IT WAS ANOTHER REALLY GOOD YEAR.

Arbor Bancorp, Inc. | 2015 Annual Report

2015: Financially speaking,
ours was a bumper crop.

Dear fellow shareholders:

Our apple basket overflows.

It's an apt metaphor for Bank of Ann Arbor in 2015. This year, we enjoyed success in many ways, as you'll see in this annual report. In fact, **Bank of Ann Arbor is among the top 3% of banks in the nation** based on return on shareholders' equity.

FIRST, THE NUMBERS.

As a Bank of Ann Arbor shareholder, you expect to see measureable growth. **Our team delivered.** In 2015, we reached several significant financial milestones: $1.2 billion in total assets; $1 billion in total deposits; $600 million in commercial loans; and $800 million in total loans. These numbers are even more impressive since they were attained in a recovering economic climate.

A CLOSER LOOK.

(all dollar amounts in thousands except where noted)

ASSETS

2015	$1,226
2014	$1,092
2013	$968
2012	$891
2011	$774

Assets have grown $452 million or by 58% over the past four years. We celebrated eclipsing $1 billion in total assets last year and added $134 million in new assets in 2015. Our team continues to excel in attracting new business and expanding existing relationships.

DEPOSITS

2015	$1,054
2014	$936
2013	$847
2012	$793
2011	$686

Since 2011, deposits have grown 54%. We are now the second largest bank in Ann Arbor, with nearly 14% of deposit market share. Only Chase is bigger, by just 3.5%. A year ago, they were 5.25% bigger.

NET INCOME

2015	$14.2
2014	$11.6
2013	$9.7
2012	$8.4
2011	$6.6

Our earnings increased by 22.4% over 2014. Since 2011, we've posted an average annual earnings increase of 21.2%. While the entire banking industry faces significant net interest margin challenges, we've been able to overcome these challenges by continuing to grow our balance sheet and loan portfolio.

LOAN GROWTH.

Bank of Ann Arbor's lending teams have performed at record levels in helping local businesses and individuals get the capital they need to grow. Our lending portfolios reflect the increasing diversity of businesses in our community. We've helped finance homes, dental practices, hotels, law firms, grocery stores, technology-related firms, contractors and manufacturers, among others.

- **In 2015, our new commercial loan commitments closed by our commercial banking team increased by 10%, to $226 million.** Fee income of nearly $1.6 million surpassed the prior year record by over $400 thousand. Our lending team has managed the portfolio yield in our highly competitive market exceptionally well. Commercial loans now exceed $600 million, and when combined with the exceptional fee income results, the commercial lending group continues to be the area of the bank that generates the most revenue.

- For many years, our mortgage team has consistently generated over $100 million in home loans annually. **In 2015, mortgage loans reached $123 million, a record.** Net gains on the sale of loans approached $1.9 million, up from $1.4 million in 2014. As the mortgage platform for larger institutions gets further and further away, we see growth opportunities for our community-based delivery system.

- In 2015, under the leadership of R.J. Grimshaw, **UniFi Equipment Finance recorded its first annual profit since being acquired by Bank of Ann Arbor in January 2013.** Profitability was, in large part, made possible by a 120% increase in 2015 originations, which drove earning asset growth and an increase in net interest income. We predict UniFi will continue to increase its contribution to the profitability of the bank for years to come.

The growth in our lending areas has happened without relaxing our credit policies. By our own measure, as well as that of the FDIC, our 2015 credit quality was exceptional. And where it's good to be at the bottom of the list, we continue to rank below national and peer group averages in credit quality metrics such as the noncurrent loans-to-loans ratio:

Bank of Ann Arbor	0.15%
peer group	0.95% (banks with assets $1B to $3B)
national average	1.50%

TRUST AND INVESTMENT MANAGEMENT.

Our team funded $77 million in new accounts and finished 2015 at over $985 million in assets under administration. Fee income from this important revenue source exceeded $4.7 million, an increase of $486 thousand or 11.4% better than 2014. Combined bank and trust assets under administration are now $2.2 billion.

RETURN ON SHAREHOLDERS' EQUITY.

Bank of Ann Arbor is among the best banks in the country for Return on Equity (ROE). Our 2015 ROE, 16.8%, placed us in the top 3% of all banks in the country.

Bank of Ann Arbor	16.8%
peer group	9.1%
national average	8.2%

EARNINGS PER SHARE AND BOOK VALUE PER SHARE.

At the end of 2015, our earnings per share amounted to $15.86, up 20% over our 2014 record of $13.17. Year-end book value per share was $99.65. A dividend, 54% higher than last year was paid to you, our valued shareholders. We continue to retain a high percentage of our earnings to support future growth, as indicated by the year over year growth of $13 million in capital to $89.3 million. The bank's exceptional growth over the past five years has been supported exclusively by earnings. No additional capital has been required.

HOW DID WE GET HERE?

This was our sixth consecutive year of record-level performance. Our highly collaborative, encouraging and driven team provides, first and foremost, great customer service. That goes for everyone in the bank, whether they're in a relationship management position or one focused on operations. Time and again, customers tell us that our service is better than that of other banks and retail establishments. We truly believe that being helpful—as opposed to constantly pushing a product of the day—is the far better way to go.

As our numbers continue to improve, the size of our team grows. In 2015, 13 highly experienced professionals joined our team, including Senior Vice President & Investment Group Manager, Chris Prisby; Senior Vice President & Commercial Loan Group Manager, Tim Gretkierewicz; Vice President & Trust Officer, Erin Mendez; and Assistant Vice President & 401(k) Relationship Manager, Evan LeRoy. In Plymouth, new team members include Vice President of Commercial Lending, Aaron Reeder and Vice President & Mortgage Loan Officer, Denise Staffeld. We now have 180 total employees.

We will also be saying goodbye to a few of our valued teammates who'll retire in the spring of 2016:

- Tom Kallewaard joined the bank in March 2003 and was instrumental in growing the products, personnel, assets, and revenues of our Trust and Investment Management Group. His can-do attitude was respected and admired by countless lawyers and accountants who frequently asked Tom to provide their clients with expert advice.

- When Walt Byers joined the bank in March 2009, he brought a lot of energy and many great relationships with businesses and individuals throughout Washtenaw County. When he became the leader at our Ellsworth office, it had $1.1 million in loans and $15.9 million in deposits. By February 2016, deposits had grown to $150 million and loans were approaching $50 million.

- Bella Fernandez joined our accounting department in December 1995; she was one of the 15 original employees of the bank. Bella has been a significant contributor to our success, as our accounting area has grown and become more and more complex, and regulatory reporting has expanded greatly.

HELP, HELP AND MORE HELP.

Since Bank of Ann Arbor was founded, helping others has been a major part of our culture. Our constant commitment to helping the communities we serve is another reason for our record-level growth. We continue to generously donate money and staff time to over 200 local nonprofits that serve the arts, children, seniors, education, and health and human service needs. We've also been able to help—something we love to do—many great companies, organizations, families, and individuals of Washtenaw County and Plymouth with their banking and financial service needs.

In 2015, Bank of Ann Arbor was again deemed one of the U.S.'s Top 50 Best Banks to Work For by the American Bankers Association, the second time in the last three years. We were also recognized again by the Independent Community Bankers of America as one of the Top 50 Community Bank Leaders in Social Media, and three of our team members were included in the Top 25 Community Bank Influencers on Twitter.

Our culture has also been positively influenced by our nationally recognized wellness program. *Crain's Detroit Business* included Bank of Ann Arbor on its top performing list of Healthiest Employers in Southeast Michigan. Jim Miller, our human resources director, spoke at a national wellness conference that also included Disney, American Airlines, Pfizer, and other companies. Such recognition proves how our team contributes to and cares for each other and for our community.

WHAT DOES ALL THIS MEAN?

All over the country, growth-oriented community banks boost the economic vitality of their local communities. Bank of Ann Arbor provides the fuel that drives the communities we serve. As we grow, we can support more people, businesses, and nonprofits in ways that strengthen the overall fabric of the community. By doing exactly what a community bank is designed to do, we help raise the standards of the whole community and make it a better place to live, work, and play.

WHAT'S NEXT?

In 2016, we'll be celebrating our 20-year anniversary. In conjunction with this milestone, we'll be debuting a new Bank of Ann Arbor logo featured on the inside back cover of this annual report. The design of the new logo represents the approachable personalities of all of our team members, our brand's youthful spirit, and the entire bank's focus on the future.

In late spring, we will complete the extensive renovation and expansion of our main office at 125 South Fifth Avenue. For downtown Ann Arbor, this is a significant investment in a prime piece of real estate. Thanks again to our colleague, Hans Maier, for leading this large and, at times, highly complicated project.

We'll continue to work hard to provide you more good news in 2016. Interest rates will remain low and will require above-average loan growth and skilled management of margins. The regulatory environment will remain challenging. Maintaining high credit quality standards in 2016 will be vital to our success. We'll challenge our team to achieve higher levels of performance, productivity, and efficiency.

Again this year, we extend our sincere and heartfelt thanks to everyone who helps make the success of Bank of Ann Arbor possible. Our continued record-level results would not happen without the contributions of our employees, directors, shareholders, clients, and the community.

With our highly energized team of the World's Best Bankers, we will continue to work extremely hard to deliver a seventh consecutive year of record-level performance.

Warmly,

Timothy G. Marshall

Tim Marshall

President & CEO

William C. Martin

Bill Martin

Chairman

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and due from financial institutions	$ 18,795	$ 14,329
Interest-bearing balances in banks	170,791	183,491
Cash and cash equivalents	189,586	197,820
Securities available-for-sale	146,181	146,458
Loans held for sale	3,158	2,476
Loans, excluding covered loans, net	832,633	684,851
Covered loans	3,157	16,417
Total loans	835,790	701,268
Federal Home Loan Bank stock, at cost	1,740	2,548
Premises and equipment, net	17,888	12,770
Cash surrender value of life insurance	14,757	14,311
Other real estate owned	1,594	521
FDIC indemnification asset	-	153
Accrued interest receivable and other assets	15,394	13,405
	$1,226,088	**$1,091,730**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 293,950	$ 262,306
Interest-bearing	760,229	673,343
Total deposits	1,054,179	935,649
Other borrowings	24,909	17,750
Federal Home Loan Bank advances	749	892
Repurchase agreements	38,985	44,744
Accrued expense and other liabilities	12,840	11,531
Subordinated debentures	5,155	5,155
Total liabilities	1,136,817	1,015,721
Shareholders' equity		
Common stock, no par value; 2,000,000 shares authorized; 895,886 and 887,584 shares issued and outstanding at December 31, 2015 and 2014	4,929	4,613
Retained earnings	82,738	69,736
Accumulated other comprehensive income/(loss)	1,604	1,660
Total shareholders' equity	89,271	76,009
	$1,226,088	**$1,091,730**

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

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Interest income		
Loans, including fees	$ 38,797	$ 33,979
Securities:		
Taxable	1,242	1,431
Tax exempt	1,977	2,081
Federal funds sold and other	461	352
	42,477	37,843
Interest expense		
Deposits	1,549	1,521
Federal Home Loan Bank advances	15	24
Subordinated debentures	174	172
Other borrowings	7	42
Repurchase agreements	163	149
	1,908	1,908
Net interest income	40,569	35,935
Provision for loan losses	2,680	1,587
Net interest income after provision for loan losses	37,889	34,348
Noninterest income		
Service charges on deposit accounts	444	425
Income from fiduciary activities	4,745	4,259
Net gains on sales of loans	1,889	1,404
Net gains on sales of securities	6	14
Gain (loss) on sales of OREO	1,406	363
Other	2,778	2,291
	11,268	8,756
Noninterest expense		
Salaries and employee benefits	19,534	17,598
Occupancy and equipment	2,825	2,869
Marketing and business promotion	1,432	1,156
FDIC expense	550	510
Provision for loan repurchase liability	561	-
Other	4,311	5,056
	29,213	27,189
Income before income taxes	19,944	15,915
Income tax expense	5,784	4,278
Net income	**$ 14,160**	**$ 11,637**
Basic earnings per share	$ 15.86	$ 13.17
Diluted earnings per share	15.11	12.75

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Net income	$ 14,160	$ 11,637
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain/(loss) arising during the period	(79)	3,782
Reclassification adjustment for losses (gains) included in net income	(6)	(14)
Tax effect	29	(1,280)
Net of tax	(56)	2,488
Comprehensive income	**$ 14,104**	**$ 14,125**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2014	**$** 4,966	**$** 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
Net income	–	14,160	–	14,160
Other comprehensive income (loss)	–	–	(56)	(56)
Deferred shares plan	41	–	–	41
Exercise of stock options (28,918 shares)	1,897	–	–	1,897
Repurchase of 20,616 shares of common stock	(2,168)	–	–	(2,168)
Stock based compensation expense	546	–	–	546
Cash Dividend ($1.30 per share)	–	(1,158)	–	(1,158)
Balance, December 31, 2015	$ 4,929	$ 82,738	$ 1,604	$ 89,271

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 March 14, 2016, 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.

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 2015 and 2014 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 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 FDIC’s obligation to reimburse the Corporation for losses with respect to covered loan begins with the first dollar of loss incurred. The loss share agreement on non-single family loans ended in May 2015. The loss share on single family loans expires in 2020. 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.

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 types of equipment financed include computer hardware and software, telecommunications equipment, photocopiers, forklifts, machine tools and other hard asset collateral types.

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-off 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 increases when estimated future losses increase and also 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 2015 and 2014, the provision for loan losses was offset by $36 and $320 related to increases in the FDIC indemnification asset. As of December 31, 2015 there is no indemnification asset recorded as the remaining covered portfolio consists of single-family home loans for which the indemnification asset expires in 2020 and no significant losses are currently expected.

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 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 2015 and 2014, none 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 while the valuation price of the Corporation's common stock as of the grant date is used for restricted stock awards.

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 $1,824 and $1,524 was required to meet regulatory reserve and clearing requirements at year end 2015 and 2014.

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 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 did not have a material effect on the Company's operating results or financial condition.

Newly Issued Not Yet Effective Accounting Standards: 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, 2017, including interim periods within that reporting period. Early adoption is permitted for years beginning after December 15, 2016. 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.

ADDITIONAL INFORMATION

We have included financial information for the year ended December 31, 2015. 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

Commercial Lending Group

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

Mark D. Baily
Vice President &
Commercial Loan Officer

Jonathan F. Bowdler
Vice President &
Commercial Real Estate Manager

Walter G. Byers
President, Saline District

Michael A. Cole
Group President, Technology
Industry Group

Timothy M. Gretkierewicz
Senior Vice President &
Loan Group Manager

David A. Guenther
Vice President & Senior Loan
Officer

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

Mark H. Holtz
Vice President,
Technology Industry Group

Satish B. Jasti
Senior Vice President &
Senior Loan Officer

Hans W. Maier
Senior Vice President,
Specialty Banking

Michael L. Michon
President, Plymouth District

James J. Plummer
Vice President &
Commercial Loan Officer

Aaron M. Reeder
Vice President &
Commercial Loan Officer

Robert R. Rose
Vice President &
Senior Loan Officer

Credit Administration

Cynthia J. Livesay
First Vice President, Credit
Administration

Stephanie N. Harrigan
Vice President, Consumer Credit &
Compliance

Dawn M. Prescott
Senior Vice President & Managed
Assets Officer

Trina M. VanNest
Vice President & Credit Manager

Pamela J. Wetzel
Credit Administration Officer

Finance & Compliance

Mark J. Slade
First Vice President & Chief
Financial Officer

Pamela F. Brown
Accounting Officer

Bella M. Fernandez
Assistant Vice President &
Accounting Officer

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

Lisa A. Mason
Vice President & Internal Auditor

Barbara L. Morrison
Vice President

Timothy T. Otto
Vice President & Controller

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

Cynthia K. Shaeffer
BSA/Security Administrative Officer

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

HR, IS, & Marketing

James A. Miller
Vice President &
Director, Human Resources

Jeffrey J. Stanton
Vice President &
Chief Technology Officer

Janice M. Ortbring
Vice President &
Director, Marketing

Mortgage Group

Kirsty E. Haboian
Vice President & Mortgage
Department Manager

Kimberly A. Clugston
Vice President &
Senior Mortgage Loan Officer

Charles W. Cracraft
Vice President & Retail Mortgage
Sales Manager

Joseph D. Craigmile
Mortgage Loan Officer

Carl D. Ent
Vice President &
Mortgage Loan Officer

Kevin C. Salley
Mortgage Loan Officer

Denise J. Staffeld
Vice President &
Mortgage Loan Officer

Private Banking Services

Patrick A. Tamblyn
Senior Vice President & Private
Banking Manager

Linda S. Brewer
Vice President &
Private Banking Officer

Mary Hays
Vice President &
Private Banking Officer

Kevin M. Kramer
Vice President &
Private Banking Officer

Retail Banking, Cash Management & Operations

Patti H. Judson
Executive Vice President & Chief Operating Officer

Sandra L. Beever
Deposit Operations Officer

Amanda M. Hart
Vice President, Administration & Operations

Christine G. Held
Vice President, Cash Management

Joan C. Hendricks
Vice President & Main Office Branch Manager

Stacy B. Johnson
Ellsworth Office Assistant Branch Manager

Kristina L. Mayer
Vice President & Plymouth Office Branch Manager

David E. Norton
Stadium Office Branch Manager

David K. Pate
Ypsilanti Office Branch Manager

Shelley L. Rankin
Saline Office Branch Manager

Kimberly K. Snow
Relationship Banking & Cash Management Officer

Dennis D. Ticknor
Ellsworth Branch Manager & HSA Account Specialist

Trust & Investment Management Group

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

Erin E. Archambault
Vice President, Trust Operations

Sarah Dobson Campbell
Trust Officer

Eric P. Helber
Vice President & Director of Business Development

Jacqueline Jenkins
Vice President, Portfolio Manager & Business Development Officer

Deborah A. Jones
Vice President & Business Development Officer

Thomas R. Kallewaard
First Vice President & Senior Trust Officer

Evan C. LeRoy
Assistant Vice President, 401(k) Relationship Manager

Erin K. Mendez
Vice President & Trust Officer

Sonia S. Patel, CFA
Senior Vice President & Investment Officer

Christopher M. Prisby, CFA
Senior Vice President & Investment Team Manager

Cathleen L. Savoie, CFA
Senior Vice President & Investment Officer

Stephen J. Seymour, CFA
Senior Vice President & Senior Investment Officer

Mark A. Skiff
Investment Officer

Mitzi J. Talon
Vice President & Trust Officer

Diane S. Winner, CFP
Vice President & Investment 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, Integrated Care Alliance, 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
Managing Partner, Barney & Associates

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

BRANCH LOCATIONS

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734.662.1600

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Saline Office
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Saline, MI 48176
734.470.5001

Ellsworth Office
801 West Ellsworth Road
Ann Arbor, MI 48108
734.669.8900

Plymouth Office
1333 West Ann Arbor Road
Plymouth, MI 48170
734.455.1511

Ypsilanti Office
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Ypsilanti, MI 48197
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Stadium Office
2204 West Stadium Boulevard
Ann Arbor, MI 48103
734.822.1900

Downtown Ann Arbor office renovation complete May 2016.

As part of our 20th anniversary in 2016, we proudly introduce the new Bank of Ann Arbor logo.

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EQUAL HOUSING LENDER

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