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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. ANNOUNCES SECOND QUARTER 2016 RESULTS

Alpena, Michigan - (July 22, 2016) First Federal of Northern Michigan Bancorp, Inc. (OTCQX: FFNM) (the "Company") reported consolidated net income of $197,000, or $0.05 per basic and diluted share, for the quarter ended June 30, 2016 compared to $380,000, or $0.10 per basic and diluted share, for the quarter ended June 30, 2015.

Consolidated net income for the six months ended June 30, 2016 was $457,000, or $0.12 per basic and diluted share, compared to $735,000, or $0.20 per basic and diluted share for the six months ended June 30, 2015.

Listed below are highlights related to the Company's results for the three and six months ended June 30, 2016:

- An $83,000 decrease quarter over quarter to net interest income and a $77,000 decrease when comparing the six months ended June 30, 2016 and 2015. The decline is attributed to further margin compression related to the current interest rate environment.
- $25,000 in provision expense for the three months ended June 30, 2016 compared to income of $45,000 for the three months ended June 30, 2015 and an expense of $57,000 for the six months ended June 30, 2016 compared to income of $22,000 the six months ended June 30, 2015.
- Decreases to non-interest income of $64,000 quarter over quarter and $73,000 when comparing the six months ended June 30, 2016 and 2015, primarily related to a decline in mortgage banking activities and insurance and brokerage commission received.
- A decrease of $34,000 quarter over quarter in the Company's non-interest expense and an increase of $49,000 when comparing the six months ended June 30, 2016 and 2015, primarily related to occupancy expenses associated with recent technology upgrades.
- Tangible book value per share at June 30, 2016 was $9.02 compared to $8.02 at June 30, 2015.
- First Federal of Northern Michigan remains "well-capitalized" for regulatory purposes.

Michael W. Mahler, Chief Executive Officer of the Company, commented, "The interest rate environment remains a challenge. We had anticipated margins bottoming out in 2015 however; we experienced additional margin contraction in the first half of this year. This operating environment reinforces our decision late in 2015 to expand markets and increase commercial lending staff. The planned restructure of the balance sheet replacing lower yielding bonds with higher rate loans we believe will abate further margin contraction. We are encouraged by the dollar volume of commitments letters signed at the end of the second quarter along with the most robust loan pipeline we have seen in more than a decade. All of this activity is being achieved without reducing underwriting standards."

Mahler further added “Also impacting our performance in 2016 is the recorded provision expense for both the quarter and year-to-date while recognizing income during these same periods in 2015 as a result of significant recoveries. Our asset quality remains solid but the pace of recoveries has slowed in the current year. On the expense side, when compared to the same quarter a year earlier, we have reduced compensation and employee benefits by $80,000. For the year the savings are $36,000. These savings would have been higher had it not been for unforeseen increases in the expenses associated with healthcare. In an effort to control rising health care costs in 2016 the Bank elected to self-insure a layer of risk, to reduce monthly healthcare premiums. The usage this year has negatively impacted our results for both the quarter and year in terms of increased health reimbursement expenses associated with the layer of self-insurance. In response, the Bank continues to proactively seek options to mitigate these increased healthcare costs while not negatively impacting our service levels.”

Financial Condition

Total assets of the Company at June 30, 2016 were $333.7 million, a decrease of $2.4 million, or less than 1.0%, from total assets of $336.0 million at December 31, 2015. Net loans receivable increased $1.7 million to $169.7 million at June 30, 2016. When compared to December 31, 2015 we have seen a $1.5 million increase in our commercial loan portfolio as we have focused our efforts on growing loans organically in and around our market areas. In addition, we have experienced a $462,000 increase in our mortgage loan portfolio as we continue to retain high quality adjustable rate mortgages and 10- and 15-year fixed rate loans. Partially offsetting this increase was a decrease of $136,000 in our consumer loan portfolio.

	June 30, 2016	December 31, 2015
Mortgage Loans	$ 76,268	$ 75,806
Consumer Real Estate	8,572	8,726
Consumer Other	1,522	1,504
Commercial Real Estate	59,523	60,077
Commercial Other	25,495	23,430
Total gross loans	$ 171,380	$ 169,543
Loan Loss Reserve	(1,656)	(1,559)
Net Loans Receivable	$ 169,724	$ 167,984

Deposits increased $5.0 million during the first six months of 2016 to $273.6 million at June 30, 2016. While the balance of our Federal Home Loan Bank advances decreased $9.1 million during the six months ended June 30, 2016.

Stockholders’ equity was $34.6 million at June 30, 2016 compared to $33.4 million at December 31, 2015. The increase was due primarily to net income of $457,000 and an increase of $1.1 million in the unrealized gain on available for sale securities net of tax, partially offset by the payment of $298,000 in dividends to shareholders. First Federal of Northern Michigan’s regulatory capital remains at levels in excess of regulatory requirements, as shown in the table below.

	Actual		Regulatory Minimum *		Minimum to be Well Capitalized *	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					
Tier 1 Leverage Capital (tier 1 to quarterly average assets):	$ 30,311	9.19%	$ 13,199	4.00%	$ 16,498	5.00%
Common Equity Tier 1 Risk-based Capital (core capital to risk-weighted assets):	$ 30,311	17.26%	$ 7,901	4.50%	$ 11,412	6.50%
Tier 1 Risk-based Capital (tier 1 to risk-weighted assets):	$ 30,311	17.26%	$ 10,534	6.00%	$ 14,046	8.00%
Total Risk-based Capital (risk-based capital to risk weighted assets):	$ 31,967	18.21%	$ 14,046	8.00%	$ 17,557	10.00%
Tangible Capital (tangible capital to tangible assets):	$ 30,311	9.13%	$ 6,642	1.50%	$ 16,604	N/A

* The minimum required regulatory ratios do not include the conservation buffer that began on January 1, 2016, which will be fully phased in by January 1, 2019.

Results of Operations

Interest income decreased to $2.6 million for the three months ended June 30, 2016 from $2.7 million for the year earlier period, due mainly to an 11 basis point decrease in our yield on interest-earning assets from 3.42% to 3.31% period over period. Interest income decreased to $5.2 million for the six-month period ended June 30, 2016 from $5.3 million for the same period in 2015, due mainly to a decrease of 7 basis points in our yield on interest-earning assets from 3.39% for the six months ended June 30, 2015 to 3.32% for the same period in 2016. While our yields decreased we experienced an increase of $2.2 million and $2.9 million for the three- and six- month periods ended June 30, 2016, respectively, in the average balance of our interest-earning assets.

Interest expense increased to $321,000 for the three months ended June 30, 2016 from $308,000 for the three months ended June 30, 2015. Interest expense for the six months ended June 30, 2016 increased to $639,000 from $609,000 for the six months ended June 30, 2015. The increase in interest expense for both the three- and six-month periods was due primarily to an increase in the average balance of our interest-bearing liabilities of $2.6 million and $3.9 million, respectively. The average cost of our certificates of deposit increased to 0.99% for the three months ended June 30, 2016 from 0.95% for the three months ended June 30, 2015 and to 0.97% for the six months ended June 30, 2016 from 0.95% for the same period in 2015. In addition, the cost of our FHLB advances increased 14 basis points from 1.26% for the three months ended June 30, 2015 to 1.40% for the three months ended June 30, 2016 and increased 11 basis points from 1.23% for the six months ended June 30, 2015 to 1.34% for the six months ended June 30, 2016 due primarily to payoffs on advances with lower interest rates.

The Company’s net interest margin decreased to 2.90% for the three-month period ended June 30, 2016 from 3.02% for the same period in 2015, and decreased to 2.91% for the six-month period ended June 30, 2016 from 3.00% for the same period in 2015 as a result of the factors mentioned above.

The provision for loan losses for the three months ended June 30, 2016 resulted in expense of $25,000 as compared to income of $45,000 for the prior year period. For the six months ended June 30, 2016, the provision for loan losses was $57,000 as compared to income of $22,000 for the six months ended June 30, 2015. During the quarter ended June 30, 2016, we had net recoveries of $31,000 compared to $88,000 of net recoveries during the quarter ended June 30, 2015, in large part due to the decline in the number of loans in foreclosure. The direct effect of the decrease in net recoveries on previously charged off loans is the principal factor for the increase in provision expense for the three- and six- months period ended June 30, 2016.

Non-interest income decreased to $423,000 for the three months ended June 30, 2016 from $487,000 for the three months ended June 30, 2015 with the following period over period decreases in 2016:

- Mortgage banking activities of $42,000,
- Other non-interest income of $57,000 primarily related to decreased insurance and brokerage commission income.
- Partially offsetting these decreases was an increase of $28,000 to gain on sale of bank owned properties as we sold a building that formerly housed our insurance and brokerage services.

Non-interest income decreased to $908,000 for the six months ended June 30, 2016 from $981,000 for the year earlier period, mainly due to decreases of $44,000 in mortgage banking income and $69,000 in gain on sale of bank owned properties as we sold a former operations building during the six months ended June 30, 2015. Partially offsetting these decreases were increases of $15,000 in service charges and other fees and $20,000 in other non-interest income related to proceeds from a life insurance claim and a reduction in commission collected on our insurance and brokerage services during the six months ended June 30, 2016.

Non-interest expense decreased $34,000 for the three months ended June 30, 2016 when compared to the three months ended June 30, 2015. Non-interest expense increased $49,000 for the six months ended June 30, 2016 compared to the year earlier period. For both the three- and six-month periods, compensation and benefits decreased $80,000 and $36,000, respectively. In addition, for the three- and six-month periods, amortization of intangible assets decreased $6,000 and $13,000, respectively, and expenses associated with professional services declined $13,000 and $17,000 for the three- and six- month period ended June 30, 2016. These decreases are partially offset with an increase of $17,000 and $67,000 in occupancy costs as a result of recent technology upgrades during the three- and six- month periods, respectively.

Selected Performance Ratios

Select Performance and Financial Statistics (unaudited): **in thousands (except share data)**	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net interest margin	2.90%	3.02%	2.91%	3.00%
Average interest rate spread	2.76%	2.90%	2.77%	2.87%
Total non-performing assets *	$ 3,641	$ 4,267	$ 3,641	$ 4,267
Total non-performing loans *	$ 2,588	$ 1,424	$ 2,588	$ 1,424
Non-performing assets to total assets *	1.09%	1.31%	1.09%	1.31%
Non-performing loans to total loans *	1.52%	0.84%	1.52%	0.84%
Texas ratio * (1)	11.39%	13.89%	11.39%	13.89%
Classified asset ratio * (2)	32.72%	34.04%	32.72%	34.04%
Allowance for loan losses to total loans *	0.92%	0.89%	0.92%	0.89%
Return on average assets * (3)	0.24%	0.44%	0.24%	0.44%
Return on average equity * (3)	2.30%	4.71%	2.30%	4.71%
Efficiency ratio (4)	91.75%	86.51%	90.64%	86.37%
Dividend payout ratio (basic)	75.81%	15.19%	65.20%	15.69%
Tangible book value per share *	$ 9.02	$ 8.02	$ 9.02	$ 8.02
Earnings per share	$ 0.05	$ 0.10	$ 0.12	$ 0.20
Total shares outstanding	3,727,014	3,727,014	3,727,014	3,727,014

* these are measurements as of a point in time, therefore there is no variation between the three-month and six-month periods.

(1) Texas Ratio is defined by management as total non-performing assets divided by tangible capital plus loan loss reserves.

(2) Classified asset ratio is calculated by dividing classified assets (substandard assets plus real estate owned & other repossessed assets) by core capital plus loan loss reserves.

(3) Annualized.

(4) Non-interest expense divided by net interest income plus non-interest income, excluding any gains or losses.

Safe Harbor Statement

This news release and other releases and reports issued by the Company may contain “forward-looking statements.” The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company is including this statement for purposes of taking advantage of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheet
(in thousands)

	June 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	$ 19,988	$ 7,574
Overnight deposits with FHLB	241	29
Total cash and cash equivalents	20,229	7,602
Deposits held in other financial institutions	7,654	9,390
Securities available for sale	116,043	128,418
Securities held to maturity	700	745
Loans held for sale	331	563
Loans receivable, net of allowance for loan losses of $1,656,050 and $1,559,231 as of June 30, 2016 and December 31, 2015, respectively	169,724	167,984
Foreclosed real estate and other repossessed assets	1,054	1,171
Federal Home Loan Bank stock, at cost	1,636	1,636
Premises and equipment	6,049	6,329
Assets held for sale	271	271
Accrued interest receivable	957	1,039
Intangible assets	935	1,044
Deferred tax asset	2,126	2,615
Originated mortgage servicing rights	511	578
Bank owned life insurance	4,939	4,857
Other assets	519	1,800
Total assets	$ 333,678	$ 336,043
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 273,570	$ 268,527
Advances from Federal Home Loan Bank	23,829	32,928
Accrued expenses and other liabilities	1,702	1,212
Total liabilities	299,101	302,667
Stockholders' equity:		
Common stock ($0.01 par value 20,000,000 shares authorized 4,034,675 shares issued)	40	40
Additional paid-in capital	28,264	28,264
Retained earnings	7,979	7,855
Treasury stock at cost (307,750 shares)	(2,964)	(2,964)
Accumulated other comprehensive income	1,258	181
Total stockholders' equity	34,577	33,376
Total liabilities and stockholders' equity	$ 333,678	$ 336,043

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Statement of Income and Comprehensive Income
(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Interest income:				
Interest and fees on loans	$ 1,984	$ 2,033	$ 3,972	$ 4,038
Interest and dividends on investments				
Taxable	315	327	652	621
Tax-exempt	23	30	47	60
Interest on mortgage-backed securities	263	265	554	553
Total interest income	2,585	2,655	5,225	5,272
Interest on deposits	236	240	465	475
Interest on borrowings	85	68	174	134
Total interest expense	321	308	639	609
Net interest income	2,264	2,347	4,586	4,663
Provision (Recovery of provision) for loan losses	25	(45)	57	(22)
Net interest income after provision for loan losses	2,239	2,391	4,529	4,684
Non-interest income:				
Service charges and other fees	239	236	469	454
Mortgage banking activities	107	149	206	250
Net gain on sale of securities	5	1	6	1
Net gain (loss) on sale of premises and equipment,				
real estate owned and other repossessed assets	26	(1)	20	90
Other	46	103	207	186
Total non-interest income	423	487	908	981
Non-interest expense:				
Compensation and employee benefits	1,427	1,507	2,890	2,926
FDIC Insurance Premiums	51	55	110	119
Advertising	49	49	83	93
Occupancy	284	267	614	547
Amortization of intangible assets	54	61	109	121
Service bureau charges	117	102	241	205
Professional services	124	137	230	247
Collection activity	23	(6)	45	57
Real estate owned & other repossessed assets	28	28	47	46
Other	307	298	611	569
Total non-interest expense	2,465	2,499	4,980	4,930
Income before income tax expense	197	380	457	735
Income tax expense	-	-	-	-
Net Income	197	380	$ 457	$ 735
Other Comprehensive Income:				
Unrealized gain (loss) on investment securities - available for sale securities - net of tax	526	(293)	1,256	52
Reclassification adjustment for gains realized in earnings - net of tax	2	-	2	-
Comprehensive Income	724	87	$ 1,713	$ 788