

bank^{of}
ann arbor

Member FDIC

**Since 2010,
our financial
performance has
gotten better...**

...and better...

Dear shareholders:

2017 was our eighth straight year of record-level financial performance.

...and better...

Our Birmingham office's first full year was an unequivocal success. We cordially welcome the eight new Directors to our Birmingham Community and Advisory Board.

We now have eight banking offices and 225 employees in Washtenaw, western Wayne and Oakland.

UniFi Equipment Finance, our wholly owned small-ticket leasing subsidiary in Ann Arbor (which does business nationally), **achieved record-level performance in 2017.** Led by R.J. Grimshaw, UniFi continues to exceed expectations.

...and better...

Also in Birmingham, we added personnel in private banking, commercial lending, investment advisory, and mortgage banking. Lyle Dahlberg, who oversees our trust officers, moved his office to Birmingham.

Congratulations, Satish Jasti, promoted to Plymouth District President. He joined us in 2010 as a Senior Loan Officer, following our acquisition of New Liberty Bank. Satish has helped grow our commercial loan portfolio at the Plymouth office to more than \$200 million.

Our Technology Industry Group celebrated its 15-year anniversary. Michael Cole and his team have built a significant portfolio in southeast Michigan of deposits, loans, and investments for innovative businesses, entrepreneurs, and venture capital firms.

...and better...

We continue to help, help, help. Since Bank of Ann Arbor was founded in 1996, we've been steadfast in our support of the communities we serve. We've contributed over \$5.4 million to help support area nonprofit organizations, schools, faith-based institutions, the arts, and others.

Bank of Ann Arbor personnel volunteered more than 3,000 hours to nearly 200 nonprofit organizations.

Tim Marshall, Bank of Ann Arbor President and CEO, served a very productive term as the Chairman of the Michigan Bankers Association board of directors.

Our free Sonic Lunch Concert Series enjoyed a 10th successful year filling Liberty Plaza in downtown Ann Arbor every Thursday afternoon during the summer.

Our ongoing commitment to helping the people and businesses in the communities we serve is a big reason for our record-level financial performance.

...and better...

For the third time in five years, we were named one of American Banker's Best Banks to Work For (only 75 of 6,000 institutions were named) thanks to our strong culture, value system, competitive benefits, terrific team, strong commitment to the community, and fun work environment.

We were also selected as one of Michigan's Best and Brightest in Wellness. Our wellness program, now in its 10th year, offers fitness classes, wellness workshops, sponsorships of walks, runs, and races, access to nutrition advisors, and more.

As always, we're thankful for our terrific team, impressive Board members and their thoughtful oversight, and our **valued shareholders**, who are endlessly supportive. We also look forward to working closely with our new Birmingham Community and Advisory Board members.

For 2018:

Our goal is to achieve a **ninth consecutive year of record-level performance.**

We will continue to invest in our people, technology, and the communities we serve.

We will continue to provide the exceptional customer service which has propelled our growth and prompted more people and businesses to choose Bank of Ann Arbor.



Timothy G. Marshall
President & CEO



William C. Martin
Chairman of the Board

...and better.

2017 FINANCIAL HIGHLIGHTS

Eighth consecutive year of record-level earnings: nearly \$17 million (after write down of \$4.1 million of the deferred tax asset on the balance sheet upon passing and signing of new tax legislation).

In 2018, we anticipate making up the write down in December 2017 as we benefit from the reduction in the corporate tax rate from 35% to 21%.

Net interest income: \$60.8 million, up from \$43.9 million in 2016

Trust and investment income: \$6.1 million, an improvement of 21% year over year

Mortgage area: closed \$108.5 million in loans, generated nearly \$2.2 million in fee income

Commercial loan group: record-level loan closings of \$305 million

UniFi: \$163 million in leases; 27% compound annual growth rate since being acquired by Bank of Ann Arbor in January 2013

Efficiency ratio: 50.6%, well below the Michigan bank average of 65.3%

Total assets: more than \$1.5 billion, up from \$1.2 billion in 2016

Trust and Investment Assets: grew \$173 million and finished the year at \$1,340,000

Total Loans: more than \$1.2 billion, up 38.6% over 2016

Total Deposits: grew \$297 million to more than \$1.3 billion

Three-for-one stock split

Annual dividend increased 21.4% to \$0.85 per share

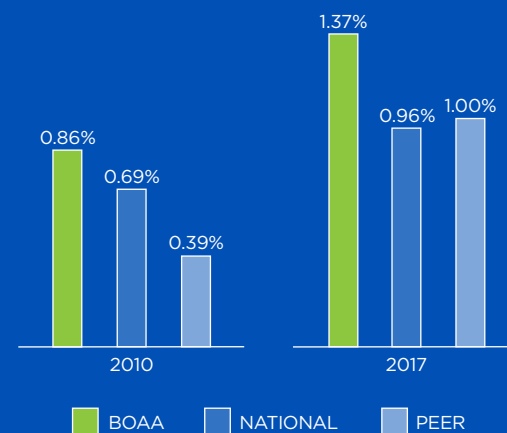
BANK ASSETS

+123%
since 2010

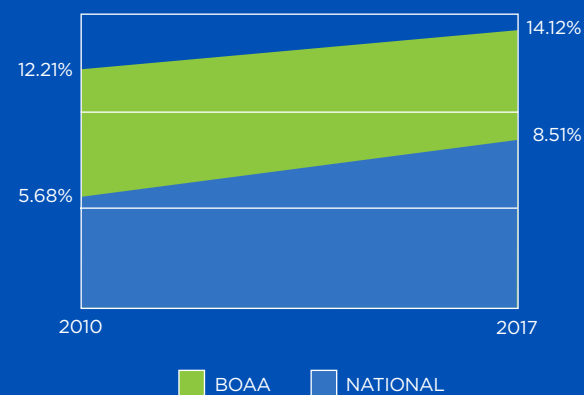
TRUST & INVESTMENT ASSETS

+104%
since 2010

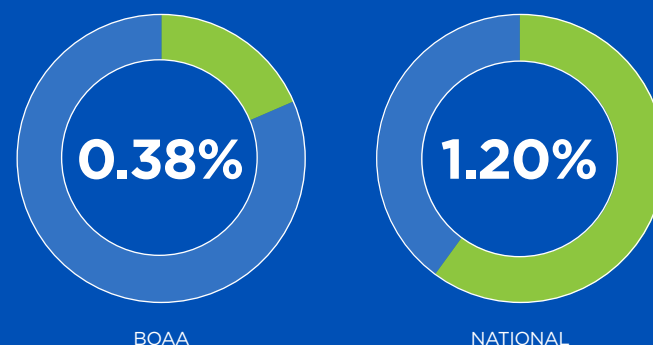
RETURN ON ASSETS



RETURN ON EQUITY



CREDIT QUALITY: NON-PERFORMING LOANS





DIRECTORS

Thomas P. Borders
President,
Midtown Group, Inc.

Joseph A. Sesi
Owner,
Sesi Motors, Inc.

Jan L. Garfinkle
Founder & Managing Director,
Arboretum Ventures

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

Isadore J. King
President & Owner,
King Consultant Group, LLC

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

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

Directors Emeritus

Michael C. Martin
Vice President,
First Martin Corporation

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

William C. Martin, Chairman
Athletic Director Emeritus,
University of Michigan

Richard P. Eidswick
Managing Partner,
Arbor Partners

Ernest G. Perich
President,
Perich + Partners, Ltd.

Jan Barney Newman
Trustee,
Ann Arbor District Library Board

David R. Sarns
Managing Partner,
360 Advisors, LLC

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



BIRMINGHAM COMMUNITY AND ADVISORY BOARD

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Principal,
ROCO Real Estate

Alison Orlans
President & CEO,
Orlans Group

John Hamaty
President,
Vibra-Tite

Warren Rose
Chief Executive Officer,
Edward Rose & Sons

Brian J. Hunter
Partner,
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Bernd M. Ronnisch
President,
Ronnisch Construction Group

Tom Murray
President,
Hosco Fittings, LLC

Michael G. Sarafa
Group President,
Vision Investment Partners



OFFICE LOCATIONS

Ann Arbor
Downtown
125 South Fifth Avenue

Birmingham
33583 Woodward Avenue

Ellsworth
801 West Ellsworth Road

Plymouth
1333 West Ann Arbor Road

Stadium
2204 West Stadium Boulevard

Saline
179 East Michigan Avenue

Traver Village
2601 Plymouth Road

Ypsilanti
7 West Michigan Avenue



CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and due from financial institutions	\$ 22,042	\$ 20,251
Interest-bearing balances in banks	69,075	107,138
Cash and cash equivalents	91,117	127,389
Securities available-for-sale	116,652	127,958
Loans held for sale	4,127	4,545
Loans, excluding covered loans, net	1,244,593	897,038
Covered loans	1,131	1,836
Total loans	1,245,724	898,874
Federal Home Loan Bank stock, at cost	1,992	1,740
Premises and equipment, net	20,918	20,484
Cash surrender value of life insurance	23,616	20,306
Other real estate owned (OREO)	698	866
Goodwill	13,087	-
Core deposit intangible	2,930	-
Accrued interest receivable and other assets	14,745	14,843
	\$ 1,535,606	\$ 1,217,005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	\$ 456,846	\$ 328,753
Interest-bearing	868,728	700,590
Total deposits	1,325,574	1,029,343
Other borrowings	5,380	-
Repurchase agreements	34,975	36,156
Subordinated debentures	27,344	27,465
Accrued expense and other liabilities	11,359	8,258
Total liabilities	1,404,632	1,101,222
Shareholders' equity		
Preferred stock, \$1,000 value; 15,000 shares authorized; 12,350 and 12,350 shares issued and outstanding at December 31, 2017 and 2016, liquidation value of \$12,350,000 and \$12,350,000 at December 31, 2017 and 2016	12,196	12,196
Common stock, no par value; 10,000,000 shares authorized; 2,796,514 and 2,766,441 shares issued and outstanding at December 31, 2017 and 2016	66,014	65,618
Retained earnings	52,462	37,418
Accumulated other comprehensive income/(loss)	302	551
Total shareholders' equity	130,974	115,783
	\$ 1,535,606	\$ 1,217,005

All dollar amounts in thousands.

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Interest income		
Loans, including fees	\$ 61,246	\$ 42,086
Securities:		
Taxable	1,154	1,280
Tax exempt	1,577	1,821
Federal funds sold and other	1,347	716
	<u>65,324</u>	<u>45,903</u>
Interest expense		
Deposits	2,387	1,619
Federal Home Loan Bank advances	-	12
Subordinated debentures	1,798	195
Other borrowings	233	-
Repurchase agreements	129	157
	<u>4,547</u>	<u>1,983</u>
Net interest income	60,777	43,920
Provision for loan losses	2,498	2,209
Net interest income after provision for loan losses	58,279	41,711
Non-interest income		
Service charges on deposit accounts	613	517
Income from fiduciary activities	6,146	5,084
Net gains on sales of loans	2,271	2,318
Net loss on sales and calls of securities	(98)	-
Gain on sales of OREO	880	694
Other	3,845	3,051
	<u>13,657</u>	<u>11,664</u>
Non-interest expense		
Salaries and employee benefits	25,713	20,612
Occupancy and equipment	4,008	3,045
Marketing and business promotion	2,166	1,440
FDIC expense	863	636
Provision (benefit) for loan repurchase liability	-	(1,000)
Other	7,951	5,367
	<u>40,701</u>	<u>30,100</u>
Income before income taxes	31,235	23,275
Income tax expense	13,529	6,799
Net income	\$ 17,706	\$ 16,476
Preferred stock dividends	743	-
Net income available to common shareholders	\$ 16,963	\$ 16,476
Basic earnings per share	\$ 6.08	\$ 5.99
Diluted earnings per share	4.94	5.61

All dollar amounts in thousands except per share data.