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Trustee, Ann Arbor District Library Board

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Regent Emeritus, Eastern Michigan University



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Member
FDIC

Downtown Ann Arbor

125 S. Fifth Ave.
Ann Arbor, MI 48104
(734) 662-1600

Downtown Saline

179 E. Michigan Ave.
Saline, MI 48176
(734) 470-5001

Downtown Ypsilanti

7 W. Michigan Ave.
Ypsilanti, MI 48197
(734) 485-9400

**Ellsworth Rd. &
Airport Blvd.**

801 W. Ellsworth Rd.
Ann Arbor, MI 48108
(734) 669-8900

Plymouth

1333 W. Ann Arbor Rd.
Plymouth, MI 48170
(734) 455-1511

Stadium & Liberty

2204 W. Stadium Blvd.
Ann Arbor, MI 48103
(734) 822-1900

**Traver Village
Shopping Center**

2601 Plymouth Rd.
Ann Arbor, MI 48105
(734) 662-3800

Birmingham

33583 Woodward Ave.
Birmingham, MI 48009
(248) 723-7200

Q2 '17: World's Best Bankers

Arbor Bancorp, Inc.

Statement of Condition, June 30, 2017

Greetings fellow shareholders: July 2017

It has been a busy yet very successful start to 2017. We closed on the merger with Bank of Birmingham in January and merged operating systems in April so we are now all on one computer system. Our board of directors completed an in-depth branding evaluation in May and concluded that our new Birmingham office would be re-branded Bank of Ann Arbor similar to our Ann Arbor, Plymouth, Ypsilanti, and Saline offices. Led by Jenny Meier, our Birmingham president, our newest colleagues are excited and energized by the transition and have enjoyed participating in the Birmingham Hometown Parade in May, delivering Royal Oak based Ray's Ice Cream to clients in June, planning a Facebook competition "Birminghelps" for this September to support Oakland County nonprofits, and doing a terrific job introducing Bank of Ann Arbor to the community. I have participated in a large number of joint calls with our Birmingham sales team and the response from clients has been very positive.

I am pleased to report that we had the largest quarterly earnings in the history of the bank as the earnings for the second quarter registered nearly \$6.3 million. Our year-to-date earnings also reached a record-level at almost \$10.5 million. In addition to the over \$260 million in loans from our Birmingham office on our balance sheet at quarter end, all of our other revenue producing areas are hitting on all cylinders and helping us to maintain our high performing status. Of course, none of the success by our sales teams would be possible without the day-to-day contributions of our talented and experienced colleagues in our operations, HR, marketing, I/T, credit, compliance, and accounting areas. The very positive trend in our second quarter earnings is highlighted as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Earnings (millions)	\$10.5	\$8.0	\$6.9	\$5.7
% increase (earnings)	31.3%	15.6%	21.1%	27.4%
Earnings per share	\$11.56	\$8.84	\$7.73	\$5.38

We are pleased with the strong start to the year as your team at the bank, the World's Best Bankers, is working hard to deliver our eighth consecutive year of record-level performance. Our strong momentum would not happen without the support and ongoing contributions from our employees, directors, shareholders, clients, and the communities we serve. If you happen to have any questions or referrals, please do not hesitate to call me.

Sincerely,



Timothy G. Marshall
President and CEO

ARBOR BANCORP, INC.

Balance Sheet

(000's omitted)	As of June 30	
	2017	2016
Assets:		
Cash	\$ 27,797	\$ 19,362
Overnight investments	116,442	97,394
Investments	122,866	140,686
Loans:		
Commercial	910,331	645,501
Leases	153,769	120,252
Residential mortgages	95,641	77,564
Mortgages held for resale	2,178	5,125
Installment	41,411	31,091
Total loans	1,203,330	879,533
Allowance for loan loss	(16,861)	(15,477)
Interest receivable	3,070	2,230
Bank owned life insurance	23,307	20,029
Goodwill	13,356	-
Other assets	20,858	12,474
Bank premises and equip.	21,116	19,435
Total Assets	<u>\$1,535,281</u>	<u>\$ 1,176,633</u>
Liabilities and Capital:		
Deposits		
Demand	\$ 520,243	\$321,449
NOW	90,703	90,142
Smart one	205,801	186,146
Money market savings	274,098	249,818
Savings	96,824	59,289
CDs < \$100,000	25,810	26,691
CDs > \$100,000	109,383	83,451
Total deposits	1,322,862	1,016,986
Repurchase agreements	43,387	43,281
Other debt	5,582	-
Sub debt	22,650	-
Interest payable	191	160
Other liabilities	10,989	14,278
Trust preferred securities	5,000	5,000
Preferred stock	12,196	-
Retained earnings	45,850	89,144
Unrealized gain/(loss) on securities held for sale	1,023	2,142
Common stock	65,551	4,903
Total Capital	124,620	96,189
Total Liabilities and Capital	<u>\$1,535,281</u>	<u>\$ 1,176,633</u>

Income Statement

(000's omitted)	For six months ended	
	6/30/17	6/30/16
Interest income:		
Loans	\$28,312	\$19,662
Overnight investments	570	357
Investments	1,437	1,604
Loans fees	1,139	871
Total income and fees	31,458	22,494
Interest expense:		
NOW	130	65
Smart one	194	191
Money market savings	401	291
Savings	98	44
CD's < \$100,000	59	63
CD's > \$100,000	330	171
Repurchase agreements	63	82
Sub debt	784	-
Other debt	219	-
Total interest expense	2,278	1,008
Net interest income	29,180	21,486
Provision for loan losses	1,033	1,156
Net interest income after provision for loan losses	28,147	20,330
Other income:		
Service charges	303	253
Mortgage origination	845	971
Trust income	2,893	2,376
Miscellaneous income	2,650	1,759
Total other income	6,691	5,359
Operating expenses:		
Salaries and benefits	12,528	9,855
Marketing and bus. development	991	677
Building and equipment	1,989	1,517
Contracted services	2,032	1,427
FDIC expense	431	306
Other expenses	1,718	581
Total operating expenses	19,689	14,363
Net income before tax	15,149	11,326
Federal income tax	4,655	3,356
Net Income	<u>\$10,494</u>	<u>\$ 7,970</u>
Earnings per Share	<u>\$ 11.56</u>	<u>\$ 8.84</u>