

October 28, 2016

Contact: Michael W. Mahler
CEO
First Federal of Northern Michigan Bancorp, Inc.
(989) 356-9041

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

Alpena, Michigan - (October 28, 2016) First Federal of Northern Michigan Bancorp, Inc. (OTCQX: FFM) (the "Company") reported consolidated net income of \$310,000, or \$0.08 per basic and diluted share, for the quarter ended September 30, 2016 compared to \$1.9 million, or \$0.51 per basic and diluted share, for the quarter ended September 30, 2015.

Consolidated net income for the nine months ended September 30, 2016 was \$768,000, or \$0.21 per basic and diluted share, compared to \$2.6 million, or \$0.70 per basic and diluted share for the nine months ended September 30, 2015.

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

- Net loan growth of \$2.4 million since June 30, 2016 and \$4.2 million since December 31, 2015.
- Net interest income remained unchanged at \$2.3 million for the three months ended September 30, 2016 and 2015 and decreased \$80,000 for the nine months ended September 30, 2016 when compared to the nine months ended September 30, 2015.
- \$35,000 in provision expense for the three months ended September 30, 2016 compared to income of \$4,000 for the three months ended September 30, 2015 and an expense of \$92,000 for the nine months ended September 30, 2016 compared to income of \$26,000 for the nine months ended September 30, 2015.
- An increase to non-interest income of \$59,000 quarter over quarter and a decrease of \$15,000 when comparing the nine months ended September 30, 2016 and 2015.
- Decrease of \$57,000 quarter over quarter in the Company's non-interest expense.
- A deferred tax asset valuation reserve recovery of \$1.7 million was realized during the three and nine periods ended September 30, 2015.
- Non-performing assets declined 21.9% to \$3.3 million as of September 30, 2016 from \$4.2 million at September 30, 2015.
- Tangible book value per share at September 30, 2016 was \$9.04 compared to \$8.58 at September 30, 2015.
- First Federal of Northern Michigan remains "well-capitalized" for regulatory purposes.

Michael W. Mahler, Chief Executive Officer of the Company, commented, "We are pleased with the \$4.2 million of loan growth we have been able to achieve in the first nine months of 2016. We believe this activity will extend through the end of the year, as we continue to be encouraged by the number of commitment letters signed at the end of the third quarter along with the most robust loan pipeline we have seen in more than a decade. All of this activity is being achieved without diminishing our underwriting standards."

Mahler further added, “We believe that the conversion of low yielding investment securities to higher yielding loans will aide in further increasing our top line revenues and stem further net interest margin reduction as we move through the remainder of 2016.”

Mahler continued, “Our financial results for 2016 continue to be impacted by unforeseen increases in the cost associated with healthcare. In an effort to manage rising health care costs the Bank has elected to self-insure a layer of risk as a means of reducing the monthly healthcare premiums. This year’s utilization of our self-insurance layer with respect to health reimbursement benefits has negatively influenced our results for both the quarter and year. In response, the Bank continues to proactively seek options to mitigate these increased healthcare costs in an effort to minimize the impact to earnings.”

Financial Condition

Total assets of the Company at September 30, 2016 were \$329.8 million, a decrease of \$6.2 million, or 1.85%, from total assets of \$336.0 million at December 31, 2015. We have experienced a decrease of \$2.5 million in our deposits held at other financial institutions and a \$5.9 million decrease to our available-for-sale securities during the nine months ended September 30, 2016.

Net loans receivable increased \$4.2 million to \$172.1 million at September 30, 2016. When compared to December 31, 2015 we have experienced a \$2.4 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 \$2.4 million 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 \$440,000 in our consumer loan portfolio.

	September 30, 2016	December 31, 2015
Mortgage Loans	\$ 78,167	\$ 75,806
Consumer Real Estate	8,400	8,726
Consumer Other	1,390	1,504
Commercial Real Estate	61,603	60,077
Commercial Other	24,264	23,430
Total gross loans	\$ 173,824	\$ 169,543
Loan Loss Reserve	(1,686)	(1,559)
Net Loans Receivable	\$ 172,138	\$ 167,984

Deposits increased \$2.1 million during the first nine months of 2016 to \$270.7 million at September 30, 2016. While the balance of our Federal Home Loan Bank advances decreased \$9.8 million to \$23.2 million during the same period.

Stockholders’ equity was \$34.6 million at September 30, 2016 compared to \$33.4 million at December 31, 2015. The increase was due primarily to net income of \$768,000 and an increase of \$895,000 in the unrealized gain on available for sale securities net of tax, partially offset by the payment of \$447,000 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.

			Regulatory		Minimum to be	
	Actual		Minimum *		Well Capitalized *	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					
Tier 1 Leverage Capital (tier 1 to quarterly average assets):	\$ 28,047	8.51%	\$ 13,187	4.00%	\$ 16,483	5.00%
Common Equity Tier 1 Risk-based Capital (core capital to risk-weighted assets):	\$ 28,047	15.38%	\$ 8,205	4.50%	\$ 11,852	6.50%
Tier 1 Risk-based Capital (tier 1 to risk-weighted assets):	\$ 28,047	15.38%	\$ 10,941	6.00%	\$ 14,587	8.00%
Total Risk-based Capital (risk-based capital to risk weighted assets):	\$ 29,733	16.31%	\$ 14,587	8.00%	\$ 18,234	10.00%
Tangible Capital (tangible capital to tangible assets):	\$ 28,047	8.45%	\$ 6,636	1.50%	\$ 16,589	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 remained steady at \$2.7 million and \$7.9 million for the three and nine month periods ended September 30, 2016 and September 30, 2015, respectively. During the three months ended September 30, 2016 the yield on our interest-earning assets increased 3 basis points to 3.40% from 3.37% as of September 30, 2015. While we experienced an increase of \$1.3 million in the average balance of our interest-earning assets for the nine-month period ended September 30, 2016 the yield on our interest-earning assets decreased 4 basis points to 3.35% from 3.39% for the nine-months ended September 30, 2015.

Interest expense increased to \$326,000 for the three months ended September 30, 2016 from \$317,000 for the three months ended September 30, 2015. Interest expense for the nine months ended September 30, 2016 increased to \$965,000 from \$926,000 for the nine months ended September 30, 2015. The average cost of our certificates of deposit increased to 1.02% for the three months ended September 30, 2016 from 0.94% for the three months ended September 30, 2015 and to 0.99% for the nine months ended September 30, 2016 from 0.95% for the same period in 2015. In addition, the cost of our FHLB advances increased 9 basis points from 1.34% for the three months ended September 30, 2015 to 1.43% for the three months ended September 30, 2016 and increased 10 basis points from 1.27% for the nine months ended September 30, 2015 to 1.37% for the nine months ended September 30, 2016 due primarily to payoffs on advances with lower interest rates.

The Company's net interest margin increased to 2.99% for the three-month period ended September 30, 2016 from 2.97% for the same period in 2015, and decreased to 2.94% for the nine-month period ended September 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 September 30, 2016 resulted in expense of \$35,000 as compared to income of \$4,000 for the prior year period. For the nine months ended September 30, 2016, provision for loan loss was an expense of \$92,000 as compared to income of \$26,000 for the nine months ended September 30, 2015. During the nine-month period ended September 30, 2016 we had net recoveries of \$35,000 compared to \$97,000 of net recoveries during the same period in 2015. The direct effect of the decrease in net recoveries and loan growth of \$4.2 million during the first nine months of 2016 are the principal factors prompting the increase in provision expense for the three- and nine- month periods ended September 30, 2016.

Non-interest income increased to \$527,000 for the three months ended September 30, 2016 from \$468,000 for the three months ended September 30, 2015 with the following period over period increases in 2016:

- Gain on sale of investment securities of \$91,000,
- Mortgage banking activities of \$16,000,
- Partially offsetting these increases was a decrease of \$63,000 to other non-interest income related to a decrease in insurance and brokerage commissions.

Non-interest income remained relatively unchanged at \$1.4 million for the nine months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016 the following increases were noted, \$21,000 to service charges and other fees and \$96,000 to gain on sale of available-for-sale securities. Partially offsetting these increases were decreases of \$61,000 in gain on sale of bank properties and \$43,000 in other non-interest income related to insurance and brokerage commissions.

Non-interest expense decreased \$57,000 for the three months ended September 30, 2016 when compared to the same period one year earlier. Non-interest expense remained steady at \$7.5 million for the nine months ended September 30, 2016 and 2015. For both the three- and nine-month periods ended September 30, 2016 the following decreases were noted:

- Professional services of \$36,000 and \$53,000, respectively,
- Collection activity and real estate owned expense of \$25,000 and \$36,000, respectively,
- Other expenses of \$166,000 and \$124,000, respectively, due in large part to deregistration from the Securities and Exchange Commission in December 2015,
- Partially offsetting these decreases were increases of \$146,000 and \$110,000, respectively, to compensation and employee benefits, primarily related to additional lending staff and health care costs, and \$10,000 and \$46,000, respectively, in service bureau expense related to the banks operating system.

Selected Performance Ratios

Select Performance and Financial Statistics (unaudited): in thousands (except share data)				
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest margin	2.99%	2.97%	2.94%	3.00%
Average interest rate spread	2.84%	2.83%	2.80%	2.87%
Total non-performing assets *	\$ 3,307	\$ 4,237	\$ 3,307	\$ 4,237
Total non-performing loans *	\$ 2,070	\$ 1,424	\$ 2,070	\$ 1,424
Non-performing assets to total assets *	1.00%	1.25%	1.00%	1.25%
Non-performing loans to total loans *	1.18%	1.03%	1.18%	1.03%
Texas ratio * (1)	11.12%	13.77%	11.12%	13.77%
Classified asset ratio * (2)	32.15%	37.08%	32.15%	37.08%
Allowance for loan losses to total loans *	0.96%	0.89%	0.96%	0.89%
Return on average assets * (3)	0.37%	2.26%	0.37%	2.26%
Return on average equity * (3)	3.59%	24.15%	3.59%	24.15%
Efficiency ratio (4)	90.94%	91.50%	91.03%	89.70%
Dividend payout ratio (basic)	48.02%	5.92%	58.25%	9.95%
Tangible book value per share *	\$ 9.04	\$ 8.58	\$ 9.04	\$ 8.58
Earnings per share	\$ 0.08	\$ 0.51	\$ 0.21	\$ 0.70
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)		
	<u>September 30, 2016</u>	<u>December 31, 2015</u>
	(Unaudited)	
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	\$ 6,769	\$ 7,574
Overnight deposits with FHLB	1,157	29
Total cash and cash equivalents	7,925	7,602
Deposits held in other financial institutions	6,910	9,390
Securities available for sale	122,543	128,418
Securities held to maturity	700	745
Loans held for sale	217	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	172,138	167,984
Foreclosed real estate and other repossessed assets	1,237	1,171
Federal Home Loan Bank stock, at cost	1,636	1,636
Premises and equipment	5,964	6,329
Assets held for sale	271	271
Accrued interest receivable	1,009	1,039
Intangible assets	881	1,044
Deferred tax asset	2,235	2,615
Originated mortgage servicing rights	486	578
Bank owned life insurance	4,969	4,857
Other assets	689	1,800
Total assets	<u>\$ 329,811</u>	<u>\$ 336,043</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 270,669	\$ 268,527
Advances from Federal Home Loan Bank	23,174	32,928
Accrued expenses and other liabilities	1,411	1,212
Total liabilities	295,255	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	8,141	7,855
Treasury stock at cost (307,750 shares).....	(2,964)	(2,964)
Accumulated other comprehensive income	1,076	181
Total stockholders' equity	34,557	33,376
Total liabilities and stockholders' equity	<u>\$ 329,811</u>	<u>\$ 336,043</u>

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries				
Consolidated Statement of Income and Comprehensive Income				
(in thousands)				
	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Interest income:				
Interest and fees on loans	\$ 2,074	\$ 2,056	\$ 6,046	\$ 6,094
Interest and dividends on investments				
Taxable	329	317	982	938
Tax-exempt	23	28	70	89
Interest on mortgage-backed securities	239	258	793	811
Total interest income	2,665	2,660	7,891	7,932
Interest on deposits	240	234	705	709
Interest on borrowings	86	83	260	217
Total interest expense	326	317	965	926
Net interest income	2,340	2,343	6,926	7,006
Provision (Recovery of provision) for loan losses	35	(4)	92	(26)
Net interest income after provision for loan losses	2,305	2,347	6,834	7,032
Non-interest income:				
Service charges and other fees	248	242	717	696
Mortgage banking activities	144	128	350	378
Net gain on sale of securities	94	2	100	4
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	0	(8)	21	82
Other	41	104	247	290
Total non-interest income	527	468	1,435	1,449
Non-interest expense:				
Compensation and employee benefits	1,491	1,345	4,381	4,271
FDIC Insurance Premiums	61	62	171	181
Advertising	59	43	143	136
Occupancy	290	286	904	833
Amortization of intangible assets	54	61	163	182
Service bureau charges	125	114	365	319
Professional services	105	141	335	388
Collection activity	15	25	60	82
Real estate owned & other repossessed assets	236	251	283	297
Other	84	250	695	819
Total non-interest expense	2,521	2,578	7,501	7,508
Income before income tax expense (benefit)	310	238	768	973
Income tax expense (benefit)	-	(1,650)	-	(1,650)
Net Income	310	1,888	\$ 768	\$ 2,623
Other Comprehensive Income:				
Unrealized (loss) gain on investment securities - available for sale securities - net of tax	(213)	129	1,042	182
Reclassification adjustment for gains (losses) realized in earnings - net of tax	32	(3)	34	(2)
Comprehensive Income	\$ 129	\$ 2,014	\$ 1,844	\$ 2,802
Per share data:				
Net Income per share				
Basic	\$ 0.08	\$ 0.51	\$ 0.21	\$ 0.70
Diluted	0.08	0.51	0.21	0.70
Weighted average number of shares outstanding				
Basic	3,727,014	3,727,014	3,727,014	3,727,014
Including dilutive stock options	3,727,014	3,727,014	3,727,014	3,727,014
Dividends per common share	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.07