First Federal of Northern Michigan Bancorp, Inc.

2015 ANNUAL REPORT

YOUR COMMUNITY BANK IS YOUR
BEST INVESTMENT

When you're considering a banking partner, consider a community institution like First Federal of Northern Michigan.

COMMUNITY FIRST
For us, community is important, which is why we support the neighborhoods where we live and work. Our people are deeply involved in the community, and we commit time, energy, and resources to a variety of events, activities, and organizations that improve the quality of life in our communities.

SERVICE FIRST
We always try to go above and beyond in serving our customers and communities. Whether you have questions, concerns or just need some advice, we're here — online, over the phone and in person — making sure you get a straightforward answer, and you get it fast.

SUCCESS FIRST
We understand our area's economic climate and are dedicated to helping local businesses thrive. We make all of our lending decisions right here in Northern Michigan, which means we provide answers quickly and our people are easily accessible. As strong believers in the importance of small business, we dedicate the time and resources to get yours up and running.

YOU FIRST
At First Federal, our first priority is you. Your financial needs. Your financial goals. We're a community bank that has been committed to our area for over 55 years, serving you, your family, and neighbors with the right products, the right people, and the right attitude of friendly, personal service. You can do your banking anywhere. Why not bank where you always come first?

Think local. Think FIRST. First Federal.

First Federal

We Put You First

Member FDIC

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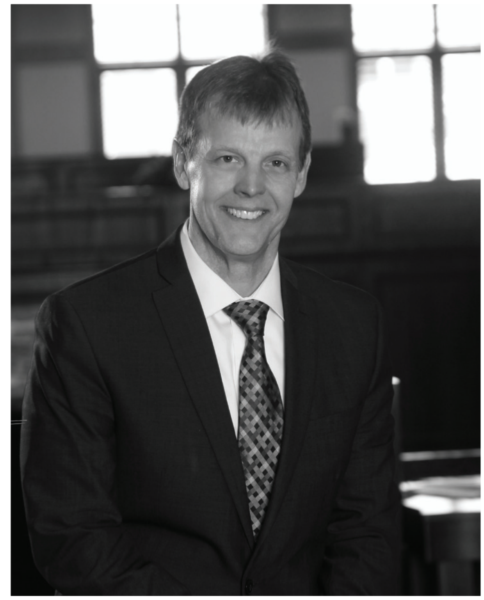
MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER



Dear Shareholder,

It is with great pleasure that I write you this year's letter. We are incredibly proud of the financial results the Bank has been able to achieve. The success we experienced in 2014 continued into 2015, allowing us to effectively execute the Bank's financial and operational strategic initiatives. We are very pleased with our progress in what continues to be a challenging community banking environment. Some of the highlights of 2015 include:

2015 Highlights:
- Full merger integration
- Record earnings $3.4 million, EPS $.92, ROAA 1.02%, ROAE 10.78%
- Deferred tax asset (DTA) reserve recovery
- Delisted and deregistered shares late in the year
- Two separate dividend increases doubling the dividend to 4 cents per quarter
- Texas ratio below 8%
- Net growth of the balance sheet of $10.1 million
- Net recoveries recorded for the year led to provision credit of $535,000 for the year

Lowlights:
- Loan growth below expectation
- Margin compression continues

Merger Results
In August of 2014 we closed the merger with the Bank of Alpena. By the start of 2015 it became apparent that the expectations we developed for the post merger bank were viable. The cost savings we thought we would achieve were in fact being achieved. The leveraging of the excess core deposits into the bond purchases allowed us to grow net interest income as we had planned. The credit marks established as part of the merger were proving to be appropriate. The retention of core deposits has held as we had planned for. All in all, the merger went extremely well from both an execution and operational perspective. This smooth transition at the end of 2014 paved the way for 2015 - the first full year post merger.

2015 Financial Results
For the year, the Company finished with net income of $3.4 million. This represents a fifty-two percent improvement in earnings over 2014. In addition, the balance sheet grew by $10.1 million between loans and investments (bonds). The fundamental improvement to our post merger earnings profile resulted in the recovery of a reserve allowance we had established for our deferred tax asset. This recovery in conjunction with our improved operational efficiency resulted in the best financial outcome in the history of the Company. Finally, the asset quality profile of the Bank looks better today than it has in nearly a decade. Our Texas ratio has fallen below eight percent for the first time since we began tracking it in 2009. The combination of these items led to the Board's decision of raising the dividend on two occasions since the last shareholder meeting.

Employee Engagement
At year end, our employee count stood at 101. First Federal's success resides in our team of talented and dedicated employees, and they performed at an outstanding level all year. First Federal employees dedicated hundreds of volunteer hours in 2015 to help make our communities better places to live and work. Our employees were busy cooking and feeding those in need at soup kitchens, teaching financial literacy through Junior Achievement, inspiring health and confidence by coaching Girls on the Run, and serving on many boards and service clubs. Our staff also generated $4,800 to give to local charities throughout the year through our company Jeans Days. This speaks volumes to the culture we have created at First Federal. Our communities are all better off by virtue of our Bank, and our employees being located within them. We are champions of economic development in many of our communities, helping to create a more vibrant and sustainable economic base for all.

2016 and Beyond

Now that the merger is complete and we are on solid footing, the Bank has stepped up efforts to grow the balance sheet organically. With bond yields at historic lows, our key to growing earnings long term is to convert low yielding bonds into loans. Beginning in the fall of 2015, the Bank began recruitment efforts seeking qualified, seasoned commercial lenders to help us grow the loan to asset ratio. Our recruitment efforts were successful and by the start of 2016, we have added three commercial lenders to our team. With the staffing in place, we are focused on the following:

- Market Expansion: Strategically we have sought new markets and elected to expand our footprint further to the south, bringing us nearer to some of the Central Michigan markets. The Bank has begun the process of establishing a loan production office staffed with a seasoned local commercial lender. We will evaluate the market over the next three to five years to assess the viability of a new branch location in that area.

- Product Expansion: In addition to new geographic markets, the Bank sought new products to offer within our existing markets. We chose to focus on agricultural lending since there is market demand and we have little exposure to it. We believe this product expansion is a viable strategic move to help us further leverage our investments in these communities.

- Asset Quality: In 2015 we saw more money collected from previously charged off loans than actual charge offs themselves. While our charge-off activity has been very low the last couple of years, we feel that we have likely reached an inflection point where recoveries will decline or abate. Maintaining high asset quality remains a priority as we pursue a loan growth strategy.

- External Forces: We believe the outlook for future earnings will be influenced by several external factors including the strength of the economy, the pace of interest rate movements by the Federal Reserve (the "Fed") and the impact rising rates have on borrower cash flows and property values, the shape of the yield curve, and lastly depositor reaction to the rising rates. We have plans of action for these factors and will adjust them as necessary as consumer impact and reaction becomes clearer.

Final Thoughts

The Bank has never been better positioned than it is today for loan and earnings growth. We have the systems, talent, and tools in place to set the stage for stronger core earnings in 2016 and beyond. Our goal is to grow the loan to asset ratio to seventy-five percent, from its current fifty percent, over the next five years. Funding this growth through the bond portfolio will improve top line revenue all while maintaining the size of the balance sheet. This will produce additional capital for redeployment or to be returned to shareholders in the form of stock repurchases or increases to the dividend.

There are many changes to the Michigan banking landscape. We will remain open minded about the opportunities that may arise as a result of consolidation among our larger competitors, many of whom operate branches within our markets. Should they decide to divest themselves of any of these locations, we will evaluate the potential impact of an acquisition on our Bank.

As I close out this letter, I want to thank you for your patience as we have worked our way back into the position we stand in today. Our efforts and employee commitment over the last several years have paved the way for this day. We are excited to be back to focusing on a future built around growth and opportunity. As always, we appreciate your continued support.

Michael W. Mahler

Chief Executive Officer

Selected Consolidated Financial and Other Data of the Company

Set forth below are selected financial and other data of First Federal of Northern Michigan Bancorp, Inc. (the "Company"). This information is derived in part from and should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto presented elsewhere in this Annual Report. The information at and for the years ended December 31, 2015 and December 31, 2014 is derived in part from the audited consolidated financial statements of the Company that appear in this Annual Report. The information at and for the years ended December 31, 2013, 2012, and 2011 is derived in part from audited consolidated financial statements that do not appear in this Annual Report.

	At December 31,				
Financial condition data:	2015	2014	2013	2012	2011
	(In thousands)				
Total assets	$ 336,009	$ 325,867	$ 209,657	$ 213,834	$ 217,045
Loans receivable, net	167,984	163,647	136,315	138,912	140,884
Loans held for sale	563	88	175	79	-
Investment securities	129,163	120,758	52,613	53,109	55,484
Cash and cash equivalents	7,603	11,254	2,766	2,752	2,749
Deposits	268,527	270,734	160,029	158,350	150,649
FHLB advances	32,928	22,885	24,813	26,358	34,500
Repo Sweep agreements	-	-	-	3,183	5,592
Stockholders' equity	33,341	30,536	23,525	24,435	24,568

	For the Years Ended December 31,				
Operating data:	2015	2014	2013	2012	2011
	(In thousands)				
Interest income	$ 10,611	$ 9,100	$ 8,319	$ 9,243	$ 10,390
Interest expense	1,245	1,082	1,150	1,654	2,262
Net interest income	9,366	8,018	7,169	7,589	8,128
(Recovery of) Provision for loan losses	(535)	284	637	1,367	284
Net interest income after provision for loan losses	9,901	7,734	6,532	6,222	7,844
Other income (loss):					
Service charges and fees	947	807	857	760	730
Mortgage banking activities	532	472	585	1,243	969
Net gain (loss) on sale of investment securities	4	(4)	-	47	-
Gain (loss) on sale of real estate	80	(76)	3	(3)	(51)
Bargain purchase gain	-	1,982	-	-	-
Other non-interest income	227	180	194	80	126
Insurance & brokerage commissions	206	117	126	149	158
Total other income	1,996	3,478	1,765	2,276	1,932
Other expenses	10,119	8,963	8,242	8,712	9,034
Income (loss) before income tax expense (benefit)	1,778	2,249	55	(214)	742
Income tax benefit	(1,650)	-	-	-	-
Net income (loss)	$ 3,428	$ 2,249	$ 55	$ (214)	$ 742

	For the Years Ended December 31,				
Performance Ratios:	2015	2014	2013	2012	2011
Return on average assets	1.02%	0.87%	0.03%	-0.10%	0.34%
Return on average equity	10.78%	8.42%	0.22%	-0.85%	3.07%
Average interest rate spread	2.84%	3.18%	3.54%	3.65%	3.88%
Dividend payout ratio	7.22%	11.01%	105.35%	0.00%	0.00%
Dividends per share	$0.10	$0.08	$0.02	$0.00	$0.00
Net interest margin	2.97%	3.31%	3.64%	3.78%	4.02%
Efficiency ratio (Bank)	78.33%	78.24%	98.00%	101.55%	90.06%
Texas ratio (Bank)	7.83%	17.10%	17.02%	30.83%	28.28%
Non-interest expense to average total assets	2.91%	3.36%	3.78%	3.94%	4.14%
Average interest-earning assets to average interest-bearing liabilities	133.52%	128.81%	118.10%	115.88%	112.59%

	At December 31,				
Asset Quality Ratios:	2015	2014	2013	2012	2011
Non-performing assets to total assets	0.77%	1.52%	1.95%	3.42%	3.11%
Non-performing loans to total loans	0.84%	1.30%	1.68%	3.50%	2.34%
Allowance for loan losses to non-performing loans	109.53%	66.82%	63.65%	35.50%	45.47%
Allowance for loan losses to total loans	0.92%	0.86%	1.07%	1.24%	1.07%
Capital Ratios:					
Equity to total assets at end of period	9.92%	9.37%	11.22%	11.43%	11.32%
Average equity to average assets	9.46%	10.27%	11.43%	11.63%	11.06%
Risk-based capital ratio (Bank only)	17.00%	16.89%	17.89%	17.36%	17.20%
Other Data:					
Number of full service offices	8	8	8	8	8

Overview

First Federal of Northern Michigan (the "Bank"), the Company's principal operating subsidiary, is a full-service, community-oriented savings bank whose primary lending activity is the origination of one- to four-family residential real estate mortgages, commercial real estate loans, commercial loans, and consumer loans. As of December 31, 2015, $76.1 million, or 44.8%, of our total loan portfolio consisted of one- to four-family residential real estate loans, $59.9 million, or 35.3%, and $23.5 million, or 13.8%, of our total loan portfolio consisted of commercial mortgage loans and commercial loans respectively, and $10.2 million, or 6.0%, of our total loan portfolio consisted of consumer and other loans. In recent years, commercial mortgage loans and commercial loans have grown as a percentage of our loan portfolio for two reasons. First, we have increased our emphasis on originating these loans, which generally have higher interest rates over one- to four-family residential real estate loans. Secondly, most of these loans are originated with adjustable interest rates, which assist us in managing interest rate risk. In addition, most of our one- to four-family residential mortgage loan customers prefer fixed-rate loans in the low interest rate environment that has prevailed over the last several years. In spite of the fact of selling a majority of the fixed-rate one- to four-family residential mortgage loans that we originate, one- to four-family residential real estate loans have increased as a percentage of our total loan portfolio.

Our results of operations depend primarily on our net interest income, which is the difference between the interest income we receive on our interest-earning assets, such as loans and securities, and the interest expense we pay on our deposits and borrowings. In addition, our results of operations are significantly affected by general economic and competitive conditions, and particularly changes in market interest rates, government policies and actions of regulatory authorities. Numerous factors that are beyond our control can cause market interest rates to increase or decline. As a result, we believe that changes in market interest rates, government policies and actions of regulatory authorities represent the primary uncertainties in predicting our future performance.

Business Strategy

Operating as a Community Savings Bank. We are committed to meeting the financial needs of the communities in which we operate. Our branch network of eight offices enhances our ability to serve these communities. We provide a broad range of individualized consumer and business financial services. We believe that we can be more effective in servicing our customers than many of our non-local competitors because our employees and senior management are able to respond promptly to customer needs and inquiries. Our ability to provide these services is enhanced by the experience of our senior management, which has an average of 27 years experience in the financial services industry.

In August 2014, we consummated our merger with Bank of Alpena ("Alpena"), resulting in an increase to stockholders equity of $4.4 million during 2014.

Increasing Our Share of Lower-Cost Deposits. As we continue to increase our origination of shorter-term commercial real estate and commercial loans, most of which are originated with adjustable interest rates, we have decreased our need for higher-cost long-term certificates of deposit. We intend to continue to lower our cost of funds by increasing our share of lower-cost deposit products in the form of savings, checking and money market deposits. We typically are not a market leader in deposit rates, although from time-to-time we do offer higher rates as liquidity needs dictate. We also intend to continue to market our non-interest-bearing checking accounts in conjunction with our focus on commercial business lending. We grew the average balance of core deposits, non-maturity deposit accounts, by $36.1 million in 2015. This growth is attributed to the implementation of a sales calling program, in which we target area businesses and municipalities to gain core deposit relationships and a reclassification of funds previously maintained in non-core deposit products.

Maintaining High Asset Quality and Capital Strength. We are committed to conservative loan underwriting standards and procedures, and we primarily originate loans secured by real estate. As a result, we have historically experienced low levels of late payments and losses on loans. However, during the economic recession of recent years, we saw delinquency trends increase despite our conservative underwriting practices due to declining economic conditions and increasing unemployment in our market area. In 2015, we saw an improvement in delinquency patterns as evidenced by improvements in our asset quality ratios: at December 31, 2015, our ratio of non-performing assets to total assets was 1.48% as compared to 1.52% at December 31, 2014. We continue to maintain a strong capital base. At December 31, 2015, our total risk-based capital ratio was 17.0%, an increase from 16.9% at December 31, 2014 and well in excess of the regulatory requirements to be categorized as "well capitalized."

Comparison of Financial Condition at December 31, 2015 and 2014

Total assets increased $10.1 million, or 3.1%, to $336.0 million at December 31, 2015 from $325.9 million at December 31, 2014. Net loans increased $4.4 million, or 2.7% to $168.0 million at December 31, 2015 from $163.6 million at December 31, 2014. Mortgage loan originations increased $9.6 million to $34.9 million in 2015 from $25.3 million in 2014. During that time period, our mortgage loan portfolio increased $4.3 million to $76.1 million at December 31, 2015 from $71.8 million as of December 31, 2014. The commercial loan portfolio increased 1.0% to $83.4 million at December 31, 2015 from $82.6 million at December 31, 2014. Cash and cash equivalents decreased $3.9 million to $7.6 million at December 31, 2015 from $11.5 million at December 31, 2014. Investment securities increased $8.5 million, or 7.0%, to $128.4 million at December 31, 2015 from $120.0 million at December 31, 2014.

Deposits decreased $2.2 million, or 0.8%, to $268.5 million at December 31, 2015 from $270.7 million at December 31, 2014. Borrowings, consisting primarily of FHLB advances, increased $10.0 million, or 43.7%, to $32.9 million at December 31, 2015 from $22.9 million at December 31, 2014 as we borrowed to fund the portfolio loan growth in 2015.

Our total stockholders' equity was $33.3 million at December 31, 2015 and $30.5 million at December 31, 2014, an increase of $2.8 million, or 9.2% year over year. The increase was mainly a result of the $3.4 million in net income for the year, and a decrease of $250,000 in net unrealized gain on investment securities, with dividends paid of $373,000 partially offsetting these increases. The Company's ratio of equity to assets increased to 9.9% as of December 31, 2015 from 9.4% as of December 31, 2014.

Federal bank regulatory agencies have set the following adequately capitalized standards, including a conservation buffer reflective of the final transition date of 2019, Common Equity Tier 1 (CET1) of at least 7.0%, Tier 1 Risk Based Capital of at least 8.5%, Total Risk Based Capital of at least 10.5%, and Leverage Capital of at least 4%. The regulatory agencies consider a bank to be "well capitalized" if its CET1 ratio is at least 6.5% of Risk Weighted Assets (RWAs), Tier 1 Capital is at least 8% of RWAs, Total Risk Based Capital is at least 10% of RWAs, Leverage Capital Ratio is at least 5%, and the Bank is not subject to any written agreements or orders issued by the FDIC pursuant to Section 8 of the Federal Deposit Insurance Act.

The following table summarizes the capital ratios of the Company:

	Actual			Minimum to be Well Capitalized
	Amount		Ratio	Ratio
	Dollars in Thousands			
Tier 1 Leverage Ratio	$	30,004	8.83%	5.00%
Common Equity Tier 1 Risk-based capital	$	30,004	17.00%	6.50%
Tier 1 Risk-based capital	$	30,004	17.00%	8.00%
Total Risk-based capital	$	31,563	17.88%	10.00%

At December 31, 2015 and December 31, 2014, the Bank exceeded the minimum capital requirements to be considered "well capitalized." See Note 12 to our financial statements for further information.

Comparison of Operating Results for the Years Ended December 31, 2015 and 2014

General. Net income increased to $3.4 million for the year ended December 31, 2015 from $2.2 million for the year ended December 31, 2014. Net interest income before provision for loan losses increased $1.4 million to $9.4 million in 2015 from $8.0 million in 2014, due in large part to the recognition of a full year of income on the interest-bearing assets acquired in our merger in 2014. The provision for loan losses resulted in recovery of $535,000 in 2015 as compared to provision expense of $284,000 in 2014, resulting in net interest income after provision for loan losses being $2.2 million higher in 2015 than in 2014. Non-interest income was $1.5 million lower in 2015 than in 2014, primarily related to the bargain purchase gain that was recorded in 2014, and non-interest expense was $1.2 million higher in 2015 than in 2014 due to an increase in compensation and benefits as a result of our first full year post merger with Bank of Alpena.

Interest Income. Interest income increased $1.5 million, or 16.5%, to $10.6 million for the year ended December 31, 2015 from $9.1 million for the year ended December 31, 2014. The increase was primarily due to the recognition of a full year of income on interest-earning assets acquired in our merger in 2014 and an increase in the average balance of our interest earning assets of $73.2 million, or 30.9%, year over year. The average balance of our one- to four-family residential mortgage loans increased $7.4 million, or 11.0%, to $74.5 million for the year ended December 31, 2015 from $67.1 million for the year ended December 31, 2014, while the average yield on such loans decreased to 4.40% from 4.67%. The average balance of our non-mortgage loans, principally commercial loans and consumer loans, increased $10.3 million, or 12.5%, to $92.5 million for the twelve months ended December 31, 2015 from $82.2 million for the twelve months ended December 31, 2014. The average yield on our commercial loans increased seven basis points and the average yield on our consumer loans decreased 11 basis points from 2014 to 2015. The average balance of our investment securities, excluding mortgage-backed securities, increased $22.7 million, or 57.2%, to $62.4 million for the year ended December 31, 2015 from $39.7 million for the year ended December 31, 2014, while the average yield on these investments decreased to 1.86% from 2.00%. In addition, the average balance of our mortgage-backed securities increased $22.2 million, or 54.4%, to $63.0 million for the year ended December 31, 2015 from $40.8 million for the year ended December 31, 2014, with an average yield decrease of 13 basis points to 1.75% from 1.88%.

Interest Expense. Interest expense increased to $1.2 million for the year ended December 31, 2015 from $1.1 million for the year ended December 31, 2014, due primarily to a $43.8 million, or 46.4%, increase in the average balance of lower costing core deposits accounts year over year. The average balance of interest-bearing deposits increased $48.3 million from 2015 to 2014, while the average cost of those deposits decreased six basis points to 0.45% for 2015 from 0.51% for 2014, reflecting a continued decline in market interest rates during 2014. The average balance of FHLB borrowings decreased $168,000 from 2015 to 2014 while the cost of those borrowings increased to 1.29% from 1.11% year over year.

Net Interest Income. Net interest income increased to $9.4 million for the year ended December 31, 2015 from $8.0 million for the year ended December 31, 2014. The increase was primarily due to an increase of $73.2 million in the average balance of our interest earning assets. While the average balance increased we experienced a decrease of 35 basis points in our average interest rate spread to 2.83% for the year ended December 31, 2015 from 3.18% for the year ended December 31, 2014.

Provision for Loan Losses. We recorded a recovery of $535,000 as our provision for loan loss for the year ended December 31, 2015 compared to provision expense of $284,000 for the year ended December 31, 2014. During 2015 we had net recoveries of $665,000 compared to net-charge offs of $327,000 during 2014. Included in our net recoveries for 2015 is the collection of $543,000 related to a commercial participation loan that was charged-off in 2014. Our provision is based on management's review of the components of the overall loan portfolio, the status of non-performing loans and various subjective factors.

Non-Interest Income. Non-interest income decreased to $2.0 million for the year ended December 31, 2015 from $3.5 million for the year ended December 31, 2014. The 2014 results reflect a bargain purchase gain of $2.0 million related to the acquisition that closed in August 2014. This decrease was partially offset by increases of $140,000 in service charges and other fees, $94,000 in gain on sale of mortgage loans and $156,000 in gain on sale of real estate owned and other repossessed. Non-interest income is detailed in the table presented below:

	For years ended December 31,		
	2015	2014	Change from 2015 to 2014
	(dollars in thousands)		
Service charges and other fees	$ 947	$ 807	17.35%
Net gain on sale of investments	4	(4)	200.00%
Net gain on sale of loans	300	206	45.63%
Net gain/(loss) on sale of real estate owned and other repossessed assets	80	(76)	205.26%
Loan servcing fees	232	266	(12.78%)
Insurance and brokerage commissions	206	117	76.07%
Bargain purchase gain	-	1,982	100.00%
Other	227	180	26.11%
	$ 1,996	$ 3,478	(42.61%)

Non-Interest Expense. Non-interest expense increased to $10.1 million for the year ended December 31, 2015 from $9.0 million for the year ended December 31, 2014. The year over year increase related primarily to increases in compensation and employee benefits of $870,000, occupancy of $113,000, and professional fees $162,000. These increases were partially offset by a decrease in merger related expenses of $266,000 for 2014. Non-interest expense is detailed in the table presented below:

	For years ended December 31,		
	2015	2014	Change from 2015 to 2014
	(dollars in thousands)		
Compensation and employee benefits	$ 5,831	$ 4,961	17.54%
FDIC premiums	251	207	21.26%
Amortization of intangible assets	243	145	67.59%
Advertising	164	183	(10.38%)
Occupancy and equipment	1,145	1,032	10.95%
Data processing service bureau	436	345	26.38%
Professional fees	572	393	45.55%
Collection activity	94	68	38.24%
Real estate and other repossessed assets	282	272	3.68%
Merger related expenses	-	266	(100.00%)
Other	1,101	1,091	0.92%
	$ 10,119	$ 8,963	12.90%

Income Taxes. The Company recorded a federal income benefit for 2015 as a result of the recapture of a previously established valuation allowance against the Company's deferred tax assets. There was no federal income tax expense recorded as of December 31, 2014. See Critical Accounting Policies section for discussion on valuation of deferred tax assets.

Management of Interest Rate Risk

Qualitative Analysis. Our most significant form of market risk is interest rate risk. The general objective of our interest rate risk management is to determine the appropriate level of risk given our business strategy, and then manage that risk in a manner that is consistent with our policy to reduce the exposure of our net interest income to changes in market interest rates. First Federal of Northern Michigan's asset/liability management committee ("ALCO") evaluates the interest rate risk inherent in our assets and liabilities, our operating environment and capital and liquidity requirements, and modifies our lending, investing and deposit-taking strategies accordingly. The Board of Directors reviews the ALCO's activities and strategies, the effect of those strategies on our net interest margin, and the effect that changes in market interest rates would have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.

We actively evaluate interest rate risk in connection with our lending, investing and deposit-taking activities. Generally, our loans, which represent the significant majority of our assets, have longer-terms to maturity than our deposits, which represent the significant majority of our liabilities. As of December 31, 2015, $154.8 million, or 91.2% of our loan portfolio, consisted of loans that mature or reprice after December 31, 2015. In contrast, as of December 31, 2015, $34.6 million, or 47.9% of our time deposits as of that date, consisted of deposits that mature or reprice in less than one year.

Historically, most borrowers have preferred long-term, fixed-rate residential real estate loans when, as now, market interest rates are at relatively low levels. These loans expose us to interest rate risk because our liabilities, consisting primarily of deposits, have relatively short maturities. In order to better match the maturities of our loan portfolio to the maturities of our deposits in the current low interest rate environment, we sell substantially all of the fixed-rate, one- to four-family residential real estate loans with maturities of 15 years or more that we have originated since 2002. Beginning in late 2012 we began placing certain 15 year fixed residential real estate loans into our portfolio in an effort to rebuild our balance sheet and increase net interest income, however we continue to sell most loans with terms longer than 15 years into the secondary market to minimize interest rate risk.

(000'S OMITTED), EXCEPT PER SHARE DATA

In an effort to manage interest rate risk, we have increased our focus on the origination and retention in our portfolio of adjustable-rate residential mortgage loans. In addition, we have increased the origination and retention in our portfolio of commercial real estate and commercial loans, since most of these loans are originated with adjustable interest rates. In the current low interest rate environment, we generally have sold all of the fixed-rate, longer-term (15 years or more) residential mortgage loans that we originate on a servicing-retained basis. In 2015, we determined to retain in portfolio $17.7 million of adjustable rate, 10- and 15-year fixed rate residential mortgage loans. Finally, we have primarily invested in short- and medium-term securities and have maintained high levels of liquid assets, such as cash and cash equivalents. Shortening the average maturity of our interest-earning assets through these strategies helps us to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. Maintaining high levels of liquid assets also permits us to invest in higher-yielding securities and loans when market interest rates increase. However, these strategies can be expected to adversely affect net interest income if long-term interest rates remain at low levels. As long-term interest rates rise, as we expect will happen, we will reduce our mortgage-banking operations, and will retain in our portfolio a larger percentage of the one- to four-family loans that we originate.

Quantitative Analysis. The Company uses two primary measurement techniques to identify and manage its interest rate risk:

- Net Interest Income (NII) simulation
- Economic Value of Equity (EVE)

Net Interest Income Simulation Model. The Company uses a NII simulation model to analyze the sensitivity of net interest income to changing interest rates. The model is based on contractual and assumed cash flows and repricing characteristics for all of the Company's financial instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes management's projections of the future volume and pricing of each of the product lines offered by the Company as well as other pertinent assumptions. Actual results may differ from these simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Company's interest rate risk exposure is currently evaluated by measuring the anticipated change in net interest income over a 24-month horizon assuming a -100bp, 100bp, 200bp, 300bp and 400bp parallel ramped decrease or increase in interest rates. The Fed Funds interest rate, targeted by the Federal Reserve at a range of 0.25% to 0.50% is currently set at a level that would be negative in parallel ramped decrease scenarios, therefore those scenarios were omitted from the interest rate risk analysis at December 31, 2015.

At December 31, 2015, the Company's interest rate risk profile reflects a neutral position. The following table shows the Company's estimated net interest income sensitivity profile and ALCO policy limits as of December 31, 2015.

Dynamic Balance Sheet - RAMP						
Rate Changes:	0 BP	- 100 BP	+ 100 BP	+200 BP	+300 BP	+400 BP
$ Change in NII	$19,944	$19,230	$20,821	$21,454	$22,019	$22,392
% Change in NII		-3.58%	4.40%	7.57%	10.41%	12.28%
Policy Limits		+/- 5%	+/- 5%	+/- 10%	+/- 15%	+/- 20%

The 24-months net interest income at risk reported as of December 31, 2015 for all scenarios presented shows that the Company's overall risk to changes in interest rates is low. Given that the duration of our assets is longer than that of our liabilities, the scenarios shown illustrate that a rising rate environment has a neutral to slightly positive impact on our net interest income. The impact illustrated is well within Board set limits.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in net interest income requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The net interest income table presented above assumes that the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions management may undertake in response to changes in interest rates. The table also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of our sensitivity to interest rate changes at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results. As a means of validation and testing of our assumptions a back test is performed annually to compare actual results to the predicted results.

(000'S OMITTED), EXCEPT PER SHARE DATA

Economic Value of Equity ("EVE"). The Company also uses EVE as a measurement tool in managing interest rate risk. Whereas the net interest income simulation model highlights exposure over a relatively short time horizon, the EVE analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The EVE of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows less the discounted value of liability cash flows. The sensitivity of EVE to changes in the level of interest rates is a measure of longer-term interest rate risk. EVE values only the current balance sheet and does not incorporate the growth assumptions used in the earnings simulation model. As with the earnings simulation model, assumptions about the timing and variability of existing balance sheet cash flows are critical in the EVE analysis. Particularly important are assumptions driving prepayments and the expected changes in balances and pricing of transaction deposit portfolios. The following table shows the Company's EVE sensitivity profile as of December 31, 2015.

Rate Changes:	0 BP	+100 BP	+200 BP	+300 BP	+400 BP
$ Change in Equity	$55,142	$56,542	$57,180	$57,549	$57,872
% Change in Equity		2.54%	3.70%	4.37%	4.95%
Policy Limits		+/- 10%	+/- 15%	+/- 20%	+/- 25%

The EVE at risk profile shows slight to moderate asset sensitivity from market rate increases.

Cash Flows

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statement of Cash Flows included with our Consolidated Financial Statements.

Cash flows provided by operations were $555,000 for 2015 compared to $1.7 million for 2014. Cash flows used for investing activities were $11.9 million in 2015 as compared to $5.8 million in 2014. The change year over year was due in large part to the purchase of available-for-sale securities. Cash provided by financing activities was $7.5 million in 2015 compared to $12.8 million in 2014, due primarily to the decrease in the balance of our deposits year over year.

Liquidity

The overall objective of our liquidity management is to ensure the availability of sufficient cash funds to meet all financial commitments and to take advantage of investment opportunities. We manage liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

Our primary sources of funds are deposits, principal and interest payments on loans and securities, and, to a lesser extent, borrowings (Federal Home Loan Bank advances), the proceeds from maturing securities and short-term investments, and the proceeds from the sales of loans and securities. The scheduled amortization of loans and securities, as well as proceeds from borrowings, are predictable sources of funds. Other funding sources, however, such as deposit inflows, mortgage prepayments, mortgage loan sales and mortgage-backed securities sales are greatly influenced by market interest rates, economic conditions and competition.

Our most liquid assets are cash, short-term U.S. Government securities and U.S. Government agency or government-sponsored enterprise securities. We are required to maintain sufficient levels of liquidity as defined by the Office of the Comptroller of the Currency regulations. Current regulations require that we maintain sufficient liquidity to ensure our safe and sound operation. Our current objective is to maintain liquid assets equal to at least 20% of total deposits and Federal Home Loan Bank borrowings due in one year or less. Liquidity as of December 31, 2015 was $147.0 million, or 63.5% of total deposits and Federal Home Loan Bank borrowings due in one year or less, compared to $146.5 million, or 62.9% of this amount at December 31, 2014. The levels of liquidity are dependent on our operating, financing, lending and investing activities during any given period. Our calculation of liquidity includes additional borrowing capacity available with the Federal Home Loan Bank. As of December 31, 2015, we had unused borrowing capacity of $25.7 million.

We currently retain in our portfolio all adjustable-rate residential mortgage loans, short-term balloon mortgage loans and fixed-rate residential mortgage loans with maturities of less than 15 years, and generally sell the remainder. During the year ended December 31, 2015, we originated $34.9 million of one- to four-family residential mortgage loans, of which $17.7 million were retained in our portfolio and the remainder were sold. This compares to $25.3 million of one- to four-family originations during the year ended December 31, 2014, of which $11.4 million were retained in our portfolio.

Deposits are a primary source of funds for use in lending and for other general business purposes. At December 31, 2015, deposits funded 79.9% of our total assets compared to 83.1% at December 31, 2014. Certificates of deposit scheduled to mature in less than one year at December 31, 2015 totaled $36.2 million. We believe that a significant portion of such deposits will remain with us. We monitor the deposit rates offered by competitors in our market area, and we set rates that take into account the prevailing market conditions along with our liquidity position.

Borrowings may be used to compensate for seasonal or other reductions in normal sources of funds or for deposit outflows at more than projected levels. Borrowings also may be used on a longer-term basis to support increased lending or investment activities. At December 31, 2015, we had $32.9 million in Federal Home Loan Bank advances and no outstanding advances at the Federal Reserve Discount Window. Total borrowings as a percentage of total assets were 9.8% at December 31, 2015 compared to 7.0% at December 31, 2014.

As of December 31, 2015, management was not aware of any known trends, events or uncertainties that have or are reasonably likely to have a material impact on our liquidity. As of December 31, 2015, we had no material commitments for capital expenditures.

Critical Accounting Policies

Our accounting and reporting policies are prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. We consider accounting policies that require significant judgment and assumptions by management that have, or could have a material impact on the carrying value of certain assets or on income to be critical accounting policies. Changes in underlying factors, assumptions or estimates could have a material impact on our future financial condition and results of operations. Based on the size of the item or significance of the estimate, the following accounting policies are considered critical to our financial results.

Allowance for Loan and Lease Losses ("ALLL"). The ALLL is calculated with the objective of maintaining an allowance sufficient to absorb estimated probable loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective, as it requires an estimate of the loss content for each risk rating and for each impaired loan, an estimate of the amounts and timing of expected future cash flows, and an estimate of the value of collateral.

We have established a systematic method of periodically reviewing the credit quality of the loan portfolio in order to establish an allowance for losses on loans. The allowance for losses on loans is based on our current judgments about the credit quality of individual loans and segments of the loan portfolio. The allowance for losses on loans is established through a provision for loan losses based on our evaluation of the losses inherent in the loan portfolio, and considers all known internal and external factors that affect loan collectability as of the reporting date. Our evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, our knowledge of inherent losses in the portfolio that are probable and reasonably estimable and other factors that warrant recognition in providing an appropriate loan loss allowance. Management believes this is a critical accounting policy because this evaluation involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters.

(000'S OMITTED), EXCEPT PER SHARE DATA

The analysis of the ALLL has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. The principal assumption used in deriving the ALLL is the estimate of loss content for each risk rating. To illustrate, if recent loss experience dictated that the projected loss ratios would be increased by 10% (of the estimate) across all risk ratings, the allocated allowance as of December 31, 2015 would have changed by approximately $141,000. Actual loan losses may be significantly more than the allowances we have established, which could have a material negative effect on our financial results.

Mortgage Servicing Rights. We sell to investors a portion of our originated one- to four-family residential real estate mortgage loans. When we acquire mortgage servicing rights through the origination of mortgage loans and sale of those loans with servicing rights retained, we allocate a portion of the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. As of December 31, 2015, we were servicing mortgage loans sold to others totaling $118.4 million. We amortize capitalized mortgage servicing rights as a reduction of servicing fee income in proportion to, and over the period of, estimated net servicing income by use of a method that approximates the level-yield method. We periodically evaluate capitalized mortgage servicing rights for impairment using a model that takes into account several variables including expected prepayment speeds and prevailing interest rates. If we identify impairment, we charge the amount of the impairment to earnings by establishing a valuation allowance against the capitalized mortgage servicing rights asset. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speed. We monitor this risk and adjust the valuation allowance as necessary to adequately record any probable impairment in the portfolio. Management believes the estimation of these variables makes this a critical accounting policy. For purposes of measuring impairment, the mortgage servicing rights are stratified based on financial asset type and interest rates. In addition, we obtain an independent third-party valuation of the mortgage servicing portfolio on a quarterly basis. In general, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increase as interest rates rise and decrease as interest rates fall. The key economic assumptions made in determining the fair value of the mortgage servicing rights at December 31, 2015 included the following:

	December 31,	
	2015	2014
Annual constant prepayment speed (CPR)	10.41%	11.46%
Weighted average life (in months)	245	244
Discount rate	9.49%	9.38%

As of December 31, 2015 there was no need to establish a valuation allowance against the mortgage servicing asset.

Impairment of Intangible Assets. Upon completion of our merger, on August 8, 2014, with Alpena, we established a core deposit intangible asset of $1.4 million, which represents the value of the depositor relationships that were acquired. The core deposit intangible is an amortizable asset that will be recognized on an accelerated basis over a 10 year period. The Company evaluates the carrying value on an annual basis for impairment.

Valuation of Deferred Tax Assets. The Company records a valuation allowance if it believes, based on available evidence, that it is "more likely than not" that the future tax assets recognized will not be realized before their expiration. Realization of the Company's deferred tax assets is primarily dependent upon the generation of a sufficient level of future taxable income.

At December 31, 2015 and 2014, management believes that it is more likely than not that all of the deferred tax assets would be realized. Accordingly, during the Company recaptured $1.7 million of the valuation allowance and at December 31, 2015 a valuation allowance of $779,000 remained on the balance sheet compared to $3.2 million as of December 31, 2014. The net deferred tax asset recorded at December 31, 2015 and 2014 was $2.6 million and $851,000. See Note 10 for additional information.

Off-Balance Sheet Arrangements. In the ordinary course of business, First Federal of Northern Michigan is a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. First Federal of Northern Michigan follows the same credit policies in making off-balance sheet commitments as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by First Federal of Northern Michigan, is based on management's credit evaluation of the customer.

Unfunded commitments under construction lines of credit for residential and commercial properties and commercial lines of credit are commitments for possible future extensions of credit to existing customers, for which funds have not been advanced by First Federal of Northern Michigan.

At December 31, 2015 and December 31, 2014, First Federal of Northern Michigan had $13.3 million and $9.0 million, respectively, of commitments to grant loans, $17.7 million and $15.0 million, respectively, of unfunded commitments under lines of credit and $130,000 and $134,000, respectively, of letters of credit. See Note 11 of the Notes to the Consolidated Financial Statements.

Safe Harbor Statement

When used in this annual report or future filings by First Federal of Northern Michigan Bancorp, Inc. with the press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Audited Financial Statements

December 31, 2015

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Directors
First Federal of Northern Michigan Bancorp, Inc.

We have audited the accompanying consolidated financial statements of First Federal of Northern Michigan Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
First Federal of Northern Michigan Bancorp, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Federal of Northern Michigan Bancorp, Inc. and its subsidiary as of December 31, 2015 and 2014 and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 9, 2016

Consolidated Balance Sheet
(000s omitted, except per share data)

	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 7,574	$ 11,205
Overnight deposits with Federal Home Loan Bank	29	267
Total cash and cash equivalents	7,603	11,472
Deposits held in other financial institutions	9,390	8,429
Securities available for sale, at fair value (Note 3)	128,418	119,968
Securities held to maturity (Note 3)	745	790
Loans - net (Note 4)	167,984	163,647
Loans held for sale	563	88
Federal Home Loan Bank stock	1,636	2,591
Property and equipment (Note 5)	6,329	6,336
Assets held for sale - net	271	478
Foreclosed real estate and other repossessed assets	1,171	2,823
Accrued interest receivable	1,039	986
Intangible assets (Note 7)	1,044	1,286
Deferred tax asset (Note 10)	2,615	851
Originated mortgage servicing right - net (Note 6)	578	710
Bank owned life insurance	4,857	4,727
Other assets	1,766	685
Total assets	$ 336,009	$ 325,867
Liabilities and Stockholders' Equity		
Liabilities		
Non-interest bearing deposits	$ 61,654	$ 56,032
Interest-bearing deposits (Note 8)	206,873	214,702
Advances from Federal Home Loan Bank (Note 9)	32,928	22,885
Accrued expenses and other liabilities (Note 13)	1,213	1,712
Total liabilities	302,668	295,331
Stockholders' Equity (Note 12)		
Common stock ($0.01 par value 20,000,000 shares authorized, 4,034,764 and 3,727,014 shares issued and outstanding, respectively) - at December 31, 2015 and 2014	40	40
Additional paid-in capital	28,264	28,264
Retained earnings	7,820	4,765
Treasury stock at cost (307,750 shares) - at December 31, 2015 and 2014 , respectively	(2,964)	(2,964)
Accumulated other comprehensive income	181	431
Total stockholders' equity	33,341	30,536
Total liabilities and stockholders' equity	$ 336,009	$ 325,867

Consolidated Statement of Operations and Comprehensive Income
(000s omitted, except per share data)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Interest Income		
Loans, including fees	$ 8,119	$ 7,394
Investments		
Taxable	1,272	781
Tax-exempt	113	158
Mortgage-backed securities	1,107	767
Total interest income	10,611	9,100
Interest Expense		
Deposits (Note 8)	941	818
Borrowings	304	264
Total interest expense	1,245	1,082
Net Interest Income - Before (recovery of) provision for loan losses	9,366	8,018
(Recovery of) Provision for Loan Losses (Note 4)	(535)	284
Net Interest Income - After (recovery of) provision for loan losses	9,901	7,734
Other Income		
Service charges and other fees	947	807
Net gain (loss) on sale of investments	4	(4)
Net gain on sale of loans	300	206
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	80	(76)
Loan servicing fees	232	266
Insurance and brokerage commissions	206	117
Bargain purchase gain (Note 2)	-	1,982
Other	227	180
Total other income	1,996	3,478
Operating Expenses		
Compensation and employee benefits (Note 13)	5,831	4,961
FDIC insurance premiums	251	207
Advertising	164	183
Occupancy and equipment	1,145	1,032
Amortization of intangible assets	243	146
Data processing service bureau	436	345
Professional fees	555	393
Collection activity	94	68
Real estate owned & other repossessed assets	298	272
Merger related expenses	-	266
Other	1,102	1,090
Total operating expenses	10,119	8,963
Income - before income tax benefit	1,778	2,249
Income tax benefit (Note 10)	(1,650)	-
Net income	$ 3,428	$ 2,249
Other Comprehensive (Loss) Income:		
Unrealized (loss) gain on securities available for sale - net of tax	(253)	594
Reclassification adjustment for gains (losses) realized in earnings - net of tax of $1 and ($1) in 2015 and 2014, respectively	3	(3)
Comprehensive Income	$ 3,178	$ 2,840

Consolidated Statement of Changes in Stockholders' Equity
(000s omitted)

	Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - January 1, 2014	3,192	$ 32	$ (2,964)	$ 23,854	$ 2,763	$ (160)	$ 23,525
Net income	-	-	-	-	2,249	-	2,249
Other comprehensive income	-	-	-	-	-	591	591
Exchange of Alpena Banking Corp Stock (842,965 shares issued)	843	8	-	4,410	-	-	4,418
Common dividend declared, $0.08 per share	-	-	-	-	(247)	-	(247)
Balance - December 31, 2014	4,035	40	(2,964)	28,264	4,765	431	30,536
Net income	-	-	-	-	3,428	-	3,428
Other comprehensive loss	-	-	-	-	-	(250)	(250)
Common dividend declared, $0.10 per share	-	-	-	-	(373)	-	(373)
Balance - December 31, 2015	4,035	$ 40	$ (2,964)	$ 28,264	$ 7,820	$ 181	$ 33,341

Consolidated Statement of Cash Flows
(000s omitted, except per share data)

	Year Ended December 31 2015	Year Ended December 31 2014
Cash Flows from Operating Activities		
Net income	$ 3,428	$ 2,249
Adjustments to reconcile net incometo cash from operating activities:		
Depreciation and amortization	662	483
(Recovery of) Provision for loan losses	(535)	284
Accretion of acquired loans	(64)	(89)
Amortization and accretion on securities	889	578
Bargain purchase gain from bank acquisition	-	(1,982)
(Gain) Loss on sale of investment securities	(4)	4
Gain on sale of loans held for sale	(300)	(206)
(Gain) Loss on sale of property and equipment	(80)	23
Loss on sale of real estate owned and other repossessed assets	-	4
Originations of loans held for sale	(17,023)	(13,833)
Proceeds from sale of loans held for sale	16,848	14,126
Deferred income tax benefit - (Note 9)	(1,650)	-
Net change in:		
Accrued interest receivable	(53)	(25)
Bank owned life insurance	(129)	(117)
Other assets	(935)	128
Accrued expenses and other liabilities	(496)	86
Net cash provided by operating activities	558	1,713
Cash Flows from Investing Activities		
Net cash received in bank acquisition	-	41,650
Net (increase) decrease in loans	(4,372)	3,740
Net increase in deposits at other institutions	(961)	(7,189)
Proceeds from maturity of securities	29,848	14,843
Proceeds from sale of securities available-for-sale	1,583	730
Proceeds from sale of FHLB stock	955	831
Proceeds from sale of property and equipment	289	3
Proceeds from sale of of real estate owned and other repossessed assets	2,286	556
Purchase of securities available for sale	(41,100)	(60,636)
Purchase of premises and equipment	(414)	(306)
Net cash used in investing activities	(11,886)	(5,778)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(2,207)	14,919
Dividends paid on common stock	(373)	(247)
Net (decrease) increase in advances from borrowers	(4)	28
Advances from FHLB	29,000	17,955
Repayments of advances from FHLB	(18,957)	(19,884)
Net cash provided by financing activities	7,459	12,771
Net (Decrease) Increase in Cash and Cash Equivalents	(3,869)	8,706
Cash and Cash Equivalents - Beginning of year	11,472	2,766
Cash and Cash Equivalents - End of year	$ 7,603	$ 11,472
Supplemental Cash Flow and Noncash Information		
Net cash (refund for) paid for income taxes	$ (14)	$ 20
Cash paid for interest on deposits and borrowings	1,244	1,076
Transfer of loans to real estate owned & other repossessed assets	634	1,562

Note 1 - Summary of Significant Accounting Policies

Nature of Operations - First Federal of Northern Michigan Bancorp, Inc. (the "Company") and its subsidiary, First Federal of Northern Michigan (the "Bank"), conduct operations in the northeastern lower peninsula of Michigan. The Company's primary services include accepting deposits, making commercial, consumer and mortgage loans, and engaging in mortgage banking activities.

Principles of Consolidation - The consolidated financial statements include the accounts of First Federal of Northern Michigan Bancorp, Inc., First Federal of Northern Michigan, and the Bank's wholly owned subsidiary, FFNM Financial Services, Inc. The 2015 activity of FFNM Financial Services, Inc. was to collect the stream of income generated by non-bank investment products through a contract with Infinex. Prior to December 31, 2015 the Bank had another subsidiary, Financial Services & Mortgage Corporation, ("FSMC") that invests in real estate, which includes leasing, selling, developing, and maintaining real estate properties. As of December 31, 2015, FSMC has been dissolved and all assets have been transferred to FFNM Financial Services, Inc. All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease loss ("ALLL"), the valuation of investment securities, intangible and deferred tax assets, and mortgage servicing rights.

Significant Concentrations of Credit Risk - Most of the Company's activities are with customers located within the northeastern lower peninsula of Michigan. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from depository institutions and federal funds sold and interest bearing deposits in other depository institutions which mature within ninety days when purchased.

Securities - Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income net of applicable income taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. When evaluating investment securities consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, or U.S. Government sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The assessment of whether another-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. If a security is determined to be other-than-temporarily impaired, but the entity does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Federal Home Loan Bank Stock - Federal Home Loan Bank (FHLB) Stock is carried at cost and is held to allow the Bank to conduct business with the entity. Federal Home Loan Bank sells and purchases its stock at par; therefore cost approximates fair market value.

Mortgage Banking Activities - The Company routinely sells to investors its originated long-term residential fixed-rate mortgage loans. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding, also known as rate lock commitments. Rate lock commitments on residential mortgage loans that are intended to be sold are considered to be derivatives. Fair value is based on fees currently charged to enter into similar agreements. The fair value of rate lock commitments was insignificant at December 31, 2015 and 2014.

The Company uses forward contracts as part of its mortgage banking activities. Forward contracts provide for the delivery of financial instruments at a specified future date and at a specified price or yield. The fair value of forward contracts was insignificant at December 31, 2015 and 2014.

Originated Loans - The Company grants mortgage, commercial, and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the ALLL, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan.

The accrual of interest on loans is 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 collected, for loans that are placed on nonaccrual or charged off, is reversed against interest income. The interest on these 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.

Loans Acquired in a Business Combination - Loans acquired in a business combination (acquired loans) consist of loans acquired on August 8, 2014 in the merger with Bank of Alpena. Acquired loans are recorded at fair value as of the acquisition date without a carryover of the associated allowance for loan losses related to these loans, through a fair value discount that was, in part, attributed to credit quality. The estimate of the expected credit losses was determined based on due diligence performed by executive and senior management of the Company. The fair value discount was recorded as a reduction to the acquired loans' outstanding principal balance in the consolidated financial statements on the merger date.

The Company accounts for acquired loans, which are recorded at fair value at acquisition, in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). Under the provisions of ASC 310-30, the Company evaluated each loan individually and determined that loans with an outstanding principal balance of $5.9 million exhibited deteriorated credit quality, and therefore, met the criteria set forth in ASC 310-30. None of the loans acquired were classified as debt securities.

In accordance with ASC 310-30 with Company elected to evaluate each loan individually for expected future cash flows. Loans will be removed from the acquired loan segment in the event of sale, foreclosure, pay off or being written off as uncollectable. The Company estimates the cash flow to be collected over the remaining life of the loan on a quarterly basis based on a set of assumptions including expectations as to default rates, prepayment rates, and expected loss rates. The Company makes numerous assumptions, interpretations and judgments using internal and third-party credit quality information when determining the probability of collecting all contractual required payments. This is a point in time assessment and inherently subjective due to the nature of the available information and judgment involved.

The calculation of the fair value of the acquired loans entails estimating the amount and timing of cash flows attributable to both principal and interest expected to be collected on each individual loan, and then discounting those cash flows at a market interest rate. The excess of a loan's expected cash flow at the acquisition date over its estimated fair value is commonly referred to as "accretable yield", which is recognized into interest income over the remaining life of the loan on a level-yield basis. The difference between an individual loan's contractual required principal and interest as of the merger date and the expected cash flows as of the same date is commonly referred to as "nonaccretable difference", which includes an estimate of future credit losses expected to be incurred over the remaining life of the loan and interest payments that are not expected to be collected. A decrease to the expected cash flows of a loan in subsequent periods will require the Company to record a provision for loan loss. Improvements to expected cash flows of a loan in subsequent periods will result in reversing a portion of the nonaccretable difference, which is then classified as a part of the accretable yield and subsequently recognized into interest income over the estimated remaining life of the loan. A loan will be removed from the acquired loan segment through any one of the following avenues, foreclosed, paid off or written off.

Allowance for Loan and Lease Losses (ALLL) - The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The ALLL is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans as well as classified loans that are not deemed to be impaired and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of homogeneous loans are collectively evaluated for impairment. The Company does not separately identify individual consumer and residential loans for impairment disclosures until a loss is imminent.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a Troubled Debt Restructure (TDR). A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

Loan Servicing - Servicing assets are recognized as separate assets when rights are retained through the sale of originated residential mortgage loans. Capitalized servicing rights are reported in other assets and are amortized against non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income using market based assumptions. Temporary impairment is recognized through a valuation allowance for an individual stratum to the extent that fair value is less than the capitalized amount for the stratum. If it is later determined that all or a portion of the temporary impairment no longer exists, the valuation allowance is reduced through a recovery of income. An other-than-temporary impairment results in a permanent reduction to the carrying value of the servicing asset. Servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Foreclosed Assets (Including Other Real Estate Owned) - Foreclosed real estate held for sale is carried at the lower of cost or fair value minus estimated costs to sell. Costs of holding foreclosed real estate are charged to expense in the current period, except for significant property improvements, which are capitalized. Valuations are periodically performed by management and an allowance is established by a charge to non-interest expense if the carrying value exceeds the fair value minus estimated costs to sell. Foreclosed real estate is classified as other real estate owned. The net income from operations of foreclosed real estate held for sale is reported in non-interest income.

Property and Equipment - These assets are recorded at cost, less accumulated depreciation. The Bank uses the straight-line method of recording depreciation for financial reporting. The depreciable lives used by the Company are: land improvements 7-10 years, buildings 7-40 years and equipment 3-10 years. Maintenance and repairs are charged to expense and improvements are capitalized.

Bank Owned Life Insurance - The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Intangible Assets - The Company has in the past purchased one or more branches from other financial institutions. The analysis of these branch acquisitions led the Company to conclude that in each case, we acquired a business and therefore, the purchase price generally includes the intangible value of the depositor relationships acquired, referred to as core deposit intangible assets. The expected life for core deposit intangible asset is based on the type of products acquired. The amortization periods range from 10 to 15 years and are based on the expected life of the products and relationships. The expected life was determined based on an analysis of the life of similar products within the Company and local competition in the markets where the branches were acquired. The core deposit intangible assets, related to branch purchases, were amortized on a straight line basis.

In conjunction with the merger with Bank of Alpena, the Company established a $1.4 million core deposit intangible asset. This intangible asset is being amortized over a 10 year period on an accelerated basis. The core deposit intangible is analyzed quarterly for impairment.

Income Taxes - Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance if it believes, based on available evidence, that it is "more likely than not" that the future tax assets recognized will not be realized before their expiration. Realization of the Company's deferred tax assets is primarily dependent upon the generation of a sufficient level of future taxable income.

At December 31, 2015 and 2014, management believes that it is more likely than not that all of the deferred tax assets would be realized. Accordingly, during 2015 the Company recaptured $1.7 million of the valuation allowance and at December 31, 2015 a valuation allowance of $779 remained on the balance sheet compared to $3.1 million as of December 31, 2014.

The net deferred tax asset recorded at December 31, 2015 and 2014 was $2.7 million and $851. See Note 10 for additional information.

Off Balance Sheet Instruments - In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. For letters of credit, a liability is recorded for the fair value of the obligation undertaken in issuing the guarantee.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component in the equity section of the consolidated statement of financial condition. Such items, along with net income, are components of comprehensive income.

Accumulated other comprehensive income consists solely of unrealized gains and losses on available for sale securities, reported net of tax of $94 and $222 at December 31, 2015 and December 31, 2014, respectively.

Stock-Based Compensation - The Company's stock based compensation plans are described in detail in Note 13 (Employee Benefit Plans). Compensation expense is recognized for stock options and unvested (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 market price of the Company's common shares at the date of grant is used to estimate the fair value of unvested (restricted) stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards and as the unvested period for nonvested (restricted) stock awards. Certain of the Company's share-based awards contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period.

(000'S OMITTED), EXCEPT PER SHARE DATA

The Company granted no options and did not record, through net income, any compensation costs related to stock options in 2015 and 2014.

Recent Accounting Pronouncements - In January 2016, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* related to the recognition and measurement of financial instruments. The most significant change included in the update is the requirement for certain equity investments (excluding investments that are consolidated or accounted for under the equity method) to be measured at fair value with changes in fair value recognized in net income. Alternatively, equity investments without readily determinable fair values can be recorded at cost, and periodically evaluated for impairment using a qualitative assessment. If the qualitative assessment indicates the investment is impaired, it is required to be measured at fair value.

The update also eliminates the requirement for public business entities to disclose the methods and assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Corporation does not believe adopting the provisions of ASU 2016-01 will have a material impact on the consolidated financial statements.

Note 2 - Business Combinations

As of August 8, 2014 ("Merger Date"), the Company completed its merger with Alpena Banking Corporation and its wholly owned subsidiary Bank of Alpena ("Alpena"). Alpena had one branch office and $102.9 million in assets as of August 8, 2014. The results of operations due to the merger have been included in the Company's results since the Merger Date. The merger was effected by the issuance of shares of the Company's common stock to Alpena Banking Corporation shareholders. Each share of Alpena's common stock was converted into the right to receive 1.549 shares of the Company's common stock, with cash paid in lieu of fractional shares. The conversion of Alpena's shares resulted in the issuance of 842,965 shares of the Company's common stock.

The business combination was recorded using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the Merger Date. The following table provides the purchase price calculation as of December 31, 2014 and the identifiable assets acquired and liabilities assumed at their estimated fair values. A bargain purchase gain resulted from the business combination due to the fair value of the net assets acquired exceeding the value of the stock issued as consideration in the transaction. These fair value measurements are based on third-party valuations and are subject to refinement for up to one year after the Merger Date based on additional information that may be obtained by us that existed on the Merger Date.

Purchase Price (,000's omitted):			
Common stock issued for Alpena Banking Corporation common shares			843
Price per share, based on the Company's closing price on August 8, 2014			$ 5.59
Total purchase price			$4,712
Preliminary Statement of Net Assets Acquired at Fair Value:			
Assets			
Cash and cash equivalents	$ 41,650		
Securities	24,008		
Loans	33,051		
Premises and Equipment	1,667		
Core Deposit Intangible	1,392		
Deferred Tax Asset	337		
Other Assets	467		
Total Assets	$102,572		
Liabilities			
Deposits	95,787		
Other Liabilities	91		
Total Liabilities	$ 95,878		
Net Identifiable Assets Acquired		$ 6,694	
Bargain Purchase Gain		$(1,982)	

(000'S OMITTED), EXCEPT PER SHARE DATA

The results of operations for the year ended December 31, 2014 include the operating results of the combined entities for the 143 days subsequent to the Merger Date. Alpena's results of operations prior to the Merger Date are not included in the Company's consolidated statement of comprehensive income.

The following table provides the pro forma information for the results of operations for the year ended December 31, 2014, as if the merger had occurred on January 1, 2014. These adjustments reflect the impact of certain purchase accounting fair value measurements, primarily on the loan and deposit portfolios of Bank of Alpena. In addition, the $266 in merger-related costs noted above are included in each period presented. These pro forma results are presented for illustrative purposes only and are not intended to represent or be indicative of the actual results of operations of the combined banking organizations that would have been achieved had the merger occurred at the beginning of the period presented, nor are they intended to represent or be indicative of future results of the Company.

	For the Year Ended December 31, 2014
Net interest income	$ 9,554
Non-interest income	3,631
Non-interest expense	10,502
Net income	2,316

In most instances, determining the fair value of the acquired assets and assumed liabilities required the Company to estimate the cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the valuation of acquired loans. For such loans, the excess cash flows expected at merger over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at merger and the cash flows expected to be collected at merger reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with the applicable accounting guidance for business combinations, there was no carry-over of Alpena's previously established allowance for loan losses.

The acquired loans were divided into loans with evidence of credit quality deterioration, which are accounting for under ASC 310-30 ("acquired impaired"), and loans that do not meet the criteria, which are accounted for under ACC 310-20 ("acquired non-impaired"). In addition, the loans are further categorized into different pools based primarily on the type and purpose of the loan.

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Real estate loans:			
Residential mortgages	$ 397	$ 6,992	$ 7,389
Commercial Loans:			
	-	109	109
Secured by real estate	3,070	14,721	17,791
Other	1,201	4,213	5,414
Total commercial loans	4,271	19,043	23,314
Consumer loans:			
Secured by real state	30	1,567	1,598
Other	-	750	750
Total consumer loans	30	2,318	2,348
Total loans at acquisition date	$ 4,698	$ 28,353	$ 33,051

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Loans acquired- contractual required payments	$ 5,930	$ 28,587	$ 34,517
Non accretable yield	(1,232)	-	(1,232)
Expected cash flows	4,698	28,587	33,285
Accretable yield	-	(234)	(234)
Carrying balance at acquisition date	$ 4,698	$ 28,353	$ 33,051

(000'S OMITTED), EXCEPT PER SHARE DATA

Note 3 – Securities

Investment securities have been classified according to management's intent. The carrying value and estimated fair value of securities are as follows:

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Securities Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 34,955	$ 94	$ (74)	$ 34,975
Municipal notes	28,292	307	(70)	28,529
Mortgage-backed securities	64,894	248	(232)	64,910
Equity securities	2	2	-	4
Total	$ 128,143	$ 651	$ (376)	$ 128,418
Securities Held to Maturity				
Municipal notes	$ 745	$ 1	$ -	$ 746

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Securities Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 31,221	$ 58	$ (57)	$ 31,222
Municipal notes	22,894	369	(129)	23,134
Corporate securities	1,549	12	-	1,561
Mortgage-backed securities	63,648	515	(117)	64,046
Equity securities	3	2	-	5
Total	$ 119,315	$ 956	$ (303)	$ 119,968
Securities Held to Maturity				
Municipal notes	$ 790	$ 118	$ -	$ 908

The amortized cost and estimated market value of securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2015	Amortized Cost	Market Value
Available For Sale:		
Due in one year or less	$ 3,425	$ 3,432
Due after one year through five years	40,065	40,187
Due in five year through ten years	18,614	18,654
Due after ten years	1,143	1,231
Subtotal	63,247	63,504
Equity securities	2	4
Mortgage-backed securities	64,894	64,910
Total	$ 128,143	$ 128,418
Held To Maturity		
Due in one year or less	$ 45	$ 45
Due after one year through five years	210	210
Due in five year through ten years	335	336
Due after ten years	155	155
Total	$ 745	$ 746

At December 31, 2015 and 2014, securities with a fair value of $25.1 million and $35.0 million, respectively, were pledged to FHLB advances and borrowings from the Federal Reserve discount window.

The following is a summary of securities that had unrealized losses at December 31, 2015 and 2014. The information is presented for securities that have been in an unrealized loss position for less than 12 months and for more than 12 months. At December 31, 2015, the Company held 67 securities with unrealized losses totaling $376. At December 31, 2014 there were 72 securities with unrealized losses totaling $303.

There are temporary reasons why securities may be valued at less than amortized cost. Temporary reasons are that the current levels of interest rates as compared to the coupons on the securities held by the Company are higher and impairment is not due to credit deterioration. The Company has the intent and the ability to hold these securities until their value recovers, which may be until maturity.

(000'S OMITTED), EXCEPT PER SHARE DATA

	December 31, 2015				December 31, 2014			
	Fair Value	Gross Unrealized Losses Less than 12 months	Fair Value	Gross Unrealized Losses 12 months or longer	Fair Value	Gross Unrealized Losses Less than 12 months	Fair Value	Gross Unrealized Losses 12 months or longer
Available For Sale:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 12,930	$ (62)	$ 986	$ (12)	$13,672	$ (28)	$ 971	$ (29)
Municipal notes	10,230	(54)	1,048	(16)	9,506	(54)	4,039	(75)
Mortgage-backed securities	27,575	(156)	3,612	(76)	9,923	(31)	4,666	(86)
Total Securities available for sale	$ 50,735	$ (272)	$ 5,646	$ (104)	$33,101	$ (113)	$ 9,676	$ (190)

On a quarterly basis, the Company performs a comprehensive security-level impairment assessment on all securities in an unrealized loss position to determine if other-than-temporary impairment ("OTTI") exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. For debt securities, an OTTI loss must be recognized for a debt security in an unrealized loss position if the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the individual security. If the Company does not expect to sell the security, the Company must evaluate the expected cash flows to be received to determine if a credit loss has occurred. If a credit loss is present, only the amount of impairment associated with the credit loss is recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in other comprehensive income.

The security-level assessment is performed on each security, regardless of the classification of the security as available for sale or held to maturity. The assessments are based on the nature of the securities, the financial condition of the issuer, the extent and duration of the securities, the extent and duration of the loss and the intent and whether management intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis, which may be maturity. For those securities for which the assessment shows the Company will recover the entire cost basis, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before the anticipated recovery of the amortized cost basis, the gross unrealized losses are recognized in other comprehensive income, net of tax.

Management does not believe that the investment securities that were in an unrealized loss position as of December 31, 2015 represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

(000'S OMITTED), EXCEPT PER SHARE DATA

Note 4 – Loans

Loans at December 31, 2015 and 2014 are summarized as follows:

	December 31 2015	December 31 2014
Real estate loans - One- to four-family residential	$ 76,137	$ 71,828
Commercial loans:		
Secured by real estate	59,941	63,606
Other	23,489	19,000
Total commercial loans	83,430	82,606
Consumer loans:		
Secured by real estate	8,682	9,502
Other	1,528	1,403
Total consumer loans	10,210	10,905
Total gross loans	169,777	165,339
Less:		
Net deferred loan fees	234	263
Allowance for loan losses	1,559	1,429
Total loans - net	$ 167,984	$ 163,647

As of December 31, 2015 the total outstanding balance and carrying value of acquired impaired loans was $3.4 million and $2.0 million, respectively. Changes to the accretable yield for acquired impaired loans were as follows as of December 31, 2015:

	Acquired Impaired Non-Accreatable	Acquired Non-Imparied Accreatable	Acquired Total
Beginning of year	$ (1,232)	$ (208)	$ (1,440)
Accretion of discount for credit spread	-	64	64
Tranfers to accretable	25	(25)	-
Loans charged-off through December 31, 2015	237	-	237
Loans paid off through December 31, 2015	60	-	60
Total	$ (910)	$ (169)	$ (1,079)

Certain directors and executive officers of the Company were loan customers of the Bank during December 31, 2015 and 2014. Such loans were made in the ordinary course of business and do not involve more than a normal risk of collectability. As of December 31, 2015 and 2014 the outstanding balances of loans to officers and directors was $9.4 million and $6.2 million, respectively.

(000'S OMITTED), EXCEPT PER SHARE DATA

The following tables illustrate the contractual aging of the recorded investment in past due loans by class of loans as of December 31, 2015 and 2014:

As of December 31, 2015

Originated Loans:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial Real Estate:							
Commercial Real Estate - construction	$ -	$ -	$ -	$ -	$ 140	$ 140	$ -
Commercial Real Estate - other	357	1,707	-	2,064	44,582	46,646	-
Commercial - non real estate	304	43	56	403	21,586	21,989	56
Consumer:							
Consumer - Real Estate	12	2	4	18	7,115	7,133	-
Consumer - Other	-	-	3	3	1,421	1,424	3
Residential:							
Residential	932	388	287	1,607	69,177	70,784	103
Total	$ 1,605	$ 2,140	$ 350	$ 4,095	$ 144,021	$ 148,116	$ 162

As of December 31, 2015

Acquired Loans:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial Real Estate:							
Commercial Real Estate - construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - other	226	38	354	618	12,537	13,155	-
Commercial - non real estate	-	16	40	56	1,444	1,500	-
Consumer:							
Consumer - Real Estate	8	-	-	8	1,541	1,549	-
Consumer - Other	-	-	-	-	104	104	-
Residential:							
Residential	126	-	51	177	5,176	5,353	-
Total	$ 360	$ 54	$ 445	$ 859	$ 20,802	$ 21,661	$ -

As of December 31, 2014

Originated Loans:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial Real Estate:							
Commercial Real Estate - construction	$ -	$ -	$ -	$ -	$ 1,443	$ 1,443	$ -
Commercial Real Estate - other	10	195	-	205	46,103	46,308	-
Commercial - non real estate	-	-	-	-	14,544	14,544	-
Consumer:							
Consumer - Real Estate	107	4	7	118	7,684	7,802	-
Consumer - Other	3	-	3	6	1,152	1,158	3
Residential:							
Residential	1,484	746	386	2,616	62,326	64,942	87
Total	$ 1,604	$ 945	$ 396	$ 2,945	$ 133,252	$ 136,197	$ 90

(000'S OMITTED), EXCEPT PER SHARE DATA

As of December 31, 2014

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Acquired Loans:							
Commercial Real Estate:							
Commercial Real Estate - construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - other	125	128	93	346	15,604	15,950	-
Commercial - non real estate	-	40	104	144	4,217	4,361	-
Consumer:							
Consumer - Real Estate	123	-	-	123	1,609	1,732	-
Consumer - Other	-	-	-	-	213	213	-
Residential:							
Residential	147	56	461	664	6,222	6,886	225
Total	$ 395	$ 224	$ 658	$ 1,277	$ 27,865	$ 29,142	$ 225

The Bank uses an eight tier risk rating system to grade its commercial loans. The grade of a loan may change during the life of the loans. The risk ratings are described as follows:

Risk Grade 1 (Excellent) - Prime loans based on liquid collateral, with adequate margin or supported by strong financial statements. Probability of serious financial deterioration is unlikely. High liquidity, minimum risk, strong ratios, and low handling costs are common to these loans. This classification also includes all loans secured by certificates of deposit or cash equivalents.

Risk Grade 2 (Good) - Desirable loans of somewhat less stature than Grade 1, but with strong financial statements. Probability of serious financial deterioration is unlikely. These loans possess a sound repayment source (and/or a secondary source). These loans represent less than the normal degree of risk associated with the type of financing contemplated.

Risk Grade 3 (Satisfactory) - Satisfactory loans of average risk – may have some minor deficiency or vulnerability to changing economic conditions, but still fully collectible. There may be some minor weakness but with offsetting features or other support readily available. These loans present a normal degree of risk associated with the type of financing. Actual and projected indicators and market conditions provide satisfactory assurance that the credit shall perform in accordance with agreed terms.

Risk Grade 4 (Acceptable) - Loans considered satisfactory, but which are of slightly "below average" credit risk due to financial weaknesses or uncertainty. The loans warrant a somewhat higher than average level of monitoring to insure that weaknesses do not advance. The level of risk is considered acceptable and within normal underwriting guidelines, so long as the loan is given the proper level of management supervision.

Risk Grade 4.5 (Monitored) - Loans are considered "below average" and monitored more closely due to some credit deficiency that poses additional risk but is not considered adverse to the point of being a "classified" credit. Possible reasons for additional monitoring may include characteristics such as temporary negative debt service coverage due to weak economic conditions; borrower may have experienced recent losses from operations, declining equity and/or increasing leverage, or marginal liquidity that may affect long-term sustainability. Loans of this grade have a higher degree of risk and warrant close monitoring to insure against further deterioration.

Risk Grade 5 (Other Assets Especially Mentioned) (OAEM) - Loans which possess some credit deficiency or potential weakness, which deserve close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future.

Risk Grade 6 (Substandard) - Loans are "substandard" whose full, final collectability does not appear to be a matter of serious doubt, but which nevertheless portray some form of well-defined weakness that requires close supervision by Bank management. The noted weaknesses involve more than normal banking risk. One or more of the following characteristics may be exhibited in loans classified Substandard: (1) Loans possess a defined credit weakness and the likelihood that the loan shall be paid from the primary source of repayment is uncertain; (2) Loans are not adequately protected by the current net worth and/or paying capacity of the obligor; (3) primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees; (4) distinct possibility that the Bank shall sustain some loss if deficiencies are not corrected; (5) unusual courses of action are needed to maintain a high probability of repayment; (6) the borrower is not generating enough cash flow to repay loan principal, however, continues to make interest payments; (7) the Bank is forced into a subordinated or unsecured position due to flaws in documentation; (8) loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to normal loan terms; (9) the Bank is contemplating foreclosure or legal action due to the apparent deterioration in the loan; or (10) there is a significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

(000'S OMITTED), EXCEPT PER SHARE DATA

Grade 7 (Doubtful) - Loans have all the weaknesses of those classified Substandard. Additionally, however, these weaknesses make collection or liquidation in full, based on existing conditions, improbable. Loans in this category are typically not performing in conformance with established terms and conditions. Full repayment is considered "Doubtful", but extent of loss is not currently determinable.

Risk Grade 8 (Loss) - Loans are considered uncollectible and of such little value, that continuing to carry them as an asset on the Bank's financial statements is not feasible.

The following tables present the risk category of loans by class of loans based on the most recent analysis performed as of December 31, 2015 and 2014:

As of December 31, 2015

Originated Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ 617	$ 323
3	-	14,385	10,548
4	-	21,355	8,682
4.5	140	2,735	214
5	-	2,998	192
6	-	4,556	2,030
7	-	-	-
8	-	-	-
Total	$ 140	$ 46,646	$ 21,989

As of December 31, 2015

Acquired Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ 221	$ 632
3	-	2,015	318
4	-	8,922	490
4.5	-	255	-
5	-	698	16
6	-	1,044	44
7	-	-	-
8	-	-	-
Total	$ -	$ 13,155	$ 1,500

(000'S OMITTED), EXCEPT PER SHARE DATA

As of December 31, 2014

Originated Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ -	$ 31
3	-	13,565	6,088
4	1,443	21,757	7,538
4.5	-	3,553	252
5	-	6,040	635
6	-	1,393	-
7	-	-	-
8	-	-	-
Total	$ 1,443	$ 46,308	$ 14,544

As of December 31, 2014

Acquired Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ 280	$ 1,188
3	-	2,696	876
4	-	10,905	970
4.5	-	337	21
5	-	1,176	1,150
6	-	547	156
7	-	9	-
8	-	-	-
Total	$ -	$ 15,950	$ 4,361

For residential real estate and other consumer credit the Company also evaluates credit quality based on the aging status of the loan and by payment activity. Loans 60 or more days past due are monitored by the collection committee.

The following tables present the risk category of loans by class based on the most recent analysis performed as of December 31, 2015 and 2014.

As of December 31, 2015

	Residential	Consumer - Real Estate	Consumer - Other	Residential	Consumer - Real Estate	Consumer - Other
	Originated Loans:			Acquired Loans:		
Loan Grade:						
Pass	$ 70,282	$ 7,103	$ 1,424	$ 5,096	$ 1,542	$ 104
Substandard	502	30	-	257	7	-
Total	$ 70,784	$ 7,133	$ 1,424	$ 5,353	$ 1,549	$ 104

As of December 31, 2014

	Residential	Consumer - Real Estate	Consumer - Other	Residential	Consumer - Real Estate	Consumer - Other
	Originated Loans:			Acquired Loans:		
Loan Grade:						
Pass	$ 64,397	$ 7,778	$ 1,155	$ 6,335	$ 1,731	$ 213
Substandard	545	24	3	551	1	-
Total	$ 64,942	$ 7,802	$ 1,158	$ 6,886	$ 1,732	$ 213

(000'S OMITTED), EXCEPT PER SHARE DATA

The following tables present the recorded investment in non-accrual loans by class as of December 31, 2015 and 2014:

	As of December 31	
	2015	2014
Commercial Real Estate:		
Commercial Real Estate - construction	$ -	$ -
Commercial Real Estate - other	409	486
Commercial	40	77
Consumer:		
Consumer - real estate	35	25
Consumer - other	-	-
Residential:		
Residential	751	750
Total	$ 1,235	$ 1,338

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2015 and 2014:

	Impaired Loans As of December 31, 2015			For the Twelve Months Ended December 31, 2015	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 95	$ 95	$ -	$ 142	$ 6
Commercial Real Estate - Other	663	663	-	769	47
Consumer - Real Estate	17	14	-	16	-
Residential	620	523	-	543	18
With a specific allowance recorded:					
Commercial	-	-	-	-	-
Commercial Real Estate - Other	924	924	9	944	48
Consumer - Other	-	-	-	-	-
Residential	162	151	21	153	1
Totals:					
Commercial	$ 95	$ 95	$ -	$ 142	$ 6
Commercial Real Estate - Construction	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Other	$ 1,587	$ 1,587	$ 9	$ 1,713	$ 95
Consumer - Real Estate	$ 34	$ 30	$ 16	$ 32	$ -
Consumer - Other	$ -	$ -	$ -	$ -	$ -
Residential	$ 782	$ 674	$ 21	$ 696	$ 19

	Impaired Loans As of December 31, 2014			For the Twelve Months Ended December 31, 2014	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Other	1,431	1,430	-	1,482	84
Consumer - Real Estate	26	24	-	26	-
Residential	781	618	-	635	14
With a specific allowance recorded:					
Commercial	-	-	-	-	-
Commercial Real Estate - Other	386	386	10	393	18
Consumer - Real Estate	-	-	-	-	-
Residential	-	-	-	-	-
Totals:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Construction	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Other	$ 1,817	$ 1,816	$ 10	$ 1,875	$ 102
Consumer - Real Estate	$ 26	$ 24	$ -	$ 26	$ -
Consumer - Other	$ -	$ -	$ -	$ -	$ -
Residential	$ 781	$ 618	$ -	$ 635	$ 14

(000'S OMITTED), EXCEPT PER SHARE DATA

As of December 31, 2015 no additional funds are committed to be advanced in connection with impaired loans.

A restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. The Company adheres to ASC 310-40, Troubled Debt Restructurings by Creditors, to determine whether a TDR applies in a particular instance. Prior to loans being modified and classified as a TDR, specific reserves are generally assessed, as most of these loans have been specifically allocated for as part of the Company's normal loan loss provisioning methodology. The Company allocated $9 and $10 reserves for the TDR loans at December 31, 2014 and December 31, 2013, respectively. The Company classifies all TDR loans as impaired loans in the table above.

The following table summarizes the loans that were modified as a TDR during the period ended December 31, 2015. There were no loans modified as TDR during the period ended December 31, 2014.

For the Twelve Months Ended
December 31, 2015

				Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investment	Number of Contracts	Recorded Investment
Commercial Real Estate - Construction	-	$ -	$ -	-	$ -
Commercial Real Estate - Other	-	-	-	-	-
Commercial - non real estate	1	39	39	-	-
Residential	-	-	-	-	-
Total	1	$ 39	$ 39	-	$ -

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan, however, forgiveness of principal is rarely granted. Commercial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans.

Additional collateral, a co-borrower, or a guarantor may be requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor.

Loans modified in a TDR may be on non-accrual status and partial charge-offs have in some cases already been taken against the outstanding loan balance. As a result, loans modified in a TDR for the Company may have the financial effect of increasing the specific allowance associated with the loan. The allowance for impaired loans that have been modified in a TDR is measured based on the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent or on the present value of expected future cash flows discounted at the loan's effective interest rate if the loan is performing in accordance with the modified terms. Management exercises significant judgment in developing these estimates.

The regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged and the borrower has not reaffirmed the debt, regardless of the delinquency status of the loan. The filing of bankruptcy by the borrower is evidence of financial difficulty and the discharge of the obligation by the bankruptcy court is deemed to be a concession granted to the borrower.

(000'S OMITTED), EXCEPT PER SHARE DATA

At December 31, 2015, there were no additional commitments to lend additional funds to the related debtors whose terms have been modified in a TDR.

The Bank uses the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge down in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 120 days delinquent, secured consumer loans are charged down to the value of collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial credits are charged down at 90 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-off may be realized as further unsecured positions are recognized.

The ALLL has a direct impact on the provision expense. An increase in the ALLL is funded through recoveries and provision expense.

Activity in the ALLL was as follows for the years ended December 31, 2015 and 2014:

For the Year Ended December 31, 2015	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$ 8	$ 307	$ 94	$ 33	$ 19	$ 869	$ 99	$ 1,429
Charge-offs	-	(3)	-	(11)	(19)	(63)	-	(96)
Recoveries	13	617	5	32	16	78	-	761
Provision	(20)	(417)	134	(18)	(3)	(207)	(4)	(535)
Ending Balance	$ 1	$ 504	$ 233	$ 36	$ 13	$ 677	$ 95	$ 1,559
Ending balance: individually evaluated for impairment	$ -	$ 9	$ -	$ 16	$ -	$ 21	$ -	$ 46
Ending balance: collectively evaluated for impairment	$ 1	$ 495	$ 233	$ 20	$ 13	$ 656	$ 95	$ 1,513
Loans:								
Ending Balance	$ 140	$ 59,801	$ 23,489	$ 8,682	$ 1,528	$ 76,137	$ -	$ 169,777
Ending balance: individually evaluated for impairment	$ -	$ 1,587	$ 95	$ 30	$ -	$ 674	$ -	$ 2,386
Ending balance: collectively evaluated for impairment	$ 140	$ 45,060	$ 21,893	$ 7,103	$ 1,424	$ 70,110	$ -	$ 145,730
Acquired loans not subject to loan loss reserve	$ -	$ 13,154	$ 1,501	$ 1,549	$ 104	$ 5,353	$ -	$ 21,661

(000'S OMITTED), EXCEPT PER SHARE DATA

For the Year Ended December 31, 2014	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$ 48	$ 444	$ 63	$ 62	$ 21	$ 784	$ 50	$ 1,472
Charge-offs	(12)	(241)	-	(14)	(24)	(177)	-	(468)
Recoveries	-	54	2	30	-	55	-	141
Provision	(28)	50	29	(45)	22	207	49	284
Ending Balance	$ 8	$ 307	$ 94	$ 33	$ 19	$ 869	$ 99	$ 1,429
Ending balance: individually evaluated for impairment	$ -	$ 10	$ -	$ -	$ -	$ -	$ -	$ 10
Ending balance: collectively evaluated for impairment	$ 8	$ 297	$ 94	$ 33	$ 19	$ 869	$ 99	$ 1,419
Loans:								
Ending Balance	$ 1,443	$ 62,163	$ 19,000	$ 9,502	$ 1,403	$ 71,828	$ -	$ 165,339
Ending balance: individually evaluated for impairment	$ -	$ 1,816	$ -	$ 24	$ -	$ 618	$ -	$ 2,458
Ending balance: collectively evaluated for impairment	$ 1,443	$ 44,492	$ 14,544	$ 7,778	$ 1,158	$ 64,324	$ -	$ 133,739
Acquired loans not subject to loan loss reserve	$ -	$ 15,855	$ 4,456	$ 1,700	$ 245	$ 6,886	$ -	$ 29,142

Note 5 - Property and Equipment

A summary of property and equipment is as follows:

	December 31, 2015	December 31, 2014
Land	$ 1,081	$ 1,271
Land improvements	166	195
Buildings	6,745	7,058
Equipment	3,747	3,959
Total property and equipment	11,739	12,483
Accumulated depreciation	5,410	6,147
Net property and equipment	$ 6,329	$ 6,336

Depreciation expense was $420 and $337 for the periods ended December 31, 2015 and 2014, respectively.

Note 6 – Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgage and other loans serviced for others were approximately $118.4 million and $125.4 million at December 31, 2015 and 2014, respectively. The key economic assumptions used in determining the fair value of the mortgage servicing rights are as follows:

	December 31, 2015	December 31, 2014
Annual constant prepayment speed (CPR)	10.41%	11.46%
Weighted average life (in months)	245	244
Discount rate	9.49%	9.38%

The fair value of our mortgage servicing rights was estimated to be $973 and $1.0 million at December 31, 2015 and December 31, 2014.

(000'S OMITTED), EXCEPT PER SHARE DATA

The following table summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	December 31, 2015	December 31, 2014
Balance - beginning of period:	$ 710	$ 860
Originated mortgage servicing rights capitalized	131	111
Amortization of mortgage servicing rights	(263)	(261)
Balance - end of period	$ 578	$ 710

Note 7 - Intangible Assets

Intangible assets of the Company are summarized as follows:

December 31, 2015	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit (merger)	$ 1,392	$ 348	$ 1,044

December 31, 2014	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit (merger)	$ 1,392	$ 106	$ 1,286
Core deposit (purchase)	25	25	-
Commission residual	600	600	-
Total	$ 2,017	$ 731	$ 1,286

Amortization expense was $243 and $146 for the periods ended December 31, 2015 and 2014, respectively. In accordance with the merger with Bank of Alpena in 2014, the Company recorded $1.4 million in core deposit intangible assets.

The estimated future amortization expense on the Company's core deposit intangible asset for the years ending after December 31, 2015 is as follows:

	Amortization Expense
2016	$217
2017	192
2018	167
2019	141
2020	116
Thereafter	211
Total	$ 1,044

Note 8 - Deposits

Deposit accounts, by type, consist of the following:

Account Type	December 31, 2015	December 31, 2014
NOW accounts and MMDA	$ 103,980	$ 107,935
Regular savings accounts	30,569	29,846
Total	134,549	137,781
Certificate of Deposit		
Certificate of Deposits ≤ $250,000	66,074	68,189
Certificate of Deposits > $250,000	6,250	8,732
Total certificate of deposits	72,324	76,921
Total interest-bearing deposits	$ 206,873	$ 214,702

The following table sets forth the amount and maturities of certificates of deposit:

Years Ending December 31	Amount
2016	$ 36,209
2017	11,682
2018	7,107
2019	9,572
2020	7,423
Thereafter	331
	$72,324

Deposits from related parties held by the Bank at December 31, 2015 and 2014 amounted to $10.8 million and $13.3 million, respectively.

(000'S OMITTED), EXCEPT PER SHARE DATA

Note 9 - Federal Home Loan Bank and Federal Reserve Advances

The Bank has advances from the Federal Home Loan Bank of Indianapolis. Interest rates range from 0.58% to 2.21% with a weighted average interest rate of 1.14%. These advances contain varying maturity dates through January 3, 2023 with a weighted average maturity of approximately 20 months. The advances are collateralized by approximately $53.8 million and $48.9 million of mortgage loans as of December 31, 2015 and 2014, respectively. In addition, at December 31, 2015 and 2014, securities with a carrying value of $16.8 million and $21.2 million, respectively, were pledged as collateral for Federal Home Loan Bank advances. Available borrowings with the Federal Home Loan Bank at December 31, 2014 totaled $58.6 million, of which $32.9 million was outstanding.

The Bank had $8.5 million and $0 million of variable rate advances outstanding as of December 31, 2015 and 2014, respectively.

The advances are subject to prepayment penalties subject to the provisions and conditions of the credit policy of the Federal Home Loan Bank. Future maturities of the advances are as follows:

Years Ending December 31		Amount
2016	$	18,411
2017		3,080
2018		7,381
2019		1,208
2020		2,693
Thereafter		155
Total	$	32,928

In 2009, the Bank entered into a discount window loan agreement with the Federal Reserve Bank that allows for advances up to seventy-five percent of the collateral balance. As of December 31, 2015, these advances are secured by investment securities with a fair value of approximately $8.4 million and are generally due within 28 days from the date of the advance. The interest rate on the advances is based on the quoted Federal Reserve discount window rate (effective rate of 1.0% as of December 31, 2015). At December 31, 2015 and 2014, the Bank had no outstanding advances.

Note 10 - Federal Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed.

The Company and the Bank file a consolidated Federal income tax return. The analysis of the consolidated provision for federal income tax is as follows:

	Year Ended December 31,			
	2015		2014	
Current provision	$	-	$	-
Deferred expense		676		807
Change in valuation allowance		(2,326)		(807)
Total	$	(1,650)	$	-

A reconciliation of the federal income tax expense and the amount computed by applying the statutory federal income tax rate (34 percent) to income before federal income tax is as follows:

	Year Ended December 31,			
	2015		2014	
Tax expense at statutory rate	$	604	$	19
Increase (decrease) from:				
Nondeductible expenses		5		-
Tax-exempt interest		(38)		(52)
Change in valuation allowance		(2,326)		57
Other		105		(24)
Total income tax benefit	$	(1,650)	$	-

(000'S OMITTED), EXCEPT PER SHARE DATA

The net deferred tax asset was comprised of the following temporary differences:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Acquired loans	$ 533	$ 565
Other real estate owned	79	202
Non-accrual loan interest	132	155
Directors' benefit plan	225	251
Net operating loss carryforward	3,216	4,177
Net deferred loan origination fees	80	89
Allowance for loan losses	194	-
Alternative minimum tax credit	78	-
Other	40	90
Total deferred tax assets	4,577	5,529
Less: valuation allowance	779	3,090
Deferred tax liabilities:		
Allowance for loan losses	-	306
Mortgage servicing rights	196	242
Partnership losses	138	132
Unrealized gain on available-for-sale securities	93	222
Depreciation	108	115
Core deposit intangible	355	437
Other	293	134
Total deferred tax liabilities	1,183	1,588
Net deferred tax asset	$ 2,615	$ 851

The Company has net operating loss carryforwards of approximately $9.4 million generated from December 31, 2007 through December 31, 2014 that are available to reduce total taxable income through the years ending December 31, 2033.

Note 11 – Off-Balance Sheet Risk Commitments and Contingencies

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of financial condition.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2015	December 31, 2014
Commitments to grant loans	$ 13,329	$ 9,020
Unfunded commitments under lines of credit	17,652	15,022
Commercial and standby letters of credit	130	134

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. In most cases, these lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily used to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. Fees earned on commercial and standby letters of credit are required to be deferred over the contractual life of the letter of credit. The Company determined that the fair value of guarantees on standby letters of credit has an immaterial effect on the financial results at December 31, 2015 and 2014.

To reduce credit risk related to the use of credit-related financial instruments, the Company generally holds collateral supporting those commitments if deemed necessary. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies, but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Company is permitted to sell or repledge the collateral on short notice, the Company records the collateral in its balance sheet at fair value with a corresponding obligation to return it.

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's financial statements.

Note 12 - Stockholders' Equity

Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and depends on a number of factors, including capital requirements, regulatory limitation on payment of dividends, the Bank's results of operations and financial condition, tax considerations, and general economic conditions.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications, well capitalized, adequately capitalized, undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. The Bank was well-capitalized as of December 31, 2015 and 2014.

Beginning in 2015, banks transitioned to the new federal banking agencies revisions to the capital rules which incorporated certain changes to the Basel capital framework, including Basel III and other elements. These regulations are considered in the 2015 ratios below and include several provisions such as the implementation of a common equity tier ratio, modifications to risk weightings of certain assets, and a phase in of a capital conservation buffer and threshold deductions of certain instruments inclusion in capital.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables.

	Actual Amount	Ratio	Regulatory Minimum Amount	Regulatory Minimum Ratio	Minimum to be Well Capitalized Amount	Minimum to be Well Capitalized Ratio
	Dollars in Thousands					
December 31, 2015						
Tier 1 Leverage Ratio (core capital to average assets)	$ 30,004	8.83%	$ 13,589	4.00%	$ 16,986	5.00%
Common Equity Tier 1 Risk-based capital (to risk-weighted assets)	$ 30,004	17.00%	$ 7,944	4.50%	$ 11,475	6.50%
Tier 1 Risk-based capital (to risk-weighted assets)	$ 30,004	17.00%	$ 10,592	6.00%	$ 14,123	8.00%
Total Risk-based capital (to risk-weighted assets)	$ 31,563	17.88%	$ 14,123	8.00%	$ 17,654	10.00%
December 31, 2014						
Total capital (to risk-weighted assets)	$ 29,092	16.9%	$ 13,778	8.0%	$ 17,223	10.00%
Tier 1 capital (to risk-weighted assets)	$ 27,662	16.1%	$ 6,889	4.0%	$ 10,334	6.00%
Tangible capital (to tangible assets)	$ 27,662	8.5%	$ 4,858	1.5%	$ 6,477	2.00%

Note 13 - Employee Benefit Plan

Defined Benefit Pension Plan

The Bank is a participant in the multiemployer Financial Institutions Retirement Fund (FIRF or the "Plan"), which covers substantially all of its officers and employees. The defined benefit plan covers all employees who have completed one year of service, attained age 21, and worked at least 1,000 hours during the year. Normal retirement age is 65, with reduced benefits available at age 55. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan. Specific Plan assets and accumulated benefit information for the Bank's portion of the Plan are not available. Under the Employee Retirement Income Security Act of 1974 (ERISA), a contributor to a multiemployer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA. Effective July 1, 2005 the plan was frozen as to current participants and any new employees hired after July 1, 2004 were excluded from the plan. The expense of the Plan allocated to the Bank was $76 and $103 for the years ended December 31, 2015 and 2014, respectively.

401(k) Savings Plan

The Bank has a 401(k) savings plan covering substantially all of its employees who meet certain age and service requirements. Contributions to the plan by the Bank are discretionary in nature in such amounts determined by the Board of Directors. The expense under the plan for the years ended December 31, 2015 and 2014 was $122 and $96, respectively.

Nonqualified Deferred Compensation Plan

The Bank has a nonqualified deferred compensation plan for certain of its directors. Through 1998, each eligible director could voluntarily defer all or part of his or her director's fees to participate in the program. The plan is currently unfunded and amounts deferred are unsecured and remain subject to claims of the Bank's general creditors.

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Directors are paid once they reach normal retirement age or sooner for reason of death, total disability, or termination. The Bank may terminate the plan at any time. The amount recorded under the plan totaled approximately $661 and $738 at December 31, 2015 and 2014, respectively. The expense under the plan for the years ended December 31, 2015 and 2014 was $69 and $73, respectively.

Stock-Based Compensation Plans

The Company's 1996 Stock Option Plan (the "1996 Plan"), which was approved by shareholders, permits the grant of stock options to its directors and employees for up to 127,491 shares of common stock (retroactively adjusted for the exchange ratio applied in the Company's 2005 stock offering and related second-step conversion). The Company's 2006 Stock-Based Incentive Plan (the "2006 Plan"), which was approved by the shareholders on May 17, 2006, permits the award of up to 242,740 shares of common stock of which the maximum number to be granted as Stock Options is 173,386 and the maximum that can be granted as Restricted Stock Awards is 69,354. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continual service and have ten year contractual terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plans). Shares issued under the Plan and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

Stock Options - A summary of option activity under the Plans during the years ended December 31, 2015 and 2014 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at January 1, 2014	150,030	$9.52	2.40
Forfeited or Expired	(14,000)	$9.30	
Outstanding at December 31, 2014	136,030	$9.54	1.40
Forfeited or expired	(14,650)	$9.36	
Oustanding at December 31, 2015	121,380	$9.57	0.50
Options Exercisable at December 31, 2015	121,380	$9.57	0.50

There were 74,906 shares available for future granting of options as of December 31, 2015.

As of December 31, 2015, the total compensation cost of the Plans was fully recognized. The total fair value of shares vested during the year ended December 31, 2015 and 2014 was $0 and $0, respectively. Compensation expense for 2015 and 2014 related to options granted under this plan was $0 and $0, respectively.

All stock options were fully vested at December 31, 2015 and 2014, respectively.

Restricted Stock Awards – The Company did not grant any award shares during the years ended December 31, 2015 and 2014. Compensation expense for 2015 and 2014 related to awards granted under this plan was $0 and $0, respectively.

The shares vest over a five year service period. As of December 31, 2015, the total compensation cost of the Plan was fully recognized. In addition, there were no restricted stock awards under the plan that were unvested at December 31, 2015 and 2014, respectively.

(000'S OMITTED), EXCEPT PER SHARE DATA

There were 5,304 shares available for future grants of award shares at December 31, 2015.

Note 14 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Company's assets measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Investment securities - available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ -	$ 34,975	$ -	$ 34,975
Municipal notes	-	27,805	724	28,529
Mortgage-backed securities	-	64,910	-	64,910
Equity securities	4	-	-	4
Total investment securities - available-for-sale	$ 4	$ 127,690	$ 724	$ 128,418

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Investment securities - available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ -	$ 31,222	$ -	$ 31,222
Municipal notes	-	21,751	1,383	23,134
Corporate securities	-	1,561		1,561
Mortgage-backed securities	-	64,046	-	64,046
Equity securities	5	-	-	5
Total investment securities - available-for-sale	$ 5	$ 118,580	$ 1,383	$ 119,968

(000'S OMITTED), EXCEPT PER SHARE DATA

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Investment Securities Available for Sale
Balance at December 31, 2014	$ 1,383
Total unrealized gains included in other comprehensive income	103
Net purchases, sales, calls and maturities	(762)
Balance at December 31, 2015	$ 724

Fair value measurements of U.S. Government agencies and mortgage backed securities use pricing models that vary and may consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures.

There were no transfers between Levels 1 and 2 of the fair value hierarchy during the years ended December 31, 2015 and 2014. For the available for sale securities, the Company obtains fair value measurements from an independent third-party service.

The Company also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans (see Note 4) and other real estate owned.

The change in fair value of impaired loans is recorded through the ALLL. The Company estimates the fair value of impaired loans based on Level 3 inputs which include the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Other real estate owned assets are reported in the following table at initial recognition of impairment and on an ongoing basis until recovery or charge-off. At the time of foreclosure or repossession, real estate owned and repossessed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis. At that time, they are reported in the Company's fair value disclosures in the following nonrecurring tables:

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2015

	Balance at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Originated Assets:				
Impaired loans accounted for under FASB ASC 310-10	$ 1,673	$ -	$ -	$ 1,673
Other real estate owned -residential mortgages	269	-	-	269
Other real estate owned - commercial	94	-	-	94
Other repossessed assets	808	-	-	808
Total assets at fair value on a non-recurring basis				$ 2,844
Acquired Assets:				
Impaired loans accounted for under FASB ASC 310-10	$ 449	$ -	$ -	$ 449
Total assets at fair value on a non-recurring basis				$ 449

(000'S OMITTED), EXCEPT PER SHARE DATA

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2014

	Balance at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Originated Assets:				
Impaired loans accounted for under FASB ASC 310-10	$ 1,806	$ -	$ -	$ 1,806
Other real estate owned -residential mortgages	336	-	-	336
Other real estate owned - commercial	1,628	-	-	1,628
Other repossessed assets	860	-	-	860
Total assets at fair value on a non-recurring basis				$ 4,630
Acquired Assets:				
Impaired loans accounted for under FASB ASC 310-10	$ 396	$ -	$ -	$ 396
Total assets at fair value on a non-recurring basis				$ 396

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying amounts of cash and short-term instruments approximate fair values.

Securities - Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Federal Home Loan Bank Stock - The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Deposit Liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances - The estimated fair value of the fixed and variable rate Federal Home Loan Bank advances are estimated by discounting the related cash flows using the rates currently available for similarly structured borrowings with similar maturities.

Accrued Interest - The carrying amounts of accrued interest approximate fair value.

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

(000'S OMITTED), EXCEPT PER SHARE DATA

The estimated fair values and related carrying amounts of the Company's financial instruments as of December 31, 2015 and 2014 are as follows:

December 31, 2015	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$ 7,603	$ 7,603	$ -	$ -	$ 7,603
Deposits held at other financial institutions	9,390	-	9,436	-	9,436
Securities available for sale	128,418	-	127,694	724	128,418
Securities held to maturity	745	-	746	-	746
Loans held for sale	563			584	584
Loans receivable - net	167,984	-	-	166,796	166,796
Federal Home Loan Bank stock	1,636	-	1,636	-	1,636
Accrued interest receivable	1,039	-	-	1,039	1,039
Financial liabilities:					
Customer deposits	268,527	-	269,080	-	269,080
Federal Home Loan Bank advances	32,928	-	32,645	-	32,645
Accrued interest payable	102	-	-	102	102

December 31, 2014	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$ 11,254	$ 11,254	$ -	$ -	$ 11,254
Deposits held at other financial institutions	8,429	-	8,424	-	8,424
Securities available for sale	119,968	-	118,585	1,383	119,968
Securities held to maturity	790	-	908	-	908
Loans held for sale	88			90	90
Loans receivable - net	163,647	-	-	163,690	163,690
Federal Home Loan Bank stock	2,591	-	2,591	-	2,591
Accrued interest receivable	986	-	-	986	986
Financial liabilities:					
Customer deposits	270,734	-	271,200	-	271,200
Federal Home Loan Bank advances	22,885	-	22,696	-	22,696
Accrued interest payable	101	-	-	101	101

Note 15 - Restrictions on Dividends

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to shareholders and for other working capital needs. The payment of dividends by the Bank to the Company is subject to restrictions by the Office of the Comptroller of Currency (OCC). These restrictions generally limit dividends to the current and prior two years' retained earnings. In addition to these restrictions, as a practical matter, dividend payments cannot reduce regulatory capital levels below the Bank's regulatory capital requirements and minimum regulatory guidelines. Future dividend payments by the Company will be based on future earnings and the approval of the OCC.

Annual Stockholder Meeting

The Annual Meeting of Stockholders will be held at 1:00 p.m., May 18, 2016 at the Art in the Loft, 109 N. Second Ave. Suite 300, Alpena, MI 49707.

Stock Listing

The Company's common stock is traded on the OTCQX market under the symbol “FFNM”.

Price Range of Common Stock

The following sets forth the quarterly high and low closing price per share and cash dividends declared during each of the four quarters in 2015 and 2014.

	Market Price		
Quarter Ended	High	Low	Cash Dividend Declared
December 31, 2015	$6.73	$5.93	$ 0.030
September 30, 2015	$6.69	$6.02	$ 0.030
June 30, 2015	$6.80	$5.74	$ 0.020
March 31, 2015	$6.10	$5.36	$ 0.020
December 31, 2014	$5.80	$4.70	$ 0.020
September 30, 2014	$6.20	$5.33	$ 0.020
June 30, 2014	$6.12	$4.82	$ 0.020
March 31, 2014	$5.40	$4.88	$ 0.020

Special Counsel

Luse Gorman, PC
5335 Wisconsin Avenue, N.W.
Suite 780
Washington, D.C. 20015

Independent Auditor

Andrews Hooper & Pavlik, PLC
5300 Gratiot Road
Saginaw MI 48638

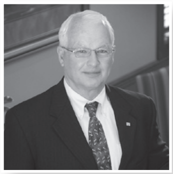
Market Maker

Raymond James & Associates, Inc.
222 South Riverside Plaza
7th Floor
Chicago, IL 60606
312-655-3000

Transfer Agent

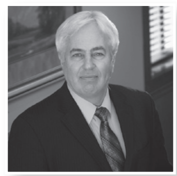
Computershare Investor Services
211 Quality Circle
Suite 210
College Station, TX 77845
800-368-5948

Directors

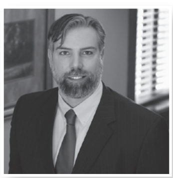


Martin A. Thomson has been Chairman of the Board of Directors since May 2008. He was President and Chief Executive Officer of the Company and Bank from May 2001. In January 2006, Mr. Thomson relinquished the position of President and in May 2008 relinquished the position of Chief Executive Officer and assumed the role of Chairman of the Board of Directors of the Company and Bank. Mr. Thomson previously held the position of President and Chief Executive Officer of Presque Isle Electric and Gas Co-op., Onaway, Michigan. Mr. Thomson has been a director of the Bank since 1986, and a director of the Company since its formation in November 2000.

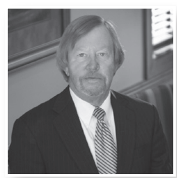
Gary C. VanMassenhove is a Certified Public Accountant at Straley, Lamp and Kraenzlein, CPA firm. Mr. VanMassenhove has been a Certified Public Accountant for 45 years. He has been a director of the Company and the Bank since September 2001.



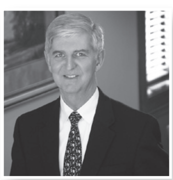
Thomas R. Townsend is the President of the R.A. Townsend Co., a plumbing, heating and air conditioning distributor located in Alpena, Michigan, where he has been employed for the past 38 years. Mr. Townsend has been a director of the Company and the Bank since April 2002.



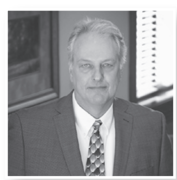
James E. Kraenzlein is a partner in Straley, Lamp and Kraenzlein CPA firm. Mr. Kraenzlein has been a Certified Public Accountant for 19 years. He has been a director of the Company since June 2013.



Timothy E. Fitzpatrick is the President of WMCR, Inc., a restaurant holding company located in Alpena, Michigan, where he has been employed for the past 36 years. Mr. Fitzpatrick has been a director of the Company since August 2014.



Christopher B. McCoy is the President of Magnaloy Coupling, a manufacturing company that produces a light weight, heavy-duty flexible drive coupling, located in Alpena Michigan, where he has been employed for the past 39 years. Mr. McCoy has been a director of the Company since August 2014.



Eric G. Smith is the President of Panel Processing, a panel fabricating plant located in Alpena Michigan, where he has been employed for the past 24 years. Mr. Smith is a Certified Public Accountant and has been a director of the Company since August 2014.

Michael W. Mahler currently serves as the Chief Executive Officer of the Company and the Bank. In May 2008 he was named President and Chief Executive Officer of the Company and the Bank. Preceding that appointment, beginning in January 2006, he served as the President and Chief Operating Officer of the Company and the Bank. Prior to that designation, since November 2004, Mr. Mahler served as Executive Vice President of the Company and the Bank and had served, since November 2002, as Chief Financial Officer. From September 2000 until November 2002, Mr. Mahler was Corporate Controller at Besser Company, Alpena, Michigan, an international producer of concrete products equipment. From 1990 until 2000, Mr. Mahler was employed at LTV Steel Company, East Chicago, Indiana where he served in financial roles of increasing responsibility and served, from 1997 until 2000, as Controller for a northeast Michigan division. Mr. Mahler has been a Director of the Bank since January 2006 and of the Company since May 2008.

Executive Officers Who Are Not Directors

Craig A. Kus was named President and Chief Operating Officer of the Company and Bank in August 2014. Prior to joining the Bank, Mr. Kus served as the President and Chief Executive Officer of the Bank of Alpena and Alpena Banking Corporation, Alpena Michigan, a position he held since the bank's inception in 2001. Mr. Kus has been in the banking profession since 1977.

Jerome W. Tracey was named Executive Vice President, of the Company, and Chief Lending Officer of the Bank in January 2006. Mr. Tracey had served as Senior Vice President, Senior Lender of the Company and the Bank since September 2001 and served as Vice President of Commercial Services since joining the Bank in November 1999. Prior to joining the Bank, Mr. Tracey served as Vice President of Commercial Lending for National City Bank, Alpena, Michigan, a position he held since 1996. Mr. Tracey has been in the banking profession since 1981.

Eileen M. Budnick was named VP- Director of Financial Reporting & Accounting, Treasurer and Corporate Secretary of the Company and the Bank in May 2013. Mrs. Budnick had served as Controller of the Bank since April 2008 and had served, since February 2007, as Assistant Controller, and prior to that appointment served, since February 2002, as a staff accountant for the Bank. Prior to February 2002, Mrs. Budnick was employed at Alpena Alcona Area Credit Union serving in various banking positions since September 1993.

Executive Management of the Bank

Michael W. Mahler, Craig A. Kus, Jerome W. Tracey, Eileen M. Budnick, and Joseph P. Garber.

Officers of the Bank

Michael W. Mahler, Craig A. Kus, Jerome W. Tracey, Eileen M. Budnick, Joseph P. Garber, Joseph W. Gentry II, Kathleen R. Brown, Jerome P. Schmidt, Steven T. Mousseau, Tifanie A. Tremble, and Stevens P. Loomis.

Executive Management of the Bank
Pictured Left to Right

Jerome W. Tracey, Craig A. Kus, Michael W. Mahler, Eileen M. Budnick, Joseph P. Garber

FIRST FEDERAL OF NORTHERN MICHIGAN

BRANCH LOCATIONS

ALPENA
100 South Second Avenue • Alpena, MI 49707
Phone 989-356-9041 • Fax 989-354-8671

468 North Ripley Boulevard • Alpena, MI 49707
Phone 989-358-9900 • Fax 989-358-9909

ALANSON
6232 River Street • Alanson, MI 49706
Phone 231-548-2251 • Fax 231-548-2928

CHEBOYGAN
350 South Main Street • Cheboygan, MI 49721
Phone 231-627-9951• Fax 231-627-4727

GAYLORD
1000 South Wisconsin Avenue • Gaylord, MI 49735
Phone 989-705-1582 • Fax 989-705-7378

LEWISTON
2885 South County Road #489 • Lewiston, MI 49756
Phone 989-786-9114 • Fax 989-786-9133

MIO
308 North Morenci Avenue • Mio, MI 48647
Phone 989-826-3274 • Fax 989-826-6605

OSCODA
201 North State Street • Oscoda, MI 48750
Phone 989-739-2061 • Fax 989-739-0760