



A thank you to every one of our 325 hard-working employees.

#### DEAR FELLOW SHAREHOLDERS:

We love challenges. 2023 brought a bunch. Still, we nearly repeated our 2022 record-level earnings and significantly outperformed the banking industry.

#### FOUR INTEREST RATE HIKES BY THE FED

in the first half of 2023 lifted the prime rate (8.5%) to its highest level since 2001. Inflation came down from 9.1% in June 2022 to just 3.4% in December 2023.

Like most banks, our deposit rates rose significantly in the higher interest rate environment. Our interest expense on deposits finished 2023 at \$31.9 million, up significantly from 2022's \$5.9 million, a challenge our team of the World's Best Bankers handled admirably.

### 2023 presented many challenges

#### IN 2023, OUR INDUSTRY EXPERIENCED ITS OWN MARCH MADNESS

with the failures of Silicon Valley Bank and Signature Bank. First Republic failed soon after. Common to all three: balance sheet mismanagement and excessive risk taking. With rising doubt and uncertainty about our industry, we quickly communicated to our customers the financial strength of Bank of Ann Arbor. They listened and put their trust in us. Deposits finished the year at \$2.55 billion, comparing favorably to \$2.60 billion a year ago. Kudos to our team and our customers, who overcame this unexpected development.

In response to the interest rate increases and bank failures that could significantly impact

credit quality, our industry increased the provision for credit loss expense. We followed suit by increasing our provision expense by \$3.65 million over 2022, another stiff challenge for our team.

### Our earnings\* outperformed 85% of all U.S. banks

#### OUR 2023 EARNINGS WERE \$44.85 MILLION, A DECLINE OF LESS THAN 1% FROM OUR RECORD-LEVEL 2022 PERFORMANCE

and in stark contrast to larger publicly traded banks whose earnings were down, on average, 17.3%. Key Bank was down 89.7%. Comerica was down 89.1%. Flagstar was unprofitable.

Credit for our 2023 earnings performance goes to our revenue producers, frontline branch staff and behind-the-scenes operations and support teams, as well as our shareholders, customers, and Board of Directors.

### The board approved a dividend of \$2.50 per share

The strength in earnings, capital position, and overall performance of the bank was recognized by our Board, who approved a dividend of \$2.50 per share, a 25% increase over 2022. While our capital ratios grew notably from our earnings momentum, we continue to closely monitor our capital levels to support future growth. We've

\*measured by return on assets

earned the FDIC's highest designation – “well capitalized.” At year-end 2023, total shareholder equity was \$329 million, up \$39 million from 2022. In 1996, the bank opened with shareholder equity of \$3 million.

#### **AGAIN IN 2023, OUR COMMERCIAL BANKING GROUP EXCELLED.**

While the economy grew 3.1%, our average commercial loans outstanding increased \$217 million, or 13.3%. Average outstanding loans increased in our newer markets: in Livingston County by 17.2%, and Oakland County by 22%. Our 42 commercial, private banking, and asset-based lenders originated \$538 million in new commercial loans. Last year, they made over 4,400 calls to loan customers, 2,200 to new loan prospects, 1,700 center-of-influence calls, and attended over 1,200 outside functions. Relationship building pays off.

The total assets of our Trust and Investment Management Group grew 18% to a record \$2.33 billion. Over \$155 million in investible assets came from new and existing clients. Total revenue was \$9.7 million, the highest ever. Revenue of our University Employee Retirement Plan management grew 30%, and our 401(k) team added five new commercial plans with \$84 million in assets. We had a productive year settling estates as more individuals and estate attorneys seek out our expertise. We helped more than 100 individual clients with our retirement planning services. As always, “We love to help.”

#### **UNIFI EQUIPMENT FINANCE, OUR WHOLLY OWNED SUBSIDIARY SPECIALIZING IN SMALL-TICKET EQUIPMENT FINANCING,**

generated record-level earnings of \$2.95 million. The line of credit we extend to UniFi generated an additional \$5 million in interest

income for the bank. Their new equipment finance originations totaled \$105 million for a third straight year above \$100 million. UniFi's credit quality remains significantly better than the industry. Charge-offs were at their lowest ever, 0.10%. Congrats to the UniFi team.

## **Our credit quality continues to shine**

With interest rates staying high, our credit administration team provided our Board detailed reporting regarding commercial and consumer loans. Compared to the industry, our credit quality metrics continue to shine. According to the FDIC, Bank of Ann Arbor had past due loans (non-current loans to total loans) of just 0.67%, compared to 0.82% for all U.S. banks. Our commercial and consumer borrowers are weathering the higher interest rates well. To those who need help, we gladly provide it.

#### **WE MADE SIGNIFICANT INVESTMENTS IN TECHNOLOGY**

that are vital to automating manual processes, creating efficiencies, and strengthening our defenses against fraud. Fraud detection software and state-of-the-art cybersecurity monitoring software was added. Our Positive Pay service, which helps prevent bank and customer losses caused by counterfeit checks and unauthorized ACH debits, prevented potential losses of \$4.5 million in over 1,500 deposit accounts. If you haven't yet signed up for Positive Pay, please consider it.

A major software upgrade in our Trust and Investment Management Group included enhanced financial planning tools, a

state-of-the-art client portal (debuting soon), and improved reporting. And, our Credit Administration area's new software system streamlines and automates commercial and consumer loan underwriting.

## **We invested in software for fraud detection and cybersecurity monitoring**

#### **IN EARLY 2023, WE HIRED OUR FIRST DIGITAL BANKING OFFICER**

to help identify gaps in our digital banking offerings, recommend solutions, and guide new implementations. In July, we began offering Greenlight, a new digital banking product that helps kids learn about money. The response has been great, and we look forward to more digital investments in the coming year.

As always, our team of the World's Best Bankers helped support more than 200 nonprofits throughout the year. And the 16th edition of our Sonic Lunch summer concert series was the best ever.

## **Thank you, Michael**

#### **TECHNOLOGY INDUSTRY GROUP PRESIDENT MICHAEL COLE IS RETIRING**

after 22 years at the bank. Since establishing the Tech Group in 2002, Michael has helped grow deposits in the tech and life science sectors to over \$175 million and loan commitments to more than \$150 million. He has also helped generate several venture capital investments and 401(k) assets of more than \$90 million. The Tech Group has been integral to the reputation of

Bank of Ann Arbor as forward-thinking, innovative, and creative. We thank Michael for his great contributions to our success and wish him the very best.

**WHAT ABOUT 2024?** The Fed seems to be done increasing rates, and inflation has declined. Fed officials say they will not hurry to lower rates, but we anticipate a rate reduction as early as June. This will help alleviate increasing deposit costs, a challenge for the industry. But until that happens, deposit cost pressure will negatively impact our 2024 earnings. Loan growth and credit quality trends remain uncertain as interest rates remain high. Though a severe recession appears unlikely, an economic downturn from higher rates could cause stress and some loss in loan portfolios. But no matter what direction the economy takes, Bank of Ann Arbor is well positioned to deliver another year of strong performance.

The hard work of each of our 325 World's Best Bankers is the primary reason for our success in 2023. They help each other and all of our customers any way they can. At Bank of Ann Arbor, helping never gets old.

**SINCERE THANKS ALSO** to our board of directors, shareholders, customers, and members of the communities we serve. As always, we couldn't do it without you.

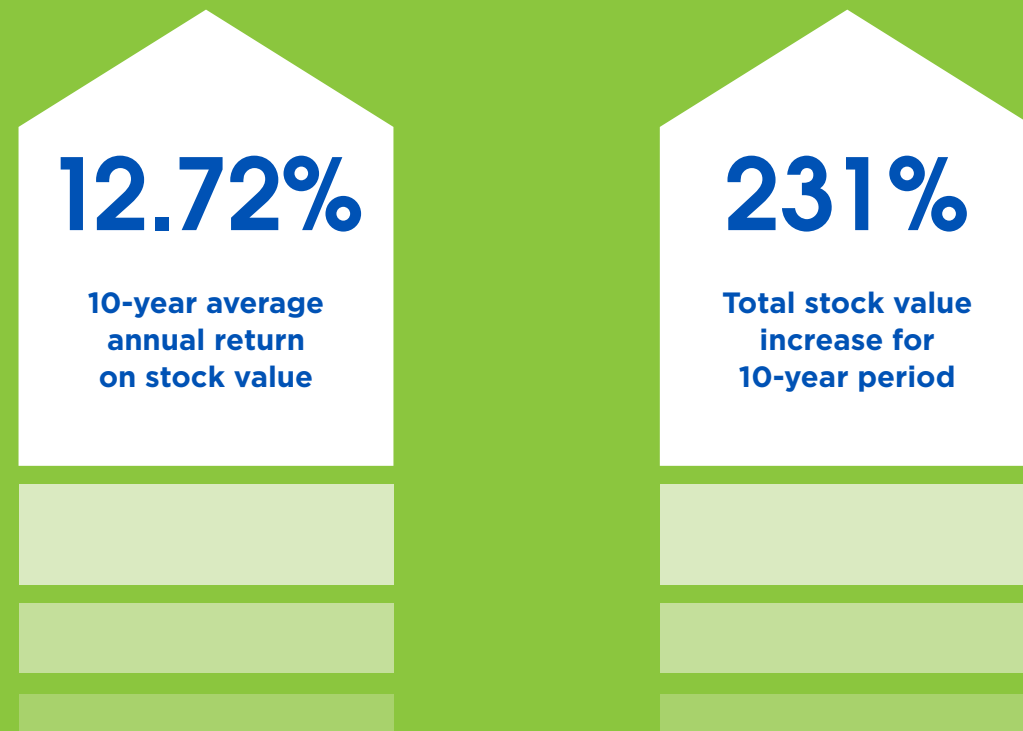


Timothy G. Marshall  
President & CEO

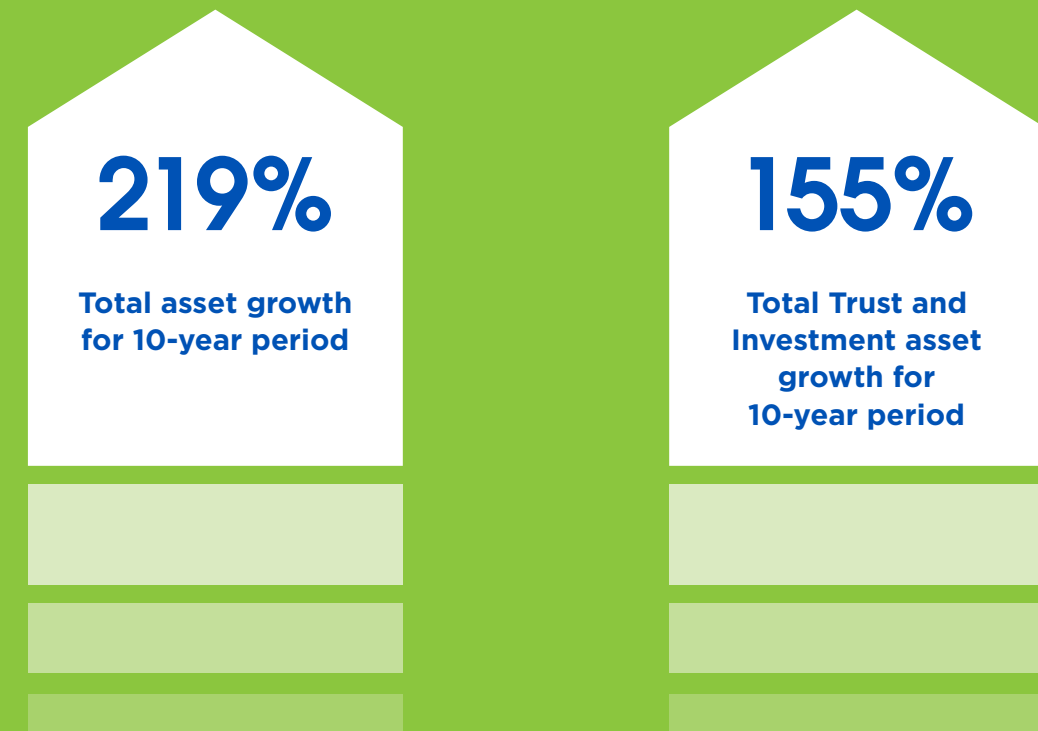


William C. Martin  
Chairman of the Board

## STOCK VALUE



## ASSETS



## 2023 RETURN ON ASSETS COMPARISON



Industry comparisons as of 12/31/23

## 2023 EFFICIENCY RATIO



Industry comparisons as of 12/31/23

**CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>ASSETS</b>		
Cash and due from banks	\$ 184,644	\$ 273,200
Cash and cash equivalents	184,644	273,200
Interest-bearing time deposits with other financial institutions	1,386	1,340
Securities available-for-sale, at fair value (amortized cost \$105,590 and \$114,829)	98,012	106,282
Securities held-to-maturity, net of allowance for credit losses of \$265 and \$0 (fair value 2023 - \$189,183   2022 - \$197,684)	204,896	213,071
Equity securities	10,664	10,737
Loans held for sale	158	2,088
Loans, net of allowance for credit losses of \$24,935 and \$35,140 as of December 31, 2023 and 2022, respectively	2,386,728	2,212,617
Federal Home Loan Bank stock, at cost	8,381	8,381
Premises and equipment, net	26,934	27,269
Cash surrender value of life insurance	62,714	55,750
Other real estate owned (OREO)	344	387
Goodwill	70,529	70,529
Core deposit intangible, net	2,275	3,003
Accrued interest receivable and other assets	35,697	37,107
<b>TOTAL ASSETS</b>	<b>\$ 3,093,362</b>	<b>\$ 3,021,761</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing	\$ 839,894	\$ 985,126
Interest bearing	1,709,457	1,575,287
Total deposits	2,549,351	2,560,413
Federal Home Loan Bank advances	60,000	30,000
Repurchase agreements	50,503	36,947
Subordinated debentures, net	79,244	78,977
Accrued expense and other liabilities	25,744	25,330
Total liabilities	2,764,842	2,731,667
Shareholders' equity		
Preferred stock, series A, \$1,000 par value; 2,650 shares authorized; no shares issued and outstanding at December 31, 2023 and 2022, no liquidation value	—	—
Preferred stock, series B, \$10,000 par value; 2,000 shares authorized; 1,339 shares issued and outstanding at December 31, 2023 and 2022, liquidation value of \$13,390 at December 31, 2023 and 2022	13,390	13,390
Common stock, no par value; 10,000,000 shares authorized; 3,445,145 and 3,439,745 shares issued and outstanding at December 31, 2023 and 2022	195,949	197,669
Retained earnings	130,952	92,916
Accumulated other comprehensive loss	(11,771)	(13,881)
Total shareholders' equity	328,520	290,094
<b>TOTAL LIABILITIES AND SHAREHOLDER EQUITY</b>	<b>\$ 3,093,362</b>	<b>\$ 3,021,761</b>

Dollar amounts in thousands except per share data.

**CONSOLIDATED STATEMENTS OF INCOME, YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Interest income		
Loans, including fees	\$ 134,593	\$ 105,523
Securities:		
Taxable	6,912	5,975
Tax exempt	495	351
Other	9,351	8,842
	151,351	120,691
Interest expense		
Deposits	31,916	5,903
Federal Home Loan Bank advances	1,532	1,069
Subordinated debentures	2,770	2,545
Repurchase agreements	1,010	172
	37,228	9,689
<b>Net interest income</b>	<b>114,123</b>	<b>111,002</b>
Provision for credit losses – loans	7,930	2,301
Provision for credit losses – unfunded commitments	(2,770)	—
Provision for credit losses – securities held to maturity	790	—
Credit loss expense	5,950	2,301
<b>Net interest income after provision for credit losses</b>	<b>108,173</b>	<b>108,701</b>
Noninterest income		
Service charges on deposit accounts	1,172	1,226
Income from fiduciary activities	9,675	9,351
Net gains on sales of loans held for sale	266	1,293
Net gains on sales of OREO	394	837
Other	6,607	5,809
	18,114	18,516
Noninterest expense		
Salaries and employee benefits	41,884	41,475
Occupancy and equipment	7,235	6,854
Marketing and business promotion	3,223	3,234
FDIC expense	1,294	1,234
Other	16,927	17,150
	70,563	69,947
<b>Income before income taxes</b>	<b>55,724</b>	<b>57,270</b>
Income tax expense	10,207	11,428
Net income	45,517	45,842
Preferred stock dividends	670	670
<b>Net income available to common shareholders</b>	<b>\$ 44,847</b>	<b>\$ 45,172</b>
Basic earnings per share	\$ 13.02	\$ 13.11
Diluted earnings per share	12.16	12.16

Dollar amounts in thousands except per share data.

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## BOARD OF DIRECTORS

**Joshua T. Borders**

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Dickson & Associates, P.C.

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Founder & Managing Director,  
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**Timothy G. Marshall**

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Bank of Ann Arbor

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First Martin Corporation

**William C. Martin, Chairman**

Athletic Director Emeritus,  
University of Michigan

**Ernest G. Perich**

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**David R. Sarns**

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**Michael T. Tirico**

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NBC Sports Group

**Cynthia H. Wilbanks**

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**Directors Emeritus****Thomas P. Borders**

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**Richard P. Eidswick**

Founding Director,  
Arbor Partners

**Jan Barney Newman**

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Ann Arbor District Library Board

**Richard N. Robb, DDS**

Regent Emeritus,  
Eastern Michigan University

**Jeffrey S. Williams**

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Strata Oncology, Inc.

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## BIRMINGHAM COMMUNITY AND ADVISORY BOARD

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**John C. Hamaty**

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Vibra-Tite

**Brian J. Hunter**

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**Thomas F. Murray**

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**Alison R. Orlans**

President &  
Chief Executive Officer,  
Orlans Group

**Bernd M. Ronnisch**

President,  
Ronnisch Construction Group

**Michael G. Sarafa**

Managing Partner,  
Vision Growth Partners

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Corrigan Oil

**Ronald L. Long**

Principal,  
DriBond Concrete Overlay  
Solutions, LLC

**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

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## 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, Suite 300

**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<sup>of</sup>  
ann arbor

Member FDIC



NMLS #718852