



**We did it:**

**record  
performance  
for  
ten  
straight  
years.**

The more we've helped, the more you, our shareholders, have benefited.

Dear fellow shareholders:

'19=10

2019 was our 10th consecutive year of record-level earnings performance and balance sheet growth. Hopefully, you're enjoying how your investment in Bank of Ann Arbor has performed.

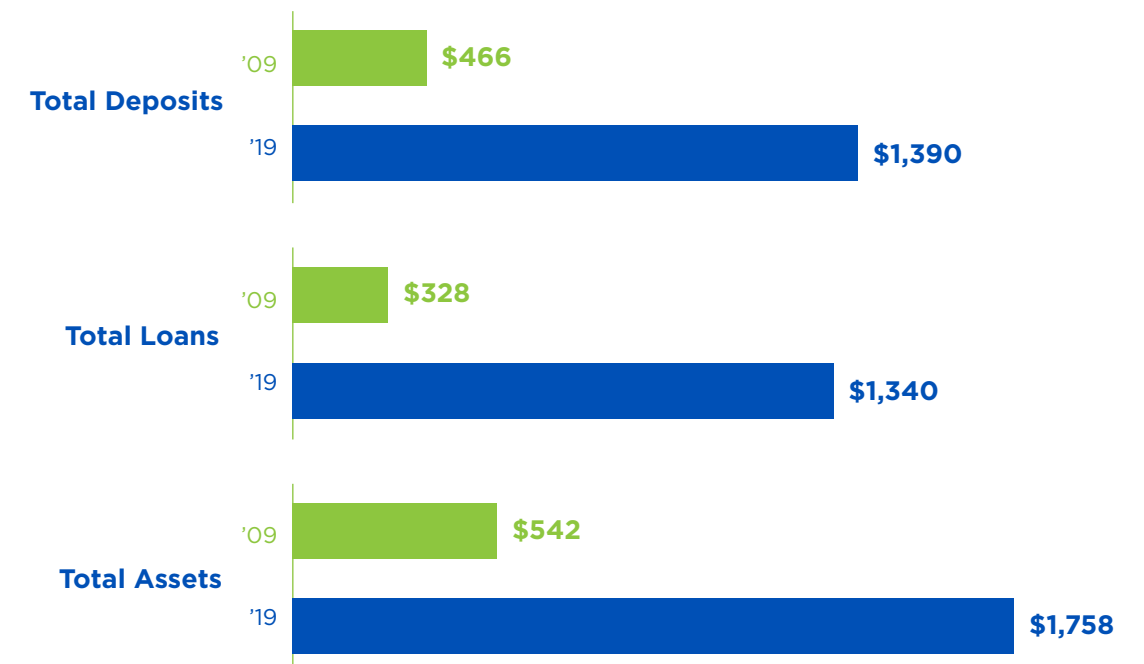
#### A DECADE OF GROWTH

Since 2009, our total assets, loans, and deposits have grown steadily and significantly. More and more businesses, organizations, and individuals have chosen Bank of Ann Arbor for the exceptional customer service and value we provide every day.

#### GROWTH BY THREE ACQUISITIONS, AND ONE MORE ON THE WAY

- In 2010, we acquired New Liberty Bank in Plymouth, Michigan.
- In 2013, we acquired Ann Arbor-based UniFi Equipment Finance, a small-ticket leasing company.
- In 2017, we acquired Bank of Birmingham, a community bank serving individuals, families, and businesses throughout Oakland County, Michigan.
- In February 2020, we announced the pending acquisition of First National Bank in Howell, which will add eight branches and over \$435 million in assets to our organization.

#### NOW VS. 10 YEARS AGO (\$ in millions)



#### SPECIFICALLY IN 2019:

- Revenue generated by our Trust and Investment Management Group reached a record \$7.8 million, thanks to assets growing to more than \$1.6 billion (compared to \$668 million in 2009).
- UniFi Equipment Finance performed exceptionally well. Their earnings exceeded \$1.7 million, up 49% from 2018. Credit metrics were significantly better than its peers. With their excellent leadership and passionate team, UniFi should continue to grow.
- Net income continued at record levels. The success of all revenue-generating areas of the bank profoundly impacted earnings growth. In the last decade, earnings have grown by an average of 23% annually, reaching \$30.3 million in 2019 (compared to \$2 million in 2009).

#### WE'RE MORE EFFICIENT THAN MOST BANKS

Our 2019 efficiency ratio – the cost to generate \$1 in revenue – was just 49.9%, compared to 63.4% for peer U.S. banks and 67.2% for all Michigan banks. Generally, the more efficiently we operate, the better our earnings. Your team at Bank of Ann Arbor takes great pride in growing revenue while keeping expenses down.

#### 860% GROWTH IN STOCK PRICE IN 10 YEARS

At year-end 2019, shares of Bank of Ann Arbor were \$80, up from \$8.33 exactly 10 years earlier. That's an 860% increase.

NOT A BAD **ROI**

#### ANNUAL DIVIDEND: NOW UP TO \$1.10 PER SHARE

We continue to watch capital levels closely to support future growth. We're determined to preserve our status as a financial institution the FDIC deems "well capitalized," their highest designation.

#### SHAREHOLDER EQUITY: STEADY GROWTH THROUGHOUT OUR HISTORY

When the bank first opened in 1996, shareholder equity was \$3 million. By 2009, it was \$36.2 million. At the end of 2019, it was \$181.3 million.

#### ROA, ROE: CONSISTENTLY IN TOP 5% OF ALL U.S. BANKS

In 2019, our return on assets (ROA) was 1.92%; our return on equity (ROE) was 17.15%.

#### CREDIT QUALITY: BETTER THAN OUR INDUSTRY AS A WHOLE

Our credit quality is critically important to our success, as it is for any financial institution. We closely monitor our loan portfolio to make sure we maintain our high credit standing, and generously fund our allowance for loan loss, which ended 2019 at a record \$19.3 million (in 2009, it was \$5.4 million). It is important to maintain an adequate reserve, should any loan problems arise.

But our business isn't all about numbers.



#### AT BANK OF ANN ARBOR, IT'S REALLY ABOUT "HELP."

We generously contribute our time, energy, effort, and financial resources to organizations that make Washtenaw County, Plymouth and Birmingham even better places to live, work, and play. Our financial support has been provided to more than 200 local nonprofits. At many of these organizations, our colleagues from Bank of Ann Arbor serve on boards, committees, and as volunteers.

#### RECORD CONTRIBUTIONS TO UNITED WAY PACESETTER CAMPAIGN

This year, two of our colleagues contributed more than \$10,000 to this campaign; 50 contributed \$1,000 or greater; and 19 contributed \$500 or more. Our total contributions exceeded \$105,000, a new Bank of Ann Arbor record.

#### SONIC LUNCH CONTINUES TO REVERBERATE

For the 12th year, this summer concert series attracted thousands downtown for free music by international, national, and local performers. Two artists stand out from this past year's lineup, Guster, and Michael Franti and Spearhead.

#### THE WORLD'S BEST BANKERS STRIKE AGAIN

As always, our success is made possible by the hard work of each of the 235 members of our team of the World's Best Bankers. (In 2009, our team had 97 members). We work hard, support each other, and help our clients any way we can. After all, help is what we do. Help is what we give.

#### THANK YOU, TOO

So many others help Bank of Ann Arbor be a successful, well-performing banking institution: board of directors, shareholders, clients, and members of each of the communities we serve. We look forward to delivering another year of exceptional financial performance in 2020.

AND HERE'S TO A  
**great  
2020**

Timothy G. Marshall  
President & CEO

William C. Martin  
Chairman of the Board

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Our “World’s Best Bankers” have had quite the decade.



They all love  
to help.

This doesn't happen  
every decade  
at just any bank.

## 2019 FINANCIAL HIGHLIGHTS

**10<sup>th</sup> consecutive year of record-level earnings:** over \$30 million; diluted earnings per share of \$8.80

**Total revenue:** \$93.9 million, up from \$89.1 million

**Trust and Investment Management revenue:** nearly \$7.8 million, up from \$7.4 million in 2018, \$6.1 million in 2017

**Loan revenue:** over \$72.5 million, up from \$68.4 million

**Mortgage area:** over \$1.7 million in total fee income on more than \$85 million in closed mortgage loans

**Commercial loan portfolio:** grew by 5.9%, finishing the year at over \$1.04 billion

**UniFi:** eclipsed \$175 million in leases, record-level earnings of \$1.78 million

**Delinquent loans:** on a \$1.34 billion loan portfolio and at year-end, ZERO past dues on performing commercial, mortgage, home equity and consumer installment loans

**Efficiency ratio:** 49.9%, first time in history below 50% and well below the Michigan bank average of 67.2%

**Total assets:** \$1.76 billion, up from \$1.69 billion in 2018

**Total loans and deposits:** \$1.34 billion and \$1.39 billion, respectively

**Trust and Investment assets:** grew nearly \$200 million to \$1.64 billion, up from \$1.45 billion; combined assets of the bank totaled \$3.4 billion

**Total capital:** exceeded \$181 million, up from \$155 million in 2018, \$131 million in 2017

**Annual dividend:** increased 10%, to \$1.10 per share

**Giving back:** since we opened our doors in January 1996, our financial support to nonprofit organizations and events in the communities we serve exceeds \$7.2 million

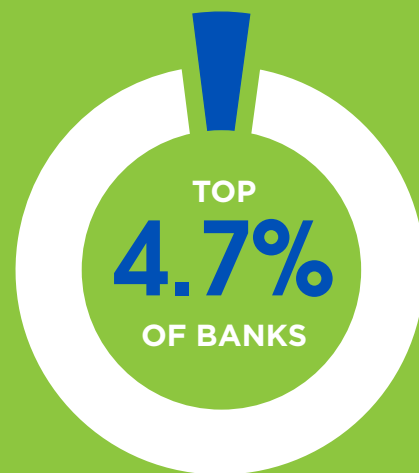
### Recognition:

- *Detroit Free Press* "One of the Top Work Places in Michigan"
- *Crain's Detroit Fast 50* fastest growing companies
- *DBusiness* ranked #4, largest banks and thrifts in Metro Detroit

### STOCK VALUE

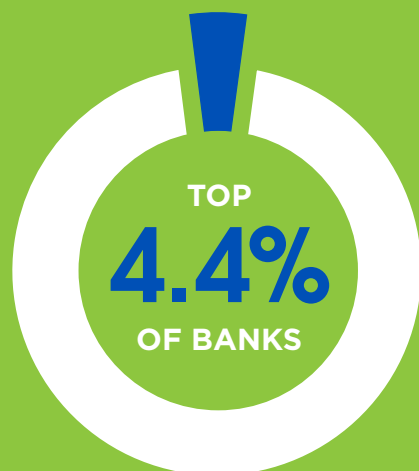
**26.4%** | **860%**  
Average annual return since 2009 | Increase since 2009

### 2019 RETURN ON ASSETS



1.92% vs. 1.29% industry average

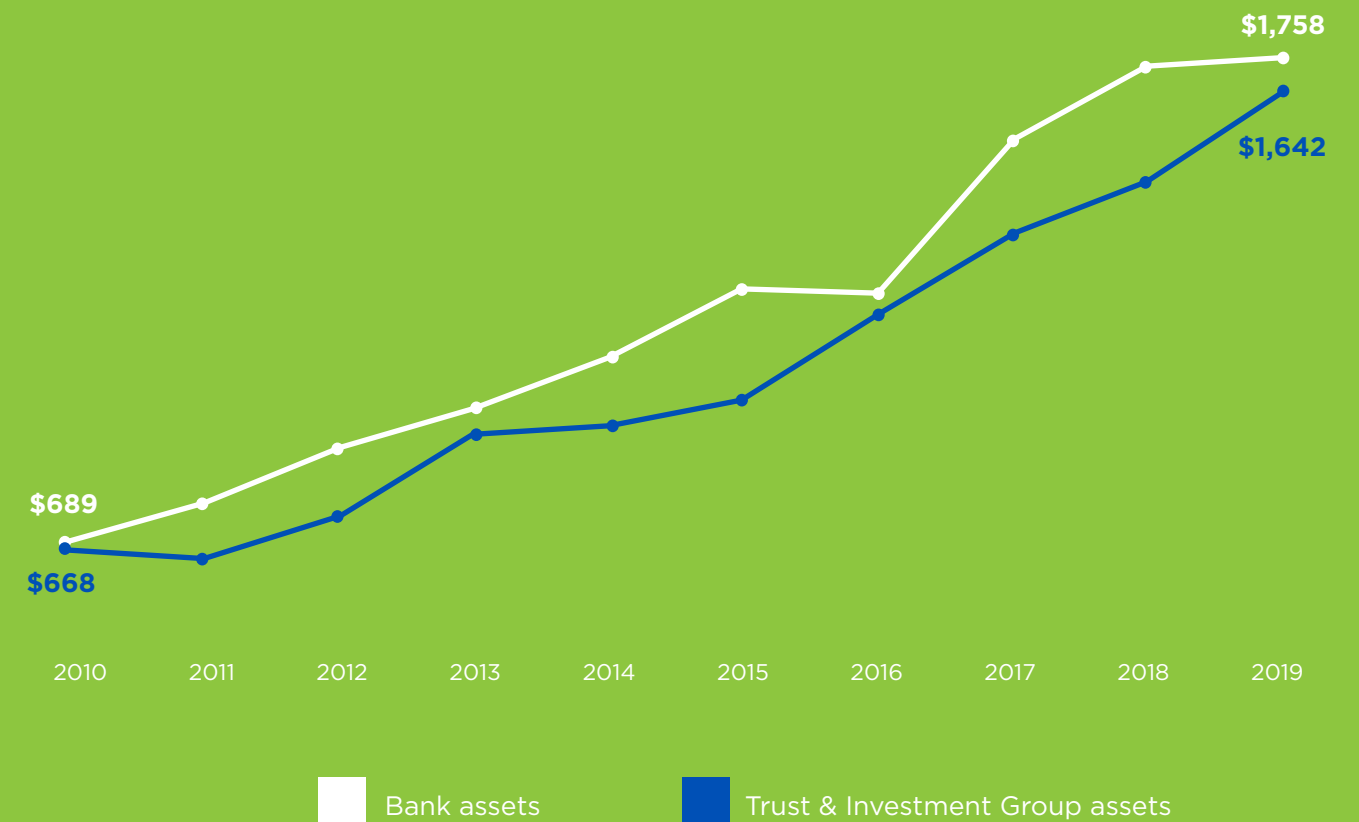
### 2019 RETURN ON EQUITY



17.15% vs. 11.14% industry average

### ASSETS UNDER MANAGEMENT

(\$ in millions)



### 2019 PERFORMING LOANS

(as of year-end)

No commercial loans past due  
No mortgage loans past due  
No installment loans past due  
No home equity loans past due



**CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 25,972	\$ 35,312
Interest-bearing balances in banks	232,822	178,661
Cash and cash equivalents	258,794	213,973
Securities available-for-sale	67,774	104,075
Loans held for sale	2,720	199
Loans, excluding covered loans, net	1,339,463	1,290,037
Covered loans	557	647
Total loans	1,340,020	1,290,684
Federal Home Loan Bank stock, at cost	5,400	4,050
Premises and equipment, net	19,858	19,948
Cash surrender value of life insurance	30,383	24,455
Other real estate owned (OREO)	729	553
Goodwill	13,087	13,087
Core deposit intangible	2,093	2,511
Accrued interest receivable and other assets	17,198	16,614
	<b>\$ 1,758,056</b>	<b>\$ 1,690,149</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing	\$ 477,425	\$ 482,682
Interest bearing	912,523	894,694
Total deposits	1,389,948	1,377,376
Federal Home Loan Bank advances	120,000	90,000
Other borrowings	-	4,636
Repurchase agreements	26,549	21,990
Subordinated debentures	27,412	27,378
Accrued expense and other liabilities	12,858	13,426
Total liabilities	1,576,767	1,534,806
Shareholders' equity		
Preferred stock, \$1,000 par value; 15,000 shares authorized; 12,350 and 12,350 shares issued and outstanding at December 31, 2019 and 2018, liquidation value of \$12,350,000 and \$12,350,000 at December 31, 2019 and 2018	12,196	12,196
Common stock, no par value; 10,000,000 shares authorized; 2,849,594 and 2,854,204 shares issued and outstanding at December 31, 2019 and 2018	63,093	65,255
Retained earnings	105,916	78,411
Accumulated other comprehensive income/(loss)	84	(519)
Total shareholders' equity	181,289	155,343
	<b>\$ 1,758,056</b>	<b>\$ 1,690,149</b>

Dollar amounts in thousands.

**CONSOLIDATED STATEMENTS OF INCOME, YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Interest income		
Loans, including fees	\$ 72,520	\$ 68,375
Securities:		
Taxable	1,391	1,408
Tax exempt	917	1,363
Federal funds sold and other	4,150	2,462
	78,978	73,608
Interest expense		
Deposits	6,805	4,685
Federal Home Loan Bank advances	2,335	1,258
Subordinated debentures	1,858	1,843
Other borrowings	131	225
Repurchase agreements	157	134
	11,286	8,145
<b>Net interest income</b>	<b>67,692</b>	<b>65,463</b>
Provision for loan losses	1,923	2,814
<b>Net interest income after provision for loan losses</b>	<b>65,769</b>	<b>62,649</b>
Non-interest income		
Service charges on deposit accounts	747	684
Income from fiduciary activities	7,774	7,378
Net gains on sales of loans	1,718	1,488
Gain on sales of OREO	581	1,557
Other	4,068	4,414
	14,888	15,521
Non-interest expense		
Salaries and employee benefits	28,037	26,791
Occupancy and equipment	4,242	4,062
Marketing and business promotion	2,772	2,536
FDIC expense	32	490
Other	7,860	8,365
	42,943	42,244
<b>Income before income taxes</b>	<b>37,714</b>	<b>35,926</b>
Income tax expense	6,647	6,806
Net income	31,067	29,120
Preferred stock dividends	741	741
<b>Net income available to common shareholders</b>	<b>\$ 30,326</b>	<b>\$ 28,379</b>
Basic earnings per share	\$ 10.62	\$ 9.97
Diluted earnings per share	8.80	8.13

Dollar amounts in thousands except per share data.

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## DIRECTORS

**Joshua T. Borders**

Vice President-Mortgage Lending,  
Independent Bank Mortgage

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**Jan L. Garfinkle**

Founder & Managing Partner,  
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**Isadore J. King**

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King Consultant Group, LLC

**Timothy G. Marshall**

President &  
Chief Executive Officer,  
Bank of Ann Arbor

**Michael C. Martin**

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**William C. Martin, Chairman**

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**Directors Emeritus****Richard P. Eidswick**

Managing Director,  
Arbor Partners

**Jan Barney Newman**

Trustee,  
Ann Arbor District Library Board

**Richard N. Robb, DDS**

Regent Emeritus,  
Eastern Michigan University

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## BIRMINGHAM COMMUNITY AND ADVISORY BOARD

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**Bernd M. Ronnisch**

President,  
Ronnisch Construction Group

**Michael G. Sarafa**

Managing Partner,  
Vision Growth Partners

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## OFFICE LOCATIONS

**Ann Arbor****Downtown**

125 South Fifth Avenue

**Ellsworth**

801 West Ellsworth Road

**Stadium**

2204 West Stadium Boulevard

**Traver Village**

2601 Plymouth Road, Suite A

**Birmingham**

33583 Woodward Avenue

**Plymouth**

1333 West Ann Arbor Road

**Saline**

179 East Michigan Avenue

**Ypsilanti**

7 West Michigan Avenue

# Thank you x10.

bank<sup>of</sup>  
ann arbor



Member FDIC