2016
ANNUAL REPORT

First Federal of Northern Michigan Bancorp, Inc.

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 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 60 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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PAUL GEROW PHOTOGRAPHY

MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

Dear Valued Shareholders:

2016 was a pivotal year for our Company. We knew as it began, the results would be shaped primarily by the execution of our plan to generate net loan growth, increase our market share, displace higher cost Federal Home Loan Bank (FHLB) borrowings and time deposits with low cost core deposits, and to reduce overall expenses. We believe our plan has proven successful, as we made progress in all four of these areas. 2016 represents the first year in over a decade where we grew the loan portfolios organically. Additionally, we achieved this growth while maintaining our prudent underwriting standards.

Highlights for 2016 include:

Loan Growth and Market Share

Three commercial lenders were hired in late 2015 and early 2016, in addition to a credit department manager to help with the increase in underwriting volume. By hiring more lenders, we could seek opportunities in new markets, as well as increase our market share through better coverage of our existing market areas. Net of renewals, we originated $35.2 million of new commercial loans. We made excellent progress toward our loan production goal in 2016.
To demonstrate:

- Loan production of $87.0 million
    - Commercial loan production of $46.2 million, which includes $11.0 million in renewals
    - Mortgage loan production of $37.8 million
    - Consumer loan production of $3.0 million
    - Net loan growth of $13.5 million

Core Deposit Growth

- Added 354 new core deposit accounts in one market alone, resulting in $4.7 million in deposits by year end
- Seven of eight branches grew average balance of core deposits during 2016, ranging from 5.4% to 33.2% growth in low-cost deposits
- Higher cost FHLB borrowings were reduced by 46.8% year over year to $17.5 million

Reducing Expenses

- Total expenses declined $273,000, or 2.7%
    - Professional fees declined $93,000, or 16.8%
    - Expenses associated with real estate owned and other repossessed assets decreased $181,000, or 60.7%

Performance Statistics

- Pretax pre-provision earnings improved 13.3% year over year
- Asset quality ratios remain strong
    - Texas ratio increased slightly to 7.90% from 7.83% one year ago
    - Classified asset ratio of 20.4% compared to 31.1% one year earlier
- Stock Price rose 27% to finish the year at $7.65 per share with a new 12 month high of $8.25 per share achieved during the fourth quarter. We believe this was influenced in part by the post-election surge as many investors believe regulatory relief, lower taxes, a stronger economy, and higher interest rates are coming, which are all good for bank stocks.

Lowlights:

Earnings Below Expectation

While this was the most productive year in over a decade, we came up short of our loan growth goal for the year, largely related to $6.0 million in unexpected loan payoffs. Additionally, the portfolio growth we recorded occurred later in the second half of the year thereby diminishing the impact on net interest income.

Net Interest Margin

While we anticipated interest rates slowly increasing during 2016, we instead experienced a slight margin contraction as rates fell early in the year. The weak employment data in mid to late Spring caused the Federal Reserve to hold on rates. In late June, the Brexit vote to leave the European Union created more uncertainty for markets convinced global economic expansion was going to be negatively impacted due to the geopolitical situation. All of this collectively supported the Federal Reserve's accommodative position on rates. We adjusted course in light of these changes to minimize the impact, but could not overcome them in terms of meeting our internal expectations.

Regulatory Environment

Finally, the regulatory burden on community banks continues. We invested in software to meet the new data requirements related to the implementation of the Current Expected Credit Loss (CECL) calculation, which will apply to us in 2020. Unfortunately, these investments compete for finite amounts of both human and financial capital within the Bank.

Focus for 2017 and Beyond

We finished the year strong and want to leverage the momentum built in 2016 as we move through 2017. Our goals for 2017 include:

- Growing loans, while maintaining the size of our balance sheet using maturing bonds to fund loan growth. An increased level of loans will drive higher top line revenues thereby increasing earnings and the overall value of the Bank.
- Growing capital levels at the Bank. We finished the year with a Tier 1 leverage ratio of 8.44%. In spite of our strong underwriting processes and culture, commercial lending is more risky. We need to build capital for the future so we are prepared in the event the economy takes a hard negative turn.
- Continuing to target core deposit growth. We need to take advantage of the changing competitive environment within our markets. As core deposits grow, the value of the Bank is enhanced.
- Analyzing fintech firms and products with a focus on retail loan generation, fee generation and efficiency improvements.
- Pursuing advocacy initiatives to help reduce the cost and human capital burden placed upon small community banks like ours. We have a unique opportunity to see real change in the regulatory landscape and will work hard through active involvement to support legislative proposals in the upcoming year.

In closing, 2017 expects to be a busy year as we work to improve the core profitability of our Bank. This year also marks our 60th anniversary as a Bank. We are very proud of our role in the development of the communities we serve and are excited to play a part in new growth and capital investment not seen in Northern Michigan for many years. Our growth, level of sophistication, and the positive impact we have made in our markets over the past 60 years would make the community leaders that formed our Bank proud. As we continue to look ahead, we are committed to doing all that is necessary to enhance the value of our organization, thereby enhancing the value to our shareholders. We thank you for your continued support, confidence, and appreciate your investment in our Company.

Respectfully,

Michael W Mahler

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. ("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, 2016 and December 31, 2015 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, 2014, 2013, and 2012 is derived in part from Audited Consolidated Financial Statements that do not appear in this Annual Report.

	At December 31,				
Financial Condition Data:	2016	2015	2014	2013	2012
			(In thousands)		
Total assets	$ 344,940	$ 336,009	$ 325,867	$ 209,657	$ 213,834
Loans receivable, net	181,439	167,984	163,647	136,315	138,912
Loans held for sale	-	563	88	175	79
Investment securities	128,834	129,163	120,758	52,613	53,109
Cash and cash equivalents	8,807	7,603	11,472	2,766	2,752
Deposits	293,428	268,527	270,734	160,029	158,350
FHLB advances	17,517	32,928	22,885	24,813	26,358
Repo sweep agreements	-	-	-	-	3,183
Stockholders' equity	32,889	33,341	30,536	23,525	24,435

	For the Years Ended December 31,				
Operating Data:	2016	2015	2014	2013	2012
			(In thousands)		
Interest income	$ 10,588	$ 10,611	$ 9,100	$ 8,319	$ 9,243
Interest expense	1,284	1,245	1,082	1,150	1,654
Net interest income	9,304	9,366	8,018	7,169	7,589
Provision for loan losses	95	(535)	284	637	1,367
Net interest income after provision for loan losses	9,209	9,901	7,734	6,532	6,222
Other income (loss):					
Service charges and other fees	967	947	807	857	760
Mortgage banking activities	500	532	472	585	1,243
Net gain (loss) on sale of investments	134	4	(4)	-	47
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	55	80	(76)	3	(3)
Bargain purchase gain	-	-	1,982	-	-
Other	295	433	297	320	229
Total other income	1,951	1,996	3,478	1,765	2,276
Other expenses	9,846	10,119	8,963	8,242	8,712
Income (loss) before income tax expense (benefit)	1,314	1,778	2,249	55	(214)
Income tax benefit	-	(1,650)	-	-	-
Net income (loss)	$ 1,314	$ 3,428	$ 2,249	$ 55	$ (214)

	For the Years Ended December 31,				
Performance Ratios:	2016	2015	2014	2013	2012
Return on average assets	0.39%	1.02%	0.87%	0.03%	-0.10%
Return on average equity	3.83%	10.78%	8.42%	0.22%	-0.85%
Average interest rate spread	2.81%	2.84%	3.18%	3.54%	3.65%
Dividend payout ratio	45.37%	7.22%	11.01%	105.35%	0.00%
Dividends per share	$0.16	$0.10	$0.08	$0.02	$0.00
Net interest margin	2.95%	2.97%	3.31%	3.64%	3.78%
Efficiency ratio (Bank only)	86.93%	78.33%	78.24%	98.00%	101.55%
Texas ratio (Bank only)	7.90%	7.83%	17.10%	17.02%	30.83%
Non-interest expense to average total assets	2.90%	2.91%	3.36%	3.78%	3.94%
Average interest-earning assets to average interest-bearing liabilities	133.99%	133.52%	128.81%	118.10%	115.88%

	At December 31,				
Asset Quality Ratios:	2016	2015	2014	2013	2012
Non-performing assets to total assets	0.69%	0.77%	1.52%	1.95%	3.42%
Non-performing loans to total loans	0.55%	0.84%	1.30%	1.68%	3.50%
Allowance for loan losses to nonperforming loans	167.68%	109.53%	66.82%	63.65%	35.50%
Allowance for loan losses to total loans	0.92%	0.92%	0.86%	1.07%	1.24%
Capital Ratios:					
Equity to total assets at end of period	9.53%	9.92%	9.37%	11.22%	11.43%
Average equity to average assets	10.22%	9.46%	10.27%	11.43%	11.63%
Risk-based capital ratio (Bank only)	15.59%	17.00%	16.89%	17.89%	17.36%
Other Data:					
Number of full service offices	8	8	8	8	8

Overview

The Company's principal operating subsidiary, First Federal of Northern Michigan (the "Bank"), 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, 2016, \$82.4 million, or 44.9%, of our total loan portfolio consisted of one- to four-family residential real estate loans; \$64.4 million, or 35.1%, and \$27.5 million, or 15.0%, of our total loan portfolio consisted of commercial real estate loans and commercial loans respectively; and \$9.0 million, or 5.0%, of our total loan portfolio consisted of consumer and other loans. In recent years, commercial real estate loans and other 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 28 years of 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.

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 2016, we saw an improvement in delinquency patterns as evidenced by improvements in our asset quality ratios: at December 31, 2016, our ratio of non-performing assets to total assets was 0.69% as compared to 0.77% at December 31, 2015. We continue to maintain a strong capital base. At December 31, 2016, our total risk-based capital ratio was 15.6%, a decrease from 17.0% at December 31, 2015, and our tier 1 leverage ratio was 8.4%, a decrease from 8.8% at December 31, 2015, yet still in excess of the regulatory requirements to be categorized as "well capitalized."

Comparison of Financial Condition at December 31, 2016 and 2015

Total assets increased $8.9 million, or 2.7%, to $344.9 million at December 31, 2016 from $336.0 million at December 31, 2015. Net loans increased $13.4 million, or 8.0% to $181.4 million at December 31, 2016 from $168.0 million at December 31, 2015. Mortgage loan originations increased $3.1 million, or 8.9%, to $38.0 million in 2016 from $34.9 million in 2015. During that time period, our mortgage loan portfolio increased $6.3 million, or 8.3%, to $82.4 million at December 31, 2016 from $76.1 million as of December 31, 2015. The commercial loan portfolio increased $8.6 million, or 10.3%, to $92.0 million at December 31, 2016 from $83.4 million at December 31, 2015. Cash and cash equivalents increased $1.2 million, or 15.8%, to $8.8 million at December 31, 2016 from $7.6 million at December 31, 2015.

Deposits increased $24.9 million, or 9.3%, to $293.4 million at December 31, 2016 from $268.5 million at December 31, 2015. Borrowings, consisting primarily of FHLB advances, decreased $15.4 million, or 46.8%, to $17.5 million at December 31, 2016 from $32.9 million at December 31, 2015, as we paid off maturing advances with our growth in deposits.

Our total stockholders' equity was $32.9 million at December 31, 2016 and $33.3 million at December 31, 2015, a decrease of $452,000, or 1.4%, year over year. The decrease was mainly a result of the $1.3 million in net income for the year, a decrease of $1.2 million in net unrealized loss on investment securities, and dividends paid of $596,000 partially offsetting these increases. The Company's ratio of equity to assets decreased to 9.5% as of December 31, 2016 from 9.9% as of December 31, 2015.

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 4.0%. 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 8.0% of RWAs, Total Risk Based Capital is at least 10.0% of RWAs, Leverage Capital Ratio is at least 5.0%, 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.

At December 31, 2016 and December 31, 2015, 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, 2016 and 2015

General. Net income decreased to $1.3 million for the year ended December 31, 2016 from $3.4 million for the year ended December 31, 2015. Net interest income before provision for loan losses decreased slightly to $9.3 million in 2016 from $9.4 million in 2015. The provision for loan losses resulted in an expense of $95,000 in 2016 as compared to a recovery of $535,000 in 2015, resulting in net interest income after provision for loan losses being $692,000 lower in 2016 than in 2015. Non-interest income was steady at $2.0 million in 2016 and 2015, and non-interest expense was

$273,000 lower in 2016 than in 2015 due to decreases in expenses related to real estate owned and other repossessed assets, professional services, and FDIC premiums.

Interest Income. Interest income for the year ended December 31, 2016 remained unchanged at $10.6 million when compared to 2015. The average balance of our one- to four-family residential mortgage loans increased $2.7 million, or 3.6%, to $77.2 million for the year ended December 31, 2016 from $74.5 million for the year ended December 31, 2015, while the average yield on such loans decreased to 4.31% from 4.40%. The average balance of our non-mortgage loans, principally commercial loans and consumer loans, increased $2.7 million, or 2.9%, to $95.2 million for the twelve months ended December 31, 2016 from $92.5 million for the twelve months ended December 31, 2015. With the competitive interest rate environment that was present in 2016 we experienced a decline of 18 basis points in the yield on our non-mortgage loan portfolio to 5.05% from 5.23% for the same period in 2015. The average balance of our investment securities, excluding mortgage-backed securities, increased $354,000 to $62.7 million for the year ended December 31, 2016 from $62.4 million for the year ended December 31, 2015, while the average yield on these investments increased to 1.90% from 1.86%. In addition, the average balance of our mortgage-backed securities decreased $4.1 million, or 6.5%, to $58.9 million for the year ended December 31, 2016 from $63.0 million for the year ended December 31, 2015, with an average yield decrease of a basis point to 1.74% from 1.75%.

Interest Expense. Interest expense increased to $1.3 million for the year ended December 31, 2016 from $1.2 million for the year ended December 31, 2015, due primarily to a $2.0 million, or 8.5%, increase in the average balance of Federal Home Loan Bank ("FHLB') advances year over year, while the average cost of those borrowings increased five basis points to 1.34% for 2016 from 1.29% for 2015. Interest expense on deposits remained steady at $941,000 for the years ended December 31, 2016 and 2015.

Net Interest Income. Net interest income decreased to $9.3 million for the year ended December 31, 2016 from $9.4 million for the year ended December 31, 2015. The decrease was primarily due to an increase in the cost of our FHLB advances discussed above.

Provision for Loan Losses. We recorded an expense of $95,000 as our provision for loan loss for the year ended December 31, 2016 compared to a provision recovery of $535,000 for the year ended December 31, 2015. During 2016, we had net recoveries of $31,000 compared to net recoveries of $665,000 during 2015. 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 was unchanged at $2.0 million for the years ended December 31, 2016 and 2015. Non-interest income is detailed in the table presented below:

	For years ended December 31,		
	2016	2015	Change from 2015 to 2016
	(dollars in thousands)		
Service charges and other fees	$ 967	$ 947	2.11%
Net gain on sale of investments	134	4	3,250.00%
Net gain on sale of loans	263	300	(12.33%)
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	55	80	(31.25%)
Loan servcing fees	237	232	2.16%
Other	295	433	(31.87%)
	$ 1,951	$ 1,996	(2.25%)

Non-Interest Expense. Non-interest expense decreased to $9.8 million for the year ended December 31, 2016 from $10.1 million for the year ended December 31, 2015. Non-interest expense is detailed in the table presented below:

	For years ended December 31,		
	2016	2015	Change from 2015 to 2016
	(dollars in thousands)		
Compensation and employee benefits	$ 5,833	$ 5,831	0.03%
FDIC insurance premiums	194	251	(22.71%)
Amortization of intangible assets	217	243	(10.70%)
Advertising	184	164	12.20%
Occupancy and equipment	1,172	1,145	2.36%
Data processing service bureau	493	436	13.07%
Professional fees	442	555	(20.36%)
Collection activity	78	94	(17.02%)
Real estate and other repossessed assets	117	298	(60.74%)
Other	1,116	1,102	1.27%
	$ 9,846	$ 10,119	(2.70%)

Income Taxes. For the year ended December 31, 2016, the Company recorded no federal income tax expense as compared to 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. See Note 1 for discussion on the 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, 2016, $181.7 million, or 99.0% of our loan portfolio, consisted of loans that mature or reprice on or after January 1, 2017. In contrast, as of December 31, 2016, $28.8 million, or 42.0% 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, on a servicing-retained basis, 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. In 2016, we determined to retain in portfolio $21.2 million of adjustable rate, 10- and 15-year fixed rate residential mortgage loans. 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 on the secondary market.

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. 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 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, the net interest income (NII) simulation and 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 0.50% to 0.75% 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, 2016.

At December 31, 2016, 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, 2016.

Rate Changes:	0 BP	+ 100 BP	+200 BP	+300 BP	+400 BP
$ Change in NII	$21,829	$22,442	$22,759	$23,027	$23,236
% Change in NII		2.81%	4.26%	5.49%	6.45%
Policy Limits		- 5.00%	- 10.00%	- 15.00%	- 20.00%

The 24-months net interest income at risk reported as of December 31, 2016 for all scenarios presented shows that the Company's overall risk to changes in interest rates is low. Based on the assumptions discussed in the following paragraph and 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.

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, 2016.

Rate Changes:	0 BP	+100 BP	+200 BP	+300 BP	+400 BP
$ Change in Equity	$47,543	$47,356	$47,049	$46,731	$46,438
% Change in Equity		-0.39%	-1.04%	-1.71%	-2.32%
Policy Limits		- 10.00%	- 15.00%	- 20.00%	- 25.00%

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 Statements of Cash Flows included with our Consolidated Financial Statements.

Cash flows provided from operations were $3.8 million for 2016 compared to $558,000 for 2015. Cash flows from investing activities were $11.5 million in 2016 as compared to $11.9 million in 2015. Cash flows from financing activities were $8.9 million in 2016 compared to $7.5 million in 2015, due primarily to the increase in the balance of deposits and the FHLB advance activity, year over year.

Liquidity

The overall objective of 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 (FHLB advances), proceeds from maturing securities and short-term investments, and 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 FHLB borrowings due in one year or less. Liquidity as of December 31, 2016 was $159.0 million, or 62.6% of total deposits and FHLB borrowings due in one year or less, compared to $147.0 million, or 63.5% of this amount at December 31, 2015. 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 FHLB. As of December 31, 2016, we had unused borrowing capacity of $47.4 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, 2016, we originated $38.0 million of one- to four-family residential mortgage loans, of which $21.2 million were retained in our portfolio and the remainder were sold. This compares to $34.9 million of one- to four-family originations during the year ended December 31, 2015, of which $17.9 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, 2016, deposits funded 85.1% of our total assets compared to 79.9% at December 31, 2015. Certificates of deposit scheduled to mature in less than one year at December 31, 2016 totaled $28.8 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, 2016, we had $17.5 million in FHLB advances and no outstanding advances at the Federal Reserve Discount Window. Total borrowings as a percentage of total assets were 5.1% at December 31, 2016 compared to 9.8% at December 31, 2015.

As of December 31, 2016, 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, 2016, we had no material commitments for capital expenditure.

Safe Harbor Statement

When used in this annual report 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.

ANDREWS HOOPER PAVLIK PLC

5300 GRATIOT ROAD | SAGINAW, MI 48638

p: 989.497.5300 | f: 989.497.5353 | www.ahpplc.com

Report of Independent Auditors

Board of Directors and Stockholders
First Federal of Northern Michigan
Alpena, Michigan

We have audited the accompanying consolidated financial statements of First Federal of Northern Michigan Bancorp, Inc., which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

Opinion

In our opinion, the 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Federal of Northern Michigan Bancorp, Inc., as of December 31, 2016, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of First Federal of Northern Michigan Bancorp, Inc. as of December 31, 2015, were audited by other auditors whose report dated March 9, 2016 expressed an unmodified opinion on these statements.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
March 15, 2017

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

December 31, 2016

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

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 8,752	$ 7,574
Overnight deposits with Federal Home Loan Bank	55	29
Total cash and cash equivalents	8,807	7,603
Deposits held in other financial institutions	5,422	9,390
Securities available for sale, at fair value (Note 3)	128,134	128,418
Securities held to maturity (Note 3)	700	745
Loans - net (Note 4)	181,439	167,984
Loans held for sale	-	563
Federal Home Loan Bank stock	1,636	1,636
Property and equipment (Note 5)	5,939	6,329
Assets held for sale - net	-	271
Foreclosed real estate and other repossessed assets	1,370	1,171
Accrued interest receivable	1,026	1,039
Intangible assets (Note 7)	827	1,044
Deferred tax asset (Note 10)	3,314	2,615
Originated mortgage servicing right - net (Note 6)	473	578
Bank owned life insurance	4,998	4,857
Other assets	855	1,766
Total assets	$ 344,940	$ 336,009
Liabilities and Stockholders' Equity		
Liabilities		
Non-interest bearing deposits	$ 59,761	$ 61,654
Interest-bearing deposits (Note 8)	233,667	206,873
Advances from Federal Home Loan Bank (Note 9)	17,517	32,928
Accrued expenses and other liabilities (Note 13)	1,106	1,213
Total liabilities	312,051	302,668
Stockholders' Equity (Note 12)		
Common stock ($0.01 par value 20,000,000 shares authorized, 4,034,764 shares issued and outstanding - at December 31, 2016 and 2015	40	40
Additional paid-in capital	28,264	28,264
Retained earnings	8,538	7,820
Treasury stock at cost (307,750 shares) - at December 31, 2016 and 2015 , respectively	(2,964)	(2,964)
Accumulated other comprehensive (loss) income	(989)	181
Total stockholders' equity	32,889	33,341
Total liabilities and stockholders' equity	$ 344,940	$ 336,009

See accompanying notes

Consolidated Statements of Operations and Comprehensive Income
(000s omitted)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest Income		
Loans, including fees	$ 8,133	$ 8,119
Investments		
Taxable	1,339	1,272
Tax-exempt	93	113
Mortgage-backed securities	1,023	1,107
Total interest income	10,588	10,611
Interest Expense		
Deposits	941	941
Borrowings	343	304
Total interest expense	1,284	1,245
Net Interest Income - Before (recovery of) provision for loan losses	9,304	9,366
(Recovery of) Provision for Loan Losses (Note 4)	95	(535)
Net Interest Income - After (recovery of) provision for loan losses	9,209	9,901
Other Income		
Service charges and other fees	967	947
Net gain on sale of investments	134	4
Net gain on sale of loans	263	300
Net gain on sale of premises and equipment, real estate owned and other repossessed assets	55	80
Loan servicing fees	237	232
Other	295	433
Total other income	1,951	1,996
Operating Expenses		
Compensation and employee benefits (Note 13)	5,833	5,831
FDIC insurance premiums	194	251
Advertising	184	164
Occupancy and equipment	1,172	1,145
Amortization of intangible assets	217	243
Data processing service bureau	493	436
Professional fees	442	555
Collection activity	78	94
Real estate owned and other repossessed assets	117	298
Other	1,116	1,102
Total operating expenses	9,846	10,119
Income - before income tax benefit	1,314	1,778
Income tax benefit (Note 10)	-	(1,650)
Net income	1,314	3,428
Other Comprehensive Income:		
Unrealized loss on securities available for sale - net of tax	(1,080)	(253)
Reclassification adjustment for gains realized in earnings - net of tax of $46 and $1 in 2016 and 2015, respectively	(90)	3
Comprehensive Income	$ 144	$ 3,178

See accompanying notes

Consolidated Statements of Changes in Stockholders' Equity
(000s omitted, except per share data)

	Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - January 1, 2015	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
Net income	-	-	-	-	1,314	-	1,314
Other comprehensive loss	-	-	-	-	-	(1,170)	(1,170)
Common dividend declared, $0.16 per share	-	-	-	-	(596)	-	(596)
Balance - December 31, 2016	4,035	$ 40	$ (2,964)	$ 28,264	$ 8,538	$ (989)	$ 32,889

See accompanying notes

Consolidated Statements of Cash Flows
(000s omitted)

	Year Ended December 31 2016	Year Ended December 31 2015
Cash Flows from Operating Activities		
Net income	$ 1,314	$ 3,428
Adjustments to reconcile net incometo cash from operating activities:		
Depreciation and amortization	639	662
(Recovery of) Provision for loan losses	95	(535)
Accretion of acquired loans	(39)	(64)
Amortization and accretion on securities	776	889
Gain on sale of investment securities	(134)	(4)
Gain on sale of loans held for sale	(263)	(300)
Gain on sale of property and equipment and assets held for sale	(54)	(80)
Gain on sale of real estate owned and other repossessed assets	(1)	-
Originations of loans held for sale	(16,764)	(17,023)
Proceeds from sale of loans held for sale	17,590	16,848
Deferred income tax benefit	-	(1,650)
Net change in:		
Accrued interest receivable	13	(53)
Bank owned life insurance	(141)	(129)
Other assets and deferred taxes	921	(935)
Accrued expenses and other liabilities	(134)	(496)
Net cash from operating activities	3,818	558
Cash Flows from Investing Activities		
Net increase in loans	(14,120)	(4,372)
Net decrease (increase) in deposits at other institutions	3,968	(961)
Proceeds from maturity of securities	28,179	29,848
Proceeds from sale of securities available-for-sale	12,324	1,583
Proceeds from sale of FHLB stock	-	955
Proceeds from sale of property and equipment and assets held for sale	402	289
Proceeds from sale of of real estate owned and other repossessed assets	411	2,286
Purchase of securities available for sale	(42,591)	(41,100)
Purchase of premises and equipment	(109)	(414)
Net cash from investing activities	(11,536)	(11,886)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	24,901	(2,207)
Dividends paid on common stock	(596)	(373)
Net increase (decrease) in advances from borrowers	28	(4)
Advances from FHLB	18,400	29,000
Repayments of advances from FHLB	(33,811)	(18,957)
Net cash from financing activities	8,922	7,459
Net Change in Cash and Cash Equivalents	1,204	(3,869)
Cash and Cash Equivalents - Beginning of year	7,603	11,472
Cash and Cash Equivalents - End of year	$ 8,807	$ 7,603
Supplemental Cash Flow and Noncash Information		
Net cash (refund for) paid for income taxes	$ 96	$ (14)
Cash paid for interest on deposits and borrowings	1,292	1,244
Transfer of loans to real estate owned & other repossessed assets	609	634

See accompanying notes

Note 1 - Summary of Significant Accounting Policies

Nature of Operations - First Federal of Northern Michigan Bancorp, Inc. ("Company") and its subsidiary, First Federal of Northern Michigan ("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 2016 activity of FFNM Financial Services, Inc. was to collect the stream of income generated by non-bank investment products through a contract with Infinex, which was terminated in March of 2016, and Old Mission Investment Co., LLC. 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, federal funds sold, and interest bearing deposits in other depository institutions which mature within ninety days when purchased. The Company was required to maintain $2.0 million as of December 31, 2016 and $3.8 million as of December 31, 2015 on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

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 (FHLB) Stock – As a requirement to conduct business, FHLB stock is held by the Company and carried at cost. Any sales and purchases of FHLB stock is 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. As of December 31, 2016, the Company was servicing mortgage loans sold to others totaling $111.1 million. Net unrealized losses on loans held for sale, 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, 2016 and 2015.

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, 2016 and 2015.

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, the 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 collectability 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 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. At December 31, 2016 there were $ 64 of 1-4 family residential mortgages in the process of foreclosure.

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, a business was acquired and 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, 2016 and 2015, management believes that it is more likely than not that all of the deferred tax assets would be realized. Accordingly, at December 31, 2016 and 2015 the Company recaptured $432 and $1.7 million, respectively, of the valuation allowance. As of December 31, 2016, a valuation allowance of $347 remained on the balance sheet compared to $779 as of December 31, 2015.

The net deferred tax asset recorded at December 31, 2016 and 2015 was $3.3 million and $2.6 million, respectively.

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 (loss) consists solely of unrealized losses on available for sale securities, reported net of tax of $510 and $94 at December 31, 2016 and December 31, 2015, 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.

The Company granted no options and did not record, through net income, any compensation costs related to stock options in 2016 and 2015.

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.

Purchase Price (000s 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)

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:			
Secured by real estate	3,070	14,830	17,900
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

(000S 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, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	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	$ 26,736	$ 64	$ (190)	26,610	$ 34,955	$ 94	$ (74)	$ 34,975
Municipal notes	45,905	167	(955)	45,117	28,292	307	(70)	28,529
Mortgage-backed securities	56,973	100	(704)	56,369	64,894	248	(232)	64,910
Equity securities	19	19	-	38	2	2	-	4
Total	$ 129,633	$ 350	$ (1,849)	$ 128,134	$ 128,143	$ 651	$ (376)	$ 128,418
Securities Held to Maturity								
Municipal notes	$ 700	$ 1	$ -	$ 701	$ 745	$ 1	$ -	$ 746

The amortized cost and estimated market value of securities at December 31, 2016, 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, 2016	
	Amortized Cost	Market Value
Available For Sale:		
Due in one year or less	$ 4,759	$ 4,765
Due after one year through five years	42,246	42,087
Due in five year through ten years	25,022	24,227
Due after ten years	613	648
Subtotal	72,640	71,727
Equity securities	19	38
Mortgage-backed securities	56,973	56,369
Total	$ 129,632	$ 128,134
Held To Maturity		
Due in one year or less	$ 50	$ 50
Due after one year through five years	220	220
Due in five year through ten years	350	351
Due after ten years	80	80
Total	$ 700	$ 701

At December 31, 2016 and 2015, securities with a fair value of $34.5 million and $25.1 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, 2016 and 2015. 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, 2016, the Company held 127 securities with unrealized losses totaling $1.9 million. At December 31, 2015 there were 67 securities with unrealized losses totaling $376.

(000S OMITTED), EXCEPT PER SHARE DATA

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.

	December 31, 2016				December 31, 2015			
	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	$ 10,204	$ (190)	$ -	$ -	$ 12,930	$ (62)	$ 986	$ (12)
Municipal notes	32,728	(955)	-	-	10,230	(54)	1,048	(16)
Mortgage-backed securities	47,811	(652)	1,804	(53)	27,575	(156)	3,612	(76)
Total Securities available for sale	$ 90,743	$ (1,797)	$ 1,804	$ (53)	$ 50,735	$ (272)	$ 5,646	$ (104)

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, 2016 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.

(000S OMITTED), EXCEPT PER SHARE DATA

Note 4 – Loans

Loans at December 31, 2016 and 2015 are summarized as follows:

	December 31	
	2016	2015
Real estate loans - One- to four-family residential	$ 82,405	$ 76,137
Commercial loans:		
Secured by real estate	65,131	59,941
Other	26,843	23,489
Total commercial loans	91,974	83,430
Consumer loans:		
Secured by real estate	7,628	8,682
Other	1,357	1,528
Total consumer loans	8,985	10,210
Total gross loans	183,364	169,777
Less:		
Net deferred loan fees	240	234
Allowance for loan losses	1,685	1,559
Total loans - net	$ 181,439	$ 167,984

As of December 31, 2016 the total outstanding balance and carrying value of acquired impaired loans was $2.0 million and $1.6 million, respectively. Changes to the accretable yield for acquired impaired loans were as follows as of December 31, 2016:

	Acquired Impaired Non-Accretable	Acquired Non-Imparied Accretable	Acquired Total
Beginning of year	$ (910)	$ (169)	$ (1,079)
Accretion of discount for credit spread	-	44	44
Tranfers to accretable	(19)	19	-
Loans charged-off through December 31, 2016	120	-	120
Loans paid off through December 31, 2016	227	-	227
Total	$ (582)	$ (106)	$ (688)

Certain directors and executive officers of the Company were loan customers of the Bank during December 31, 2016 and 2015. 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, 2016 and 2015 the outstanding balances of loans to officers and directors was $7.6 million and $9.4 million, respectively.

(000S 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, 2016 and 2015:

As of December 31, 2016

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	$ 459	$ -	$ -	$ 459	$ 662	$ 1,121	$ -
Commercial Real Estate - other	700	935	-	1,635	52,873	54,508	-
Commercial - non real estate	267	316	261	844	25,255	26,099	-
Consumer:							
Consumer - Real Estate	24	26	-	50	6,567	6,617	-
Consumer - Other	4	-	-	4	1,296	1,300	-
Residential:							
Residential	991	471	64	1,526	76,308	77,834	40
Total	$ 2,445	$ 1,748	$ 325	$ 4,518	$ 162,961	$ 167,479	$ 40

As of December 31, 2016

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	833	353	122	1,308	8,194	9,502	-
Commercial - non real estate	10	-	-	10	734	744	-
Consumer:							
Consumer - Real Estate	-	-	-	-	1,011	1,011	-
Consumer - Other	-	-	-	-	57	57	-
Residential:							
Residential	179	-	32	211	4,360	4,571	-
Total	$ 1,022	$ 353	$ 154	$ 1,529	$ 14,356	$ 15,885	$ -

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

(000S OMITTED), EXCEPT PER SHARE DATA

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	$ -

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.

(000S OMITTED), EXCEPT PER SHARE DATA

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.

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, 2016 and 2015:

As of December 31, 2016

Originated Loans: Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ 447	$ 324
3	662	12,557	9,508
4	459	32,090	14,842
4.5	-	4,319	221
5	-	1,987	517
6	-	3,108	687
7	-	-	-
8	-	-	-
Total	$ 1,121	$ 54,508	$ 26,099

(000S OMITTED), EXCEPT PER SHARE DATA

As of December 31, 2016

Acquired Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	$ -	$ -	$ 405
3	-	5,845	201
4	-	2,344	102
4.5	-	100	-
5	-	674	10
6	-	539	-
7	-	-	26
8	-	-	-
Total	$ -	$ 9,502	$ 744

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

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, 2016 and 2015.

(000S OMITTED), EXCEPT PER SHARE DATA

	As of December 31, 2016						As of December 31, 2015					
	Residential	Consumer - Real Estate	Consumer - Other	Residential	Consumer - Real Estate	Consumer - Other	Residential	Consumer - Real Estate	Consumer - Other	Residential	Consumer - Real Estate	Consumer - Other
	Originated Loans:			Acquired Loans:			Originated Loans:			Acquired Loans:		
Loan Grade:												
Pass	$ 77,471	$ 6,597	$ 1,300	$ 4,512	$ 1,011	$ 57	$ 70,282	$ 7,103	$ 1,424	$ 5,096	$ 1,542	$ 104
Substandard	363	20	-	59	-	-	502	30	-	257	7	-
Total	$ 77,834	$ 6,617	$ 1,300	$ 4,571	$ 1,011	$ 57	$ 70,784	$ 7,133	$ 1,424	$ 5,353	$ 1,549	$ 104

The following tables present the recorded investment in non-accrual loans by class as of December 31, 2016 and 2015:

	As of December 31	
	2016	2015
Commercial Real Estate:		
Commercial Real Estate - construction	$ -	$ -
Commercial Real Estate - other	265	409
Commercial	287	40
Consumer:		
Consumer - real estate	20	35
Consumer - other	-	-
Residential:		
Residential	394	751
Total	$ 966	$ 1,235

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2016 and 2015:

	Impaired Loans As of December 31, 2016			For the Twelve Months Ended December 31, 2016	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 374	$ 327	$ -	$ 334	$ -
Commercial Real Estate - Other	2,725	2,400	-	2,449	119
Consumer - Real Estate	30	27	-	32	1
Residential	1,653	1,366	-	1,564	58
With a specific allowance recorded:					
Commercial	26	26	1	33	2
Commercial Real Estate - Other	847	847	17	862	28
Consumer - Real Estate	9	8	1	9	-
Residential	46	45	1	46	-
Totals:					
Commercial	$ 400	$ 353	$ 1	$ 367	$ 2
Commercial Real Estate - Construction	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Other	$ 3,572	$ 3,247	$ 17	$ 3,311	$ 147
Consumer - Real Estate	$ 39	$ 35	$ 1	$ 41	$ 1
Consumer - Other	$ -	$ -	$ -	$ -	$ -
Residential	$ 1,699	$ 1,411	$ 1	$ 1,610	$ 58

(000S OMITTED), EXCEPT PER SHARE DATA

	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 - Real Estate		17		16		16		16		-
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

As of December 31, 2016 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 $19 and $9 reserves for the TDR loans at December 31, 2016 and December 31, 2015, 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, 2016 and 2015.

For the Twelve Months Ended December 31, 2016								
					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	3		506		506	3		237
Commercial - non real estate	1		261		261	-		-
Consumer - Real Estate	2		10		10	-		-
Residential	3		423		423	-		-
Total	9	$	1,200	$	1,200	3	$	237

(000S OMITTED), EXCEPT PER SHARE DATA

For the Twelve Months Ended December 31, 2015

	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investment	Troubled Debt Restructurings That Subsequently Defaulted: Number of Contracts	Troubled Debt Restructurings That Subsequently Defaulted: Recorded Investment
Commerical Real Estate - Construction	-	$ -	$ -	-	$ -
Commercial Real Estate - Other	-	-	-	-	-
Consumer - 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.

At December 31, 2016, 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.

(000S OMITTED), EXCEPT PER SHARE DATA

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, 2016 and 2015:

For the Year Ended December 31, 2016

	Commercial Construction	Commercial Real Estate	Commercial	Consumer Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$ 1	$ 504	$ 233	$ 36	$ 13	$ 677	$ 95	$ 1,559
Charge-offs	-	(115)	-	(29)	(16)	(129)	-	(289)
Recoveries	-	255	-	20	3	42	-	320
Provision	11	(58)	16	(4)	12	62	56	95
Ending Balance	$ 12	$ 586	$ 249	$ 23	$ 12	$ 652	$ 151	$ 1,685
Ending balance: individually evaluated for impairment	$ -	$ 17	$ 1	$ 1	$ -	$ 1	$ -	$ 20
Ending balance: collectively evaluated for impairment	$ 12	$ 569	$ 248	$ 22	$ 12	$ 651	$ 151	$ 1,665
Loans:								
Ending Balance	$ 1,121	$ 64,010	$ 26,843	$ 7,628	$ 1,357	$ 82,405	$ -	$ 183,364
Ending balance: individually evaluated for impairment	$ -	$ 3,247	$ 353	$ 35	$ -	$ 1,411	$ -	$ 5,046
Ending balance: collectively evaluated for impairment	$ 1,121	$ 51,261	$ 25,746	$ 6,582	$ 1,300	$ 76,423	$ -	$ 162,433
Acquired loans not subject to loan loss reserve	$ -	$ 9,502	$ 744	$ 1,011	$ 57	$ 4,571	$ -	$ 15,885

	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

(000S OMITTED), EXCEPT PER SHARE DATA

Note 5 - Property and Equipment

A summary of property and equipment is as follows:

	December 31, 2016	December 31, 2015
Land	$ 1,081	$ 1,081
Land improvements	173	166
Buildings	6,617	6,745
Equipment	3,160	3,747
Total property and equipment	11,031	11,739
Accumulated depreciation	5,092	5,410
Net property and equipment	$ 5,939	$ 6,329

Depreciation expense was $422 and $420 for the periods ended December 31, 2016 and 2015, 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 $111.1 million and $118.4 million at December 31, 2016 and 2015, respectively.

The key economic assumptions used in determining the fair value of the mortgage servicing rights are as follows:

	December 31, 2016	December 31, 2015
Annual constant prepayment speed (CPR)	11.32%	10.41%
Weighted average life (in months)	243	245
Discount rate	9.96%	9.49%

The fair value of our mortgage servicing rights was estimated to be $873 and $973 at December 31, 2016 and December 31, 2015.

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

	December 31, 2016	December 31, 2015
Balance - beginning of period:	$ 578	$ 710
Originated mortgage servicing rights capitalized	133	131
Amortization of mortgage servicing rights	(238)	(263)
Balance - end of period	$ 473	$ 578

(000S OMITTED), EXCEPT PER SHARE DATA

Note 7 - Intangible Assets

Intangible assets of the Company are summarized as follows:

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit (merger)	$ 1,392	$ 565	$ 827	$ 1,392	$ 348	$ 1,044

Amortization expense was $217 and $243 for the periods ended December 31, 2016 and 2015, 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, 2016 is as follows:

	Amortization Expense
2017	$192
2018	167
2019	141
2020	116
2021	91
Thereafter	120
Total	$ 827

Note 8 - Deposits

Interest-bearing deposit accounts, by type, consist of the following:

	December 31,	
Account Type	2016	2015
NOW accounts and MMDA	$ 128,015	$ 103,980
Regular savings accounts	37,040	30,569
Total	165,055	134,549
Certificate of Deposit		
Certificate of Deposits ≤ $250,000	63,158	66,074
Certificate of Deposits > $250,000	5,454	6,250
Total certificate of deposits	68,612	72,324
Total interest-bearing deposits	$ 233,667	$ 206,873

(000S OMITTED), EXCEPT PER SHARE DATA

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

Years Ending December 31	Amount
2017	$ 28,827
2018	13,521
2019	12,087
2020	7,872
2021	6,048
Thereafter	257
	$ 68,612

Deposits from related parties held by the Bank at December 31, 2016 and 2015 amounted to $33.3 million and $10.8 million, respectively.

Note 9 - Federal Home Loan Bank and Federal Reserve Advances

The Bank has advances from the FHLB of Indianapolis. Interest rates range from 0.99% to 2.21% with a weighted average interest rate of 1.23%. These advances contain varying maturity dates through January 3, 2023 with a weighted average maturity of approximately 21 months. The advances are collateralized by approximately $56.2 million and $53.8 million of mortgage loans as of December 31, 2016 and 2015, respectively. In addition, at December 31, 2016 and 2015, securities with a carrying value of $28.1 million and $16.8 million, respectively, were pledged as collateral for FHLB advances. Available borrowings with the FHLB at December 31, 2016 totaled $64.9 million, of which $17.5 million was outstanding.

The Bank had $0 million and $8.5 million of variable rate advances outstanding as of December 31, 2016 and 2015, respectively.

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

Years Ending December 31	Amount
2017	$ 5,744
2018	2,000
2019	5,624
2020	891
2021	178
Thereafter	3,080
Total	$ 17,517

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, 2016, these advances are secured by investment securities with a fair value of approximately $6.4 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 1.25% as of December 31, 2016). At December 31, 2016 and 2015, the Bank had no outstanding advances.

(000S OMITTED), EXCEPT PER SHARE DATA

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,	
	2016	2015
Current provision	$ -	$ -
Deferred expense	432	676
Change in valuation allowance	(432)	(2,326)
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,	
	2016	2015
Tax expense at statutory rate	$ 447	$ 604
Increase (decrease) from:		
Nondeductible expenses	4	5
Tax-exempt interest	(32)	(38)
Change in valuation allowance	(432)	(2,326)
Other	13	105
Total income tax benefit	$ -	$ (1,650)

(000S OMITTED), EXCEPT PER SHARE DATA

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

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Acquired loans	$ 234	$ 533
Other real estate owned	84	79
Non-accrual loan interest	35	132
Directors' benefit plan	230	225
Net operating loss carryforward	3,114	3,216
Net deferred loan origination fees	82	80
Allowance for loan losses	227	194
Alternative minimum tax credit	59	78
Unrealized loss on available-for-sale securities	510	-
Other	-	40
Total deferred tax assets	4,575	4,577
Less: valuation allowance	347	779
Deferred tax liabilities:		
Mortgage servicing rights	161	196
Partnership losses	126	138
Unrealized gain on available-for-sale securities	-	93
Depreciation	99	108
Core deposit intangible	281	355
Other	247	293
Total deferred tax liabilities	914	1,183
Net deferred tax asset	$ 3,314	$ 2,615

The Company has net operating loss carryforwards of approximately $9.2 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 balance sheets.

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, 2016	December 31, 2015
Commitments to grant loans	$ 10,741	$ 13,329
Unfunded commitments under lines of credit	19,931	17,652
Commercial and standby letters of credit	310	130

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, 2016 and 2015.

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.

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. Other than the conservation buffer, these regulations are considered in the 2016 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, 2016 and 2015, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2016, 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 table.

	Actual		Regulatory Minimum		Minimum to be Well Capitalized	Minimum to be Well Capitalized
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					
December 31, 2016						
Tier 1 Leverage Ratio (core capital to average assets)	$ 28,352	8.44%	$ 13,439	4.00%	$ 16,799	5.00%
Common Equity Tier 1 Risk-based capital (to risk-weighted assets)	28,352	14.71%	8,672	4.50%	12,526	6.50%
Tier 1 Risk-based capital (to risk-weighted assets)	28,352	14.71%	11,562	6.00%	15,416	8.00%
Total Risk-based capital (to risk-weighted assets)	30,046	15.59%	15,416	8.00%	19,271	10.00%
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%

Note 13 - Employee Benefit Plans

Defined Benefit Pension Plan - The Bank is a participant in the multiemployer Financial Institutions Retirement Fund (FIRF or the “Plan”), which covers a number 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 $144 and $76 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015 was $116 and $122, 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.

(000S OMITTED), EXCEPT PER SHARE DATA

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 for accrued expenses and other liabilities under the plan totaled approximately $579 and $661 at December 31, 2016 and 2015, respectively. The expense under the plan for the years ended December 31, 2016 and 2015 was $64 and $69, 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, 2016 and 2015 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	136,030	$9.54	2.40	-
Forfeited or Expired	(14,650)	$9.36		
Outstanding at December 31, 2015	121,380	$9.57	1.40	-
Forfeited or expired	(121,380)	$9.57		
Oustanding at December 31, 2016	0	$0.00	0.50	-
Options Exercisable at December 31, 2016	0	$0.00	0.50	-

There were no shares available for future granting of options as of December 31, 2016, due to the expiration of the Plan during 2016.

Restricted Stock Awards – The Company did not grant any award shares during the years ended December 31, 2016 and 2015.

There were no shares available for future grants of award shares at December 31, 2016, due to the expiration of the Plan during 2016.

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, 2016 and 2015 and the valuation techniques used by the Company to determine those fair values.

(000S OMITTED), EXCEPT PER SHARE DATA

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, 2016

	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, 2016
Investment securities - available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ -	$ 26,610	$ -	$ 26,610
Municipal notes	-	44,509	608	45,117
Mortgage-backed securities	-	56,369	-	56,369
Equity securities	38	-	-	38
Total investment securities - available for sale	$ 38	$ 127,488	$ 608	$ 128,134

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

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, 2016 and 2015. For the available-for-sale securities, the Company obtains fair value measurements from an independent third-party service.

(000S OMITTED), EXCEPT PER SHARE DATA

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, 2016

	Balance at December 31, 2016	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	$ 786	$ -	$ -	$ 786
Other real estate owned - residential mortgages	396	-	-	396
Other real estate owned - commercial	283	-	-	283
Other repossessed assets	691	-	-	691
Total assets at fair value on a non-recurring basis				$ 2,156
Acquired Assets:				
Impaired loans accounted for under FASB ASC 310-10	$ 569	$ -	$ -	$ 569
Total assets at fair value on a non-recurring basis				$ 569

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

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.

(000S OMITTED), EXCEPT PER SHARE DATA

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 FHLB stock approximates fair value based on the redemption provisions of the FHLB.

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 FHLB 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.

The estimated fair values and related carrying amounts of the Company's financial instruments as of December 31, 2016 and 2015 are as follows:

December 31, 2016	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$ 8,807	$ 8,807	$ -	$ -	$ 8,807
Deposits held at other financial institutions	5,422	-	5,441	-	5,441
Securities available for sale	128,134	-	127,526	608	128,134
Securities held to maturity	700	-	701	-	701
Loans receivable - net	181,439	-	-	181,569	181,569
Federal Home Loan Bank stock	1,636	-	1,636	-	1,636
Accrued interest receivable	1,026	-	-	1,026	1,026
Financial liabilities:					
Customer deposits	293,428	-	294,103	-	294,103
Federal Home Loan Bank advances	17,517	-	17,048	-	17,048
Accrued interest payable	94	-	-	94	94

(000S OMITTED), EXCEPT PER SHARE DATA

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

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 17, 2017 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 2016 and 2015.

	Market Price		
Quarter Ended	High	Low	Cash Dividend Declared
December 31, 2016	$8.25	$6.70	$ 0.040
September 30, 2016	$7.00	$6.60	$ 0.040
June 30, 2016	$7.28	$6.65	$ 0.040
March 31, 2016	$7.25	$5.86	$ 0.040
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

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 46 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 39 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 20 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 37 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 40 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 25 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 joined the Bank in February 2002 and held several positions within the accounting department, including staff accountant, Assistant Controller and Controller. 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

www.first-federal.com