

Arbor Bancorp, Inc.

20%22 Annual Report

bank^{of}
ann arbor

Member FDIC

**Another record year,
including 20%
earnings growth,
ensures we're ready
for an uncertain 2023.**

DEAR FELLOW SHAREHOLDERS:

In 2022, we weathered the economy's many challenges and attained the highest level of earnings in our 26-year history.

RATE HIKES, INFLATION, FALLING STOCKS, OH, MY.

We never thought the Federal Reserve would hike interest rates seven times in one year, by a total of 4.25%. But they did. By year end, the fed funds rate increased to 4.5%, and the prime rate reached 7.5%, both the highest since 2007.

In June, inflation peaked at 9.1%, a 40-year high. Price pressures were further exacerbated by continuing supply chain issues, skyrocketing food and energy prices, and Russia's invasion of Ukraine.

Stocks tumbled. The S&P 500 ended the year down 19%, the Nasdaq down 33%. Technology stocks fell precipitously. Bonds endured the worst sell-off ever as the ten-year treasury – which influences mortgage rates, student debt, and other forms of borrowing – climbed to 3.826%. In 2021, it was just 1.496%. Cryptocurrencies collapsed completely.

American consumers – 70% of the GDP – cut back spending considerably.

STILL, A VERY GOOD YEAR FOR BOAA.

Despite these financial headwinds, Bank of Ann Arbor performed extremely well in 2022. Earnings were an all-time high of \$45.2 million, a 20.2% increase over 2021. This was fueled in large part by the acquisition of First National Bank in Howell and the Brown Street branch in downtown Birmingham.

We succeeded while much of our industry struggled. The earnings of nearly half – 44% – of all banks in the U.S. decreased year over year.

Our earnings strength allowed the Board of Directors to approve a dividend of \$2.00 per share, 33% higher than 2021. Though our capital ratios grew nicely, we still monitor capital levels closely to support future growth. We take great pride in being “well capitalized,” the FDIC's highest

designation. In 2022, total shareholder equity was \$290 million. When the bank opened in 1996, shareholder equity was \$3 million.

Our growth in earnings could only happen because of the efforts of our entire team of the World's Best Bankers.

An all-time high of over \$6 million in earnings contribution came from our subsidiary, UniFi Equipment Finance. In 2022, they generated \$115 million in new equipment finance originations, a record. That's a 14% increase over last year, which compares favorably to the 4% growth in originations in the leasing industry as a whole. Our credit quality remains strong, and is significantly better than the industry. Nonperforming assets were 0.235% (industry average: 2.4%) and net charge-offs were 0.12% (industry average: 0.38%).

MORE COMMERCIAL LOANS THAN EVER.

With the addition of Livingston County and Brown Street, we now have 38 commercial lenders. Commercial loans originated in 2022 totaled \$717 million, the most in the history of the bank. The commercial lending group finished the year with nearly \$1.8 billion in outstanding loans. Expanding existing relationships and welcoming new clients to the bank is their mission. Last year, the commercial team accounted for 67% of the bank's total revenue.

\$2/share dividend: 33% higher than 2021

Our Trust and Investment Management Group also had a successful year despite the challenges of the equity and bond markets. In 2022, they added over \$200 million in investible assets from new and existing clients. The resulting revenue offset all but \$33,000 of the decline in the markets. Total revenue in 2022 was \$9.35 million. Total assets were \$1.98 billion. Excellent numbers.

Our Credit Administration team continues to post credit quality metrics that greatly outperform the industry averages in Michigan and the U.S. According to the most recent FDIC report, Bank of Ann Arbor had non-current loans to total loans of 0.32% This compares favorably to 0.73% for all U.S. banks and 0.49% for all Michigan banks. Our consumer and business customers seem to be weathering the impact of the 2022 rate increases. As always, we'll work closely to help our clients through difficult times. Help is what we do.

We began 2023 with \$3+ billion in assets

Many of our consumer and business clients used stimulus money on deposit to help negate higher inflation and interest rates. Our bankers collaborated with our Trust and Investment Management Group to provide clients with more investment alternatives. The result? More than \$112 million was transferred from deposit to investment accounts.

WELCOME, NEW TEAM MEMBERS FROM LIVINGSTON COUNTY.

We've enjoyed getting to know and working closely with our new colleagues from Livingston County and the new Brown Street branch. Many of our banking systems converted early in 2022. Operations and financial reporting have been consolidated, never an easy job. We're grateful for our team and our clients, who worked hard and stayed patient as all the loose ends were tied up.

We're a community bank that gives back

After an abbreviated 2021 season, Sonic Lunch, our free summer concert series, celebrated its 15-year anniversary. Thousands came to downtown Ann Arbor to enjoy free music by international, national, and local artists.

As a community bank, giving back – time, energy, effort, and financial support – in the communities we serve has always been important. We proudly help the organizations that make Washtenaw County, Livingston County, Plymouth, and Birmingham great places to live, work, and play. Members of the Bank of Ann Arbor team volunteer and serve on the boards and committees of many of these organizations.

Our team is also passionate about our annual United Way Pacesetter campaign, which generated record-level results. Two Bank of Ann Arbor team members contributed more than \$10,000 to this campaign; 53 contributed \$1,000 or greater; and 41 contributed \$500 or more. The total 2022 amount pledged: \$143,000. Yes, we love to help.

WHAT ABOUT 2023?

There's a lot of uncertainty about the U.S. economy. The Federal Reserve plans to continue to increase interest rates. Inflation is trending positive but remains at elevated levels in relation to the Fed target of 2%. It will need to go down quickly enough to pause the interest rate increases. As borrowing rates trend higher, the impact on our consumer and business clients is questionable. Many economists predict a recession in 2023. And yet, Bank of Ann Arbor is positioned well to succeed.

As always, our success is made possible by the hard work of our 325 World's Best Bankers who are always ready to help our clients in any way we can. Helping never goes out of style.

Also, much thanks to our board of directors, shareholders, clients, and members of each of the communities we serve. We look forward to working together to deliver a strong performance again in 2023.



Timothy G. Marshall
President & CEO



William C. Martin
Chairman of the Board

Our 325 World's Best Bankers are ready to help our clients in any way they can.

STOCK VALUE

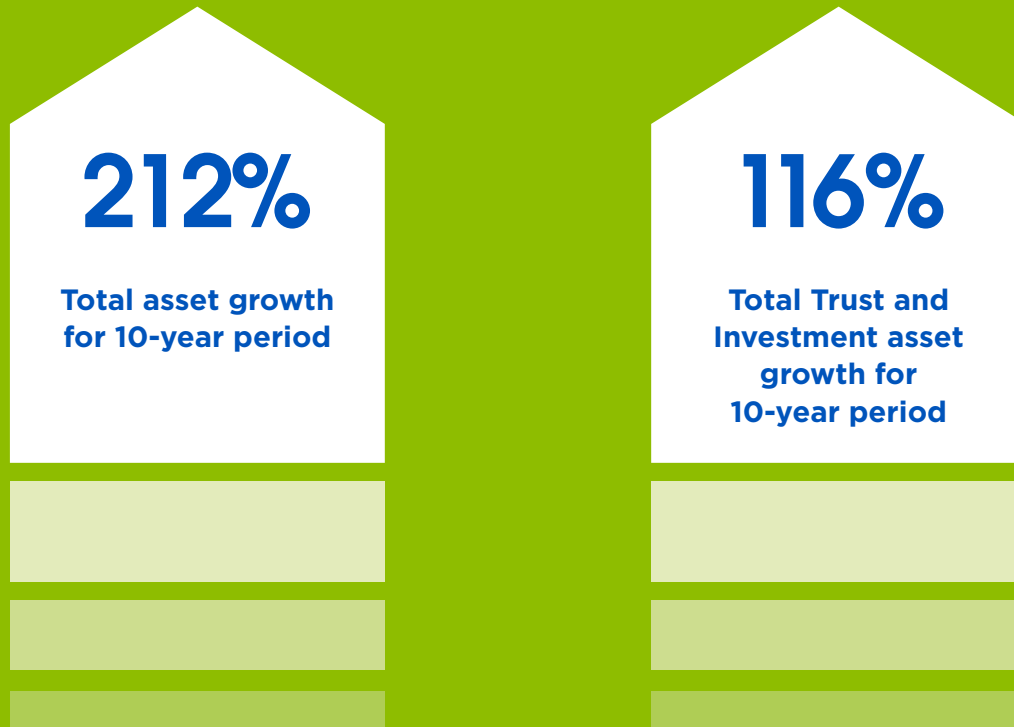


2022 RETURN ON ASSETS COMPARISON



Industry comparisons as of 12/31/22

ASSETS



2022 RETURN ON EQUITY



Industry comparisons as of 12/31/22

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and due from banks	\$ 273,200	\$ 1,041,758
Federal funds sold	—	10,265
Cash and cash equivalents	273,200	1,052,023
Interest-bearing deposits with other financial institutions	1,340	1,489
Securities available-for-sale	106,282	271,305
Securities held-to-maturity (fair value 2022 - \$197,684)	213,071	—
Equity securities	10,737	986
Loans held for sale	2,088	2,921
Loans, net of allowance of \$35,140 and \$33,279 as of December 31, 2022 and 2021, respectively	2,212,617	1,854,499
Federal Home Loan Bank stock, at cost	8,381	9,083
Premises and equipment, net	27,269	26,108
Cash surrender value of life insurance	55,750	48,411
Other real estate owned (OREO)	387	457
Goodwill	70,529	59,272
Core deposit intangible, net	3,003	3,362
Accrued interest receivable and other assets	37,107	22,288
TOTAL ASSETS	\$ 3,021,761	\$ 3,352,204
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$ 985,126	\$ 1,068,571
Interest bearing	1,575,287	1,797,675
Total deposits	2,560,413	2,866,246
Federal Home Loan Bank advances	30,000	90,000
Repurchase agreements	36,947	31,217
Subordinated debentures, net	78,977	78,710
Accrued expense and other liabilities	25,330	19,178
Total liabilities	2,731,667	3,085,351
Shareholders' equity		
Preferred stock, series A, \$1,000 par value; 2,650 shares authorized; no shares issued and outstanding at December 31, 2022 and 2021, no liquidation value	—	—
Preferred stock, series B, \$10,000 par value; 2,000 shares authorized; 1,339 shares issued and outstanding at December 31, 2022 and 2021, liquidation value of \$13,390 at December 31, 2022 and 2021	13,390	13,390
Common stock, no par value; 10,000,000 shares authorized; 3,439,745 and 3,455,901 shares issued and outstanding at December 31, 2022 and 2021	197,669	101,233
Retained earnings	92,916	152,867
Accumulated other comprehensive income/(loss)	(13,881)	(637)
Total shareholders' equity	290,094	266,853
TOTAL LIABILITIES AND SHAREHOLDER EQUITY	\$ 3,021,761	\$ 3,352,204

Dollar amounts in thousands except per share data.

CONSOLIDATED STATEMENTS OF INCOME, YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Interest income		
Loans, including fees	\$ 105,523	\$ 77,400
Securities:		
Taxable	5,975	1,896
Tax exempt	351	363
Federal funds sold and other	8,842	1,032
	120,691	80,691
Interest expense		
Deposits	5,903	2,015
Federal Home Loan Bank advances	1,069	1,661
Subordinated debentures	2,545	1,859
Repurchase agreements	172	68
	9,689	5,603
Net interest income	111,002	75,088
Provision for loan losses	2,301	(3,684)
Net interest income after provision for loan losses	108,701	78,772
Noninterest income		
Service charges on deposit accounts	1,226	795
Income from fiduciary activities	9,351	9,384
Net gains on sales of loans held for sale	1,293	2,710
Net gains on sales of OREO	837	848
Other	5,809	4,678
	18,516	18,415
Noninterest expense		
Salaries and employee benefits	41,475	29,956
Occupancy and equipment	6,854	4,864
Marketing and business promotion	3,234	2,185
FDIC expense	1,234	1,152
Other	17,150	10,635
	69,947	48,792
Income before income taxes	57,270	48,395
Income tax expense	11,428	10,003
Net income	45,842	38,392
Preferred stock dividends	670	812
Net income available to common shareholders	\$ 45,172	\$ 37,580
Basic earnings per share	\$ 13.11	\$ 12.94
Diluted earnings per share	12.16	11.80

Dollar amounts in thousands except per share data.

BOARD OF DIRECTORS

Joshua T. Borders

*Vice President of Mortgage Lending,
Independent Bank*

Stanley B. Dickson, Jr.

*President,
Dickson & Associates, P.C.*

Jan L. Garfinkle

*Founder & Managing Director,
Arboretum Ventures*

Timothy G. Marshall

*President & Chief Executive Officer,
Bank of Ann Arbor*

Michael C. Martin

*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

*President & Owner,
Sesi Motors, Inc.*

Michael T. Tirico

*Host & Play-by-Play,
NBC Sports Group*

Cynthia H. Wilbanks

*Vice President Emeritus,
University of Michigan*

Directors Emeritus**Thomas P. Borders**

*President,
Midtown Group, Inc.*

Richard P. Eidswick

*Founding Director,
Arbor Partners*

Isadore J. King

*President & Owner,
King Consultant Group, LLC*

Jan Barney Newman

*Trustee,
Ann Arbor District Library Board*

Richard N. Robb, DDS

*Regent Emeritus,
Eastern Michigan University*

Jeffrey S. Williams

*Chairman of the Board,
Strata Oncology, Inc.*

BIRMINGHAM COMMUNITY AND ADVISORY BOARD

David L. Colman

*Principal,
ROCO Real Estate*

John C. Hamaty

*President,
Vibra-Tite*

Brian J. Hunter

*Managing Partner,
Fenner Melstrom & Dooling PLC*

Thomas F. Murray

*President,
Stratadyne, LLC*

Alison R. Orlans

*President &
Chief Executive Officer,
Orlans Group*

Bernd M. Ronnisch

*President,
Ronnisch Construction Group*

Michael G. Sarafa

*Managing Partner,
Vision Growth Partners*

LIVINGSTON COMMUNITY AND ADVISORY BOARD

Timothy H. Corrigan

*Vice President & Co-Owner,
Corrigan Oil*

Philip C. Utter

*Retired President & Owner,
Specialty Contract Carriers, Inc.*

R. Michael Yost

*Retired CEO, MPY Group, LLC
Retired Managing Director,
The Auto Club Group*

OFFICE LOCATIONS

Ann Arbor

125 South Fifth Avenue
801 West Ellsworth Road
2204 West Stadium Boulevard
2601 Plymouth Road, Suite A

Birmingham

33583 Woodward Avenue
260 East Brown Street

Brighton

8080 Challis Road
9911 East Grand River Avenue

Fowlerville

760 South Grand Avenue

Hartland

10700 East Highland Road

Howell

101 East Grand River Avenue
4299 East Grand River Avenue
2400 West Grand River Avenue

Plymouth

1333 West Ann Arbor Road

Saline

179 East Michigan Avenue

Whitmore Lake

9775 M-36

Ypsilanti

7 West Michigan Avenue

**We thank our board
members past and
present for their
great contributions
to our success.**

bank^{of}
ann arbor

Member FDIC



NMLS #718852