Arbor Bancorp, Inc.
2014 Annual Report

Guess how many years in a row
we've earned record profits.

Records are meant to be broken.
Again.
And again.
And again.
And again.

Dear fellow shareholders:

2014 was another good year in many ways.

It was a good year to be in Michigan. Unemployment fell to 6.3%, its lowest level in 12 years. Since 2010, more than 300,000 jobs have been created in the private sector. Auto sales have hit their highest mark since before the Great Recession. Michigan's business climate is positive. Our state now ranks among the top six in business growth and is trending toward economic vitality.

It was also a good year to be in Washtenaw County, where unemployment declined to its lowest level in nearly a decade. The local economy has recovered the 16,000 jobs lost in 2003-2009 and an additional 15,000 jobs are anticipated over the next three years. Home values and income continue to rise in most areas. Washtenaw County has one of the strongest economies in Michigan and the resurgence in automotive sales, increase in construction, and the projected job creation should help the county grow in the coming year.

And, it was a good year for Bank of Ann Arbor.

Let's start with the numbers. For the fifth consecutive year, they're good. Very good.

Our total assets surpassed $1 billion, a tremendous accomplishment and significant milestone in the bank's history. Just five years ago, our assets were $542 million. The growth in 2014 was consistent with our average annual growth of over $107 million per year. With $1 billion in assets comes a new level of financial and regulatory reporting. To meet these obligations, we've added resources and are confident that by working together, our team of the World's Best Bankers will satisfy all of the new requirements without missing a step.

Deposits continued to grow as more businesses, organizations, and individuals chose the exceptional level of customer service and value that all of our colleagues at Bank of Ann Arbor provide each and every day. **In 2014, deposits increased by 10.5%, to $936 million.** We're holding strong as the second largest bank in Ann Arbor, according to the FDIC's most recent deposit market share reports. As recently as 2010, we were the seventh largest. *Crain's Detroit Business*' recent article highlighted our market-share growth. We're pleased, yes, but our goal is to be number one in the market, pure and simple.

CRAIN'S DETROIT BUSINESS

How Bank of Ann Arbor takes on giants - and thrives
Local bank rose from No. 6 in market share to No. 2 by finding riches in niches.

By. Tom Henderson
Originally Published: July 27, 2014

The Bank of Ann Arbor has earned a reputation as the little bank that can — hold its own, that is, in the fight for market share among the national and regional powerhouses in one of the most highly competitive banking environments in the state.

Eighteen banks do business in the Ann Arbor area. The top seven by deposit market share include banks based in New York City (Chase), Cleveland

TOTAL DEPOSITS AND ASSETS

(In millions)	2014	2013	2012	2011	2010
Total deposits	$ 936	847	793	686	609
Total assets	$1,074	968	891	774	689

Also in 2014, our commercial lending team funded over $205 million in new loan commitments. That's record-level performance and, more importantly, a whole lot of money being injected into our community to fund business and job growth. As usual, all loans are scrutinized to meet our high credit standards. We've been passionate about credit quality since the bank opened in 1996 and we've never sacrificed quality to achieve loan growth. Still, our loan growth in 2014 of over 14% and credit quality metrics were remarkable by any standard, and are a reflection of the exceptionally talented leadership and staff in both areas.

CREDIT QUALITY METRICS

	BOAA	U.S. Banks	MI Banks
Net charge-offs to total loans	0.02%	0.49%	0.25%
Loss allowance to noncurrent loans	474.73%	72.86%	57.86%
Noncurrent loans to total loans	0.34%	2.11%	3.55%

Our mortgage lending team has also been working hard to help people purchase and refinance homes in our community, generating **nearly $100 million in new mortgages in 2014.** The fact that we can originate, process, and underwrite loan applications locally is a competitive advantage in the highly regulated mortgage industry. Most consumers are unfamiliar with the ever-increasing underwriting demands required by the regulatory community. We make sure we explain the process every step of the way.

The revenue generated by our Trust and Investment Group also reached record levels, nearly $4.3 million, an increase of approximately 10% over the year prior. This was driven by continued growth in assets under administration, which we're confident will exceed $1 billion in 2015. More and more competitors are moving their client service personnel further and further away from our community. As other institutions trend towards satellite offices relying heavily on telephonic and internet communications, we continue to use old-fashioned, but highly personal, face-to-face meetings.

Our combined bank assets and assets under administration in our trust area exceeded $2 billion at year-end.

In 2014, we completed an intensive eight-month brand evaluation of the now former Ervin Leasing Company. In July, we unveiled a new name, logo, tagline, and marketing materials. The new name, **UniFi Equipment Finance**, is meaningful because our only reason for being is to become unified with our clients. We're extremely excited with the progress the UniFi team has already made in growing the business. By summer, lease originations had exceeded originations for all of 2013. By year end, they exceeded the prior four years combined. The small-ticket equipment finance market provides us with a significant amount of granularity, since our leases are spread out over a large number of companies. With excellent leadership and an energetic and passionate team, the future for UniFi is bright.

Our net income continues to hit new record levels, growing by 20% over the previous year, and setting a record for the fifth consecutive year. Earnings in 2014 were $11.6 million, nearly $2 million more than the previous year.

GROWTH IN EARNINGS AND EARNINGS PER SHARE

	2014	2013	2012	2011	2010
Earnings (In millions)	$11,637	9,674	8,449	6,583	5,097
Earnings per share	$ 13.17	10.93	9.62	7.55	5.90
Book value per share	$ 85.64	72.00	66.19	57.00	47.84

To you, our valued shareholders, we paid a 30% higher dividend than last year. We've grown the bank by $535 million over the past five years without having to raise additional funds to maintain our "well-capitalized" status, the FDIC's highest possible designation. By year-end, shareholder equity was $76 million. With earnings at $13.17 per share, we continue to be one of the top performing banks in the country.

RETURN ON EQUITY

	2014	2013	2012	2011	2010
National rank	96.7%	95.6%	94.6%	93.8%	90.6%

But at Bank of Ann Arbor, it's not just about the numbers. Our top priority is to help our community thrive through our time, effort, and financial resources.

Supporting organizations that make our community better has always been vitally important to us. We use our financial resources to support over 200 nonprofits, and a number of our team members serve on boards, committees, and as volunteers at many of these nonprofits.

One particularly successful effort in 2014 was the **United Way Pacesetter campaign** for which we had record-level employee contributions and participation. In fact, **32 of our colleagues contributed to the campaign at a leadership level of greater than $1,000.**

For the seventh year, Bank of Ann Arbor's Sonic Lunch summer concert series brought thousands of people to downtown for free music by top international, national, and local performers. Sonic Lunch has also helped spark significant interest in revitalizing Liberty Plaza in downtown Ann Arbor as a community gathering place.

We continue to grow our social media presence – most notably, Facebook, Twitter, and YouTube – to support our brand, highlight our strong commitment to the community, and reach new potential customers. Independent Community Bankers of America, the top community bank trade association, ranked Bank of Ann Arbor #4 in its "Top 50 Community Bank Leaders in Social Media" and cited our "fresh content", "thought leadership", our advice, and our consistent touch points to our brand. In addition, ICBA included Bank of Ann Arbor President and CEO Tim Marshall, Technology Industry Group President Michael Cole, and Social Media and Event Coordinator Matthew Altruda among its "Top 20 Community Bank Influencers on Twitter."

The Washington Post

Early Lead

Michigan bank celebrates Columbus Day by trolling Ohio State

Some of you get Columbus Day off, and some of you don't (and are probably pretty resentful of that first group of people). The Bank of Ann Arbor in Michigan is open for business because ...

Bank of Ann Arbor
We will not be closed for Columbus Day today because Columbus is in Ohio.

Well done, Bank of Ann Arbor. Let the Ohio State hate flow within you.

Our tweets and Facebook posts on Columbus Day, and in welcoming new Michigan football coach Jim Harbaugh back to town, attracted local and national media attention. **Our combined Facebook "likes" for Bank of Ann Arbor and Sonic Lunch are approaching 28,000 and our Twitter followers are over 9,000.** In 2014, we created nearly 15 million impressions with folks who saw our messages.

The expansion and complete renovation of our 40-year-old downtown Ann Arbor office began in the latter part of 2014. Consequently, our mortgage, private banking, commercial, and marketing teams are working out of temporary offices in the City Center Building, across the street. The first phase of construction will be completed before the end of summer, followed by the remodeling of the lobby and the floor above, which houses

our Trust and Investment Management Group. We're confident that the long-term result will justify the temporary inconvenience.

As we set our sights on achieving a sixth consecutive year of record-level performance in 2015, **we have several other challenges facing us**.

Continued low interest rates will negatively impact our net interest margin, which was 27 basis points less in 2014 than the prior year. In response to the lower margin, we grew the bank, grew earning assets, generated higher levels of fee income, held operating expense growth to 2%, and posted a lower loan-loss provision. Until rates begin to increase, we will continue to do more of the same.

Our industry remains under significant regulatory pressure. Like most other banks, we added staff to satisfy the increased level of new regulations. The additions in our compliance area put us in a good position to continue to grow the bank and satisfy the expectations of regulators. We will remain ever-vigilant of any new challenges in the compliance and regulatory areas.

We face these and any other challenges, though, from a position of strength.

For example, our credit quality remains very strong, significantly outperforming industry trends. Our monthly provision for loan loss should remain at historically low levels for 2015. We will continue to closely manage our loan portfolio to maintain our credit quality metrics, which compares favorably to the highest performing banks across the country.

The projected loan and equipment finance/lease growth, trust income growth, and mortgage and loan fee income should allow for sufficient increases in revenue to boost earnings in 2015.

Operating expense management has also been, and will continue to be, a primary area of focus.

Our goal remains: Grow revenue and minimize expense growth. With an efficiency ratio of 56%, we need only $0.56 in expenses to generate $1 in revenue. Our ratio, like so many other metrics, compares very favorably to our peer group of banks at approximately 68%, and to all Michigan banks at 76%.

We extend a sincere and heartfelt thank you to everyone who helps Bank of Ann Arbor succeed on a day-to-day basis: our employees, directors, shareholders, clients, and the community. We look forward to overcoming the challenges we face – and enjoying our successes – together in 2015.

Timothy G. Marshall
President & CEO

William C. Martin
Chairman of the Board

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and due from financial institutions	$ 14,329	$ 15,174
Interest-bearing balances in banks	183,491	148,563
Cash and cash equivalents	197,820	163,737
Securities available-for-sale	146,458	155,015
Loans held for sale	2,476	1,355
Loans, excluding covered loans, net	667,540	584,760
Covered loans	16,417	21,413
Total loans	683,957	606,173
Federal Home Loan Bank stock, at cost	2,548	2,634
Premises and equipment, net	12,770	12,277
Cash surrender value of life insurance	14,311	12,686
Other real estate owned	521	1,546
FDIC indemnification asset	153	1,978
Accrued interest receivable and other assets	13,405	10,610
	$ 1,074,419	**$ 968,011**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 262,306	$ 242,975
Interest-bearing	673,343	603,657
Total deposits	935,649	846,632
Other borrowings	439	881
Federal Home Loan Bank advances	892	1,053
Repurchase agreements	44,744	42,333
Accrued expense and other liabilities	11,531	8,843
Subordinated debentures	5,155	5,155
Total liabilities	998,410	904,897
Shareholders' equity		
Common stock, no par value; 2,000,000 shares authorized; 887,584 and 876,396 shares issued and outstanding at December 31, 2014 and 2013	4,613	4,966
Retained earnings	69,736	58,976
Accumulated other comprehensive income/(loss)	1,660	(828)
Total shareholders' equity	76,009	63,114
	$ 1,074,419	**$ 968,011**

All dollar amounts in thousands except per share data. Unaudited.

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Interest income		
Loans, including fees	$ 33,979	$ 32,327
Securities:		
Taxable	1,431	1,430
Tax exempt	2,081	2,230
Federal funds sold and other	352	265
	37,843	**36,252**
Interest expense		
Deposits	1,521	1,633
Federal Home Loan Bank advances	24	28
Subordinated debentures	172	174
Other borrowings	42	77
Repurchase agreements	149	104
	1,908	2,016
Net interest income	35,935	34,236
Provision for loan losses	1,587	2,495
Net interest income after provision for loan losses	34,348	31,741
Noninterest income		
Service charges on deposit accounts	425	441
Income from fiduciary activities	4,259	3,891
Net gains on sales of loans	1,404	1,427
Net gains on sales of securities	14	27
Gain (loss) on sales of OREO	363	534
Other	2,291	1,581
	8,756	7,901
Noninterest expense		
Salaries and employee benefits	17,598	16,861
Occupancy and equipment	2,869	2,282
Marketing and business promotion	1,156	1,170
FDIC expense	510	504
Provision for loan repurchase liability	-	750
Other	5,056	5,061
	27,189	26,628
Income before income taxes	15,915	13,014
Income tax expense	4,278	3,340
Net income	**$ 11,637**	**$ 9,674**
Basic earnings per share	$ 13.17	$ 10.93
Diluted earnings per share	12.75	10.36

All dollar amounts in thousands except per share data. Unaudited.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Net income	$ 11,637	$ 9,674
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain/(loss) arising during the period	3,782	(5,845)
Reclassification adjustment for losses (gains) included in net income	(14)	(27)
Tax effect	(1,280)	1,996
Net of tax	2,488	(3,876)
Comprehensive income	**$ 14,125**	**$ 5,798**

All dollar amounts in thousands except per share data. Unaudited.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2013	$ 6,410	$ 49,302	$ 3,048	$ 58,760
Net income	–	9,674	–	9,674
Other comprehensive income (loss)	–	–	(3,876)	(3,876)
Deferred shares plan	30	–	–	30
Exercise of stock options (29,028 shares)	1,022	–	–	1,022
Repurchase of 40,816 shares of common stock	(2,969)	–	–	(2,969)
Issuance of common stock (400 shares)	28	–	–	28
Stock based compensation expense	445	–	–	445
Balance, December 31, 2013	4,966	58,976	(828)	63,114
Net income	–	11,637	–	11,637
Other comprehensive income (loss)	–	–	2,488	2,488
Deferred shares plan	32	–	–	32
Exercise of stock options (56,176 shares)	3,118	–	–	3,118
Repurchase of 44,988 shares of common stock	(4,039)	–	–	(4,039)
Stock based compensation expense	536	–	–	536
Cash Dividend ($1.00 per share)	–	(877)	–	(877)
Balance, December 31, 2014	**$ 4,613**	**$ 69,736**	**$ 1,660**	**$ 76,009**

All dollar amounts in thousands except per share data. Unaudited.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Arbor Bancorp, Inc. and its wholly owned subsidiary, Bank of Ann Arbor ("Bank"), together referred to as "the Corporation." On January 1, 2013, the Corporation, through a newly established Bank subsidiary, Bank of Ann Arbor Leasing ("Leasing Company"), acquired all of the stock of the Ervin Leasing Company; an Ann Arbor, Michigan based leasing company which provides business equipment direct financing leases to companies across the United States. Intercompany transactions and balances are eliminated in consolidation. As of July 1, 2014, Ervin Leasing Company renamed and rebranded to UniFi Equipment Finance.

The Bank provides financial services through its offices in Washtenaw and Wayne counties. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through February 10, 2015, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, the reserve for repurchase of sold loans, the carrying amount of the FDIC Indemnification Asset, lease residual values and the fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents includes cash, deposits with other financial institutions under 90 days, short-term investments and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, federal funds purchased and repurchase agreements.

Interest-Bearing Deposits in Banks: Interest bearing deposits in banks mature within one year and are carried at cost. The balance outstanding at year end 2014 and 2013 was held at the Federal Reserve Bank.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer and also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, in the aggregate, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans are sold with servicing released. Buyers do not have recourse against the Corporation for subsequent loan losses. However, in certain situations, the buyer can require the Corporation to repurchase loans.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income

All dollar amounts in thousands except per share data. Unaudited.

on all loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Covered Loans: Loans acquired in 2010 in a Federal Deposit Insurance Corporation (FDIC)-assisted transaction are covered under a loss sharing agreement and are referred to as "covered loans." Pursuant to the terms of the loss sharing agreements, covered loans are subject to a stated loss threshold whereby the FDIC will reimburse the Corporation for 80% of losses incurred. The Corporation will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC paid the Corporation a reimbursement under the loss sharing agreement. The FDIC's obligation to reimburse the Corporation for losses with respect to covered loan begins with the first dollar of loss incurred.

Covered loans were recorded at fair value at the time of acquisition. Fair values for covered loans are based on a discounted cash flow methodology that considered various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Corporation's assessment of risk inherent in the cash flow estimates. Covered loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

At purchase, certain covered loans had evidence of credit deterioration since origination. These loans are accounted for individually. The Corporation estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Direct Financing Lease Receivables: The results of the Corporation's equipment leasing activities are recorded within loans on the consolidated balance sheet. These direct financing leases provide for full recovery of the equipment cost over the term of the lease.

The Corporation's net investment in direct financial leases is comprised of the following elements: minimum lease payments receivable, the estimated unguaranteed residual value of the leased equipment at the lease termination dates, and unamortized initial direct costs, less unearned income. Estimated guaranteed residual values are reviewed periodically to determine if the current estimate of the equipment's fair value appears to be below its recorded estimate. If required, residual values are adjusted downward to reflect adjusted estimates of fair market values. Upward adjustments to residual values are not permitted.

Unearned income is the amount by which the minimum lease payments receivable plus the estimated unguaranteed residual value exceeds the cost of the leased equipment at the inception of the lease. Unearned income is amortized over the initial lease term to produce a constant rate of return on the net investment in the lease. Initial direct costs of acquiring a lease are capitalized when incurred and amortized over the life of the lease consistent with the method used to recognize interest income.

The Corporation evaluates the collectability of its lease receivables based upon certain factors, such as historical collection trends and aging categories. Lease receivables are written off against the allowance for loan losses when the receivable is determined to be uncollectible.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Non-homogeneous loan classes such as commercial and commercial real estate loans and homogeneous loan segments, such as mortgage and consumer loans modified as troubled debt restructurings or loans associated with non-homogeneous relationships, are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large

groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent five years. For all segments, the actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Commercial – Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers' business and industry as repayment is typically dependent on cash flows generated from the underlying business. Within this loan segment, the Corporation has identified loan classes of commercial and industrial, commercial real estate and commercial land development.

Real Estate – Loans to purchase or refinance single family residences. The risks associated with this segment are generally dependent on the overall real estate value environment and individual payment obligations. Real estate is subject to changes in market valuation and can be unstable for a variety of reasons. Within this segment the Corporation has identified classes of residential and home equity loans.

Consumer – Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from a customer continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

Leases – Direct Finance equipment leases. Risk characteristics vary based from the borrower's business and industry as repayment is typically dependent upon cash flows generated from the borrower's operations. Secondary support could involve repossessing the leased collateral.

FDIC Indemnification Asset: The FDIC indemnification asset results from the loss share agreements in the FDIC-assisted transaction. The asset is measured separately from the related covered assets as they are not contractually embedded in the assets and are not transferable with the assets should the Corporation choose to dispose of them and represent the acquisition date fair value of expected reimbursements from the FDIC. Pursuant to the terms of the loss sharing agreement, covered loans are subject to a stated loss threshold whereby the FDIC will reimburse the Corporation for 80% of losses incurred. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows are discounted to reflect a metric of uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. This asset decreases when losses are realized and claims are submitted to the FDIC or when customers repay their loans in full and expected losses do not occur. This asset also increases when estimated future losses increase and decreases when estimated future losses decrease. When estimated future loan losses increase, the Corporation records a provision for loan losses and increases its allowance for loan losses accordingly. The resulting increase in the FDIC indemnification asset is recorded as an offset to the provision for loan losses. During 2014 and 2013, the provision for loan losses was offset by $320 and $1,266 related to increases in the FDIC indemnification asset.

Other Real Estate Owned (OREO): Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

OREO acquired by the Corporation through loan defaults by customers on covered loans or acquired by the Corporation as part of its acquisition of New Liberty Bank (see Note 2: Business Combinations) are covered under the loss sharing agreement discussed above. Pursuant to the terms of the loss sharing agreement, covered assets are subject to a stated loss threshold whereby the FDIC will reimburse the Corporation for 80% of losses incurred. Any gains or losses realized at the time of disposal are partially offset by the FDIC loss share and are reflected in income. At year-end 2014 and 2013, $0 and $155 of the Corporation's OREO was subject to the loss sharing agreement.

Premises, Equipment and Leasehold Improvements: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation, generally computed on the straight-line basis over the assets' useful lives, and over the terms of the lease or the estimated useful lives for leasehold improvements, whichever is shorter.

Cash Surrender Value of Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Cash surrender value of life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Long-Term Assets: Premises and equipment, other intangible assets and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. These balances are not deposits and are not covered by federal deposit insurance. Securities are pledged to cover these liabilities.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Stock Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Off-Balance-Sheet Financial Instruments: Financial instruments include off balance-sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under equity based plans.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $1,524 and $1,342 was required to meet regulatory reserve and clearing requirements at year end 2014 and 2013.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards: In February 2013, the FASB amended existing guidance related to reporting amounts reclassified out of accumulated other comprehensive income. These amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about those amounts. These amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The effect of adopting this standard did not have a material effect on the Corporation's operating results or financial condition.

In December 2013, the FASB amended the Glossary of the Codification to include a single definition of a public business entity for future use in U.S. GAAP. The definition of a public business entity will be used in considering the scope of new financial guidance and will identify whether the guidance does or does not apply to public business entities. The amendment does not affect existing requirements and there is no effective date. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In January 2014, the FASB amended existing guidance to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2014. Amendments in this standard can be applied using a modified retrospective or prospective transition method. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In May 2014 the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

BUSINESS COMBINATIONS

Ervin Leasing Business Combination

On January 1, 2013, the Corporation acquired 100% of the outstanding common shares of Ervin Leasing Corporation in exchange for cash totaling $4,622. Under the terms of the acquisition, all common shareholders received cash equal to total equity of Ervin Leasing as of December 31, 2012 plus $600. Ervin Leasing Company results of operations were included in the Corporation's results beginning January 1, 2013. As of July 1, 2014, Ervin Leasing Company renamed and rebranded to UniFi Equipment Finance.

The following table summarizes the consideration paid for Ervin Leasing Company and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Consideration		
Cash	$	4,622
Fair Value of Total Consideration Transferred	**$**	**4,622**
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	$	366
Direct financing leases		11,304
Noncompete agreement		100
Other assets		1,098
Total assets acquired		12,868
Notes payable		7,514
Other liabilities		732
Total liabilities assumed		8,246
Total identifiable net assets	**$**	**4,622**

No goodwill or other intangible assets, beyond the noncompete agreement above, were generated as part of the Ervin Leasing business combination.

New Liberty Business Combination

On May 14, 2010, the Corporation entered into a purchase and assumption agreement (New Liberty Agreement) with the Federal Deposit Insurance Corporation (FDIC), as receiver, pursuant to which the Corporation acquired certain assets and assumed substantially all of the deposits and certain liabilities of New Liberty Bank (New Liberty). New Liberty operated one banking center in Plymouth, Michigan.

In connection with the New Liberty acquisition, the Corporation entered into a loss sharing agreement with the FDIC that covers most of New Liberty's assets, based upon the seller's records, including single family residential mortgage loans, commercial real estate and commercial and industrial loans, and OREO (collectively, covered assets). The loss sharing agreements are subject to certain servicing procedures as specified in agreements with the FDIC. The loss sharing agreements applicable to single family residential mortgage loans provide for FDIC loss sharing and Corporation reimbursement to the FDIC for ten years. The loss sharing agreements applicable to all other covered assets provide for FDIC loss sharing for five years and Corporation reimbursement of recoveries to the FDIC for eight years. The expected reimbursements under the loss sharing agreements were recorded as an indemnification asset at an estimated fair value of $15,949 on the acquisition date which represented the present value of the expected net cash reimbursement related to the loss sharing agreements.

The Corporation acquired certain other New Liberty assets not covered by the loss sharing agreement with the FDIC, including cash and securities purchased at fair value. At acquisition, in aggregate, loans acquired had an unpaid principal balance of $91,772 and a fair value of $69,069 and deposits assumed had a balance of $90,117.

ADDITIONAL INFORMATION

We have included financial information for the year ended December 31, 2014. Our full financial statements including notes were audited by Crowe Horwath, our independent public accountant, and Crowe Horwath gave an unqualified opinion. The complete audited financial statements including the auditor's opinion and notes are available upon request.

If you would like a copy of the audited financial statements or if you have any questions concerning the annual meeting, please contact your bank president Timothy G. Marshall at 125 South Fifth Avenue, P.O. Box 8009, Ann Arbor, Michigan 48107.

Officers

Executive Management

Timothy G. Marshall
President &
Chief Executive Officer

Charles E. Crone, Jr.
Executive Vice President &
Chief Revenue Officer

Patti H. Judson
Executive Vice President &
Chief Operating Officer

Lyle F. Dahlberg
First Vice President,
Trust & Investment
Group Manager

Cynthia J. Livesay
First Vice President,
Credit Administration

Mark J. Slade
First Vice President &
Chief Financial Officer

Mortgage, Retail & Private Banking Services

Patrick A. Tamblyn
Senior Vice President,
Private Banking Manager

Kirsty E. Haboian
Vice President &
Mortgage Department Manager

Amanda M. Hart
Vice President,
Administration & Operations

Kimberly A. Clugston
Vice President &
Senior Mortgage Loan Officer

Linda S. Brewer
Vice President &
Private Banking Officer

Mary Hays
Vice President,
Private Banking Officer

Charles W. Cracraft
Vice President,
Retail Mortgage Sales Manager

Carl D. Ent
Vice President &
Mortgage Loan Officer

Christine G. Held
Vice President, Cash Management

Kristina L. Mayer
Vice President &
Plymouth Branch Manager

Joan C. Hendricks
Vice President &
Main Office Branch Manager

Kevin M. Kramer
Vice President,
Private Banking Officer

Denise J. Staffeld
Vice President &
Mortgage Loan Officer

Dennis D. Ticknor
Ellsworth Office Branch Manager &
Health Savings Account Specialist

David K. Pate
Ypsilanti Office Branch Manager

Shelley L. Rankin
Saline Office Branch Manager

Joseph D. Craigmile
Mortgage Loan Officer

Kevin C. Salley
Mortgage Loan Officer

William E. Smith, Jr.
Mortgage Loan Officer

Sandra L. Beever
Deposit Operations Officer

Stacy B. Johnson Sr.
Relationship Banking Officer

Kimberly K. Snow
Relationship Banking &
Cash Management Officer

Finance

Lisa A. Mason
Vice President & Internal Auditor

James A. Miller
Vice President &
Director, Human Resources

Barbara L. Morrison
Vice President

Bella M. Fernandez
Assistant Vice President &
Accounting Officer

Trust & Investment Management

Thomas R. Kalleward
First Vice President &
Senior Trust Officer

Stephen J. Seymour
Senior Vice President &
Senior Investment Officer

Sonia S. Patel
Senior Vice President &
Investment Officer

Cathleen L. Savoie
Senior Vice President &
Investment Officer

Margaret L. Vogel
Vice President & Trust Officer

Erin E. Archambault
Vice President, Trust Operations

Eric P. Helber
Vice President &
Director of Business Development

Deborah A. Jones
Vice President &
Business Development Officer

Jacqueline Jenkins
Vice President, Portfolio Manager &
Business Development Officer

Mitzi J. Talon
Vice President & Trust Officer

Diane S. Winner
Vice President & Investment Officer

Sarah Dobson Campbell
Trust Officer

Mark A. Skiff
Investment Officer

Commercial Lending

Walter G. Byers
President, Saline District

Michael L. Michon
President, Plymouth District

Michael H. Chatas
President, Ypsilanti District

Michael A. Cole
Group President,
Technology Industry Group

Satish B. Jasti
Senior Vice President &
Senior Loan Officer

Hans W. Maier
Senior Vice President,
Specialty Banking

David A. Guenther
Vice President &
Senior Loan Officer

Robert R. Rose
Vice President &
Senior Loan Officer

Mark D. Baily
Vice President &
Commercial Loan Officer

Jonathon F. Bowdler
Vice President &
Commercial Real Estate Manager

James J. Plummer
Vice President &
Commercial Loan Officer

Mark H. Holtz
Vice President,
Technology Industry Group

Information Systems

Jeffrey J. Stanton
Vice President &
Chief Technology Officer

Marketing

Janice M. Ortbring
Vice President &
Marketing Department Manager

Credit Administration

Dawn M. Prescott
Senior Vice President &
Managed Assets Officer

Trina M. VanNest
Vice President &
Credit Manager

Stephanie N. Harrigan
Assistant Vice President,
Consumer Credit & Compliance

Sara L. Hoffman
Assistant Vice President &
Small Business Lending Officer

Pamela J. Wetzel
Credit Administration Officer

Compliance

Susan E. Wagner
Vice President, Compliance Officer &
Compliance Department Manager

John E. Foster
Vice President, BSA, OFAC &
Security Officer

Brian J. Powers
Assistant Vice President,
BSA & Security Specialist

Cynthia K. Shaeffer
BSA/Security
Administrative Officer

UniFi Equipment Finance

Raymond J. Grimshaw
President &
Chief Executive Officer

Thomas J. Conzelmann
Secretary, Treasurer &
Chief Financial Officer

Directors

Thomas P. Borders
President, Midtown Group, Inc.

Jan L. Garfinkle
Founder & Managing Director,
Arboretum Ventures

Isadore J. King
President &
Chief Executive Officer,
Synergy Partners, LLC

Timothy G. Marshall
President &
Chief Executive Officer,
Bank of Ann Arbor

Michael C. Martin
Vice 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
Owner, Sesi Motors, Inc.

Cynthia H. Wilbanks
Vice President for
Government Relations,
University of Michigan

Jeffrey S. Williams
Chairman &
Chief Executive Officer,
Tangent Medical Technologies
NeuMoDx Molecular, Inc.

Directors Emeritus

James W. Anderson, Jr.
President,
The Anderson Associates

Richard P. Eidswick
Founding Director,
Arbor Partners

Jan Barney Newman
Vice President,
Ann Arbor District Library Board

Richard N. Robb, DDS
Regent Emeritus,
Eastern Michigan University

boaa.com

Branch Locations

Downtown Ann Arbor
125 South Fifth Avenue
Ann Arbor, MI 48104
734.662.1600

Ellsworth Rd. & Airport Blvd.
801 West Ellsworth Road
Ann Arbor, MI 48108
734.669.8900

Stadium Blvd. & Liberty St.
2204 West Stadium Boulevard
Ann Arbor, MI 48103
734.822.1900

Downtown Saline
179 East Michigan Avenue
Saline, MI 48176
734.470.5001

Plymouth
1333 West Ann Arbor Road
Plymouth, MI 48170
734.455.1511

Traver Village Shopping Center
2601 Plymouth Road
Ann Arbor, MI 48105
734.662.3800

Downtown Ypsilanti
7 West Michigan Avenue
Ypsilanti, MI 48197
734.485.9400