLDER EQUITY	\$ 2,209,405	\$ 1,758,056

Dollar amounts in thousands.

CONSOLIDATED STATEMENTS OF INCOME, YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income		
Loans, including fees	\$ 78,526	\$ 72,520
Securities available-for-sale:		
Taxable	1,208	1,391
Tax exempt	544	917
Federal funds sold and other	1,037	4,150
	81,315	78,978
Interest expense		
Deposits	3,138	6,805
Federal Home Loan Bank advances	2,522	2,335
Subordinated debentures	1,778	1,858
Other borrowings	-	131
Repurchase agreements	82	157
	7,520	11,286
Net interest income	73,795	67,692
Provision for loan losses	18,939	1,923
Net interest income after provision for loan losses	54,856	65,769
Non-interest income		
Service charges on deposit accounts	700	747
Income from fiduciary activities	8,091	7,774
Net gains on sales of loans held for sale	3,276	1,718
Gain on sales of OREO	555	581
Other	3,510	4,068
	16,132	14,888
Non-interest expense		
Salaries and employee benefits	28,056	28,037
Occupancy and equipment	4,530	4,242
Marketing and business promotion	1,996	2,772
FDIC expense	470	32
Other	11,161	7,860
	46,213	42,943
Income before income taxes	24,775	37,714
Income tax expense	4,547	6,647
Net income	20,228	31,067
Preferred stock dividends	741	741
Net income available to common shareholders	\$ 19,487	\$ 30,326
Basic earnings per share	\$ 6.84	\$ 10.62
Diluted earnings per share	6.06	8.80

Dollar amounts in thousands except per share data.

BOARD OF DIRECTORS

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Independent Bank

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Arbor Partners

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Orlans Group

Bernd M. Ronnisch

President,
Ronnisch Construction Group

Michael G. Sarafa

Managing Partner,
Vision Growth Partners

OFFICE LOCATIONS

Ann Arbor**Downtown**

125 South Fifth Avenue

Ellsworth

801 West Ellsworth Road

Stadium

2204 West Stadium Boulevard

Traver Village

2601 Plymouth Road, Suite A

Birmingham

33583 Woodward Avenue

Plymouth

1333 West Ann Arbor Road

Saline

179 East Michigan Avenue

Ypsilanti

7 West Michigan Avenue

Since the bank was founded, more than \$7.7 million has been contributed to a variety of organizations including nonprofits, schools, faith-based institutions, and the arts.

bank^{of}
ann arbor

Member FDIC



NMLS #718852