ALPENA BANCSHARES INC
Form SB-2
December 10, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 10, 2004
REGISTRATION NO. 333-________

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
(Name of Small Business Issuer in Its Charter)

MARYLAND	6712	BEING APPLIED FOR
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

100 SOUTH SECOND AVENUE
ALPENA, MICHIGAN 49707
(989) 356-9041
(Address and Telephone Number of
Principal Executive Offices)

100 SOUTH SECOND AVENUE
ALPENA, MICHIGAN 49707
(Address of Principal Place of Business)

MARTIN A. THOMSON
100 SOUTH SECOND AVENUE
ALPENA, MICHIGAN 49707
(989) 356-9041
(Name, Address and Telephone Number of Agent for Service)

COPIES TO:
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STEVE LANTER, ESQ.
LUSE GORMAN POMERENK & SCHICK, P.C.
5335 WISCONSIN AVENUE, N.W., SUITE 400
WASHINGTON, D.C. 20015

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIM AGGREGATE OFFERING PRI
Common Stock, $0.01 par value per share	3,853,613 shares	$10.00	$38,536,130 (

(1) Estimated solely for the purpose of calculating the registration fee.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PROSPECTUS

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
(PROPOSED HOLDING COMPANY FOR FIRST FEDERAL OF NORTHERN MICHIGAN)
UP TO 2,116,000 SHARES OF COMMON STOCK

First Federal of Northern Michigan Bancorp, Inc., a Maryland corporation, is offering shares of common stock for sale in connection with the conversion of Alpena Bancshares, M.H.C. from the mutual to the stock form of organization. The shares of common stock we are offering represent the ownership interest in Alpena Bancshares, Inc., a federal corporation, now owned by Alpena Bancshares, M.H.C. The existing shares of Alpena Bancshares, Inc. common stock held by the public will be exchanged for new shares of common stock of First Federal of Northern Michigan Bancorp, Inc., a Maryland corporation. All shares of common stock are being offered for sale at a price of $10.00 per share. In addition, we intend to establish a charitable foundation and to fund the foundation with a contribution of up to 37,500 shares of our common stock and up to $375,000 in cash. We expect that our shares of common stock will trade on the Nasdaq National Market under the symbol "ALPN."

IF YOU ARE OR WERE A DEPOSITOR OF FIRST FEDERAL OF NORTHERN MICHIGAN:

- You may have priority rights to purchase shares of common stock.

IF YOU ARE CURRENTLY A STOCKHOLDER OF ALPENA BANCSHARES, INC.:

- You may have the opportunity to purchase additional shares of common stock in the offering after subscription offering orders are filled.

- Each of your shares of common stock will be exchanged at the conclusion of the offering for between 1.4783 and 2.0000 new shares (subject to adjustment to up to 2.3000 new shares) of common stock of First Federal of Northern Michigan Bancorp, Inc.

- Your percentage ownership will remain essentially equivalent to your current percentage ownership interest in Alpena Bancshares, Inc.

IF YOU FIT NONE OF THE CATEGORIES ABOVE, BUT ARE INTERESTED IN PURCHASING SHARES OF OUR COMMON STOCK:

- You may have the opportunity to purchase shares of common stock after priority orders are filled.

We are offering up to 1,840,000 shares of common stock for sale on a best efforts basis. We may sell up to 2,116,000 shares of common stock because of demand for the shares or changes in market conditions, without resoliciting subscribers. We will issue up to 1,478,360 shares of common stock to current stockholders of Alpena Bancshares, Inc. in exchange for their existing shares. The number of shares to be issued in exchange may be increased to up to 1,700,113 shares, depending on the number of shares sold in the offering. We must sell a minimum of 1,360,000 shares in the offering, and we must issue 1,092,701 shares in the exchange in order to complete the offering and the exchange of existing shares.

The minimum number of shares you can order is 25 shares. The offering is expected to expire at 10:00 a.m., Alpena, Michigan time, on March 15, 2005. We may extend this expiration date without notice to you until April 29, 2005, unless the Office of Thrift Supervision approves a later date, which may not be beyond March __, 2007. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond April 29, 2005, or the number of shares of common stock to be sold is increased to more than 2,116,000 shares or decreased to less than 1,360,000 shares. If the offering is extended beyond April 29, 2005, or if the number of shares of common stock to be sold is increased to more than 2,116,000 shares or decreased to less than 1,360,000 shares, subscribers will be resolicited, and all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to subscribers, with interest. Funds received during the offering will be held in a segregated account at First Federal of Northern Michigan or another depository institution and will earn interest at our passbook savings rate.

Ryan Beck & Co., Inc. will assist us in selling our shares of common stock on a best efforts basis. Ryan Beck & Co., Inc. is not required to purchase any shares of the common stock that are being offered for sale. Purchasers will not pay a commission to purchase shares of common stock in the offering.

OFFERING SUMMARY
PRICE: $10.00 PER SHARE

	MINIMUM	MAXIMUM	ADJUSTED MAXIMUM
Number of shares:	1,360,000	1,840,000	2,116,000
Gross offering proceeds:	$ 13,600,000	$ 18,400,000	$ 21,160,000
Estimated offering expenses:	$ 716,000	$ 738,000	$ 786,000
Estimated net proceeds:	$ 12,884,000	$ 17,662,000	$ 20,374,000
Estimated net proceeds per share:	$ 9.47	$ 9.60	$ 9.63

THIS INVESTMENT INVOLVES A DEGREE OF RISK, INCLUDING
THE POSSIBLE LOSS OF PRINCIPAL.

PLEASE READ "RISK FACTORS" BEGINNING ON PAGE 20.

THESE SECURITIES ARE NOT DEPOSITS OR ACCOUNTS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY. NEITHER THE SECURITIES AND EXCHANGE COMMISSION, THE OFFICE OF THRIFT SUPERVISION, NOR ANY STATE SECURITIES REGULATOR HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

RYAN BECK & CO.

For assistance, please contact the Stock Information Center at (989) ___-_____

The date of this Prospectus is February __, 2005.

[MAP SHOWING FIRST FEDERAL OF NORTHERN MICHIGAN'S MARKET AREA APPEARS HERE]

OFFICE LOCATIONS:

HEADQUARTERS:

100 South Second Avenue
Alpena, MI 49707

BRANCH LOCATIONS:

300 South Ripley Boulevard
Alpena, MI 49707

625 N. Williams Street
Mancelona, MI 49659

6230 River Street
Alanson, MI 49706

308 North Morenci
Mio, MI 48647

101 South Main Street
Cheboygan, MI 49721

201 North State Street
Oscoda, MI 48750

1000 South Wisconsin
Gaylord, MI 49735

11874 U.S. 23 South
Ossineke, MI 49766

P.O. Box 673
4236 Salling Street
Lewiston, MI 49756

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

The words "we," "our" and other similar references are intended to refer to Alpena Bancshares, M.H.C. and its subsidiaries (including Alpena Bancshares, Inc., a federal corporation, and First Federal of Northern Michigan) when relating to matters and time periods prior to the completion of the conversion and the offering, and to refer to First Federal of Northern Michigan Bancorp, Inc., a Maryland corporation, and its subsidiaries (including First Federal of Northern Michigan) when referring to matters and time periods after completion of the conversion and the offering.

SUMMARY

The following summary explains the significant aspects of the conversion, the offering and the exchange of existing shares of Alpena Bancshares, Inc. common stock for new shares of First Federal of Northern Michigan Bancorp, Inc. common stock. It may not contain all the information that is important to you. For additional information before making an investment decision, you should read this entire document carefully, including the consolidated financial statements and the notes to the consolidated financial statements, and the section titled "Risk Factors."

THE COMPANIES

ALPENA BANCSHARES, M.H.C.

Alpena Bancshares, M.H.C. is the federally chartered mutual holding company of Alpena Bancshares, Inc., a federal corporation. Alpena Bancshares, M.H.C.'s principal business activity is the ownership of 920,000 shares of common stock of Alpena Bancshares, Inc., or 55.4% of the issued and outstanding shares as of September 30, 2004. After the completion of the conversion, Alpena Bancshares, M.H.C. will no longer exist.

Alpena Bancshares, M.H.C.'s executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Its telephone number at this address is (989) 356-9041.

ALPENA BANCSHARES, INC., THE FEDERAL CORPORATION

Alpena Bancshares, Inc. is a federally chartered corporation that owns all of the outstanding common stock of First Federal of Northern Michigan. At September 30, 2004, Alpena Bancshares, Inc. had consolidated assets of $254.5 million, deposits of $182.4 million and stockholders' equity of $21.9 million. After the completion of the conversion, Alpena Bancshares, Inc. will cease to exist, but will be succeeded by a new Maryland corporation with the name First Federal of Northern Michigan Bancorp, Inc. As of September 30, 2004, Alpena Bancshares, Inc. had 1,659,180 shares of common stock issued and outstanding. As of that date, Alpena Bancshares, M.H.C. owned 920,000 shares of common stock of Alpena Bancshares, Inc., representing 55.4% of the issued and outstanding shares of common stock. The remaining 739,180 shares were owned by the public.

Alpena Bancshares, Inc.'s executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Its telephone number at this address is (989) 356-9041.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC., THE MARYLAND CORPORATION

First Federal of Northern Michigan Bancorp, Inc. is a newly formed Maryland corporation that will own all of the outstanding common stock of First Federal of Northern Michigan upon completion of the conversion and the offering. Concurrently with the completion of the conversion and offering, First Federal of Northern Michigan Bancorp, Inc., the Maryland corporation, will be the successor to Alpena Bancshares, Inc., the federal corporation.

First Federal of Northern Michigan Bancorp, Inc.'s executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Our telephone number at this address is (989) 356-9041.

FIRST FEDERAL OF NORTHERN MICHIGAN

First Federal of Northern Michigan is a full-service, community-oriented federal savings bank that provides financial services to individuals, families and businesses from ten full-service facilities located in Alpena, Antrim, Charlevoix, Cheboygan, Iosco, Otsego, Montmorency and Oscoda Counties, Michigan. First Federal of Northern Michigan has operated in Alpena, Michigan since its chartering in 1957. First Federal of Northern Michigan reorganized into the mutual holding company structure in 1994.

First Federal of Northern Michigan's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in loans, consisting primarily of one- to four-family residential mortgage loans, commercial real estate loans, commercial loans and consumer loans, as well as in agency securities and mortgage-backed securities.

First Federal of Northern Michigan's executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Its telephone number at this address is (989) 356-9041.

OUR ORGANIZATIONAL STRUCTURE

In 1994, First Federal of Northern Michigan's mutual predecessor reorganized into the mutual holding company form of organization. In 2000, First Federal of Northern Michigan formed Alpena Bancshares, Inc. as its mid-tier stock holding company. The majority of the outstanding shares of common stock of Alpena Bancshares, Inc. is owned by Alpena Bancshares, M.H.C., which is a mutual holding company that has no stockholders. Alpena Bancshares, Inc. owns 100% of the outstanding shares of common stock of First Federal of Northern Michigan.

Pursuant to the terms of Alpena Bancshares, M.H.C.'s plan of conversion and reorganization, Alpena Bancshares, M.H.C. will convert from the mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering and possibly in a community offering the majority ownership interest of Alpena Bancshares, Inc. that is currently held by Alpena Bancshares, M.H.C. Upon the completion of the conversion and offering, Alpena Bancshares, M.H.C. will cease to exist, and we will complete the transition from partial to full public stock ownership. Existing public stockholders of Alpena Bancshares, Inc. will receive new shares of common stock of First Federal of Northern Michigan Bancorp, Inc. (our newly formed Maryland corporation that will be the successor to Alpena Bancshares, Inc.) in exchange for their existing shares of Alpena Bancshares, Inc. at the completion of the conversion.

The following chart shows our current organizational structure, which is commonly referred to as the "two-tier" mutual holding company structure:

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------------------------------------      PUBLIC
      ALPENA BANCSHARES, M.H.C.         STOCKHOLDERS
------------------------------------
   55.4% of Alpena                              44.6% of Alpena
   Bancshares, Inc.                             Bancshares, Inc. common
   common stock                                 stock
            ----------------------------------------
                    ALPENA BANCSHARES, INC.
                    (A FEDERAL CORPORATION)
            ----------------------------------------

                               100% of common stock

            ----------------------------------------
                   FIRST FEDERAL OF NORTHERN
                           MICHIGAN
            ----------------------------------------
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After the conversion and offering are completed, we will be organized as a fully public holding company, as follows:

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                      PUBLIC STOCKHOLDERS
                (including charitable foundation)

                               100% of common stock

            ----------------------------------------
                   FIRST FEDERAL OF NORTHERN
                    MICHIGAN BANCORP, INC.
                   (A MARYLAND CORPORATION)
            ----------------------------------------

                               100% of common stock

            ----------------------------------------
                   FIRST FEDERAL OF NORTHERN
                           MICHIGAN
            ----------------------------------------
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BUSINESS STRATEGY

Our goal is to operate and grow as a well-capitalized and profitable financial institution. We seek to accomplish this goal by:

- operating as a community-oriented financial institution with personalized customer service;

- increasing our commercial real estate and commercial loan portfolios;

- increasing our share of lower-cost deposits;

- increasing and diversifying our sources of non-interest income;

- maintaining high asset quality and capital strength; and

- managing our interest rate risk exposure by selling into the secondary market the majority of fixed-rate residential real estate loans with maturities of greater than 15 years that we originate.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Management Strategy" for a discussion of our business strategy.

REASONS FOR THE CONVERSION

We believe that our conversion to a fully public company and the increased capital resources that will result from the sale of our common stock will provide us with the flexibility:

- to support internal growth through lending in the communities we serve;

- to enhance existing products and services and support the development of new products and services;

- to facilitate growth through branch and whole bank acquisitions as opportunities arise;

- to improve our overall competitive position; and

- to improve the liquidity of our shares of common stock and enhance stockholder returns through higher earnings and more flexible capital management strategies.

As a fully converted stock holding company, we will have greater flexibility in structuring mergers and acquisitions, including the form of consideration that we can use to pay for an acquisition. Our current mutual holding company structure and our relatively small asset size limit our ability to offer shares of our common stock as consideration in a merger or acquisition since Alpena Bancshares, M.H.C. is required to own a majority of our outstanding shares of common stock. Potential sellers often want stock for at least part of the purchase price. Our new stock holding company structure will enable us to offer stock or cash consideration, or a combination of stock and cash, and will therefore enhance our ability to compete with other bidders when acquisition opportunities arise. We currently have no arrangements or understandings regarding any specific acquisition.

TERMS OF THE CONVERSION AND OFFERING

Pursuant to Alpena Bancshares, M.H.C.'s plan of conversion and reorganization, our organization will convert from a partially public to a fully public form of holding company structure. In connection with the conversion, we are selling shares that represent the ownership interest in Alpena Bancshares, Inc. currently held by Alpena Bancshares, M.H.C.

We are offering between 1,360,000 and 1,840,000 shares of common stock to eligible depositors and borrowers of First Federal of Northern Michigan, our employee benefit plans and, to the extent shares remain available, to our existing public stockholders and the general public. The number of shares of common stock to be sold may be increased to up to 2,116,000 as a result of regulatory considerations, demand for the shares, or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 2,116,000 shares or decreased to less than 1,360,000 shares, or

the offering is extended beyond April 29, 2005, subscribers will not have the opportunity to change or cancel their stock orders once submitted. If the number of shares of common stock to be sold is increased to more than 2,116,000 shares or decreased to less than 1,360,000 shares, or if the offering is extended beyond April 29, 2005, subscribers will be resolicited, and all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to subscribers with interest.

The purchase price of each share of common stock to be offered for sale in the offering is $10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Ryan Beck & Co., Inc., our marketing advisor in the offering, will use its best efforts to assist us in selling shares of our common stock. Ryan Beck & Co., Inc. is not obligated to purchase any shares of common stock in the offering.

In addition, as part of the conversion and offering, we intend to contribute up to 37,500 shares of our common stock and up to $375,000 in cash to a charitable foundation to be established by First Federal of Northern Michigan.

PERSONS WHO MAY ORDER SHARES OF COMMON STOCK IN THE OFFERING

We are offering the shares of common stock in a "subscription offering" in the following descending order of priority:

(i) First, to depositors with accounts at First Federal of Northern Michigan with aggregate balances of at least $50 on October 31, 2003.

(ii) Second, to First Federal of Northern Michigan's employee stock ownership plan.

(iii) Third, to depositors with accounts at First Federal of Northern Michigan with aggregate balances of at least $50 on December 31, 2004.

(iv) Fourth, to depositors of First Federal of Northern Michigan as of January 31, 2005 and to borrowers of First Federal of Northern Michigan as of November 4, 1994 whose borrowings remained outstanding as of January 31, 2005.

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a "community offering," with a preference given first to natural persons residing in the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda, Otsego and Presque Isle, and then to Alpena Bancshares, Inc. public stockholders as of January 31, 2005. The community offering, if held, may begin concurrently with, during or promptly after the subscription offering as we may determine at any time. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a "syndicated community offering" managed by Ryan Beck & Co., Inc. We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated community offering. Any determination to accept or reject purchase orders in the community offering and the syndicated community offering will be based on the facts and circumstances available to management at the time of the determination.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering. A detailed description of share allocation procedures can be found in the section entitled "The Conversion."

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HOW WE DETERMINED THE OFFERING RANGE AND THE $10.00 PER SHARE STOCK PRICE

The amount of common stock we are offering is based on an independent appraisal of the estimated market value of First Federal of Northern Michigan Bancorp, Inc., assuming the conversion and offering are completed. RP Financial, LC., our independent appraiser, has estimated that, as of November 26, 2004, this market value, including the establishment of the Foundation, ranged from $24,799,010 to $33,551,600, with a midpoint of $29,175,300. Based on this valuation, the ownership interest of Alpena Bancshares, M.H.C. being sold in the offering and the $10.00 per share price, the number of shares of common stock being offered for sale by First Federal of Northern Michigan Bancorp, Inc. will range from 1,360,000 shares to 1,840,000 shares. The $10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. The appraisal is based in part on Alpena Bancshares, Inc.'s financial condition and results of operations, the effect of the additional capital raised by the sale of shares of common stock in the offering, and an analysis of a peer group of 13 publicly traded savings bank and thrift holding companies that RP Financial considered comparable to Alpena Bancshares, Inc.

The following table presents a summary of selected pricing ratios for the peer group companies and First Federal of Northern Michigan Bancorp, Inc., based on earnings and other information as of and for the twelve months ended September 30, 2004. Compared to the average pricing of the peer group, First Federal of Northern Michigan Bancorp, Inc.'s pro forma pricing ratios at the maximum of the offering range indicated a premium of 174.4% on a price-to-core earnings basis, a discount of 25.4% on a price-to-book basis and a discount of 22.3% on a price-to-tangible book basis. The pricing ratios result from our generally higher levels of equity than the companies in the peer group, but lower earnings. Our board of directors, in reviewing and approving the appraisal, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios at the different amounts of shares to be sold in the offering, and did not consider one valuation approach to be more important than the other. Instead, in approving the appraisal, the board concluded that these ranges represented the appropriate balance of the two approaches to valuing First Federal of Northern Michigan Bancorp, Inc., and the number of shares to be sold, in comparison to the peer group institutions. Specifically, in approving the appraisal, the board believed that First Federal of Northern Michigan Bancorp, Inc. would not be able to sell its shares at a price-to-book value that was in line with the peer group without unreasonably exceeding the peer group on a price-to-earnings basis. The estimated appraised value and the resulting premium/discount took into consideration the potential financial impact of the conversion and offering.

	PRO FORMA	PRO FORMA

	PRICE-TO-CORE EARNINGS MULTIPLE	PRICE-TO-BOOK VALUE RATIO
FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.		
Maximum..............................	57.44x	89.67%
Minimum..............................	43.57x	74.52%
VALUATION OF PEER GROUP COMPANIES AS OF NOVEMBER 26, 2004		
Averages.............................	20.93x	120.13%
Medians..............................	20.38x	112.49

THE INDEPENDENT APPRAISAL DOES NOT INDICATE MARKET VALUE. DO NOT ASSUME OR EXPECT THAT THE VALUATION OF FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AS INDICATED ABOVE MEANS THAT, AFTER THE CONVERSION AND OFFERING, THE SHARES OF COMMON STOCK WILL TRADE AT OR ABOVE THE $10.00 PURCHASE PRICE.

The independent appraisal will be updated prior to the completion of the conversion. If the appraised value changes to either below $24,799,010 or above $38,536,130, we will resolicit persons who

submitted stock orders, and all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to subscribers with interest. See "The Conversion--Stock Pricing and Number of Shares to be Issued."

In addition, we intend to contribute to a charitable foundation cash in an amount equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the cash does not exceed $375,000 and common stock equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the common stock contribution does not exceed 37,500 shares. The contribution of common stock to the charitable foundation will have the effect of reducing our pro forma valuation. See "Comparison of Valuation and Pro Forma Information with and without the Foundation."

THE EXCHANGE OF EXISTING SHARES OF ALPENA BANCSHARES, INC. COMMON STOCK

If you are currently a stockholder of Alpena Bancshares, Inc, your shares will be canceled at the conclusion of the offering and become the right to receive shares of common stock of First Federal of Northern Michigan Bancorp, Inc. The number of shares of common stock you receive will be based on an exchange ratio determined as of the closing of the conversion, which will depend upon our final appraised value. The number of shares you receive is not based on the market price of our currently outstanding shares. The following table shows how the exchange ratio will adjust, based on the valuation of First Federal of Northern Michigan Bancorp, Inc. and the number of shares of common stock issued in the offering. The table also shows the number of new shares a hypothetical owner of Alpena Bancshares, Inc. common stock would receive in exchange for 100 shares of Alpena Bancshares, Inc. common stock owned at the consummation of the conversion, depending on the number of shares of common stock issued in the offering.

	NEW SHARES TO BE EXCHANGED	TOTAL SHARES OF

	NEW SHARES TO BE SOLD IN THIS OFFERING(1)		FOR EXISTING SHARES OF ALPENA BANCSHARES, INC.		COMMON STOCK TO BE ISSUED IN CONVERSION AND OFFERING	EXCHA
	AMOUNT	PERCENT	AMOUNT	PERCENT		RAT
Minimum............	1,360,000	55.4%	1,092,701	44.6%	2,479,901	1.4
Midpoint...........	1,600,000	55.4	1,285,530	44.6	2,917,530	1.7
Maximum............	1,840,000	55.4	1,478,360	44.6	3,355,160	2.0
15% above Maximum..	2,116,000	55.4	1,700,113	44.6	3,853,613	2.3

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(1) Does not include 27,200, 32,000, 36,800 and 37,500 shares issued to the charitable foundation at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

If you own shares of Alpena Bancshares, Inc. common stock in a brokerage account in "street name," you do not need to take any action to exchange your shares of common stock. If you own shares in the form of Alpena Bancshares, Inc. stock certificates, you will receive a transmittal form with instructions to surrender your stock certificates after consummation of the conversion. New certificates of First Federal of Northern Michigan Bancorp, Inc. common stock will be mailed to you within five business days after the exchange agent receives properly executed transmittal forms and your Alpena Bancshares, Inc. stock certificates.

YOU SHOULD NOT SUBMIT A STOCK CERTIFICATE UNTIL YOU RECEIVE A TRANSMITTAL FORM.

No fractional shares of First Federal of Northern Michigan Bancorp, Inc. common stock will be issued to any public stockholder of Alpena Bancshares, Inc. For each fractional share that would otherwise be issued, First Federal of Northern Michigan Bancorp, Inc. will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be

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entitled by the $10.00 per share subscription price. Current stockholders of Alpena Bancshares, Inc. have dissenters' rights in connection with the conversion.

LIMITS ON HOW MUCH COMMON STOCK YOU MAY PURCHASE

The minimum number of shares of common stock that may be purchased is 25 shares.

IF YOU ARE NOT CURRENTLY AN ALPENA BANCSHARES, INC. STOCKHOLDER -

No individual, or individual exercising subscription rights through a qualifying account held jointly, may purchase more than $150,000 (15,000 shares) of common stock. If any of the following persons purchases shares of common stock, their purchases, in all categories of the offering, when combined with your purchases, cannot exceed $250,000 (25,000 shares) of common stock:

- your spouse or relatives of you or your spouse living in your house;

- most companies, trusts or other entities in which you are a trustee, have a substantial beneficial interest or hold a senior position; or

- o other persons who may be your associates or persons acting in concert with you.

See the detailed description of "acting in concert" and "associate" in "The Conversion--Limitations on Common Stock Purchases."

IF YOU ARE CURRENTLY AN ALPENA BANCSHARES, INC. STOCKHOLDER -

In addition to the above purchase limitations, there is an ownership limitation. Shares of common stock that you purchase in the offering individually and together with persons described above, PLUS any new shares you and they receive in the exchange for existing shares of Alpena Bancshares, Inc. common stock, may not exceed 5% of the total shares of common stock to be issued and outstanding after the completion of the conversion. Subject to Office of Thrift Supervision approval, we may increase or decrease the purchase and ownership limitations at any time.

ISSUANCE OF SHARES OF OUR COMMON STOCK AND CONTRIBUTION OF CASH TO THE CHARITABLE FOUNDATION

To further our commitment to our local community, we intend to establish a charitable foundation as part of the conversion and offering, and intend to fund the foundation through a contribution of cash in an amount equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the cash does not exceed $375,000 and common stock equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the common stock contribution does not exceed 37,500 shares. As a result of the contribution of shares to the charitable foundation, we will record an after-tax expense of up to $495,000 during the quarter in which the conversion is completed. The charitable foundation will be dedicated exclusively to supporting charitable causes and community development activities in the communities in which we operate.

Issuing additional shares of common stock to the charitable foundation will:

- o dilute the voting interests of purchasers of shares of our common stock in the offering; and

- o result in an expense, and a reduction in earnings, during the quarter in which the contribution is made, equal to the full amount of the contribution to the charitable foundation, offset in part by a corresponding tax benefit.

The establishment and funding of the charitable foundation has been approved by the boards of directors of Alpena Bancshares, Inc. and First Federal of Northern Michigan.

See "Risk Factors--The Issuance of Shares to the Charitable Foundation Will Dilute Your Ownership Interests and Adversely Affect Net Income in Fiscal 2005," "Comparison of Valuation and Pro Forma Information With and Without the Foundation" and "First Federal Community Foundation" at page __.

HOW YOU MAY PURCHASE SHARES OF COMMON STOCK

In the subscription offering and community offering, you may pay for your shares only by:

(i) personal check, bank check or money order made payable directly to First Federal of Northern Michigan Bancorp, Inc.; or

(ii) authorizing us to withdraw funds from the types of First Federal of Northern Michigan deposit accounts designated on the stock order form.

First Federal of Northern Michigan is not permitted to lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a First Federal of Northern Michigan line of credit check or third party check to pay for shares of common stock.

You can subscribe for shares of common stock in the offering by delivering a signed and completed original stock order form, together with full payment payable to First Federal of Northern Michigan Bancorp, Inc. or authorization to withdraw from one or more of your First Federal of Northern Michigan qualified deposit accounts, provided that we receive the stock order form before 10:00 a.m., Alpena, Michigan time, March 15, 2005, which is the end of the offering period. Checks will be deposited with First Federal of Northern Michigan or another depository institution upon receipt. We will pay interest at First Federal of Northern Michigan's passbook savings rate from the date funds are received until completion or termination of the conversion. Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty. If a withdrawal results in a certificate account with a balance less than the applicable minimum balance requirement, the certificate will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current passbook rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts with First Federal of Northern Michigan must be in the accounts at the time the stock order is received. However, funds will not be withdrawn from the accounts until the completion of the offering and will earn interest at the applicable deposit account rate until that time. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. Additionally, you may not designate a withdrawal from First Federal of Northern Michigan accounts with check-writing privileges. Please provide a check instead, because we cannot place holds on checking accounts. If you request that we do so, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount, and we will immediately withdraw the amount from your checking account(s). After we receive an order for shares of our common stock, the order cannot be cancelled or changed.

By signing the stock order form, you are acknowledging both receipt of a Prospectus and that the shares of common stock are not deposits or savings accounts that are federally insured or otherwise guaranteed by First Federal of Northern Michigan or the federal government.

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. However, shares of common stock must be held in a self-directed retirement account, such as those offered by a brokerage firm. By regulation, First Federal of Northern Michigan's individual retirement accounts are not self-directed, so they cannot be invested in our common stock. If you wish to use some or all of the funds in your First Federal of Northern Michigan individual retirement account, the applicable funds must be transferred to a self-directed account maintained by an independent trustee, such as a brokerage firm. If you do not have such an account, you will need to establish one before placing your stock order. An annual administrative fee may be payable to the independent trustee. Because individual circumstances differ and processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the end of the offering period, for assistance with purchases using your individual retirement account or other retirement account that you may have. Whether you may use such funds for the purchase of shares in the stock offering may depend on timing constraints and, possibly, limitations imposed by the institution where the funds are held.

DELIVERY OF STOCK CERTIFICATES

Certificates representing shares of common stock sold in the offering will be mailed to the persons entitled thereto at the certificate registration address noted on the order form, as soon as practicable following consummation of the offering and receipt of all necessary regulatory approvals. IT IS POSSIBLE THAT, UNTIL CERTIFICATES FOR THE COMMON STOCK ARE DELIVERED TO PURCHASERS, PURCHASERS MIGHT NOT BE ABLE TO SELL THE SHARES OF COMMON STOCK WHICH THEY ORDERED, EVEN THOUGH THE COMMON STOCK WILL HAVE BEGUN TRADING.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

We estimate net proceeds from the offering will be between $12,822,000 and $17,482,000, or $20,209,000 if the offering range is increased by 15%. First Federal of Northern Michigan Bancorp, Inc. intends to retain between $2.5 million and $6.6 million of the net proceeds, or $9.0 million if the offering range is increased by 15%. Approximately $10.3 million to $10.9 million of the net proceeds (or $11.2 million if the offering range is increased by 15%) will be invested in First Federal of Northern Michigan.

A portion of the net proceeds retained by First Federal of Northern Michigan Bancorp, Inc. will be used for a loan to the employee stock ownership plan to fund its purchase of shares of common stock (between 110,976 shares and 150,144 shares, or 172,280 shares if the offering is increased by 15%) and the remainder of such proceeds will be used for general corporate purposes. First Federal of Northern Michigan Bancorp, Inc. may use the funds to pay cash dividends and repurchase shares of common stock. Funds invested in First Federal of Northern Michigan will be used to support increased lending and new products and services. The net proceeds retained by First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan also may be used for future business expansion through acquisitions of branch offices or banking or financial services companies. Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Please see the section of this Prospectus entitled "How We Intend to Use the Proceeds From the Offering" for more information on the proposed use of the proceeds from the offering.

YOU MAY NOT SELL OR TRANSFER YOUR SUBSCRIPTION RIGHTS

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal or state regulatory agencies, against anyone who we believe has sold or given away his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. On the order form, you may not add the names of others for joint stock registration who do not have subscription rights or who qualify only in a lower subscription offering priority than you do, unless they were eligible to purchase shares of common stock in the subscription offering at your date of eligibility. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date. Failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, if there is an oversubscription.

DEADLINE FOR ORDERS OF COMMON STOCK

If you wish to purchase shares of common stock, a properly completed original stock order form, together with full payment for the shares of common stock, must be received (not postmarked) by the Stock Information Center or our main office no later than 10:00 a.m., Alpena, Michigan time, on March 15, 2005, unless we extend this deadline. You may submit your stock order form by mail using the return envelope provided, by overnight courier to the indicated address on the stock order form, or by delivery to our Stock Information Center at our main office. Order forms may not be delivered to First Federal of Northern Michigan's branches (other than to our main office). Deliveries made to other than our main office will be deemed invalid and will not be accepted. Once submitted, your order is irrevocable unless the offering is terminated or extended beyond April 29, 2005 or the number of shares of common stock to be sold is increased to more than 2,116,000 shares or decreased to fewer than 1,360,000 shares. If the subscription offering and/or community offering extend beyond April 29, 2005, we will be required to resolicit subscriptions before proceeding with the offering, and all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to the subscribers with interest.

Although we will make reasonable attempts to provide a Prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 10:00 a.m., Alpena, Michigan time, on March 15, 2005, whether or not we have been able to locate each person entitled to subscription rights.

STEPS WE MAY TAKE IF WE DO NOT RECEIVE ORDERS FOR THE MINIMUM NUMBER OF SHARES

If we do not receive orders for at least 1,360,000 shares of common stock, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

(i) increase the purchase and ownership limitations; and

(ii) seek regulatory approval to extend the offering beyond the April 29, 2005 expiration date, provided that any such extension will require us to resolicit subscriptions received in the offering.

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PURCHASES BY OFFICERS AND DIRECTORS

We expect our directors and executive officers, together with their associates, to subscribe for _______ shares of common stock in the offering. The purchase price paid by them will be the same $10.00 per share price paid by all other persons who purchase shares of common stock in the offering. Following the conversion, our directors and executive officers, together with their associates, are expected to own _______ shares of common stock, or ____% of our total outstanding shares of common stock at the midpoint of the offering range (including the shares issued to the charitable foundation).

BENEFITS TO MANAGEMENT AND POTENTIAL DILUTION TO STOCKHOLDERS RESULTING FROM THE CONVERSION

Our tax-qualified employee stock ownership plan expects to purchase up to 8% of the shares of common stock we sell in the offering (including shares we issue to the charitable foundation), or 172,280 shares of common stock, assuming we sell the maximum number of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the shares of common stock sold in the offering (including the shares we issue to the charitable foundation). We reserve the right to purchase shares of common stock in the open market following the offering in order to fund the employee stock ownership plan. This plan is a tax-qualified retirement plan for the benefit of all our employees. Assuming the employee stock ownership plan purchases 172,280 shares in the offering, we will recognize additional compensation expense of $1.5 million (or $990,000 after tax) over a 15-year period, assuming the shares of common stock have a fair market value of $10.00 per share for the full 15-year period. If, in the future, the shares of common stock have a fair market value greater or less than $10.00, the compensation expense will increase or decrease accordingly.

We also intend to implement a stock-based recognition and retention plan and a stock option plan no earlier than six months after completion of the conversion. Stockholder approval of these plans will be required. If adopted within 12 months following the completion of the conversion, the stock recognition and retention plan will reserve a number of shares equal to 4% of the shares sold in the offering (including the shares we issue to the charitable foundation), or up to 75,072 shares of common stock at the maximum of the offering range, for awards to key employees and directors, at no cost to the recipients. If the shares of common stock awarded under the stock recognition and retention plan come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 2.2% in their ownership interest in First Federal of Northern Michigan Bancorp, Inc. If adopted within 12 months following the completion of the conversion, the stock option plan will reserve a number of shares equal to 10% of the shares of common stock sold in the offering, or up to 187,680 shares of common stock at the maximum of the offering range (including shares we issue to the charitable foundation), for key employees and directors upon their exercise. If the shares of common stock issued upon the exercise of options come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 5.3% in their ownership interest in First Federal of Northern Michigan Bancorp, Inc. Awards made under these plans would be subject to vesting over a period of years. If the stock recognition and retention plan or stock option plan are adopted more than one year after the completion of the conversion, awards or grants under such plans may exceed 4% and 10%, respectively, of the shares issued in the offering.

The following table summarizes the number of shares of common stock and the aggregate dollar value of grants that are expected under the new stock recognition and retention plan and the new stock option plan as a result of the conversion. The table also shows the dilution to stockholders if all such shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees.

	NUMBER OF SHARES TO BE GRANTED OR PURCHASED			
	AT MINIMUM OF OFFERING RANGE	AT MAXIMUM OF OFFERING RANGE	AS A PERCENTAGE OF COMMON STOCK TO BE ISSUED IN THE OFFERING	DILUTION RESULTING FROM ISSUANCE OF SHARES FOR STOCK BENEFIT PLANS (2)
Employee stock ownership plan......	110,976	150,144	8.1%	4.3%
Recognition and retention plan.....	55,488	75,072	4.1	2.2
Stock option plan..................	138,720	187,680	10.2	5.3
Total...........................	299,200	404,800	22.4%	11.8%

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(1) The actual value of restricted stock grants will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of $10.00 per share. No value is given for options because their exercise price will be equal to the fair market value of the common stock on the date the options are granted. Proposed changes in accounting standards may require us in the future to recognize expense if we grant stock options. As proposed, such expense would be calculated using a "fair-value-based" method at the time of grant, and cannot be estimated with certainty at this time.

(2) Calculated at the maximum of the offering range.

MARKET FOR COMMON STOCK

Existing publicly held shares of Alpena Bancshares, Inc.'s common stock trade over the counter on the OTC Bulletin Board under the symbol "ALPN." Upon completion of the conversion, the new shares of common stock of First Federal of Northern Michigan Bancorp, Inc. will replace existing shares, and we expect the new shares will be traded on the Nasdaq National Market under the symbol "_____." We will try to get at least four market makers to make a market in our common stock. Ryan Beck & Co., Inc. has advised us that it intends to make a market in our common stock following the offering, but it is under no obligation to do so. While we will attempt before completion of the offering to obtain commitments from at least three other broker-dealers to make a market in our common stock, there can be no assurance that we will be successful in obtaining such commitments.

OUR DIVIDEND POLICY

Alpena Bancshares, Inc. currently pays a quarterly cash dividend of $0.10 per share, which equals $.40 per share on an annualized basis. After the conversion, we intend to continue to pay cash dividends on a quarterly basis. After adjustment for the exchange ratio, we expect the quarterly dividends to equal $.07, $.06, $.05 and $.04 per share at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, which represents an annual dividend yield of 2.8%, 2.4%, 2.0% and 1.6%, at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, based upon a price of $10.00 per share. The amount of dividends that we intend to pay after the conversion will preserve the dividend amount that Alpena Bancshares, Inc.

stockholders currently receive, as adjusted to reflect the exchange ratio. However, the dividend rate and the continued payment of dividends will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced or eliminated in the future.

See "Selected Consolidated Financial and Other Data of Alpena Bancshares, Inc. and Subsidiary" and "Market for the Common Stock" for information regarding our historical dividend payments.

TAX CONSEQUENCES

As a general matter, the conversion will not be a taxable transaction for purposes of federal or state income taxes to Alpena Bancshares, M.H.C., Alpena Bancshares, Inc., First Federal of Northern Michigan, persons eligible to subscribe in the subscription offering, or existing stockholders of Alpena Bancshares, Inc. Existing stockholders of Alpena Bancshares, Inc. who receive cash in lieu of fractional share interests in new shares of First Federal of Northern Michigan Bancorp, Inc. will recognize a gain or loss equal to the difference between the cash received and the tax basis of the fractional share.

CONDITIONS TO COMPLETION OF THE CONVERSION

We cannot complete the conversion and offering unless:

- The plan of conversion and reorganization is approved by at least A MAJORITY OF VOTES ELIGIBLE to be cast by members of Alpena Bancshares, M.H.C. (depositors and certain borrowers of First Federal of Northern Michigan);
- The plan of conversion and reorganization is approved by at least TWO-THIRDS OF THE OUTSTANDING shares of common stock of Alpena Bancshares, Inc.;
- The plan of conversion and reorganization is approved by at least A MAJORITY OF THE OUTSTANDING shares of common stock of Alpena Bancshares, Inc., excluding those shares held by Alpena Bancshares, M.H.C.;
- We sell at least the minimum number of shares of common stock offered; and
- We receive the final approval of the Office of Thrift Supervision to complete the conversion and offering.

Alpena Bancshares, M.H.C. intends to vote its ownership interest in favor of the plan of conversion and reorganization. At September 30, 2004, Alpena Bancshares, M.H.C. owned 55.4% of the outstanding shares of common stock of Alpena Bancshares, Inc. The directors and executive officers of Alpena Bancshares, Inc. and their affiliates owned 53,135 shares of Alpena Bancshares, Inc., or 3.2% of the outstanding shares of common stock. They intend to vote those shares in favor of the plan of conversion and reorganization.

Decrease in Stockholders' Rights for Existing Stockholders of Alpena Bancshares, Inc.

As a result of the conversion, existing stockholders of Alpena Bancshares, Inc. will become stockholders of First Federal of Northern Michigan Bancorp, Inc.. Some rights of stockholders of the new Maryland corporation will be reduced compared to the rights stockholders currently have. The reduction in stockholder rights results from differences between the federal and Maryland charters and bylaws, and from distinctions between Maryland and federal law. Many of the differences in stockholder rights under the Maryland articles of incorporation and bylaws are not mandated by Maryland law but have been chosen by management as being in the best interests of First Federal of Northern Michigan Bancorp, Inc. and all of its stockholders. The differences in stockholder rights include the following: (i) approval by at least 80% of outstanding shares required to remove a director for cause; (ii) greater lead time required for stockholders to submit proposals for new business or nominate directors; (iii) approval by at least 80% of outstanding shares required to amend the articles of incorporation and bylaws; (iv) a residency requirement for directors; and (v) approval by at least 80% of outstanding shares required to

approve business combinations involving an interested stockholder. See "Comparison of Stockholders' Rights For Existing Stockholders of Alpena Bancshares, Inc." for a discussion of these differences.

HOW YOU CAN OBTAIN ADDITIONAL INFORMATION

Our branch office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or offering, please call or visit our Stock Information Center, located at 100 South Second Avenue, Alpena, Michigan, at ____________, Monday through Friday between 9:30 a.m. and 4:00 p.m., Alpena, Michigan time. The Stock Information Center will be closed weekends and bank holidays.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF MARCH 15, 2005 IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED ANY LATER THAN FIVE DAYS PRIOR TO MARCH 15, 2005 OR HAND-DELIVERED ANY LATER THAN TWO DAYS PRIOR TO MARCH 15, 2005.

RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock.

RISKS RELATED TO OUR BUSINESS

OUR COMMERCIAL REAL ESTATE AND COMMERCIAL LOANS EXPOSE US TO INCREASED CREDIT RISKS AND MAY REQUIRE US TO INCREASE OUR PROVISIONS FOR LOAN LOSSES.

At September 30, 2004, our portfolio of commercial real estate loans totaled $26.5 million, or 14.00% of total loans, and our portfolio of commercial loans totaled $28.9 million, or 15.31% of total loans. These loans have increased as a percentage of our portfolio as we have originated these loans for our portfolio and sold into the secondary mortgage market many of our one- to four-family fixed-rate residential real estate loans. We plan to continue to originate these types of commercial and commercial real estate loans and retain them in our portfolio. Commercial real estate and commercial loans generally have greater credit risk than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful business operations of the borrowers. These loans typically have larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Many of our borrowers also have more than one commercial real estate or commercial loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial or commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. If we increase the amount of commercial real estate and commercial loans in our loan portfolio, we may increase our provisions for loan losses to protect against increased losses inherent in these types of loans, which could adversely affect our earnings.

OUR CONCENTRATION OF LOANS IN OUR PRIMARY MARKET AREA MAY INCREASE OUR RISK.

Our success depends primarily on the general economic conditions in Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Iosco, Montmorency, Oscoda, Otsego and Presque Isle Counties, Michigan where we primarily conduct business. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in these areas. The local economic conditions in our market area have a significant impact on our loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. Unemployment rates in our primary market area are generally higher than state and national levels. Our market area is also sparsely populated and has limited industrial development compared to more urban and suburban areas. The population of Alpena (city and township) is approximately 21,000, and the population of its primary market area, which includes Alpena County and seven surrounding counties, is approximately 154,000. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would affect economic conditions in our market area and could adversely affect our financial condition and results of operations.

THE SIZE OF OUR BRANCH NETWORK HAS INCREASED OUR EXPENSES AND MAY CONTINUE TO REDUCE OUR PROFITABILITY IN THE NEAR TERM.

At September 30, 2004, we operated ten full-service branch offices, including two full-service branch offices acquired in 2004. We believe our ratio of branch offices to total assets is higher than most of our peer institutions. As a result of this extensive branch network, including the expenses associated

with our new offices, our efficiency ratio, which is the ratio of non-interest expense to net interest income and other income, has been high. Our efficiency ratio has increased from 76.04% for the year ended December 31, 2001 to 95.34% for the nine months ended September 30, 2004. We expect it will take some time for our branch network to generate sufficient loans and deposits to produce enough income to offset our ongoing expenses, some of which, like compensation and occupancy costs, are substantially fixed.

CHANGES IN MARKET INTEREST RATES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our financial condition and results of operations are significantly affected by changes in market interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets (consisting primarily of loans and securities) and the interest expense that we pay on our interest-bearing liabilities (consisting primarily of deposits). As of September 30, 2004, loans and securities represented 90.4% of our total assets, and deposits and borrowings represented 98.8% of our liabilities. As a result, for the nine months ended September 30, 2004, interest income represented 73.1% of our gross revenues (interest income and non-interest income), and interest expense represented 36.0% of the sum of interest expense and non-interest expense. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our net interest income.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable rate loans.

As of September 30, 2004, we were servicing loans sold to third parties totaling $140.4 million which had a book value, at such date, of $898,000. Generally, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall, because the estimated life and estimated income from the underlying loans increase with rising interest rates and decrease with falling interest rates. In an increasing interest rate environment, the book value of our mortgage servicing rights would decrease.

Changes in interest rates also affect the current market value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. At September 30, 2004, our agency securities and mortgage-backed securities available for sale totaled $42.9 million. Unrealized gains on securities available for sale, net of tax, amounted to $133,700 for the nine months ended September 30, 2004 and are reported as a separate component of stockholders' equity. However, decreases in the fair value of securities available for sale in future periods could have an adverse effect on stockholders' equity.

Management evaluates interest rate sensitivity using a model that estimates the change in our net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At September 30, 2004, in the event of an immediate 200 basis point increase in interest rates, we would be expected to experience a 20% decrease in net portfolio value. See "Management's Discussion and Analysis of Financial Condition

and Results of Operations--Management of Interest Rate Risk" for further information on the potential effects of interest rate risk on our financial condition.

STRONG COMPETITION WITHIN OUR MARKET AREA MAY LIMIT OUR GROWTH AND PROFITABILITY.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than we have and offer certain services that we do not or cannot provide. Within our market area, we hold only 6.2% of all bank and thrift deposits; our ten full-service offices compare with 106 branch offices of other financial institutions in our market area. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by our competition may limit our ability to increase our interest earning assets. For additional information, see "Business of Alpena Bancshares, Inc. and First Federal of Northern Michigan--Market Area and Competition."

RISKS RELATED TO THE CONVERSION

THE FUTURE PRICE OF THE SHARES OF COMMON STOCK MAY BE LESS THAN THE PURCHASE PRICE IN THE OFFERING.

We cannot assure you that if you purchase shares of common stock in the offering you will be able to sell them later at or above the $10.00 purchase price in the offering. In several cases, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the price at which such shares were sold in the offering conducted by those companies. The aggregate purchase price of the shares of common stock sold in the offering will be based on an independent appraisal. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The appraisal is based on estimates and projections of a number of matters, all of which are subject to change from time to time. After our shares begin trading, the trading price of our common stock will be determined by the marketplace, and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, investor perceptions of First Federal of Northern Michigan Bancorp, Inc. and the outlook for the financial institutions industry in general.

OUR FAILURE TO UTILIZE EFFECTIVELY THE NET PROCEEDS OF THE OFFERING COULD REDUCE OUR PROFITABILITY AND OUR RETURN ON STOCKHOLDERS' EQUITY.

First Federal of Northern Michigan Bancorp, Inc. intends to contribute between $10.3 million and $10.9 million of the net proceeds of the offering (or $11.2 million at the adjusted maximum of the offering range) to First Federal of Northern Michigan. First Federal of Northern Michigan Bancorp, Inc. may use the remaining net proceeds to finance the acquisition of other financial institutions or financial services companies, pay dividends to stockholders, repurchase shares of common stock, purchase investment securities, or for other general corporate purposes. First Federal of Northern Michigan Bancorp, Inc. expects to use a portion of the net proceeds to fund the purchase of shares of common stock in the offering by the employee stock ownership plan. First Federal of Northern Michigan may use the proceeds it receives to acquire new branches, acquire financial institutions or financial services companies, fund new loans, purchase investment securities, or for general corporate purposes. We have not allocated specific amounts of the proceeds for any of these purposes, and we will have significant flexibility in determining how much of the net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively could reduce our profitability.

Additionally, net income divided by average stockholders' equity, known as "return on equity," is a ratio many investors use to compare the performance of a financial institution to its peers. We expect our return on equity to decrease as compared to our performance in recent years until we are able to utilize effectively the additional capital raised in the offering. Until we can increase our net interest income and non-interest income, we expect our return on equity to be below the industry average, which may negatively affect the value of our common stock.

THE OWNERSHIP INTEREST OF MANAGEMENT AND EMPLOYEES COULD ENABLE INSIDERS TO PREVENT A MERGER THAT MAY PROVIDE STOCKHOLDERS A PREMIUM FOR THEIR SHARES.

The shares of common stock that our directors and officers intend to purchase in the conversion, when combined with the shares that they will receive in the exchange and the shares that may be awarded to participants under our employee stock ownership plan and other stock benefit plans, could result in management and employees controlling a significant percentage of our outstanding shares of common stock. If these individuals were to act together, they could have significant influence over the outcome of any stockholder vote. This voting power may discourage a potential sale of First Federal of Northern Michigan Bancorp, Inc. that our stockholders may desire. In addition, the total voting power of management and employees could reach in excess of 20% of our outstanding shares of common stock. That level would enable management and employees as a group to defeat any stockholder matter that requires an 80% vote, including removal of directors, approval of certain business combinations with interested stockholders and certain amendments to our articles of incorporation and bylaws.

THERE MAY BE A LIMITED MARKET FOR OUR COMMON STOCK, WHICH MAY LOWER OUR STOCK PRICE.

We have applied to list our shares of common stock for trading on the Nasdaq National Market. We cannot guarantee that the shares will be regularly traded. If an active trading market for our common stock does not develop, you may not be able to sell all of your shares of common stock on short notice, and the sale of a large number of shares at one time could temporarily depress the market price.

THE ISSUANCE OF SHARES AND THE CONTRIBUTION OF CASH TO THE CHARITABLE FOUNDATION WILL DILUTE YOUR OWNERSHIP INTERESTS AND ADVERSELY AFFECT NET INCOME IN FISCAL 2005.

We intend to establish a charitable foundation in connection with the conversion and intend to make a contribution of cash in an amount equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the cash does not exceed $375,000 and common stock equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the common stock contribution does not exceed 37,500 shares. This contribution will have an adverse effect on our net income for the quarter and year in which we make the contribution. The after-tax expense of the contribution will reduce net income in our 2005 fiscal year by up to approximately $495,000. Persons purchasing shares in the offering will have their ownership and voting interests in First Federal of Northern Michigan Bancorp, Inc. diluted by 1.1% (at the midpoint of the offering range) due to the issuance of additional shares of common stock to the charitable foundation.

OUR CONTRIBUTION TO THE CHARITABLE FOUNDATION MAY NOT BE TAX DEDUCTIBLE, WHICH COULD REDUCE OUR PROFITS.

We believe that the contribution to the charitable foundation, valued at up to $750,000, will be deductible for federal income tax purposes. However, we cannot assure you that the Internal Revenue Service will grant tax-exempt status to the charitable foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. In addition, even if the contribution is tax deductible, under federal tax regulations, we are permitted to deduct only up to 10% of our net income for charitable contributions;

accordingly, we may not have sufficient profits to be able to use the deduction fully.

THE IMPLEMENTATION OF STOCK-BASED BENEFIT PLANS MAY DILUTE YOUR OWNERSHIP INTEREST.

We intend to adopt a stock option plan and a recognition and retention plan following the offering, subject to receipt of stockholder approval. These stock-based benefit plans may be funded either through open market purchases or from the issuance of authorized but unissued shares of common stock of First Federal of Northern Michigan Bancorp, Inc. While our intention is to fund these plans through open market purchases, stockholders will experience a reduction or dilution in ownership interest of approximately 7.5% (approximately 5.3% dilution for the stock option plan and approximately 2.2% dilution for the recognition and retention plan) in the event newly issued shares are used to fund stock option exercises and stock awards equal to 10% and 4%, respectively, of the shares sold in the offering, including shares contributed to the charitable foundation.

OUR RECOGNITION AND RETENTION PLAN WILL INCREASE OUR COSTS, WHICH WILL REDUCE OUR PROFITABILITY AND STOCKHOLDERS' EQUITY.

We intend to implement a recognition and retention plan after the conversion, subject to receipt of stockholder approval. Under this plan, our officers and directors may be awarded, at no cost to them, shares of common stock in an aggregate amount equal to 4% of the shares of common stock sold in the offering (including shares contributed to the charitable foundation) if the plan is adopted within 12 months after completion of the conversion, and may exceed 4% of the shares sold in the offering (including shares issued to the charitable foundation) if adopted more than 12 months after the completion of the conversion. The shares of common stock awarded under the recognition and retention plan will be expensed by us over their vesting period at the fair market value of the shares on the date they are awarded. The recognition and retention plan cannot be implemented until at least six months after the completion of the conversion. If the plan is adopted within 12 months after the completion of the conversion, it is subject to Office of Thrift Supervision regulations. If the shares of common stock to be awarded under the plan are repurchased in the open market (rather than issued directly from authorized but unissued shares by First Federal of Northern Michigan Bancorp, Inc.) and cost the same as the purchase price in the offering, the reduction to stockholders' equity from the plan would be between $554,800 at the minimum of the offering range and $861,400 at the adjusted maximum of the offering range. To the extent we repurchase shares of common stock in the open market to fund the recognition and retention plan, and the price of such shares exceeds the offering price of $10.00 per share, the reduction to stockholders' equity would exceed the range described above. Conversely, to the extent the price of such shares is below the offering price of $10.00 per share, the reduction to stockholders' equity would be less than the range described above.

VARIOUS FACTORS MAY MAKE TAKEOVER ATTEMPTS MORE DIFFICULT TO ACHIEVE.

Our board of directors has no current intention to sell control of First Federal of Northern Michigan Bancorp, Inc. Provisions of our articles of incorporation and bylaws, federal regulations, Maryland law and various other factors may make it more difficult for companies or persons to acquire control of First Federal of Northern Michigan Bancorp, Inc. without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then prevailing price of our common stock. The factors that may discourage takeover attempts or make them more difficult include:

- OFFICE OF THRIFT SUPERVISION REGULATIONS. Office of Thrift Supervision regulations prohibit, for three years following the completion of a conversion, the direct or indirect acquisition of more than 10% of any class of equity security of a converted savings institution without the prior approval of the Office of Thrift Supervision.

- ARTICLES OF INCORPORATION AND STATUTORY PROVISIONS. Provisions of the articles of incorporation and bylaws of First Federal of Northern Michigan Bancorp, Inc. and Maryland law may make it more difficult and expensive to pursue a takeover attempt which management opposes, even if the takeover is favored by a majority of our stockholders. These provisions also would make it more difficult to remove our current board of directors or management, or to elect new directors. Specifically, our articles of incorporation provide that certain mergers must be approved by stockholders owning 80% of our shares of common stock unless the transaction has been approved by a majority of the disinterested directors or certain fair price and procedure requirements have been satisfied. Additional provisions include limitations on voting rights of beneficial owners of more than 10% of our common stock, the election of directors to staggered terms of three years and not permitting cumulative voting in the election of directors. Our bylaws also contain provisions regarding the timing and content of stockholder proposals and nominations and qualification for service on the board of directors.

- REQUIRED CHANGE IN CONTROL PAYMENTS AND ISSUANCE OF STOCK OPTIONS. We intend to enter into change in control agreements with certain executive officers, which will require payments to be made to them in the event their employment is terminated following a change in control of First Federal of Northern Michigan Bancorp, Inc. or First Federal of Northern Michigan. We also intend to issue stock options to key employees and directors that will require payments to them in connection with a change in control of First Federal of Northern Michigan Bancorp, Inc. These payments may have the effect of increasing the costs of acquiring First Federal of Northern Michigan Bancorp, Inc., thereby discouraging future takeover attempts.

THE RIGHTS OF EXISTING STOCKHOLDERS OF ALPENA BANCSHARES, INC. WILL BE REDUCED UNDER FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.'S MARYLAND ARTICLES OF INCORPORATION AND BYLAWS.

As a result of the conversion, existing stockholders of Alpena Bancshares, Inc. will become stockholders of First Federal of Northern Michigan Bancorp, Inc. Some rights of stockholders of the new Maryland corporation will be reduced compared to the rights stockholders currently have. Many of the differences in stockholder rights under the Maryland articles of incorporation and bylaws, while not mandated by Maryland law, are permitted and have been chosen by management as being in the best interests of First Federal of Northern Michigan Bancorp, Inc. and all of its stockholders.

For example, current stockholders must submit nominations for election of directors at an annual meeting of stockholders and any new business to be taken up at such a meeting by filing the proposal in writing with Alpena Bancshares, Inc. at least five days before the date of any such meeting. However, First Federal of Northern Michigan Bancorp, Inc.'s Maryland bylaws generally provide that any stockholder desiring to make a nomination for the election of directors or a proposal for new business at an annual meeting of stockholders must submit written notice to First Federal of Northern Michigan Bancorp, Inc. at least 90 days prior to the anniversary date of the mailing of proxy materials in connection with the immediately preceding annual meeting of stockholders. Similarly, under the current federal charter, special meetings of stockholders may be called by the holders of not less than one-tenth of the outstanding capital stock entitled to vote at the meeting. However, First Federal of Northern Michigan Bancorp, Inc.'s Maryland articles of incorporation provide that special meetings of the stockholders of First Federal of Northern Michigan Bancorp, Inc. may be called by the president or by a majority of the whole board. In addition, the Maryland bylaws provide that special meetings of stockholders shall be called on the written request of stockholders entitled to cast at least a majority of all votes. See "Comparison of Stockholders' Rights for Existing Stockholders of Alpena Bancshares, Inc." for a discussion of these differences.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
OF ALPENA BANCSHARES, INC. AND SUBSIDIARY

The summary financial information presented below is derived in part from the consolidated financial statements of Alpena Bancshares, Inc. The following is only a summary and you should read it in conjunction with the financial statements and notes beginning on page F-1. The information at December 31, 2003 and 2002 and for the years ended December 31, 2003 and 2002 is derived in part from the audited consolidated financial statements of Alpena Bancshares, Inc. that appear in this prospectus. The information for the years ended December 31, 2001, 2000 and 1999 is derived in part from audited consolidated financial statements that do not appear in this prospectus. The operating data for the nine months ended September 30, 2004 and 2003 were not audited, but, in the opinion of management, reflect all adjustments necessary for a fair presentation. No adjustments were made other than normal recurring entries. The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of the results of operations that may be expected for the entire year.

	AT SEPTEMBER 30, 2004	AT DECEMBER 31, 2003	2002	2001	2000
			(IN THOUSANDS)		
SELECTED FINANCIAL CONDITION DATA:					
Total assets......................	$ 254,476	$ 223,923	$ 228,808	$ 241,472	$ 267,009
Loans receivable, net.............	187,099	163,460	151,341	176,146	218,957
Loans held-for-sale...............	656	931	542	1,891	850
Investment securities.............	42,880	34,670	46,944	23,212	19,719
Deposits..........................	182,428	151,702	156,092	166,538	162,771
Borrowings........................	47,303	47,159	48,414	52,120	82,435
Stockholders' equity..............	21,936	21,951	21,747	20,597	19,471

	NINE MONTHS ENDED SEPTEMBER 30,		YEARS ENDED DECE		
	2004	2003	2003	2002	2001
			(IN THOUSANDS)		
SELECTED OPERATING DATA:					
Interest income..................	$ 9,798	$ 10,125	$ 13,350	$ 14,499	$ 17,58
Interest expense.................	4,571	4,931	6,455	8,342	11,43
Net interest income...........	5,227	5,194	6,895	6,157	6,14
Provision for loan losses.........	214	238	267	415	25
Net interest income after provision for loan losses....	5,013	4,956	6,628	5,742	5,89
Non-interest income..............	3,599	3,892	5,426	2,385	2,20
Non-interest expense.............	8,113	7,663	10,327	7,072	6,16
Income before income tax expense..	499	1,185	1,727	1,055	1,93
Income tax expense...............	167	394	518	285	64
Net income....................	$ 332	$ 791	$ 1,209	$ 770	$ 1,28

	AT OR FOR THE NINE MONTHS ENDED SEPTEMBER 30,		AT OR FOR THE YEARS		
	2004	2003	2003	2002	20
SELECTED FINANCIAL RATIOS AND OTHER DATA:					
PERFORMANCE RATIOS:					
Return on assets (ratio of net income to average total assets) (1)............................	0.18%	0.46%	0.53%	0.33%	0
Return on equity (ratio of net income to average equity) (1)..................................	2.03%	4.81%	5.52%	3.68%	6
Average interest rate spread (1) (2)..............	2.87%	2.99%	3.00%	2.50%	2
Dividend payout ratio............................	61.14%	34.64%	30.36%	47.01%	28
Net interest margin (1)(3)........................	3.09%	3.27%	3.26%	2.78%	2
Efficiency ratio (4).............................	95.34%	87.19%	88.02%	87.54%	76
Non-interest expense to average total assets (1)...	4.45%	4.47%	4.53%	3.01%	2
Average interest-earning assets to average interest-bearing liabilities..................	108.00%	108.59%	108.69%	107.42%	104
ASSET QUALITY RATIOS:					
Non-performing assets to total assets.............	0.70%	0.91%	1.04%	0.70%	0
Non-performing loans to total loans...............	0.94%	1.26%	1.28%	0.97%	0
Allowance for loan losses to non-performing loans..	64.79%	51.19%	48.87%	62.77%	61
Allowance for loan losses to total loans..........	0.61%	0.63%	0.63%	0.61%	0

CAPITAL RATIOS:					
Equity to total assets at end of period...........	8.62%	9.45%	9.80%	9.50%	8
Average equity to average assets..................	8.97%	9.63%	9.62%	8.90%	7
Risk-based capital ratio (bank only)..............	11.13%	11.68%	11.96%	15.95%	13
OTHER DATA:					
Number of full service offices....................	10	8	8	9	

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(1) Ratios for the nine months ended September 30, 2004 and 2003 are annualized.

(2) The average interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

(3) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

(4) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;

- statements regarding our business plans, prospects, growth and operating strategies;

- statements regarding the asset quality of our loan and investment portfolios; and

- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;

- competition among depository and other financial institutions;

- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

- adverse changes in the securities markets;

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate acquired entities;

- changes in consumer spending, borrowing and savings habits;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

- changes in our organization, compensation and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see "Risk Factors" beginning on page 20.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the net proceeds will be between $12.6 million and $17.3 million, or $20.0 million if the offering range is increased by 15%. First Federal of Northern Michigan Bancorp, Inc. estimates that it will invest in First Federal of Northern Michigan between $10.3 million and $10.9 million, or $11.2 million if the offering range is increased by 15%. We intend to retain between $2.5 million and $6.6 million of the net proceeds, or $9.0 million if the offering range is increased by 15%. Between $1.1 million and $1.5 million (or $1.7 million if the offering range is increased) will be used for the loan to the employee stock ownership plan to fund its purchase of shares of common stock.

A summary of the anticipated net proceeds at the minimum, midpoint, maximum and adjusted maximum of the offering range and distribution of the net proceeds is as follows:

	BASED UPON THE SALE AT $10.00 PER SHAR					
	1,360,000 SHARES		1,600,000 SHARES		1,840,000 SHAR	
	AMOUNT	PERCENT OF NET PROCEEDS	AMOUNT	PERCENT OF NET PROCEEDS	AMOUNT	PERCE OF N PROCE
	(DOLLARS IN THOUSANDS)					
Offering proceeds.................	$ 13,600		$ 16,000		$ 18,400	
Less offering expenses............	716		738		760	

Net offering proceeds..........	$ 12,884	100.0%	$ 15,262	100.0%	$ 17,640	100.
Distribution of net proceeds:						
To First Federal of Northern Michigan......................	$ 10,312	80.0%	$ 10,606	69.5%	$ 10,900	61.
To fund loan to employee stock ownership plan..........	$ 1,110	8.6%	$ 1,306	8.6%	$ 1,501	8.
Retained by First Federal of Northern Michigan Bancorp, Inc..........................	$ 1,462	11.4%	$ 3,350	21.9%	$ 5,239	29.

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(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering, or regulatory considerations.

Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of First Federal of Northern Michigan's deposits. The net proceeds may vary because total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a syndicated community offering were used to sell shares of common stock not purchased in the subscription and community offerings.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. MAY USE THE PROCEEDS IT RETAINS FROM THE OFFERING:

- to fund a loan to the employee stock ownership plan to purchase shares of common stock in the offering (between $1.1 million and $1.5 million, or $1.7 million if the offering is increased by 15%);

- to finance the acquisition of financial institutions or other financial service companies, although we do not currently have any agreements or understandings regarding any specific acquisition transaction;

- to pay cash dividends to stockholders;

- to repurchase shares of our common stock;

- to invest in securities; and

- for other general corporate purposes.

Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the completion of the conversion, except when extraordinary circumstances exist and with prior regulatory approval.

FIRST FEDERAL OF NORTHERN MICHIGAN MAY USE THE NET PROCEEDS IT RECEIVES FROM THE OFFERING:

- to fund new loans, including one-to four-family residential mortgage loans, commercial real estate and commercial loans, construction loans and consumer loans;
- to expand its retail banking franchise by acquiring new branches or by acquiring other financial institutions or other financial services companies, although we do not currently have any agreements or understandings regarding any acquisition transaction;
- to enhance existing products and services and to support the development of new products and services;
- to invest in securities; and
- for other general corporate purposes.

Initially, the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

OUR DIVIDEND POLICY

We currently pay a quarterly cash dividend of $0.10 per share, which equals $.40 per share on an annualized basis. After the conversion, we intend to continue to pay cash dividends on a quarterly basis. After adjustment for the exchange ratio, we expect the quarterly dividends to equal $.07, $.06, $.05 and $.04 per share at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, which represents an annual dividend yield of 2.8%, 2.4%, 2.0% and 1.6% at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, based upon a stock price of $10.00 per share. The amount of dividends that we intend to pay to our stockholders following the conversion is intended to preserve the per share dividend amount, adjusted to reflect the exchange ratio, that our stockholders currently receive on their shares of Alpena Bancshares, Inc. common stock. However, the dividend rate and the continued payment of dividends will depend on a number of factors including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. We cannot assure you that we will not reduce or eliminate dividends in the future.

Under the rules of the Office of Thrift Supervision, First Federal of Northern Michigan will not be permitted to pay dividends on its capital stock to First Federal of Northern Michigan Bancorp, Inc., its sole stockholder, if First Federal of Northern Michigan's stockholder's equity would be reduced below the amount of the liquidation account established in connection with the conversion. In addition, First Federal of Northern Michigan will not be permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. See "The Conversion--Liquidation Rights." For information concerning additional federal and state law and regulations regarding the ability of First Federal of Northern Michigan to make capital distributions, including the payment of dividends to First Federal of Northern Michigan Bancorp, Inc., see "Taxation--Federal Taxation" and "Supervision and Regulation--Federal Banking Regulation."

Unlike First Federal of Northern Michigan, we are not restricted by

Office of Thrift Supervision regulations on the payment of dividends to our stockholders, although the source of dividends will depend on the net proceeds retained by us and earnings thereon, and dividends from First Federal of Northern Michigan. However, First Federal of Northern Michigan Bancorp, Inc. will be subject to state law limitations on the payment of dividends. Maryland law generally limits dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to stockholders whose preferential rights upon dissolution are superior to those receiving the dividend, and to an amount that would not make us insolvent.

Finally, pursuant to Office of Thrift Supervision regulations, during the three-year period following the conversion, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

See "Selected Consolidated Financial and Other Data of Alpena Bancshares, Inc. and Subsidiary" and "Market for the Common Stock" for information regarding our historical dividend payments.

MARKET FOR THE COMMON STOCK

Alpena Bancshares, Inc.'s common stock currently trades over the counter on the OTC Bulletin Board. At September 30, 2004, we had eight market makers in our common stock. Upon completion of the conversion, the new shares of common stock of First Federal of Northern Michigan Bancorp, Inc. will replace existing shares. We expect the new shares will be traded on the Nasdaq National Market under the symbol "ALPN." We will try to get at least four market makers to make a market in our common stock. Ryan Beck & Co., Inc. has advised us that it intends to make a market in our common stock following the conversion, but it is under no obligation to do so. While we will attempt before completion of the conversion to obtain commitments from at least three other broker-dealers to make a market in our common stock, there can be no assurance that we will be successful in obtaining such commitments.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the common stock will be able to sell their shares at or above the $10.00 price per share in the offering. Purchasers of our common stock should have a long-term investment intent and should recognize that there may be a limited trading market in our common stock.

The following table sets forth the high and low trading prices for shares of Alpena Bancshares, Inc. common stock and cash dividends paid per share for the periods indicated. As of September 30, 2004, there were 739,180 publicly held shares of Alpena Bancshares, Inc. common stock issued and

outstanding (excluding shares held by Alpena Bancshares, M.H.C.). In connection with the conversion, each existing publicly held share of common stock of Alpena Bancshares, Inc. will be converted into a right to receive a number of new shares of common stock, based upon the exchange ratio that is described in other parts of this prospectus. See "The Conversion-Share Exchange Ratio."

YEAR ENDING DECEMBER 31, 2005	HIGH	LOW	DIVIDEND PAID
First quarter (through February __)	$	$	$

YEAR ENDED DECEMBER 31, 2004	HIGH	LOW	DIVIDEND PAID
Fourth quarter			
Third quarter	17.75	15.60	.10
Second quarter	23.75	17.50	.05
First quarter	25.00	22.50	.125

YEAR ENDED DECEMBER 31, 2003	HIGH	LOW	DIVIDEND PAID
Fourth quarter	24.00	18.95	.125
Third quarter	19.00	16.50	.125
Second quarter	18.50	14.80	.125
First quarter	15.65	14.00	.125

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(1) Dividend of $______ per share for the first quarter will be paid on February __, 2005.

On November 12, 2004, the business day immediately preceding the public announcement of the conversion, and on February __, 2005, the closing prices of Alpena Bancshares, Inc. common stock as reported on the OTC Bulletin Board were $16.30 per share and $_____ per share, respectively. At February __, 2005, Alpena Bancshares, Inc. had approximately _____ stockholders of record. On the effective date of the conversion, all publicly held shares of Alpena Bancshares, Inc. common stock, including shares of common stock held by our officers and directors, will be converted automatically into and become the right to receive a number of shares of First Federal of Northern Michigan Bancorp, Inc. common stock determined pursuant to the exchange ratio. See "The Conversion -- Share Exchange Ratio." Options to purchase shares of Alpena Bancshares, Inc. common stock will be converted into options to purchase a number of shares of First Federal of Northern Michigan Bancorp, Inc. common stock determined pursuant to the exchange ratio, for the same aggregate exercise price. See "Beneficial Ownership of Common Stock."

HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At September 30, 2004, First Federal of Northern Michigan exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of First Federal of Northern Michigan at September 30, 2004, and the pro forma regulatory capital of First Federal of Northern Michigan, after giving effect to the sale of shares of common stock at a $10.00 per share purchase price and assuming that First Federal of Northern Michigan received net proceeds in an amount such that it will have at least a 10% regulatory tangible and core capital ratio upon completion of the conversion and offering. Accordingly, the table assumes the receipt by First Federal of Northern Michigan of between $10.3 million and $10.9 million of the net offering proceeds at the minimum and maximum of the offering range, respectively.

	FIRST FEDERAL OF NORTHERN MICHIGAN HISTORICAL AT SEPTEMBER 30, 2004		PRO FORMA AT SEPTEMBER 30, 2004, BASED UPON T				
			1,360,000 SHARES		1,600,000 SHARES		1,840,0
	AMOUNT	PERCENT OF ASSETS (2)	AMOUNT	PERCENT OF ASSETS (2)	AMOUNT	PERCENT OF ASSETS (2)	AMOUNT
					(DOLLARS IN THOUSANDS)		
Equity capital......	$ 21,936	8.62%	$ 30,584	11.62%	$ 30,584	11.62%	$ 30,584
Tangible capital....	$ 17,207	6.89%	$ 25,855	10.00%	$ 25,855	10.00%	$ 25,855
Tangible requirement.......	3,748	1.50	3,878	1.50	3,878	1.50	3,878
Excess..............	$ 13,459	5.39%	$ 21,976	8.50%	$ 21,976	8.50%	$ 21,976
Core (leverage) capital...........	$ 17,207	6.89%	$ 25,855	10.00%	$ 25,855	10.00%	$ 25,855
Core (leverage) requirement (3)...	9,996	4.00	10,342	4.00	10,342	4.00	10,342
Excess..............	$ 7,211	2.89%	$ 15,513	6.00%	$ 15,513	6.00%	$ 15,513
Total risk-based capital (4).......	$ 18,433	11.13%	$ 27,081	16.18%	$ 27,081	16.18%	$ 27,081
Risk-based requirement.......	13,249	8.00	13,387	8.00	13,387	8.00	13,387
Excess..............	$ 5,184	3.13%	$ 13,694	8.18%	$ 13,694	8.18%	$ 13,694
Net Proceeds Infused			$ 10,312		$ 10,606		$ 10,900
Less: ESOP..........			(1,110)		(1,306)		(1,501)
Less: MRP...........			(555)		(653)		(751)
Pro Forma Increase..			$ 8,648		$ 8,648		$ 8,648

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(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering, or regulatory considerations.

(2) Tangible and core capital levels are shown as a percentage of total adjusted assets. Risk-based capital levels are shown as a percentage of risk-weighted assets.

(3) The current Office of Thrift Supervision core capital requirement for financial institutions is 3% of total adjusted assets for financial institutions that receive the highest supervisory rating for safety and soundness and a 4% to 5% core capital ratio requirement for all other financial institutions.

(4) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

CAPITALIZATION

The following table presents the historical consolidated capitalization of Alpena Bancshares, Inc. at September 30, 2004 and the pro forma consolidated capitalization of First Federal of Northern Michigan Bancorp, Inc. after giving effect to the conversion and offering, based upon the assumptions set forth in the "Pro Forma Data" section.

	ALPENA BANCSHARES, INC. HISTORICAL AT SEPTEMBER 30, 2004	PRO FORMA AT SEPTEMBER BASED UPON THE SALE IN TH		
		1,360,000 SHARES	1,600,000 SHARES	1,8 S
		(DOLLARS IN THOUSANDS)		
Deposits (2)...........................	$ 182,428	$ 182,218	$ 182,218	$
Borrowed funds.........................	47,303	47,303	47,303	
Total deposits and borrowed funds....	$ 229,731	$ 229,521	$ 229,521	$
STOCKHOLDERS' EQUITY:				
Preferred stock, $.01 par value, 10,000,000 shares authorized (post-conversion) (3)...............	--	--	--	
Common stock $.01 par value, 20,000,000 shares authorized (post-conversion); shares to be issued as reflected (3) (4)..........	1,659	25	29	
Additional paid-in capital (3)........	5,354	20,355	22,776	
Retained earnings (5)................	14,789	14,789	14,789	
LESS:				
Expense of contribution to foundation...........................	--	(544)	(640)	
PLUS:				
Tax benefit of contribution to foundation (6)......................	--	185	218	
Accumulated other comprehensive income.............................	134	134	134	
LESS:				
Common stock held by existing recognition and retention plan	--	--	--	
Common stock to be acquired by the employee stock ownership plan (7)...........................	--	(1,110)	(1,306)	
Common stock to be acquired by the recognition and retention plan (8)...........................	--	(555)	(653)	
Total stockholders' equity...........	$ 21,936	$ 33,279	$ 35,348	$

PRO FORMA SHARES OUTSTANDING

Total shares outstanding.............		2,479,901	2,917,530	3
Exchange shares issued...............		1,092,701	1,285,530	1
Shares issued to foundation..........		27,200	32,000	
Shares offered for sale..............		1,360,000	1,600,000	1
Total stockholders' equity as a percentage of total assets..........	8.62%	12.52%	13.19%	

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(1) As adjusted to give effect to an increase in the number of shares of common stock which could occur due to a 15% increase in the offering range to reflect demand for shares, changes in market or general financial conditions following the commencement of the subscription and community offerings, or regulatory considerations.

(2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the conversion and offering. These withdrawals would reduce pro forma deposits by the amount of the withdrawals. On a pro forma basis, reflects transfer of Alpena Bancshares, M.H.C. deposits of $210,000 to equity.

(3) Alpena Bancshares, Inc. currently has 10,000,000 authorized shares of preferred stock and 20,000,000 authorized shares of common stock, par value $1.00 per share. On a pro forma basis, First Federal of Northern Michigan Bancorp, Inc. common stock and additional paid-in capital have been revised to reflect the number of shares of First Federal of Northern Michigan Bancorp, Inc. common stock to be outstanding, which is 2,479,901 shares, 2,917,530 shares, 3,355,160 shares and 3,853,613 shares at the minimum, midpoint, maximum and adjustment maximum of the offering range, respectively.

(4) No effect has been given to the issuance of additional shares of First Federal of Northern Michigan Bancorp, Inc. common stock pursuant to an additional stock option plan. If this plan is implemented, an amount up to 10% of the shares of First Federal of Northern Michigan Bancorp, Inc. common stock sold in the offering will be reserved for issuance upon the exercise of options under the stock option plan. No

effect has been given to the exercise of options currently outstanding. See "Management of First Federal of Northern Michigan Bancorp, Inc."

(5) The retained earnings of First Federal of Northern Michigan will be substantially restricted after the conversion. See "The Conversion--Liquidation Rights" and "Supervision and Regulation--Federal Banking Regulation."

(6) Represents the tax effect of the contribution to the charitable foundation based on a 34.0% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of First Federal of Northern Michigan Bancorp, Inc.'s annual taxable income, subject to our ability to carry forward any unused portion of the deduction for five years following the year in which the contribution is made.

(7) Assumes that 8.1% of the shares sold in the offering (including shares contributed to the foundation) will be acquired by the employee stock ownership plan financed by a loan from First Federal of Northern Michigan Bancorp, Inc. The loan will be repaid principally from First Federal of Northern Michigan's contributions to the employee stock ownership plan. Since First Federal of Northern Michigan Bancorp, Inc. will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no liability will be reflected on First Federal of Northern Michigan Bancorp, Inc.'s consolidated

financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders' equity.

(8) Assumes a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering (including shares contributed to the foundation) will be purchased by the recognition and retention plan in open market purchases. The dollar amount of common stock to be purchased is based on the $10.00 per share subscription price in the offering and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As First Federal of Northern Michigan Bancorp, Inc. accrues compensation expense to reflect the vesting of shares pursuant to the recognition and retention plan, the credit to capital will be offset by a charge to operations. Implementation of the recognition and retention plan will require stockholder approval. If the shares to fund the plan are assumed to come from authorized but unissued shares of First Federal of Northern Michigan Bancorp, Inc., the number of outstanding shares at the minimum, midpoint, maximum and the maximum, as adjusted, of the offering range would be 2,535,389, 2,982,810, 3,430,232 and 3,939,753, respectively, total stockholders' equity would be $33.8 million, $36.0 million, $38.2 million and $40.7 million, respectively, and total stockholders' ownership in First Federal of Northern Michigan Bancorp, Inc. would be diluted by approximately 2.2% at the maximum of the offering range.

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PRO FORMA DATA

The following tables summarize historical data of Alpena Bancshares, Inc. and pro forma data at and for the nine months ended September 30, 2004 and at and for the year ended December 31, 2003. This information is based on assumptions set forth below and in the table, and should not be used as a basis for projections of market value of the shares of common stock following the conversion and offering. No effect has been given in the table to the possible issuance of additional shares of common stock pursuant to any stock option plan that may be adopted by our stockholders no earlier than six months after the conversion. Moreover, pro forma stockholders' equity per share does not give effect to the liquidation account to be established in the conversion or, in the event of a liquidation of First Federal of Northern Michigan, to the recoverability of intangibles or the tax effect of the recapture of the bad debt reserve. See "The Conversion--Liquidation Rights."

The net proceeds in the tables are based upon the following assumptions:

(i) all shares of common stock will be sold in the subscription and community offerings;

(ii) _________ shares of common stock will be purchased by our executive officers and directors, and their associates;

(iii) our employee stock ownership plan will purchase 8% of the shares of common stock sold in the offering, including shares contributed to the foundation, with a loan from First Federal of Northern Michigan Bancorp, Inc. The loan will be repaid in substantially equal payments of principal and interest over a period of 15 years;

(iv) Ryan Beck & Co. will receive a fee equal to 1.0% of the dollar amount of shares of common stock sold in the offering. No fee will be paid with respect to shares of common stock purchased by our qualified and non-qualified employee stock benefit plans, or stock purchased by our officers, directors and employees, and their immediate families, or with respect to shares issued to the charitable foundation; and

(v) total expenses of the offering, including the marketing fees to be paid to Ryan Beck & Co., will be between $716,000 at the minimum of the offering range and $786,000 at the maximum of the offering range, as adjusted.

We calculated pro forma consolidated net earnings for the nine months ended September 30, 2004 and the year ended December 31, 2003 as if the estimated net proceeds we received had been invested at assumed interest rates of 2.16% and 1.26%, respectively (1.42% and 0.83%, respectively, on an after-tax basis), which represented the yield on the one-year U.S. Treasury Bill as of September 30, 2004 and December 31, 2003, respectively (which we consider to reflect more accurately the pro forma reinvestment rate than an arithmetic average method in light of current market interest rates). The effect of withdrawals from deposit accounts for the purchase of shares of common stock has not been reflected. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock. No effect has been given in the pro forma stockholders' equity calculations for the assumed earnings on the net proceeds. It is assumed that First Federal of Northern Michigan Bancorp, Inc. will retain between $2.5 million and $6.6 million of the estimated net proceeds in the offering, or $9.0 million if the offering range is increased by 15%. The actual net proceeds from the sale of shares of common stock will not be determined until the offering is completed. However, we currently estimate the net proceeds to be between $12.8 million and $17.5 million, or $20.2 million if the offering range is increased by 15%.

The following pro forma information may not be representative of the financial effects of the offering at the dates on which the offering actually occurs, and should not be taken as indicative of future results of operations. Pro forma consolidated stockholders' equity represents the difference between the stated amounts of our assets and liabilities. The pro forma stockholders' equity is not intended to represent the fair market value of the shares of common stock.

	AT OR FOR THE NINE MONTHS ENDED SEPT BASED UPON THE SALE AT $10.00 PE		
	1,360,000 SHARES	1,600,000 SHARES	1,840,00 SHARES
	(DOLLARS IN THOUSANDS, EXCEPT PER S		
Gross proceeds of offering.......................	$ 13,600	$ 16,000	$ 18,
Market value of shares issued to the foundation...	272	320	
Market value of offering and foundation shares....	13,872	16,320	18,
Gross proceeds of offering.......................	13,600	16,000	18,
Less: Cash contribution to Foundation............	(272)	(320)	(
Less: Expenses...................................	(716)	(738)	(

Plus: Assets received from the MHC..............	210	210	
Estimated Net Proceeds..........................	$ 12,822	15,152	17,
Less: Common stock acquired by employee stock ownership plan................................	(1,110)	(1,306)	(1,
Less: Common stock acquired by recognition and retention plan................................	(555)	(653)	(
Estimated net proceeds, as adjusted..............	$ 11,157	13,194	15,
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004			
Consolidated net earnings:			
Historical....................................	$ 332	$ 332	$
Pro forma adjustments:			
Income on adjusted net proceeds................	117	139	
Employee stock ownership plan (2)..............	(37)	(43)	
Recognition and retention plan (3)............	(55)	(65)	
Pro forma net earnings......................	$ 357	$ 363	$
Earnings per share (4):			
Historical....................................	$ 0.14	$ 0.12	$ 0
Pro forma adjustments:			
Income on adjusted net proceeds................	0.05	0.05	0
Employee stock ownership plan (2)..............	(0.02)	(0.02)	(0
Recognition and retention plan (3)............	(0.02)	(0.02)	(0
Pro forma earnings per share (4) (5).........	$ 0.15	$ 0.13	$ 0
Offering price to pro forma net earnings per share (4)..	50.00x	57.69x	68
Number of shares used in earnings per share calculations....................................	2,374,474	2,793,498	3,212,
AT SEPTEMBER 30, 2004			
Stockholders' equity:			
Historical....................................	$ 21,936	$ 21,936	$ 21,
Estimated net proceeds........................	13,094	15,472	17,
Plus: Shares issued to foundation............	272	320	
Less: Shares contribution to foundation	(272)	(320)	(
Less: Cash contribution to foundation.........	(272)	(320)	(
Plus: Tax benefit of the foundation...........	185	218	
Less: Common stock acquired by ESOP...........	(1,110)	(1,306)	(1,
Less: Common stock acquired by MRP............	(555)	(653)	(
Pro forma stockholders equity.................	$ 33,279	$ 35,348	$ 37,
Less: Intangible assets.......................	(3,668)	(3,668)	(3,
Pro forma tangible stockholders' equity........	29,610	31,679	33,
Stockholders' equity per share:(7)			
Historical....................................	$ 8.85	$ 7.52	$ 6
Estimated net proceeds........................	5.28	5.31	5
Plus: Shares issued to foundation............	0.11	0.11	0
Less: Shares contribution to foundation	(0.11)	(0.11)	(0
Less: Cash contribution to foundation.........	(0.11)	(0.11)	(0
Plus: Tax benefit of the foundation...........	0.07	0.07	0

Less: Common stock acquired by ESOP..........	(0.45)	(0.45)	(0
Less: Common stock acquired by MRP...........	(0.22)	(0.22)	(0
Pro forma stockholders' equity per share (6) (7)......................................	$ 13.42	$ 12.12	$ 11
Pro forma tangible stockholders' equity per share (6) (8).............................	$ 11.94	$ 10.86	$ 10
Offering price as percentage of pro forma stockholders' equity per share..........	74.52%	82.51%	89
Offering price as percentage of pro forma tangible stockholders' equity per share.	83.75%	92.08%	99
Number of shares outstanding for pro forma book value per share calculations.......	2,479,901	2,917,530	3,355,

(FOOTNOTES BEG

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(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market and financial conditions following the commencement of the offering, or regulatory considerations.

(2) Assumes that 8% of shares of common stock sold in the offering (including shares issued to the charitable foundation) will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from First Federal of Northern Michigan Bancorp, Inc. First Federal of Northern Michigan intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments due on the debt. First Federal of Northern Michigan's total annual payments on the employee stock ownership plan debt are based upon 15 equal annual installments of principal and interest. Statement of Position 93-6 requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by First Federal of Northern Michigan, the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 34.0%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 5,549, 6,528, 7,507 and 8,614 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with Statement of Position 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of net income per share calculations.

(3) If approved by First Federal of Northern Michigan Bancorp, Inc.'s stockholders, the stock recognition and retention plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (including shares issued to the charitable foundation) (or a greater number of shares if the plan is implemented

more than one year after completion of the conversion). Stockholder approval of the stock recognition and retention plan, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from First Federal of Northern Michigan Bancorp, Inc. or through open market purchases. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by First Federal of Northern Michigan Bancorp, Inc. The table assumes that (i) the stock recognition and retention plan acquires the shares through open market purchases at $10.00 per share, (ii) 15% of the amount contributed to the stock recognition and retention plan is amortized as an expense during the nine months ended September 30, 2004 and (iii) the stock recognition and retention plan expense reflects an effective combined federal and state tax rate of 34.0%. Assuming stockholder approval of the stock recognition and retention plan and that shares of common stock (equal to 4% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 2.2% at the maximum of the offering range.

(4) Per share figures include publicly held shares of Alpena Bancshares, Inc. common stock that will be exchanged for new shares of First Federal of Northern Michigan Bancorp, Inc. common stock in the conversion. See "The Conversion -- Share Exchange Ratio." Net income per share computations are determined by taking the number of shares assumed to be sold in the offering (including shares issued to the charitable foundation) and the number of new shares assumed to be issued in exchange for publicly held shares and, in accordance with Statement of Position 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See note 2. The number of shares of common stock actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts. Pro forma net income per share has been annualized.

(5) No effect has been given to the issuance of additional shares of common stock pursuant to the stock option plan, which is expected to be adopted by First Federal of Northern Michigan Bancorp, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the conversion. If the stock option plan is approved by stockholders, a number of shares up to 10% of the shares sold in the offering (including shares issued to the charitable foundation) (or a greater number of shares if the stock option plan is implemented more than one year after the completion of the conversion) will be reserved for future issuance upon the exercise of options to be granted under the stock option plan. The issuance of authorized but previously unissued shares of common stock pursuant to the exercise of options under such plan would dilute existing stockholders' ownership and voting interests by approximately 5.3% at the maximum of the offering range.

(6) The retained earnings of First Federal of Northern Michigan will be substantially restricted after the conversion. See "Our Dividend Policy," "The Conversion--Liquidation Rights" and "Supervision and Regulation--Federal Banking Regulation--Capital Distributions."

(7) Per share figures include publicly held shares of Alpena Bancshares, Inc. common stock that will be exchanged for new shares of First Federal of Northern Michigan Bancorp, Inc. common stock in the conversion. Stockholders' equity per share calculations are based upon the sum of (i) the number of subscription shares assumed to be sold in the offering (including shares issued to the charitable foundation) and (ii) new shares to be issued in exchange for publicly held shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The exchange shares reflect an exchange ratio of 1.4783, 1.7391, 2.0000 and 2.3000 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The number of subscription

shares actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

	AT OR FOR THE YEAR ENDED DECEMBE BASED UPON THE SALE AT $10.00 PE		
	1,360,000 SHARES	1,600,000 SHARES	1,840,00 SHARES
	(DOLLARS IN THOUSANDS, EXCEPT PER SH		
Gross proceeds of offering.......................	$ 13,600	$ 16,000	$ 18,
Market value of shares issued to the foundation...	272	320	
Market value of offering and foundation shares....	13,872	16,320	18,
Gross proceeds of offering.......................	13,600	16,000	18,
Less: Cash contribution to foundation...........	(272)	(320)	(
Less: Expenses.................................	(716)	(738)	(
Plus: Assets received from the MHC..............	210	210	
Estimated Net Proceeds.........................	$ 12,822	15,152	17,
Less: Common stock purchased by ESOP...........	(1,110)	(1,306)	(1,
Less: Common stock purchased by recognition and retention plan...............................	(555)	(653)	(
Estimated net proceeds, as adjusted............	$ 11,157	13,194	15,
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003			
Consolidated net earnings:			
Historical....................................	$ 1,209	$ 1,209	$ 1,
Pro forma adjustments:			
Income on adjusted net proceeds...............	91	108	
Employee stock ownership plan (2).............	(49)	(57)	
MRP (3).......................................	(73)	(86)	
Pro forma net income........................	$ 1,178	$ 1,174	$ 1,
Per share net income (reflects SOP 93-6)			
Historical income.............................	0.51	0.43	0
Pro forma income on net proceeds..............	0.04	0.04	0
Pro forma ESOP on net proceeds	(0.02)	(0.02)	(0
Pro forma MRP adjustment......................	$ (0.03)	$ (0.03)	$ (0
Pro forma net income (4) (5)	$ 0.50	$ 0.42	$ 0
Offering price as a multiple of pro forma net earnings per share............................	20.00x	23.81x	27
Number of shares used in earnings per share calculations..................................	2,376,324	2,795,674	3,215,

AT DECEMBER 31, 2003

Stockholders' equity:			
Historical....................................	$ 21,951	$ 21,951	$ 21,
Estimated net proceeds........................	13,094	15,472	17,
Plus: Shares issued to foundation............	272	320	
Less: Shares contribution to foundation	(272)	(320)	(
Less: Cash contribution to foundation.........	(272)	(320)	(
Plus: Tax benefit of the foundation...........	185	218	
Less: Common stock acquired by ESOP...........	(1,110)	(1,306)	(1,
Less: Common stock acquired by MRP............	(555)	(653)	(
Pro forma stockholders equity.................	$ 33,293	$ 35,362	$ 37,
Less: Intangible assets......................	(3,851)	(3,851)	(3,
Pro forma tangible stockholders' equity........	29,442	31,511	33,
Stockholders' equity per share:(7)			
Historical....................................	$ 8.85	$ 7.52	$ 6
Estimated net proceeds........................	5.28	5.30	5
Plus: Shares issued to foundation............	0.11	0.11	0
Less: Shares contribution to foundation	(0.11)	(0.11)	(0
Less: Cash contribution to foundation.........	(0.11)	(0.11)	(0
Plus: Tax benefit of the foundation...........	0.07	0.07	0
Less: Common stock acquired by ESOP...........	(0.45)	(0.45)	(0
Less: Common stock acquired by MRP............	(0.22)	(0.22)	(0
Pro forma stockholders' equity per share (6) (7)......................................	$ 13.42	$ 12.11	$ 11
Pro forma tangible stockholders' equity per share (6) (7)............................	$ 11.87	$ 10.80	$ 10
Offering price as percentage of pro forma stockholders' equity per share..........	74.52%	82.58%	89
Offering price as percentage of pro forma tangible stockholders' equity per share.	84.25%	92.59%	99
Number of shares outstanding for pro forma book value per share calculations.......	2,479,901	2,917,530	3,355,

(FOOTNOTES BEG

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(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market and financial conditions following the commencement of the offering, or regulatory considerations.

(2) Assumes that 8% of shares of common stock sold in the offering (including shares issued to the charitable foundation) will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from First Federal of Northern Michigan Bancorp, Inc. First Federal of Northern Michigan intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. First Federal of Northern Michigan's total annual payments on the employee stock ownership plan debt are based upon 15 equal annual installments of principal and interest. Statement of Position 93-6 requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees.

The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by First Federal of Northern Michigan, the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 34.0%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 7,398, 8,704, 10,010 and 11,485 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with Statement of Position 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of net income per share calculations.

(3) If approved by First Federal of Northern Michigan Bancorp, Inc.'s stockholders, the stock recognition and retention plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (including shares issued to the charitable foundation) (or a greater number of shares if the plan is implemented more than one year after completion of the conversion). Stockholder approval of the stock recognition and retention plan, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from First Federal of Northern Michigan Bancorp, Inc. or through open market purchases. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by First Federal of Northern Michigan Bancorp, Inc. The table assumes that (i) the stock recognition and retention plan acquires the shares through open market purchases at $10.00 per share, (ii) 20% of the amount contributed to the stock recognition and retention plan is amortized as an expense during the year ended December 31, 2003, and (iii) the stock recognition and retention plan expense reflects an effective combined federal and state tax rate of 34.0%. Assuming stockholder approval of the stock recognition and retention plan and that shares of common stock (equal to 4% of the shares sold in the offering, including shares issued to the charitable foundation) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 2.2% at the maximum of the offering range.

(4) Per share figures include publicly held shares of Alpena Bancshares, Inc. common stock that will be exchanged for new shares of First Federal of Northern Michigan Bancorp, Inc. common stock in the conversion. See "The Conversion -- Share Exchange Ratio." Net income per share computations are determined by taking the number of shares assumed to be sold in the offering (including shares issued to the charitable foundation) and the number of new shares assumed to be issued in exchange for publicly held shares and, in accordance with Statement of Position 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See note 2. The number of shares of common stock actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

(5) No effect has been given to the issuance of additional shares of common stock pursuant to the stock option plan, which is expected to be adopted by First Federal of Northern Michigan Bancorp, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the conversion. If the stock option plan is approved by stockholders, a number of shares up to 10% of the shares sold in the offering (including shares issued to the charitable foundation) (or a greater number of shares if the stock option plan is

implemented more than one year after the completion of the conversion) will be reserved for future issuance upon the exercise of options to be granted under the stock option plan. The issuance of authorized but previously unissued shares of common stock pursuant to the exercise of options under such plan would dilute existing stockholders' ownership and voting interests by approximately 5.3% at the maximum of the offering range.

(6) The retained earnings of First Federal of Northern Michigan will be substantially restricted after the conversion. See "Our Dividend Policy," "The Conversion--Liquidation Rights" and "Supervision and Regulation--Federal Banking Regulation--Capital Distributions."

(7) Per share figures include publicly held shares of Alpena Bancshares, Inc. common stock that will be exchanged for new shares of First Federal of Northern Michigan Bancorp, Inc. common stock in the conversion. Stockholders' equity per share calculations are based upon the sum of (i) the number of subscription shares assumed to be sold in the offering (including shares issued to the charitable foundation) and (ii) new shares to be issued in exchange for publicly held shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The exchange shares reflect an exchange ratio of 1.4783, 1.7391, 2.0000 and 2.3000 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The number of subscription shares actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

COMPARISON OF VALUATION AND PRO FORMA INFORMATION WITH AND WITHOUT THE FOUNDATION

As reflected in the table below, if the charitable foundation is not established and funded as part of the conversion and offering, RP Financial estimates that the pro forma valuation of First Federal of Northern Michigan Bancorp, Inc. would be greater and, as a result, a greater number of shares of common stock would be issued in the conversion. At the minimum, midpoint, maximum and adjusted maximum of the valuation range, the pro forma valuation of First Federal of Northern Michigan Bancorp, Inc. is $24.8 million, $29.2 million, $33.6 million and $38.5 million with the charitable foundation, as compared to $25.1 million, $29.6 million, $34.0 million and $39.1 million, respectively, without the charitable foundation. There is no assurance that in the event the charitable foundation were not formed, the appraisal prepared at that time would conclude that the pro forma market value of First Federal of Northern Michigan Bancorp, Inc. would be the same as that estimated in the table below. Any appraisal prepared at that time would be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions.

For comparative purposes only, set forth below are certain pricing ratios and financial data and ratios at and for the nine months ended September 30, 2004 at the minimum, midpoint, maximum and adjusted maximum of the offering range, assuming the conversion and offering was completed at September 30, 2004, with and without the charitable foundation. Pro forma financial ratios are annualized. The valuation amounts referred to in the table below relate to the value of the shares sold to the depositors and the public.

	1,360,000 SHARES SOLD		1,600,000 SHARES S	
	WITH	WITHOUT	WITH	WIT

	FOUNDATION	FOUNDATION	FOUNDATION	FOUND
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUN			
Estimated offering amount......................	$ 13,600	$ 13,940	$ 16,000	$
Pro forma 2nd Step Value (incl. Foundation)....	$ 13,872	$ 13,940	$ 16,320	$
Estimated market capitalization...............	$ 24,799	$ 25,141	$ 29,175	$
Total assets.................................	$ 265,819	$ 266,235	$ 267,888	$ 2
Total liabilities............................	$ 232,540	$ 232,540	$ 232,540	$ 2
Pro forma stockholders' equity................	$ 33,279	$ 33,695	$ 35,348	$
Pro forma net income..........................	$ 357	$ 363	$ 363	$
Pro forma stockholders' equity per share.......	$ 13.42	$ 13.40	$ 12.12	$
Pro forma net income per share................	$ 0.15	$ 0.15	$ 0.13	$
Pro forma shares outstanding for earnings calculation................................	2,374,474	2,408,125	2,793,498	2,8
PRO FORMA PRICING RATIOS:				
Offering price as a percentage of pro forma stockholders' equity per share..............	74.52%	74.63%	82.51%	
Offering price to pro forma net income per share.......................................	50.00	50.00	57.69	
Offering price to pro forma assets............	9.33%	9.44%	10.89%	
PRO FORMA FINANCIAL RATIOS:				
Return on assets (1)..........................	0.13%	0.14%	0.14%	
Return on equity (1)..........................	1.07%	1.08%	1.03%	
Equity to assets..............................	12.52%	12.66%	13.19%	
Total shares issued...........................	2,479,901	2,514,071	2,917,530	2,9

(CONTINUED)

	1,840,000 SHARES SOLD		2,116,000 SHARES S	
	WITH FOUNDATION	WITHOUT FOUNDATION	WITH FOUNDATION	WIT FOUND
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUN			
Estimated offering amount......................	$ 18,400	$ 18,860	$ 21,160	$
Pro forma 2nd Step Value (incl. Foundation)....	$ 18,768	$ 18,860	$ 21,535	$
Estimated market capitalization...............	$ 33,552	$ 34,014	$ 38,536	$
Total assets.................................	$ 269,957	$ 270,519	$ 272,356	$ 2
Total liabilities............................	$ 232,540	$ 232,540	$ 232,540	$ 2
Pro forma stockholders' equity................	$ 37,416	$ 37,979	$ 39,816	$
Pro forma net income..........................	$ 369	$ 376	$ 376	$
Pro forma stockholders' equity per share.......	$ 11.15	$ 11.17	$ 10.33	$
Pro forma net income per share................	$ 0.11	$ 0.11	$ 0.10	$
Pro forma shares outstanding for earnings calculation................................	3,212,523	3,258,052	3,689,947	3,7
PRO FORMA PRICING RATIOS:				
Offering price as a percentage of pro forma stockholders' equity per share..............	89.69%	89.53%	96.81%	
Offering price to pro forma net income per share.......................................	68.18	68.18	75.00	
Offering price to pro forma assets............	12.43%	12.57%	14.15%	
PRO FORMA FINANCIAL RATIOS:				
Return on assets (1)..........................	0.14%	0.14%	0.14%	
Return on equity (1)..........................	0.99%	0.99%	0.94%	
Equity to assets..............................	13.86%	14.04%	14.62%	
Total shares issued...........................	3,355,160	3,401,390	3,853,613	3,9

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(1) Annualized.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the audited consolidated financial statements, which appear beginning on page F-1 of this prospectus. You should read the information in this section in conjunction with the business and financial information regarding Alpena Bancshares, Inc. provided in this prospectus.

OVERVIEW OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

First Federal of Northern Michigan 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 September 30, 2004, $100.6 million, or 53.24% of our total loan portfolio consisted of one- to four-family residential real estate loans, $26.5 million (or 14.00%) and $28.9 million (or 15.31%) of our total loan portfolio consisted of commercial mortgage loans and commercial loans, respectively, and $25.0 million, or 13.25% of our total loan portfolio consisted of consumer and other loans. In recent years, commercial mortgage loans and commercial loans have grown as a percentage of our loan portfolio for two reasons. First, we have increased our focus on originating these loans, which generally are originated with higher interest rates compared to one- to four-family residential real estate loans. In addition, most of these loans are originated with adjustable interest rates, which assists us in managing interest rate risk. Second, most of our borrower customers prefer fixed-rate loans in the low interest rate environment that has prevailed over the last several years. Since we sell in the secondary mortgage market 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 decreased as a percentage of our 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. Results of operations are also affected by non-interest income and non-interest expense, the provision for loan losses and income tax expense. Non-interest income consists primarily of banking fees, service charges, insurance commissions and gains (losses) on sales of loans and securities available for sale. Our non-interest expense consists primarily of salaries and employee benefits, occupancy and office expenses, advertising and promotion expense and data processing expenses.

As the holding company of a federally chartered savings bank, 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. In addition, we are unable to predict future changes in government policies and actions of regulatory authorities that could have a material impact on our financial performance. 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. See "--Management of Interest Rate Risk" and "Supervision and Regulation."

EXPECTED INCREASE IN NON-INTEREST EXPENSE AS A RESULT OF THE CONVERSION

Following the completion of the conversion, our non-interest expense can be expected to increase because of the increased compensation expenses associated with the purchases of shares of common stock

by our employee stock ownership plan and the adoption of the recognition and retention plan, if approved by our stockholders.

Assuming that 2,116,000 shares are sold in the offering and up to 37,500 shares are issued to the charitable foundation:

(i) the employee stock ownership plan will acquire 172,280 shares of common stock with a $1.7 million loan that is expected to be repaid over 15 years, resulting in an annual expense (pre-tax) of approximately $115,000 (assuming that the shares of common stock maintain a value of $10.00 per share); and

(ii) the recognition and retention plan would award a number of shares equal to 4% of the shares sold in the offering (including shares issued to the charitable foundation), or 86,140 shares, to eligible participants, and such awards would be expensed as the awards vest. Assuming all shares are awarded under the recognition and retention plan at a price of $10.00 per share, and that the awards vest over five years, the corresponding annual expense (pre-tax) associated with shares awarded under the recognition and retention plan would be approximately $172,000.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of the shares of common stock as they are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, increases in the stock price above $10.00 per share will increase the total employee stock ownership plan expense, and accelerated repayment of the loan will increase the employee stock ownership plan expense for those periods in which accelerated or larger loan repayments are made. Further, the actual expense of the recognition and retention plan will be determined by the fair market value of the stock on the grant date, which might be greater than $10.00 per share.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. We consider accounting policies that require significant judgment and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. The accounting policies considered critical to our financial results are the allowance for loan losses, mortgage servicing rights and impairment of intangible assets.

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

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the reserves we have established, which could have a material negative effect on our financial results.

MORTGAGE SERVICING RIGHTS. In 2000, we began selling to investors a portion of our originated one- to four-family residential real estate mortgage loans. When we acquire mortgage servicing rights through the origination of mortgage loans and sell those loans with servicing rights retained, we allocate a portion of the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. As of September 30, 2004, we were servicing loans sold to others totaling $140.4 million. We amortize capitalized mortgage servicing rights as a reduction of servicing fee income in proportion to, and over the period of, estimated net servicing income by use of a method that approximates the level-yield method. We periodically evaluate capitalized mortgage servicing rights for impairment using a model that takes into account several variables. If we identify impairment, we charge the amount of the impairment to earnings by establishing a valuation allowance against the capitalized mortgage servicing rights asset. In general, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increase as interest rates rise and decrease as interest rates fall. The key economic assumptions made in determining the fair value of the mortgage servicing rights at December 31, 2003 included the following:

Annual Constant Prepayment Speed (CPR):	13.89%
Weighted Average Life Remaining (in months):	253.3
Discount Rate Used:	7.36%

At the December 31, 2003 valuation, we calculated the value of our mortgage servicing rights to be $1.4 million. The book value of our mortgage servicing rights as of December 31, 2003 was $993,000. Because the fair value exceeded the book value, there was no adjustment required. The book value of our mortgage servicing rights as of September 30, 2004 was $898,000, which was $95,000 less than the value as of December 31, 2003.

IMPAIRMENT OF INTANGIBLE ASSETS. In connection with our acquisition in

2003 of the InsuranCenter of Alpena (ICA), we allocated the excess of the purchase price paid over the fair value of net assets acquired to intangible assets, including goodwill. These intangible assets included the ICA customer list and a Blue Cross-Blue Shield contract to which ICA is a party. We are amortizing the value assigned to the customer list and the Blue Cross-Blue Shield contract over 20 years. Goodwill is not amortized. Additionally, we are testing each of these intangible assets for impairment on an ongoing basis. At December 31, 2003 and September 30, 2004, there was no impairment based upon our testing. If, through testing, we determine that there is impairment, based, for example, on significant runoff of the customer list or material changes to the Blue Cross-Blue Shield contract, then we may need to write down the value of those intangible assets, which would create expense and reduce our earnings.

MANAGEMENT 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 10 offices enhances our ability to serve

these communities. We provide a broad range of individual consumer and business financial services on a personalized basis. 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 10 years' experience in the financial services industry.

INCREASING OUR FOCUS ON COMMERCIAL REAL ESTATE AND COMMERCIAL LOANS. At September 30, 2004, loans secured by commercial real estate totaled $26.5 million, or 14.00% of our total loan portfolio, and commercial loans totaled $28.9 million, or 15.31% of our total loan portfolio. We intend to emphasize the origination of these types of loans in the future and retain them in our portfolio. Commercial real estate and commercial loans generally are originated with higher interest rates compared to one- to four-family residential real estate loans. In addition, most of these loans are originated with adjustable interest rates, which assists us in managing interest rate risk. We believe that our 10-branch network will enable us to increase our commercial and commercial real estate loan portfolio without significant additional fixed costs.

INCREASING OUR SHARE OF LOWER-COST DEPOSITS. In past years our cost of funds has been relatively high as we accepted higher-costing long-term certificates of deposit to fund our long-term assets such as one- to four-family residential mortgage loans. As we have increased our origination of commercial real estate and commercial loans, most of which are originated with adjustable interest rates, we have decreased our need for higher-costing long-term certificates of deposit. We intend to lower our cost of funds by increasing our share of lower-cost short-term certificates of deposit and lower-cost money market deposits. We also intend to market our non-interest-bearing checking accounts in conjunction with our focus on commercial business lending.

INCREASING AND DIVERSIFYING OUR SOURCES OF NON-INTEREST INCOME. In June 2003, we acquired InsuranCenter of Alpena ("ICA"), a licensed insurance agency engaged in the business of property, casualty and health insurance, in an effort to increase and diversify our sources of non-interest income.

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. See "Business of Alpena Bancshares, Inc.

and First Federal of Northern Michigan--Lending Activities." As a result, we have consistently experienced low levels of late payments and losses on loans. As of September 30, 2004, our ratio of non-performing assets to total assets was 0.70%. At September 30, 2004, our ratio of equity to assets was 8.62%. Assuming the sale of 1,600,000 shares of common stock at the midpoint of the offering range, we expect that the ratio of equity to assets will increase to approximately 13.1% following the conversion.

MANAGING OUR INTEREST RATE RISK EXPOSURE BY SELLING FIXED-RATE RESIDENTIAL REAL ESTATE LOANS. Historically, most borrowers have preferred long-term, fixed-rate residential real estate loans when 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 have sold substantially all of the fixed-rate, one- to four-family residential real estate loans with maturities of greater than 15 years that we have originated since 2002, and we intend to continue this practice in the future.

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"), which consists of senior management, 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 September 30, 2004, $169.0 million, or 88.2% of our loan portfolio, consisted of loans that mature or reprice during the year ending December 31, 2005 and beyond. In contrast, as of September 30, 2004, $104.5 million, or 68.9% of our deposits as of that date, consisted of deposits that mature or reprice in less than one year.

In an effort to better 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 intend to increase our originations and retention in our portfolio of commercial real estate and commercial loans. Most of these loans are originated with adjustable interest rates, which assists us in managing interest rate risk. Depending on market interest rates and our capital and liquidity position, we generally sell into the secondary mortgage market all of the fixed-rate, longer-term (greater than 15 years) residential mortgage loans that we originate, generally on a servicing-retained basis. We primarily invest in short- and medium-term securities, which generally have lower yields compared to longer-term investments. Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term securities, as well as originating loans with adjustable rates of interest, helps 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. We have also maintained high levels of liquid assets, such as cash and cash equivalents, which will permit us to invest in higher-yielding securities in the event of an increase in interest rates. These strategies may adversely affect net interest income due to lower initial yields on these investments in comparison to longer-term, fixed-rate loans and investments.

QUANTITATIVE ANALYSIS. We evaluate interest rate sensitivity using a model that estimates the change in our net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. In calculating changes in NPV, we assume estimated loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes.

The table below sets forth, as of September 30, 2004, the estimated changes in our NPV that would result from the designated instantaneous changes in the U.S. Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

		ESTIMATED INCREASE (DECREASE) IN NPV		NPV AS A PERCENTAGE PRESENT VALUE OF ASSET	
CHANGE IN INTEREST RATES (BASIS POINTS) (1)	ESTIMATED NPV (2)	AMOUNT	PERCENT	NPV RATIO (4)	INCR (DECR (BASIS
	(DOLLARS IN THOUSANDS)				
+300	$ 19,588	$ (5,171)	(21)%	7.85%	(1
+200	22,028	(2,730)	(11)%	8.68%	(
+100	23,911	(848)	(3)%	9.28%	(
--	24,758	--	0%	9.50%	
-100	23,963	(795)	(3)%	9.12%	(

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(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The table set forth above indicates that at September 30, 2004, in the event of an immediate 100 basis point decrease in interest rates, we would be expected to experience a 3% decrease in NPV and a 38 basis point decrease in NPV ratio. In the event of an immediate 200 basis point increase in interest rates, we would be expected to experience an 11% decrease in NPV and an 81 basis point decrease in NPV ratio.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and 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 NPV and 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 do 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 NPV and 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.

ANALYSIS OF NET INTEREST INCOME

Net interest income is the difference between our interest income on interest-earning assets and our interest expense on interest-bearing liabilities. Our net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them, respectively.

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

		NINE MONTHS ENDED SEPTEMB			
	AT SEPTEMBER 30, 2004	2004			
	YIELD/RATE	AVERAGE OUTSTANDING BALANCE	INTEREST	YIELD/RATE(1)	AVERAG OUTSTAND BALANC
		(DOLLARS IN THOUSANDS)			
INTEREST-EARNING ASSETS:					
Loans........................	6.40%	$ 176,682	$ 8,447	6.39%	$ 153,
Investment securities.........	3.42%	42,466	1,084	3.41%	45,
Other investments (2).........	3.74%	6,854	267	5.21%	13,
Total interest-earning assets....................	5.79%	226,002	9,798	5.79%	212,
Non-interest-earning assets...		17,158			15,
Total assets...............		$ 243,160			$ 227,

INTEREST-BEARING LIABILITIES:					
Savings deposits..............	0.26%	$ 27,556	46	0.22%	$ 30,
Money market/NOW accounts.....	0.90%	29,385	172	0.78%	23,
Certificates of deposit.......	3.31%	97,360	2,402	3.30%	93,
Total deposits.............	2.33%	154,301	2,620	2.27%	147,
FHLB advances and other (3)...	5.07%	54,956	1,951	4.74%	47,
Total interest-bearing liabilities...............	2.95%	209,257	4,571	2.92%	195,
Non-interest-bearing liabilities..................		12,088			10,
Total liabilities..........		221,345			205,
Stockholders' equity..........		21,815			21,
Total liabilities and stockholders' equity.....		$ 243,160			$ 227,
Net interest income...........			$ 5,227		
Net interest rate spread 42)..	2.84%			2.87%	
Net interest-earning assets (5)		$ 16,745			$ 16,
Net interest margin (6).......	3.07%			3.09%	
Average interest-earning assets to interest-bearing liabilities...............	108.21%			108.00%	

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	YEARS ENDED DECEMBER 31,					
	2003			2002		
	AVERAGE OUTSTANDING BALANCE	INTEREST	YIELD/ RATE(1)	AVERAGE OUTSTANDING BALANCE	INTEREST	YIELD/ RATE(1)
				(DOLLARS IN THOUSANDS)		
INTEREST-EARNING ASSETS:						
Loans......................	$ 156,131	$ 11,214	7.18%	$ 163,746	$ 12,133	7.41%
Investment securities......	43,939	1,736	3.95%	42,805	1,911	4.46%
Other investments (2)......	11,639	400	3.44%	15,267	455	2.98%
Total interest-earning assets................	211,709	13,350	6.31%	221,818	14,499	6.54%
Non-interest-earning assets	16,018			13,375		

Total assets...........	$ 227,727			$ 235,193		
INTEREST-BEARING LIABILITIES:						
Savings deposits...........	$ 29,700	119	0.40%	$ 31,007	196	0.63%
Money market/NOW accounts..	24,206	189	0.78%	23,648	288	1.22%
Certificates of deposit....	92,900	3,411	3.67%	102,370	4,982	4.87%
Total deposits..........	146,806	3,719	2.53%	157,025	5,466	3.48%
FHLB advances and other (3)	47,977	2,736	5.70%	49,462	2,876	5.81%
Total interest-bearing liabilities...........	194,783	6,455	3.31%	206,487	8,342	4.04%
Non-interest-bearing liabilities...............	11,040			7,770		
Total liabilities.......	205,823			214,257		
Stockholders' equity.......	21,904			20,936		
Total liabilities and stockholders' equity..	$ 227,727			$ 235,193		
Net interest income........		$ 6,895			$ 6,157	
Net interest rate spread (4)................			3.00%			2.50%
Net interest-earning assets (5)................	$ 16,926			$ 15,331		
Net interest margin (6)....			3.26%			2.78%
Average of interest-earning assets to interest-bearing liabilities.............			108.69%			107.42%

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(1) Yields and rates for the nine months ended September 30, 2004 and 2003 are annualized.
(2) Includes income from subsidiary.
(3) Includes $1.3 million in a note payable in annual installments over 10 years to the former owners of InsuranCenter.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(6) Net interest margin represents net interest income divided by average total interest-earning assets.

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to changes in rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	NINE MONTHS ENDED SEPTEMBER 30, 2004 VS. 2003			YEARS ENDED DECEMBER 31, 2003 VS. 2002		
	INCREASE (DECREASE) DUE TO		TOTAL INCREASE (DECREASE)	INCREASE (DECREASE) DUE TO		TOTAL INCREASE (DECREASE)
	VOLUME	RATE		VOLUME	RATE	
	(IN THOUSANDS)					
INTEREST-EARNING ASSETS:						
Loans..................	$ 1,140	$ (1,100)	$ 40	$ (600)	$ (319)	$ (919)
Investment securities...	(93)	(204)	(297)	49	(224)	(175)
Other Investments(1)....	(199)	131	(69)	(118)	(63)	(55)
Total interest-earning assets.............	(848)	(1,174)	(326)	(669)	(480)	(1,149)
INTEREST-BEARING LIABILITIES:						
Savings deposits........	(7)	(46)	(53)	(8)	(69)	(77)
Money market/NOW accounts.............	34	(6)	28	7	(106)	(99)
Certificates of deposit	100	(328)	(228)	(429)	(1,142)	(1,571)
Total deposits........	127	(380)	(253)	(430)	(1,317)	(1,747)
FHLB Advances and others(2)...........	281	(388)	(106)	(67)	(73)	(140)
Total interest-bearing liabilities........	409	(768)	(360)	(497)	(1,390)	(1,887)
Change in net interest income..............	$ (439)	$ (406)	$ 33	$ (172)	$ 910	$ 738

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(1) Includes income from subsidiary.
(2) Includes $1.3 million in a note payable in annual installments over 10 years to the former owners of InsuranCenter.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2004 AND DECEMBER 31, 2003

ASSETS. Total assets increased $30.6 million, or 13.6%, to $254.5 million at September 30, 2004 from $223.9 million at December 31, 2003. Net loans receivable increased $23.4 million, or 14.2%, to $187.8 million at September 30, 2004 from $164.4 million at December 31, 2003, reflecting growth across all lending areas. The mortgage loan portfolio grew primarily as the result of our purchase of $9.1 million in mortgage loans from another Michigan bank, of which $7.8 million remained on our books at September 30, 2004. Except for a single loan that was secured by real estate in Indiana, all of the loans purchased were secured by real estate within the state of Michigan. Growth in both the commercial and consumer loan portfolios was the result of our efforts to develop further our penetration into those areas. Cash and cash and equivalents decreased by $1.9 million or 28.1%, to $4.8 million at September 30, 2004 from $6.7 million at December 31, 2003 as we invested excess cash into bonds that pay higher yields than the overnight rates earned at the Federal Reserve Bank. Investment securities increased $8.2 million, or 23.7% in the first nine months due to a leveraging strategy we implemented during the period in which we purchased $10.0 million in short-term (less than three years) corporate bonds funded with short-duration Federal Home Loan Bank advances.

LIABILITIES. Deposits increased $30.7 million, or 20.3%, to $182.4 million at September 30, 2004 from $151.7 million at December 31, 2003. This increase was primarily attributable to the $12.1 million in deposits acquired in our acquisition in May 2004 of two branches located in Mancelona and Alanson, Michigan from another financial institution. We also were successful in attracting deposit through various time deposit promotions conducted during this period. Federal Home Loan Bank advances increased $250,000, or 0.5%, to $46.1 million at September 30, 2004 from $45.8 million at December 31, 2003.

STOCKHOLDERS' EQUITY. Stockholders' equity decreased by $15,000 to $21.94 million at September 30, 2004 from $21.95 million at December 31, 2003. The decrease was due to lower market values on our investment portfolio. Compared to December 31, 2003, the net unrealized gain on available for sale securities decreased $161,000 at September 30, 2004 due to the rise in market interest rates over the period. The decrease in net unrealized gain on available for sale securities was partially offset by net income of $332,000 for the nine months ended September 30, 2004.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2003 AND DECEMBER 31, 2002

ASSETS. Total assets decreased $4.9 million, or 2.1%, to $223.9 million at December 31, 2003 from $228.8 million at December 31, 2002. Net loans increased $12.6 million, or 8.2%, to $164.4 million at December 31, 2003 from $151.9 million at December 31, 2002, due primarily to increased commercial lending activities. Our commercial loan portfolio grew 54.0% to $42.8 million at December 31, 2003 from $27.8 million at December 31, 2002. Among the reasons for the growth of our commercial loan portfolio was our hiring of a new commercial lender early in 2003. Mortgage lending was strong in 2003 with originations of one- to four-family residential mortgage loans totaling $133.1 million in 2003, an increase of 36.5% compared to 2002. The increased originations activity was a function of 45-year lows in mortgage interest rates plus our addition of two seasoned mortgage lenders that were in place most of the year. Because low market interest rates resulted in relatively low rates on these newly originated loans, we elected to sell most of these loans into the secondary mortgage market to reduce our interest rate risk. The cash proceeds of the sales were used to fund the origination of commercial loans, which increased to $13.4 million at December 31, 2003 from $7.5 million at December 31, 2002. The cash proceeds also were used to pay off high-cost Federal Home Loan Bank advances. To fund the growth in higher-yielding loans, we reduced cash and cash equivalents by $8.4 million, or 55.6%, to $6.7 million at December 31, 2003 from $15.1 million at December 31, 2002. We also reduced investment securities by $12.3 million, or 26.1%, to $34.7 million at December 31, 2003 from $46.9 million at December 31, 2002.

LIABILITIES. Deposits decreased $4.4 million, or 2.8%, to $151.7 million at December 31, 2003 from $156.1 million at December 31, 2002 as increased liquidity due to our mortgage banking activities and the reduction in cash and cash equivalents and investment securities allowed us to reduce the rates offered on deposit products which led to the decline in deposit balances. Borrowings in the form of Federal Home Loan Bank advances declined $2.6 million, or 5.4%, to $45.8 million at December 31, 2003 from $48.4 million as we used the increased liquidity to repay high-cost advances.

STOCKHOLDERS' EQUITY. Stockholders' equity increased by $204,000, or 0.9%, to $22.0 million at December 31, 2003 from $21.7 million at December 31, 2002. The increase in stockholders' equity was due to net income of $1.2 million which was partially offset by dividends paid of $366,000 and by lower other comprehensive income resulting from the decline of value in available-for-sale securities as market interest rates rose in the fall of 2003.

COMPARISON OF OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND SEPTEMBER 30, 2003

GENERAL. Net income decreased 58.1% to $332,000 for the nine months ended September 30, 2004 from $791,000 for the same period ended September 30, 2003, primarily due to the significant decrease in mortgage lending resulting from a reduction in mortgage refinancing activity. Non-interest income decreased $293,000, or 7.5%, reflecting an $831,000, or 64.3%, decrease in non-interest income attributable to our mortgage banking activities. This decrease was partially offset by the increase in insurance and brokerage commissions of $493,000 related to ICA due to the inclusion of a full nine months of ICA ownership in 2004 compared to seven months of ownership in 2003.

INTEREST INCOME. Interest income was $9.8 million for the nine months ended September 30, 2004, compared to $10.1 million for the comparable period in 2003. The decrease of $326,000, or 3.2%, was primarily due to our sale of longer-term fixed rate mortgage loans into the secondary mortgage market and the subsequent reinvestment of these proceeds into lower-yielding assets such as investment securities and shorter-duration non-mortgage loans, which caused an overall decline in the yield on our loan portfolio. The average yield of our loan portfolio fell 94 basis points to 6.39% for the nine months ended September 30, 2004 from 7.33% for the nine months ended September 30, 2004. The average balance of non-mortgage loans increased during the nine-month period ended September 30, 2004 by $18.9 million, or 36.0%, reflecting an increase of $16.0 million, or 48.6% in the average balance of commercial loans and an increase of $3.0 million, or 15.1%, in the average balance of consumer loans. The yield for commercial loans declined 21 basis points to 5.75% at September 30, 2004 from 5.96% at September 30, 2003. The yield for consumer loans declined 123 basis points to 6.96% at September 30, 2004 from 8.19% at September 30, 2003, attributable in part to a home equity loan promotion which offered a sub-prime introductory interest rate. Partially offsetting these factors was an increase in the average balance of one- to four-family residential mortgage loans for the nine months ended September 30, 2004 compared to the earlier year period due to our purchase of $9.1 million in such loans in May 2004. The average balance of investment securities decreased to $42.5 million for the nine months ended September 30, 2004 from $45.7 million for the earlier year period and the average yield on the investment securities declined to 3.41% from 4.04% in the lower market interest rate environment. As a result, interest income from investment securities decreased to $1.2 million from $1.5 million. Similarly, the average balance of interest-earning deposits decreased to $6.9 million for the nine months ended September 30, 2004 from $13.1 million for the earlier year period as these assets were deployed into higher-yielding loans, which caused a decrease in interest income to $171,000 from $244,000.

INTEREST EXPENSE. Interest expense decreased to $4.6 million for the nine months ended September 30, 2004 from $4.9 million for the same period in 2003, due to lower interest rates paid on interest-bearing liabilities in 2004 compared to the 2003 period. The average cost of deposits for the nine months ended September 30, 2004 declined to 2.27% from 2.61% for the same period one year earlier. The average cost of borrowings declined to 4.74% for the nine months ended September 30, 2004 from 5.73% for the same period one year earlier. The 99 basis point reduction in the cost of these funds was the result of additional shorter term borrowings at lower rates and the re-pricing of higher cost advances late in 2003. The declines in the average cost of deposits and borrowings more than offset an increase in the average balance of deposits and borrowings to $209.3 million from $195.4 million. Of this $13.9 million increase in average balances, $7.0 million was related to Federal Home Loan Bank borrowings, which increased to $55.0 million for the nine months ended September 30, 2004 from $48.0 million for the same period ended September 30, 2003.

NET INTEREST INCOME. Net interest income increased by $33,000 to $5.23 million for the nine months ended September 30, 2004 from $5.19 million for the same period in 2003. For the nine months ended September 30, 2004, average interest-earning assets increased $13.9 million, or 6.5% when

compared to the same period in 2003. Average interest-bearing liabilities increased $13.1 million, or 7.1% for the same period. While our net interest margin declined 17 basis points to 3.03% for the nine months ended September 30, 2004 from 3.20% for the same period in 2003, the increase in the amount of interest earning assets more than compensated for the decline.

PROVISION FOR LOAN LOSSES. We establish provisions for loan losses, which are charged to operations, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the 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 or as future events change. Based on our evaluation of these factors, management made a provision of $214,000 for the nine months ended September 30, 2004 and a provision of $238,000 for the nine months ended September 30, 2003. We had net charge-offs of $98,000 and $128,000 during the nine months ended September 30, 2004 and 2003, respectively. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses was $1.2 million, or 0.61% of total loans at September 30, 2004, as compared to $1.0 million, or 0.63% of total loans at September 30, 2003. The level of the allowance is based on estimates, and ultimate losses may vary from the estimates.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision may require us to recognize adjustments to the allowance based on its judgment regarding the adequacy of our allowance for loan losses at the time of its examination.

NON-INTEREST INCOME. Non-interest income decreased $293,000, or 7.5%, to $3.6 million for the nine months ended September 30, 2004 from $3.9 million for the same period in 2003. Non-interest income attributable to our mortgage banking activities decreased by $831,000, or 64.3%, as the gain on the sale of mortgages into the secondary market was $636,000 lower in the 2004 period compared to the 2003 period and the revenue associated with mortgage servicing rights was $177,000 lower in the 2004 period compared to the 2003 period. In addition, we recorded other non-interest income of $100,000 for the nine months ended September 30, 2003 related to the settlement of an insurance claim, which did not recur in the 2004 period. These items were partially offset by an increase of $493,000 or 28.4% in insurance and brokerage commissions attributable to the operations of ICA to $2.2 million for the nine months ended September 30, 2004 from $1.7 million for the same period one year earlier. This increase was due to nine full months of commissions in 2004 compared to only seven months in 2003 as the effective date of our acquisition of ICA was March 1, 2003. The declines also were partially offset by a $189,000, or 33.7%, increase in service charges and other fees due to an increase in overdraft fees associated with an overdraft protection product that we introduced in July 2003.

NON-INTEREST EXPENSES. Non-interest expenses increased $450,000, or 5.9%, to $8.1 million for the nine months ended September 30, 2004 from $7.7 million for the same period in 2003. Insurance and brokerage commission expense for ICA totaled $970,000 for the nine months ended September 30, 2004 compared to $771,000 for the earlier year period, representing the seven months of ICA operations that were included in the 2003 results. Compensation and employee benefits increased $218,000 to $4.5 million for the nine months ended September 30, 2004 from $4.2 million for the same period in 2003. This increase was mainly due to the two additional months of ICA's compensation expense totaling $227,000. In addition, compensation and employee benefits increased $113,000 for the nine-month

period ended September 30, 2004 when compared to the same period in 2003 to make up for a shortfall in funding of the Financial Institutions Retirement Fund, the pension plan for First Federal of Northern Michigan. At September 30, 2004, the plan was fully funded.

Following completion of the reorganization and offering, non-interest expense is likely to increase. Compensation expense will increase as a result of our employee stock ownership plan, and could increase if we implement a recognition and retention plan and a stock option plan.

INCOME TAXES. Federal income taxes decreased to $167,000 for the nine months ended September 30, 2004 compared to $393,000 for the same period in 2003. The effective tax rate for both time periods was 33.5%. The reduction in income tax reflected lower earnings for the nine months ended September 30, 2004 compared to the earlier year period.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

GENERAL. Net income increased $430,000, or 57.0%, to $1.2 million for the year ended December 31, 2003 from $770,000 for the year ended December 31, 2002. The increase in net income was due primarily to higher net interest income and non-interest income, as well as cost containment measures.

INTEREST INCOME. Interest income decreased by $1.1 million, or 7.9% to $13.4 million for the year ended December 31, 2003 from $14.5 million for the year ended December 31, 2002. Interest income on mortgage loans decreased by $1.2 million, or 13.7%, to $7.5 million from $8.7 million, and interest income on other loans increased by $275,000, or 8.0%, to $3.7 million from $3.4 million. The decrease in interest income was attributable to a decrease in the average balance of our average interest-earning assets by $10.1 million, or 4.6%, to $211.7 million for the year ended December 31, 2003 from $221.8 million for the year ended December 31, 2002 and by a decrease in the average yield on our interest-earning assets to 6.26% for the year ended December 31, 2003 from 6.54% for the year ended December 31, 2002. The decrease in the average balance of interest-earning assets reflected an $18.6 million decrease in the average balance of mortgage loans, partially offset by an $11.0 million increase in the average balance of other loans. The decrease in the average balance of mortgage loans was the result of our secondary mortgage market activities, which resulted in the sale of $81.5 million of mortgage loans during 2003. Historically low interest rates on 15- and 30-year mortgage loans caused a large portion of our balloon mortgage portfolio to refinance into fixed-rate products, which we in turn sold into the secondary mortgage market to reduce interest rate risk. The balances of our balloon mortgage portfolio were $41.1 million and $45.7 million at December 31, 2003 and 2002, respectively. The average balance of other investments (comprised of investment securities and interest-earning deposits) also decreased by $2.5 million, or 4.3%, during the year ended December 31, 2003. The decreases in the average balances of mortgage loans and other investments were partially offset by an increase in the average balance of other loans to $55.4 million for the year ended December 31, 2003 from $44.3 million for the year ended December 31, 2002, including a $15.5 million increase in the average balance of our commercial loan portfolio.

The average yield on our interest earning assets decreased to 6.26% for the year ended December 31, 2003 from 6.54% for the year ended December 31, 2002, reflecting lower market interest rates which led to lower rates on loans originated in 2003 as well as lower rates on our existing adjustable rate loans (which are often indexed to the Prime Rate).

Interest income on investment securities and interest-earning deposits decreased $230,000 to $2.1 million for the year ended December 31, 2003 from $2.4 million for the year ended December 31, 2002. This decrease was primarily due to decreases in the average yield of our mortgage-backed securities and

debt securities (including corporate bonds and federal and state agency obligations), which decreased to 3.83% and 3.97% for the year ended December 31, 2003 from 5.14% and 4.37%, respectively, for the year ended December 31, 2002.

INTEREST EXPENSE. Interest expense decreased by $1.9 million, or 22.9%, to $6.5 million for the year ended December 31, 2003 from $8.3 million for the year ended December 31, 2002. The decrease in interest expense resulted from decreases in all categories of interest expense, and specifically a $1.7 million, or 32.0%, decrease in interest expense on deposits and a $140,000, or 4.9%, decrease in interest expense on borrowings. The decrease in interest expense was attributable to a decrease in the average balance of borrowed funds to $48.0 million for the year ended December 31, 2003 from $49.5 million for the year ended December 31, 2002, and a $2.8 million, or 1.8%, decrease in the average balance of deposits to $154.2 million for the year ended December 31, 2003 from $157.0 million for the year ended December 31, 2002. The average cost of interest-bearing liabilities decreased to 3.31% from 4.04% as the average cost of borrowed funds declined to 5.70% from 5.82% and the average cost of deposits decreased to 2.41% from 3.48%. The decrease in the average balance of deposits was due primarily to run-off related to certificates of deposit as depositors sought higher rates outside of the Bank. Attracting deposits by paying high rates on certificates of deposit was not necessary given the available liquidity resulting from our selling loans into the secondary market during the year. The decrease in the average cost of deposits was attributable to lower market interest rates during 2003, while the decrease in the cost of borrowings resulted from the re-pricing of matured high-cost Federal Home Loan Bank advances and our repayment of some advances during the year.

NET INTEREST INCOME. Because the decrease in our interest expense was greater than the decrease in our interest income, our net interest income increased 738,000, or 12.0%, to $6.9 million for the year ended December 31, 2003, from $6.2 million for the year ended December 31, 2002. Our interest rate spread increased to 2.95% from 2.50% and our net interest margin increased to 3.21% from 2.78%. In addition, our ratio of average interest-earning assets to average interest-bearing liabilities increased to 108.69% from 107.42%.

PROVISION FOR LOAN LOSSES. The provision for loan losses amounted to $267,000 and $415,000 for the years ended December 31, 2003 and 2002, respectively. The decrease in the provision for loan losses in 2003 was partly related to the settlement of a consumer loan that had a specific allocation of $115,000 assigned to it. The loan was paid off in 2003 with only a small loss compared to the provision that had been allocated to it. Additionally, in 2003 we sold approximately 55% of the credit card portfolio which was part of our consumer loan portfolio. The credit card portfolio generally carries higher credit risk than other loan types and generally requires a larger loss allowance. Accordingly, the sale of the credit card portfolio permitted a reduction in the associated allowance. However, an increase in the balance of our credit card portfolio may result in future increases to our provision for loan losses. We had net charge-offs of $153,000 and $182,000 during the years ended December 31, 2003 and 2002, respectively. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses was $1.0 million, or 0.63% of total loans at December 31, 2003, as compared with $922,000, or 0.61% of total loans at December 31, 2002.

NON-INTEREST INCOME. Non-interest income increased by $3.0 million, or 127.5%, to $5.4 million for the year ended December 31, 2003 from $2.4 million for the year ended December 31, 2002, due primarily to $2.5 million in insurance and brokerage commissions generated by ICA in 2003. Since ICA was purchased during 2003, this income was not included in our non-interest income for the period ended December 31, 2002. Mortgage banking activities income increased by $163,000, or 11.6%, to $1.6 million for the year ended December 31, 2003 from $1.4 million for the year ended December 31, 2002, as gain on the sale of mortgage loans into the secondary mortgage market increased to $1.1 million for the year ended December 31, 2003 from $951,000 one year earlier, reflecting increased refinance activity in

2003 when compared to 2002. During the year ended December 31, 2003, we sold most fixed-rate mortgage loans that we originated given the low interest rate environment to manage interest rate risk. For the year ended December 31, 2003, the gain on sale of investments was $320,000 compared to $64,000 for the same period one year earlier. In 2003, we sold certain bonds to fund loans and pay off high cost Federal Home Loan Bank advances.

NON-INTEREST EXPENSE. Non-interest expense increased by $3.3 million, or 46.0%, to $10.3 million for the year ended December 31, 2003 from $7.1 million for the year ended December 31, 2002. Much of this increase related to the inclusion of various expenses associated with ICA, which totaled $2.2 million for the year ended December 31, 2003. Since ICA was purchased during 2003, these costs were not included in our non-interest expense for 2002. Compensation and employee benefits expenses increased to $6.9 million for the year ended December 31, 2003 from $4.0 million for the same period one year earlier. Of this $2.9 million increase, $800,000 related to the inclusion of the employees associated with ICA. We hired additional mortgage and commercial lending staff late in 2002 to improve our competitive position in our market area. We also added back-office staff and branch personnel to continue to provide quality customer service. In addition to salary increases, commissions and incentives increased by $93,000 primarily due to higher commission levels tied to higher loan production levels. A new compensation initiative designed to align compensation with individual performance resulted in $30,000 of higher compensation expense. Employee benefit expenses including health, life and pension expenses, rose 20.3% to $640,000 for the year ended December 31, 2003 from $532,000 the prior year.

Brokerage and commission expenses for ICA totaled $1.1 million during the year ended December 31, 2003. Since ICA was purchased during 2003, these costs were not included in our non-interest expense for 2002. Amortization expense associated with the intangible assets created in the acquisition of ICA totaled $87,000 for the year ended December 31, 2003. The imputed interest associated with the purchase of ICA added $41,000 of additional expense in 2003.

Marketing and advertising expenses increased $40,000 to $215,000 for the year ended December 31, 2003 from $175,000 for the year ended December 31, 2002. The increase was related to advertising done by ICA. In 2003, occupancy and equipment expenses increased by $155,000 to $1.2 million. This increase related to the addition of ICA which added $133,000 of occupancy and equipment expense that was not incurred in 2002. Other expense increased $155,000 to $1.5 million in 2003 from $1.4 million in 2002 attributable to the other expenses recorded within ICA.

INCOME TAXES. Federal income tax expense increased to $518,000 for the year ended December 31, 2003 from $285,000 for the year ended December 31, 2002. The increase was primarily due to the increase of $671,000 in pre-tax earnings to $1.7 million for the year ended December 31, 2003 from $1.1 million for the year ended December 31, 2002. The effective tax rate for the year ended December 31, 2003 was 30.0% compared to 27.0% for the year ended December 31, 2002.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related notes of Alpena Bancshares, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Liquidity represents the amount of our assets that can be quickly and easily converted into cash without significant loss. Our most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency securities and certificates of deposit. We are required to maintain sufficient levels of liquidity as defined by the Office of Thrift Supervision regulations. Current regulations require that we maintain sufficient liquidity to ensure our safe and sound operation. Our objective for liquidity is to be above 20% of total deposits and Federal Home Loan Bank borrowings due in one year or less. Liquidity as of September 30, 2004 was $86.0 million, or 46.8% of this amount, compared to $85.4 million, or 54.4% of this amount at December 31, 2003. The levels of liquidity are dependent on our operating, financing, lending and investing activities during any given period. Our calculation of liquidity includes additional borrowing capacity available with the Federal Home Loan Bank. As of September 30, 2004, we had unused borrowing capacity of $20.5 million. We can pledge additional collateral in the form of investment securities to increase our borrowing capacity.

We currently are retaining for our portfolio certain originated residential mortgage loans (primarily adjustable rate, balloon and shorter term fixed rate mortgage loans) and generally selling the remainder in the secondary mortgage market. From time to time we participate in or originate commercial real estate loans, including real estate development loans. During the nine months ended September 30, 2004, we originated $49.1 million in one- to four-family residential mortgage loans, of which $29.8 million were retained in our portfolio while the remainder were sold in the secondary mortgage market or are being held for sale. This compares to $115.4 million in originations during the nine months ended September 30, 2003, of which $44.6 million were retained in our PORTFOLIO. At September 30, 2004, we had outstanding loan commitments of $43.8 million. These commitments included $12.3 million for permanent one- to four-family residential mortgage loans, $10.6 million for non-residential loans, $3.9 million of undisbursed loan proceeds for construction of one- to four-family residences, $8.6 million of undisbursed lines of credit on home equity loans, $1.1 million of unused credit card lines, $6.5 million of unused commercial lines of credit, and $802,000 of undisbursed commercial construction loans.

Deposits are a primary source of ; funds for use in lending and for other general business purposes. At September 30, 2004, deposits funded 71.6% of our total assets compared to 67.7% at December 31, 2003. Certificates of deposit scheduled to mature in less than one year at September 30, 2004 totaled $36.7 million. We believe that a significant portion of such deposits will remain on deposit with us. We monitor the deposit rates offered by competition in our market area and set rates that take into account the prevailing market conditions along with our liquidity position. Moreover, we currently believe that the growth in assets is not expected to require significant in-flows of liquidity. As such, we do not expect to be a market leader in rates paid for liabilities. 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 may also be used on a longer-term basis to support increased lending or investment activities. At September 30, 2004, we had $46.1 million in Federal Home Loan Bank advances. Total borrowings as a percentage of total assets were 18.6% at September 30, 2004 compared to 21.06% at December 31, 2003.

As of September 30, 2004, 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 September 30, 2004, we had no material commitments for capital expenditures.

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

First Federal of Northern Michigan is subject to federal regulations that impose minimum capital requirements. For a discussion on these capital levels, see "Historical and Pro Forma Capital Compliance" on page 34 and "Supervision and Regulation-Federal Banking Regulation-Capital Requirements" on page 85. At September 30, 2004, we exceeded all applicable capital requirements.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

At September 30, 2004 and December 31, 2003, First Federal of Northern Michigan had $27.6 million and $35.9 million, respectively, of commitments to grant loans, $16.2 million and $11.5 million, respectively, of unfunded commitments under lines of credit and $0 and $45,000, respectively, of letters of credit. See Note 12 of the Notes to the Consolidated Financial Statements.

RECENT ACCOUNTING STANDARDS

In May 2003, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Such instruments may have been previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of this statement did not have a material effect on our reported equity.

In December 2003, the FASB issued a revision to Interpretation 46, "Consolidation of Variable Interest Entities," which established standards for identifying a variable interest entity ("VIE") and for determining under what circumstances a VIE should be consolidated with its primary beneficiary. Application of this Interpretation is required in financial statements of public entities that have interests in special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs is required in financial statements for periods ending after March 15, 2004. Small business issuers must apply this Interpretation to all other types of VIEs at the end of the first reporting period ending after December 15, 2004. The adoption of this Interpretation has not and is not expected to have a material effect on our financial position or results of operations.

In March 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 105, APPLICATION OF ACCOUNTING PRINCIPLES TO LOAN COMMITMENTS, which provides guidance regarding loan commitments that are accounted for as derivative instruments. In this SAB, the Securities and Exchange Commission determined that an interest rate lock commitment should generally be valued at zero at inception. The rate locks will continue to be adjusted for changes in value resulting from changes in market interest rates. We not anticipate this standard will have a material effect on our financial condition or results of operations.

On June 30, 2004, the FASB published an Exposure Draft, "Share-Based Payment," an Amendment of FASB Statements No. 123 and 95 (the "Exposure Draft"). The FASB is proposing, among other things, amendments to SFAS No. 123 and thus, the manner in which share-based compensation, such as stock options, will be accounted for by both public and non-public companies. For public companies, the cost of employee services received in exchange for equity instruments including options and restricted stock awards generally would be measured at fair value at the grant date. The grant-date fair value would be estimated using option-pricing models adjusted for the unique characteristics of those options and instruments, unless observable market prices for the same or similar options are available. The cost would be recognized over the requisite service period, often the vesting period. The cost of employee services received in exchange for liabilities would be measured initially at the fair value of the liabilities rather than the previously allowed intrinsic value under APB Opinion No. 25, Accounting for Stock Issued to Employees, and would be remeasured subsequently at each reporting date through settlement date.

The proposed changes in accounting would replace existing requirements under SFAS No. 123, "Accounting for Stock-Based Compensation," and would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, which did not require companies to expense options. Under the terms of the Exposure Draft, the accounting for similar transactions involving parties other than employees or the accounting for employee stock ownership plans that are subject to American Institute of Certified Public Accountants ("AICPA") Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," would remain unchanged.

The Exposure Draft provides that the proposed statement would be applied to public entities prospectively for fiscal years beginning after June 15, 2005, as if all share-based compensation awards vesting, granted, modified, or settled after December 15, 1994 had been accounted for using the fair value-based method of accounting.

The FASB has solicited comments on the Exposure Draft and is expected to issue the final statement in the fourth quarter of 2004.

BUSINESS OF ALPENA BANCSHARES, INC. AND FIRST FEDERAL OF NORTHERN MICHIGAN

ALPENA BANCSHARES, INC.

Alpena Bancshares, Inc. is a federally chartered corporation that owns all of the outstanding shares of common stock of First Federal of Northern Michigan. At September 30, 2004, Alpena Bancshares, Inc. had consolidated assets of $254.5 million, deposits of $182.4 million and stockholders' equity of $21.9 million. As of September 30, 2004, Alpena Bancshares, Inc. had 1,659,180 shares of common stock issued and outstanding. As of that date, Alpena Bancshares, M.H.C. owned 920,000 shares of common stock of Alpena Bancshares, Inc., representing 55.4% of the issued and outstanding shares of common stock. The remaining 739,180 shares of common stock were held by the public. Upon completion of the conversion and stock offering, First Federal of Northern Michigan Bancorp, Inc. will succeed to all of the business and operations of Alpena Bancshares, Inc. and Alpena Bancshares, Inc. will cease to exist.

FIRST FEDERAL OF NORTHERN MICHIGAN

First Federal of Northern Michigan is a full-service, community-oriented savings bank that provides financial services to individuals, families and businesses from ten full-service facilities located in Alpena, Antrim, Charlevoix, Cheboygan, Iosco, Otsego, Montmorency and Oscoda Counties, Michigan. First Federal of Northern Michigan has operated in Alpena since its chartering in 1957. First Federal of Northern Michigan reorganized into the mutual holding company structure in 1994. First Federal of Northern Michigan became the wholly owned subsidiary of Alpena Bancshares, Inc. in November 2000.

First Federal of Northern Michigan's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, commercial real estate loans, commercial business loans, consumer loans and in investment securities and mortgage-backed securities.

MARKET AREA AND COMPETITION

First Federal of Northern Michigan conducts operations through its main office in Alpena, Michigan, which is located in the northeastern lower peninsula of Michigan, and through its nine other branch offices in Michigan. The population of Alpena (city and township) is approximately 21,000, and the population of its primary market area, which includes Alpena County and seven surrounding counties, is approximately 154,000. Alpena is the largest city located in the northeastern lower peninsula of Michigan. This area has long been associated with agricultural, wood and concrete products. Tourism has also been a major industry in the primary market area. All of these industries tend to be seasonal and are strongly affected by state and national economic conditions. Therefore, unemployment rates in First Federal of Northern Michigan's primary market area are generally higher than state and national levels.

Major employers in First Federal of Northern Michigan's primary market area include various public schools and governmental agencies, Alpena Regional Medical Center, Besser Company (a manufacturer of concrete products equipment), Lafarge Corporation (a limestone mining and cement producer), Treetops Sylvan Resort (an operator of resort properties), Garland Resort (an operator of resort properties), Otsego Memorial Hospital, Community Memorial Hospital, Decorative Panels International

(a hardboard manufacturer), OMNI Metalcraft Corp. (a diversified manufacturer), Champion Fortune Corp. (a hardboard manufacturer), Great Lakes Tissue (a paper manufacturer) and various other small companies.

As of September 30, 2004, First Federal of Northern Michigan was the only thrift institution headquartered in its market area. First Federal of Northern Michigan encounters strong competition both in attracting deposits and in originating real estate and other loans. Its most direct competition for deposits has historically come from commercial banks, other savings institutions, and credit unions in its market area. Competition for loans comes from such financial institutions as well as mortgage banking companies. First Federal of Northern Michigan expects continued strong competition in the foreseeable future, including increased competition from "super-regional" banks entering the market by purchasing other savings institutions. Many such institutions have greater financial and marketing resources available to them than does First Federal of Northern Michigan. First Federal of Northern Michigan competes for savings deposits by offering depositors a high level of personal service and a wide range of competitively priced financial services. In recent years, additional strong competition has come from stock and bond dealers and brokers. First Federal of Northern Michigan competes for real estate loans primarily through the interest rates and loan fees it charges and through advertising. Competition for deposits and loans may limit First Federal of Northern Michigan's growth and adversely affect its profitability in the future.

LENDING ACTIVITIES

GENERAL. The principal component of our loan portfolio is mortgage loans secured by one- to four-family residential real estate. A majority of the fixed-rate conventional mortgage loans with 15-, 20- and 30-year terms secured by one-to four-family residential real estate that we originate is sold into the secondary mortgage market. A majority of the servicing of these mortgages is retained by us. To a lesser extent, we also originate commercial loans, commercial real estate loans and consumer loans. At September 30, 2004, our total loans were $188.9 million, of which $100.6 million, or 53.24%, were one-to four-family residential real estate mortgage loans, $26.5 million, or 14.00%, were commercial real estate loans, and $28.9 million, or 15.31%, were commercial loans. Other loans, consisting primarily of consumer loans, totaled $25.0 million, or 13.25% of our total loans.

ONE- TO FOUR-FAMILY RESIDENTIAL REAL ESTATE LENDING. Our primary lending activity consists of the origination of one- to four-family owner-occupied residential mortgage loans, virtually all of which are collateralized by properties located in our market area. We also originate one- to four-family loans that pay interest only during the initial construction period (which generally does not exceed twelve months) and then pay interest and principal for the remainder of the loan term. We generally sell all of our originated longer term (greater than 15 years) fixed-rate mortgages into the secondary mortgage market and retain a majority of the loan servicing on those mortgages. Most of the loans originated by us qualify for resale in the secondary mortgage market.

One- to four-family residential mortgage loans are underwritten and originated according to policies and guidelines established by the secondary mortgage market agencies and approved by our Board of Directors. We utilize existing liquidity, savings deposit growth, loan repayments, and Federal Home Loan Bank advances to meet demand for loans.

We currently offer fixed rate one- to four-family residential mortgage loans with terms ranging from 15 to 30 years. One- to four-family residential mortgage loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that our one- to four-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors. In recent years, the average maturity of our mortgage loans has decreased significantly due to the unprecedented

volume of refinancing activity. Accordingly, estimates of the average length of one- to four-family loans that remain outstanding cannot be made with any degree of certainty.

Originations of fixed rate mortgage loans are regularly monitored and are affected significantly by the level of market interest rates, our interest rate gap position, and loan products offered by our competitors. Our fixed rate mortgage loans amortize on a monthly basis with principal and interest due each month. To make our loan portfolio less interest rate sensitive, loans originated with terms greater than 15 years are generally underwritten to secondary mortgage market standards and sold. Balloon mortgage loans with five-year terms and adjustable rate mortgage loans are generally underwritten to secondary mortgage market standards, but are retained in our loan portfolio.

We originate some fixed-rate loans that are generally amortized over 15 years but that have "balloon payments" that are due upon the maturity of the loan in five years. Upon maturity, the balloon mortgage loans are either underwritten as fixed-rate loans and sold in the secondary mortgage market or renewed at current market rates for a consecutive five-year term. While the majority of our balloon mortgage loans amortize over 15 years, some amortize over 10 or 30 years, and a limited number amortize over 5 years.

Our one- to four-family residential mortgage loans customarily include due-on-sale clauses, which are provisions giving us the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the underlying real property serving as security for the loan. Due-on-sale clauses are an important means of adjusting the rates on our fixed-rate mortgage loan portfolio, and we have generally exercised our rights under these clauses.

Regulations limit the amount that a savings institution may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Such regulations permit a maximum loan-to-value ratio of 100% for residential property and 90% for all other real estate loans. Our lending policies limit the maximum loan-to-value ratio on fixed-rate loans without private mortgage insurance to 90% of the lesser of the appraised value or the purchase price of the property to serve as collateral for the loan.

We make one- to four-family real estate loans with loan-to-value ratios of up to 90%; however, for one- to four-family real estate loans with loan-to-value ratios of between 80% and 90%, we may require the loan amount to be covered by private mortgage insurance. We require fire and casualty insurance, flood insurance when applicable, as well as title insurance, on all properties securing real estate loans made by us.

COMMERCIAL REAL ESTATE LENDING. We also originate commercial real estate loans. At September 30, 2004, we had a total of 136 loans secured primarily by commercial real estate properties, unimproved vacant land and, to a limited extent, multifamily properties. Our commercial real estate loans are secured by income producing properties such as office buildings, retail buildings and motels. Substantially all of our commercial real estate loans are secured by properties located in our primary market area. We have originated commercial construction loans that are originated as permanent loans but are interest-only during the initial construction period which generally does not exceed nine months. At September 30, 2004, our commercial real estate loans totaled $26.5 million, or 14.00% of our total loans, and had an average principal balance of $218,000. Our largest commercial real estate loan had a principal balance of $3.1 million. The terms of each loan are negotiated on a case-by-case basis, although such loans typically amortize over 15 years and have a three- or five-year balloon feature. An origination fee of 0.5% to 1.0% is generally charged on commercial real estate loans. We generally make commercial real estate loans up to 75% of the appraised value of the property securing the loan.

Commercial real estate loans generally carry higher interest rates and have shorter terms than those on one- to four-family residential mortgage loans. However, loans secured by commercial real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the business or the related real estate property. If the cash flow from the business operation is reduced, the borrower's ability to repay the loan may be impaired.

CONSUMER AND OTHER LOANS. We originate a variety of consumer and other loans, including loans secured by savings accounts, new and used automobiles, mobile homes, boats, recreational vehicles, and other personal property. As of September 30, 2004, consumer and other loans totaled $25.0 million, or 13.25% of our total loan portfolio. At such date, $876,000, or 3.5% of our consumer loans, were unsecured. As of September 30, 2004, home equity loans totaled $9.2 million, or 4.9% of our total loan portfolio, and automobile loans totaled $4.5 million, or 2.3% of our total loan portfolio. We originate automobile loans directly to our customers and have no outstanding agreements with automobile dealerships to generate indirect loans.

Our procedures for underwriting consumer loans include an assessment of an applicant's credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral security, if any, to the proposed loan amount.

Consumer loans generally entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that tend to depreciate rapidly, such as automobiles, mobile homes, boats and recreational vehicles. In addition, the repayment of consumer loans depends on the borrower's continued financial stability, as repayment is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy than a single family mortgage loan.

COMMERCIAL LOANS. At September 30, 2004, we had $28.9 million in commercial loans which amounted to 15.31% of total loans. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small businesses. Commercial lending products include term loans and revolving lines of credit. The maximum amount of a commercial business loan is our loans-to-one-borrower limit, which was $2.9 million at September 30, 2004. Such loans are generally used for longer-term working capital purposes such as purchasing equipment or furniture. Commercial loans are made with either adjustable or fixed rates of interest. Variable rates are generally based on the prime rate, as published in THE WALL STREET JOURNAL, plus a margin. Fixed rate commercial loans are set at a margin above the Federal Home Loan Bank comparable advance rate.

When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral. Commercial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 75% of the value of the collateral securing the loan. We generally do not make unsecured commercial loans.

Commercial loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose

value tends to be more easily ascertainable, commercial loans generally are made on the basis of the borrower's ability to repay the loan from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We seek to minimize these risks through our underwriting standards. At September 30, 2004, our largest commercial loan was a $1.0 million loan for the borrower's working capital purposes secured by fixed assets located in our primary market area. This loan was performing according to its repayment terms at September 30, 2004.

CONSTRUCTION LOANS. We originate construction loans to local home builders in our market area, generally with whom we have an established relationship, and to individuals engaged in the construction of their residence. Our construction loans totaled $7.9 million, or 4.20% of our total loan portfolio, at September 30, 2004. To a lesser extent, we also originate commercial construction loans.

Our construction loans to home builders are repaid on an interest-only basis for the term of the loan (which is generally six to 12 months), with interest calculated on the amount disbursed to the builders based upon a percentage of completion of construction. These loans have a maximum loan-to-value ratio of 80%, based on the appraised value. Interest rates are fixed during the construction phase of the loan. Loans to builders are made on either a pre-sold or speculative (unsold) basis. Construction loans to individuals who intend to occupy the completed dwelling are terminated and replaced with a new permanent loan at the end of the construction period. The permanent loans are generally originated pursuant to the same policy guidelines regarding loan-to-value ratios and interest rates that are used in connection with loans secured by one- to four-family residential real estate. Prior to funding a construction loan, we require an appraisal of the property from a qualified appraiser approved by us, and all appraisals are reviewed by us.

Construction lending exposes us to greater credit risk than permanent mortgage financing because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. If the estimate of construction costs is inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion is inaccurate, the value of the property may be insufficient to assure full repayment. Projects also may be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the repayment of the loan depends on the builder's ability to sell the property prior to the time that the construction loan is due. We have attempted to minimize these risks by, among other things, limiting our construction lending primarily to residential properties in our market area and generally requiring personal guarantees from the principals of corporate borrowers.

LOAN PORTFOLIO COMPOSITION. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated.

	AT SEPTEMBER 30, 2004		AT DECEMBER 31, 2003		AT DECEMBER 31, 2002	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)					
Real estate loans:						
Residential mortgage.....	$ 100,565	53.24%	$ 95,748	57.88%	$ 102,449	67.05%
Commercial mortgage......	26,452	14.00%	29,452	17.80%	20,369	13.33%
Construction.............	7,932	4.20%	5,907	3.57%	2,946	1.93%
Non real estate loans						
Commercial...............	28,919	15.31%	13,397	8.10%	7,454	4.88%
Consumer and other loans.	25,039	13.25%	20,923	12.65%	19,587	12.82%
Total loans................	$ 188,907	100.00%	$ 165,427	100.00%	$ 152,805	100.00%
Other items:						
Unadvanced construction loans......................	--		--		--	
Deferred loan origination costs......................	--		--		--	
Deferred loan origination fees.......................	--		--		--	
Allowance for loan losses...	(1,152)		(1,036)		(922)	
Total loans, net...........	$ 187,755		$ 164,391		$ 151,883	

(CONTINUED)

	AT DECEMBER 31,					
	2001		2000		1999	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)					
Real estate loans:						
Residential mortgage.....	$ 134,344	75.17%	$ 175,646	79.67%	$ 194,139	86.55%
Commercial mortgage......	14,152	7.92%	10,681	4.84%	8,969	4.00%
Construction.............	3,036	1.70%	3,930	1.78%	--	0.00%
Non real estate loans						
Commercial...............	6,022	3.37%	1,410	0.64%	--	0.00%
Consumer and other loans.	21,172	11.85%	28,789	13.06%	21,206	9.45%
Total loans................	$ 178,726	100.00%	$ 220,456	100.00%	$ 224,314	100.00%
Other items:						
Unadvanced construction loans......................	--		--		--	
Deferred loan origination costs......................	--		--		--	
Deferred loan origination fees.......................	--		--		--	
Allowance for loan losses...	(689)		(649)		(488)	
Total loans, net...........	$ 178,037		$ 219,807		$ 223,866	

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LOAN PORTFOLIO MATURITIES AND YIELDS. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2003. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	RESIDENTIAL MORTGAGE		COMMERCIAL MORTGAGE		CONSTRUCTION	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTE AVERAGE RATE
	(DOLLARS IN THOUSANDS)					
Due During the Years ENDING DECEMBER 31,						
2004..................	$ 10,402	5.624%	$ 310	5.000%	$ 3,165	5.79
2005..................	8,332	6.132%	2,391	5.555%	4,767	4.91
2006..................	4,872	6.253%	2,128	5.632%	--	0.00
2007 to 2008..........	24,452	6.082%	11,162	6.162%	--	0.00
2009 to 2013..........	16,046	6.196%	9,687	6.040%	--	0.00
2014 to 2018..........	5,598	6.576%	236	7.183%	--	0.00

2018 and beyond........	30,863	6.085%	538	7.216%	--	0.00
Total.........	$ 100,565	6.094%	$ 26,452		$ 7,932	5.26

(CONTINUED)

	COMMERCIAL		CONSUMER AND OTHER		TOTAL	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTE AVERAGE RATE
			(DOLLARS IN THOUSANDS)			
Due During the Years ENDING DECEMBER 31,						
2004...................	$ 5,298	5.915%	$ 761	7.632%	$ 19,936	5.79
2005...................	9,073	4.617%	524	8.612%	25,087	5.35
2006...................	1,976	7.500%	1,189	8.403%	10,165	6.61
2007 to 2008...........	10,131	5.987%	9,173	6.118%	54,918	6.08
2009 to 2013...........	2,141	5.876%	8,547	6.350%	36,421	6.17
2014 to 2018...........	--	0.000%	3,052	7.523%	8,886	7.08
2018 and beyond........	299	5.000%	1,794	7.230%	33,494	6.11
Total.........	$ 28,918	5.629%	$ 25,040	6.655%	$ 188,907	6.05

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2003 that are contractually due after December 31, 2004.

	DUE AFTER DECEMBER 31, 2004		
	FIXED	ADJUSTABLE	TOTAL
		(IN THOUSANDS)	
Residential mortgage................	$ 76,348	$ 13,815	$ 90,163
Commercial mortgage.................	26,142	--	26,142
Construction........................	7,932	--	7,932
Commercial..........................	13,395	10,226	23,621
Consumer and other..................	24,279	--	24,279
Total loans................	$ 148,096	$ 24,041	$ 172,137

LOAN ORIGINATIONS, PURCHASES, SALES AND SERVICING. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed- versus adjustable-rate loans, and the interest rates offered on each type of loan by other lenders in our market area. These lenders include competing banks, savings banks, credit unions, mortgage banking companies and life insurance companies that may also actively compete for local commercial real estate loans. Loan originations are derived from a number of sources, including real estate agent referrals, existing customers, borrowers, builders, attorneys, our directors and walk-in customers. Upon receiving a loan application, we obtain a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, we obtain a determination of value of the real estate intended to collateralize the proposed loan. Our lending limits vary by officer experience but range from $50,000 to $333,700. The loan committee must approve any loan from $333,701 up to $400,000, and any loan request over $400,000 must be approved by our Board of Directors. Consumer lending limits by officer range from $15,000 to $200,000. For secured commercial loans, the limit ranges from $150,000 to $400,000.

A commercial commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. Commitments are typically issued for 15-day periods. The borrower must provide proof of fire and casualty insurance on the property serving as collateral, which insurance must be maintained during the full term of the loan. A title insurance policy is required on all real estate loans. At September 30, 2004, we had outstanding loan commitments of $43.8 million, including unfunded commitments under lines of credit and commercial and standby letters of credit.

Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand, while declining interest rates may stimulate increased loan demand. Accordingly, the volume of loan originations, the mix of fixed- and adjustable-rate loans, and the profitability of this activity can vary from period to period. One- to four-family residential mortgage loans are generally underwritten to current Freddie Mac seller/servicer guidelines, and closed on standard Freddie Mac documents. If such loans are sold, the sales are conducted using standard Freddie Mac purchase contracts and master commitments as applicable. All one- to four-family mortgage loans that we have sold to Freddie Mac have been sold on a non-recourse basis, whereby foreclosure losses are generally the responsibility of the purchaser and not First Federal of Northern Michigan.

We are a qualified loan servicer for Freddie Mac. Our policy has been to retain the servicing rights for all conforming loans sold, and to continue to collect payments on the loans, maintain tax escrows and applicable fire and flood insurance coverage, and supervise foreclosure proceedings if necessary. We retain a portion of the interest paid by the borrower on the loans as consideration for our servicing activities.

We require appraisals of real property securing loans. Appraisals are performed by independent appraisers, who are approved by our Board of Directors annually. We require fire and extended coverage insurance in amounts adequate to protect our principal balance. Where appropriate, flood insurance is also required. Private mortgage insurance is required for all residential mortgage loans with loan-to-value ratios greater than 80%.

LOAN ORIGINATION FEES AND COSTS. In addition to interest earned on loans, we generally receive fees in connection with loan originations. Such loan origination fees, net of costs to originate, are deferred and amortized using an interest method over the contractual life of the loan. Fees deferred are recognized into income immediately upon prepayment or subsequent sale of the related loan. At

September 30, 2004, we had $314,000 of net deferred loan origination fees. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money. In addition to loan origination fees, we also generate other income through the sales and servicing of mortgage loans, late charges on loans, and fees and charges related to deposit accounts. We recognized fees and service charges of $749,000, $802,000 and $818,000 for the nine months ended September 30, 2004 and the years ended December 31, 2003 and 2002, respectively.

To the extent that originated loans are sold with servicing retained, we capitalize a mortgage servicing asset at the time of the sale in accordance with applicable accounting standards (Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"). The capitalized amount is amortized thereafter (over the period of estimated net servicing income) as a reduction of servicing fee income. The unamortized amount is fully charged to income when loans are prepaid. Originated mortgage servicing rights with an amortized cost of $898,152 were included in other assets at September 30, 2004.

DELINQUENT LOANS, OTHER REAL ESTATE OWNED AND CLASSIFIED ASSETS

COLLECTION PROCEDURES. Our general collection procedures provide that when a mortgage, consumer or commercial loan is 16 days past due, a computer-generated late charge notice is sent to the borrower requesting payment. If delinquency continues, a second delinquent notice is mailed when the loan continues past due for 30 days. If a loan becomes 60 days past due, the loan becomes subject to possible legal action. We will generally send a "due and payable" letter upon a loan becoming 60 days delinquent. This letter grants the mortgagor 30 days to bring the account paid to date prior to the start of any legal action. If not paid, foreclosure proceedings are initiated after this 30-day period. To the extent required by regulations of the Department of Housing and Urban Development ("HUD"), generally within 45 days of delinquency, a Section 160 HUD notice is given to the borrower which provides access to consumer counseling services. General collection procedures may vary with particular circumstances on a loan by loan basis. Also, collection procedures for Freddie Mac serviced loans follow the Freddie Mac guidelines which are different from our general procedures.

LOANS PAST DUE AND NON-PERFORMING ASSETS. Loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collection of additional interest is doubtful or when extraordinary efforts are required to collect the debt. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income.

Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is deemed real estate owned ("REO") until such time as it is sold. In general, we consider collateral for a loan to be "in-substance" foreclosed if: (i) the borrower has little or no equity in the collateral; (ii) proceeds for repayment of the loan can be expected to come only from the operation or sale of the collateral; and (iii) the borrower has either formally or effectively abandoned control of the collateral, or retained control of the collateral but is unlikely to be able to rebuild equity in the collateral or otherwise repay the loan in the foreseeable future. Cash flow attributable to in-substance foreclosures is used to reduce the carrying value of the collateral.

When collateral, other than real estate, securing commercial and consumer loans is acquired as a result of delinquency or other reasons, it is classified as Other Repossessed Assets ("ORA") and recorded at the lower of cost or fair market value until it is disposed of.

When collateral is acquired or otherwise deemed REO/ORA, it is recorded at the lower of the unpaid principal balance of the related loan or its estimated net realizable value. This write down is

recorded against the allowance for loan losses. Periodic future valuations are performed by management, and any subsequent decline in fair value is charged to operations. At September 30, 2004, we held no properties that were classified REO/ORA.

The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	LOANS DELINQUENT FOR				
	60-89 DAYS		90 DAYS AND OVER		
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMB
			(DOLLARS IN THOUSANDS)		
AT SEPTEMBER 30, 2004					
Residential mortgage.......	10	$ 522	16	$ 910	
Commercial mortgage........	--	--	3	256	
Construction...............	--	--	--	--	
Commercial.................	3	2	--	--	
Consumer and other.........	21	84	18	132	
Total....................	34	$ 608	37	$ 1,298	
AT DECEMBER 31, 2003					
Residential mortgage.......	23	$ 1,248	10	$ 617	
Commercial mortgage........	--	--	1	77	
Construction...............	1	43	--	--	
Commercial.................	3	221	--	--	
Consumer and other.........	12	90	11	134	
Total....................	39	$ 1,602	22	$ 828	
AT DECEMBER 31, 2002					
Residential mortgage.......	31	$ 1,411	10	$ 566	
Commercial mortgage........	--	--	--	--	
Construction...............	--	--	--	--	
Commercial.................	3	123	2	152	
Consumer and other.........	21	1,090	12	89	
Total....................	55	$ 2,624	24	$ 807	

NON-PERFORMING ASSETS. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At each date presented, we had no troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

	AT SEPTEMBER 30, 2004	AT DECEMBER 31, 2003	2002	2001	2000
			(DOLLARS IN THOUSANDS)		
Non-accrual loans:					
Residential mortgage..........	$ 23	$ 245	$ 366	$ --	$
Commercial mortgage...........	--	1040	--	--	
Construction..................	--	--	--	--	
Commercial....................	441	--	30	--	
Consumer and other............	16	6	261	--	
Total non-performing loans...	$ 480	$ 1,291	$ 627	$ --	$
Loans greater than 90 days delinquent and still accruing:					
Residential mortgage..........	$ 910	$ 617	$ 566	$ 475	$ 4
Commercial mortgage...........	256	77	--	--	
Construction..................	--	--	--	--	
Commercial....................	--	--	152	--	
Consumer and other............	132	134	89	201	1
Total loans 90 days and still accruing...................	$ 1,298	$ 828	$ 807	$ 676	$ 7
Total non-performing loans...	$ 1,778	$ 2,119	$ 1,469	$ 676	$ 7
Real estate owned:					
Residential mortgage..........	$ --	$ 199	$ 101	$ 167	$ 1
Commercial mortgage...........	--	--	--	--	
Construction..................	--	--	--	--	
Commercial....................	--	--	--	--	
Consumer and other............	1	--	27	30	
Total real estate owned......	1	199	128	197	1
Total non-performing assets.......	$ 1,779	$ 2,318	$ 1,562	$ 873	$ 8
Ratios:					
Non-performing loans to total loans........................	0.94%	1.28%	0.94%	0.38%	0.
Non-performing assets to total assets.......................	0.70%	1.04%	0.68%	0.36%	0.

For the nine months ended September 30, 2004 and the year ended December 31, 2003, gross interest income that would have been recorded had the non-accrual loans at the end of the period remained on accrual status throughout the period amounted to $62,000 and $181,000, respectively.

CLASSIFICATION OF ASSETS. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets such as debt and equity securities considered by the Office of Thrift Supervision to be of lesser quality as "substandard," "doubtful," or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated "special

mention" by management. Loans designated as special mention are generally loans that, while current in required payments, have exhibited some potential weaknesses that, if not corrected, could increase the level of risk in the future.

When we classify assets as either substandard or doubtful, we allocate a portion of the related general loss allowances to such assets as deemed prudent by management. The allowance for loan losses represents amounts that have been established to recognize losses inherent in the loan portfolio that are both probable and reasonably estimable at the date of the financial statements. When we classify problem assets as loss, we charge-off such amount. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our regulatory agencies, which can order the establishment of additional loss allowances. Management regularly reviews our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets at December 31, 2003, classified assets consisted of substandard assets of $1.4 million, doubtful assets of $105,000 and no assets classified as loss.

Our investment in our subsidiary Financial Services & Mortgage Corporation (FSMC) of $400,000 at September 30, 2004 and $500,000 at December 31, 2003 was classified as substandard due to slower than expected sales of building lots and condominium units in FSMC's land development project. This project (Wyndham Garden Estates) is an upscale condominium community comprised of 25 single-family building lots and 18 planned building units. Management believes this is a viable project with development and sales ongoing. At September 30, 2004, we had a recorded lower of cost or market value adjustment of $121,000 for this development. All 25 lots are developed, of which sixteen lots have been sold. There are 16 constructed building units all of which are sold.

ALLOWANCE FOR LOAN LOSSES. We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in management's judgment, deserve current recognition in estimating probable losses. Management regularly reviews the loan portfolio and makes provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America. The allowance for loan losses consists of amounts specifically allocated to non-performing loans and other criticized or classified loans (if any) as well as general allowances determined for each major loan category. Commercial loans and loans secured by commercial real estate are evaluated individually for impairment. Other smaller-balance, homogeneous loan types, including loans secured by one- to four-family residential real estate and consumer installment loans, are evaluated for impairment on a collective basis. After we establish a provision for loans that are known to be non-performing, criticized or classified, we calculate percentage loss factors to apply to the remaining categories within the loan portfolio to estimate probable losses inherent in these categories of the portfolio. When the loan portfolio increases, therefore, the percentage calculation results in a higher dollar amount of estimated probable losses than would be the case without the increase, and when the loan portfolio decreases, the percentage calculation results in a lower dollar amount of estimated probable losses than would be the case without the decrease. These percentage loss factors are determined by management based on our historical loss experience and credit concentrations for the applicable loan category, which may be adjusted to reflect our evaluation of levels of, and trends in, delinquent and non-accrual loans, trends in volume and terms of loans, and local economic trends and conditions.

We consider commercial and commercial real estate loans and construction loans to be riskier than one- to four-family residential mortgage loans. Commercial and commercial real estate loans have greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful

operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Construction loans have greater credit risk than permanent mortgage financing because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. If the estimate of construction costs is inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion is inaccurate, the value of the property may be insufficient to assure full repayment. Projects also may be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the repayment of the loan depends on the builder's ability to sell the property prior to the time that the construction loan is due. The increased risk characteristics associated with commercial real estate and land loans and construction loans are considered by management in the evaluation of the allowance for loan losses and generally result in a larger loss factor applied to these segments of the loan portfolio in developing an estimate of the required allowance for loan losses.

We intend to increase our originations of commercial and commercial real estate loans, and we intend to retain these loans in our portfolio. Because these loans entail significant additional credit risks compared to one- to four-family residential mortgage loans, an increase in our origination (and retention in our portfolio) of these types of loans would, in the absence of other offsetting factors, require us to make additional provisions for loan losses.

The carrying value of loans is periodically evaluated and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, our regulatory agencies periodically review the allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	AT OR FOR THE NINE MONTHS ENDED SEPTEMBER 30,		AT OR FOR THE YEARS ENDED DECE			
	2004	2003	2003	2002	2001	20
			(DOLLARS IN THOUSANDS)			
Balance at beginning of period..	$ 1,036	$ 922	$ 922	$ 689	$ 649	$
Charge-offs:						
Residential mortgage.........	12	--	28	36	52	
Commercial mortgage..........	--	--	--	8	--	
Construction................	--	--	--	--	--	
Commercial...................	--	--	--	--	--	
Consumer and other...........	123	180	187	190	237	
Total charge-offs..........	135	180	215	234	289	
Recoveries:						
Residential mortgage.........	--	--	--	--	8	
Commercial mortgage..........	--	--	--	--	--	
Construction................	--	--	--	--	--	
Commercial...................	--	--	--	--	--	
Consumer and other...........	37	51	62	52	66	
Total recoveries...........	37	51	62	52	74	
Net (charge-offs) recoveries....	98	128	153	182	215	
Provision for loan losses.......	214	238	267	415	255	
Balance at end of year.........	$ 1,152	$ 1,031	$ 1,036	$ 922	$ 689	$
Ratios:						
Net charge-offs to average loans outstanding (annualized).............	0.07%	0.11%	0.10%	0.12%	0.11%	
Allowance for loan losses to non-performing loans at end of period......................	64.79%	51.19%	48.89%	62.76%	101.92%	9
Allowance for loan losses to						

total loans at end of period....................	0.61%	0.63%	0.63%	0.61%	0.39%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category (including loans held for sale), and the percent of loans in each category to total loans at the dates indicated. The allowances include both specific and general allowances within each category. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	AT SEPTEMBER 30, 2004			AT DECEMBER 2003	
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES CATEGOR
			(DOLLARS IN THOUSANDS)		
Residential mortgage..	$ 138	$ 100,565	53.24%	$ 151	$ 95
Commercial and commercial mortgage..	558	55,371	29.31%	515	42
Construction..........	--	7,932	4.20%	--	5
Consumer and other....	456	25,039	13.25%	370	20
Unallocated...........	--	--	0.00%	--	
Total.................	$ 1,152	$ 188,907	100.00%	$ 1,036	$ 165

(CONTINUED)

	AT DECEMBER 31, 2002		
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(DOLLARS IN THOUSANDS)		
Residential mortgage..	$ 227	$ 102,449	67.05%
Commercial and commercial mortgage..	448	27,823	18.21%
Construction..........	--	2,946	1.93%
Consumer and other....	247	19,587	12.82%
Unallocated...........	--	--	0.00%

Total.................	$ 922	$ 152,805	100.00%

	AT DECEMBER 31,				
	2001			2000	
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES CATEGOR
	(DOLLARS IN THOUSANDS)				
Residential mortgage..	$ 149	$ 134,344	75.17%	$ 163	$ 175
Commercial and commercial mortgage..	366	20,174	11.29%	105	12
Construction..........	--	3,036	1.70%	--	3
Consumer and other....	22	21,172	11.85%	304	28
Unallocated...........	152	--	0.00%	77	
Total.................	$ 689	$ 178,726	100.00%	$ 649	$ 220

(CONTINUED)

	AT DECEMBER 31,		
	1999		
	ALLOWANCE FOR LOAN LOSSES	LOAN BALANCES BY CATEGORY	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(DOLLARS IN THOUSANDS)		
Residential mortgage..	$ 241	$ 194,139	86.55%
Commercial and commercial mortgage..	33	8,969	4.00%
Construction..........	--	--	0.00%
Consumer and other....	158	21,206	9.45%
Unallocated...........	16	--	0.00%
Total.................	$ 448	$ 224,314	100.00%

INVESTMENT ACTIVITIES

Our investment securities portfolio comprises U.S. Government and state agency obligations and municipal obligations, mortgage-backed securities, Federal Home Loan Bank stock, and other investments. At September 30, 2004, we had no investments in unrated securities. At September 30, 2004, $34.7 million, or 81.4% of our investment portfolio was scheduled to mature in less than five years, and $8.0 million, or 18.6%, was scheduled to mature in over five years. At September 30, 2004, $3.8 million, or 8.9% of our investment portfolio is scheduled to mature in less than one year.

At September 30, 2004, we held U.S. Government and state agency obligations and municipal obligations classified as available-for-sale, with a fair market value of $34.3 million. While these securities generally provide lower yields than other investments such as mortgage-backed securities, our current investment strategy is to maintain investments in such instruments to the extent appropriate for liquidity purposes, as collateral for borrowings, and for prepayment protection.

We invest in mortgage-backed securities in order to generate positive interest rate spreads with minimal administrative expense; lower credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and Ginnie Mae; supplement local loan originations; reduce interest rate risk exposure; and increase liquidity. Our mortgage-backed securities portfolio consists of pass-through certificates. At September 30, 2004, mortgage-backed securities totaled $8.4 million, or 3.3% of total assets. At September 30, 2004, 66.2% of our mortgage-backed securities were secured by balloon loans. All of our pass-through certificates are insured or guaranteed by Freddie Mac, Ginnie Mae or Fannie Mae. Our policy is to hold mortgage-backed securities as available for sale.

We have interests in pools of single-family mortgages in which the principal and interest payments are passed from the mortgage originators, through intermediaries (generally quasi-governmental agencies) that pool and repackage loans and sell the participation interest in the form of securities, to investors such as us. These quasi-governmental agencies include Freddie Mac, GNMA, or FNMA. The underlying pool of mortgages can be composed of either fixed-rate mortgage loans or adjustable-rate mortgage loans. The interest rate risk characteristics of the underlying pool of mortgages, I.E., fixed-rate or adjustable rate, are shared by the investors in that pool.

We are required under federal regulations to maintain a minimum amount of liquid assets that may be invested in specified short term securities and certain other investments. We generally have maintained a portfolio of liquid assets that exceeds regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future, as well as management's projections as to the short term demand for funds to be used in our loan origination and other activities.

SFAS No. 115 requires that, at the time of purchase, we designate a security as held to maturity, available for sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value. As of September 30, 2004, all of our investment securities were designated as available for sale except for a $1.8 million state municipal bond investment designated as held to maturity.

INVESTMENT SECURITIES PORTFOLIO. The following table sets forth the composition of our investment securities portfolio at the dates indicated.

	AT SEPTEMBER 30, 2004		AT DECEMBER 2003		2002	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAI
				(IN THOUSANDS)		
DEBT SECURITIES:						
U.S. Government and agency obligations.......	$ 27,991	$ 28,100	$ 16,700	$ 17,067	$ 30,940	$
State agency and municipal obligations....	6,232	6,233	3,900	3,960	3,171	
Corporate bonds and other obligations.............	--	--	6,163	6,148	4,488	
MORTGAGE-BACKED SECURITIES:						
Fannie Mae..................	884	857	982	942	1,896	
Freddie Mac.................	4,976	4,925	5,940	5,855	4,098	
Ginnie Mae..................	2,592	2,598	520	537	713	
Total debt securities......	42,675	42,713	34,205	34,509	45,305	
MARKETABLE EQUITY SECURITIES:						
Common stock..............	2	167	17	161	21	
Total equity securities..............	2	167	17	161	21	
Total investment securities...............	$ 42,677	$ 42,880	$ 34,222	$ 34,669	$ 45,326	$

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PORTFOLIO MATURITIES AND YIELDS. The composition and maturities of the investment securities portfolio at September 30, 2004 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	MORE THAN FI THROUGH TE

	AMORTIZED COST	WEIGHTED AVERAGE YIELD	AMORTIZED COST	WEIGHTED AVERAGE YIELD	AMORTIZED COST
			(DOLLARS IN THOUSANDS)		
DEBT SECURITIES:					
U.S. Government and agency securities....................	$ 3,534	4.89%	$ 24,457	3.89%	$ --
State agency and municipal obligations..................	255	5.72%	4,302	3.51%	250
Corporate bonds and other obligations..................	--	0.00%	--	0.00%	--
Mortgage-backed securities:					
Fannie Mae..................	--	0.00%	--	0.00%	884
Freddie Mac.................	--	0.00%	2,178	3.65%	2,759
Ginnie Mae..................	--	0.00%	--	0.00%	--
Total debt securities...........	3,789		30,937		3,893
MARKETABLE EQUITY SECURITIES:					
Common stock....................	--	0.00%	--	0.00%	--
Total investment securities.....	$ 3,789		$ 30,937		$ 3,893

(CONTINUED)

	MORE THAN TEN YEARS		TOTAL SECURITIES		
	AMORTIZED COST	WEIGHTED AVERAGE YIELD	AMORTIZED COST	FAIR VALUE	WEIGHTED AVERAGE YIELD
			(DOLLARS IN THOUSANDS)		
DEBT SECURITIES:					
U.S. Government and agency securities....................	$ --	0.00%	$ 27,991	$ 28,100	4.01%
State agency and municipal obligations..................	1,425	4.70%	6,232	6,233	3.87%
Corporate bonds and other obligations..................	--	0.00%	--	--	0.00%
Mortgage-backed securities:					
Fannie Mae..................	--	0.00%	884	857	3.50%
Freddie Mac.................	39	2.75%	4,976	4,925	3.75%
Ginnie Mae..................	2,592	3.60%	2,592	2,598	3.60%
Total debt securities...........	4,056		42,675	42,713	

MARKETABLE EQUITY SECURITIES:					
Common stock....................	2	0.00%	2	167	0.00%
Total investment securities.....	$ 4,058		$ 42,677	$ 42,880	

SOURCES OF FUNDS

GENERAL. Our deposit-gathering activities are currently conducted from our ten full-service offices in Alpena, Ossineke, Mio, Cheboygan, Oscoda, Lewiston, Mancelona, Alanson and Gaylord. Deposits are the major source of our funds for lending and other investment purposes. In addition to deposits, we derive funds from borrowings, proceeds from the settlement of loan sales, the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities, and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings are used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes. We currently are managing liquidity levels and loan funding primarily through secondary mortgage market sales.

DEPOSITS. Deposits are attracted principally from within our market area through the offering of a broad selection of deposit instruments including NOW accounts, regular savings, money market deposits, term certificate accounts and individual retirement accounts. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. The maximum rate of interest which we must pay is not established by regulatory authority. The asset / liability committee regularly evaluates our internal cost of funds, surveys rates offered by competing institutions, reviews the cash flow requirements for lending and liquidity, and executes rate changes when deemed appropriate. We have sought to decrease the risk associated with changes in interest rates by offering competitive rates on some deposit accounts and by pricing certificates of deposit to provide customers with incentives to choose certificates of deposit with longer terms. We also attract non-interest bearing commercial deposit accounts from our commercial borrowers and offer a competitive sweep product that is not insured by the FDIC. In recent periods, we generally have not obtained funds through brokers or through a solicitation of funds outside our market area. However, at September 30, 2004, we had $1.6 million in brokered deposits. We offer a limited amount of certificates of deposit in excess of $100,000 which may have negotiated rates. Future liquidity needs are expected to be satisfied through the use of Federal Home Loan Bank borrowings as necessary. Management does not generally plan on paying above market rates on deposit products.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	AT SEPTEMBER 30,	AT DECEMBER 31,
	2004	2003

	BALANCE	PERCENT	WEIGHTED AVERAGE RATE	BALANCE	PERCENT	WEIGHTED AVERAGE RATE
			(DOLLARS IN THOUSANDS)			
DEPOSIT TYPE:						
Demand deposits.........	$ 11,664	6.36%	0.00%	$ 7,282	4.80%	0.00%
NOW deposits............	17,225	9.88%	0.33%	13,596	8.96%	0.35%
Money market deposits...	16,641	9.08%	1.62%	11,613	7.66%	1.22%
Regular savings.........	28,082	15.32%	0.14%	28,838	19.01%	0.34%
Total transaction accounts...........	73,612	40.64%		61,328	40.43%	
Certificates of deposit............	108,816	59.36%	3.31%	90,374	59.57%	3.36%
Total deposits.......	$ 182,428	100.00%		$ 151,702	100.00%	

	AT DECEMBER 31,					
	2002			2001		
	BALANCE	PERCENT	WEIGHTED AVERAGE RATE	BALANCE	PERCENT	WEIGHTED AVERAGE RATE
			(DOLLARS IN THOUSANDS)			
DEPOSIT TYPE:						
Demand deposits........	$ 5,418	3.47%	0.00%	$ 3,422	2.06%	0.00%
NOW deposits...........	14,651	9.39%	0.84%	14,390	8.64%	1.12%
Money market deposits..	8,464	5.42%	1.20%	7,736	4.65%	1.74%
Regular savings........	32,198	20.62%	0.54%	30,922	18.57%	2.48%
Total transaction accounts..........	60,371	38.90%		56,470	33.92%	
Certificates of deposit...........	95,361	61.10%	4.87%	110,068	66.08%	6.29%
Total deposits......	$ 156,092	100.00%		$ 166,538	100.00%	

The following table sets forth the time deposits in the Bank classified by interest rate as of the dates indicated.

AT SEPTEMBER	AT DECEMBER 31,

	30, 2004	2003	2002	2001
		(IN THOUSANDS)		
INTEREST RATE				
Less than 2%...	$ 28,132	$ 26,192	$ 19,670	$ 2,399
2.00% -2.99%...	21,623	14,384	11,537	6,729
3.00% -3.99%...	29,463	15,349	11,111	21,037
4.00% -4.99%...	12,090	12,498	13,576	10,555
5.00% -6.99%...	14,769	18,768	34,394	62,037
7.00% - 8.99%..	2,739	3,183	5,073	7,311
Total..........	$ 108,816	$ 90,374	$ 95,361	$ 110,068

The following table sets forth the amount and maturities of time deposits at September 30, 2004.

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2006	SEPTEMBER 30, 2007	SEPTEMBER 30, 2008	SEPTEMBER 30, 2009	AFTE SEPTEM 30, 2
INTEREST RATE						
Less than 2%...	$ 22,139	$ 5,883	$ 110	$ --	$ --	$
2.00% -2.99%...	4,417	15,049	721	729	512	
3.00% -3.99%...	2,037	10,639	9,520	7,086	2	
4.00% -4.99%...	1,984	7,518	2,247	30	23	
5.00% -5.99%...	1,118	2,269	220	--	1,361	
6.00% -6.99%...	3,768	1,489	425	904	221	2
7.00%- 8.99%...	1,223	100	135	2	--	1
Total..........	$ 36,686	$ 42,947	$ 13,378	$ 8,751	$ 2,119	$ 4

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As of September 30, 2004, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $27.3 million. The following table sets forth the maturity of those certificates as of September 30, 2004.

	AT SEPTEMBER 30, 2004
	(IN THOUSANDS)
Three months or less................	$ 4,840
Over three months through six months	1,854
Over six months through one year....	1,557
Over one year to three years........	13,268
Over three years....................	5,819
Total.............................	$ 27,338

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BORROWINGS. Our borrowings consist primarily of advances from the Federal Home Loan Bank. At September 30, 2004, we had access to additional Federal Home Loan Bank advances of up to $20.5 million. The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances at the dates and for the periods indicated.

	AT OR FOR THE NINE MONTHS ENDED SEPTEMBER 30,		AT OR FOR THE YEARS	
	2004	2003	2003	20
		(DOLLARS IN THOUSANDS)		
Balance at end of period (1)...........	$ 47,303	$ 53,771	$ 47,159	$
Average balance during period..........	$ 58,570	$ 50,604	$ 49,594	$
Maximum outstanding at any month end...	$ 60,802	$ 52,414	$ 49,802	$
Weighted average interest rate at end of period........................	5.14%	5.29%	5.25%	
Average interest rate during period....	4.27%	5.00%	4.73%	

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(1) Includes $1.3 million at September 30, 2004 and $1.4 million at September 30, 2003 and December 31, 2003 in a note payable to former owners of InsuranCenter.

EMPLOYEES

As of September 30, 2004, we had 112 full-time employees and 16 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

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PROPERTIES

As of September 30, 2004, First Federal of Northern Michigan owned its main office and all of its branch offices except for the Lewiston branch office. At September 30, 2004, the net book value of our properties was $4.6 million. The following is a list of our locations:

MAIN OFFICE

100 South Second Avenue
Alpena, Michigan 49707

BRANCH OFFICES

300 South Ripley Boulevard
Alpena, Michigan 49707

6230 River Street
Alanson, MI 49706

625 N. Williams Street
Mancelona, MI 49659

308 North Morenci
Mio, Michigan 48647

101 South Main Street Cheboygan, Michigan 49721	201 North State Street Oscoda, Michigan 48750
1000 South Wisconsin Gaylord, Michigan 49735	11874 U.S. 23 South Ossineke, Michigan 49766
P.O. Box 673 (1) 4236 Salling Street Lewiston, Michigan 49756	

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(1) Month to month lease.

LEGAL PROCEEDINGS

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which, in the aggregate, involve amounts which management believes are immaterial to our financial condition and results of operations.

SUBSIDIARY ACTIVITY

Alpena Bancshares, Inc.'s only subsidiary is First Federal of Northern Michigan. First Federal of Northern Michigan has two subsidiaries: Financial Services & Mortgage Corporation, which leases, sells, develops and maintains real estate properties; and InsuranCenter of Alpena, a licensed insurance agency engaged in the business of property, casualty and health insurance, which First Federal of Northern Michigan acquired in June 2003 for $2.87 million.

FIRST FEDERAL COMMUNITY FOUNDATION

In connection with the conversion and offering, we are establishing the First Federal Community Foundation, which is a private charitable foundation. This foundation, which is not a subsidiary of First Federal of Northern Michigan, will provide grants to individuals and not-for-profit organizations within the communities that First Federal of Northern Michigan serves. The foundation's board of directors

consists of Gary C. VanMassenhove, Michael W. Mahler and Amy E. Essex. As part of the conversion, we will fund the foundation through a contribution of cash in an amount equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the cash does not exceed $375,000 and common stock equal to 2% of the shares we sell to purchasers in the offering, PROVIDED the common stock contribution does not exceed 37,500 shares. After the conversion, First Federal of Northern Michigan will continue to maintain the foundation, but does not expect to make any further contributions to the foundation. See "First Federal Community Foundation" on page [121].

SUPERVISION AND REGULATION

GENERAL

As a federally chartered savings bank, First Federal of Northern Michigan is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which we may engage, and is intended primarily for the protection of the Federal Deposit Insurance

Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. After completing an examination, the federal agency critiques the financial institution's operations and assigns its rating (known as an institution's CAMELS). Under federal law, an institution may not disclose its CAMELS rating to the public. First Federal of Northern Michigan also is a member of, and owns stock in, the Federal Home Loan Bank of Indianapolis, which is one of the twelve regional banks in the Federal Home Loan Bank System. First Federal of Northern Michigan also is regulated, to a lesser extent, by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines First Federal of Northern Michigan and prepares reports for consideration by our board of directors on any operating deficiencies. First Federal of Northern Michigan's relationship with our depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of our loan documents.

There can be no assurance that changes to existing laws, rules and regulations, or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on our business, financial condition or operations.

FEDERAL BANKING REGULATION

BUSINESS ACTIVITIES. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, First Federal of Northern Michigan may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other loans and assets. First Federal of Northern Michigan also may establish subsidiaries that may engage in activities not otherwise permissible for First Federal of Northern Michigan directly, including real estate investment, securities brokerage and insurance agency services.

CAPITAL REQUIREMENTS. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions

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receiving the highest CAMELS rating) and an 8% risk-based capital ratio. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard.

The risk-based capital standard for savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets, and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

At September 30, 2004, First Federal of Northern Michigan's capital exceeded all applicable requirements.

LOANS TO ONE BORROWER. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus on an unsecured basis. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of September 30, 2004, First Federal of Northern Michigan was in compliance with the loans-to-one-borrower limitations.

QUALIFIED THRIFT LENDER TEST. As a federal savings bank, First Federal of Northern Michigan is subject to a qualified thrift lender, or "QTL," test. Under the QTL test, First Federal of Northern Michigan must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the institution's business.

"Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. "Qualified thrift investments" also include 100% of an institution's credit card loans, education loans and small business loans. First Federal of Northern Michigan also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986.

A savings bank that fails the QTL test must either convert to a bank charter or operate under specified restrictions. At September 30, 2004, First Federal of Northern Michigan maintained approximately 94.1% of its portfolio assets in qualified thrift investments, and therefore satisfied the QTL test.

CAPITAL DISTRIBUTIONS. Office of Thrift Supervision regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution's capital account. A savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;

- the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or

- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;

- the proposed capital distribution raises safety and soundness concerns; or

- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

LIQUIDITY. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

COMMUNITY REINVESTMENT ACT AND FAIR LENDING LAWS. All savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the Office of Thrift Supervision is required to assess the savings bank's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. First Federal of Northern Michigan received a "Satisfactory" Community Reinvestment Act rating in its most recent federal examination.

TRANSACTIONS WITH RELATED PARTIES. A federal savings bank's authority to engage in transactions with its "affiliates" is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Alpena Bancshares, Inc. and its non-savings institution subsidiaries will be affiliates of First Federal of Northern Michigan. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

First Federal of Northern Michigan's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of First Federal of Northern Michigan's capital. In addition, extensions of credit in excess of certain limits must be approved by First Federal of Northern Michigan's board of directors.

ENFORCEMENT. The Office of Thrift Supervision has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement action against all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the savings bank, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings bank. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

STANDARDS FOR SAFETY AND SOUNDNESS. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

PROMPT CORRECTIVE ACTION REGULATIONS. Under the prompt corrective action regulations, the Office of Thrift Supervision is required and authorized to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank's capital:

o well-capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);

- adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);

- undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);

- significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); or

- critically undercapitalized (less than 2% tangible capital).

Generally, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings bank that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a savings bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At September 30, 2004, First Federal of Northern Michigan met the criteria for being considered "well-capitalized."

INSURANCE OF DEPOSIT ACCOUNTS. Deposit accounts in First Federal of Northern Michigan are insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation, generally up to a maximum of $100,000 per separately insured depositor. First Federal of Northern Michigan's deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. The Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates as necessary to maintain the required ratio of reserves to insured deposits of 1.25%. In addition, all Federal Deposit Insurance Corporation-insured institutions must pay assessments to the Federal Deposit Insurance Corporation at an annual rate of approximately .0212% of insured deposits to fund interest payments on federal agency bonds maturing in 2017 that were issued to recapitalize the predecessor to the Savings Association Insurance Fund.

PROHIBITIONS AGAINST TYING ARRANGEMENTS. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the savings bank or its affiliates or not obtain services of a competitor of the savings bank.

FEDERAL HOME LOAN BANK SYSTEM. First Federal of Northern Michigan is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Indianapolis, First Federal of Northern Michigan is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount equal to at least 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its borrowings from the Federal Home Loan Bank, whichever is greater. As of September 30, 2004, First Federal of Northern Michigan was in compliance with this requirement.

FEDERAL RESERVE SYSTEM

Federal Reserve Board regulations require savings banks to maintain non-interest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At September 30, 2004, First Federal of Northern Michigan was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the Office of Thrift Supervision.

THE USA PATRIOT ACT

The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Certain provisions of the Act impose affirmative obligations on a broad range of financial institutions, including federal savings banks, like First Federal of Northern Michigan. These obligations include enhanced anti-money laundering programs, customer identification programs and regulations relating to private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States).

We have established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

PRIVACY REQUIREMENTS OF THE GRAMM-LEACH-BLILEY ACT

The Gramm-Leach-Bliley Act of 1999 provided for sweeping financial modernization for commercial banks, savings banks, securities firms, insurance companies, and other financial institutions operating in the United States. Among other provisions, the Gramm-Leach-Bliley Act places limitations on the sharing of consumer financial information with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties.

HOLDING COMPANY REGULATION

Upon completion of the conversion, First Federal of Northern Michigan Bancorp, Inc. will be a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision will have enforcement authority over First Federal of Northern Michigan Bancorp, Inc. and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to First Federal of Northern Michigan.

Under prior law, a unitary savings and loan holding company generally had no regulatory restrictions on the types of business activities in which it could engage, provided that its subsidiary savings association was a qualified thrift lender. The Gramm-Leach-Bliley Act, however, restricts unitary savings and loan holding companies not existing on, or applied for before, May 4, 1999, to those activities permissible for financial holding companies or for multiple savings and loan holding companies. First Federal of Northern Michigan Bancorp, Inc. will not be a grandfathered unitary savings and loan holding company and, therefore, will be limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial

activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

SARBANES-OXLEY ACT OF 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Although we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the regulations that have been promulgated to implement the Sarbanes-Oxley Act, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

FEDERAL SECURITIES LAWS

First Federal of Northern Michigan Bancorp, Inc. has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, for the registration of the shares of common stock to be issued pursuant to the conversion. Upon completion of the conversion, shares of First Federal of Northern Michigan Bancorp, Inc. common stock will be registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. First Federal of Northern Michigan Bancorp, Inc. will be subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock to be issued in the offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of First Federal of Northern Michigan Bancorp, Inc. may be resold without registration.

Shares purchased by an affiliate of First Federal of Northern Michigan Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If First Federal of Northern Michigan Bancorp, Inc. meets the current public information reporting requirements of Rule 144 under the Securities Act of 1933, each affiliate of First Federal of Northern Michigan Bancorp, Inc. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of First Federal of Northern Michigan Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, First Federal of Northern Michigan Bancorp, Inc. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

TAXATION

FEDERAL TAXATION

GENERAL. Alpena Bancshares, Inc. and First Federal of Northern Michigan are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Alpena Bancshares, Inc. and First Federal of Northern Michigan.

METHOD OF ACCOUNTING. For federal income tax purposes, First Federal of Northern Michigan currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

BAD DEBT RESERVES. Prior to the Small Business Protection Act of 1996, First Federal of Northern Michigan was permitted to establish a reserve for bad debts for tax purposes and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at First Federal of Northern Michigan's taxable income. As a result of the Small

Business Protection Act, First Federal of Northern Michigan must use the specific charge off method in computing its bad debt deduction for tax purposes.

TAXABLE DISTRIBUTIONS AND RECAPTURE. Prior to the Small Business Protection Act of 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if First Federal of Northern Michigan failed to meet certain thrift asset and definitional tests. The Small Business Protection Act of 1996 eliminated these thrift-related recapture rules. However, under current law, pre-1988 reserves remain subject to tax recapture should First Federal of Northern Michigan make certain distributions from its tax bad debt reserve or cease to maintain a bank charter. At September 30, 2004, First Federal of Northern Michigan's total federal pre-1988 reserve was approximately $60,000. This reserve reflects the cumulative effects of federal tax deductions by First Federal of Northern Michigan for which no federal income tax provision has been made.

MINIMUM TAX. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The alternative minimum tax is payable to the extent such AMTI is in excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. First Federal of Northern Michigan has not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

NET OPERATING LOSS CARRYOVERS. A financial institution may carry back net operating losses to the preceding five taxable years (for losses incurred in 2001 and 2002) and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years ending in 2001 and 2002. For net operating losses incurred in taxable years ending after 2002, the carryback period is reduced to two years. At September 30, 2004, First Federal of Northern Michigan had no net operating loss carryforwards for federal income tax purposes.

CORPORATE DIVIDENDS. We may exclude from our income 100% of dividends received from First Federal of Northern Michigan as a member of the same affiliated group of corporations.

Alpena Bancshares, Inc.'s federal income tax returns have not been audited by the Internal Revenue Service in the last five fiscal years.

STATE AND LOCAL TAXATION

During 1999, the State of Michigan passed legislation that resulted in elimination of the Michigan single business tax by gradually phasing it out over the next 23 years. Public Act 115 reduces the single business tax rate by 0.1% annually beginning January 1, 1999. First Federal of Northern Michigan files Michigan Single Business Tax (SBT) returns, and in 2003 was subject to tax at a rate equal to 1.9% of taxable income. For this purpose, "taxable income" generally means federal taxable income, subject to certain adjustments to arrive at an adjusted tax base. First Federal of Northern Michigan was audited by the State of Michigan in 2001 for the tax years 1997 through 2000. No material adjustments were found.

Other applicable state taxes include generally applicable sales, use and real property taxes.

As a Maryland business corporation, First Federal of Northern Michigan Bancorp, Inc. will be required to file annual returns and pay annual fees and an annual franchise tax to the State of Maryland.

MANAGEMENT OF FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

SHARED MANAGEMENT STRUCTURE

The directors of First Federal of Northern Michigan Bancorp, Inc. are those same persons who are the directors of First Federal of Northern Michigan. In addition, each executive officer of First Federal of Northern Michigan Bancorp, Inc. is also an executive officer of First Federal of Northern Michigan. Both First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan may choose to appoint additional or different persons as directors and executive officers in the future. We expect that First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan will continue to have common executive officers until there is a business reason to establish separate management structures. To date, directors and executive officers have been compensated only for their services to First Federal of Northern Michigan. These individuals may receive additional compensation for their services to First Federal of Northern Michigan Bancorp, Inc.

DIRECTORS OF FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

First Federal of Northern Michigan Bancorp, Inc.'s Board of Directors has five members. Our bylaws provide that approximately one-third of the directors are to be elected annually. Directors of First Federal of Northern Michigan Bancorp, Inc. are generally elected to serve for a three-year period and until their respective successors shall have been elected and shall qualify.

The table below sets forth certain information, as of September 30, 2004, regarding current members of our Board of Directors and executive officers who are not directors, including the terms of office of board members.

NAME(1)	POSITION(S) HELD WITH FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.	AGE	DIRECTOR SINCE(2)
	DIRECTORS		
James C. Rapin	Chairman of the Board	64	1985
Martin A. Thomson	President, Chief Executive Officer and Director	55	1986
Thomas R. Townsend	Director	53	2002
Gary C. VanMassenhove	Director	57	2001
Keith D. Wallace	Director	62	1988
	EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS		
Michael W. Mahler	Executive Vice President	41	N/A
Amy E. Essex	Chief Financial Officer	41	N/A
Jerome W. Tracey	Senior Vice President, Senior Lender	45	N/A

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(1) The mailing address for each person listed is 100 S. Second Avenue, Alpena, Michigan 49707. Each of the persons listed is also a director of First Federal of Northern Michigan, as well as Alpena Bancshares, M.H.C.
(2) Includes service with First Federal of Northern Michigan in mutual form.

The principal occupation during the past five years of each of our directors and executive officers is set forth below. All directors and executive officers have held their present positions for five years unless otherwise stated.

JAMES C. RAPIN was elected as the Chairman of the Board of Directors of Alpena Bancshares, Inc. and First Federal of Northern Michigan in March 2002. He has been a director of First Federal of Northern Michigan since 1985, and a director of Alpena Bancshares, Inc. since its formation in November 2000, and had been Vice Chairman of the Board since April 2001. Mr. Rapin retired as a pharmacist with LeFave Pharmacy, Alpena, Michigan in 2004.

MARTIN A. THOMSON was named Acting President and Chief Executive Officer of Alpena Bancshares, Inc. and First Federal of Northern Michigan in May 2001 and later named President and Chief Executive Officer in October 2001. Mr. Thomson previously held the position of President and Chief Executive Officer of Presque Isle Electric and Gas Cooperative, Inc., Onaway, Michigan. Mr. Thomson has been a director of First Federal of Northern Michigan since 1986, and a director of Alpena Bancshares, Inc. since its formation in November 2000.

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 27 years. Mr. Townsend has been a director of Alpena Bancshares, Inc. and First Federal of Northern Michigan since April 2002.

GARY C. VANMASSENHOVE is a partner in VanMassenhove, Kearly, Taphouse & Faulman, CPAs. Mr. VanMassenhove has been a Certified Public Accountant for 33 years. He has been a director of Alpena Bancshares, Inc. and First Federal of Northern Michigan since September 2001.

KEITH D. WALLACE is the senior partner of the law firm of Isackson and Wallace, P.C., located in Alpena, Michigan and local counsel t o First Federal of Northern Michigan. Mr. Wallace has been a

practicing attorney for 37 years. He has been a director of First Federal of Northern Michigan since 1988, and a director of Alpena Bancshares, Inc. since its formation in November 2000.

MICHAEL W. MAHLER was named Executive Vice President in November 2004. Prior to this appointment, since November 2002, Mr. Mahler was Alpena Bancshares, Inc.'s 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.

AMY E. ESSEX was named Chief Financial Officer in November 2004. Prior to this appointment, since March 2003, Ms. Essex was the Internal Auditor and Compliance Officer for Alpena Bancshares, Inc.. Prior to March 2003, Ms. Essex spent eight years as the Director of Tax and Risk for Besser Company, Alpena Michigan, an international producer of concrete products equipment. Ms. Essex is a certified public accountant.

JEROME W. TRACEY was named Senior Vice President, Senior Lender of Alpena Bancshares, Inc. and First Federal of Northern Michigan in September 2001, after joining First Federal of Northern Michigan in November 1999 to serve as Vice President of Commercial Services. Prior to joining First Federal of Northern Michigan, 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.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Regular meetings of the Board of Directors are generally held monthly, and special meetings are held as needed. During the year ended December 31, 2003, the Board of Directors held 12 regular meetings and five special meetings. The Board of Directors has established various committees including Executive, Audit, Personnel and Nominating Committees.

The Executive Committee is authorized to act with the same authority as the Board of Directors of Alpena Bancshares, Inc. between meetings of the Board, and is comprised of the full Board. The Executive Committee met four times during 2003.

The Audit Committee reviews the records and affairs of Alpena Bancshares, Inc. to determine its financial condition, reviews with management and the independent auditors the systems of internal control, and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States of America. Messrs. Rapin, Townsend and VanMassenhove, each of whom is an "independent director" within the meaning of the Nasdaq corporate governance standards and the applicable Securities Exchange Act rules, serve as members of this committee. The Board of Directors of Alpena Bancshares, Inc. has determined that Director VanMassenhove, a certified public accountant, qualifies as an "audit committee financial expert" and is serving as such for the Audit Committee. The Audit Committee met five times during 2003.

The Personnel Committee meets periodically to review the performance of officers and to determine compensation of officers to be recommended to the Board. It is comprised of the full Board of Directors. The Personnel Committee met once during 2003.

The Nominating Committee nominates individuals for election as directors, and is comprised of Messrs. Rapin, Townsend, VanMassenhove and Wallace. The Nominating Committee met once during 2003.

Following the conversion we intend to establish a Compensation Committee which will review compensation matters. The Compensation Committee will replace our current Personnel Committee and will consist of First Federal of Northern Michigan Bancorp, Inc.'s independent directors.

DIRECTORS' COMPENSATION

DIRECTORS' FEES. Directors of First Federal of Northern Michigan Bancorp, Inc. are not compensated for service on First Federal of Northern Michigan Bancorp, Inc.'s Board of Directors or committees of First Federal of Northern Michigan Bancorp, Inc.'s Board of Directors.

In 2003, each director of First Federal of Northern Michigan received a $600 monthly meeting fee, payable only if the director attended the meeting. Each director is paid for one excused absence. The Chairman of the Board received $750 for each regular meeting attended, and each director received $600 for each special Board meeting attended.

In addition to the foregoing, during 2003, Messrs. Rapin, Thomson, Wallace, VanMassenhove and Townsend received $1,400, $700, $1,100, $1,300 and $1,300, respectively, for their services as members of First Federal of Northern Michigan's Executive, Personnel and Audit Committees.

First Federal of Northern Michigan paid a total of $61,600 in director and committee fees to members of the Board of Directors during the year ended December 31, 2003.

RECOGNITION AND RETENTION PLAN. Alpena Bancshares, Inc. maintains a Recognition and Retention Plan (the "Recognition and Retention Plan") first adopted in 1996. At the inception of the Recognition and Retention Plan in 1996, non-employee directors Rapin, Thomson, and Wallace were each granted 2,415 shares of Common Stock, which shares have been earned and issued. Messrs. VanMassenhove and Townsend, who were appointed to the Board of Directors in September 2001 and April 2002, respectively, have not been awarded any shares under the Plan. See "-Benefit Plans - Recognition and Retention Plans."

EXECUTIVE COMPENSATION

The following table sets forth for the years ended December 31, 2003, 2002 and 2001, certain information as to the total remuneration paid by the Bank or the Company to the Chief Executive Officer of the Bank and the Company (the "Named Executive Officer"). No other executive officer of the Company received total annual compensation in excess of $100,000 during the year ended December 31, 2003.

SUMMARY COMPENSATION TABLE

	Annual Compensation				Lon Compensa	
Name and Principal Position	Years Ended December 31,	Salary ($) (1)	Bonus ($)	Other Annual Compensation ($) (2)	Restricted Stock Award(s) ($)	Options/ SARs (#)
Martin A. Thomson	2003	$131,702	$35,067	$11,400	$--	--
President and Chief	2002	128,819	--	12,700	3,506	1,000
Executive Officer	2001	65,998	--	10,200	--	--

(1) Amount shown is gross earnings.
(2) Includes fees for services on the Board of Directors and Board Committees of First Federal of Northern Michigan and Alpena Bancshares, Inc. First Federal of Northern Michigan also provides the Chief

Executive Officer with the use of an automobile, insurance and other personal benefits that are not included in the Summary Compensation Table because such benefits do not exceed $50,000 or 10% of the officer's cash compensation for the year ended December 31, 2003.

(3) Includes a contribution to the 401(k) plan, and director fees for service on the Board of the subsidiary, Financial Service & Mortgage Corporation.

BENEFIT PLANS

DEFINED BENEFIT PLAN. The Bank maintains a noncontributory defined benefit plan ("Retirement Plan"). All employees age 21 or older, who have worked at First Federal of Northern Michigan for a period of one year and have been credited with 1,000 or more hours of employment with First Federal of Northern Michigan during the year, are eligible to accrue benefits under the Retirement Plan. First Federal of Northern Michigan annually contributes an amount to the Retirement Plan necessary to satisfy the actuarially determined minimum funding requirements in accordance with the Employment Retirement Income Security Act of 1974, as amended ("ERISA").

At the normal retirement age of 65, the Retirement Plan is designed to provide a life annuity. The retirement benefit provided is an amount equal to 2.5% of a participant's average salary based on the average of the five consecutive years during the participant's years of employment which provide the highest average annual salary multiplied by the participant's years of credited service to the normal retirement date. Retirement benefits are also payable upon retirement due to early and late retirement. Benefits are also paid from the Retirement Plan upon a participant's disability or death. A reduced benefit is payable upon early retirement at or after age 55. Upon termination of employment other than as specified above, a participant who was employed by the Bank for a minimum of five years is eligible to receive his or her accrued benefit reduced for early retirement or a deferred retirement benefit commencing on such participant's normal retirement date. Benefits are payable in various annuity forms as well as in the form of a single lump sum payment. For the year ended December 31, 2003 the Bank made contributions to the Retirement Plan of $326,807.

The following table indicates the annual retirement benefit that would be payable under the Retirement Plan upon retirement at age 65 in plan year 2003, expressed in the form of a single life annuity for the final average salary and benefit service classification specified below. As of December 31, 2003, Mr. Thomson had three years credited service (i.e., benefit service) with the Bank.

	YEARS OF BENEFIT SERVICE AT RETIREMENT			
HIGH 5-YEAR AVERAGE SALARY	10	15	20	25
$15,000	$3,750	$5,625	$7,500	$9,375
$25,000	$6,250	$9,375	$12,500	$15,625

$50,000	$12,500	$18,750	$25,000	$31,250
$100,000	$25,000	$37,500	$50,000	$62,500
$150,000	$37,500	$56,250	$75,000	$93,750

EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST. The Bank has established an Employee Stock Ownership Plan and related Trust for eligible employees. The ESOP is a tax-qualified plan subject to the requirements of ERISA and the Internal Revenue Code of 1986 (the "Code"). Employees with a 12-month period of employment with the Bank during which they worked at least 1,000 hours and who have attained age 21 are eligible to participate. The ESOP borrowed funds from an unrelated third party lender and used the funds to purchase 48,000 shares of the common stock issued in the Bank's initial stock offering. Collateral for the loan was the common stock purchased by the ESOP. The loan was being repaid principally from the Bank's contributions to the ESOP and was fully paid during 1999.

Contributions to the ESOP and shares released from the suspense account in an amount proportional to the repayment of the ESOP loan were allocated among participants on the basis of compensation in the year of allocation, up to an annual adjusted maximum level of compensation. Benefits generally become 100% vested after five years of credited service. Forfeitures will be reallocated among remaining participating employees in the same proportion as contributions. Benefits are payable upon death, retirement, early retirement, disability or separation from service. The Bank's contributions to the ESOP are not fixed, so benefits payable under the ESOP cannot be estimated.

The Bank's Board of Directors administers the ESOP. The Bank has appointed First Bankers Trust Company, Quincy, Illinois to serve as trustee of the ESOP. The ESOP Committee may instruct the trustee regarding investment of funds contributed to the ESOP. The ESOP trustee, subject to its fiduciary duty, must vote all allocated shares held in the ESOP in accordance with the instructions of participating employees. Under the ESOP, nondirected shares will be voted in a manner calculated to most accurately reflect the instructions it has received from participants regarding the allocated stock so long as such vote is in accordance with the provisions of ERISA.

401(K) PLAN. The Bank established a 401(k) Plan for Bank employees as of May 1, 1999. The Plan is tax qualified and permits participants to elect to defer up to 50% (as of January 1, 2002) of the participant's eligible annual compensation into the Plan. During 1999, the Bank made a matching contribution of 25% of the participant contribution to the Plan, up to 1% of the participant's eligible annual compensation for 1999. After 1999, the Bank has made matching contributions of 50% of the participant's contribution, with the match being up to 3% of the participant's eligible annual compensation for the year. All current employees at the time of the establishment of the Plan on May 1, 1999 were 100% vested in their contributions and in matching contributions. Subsequently, new employees became 100% vested after five years of credited service in matching contributions. However, beginning January 1, 2002 the vesting schedule changed to be on an equally graduated basis over a five- year period, which includes employees hired after May 1, 1999. Employees are 100% vested in their elective deferral amounts at all times under the Plan. Participants will be credited for years of service with the Bank prior to the effective date of the Plan. Forfeitures of discretionary contributions will be used to reduce the Bank's contributions in succeeding plan years.

STOCK OPTION PLAN. Certain employees and non-employee directors of the Bank and the Company are eligible to participate in the Bank's 1996 Stock Option Plan (the "Stock Option Plan"). The Stock Option Plan authorizes the grant of stock options and limited rights to purchase 69,000 shares, or 10% of the shares of common stock issued to minority stockholders in the initial public offering by the Bank. Upon the formation of the Company as the Bank's holding company in November 2000, the shares of common stock subject to the Stock Option Plan became the shares of Common Stock of the Company. Pursuant to the Stock Option Plan, grants may be made of (i) options to purchase Common Stock intended to qualify as incentive stock options under Section 422 of the Code, (ii) options that do not so qualify ("non-statutory options") and (iii) limited rights (described below) that are exercisable only upon a change in control of the Bank or the Company. Non-employee directors are only eligible to receive non-statutory options.

The Stock Option Plan is administered by a committee consisting of certain non-employee directors of the Board of Directors (the "Committee"). In granting options, the Committee considers factors such as salary, length of employment with the Bank, and the employee's overall performance. All stock options are exercisable in five equal annual installments of 20% commencing one year from the date of grant; PROVIDED, HOWEVER, that all options will be 100% exercisable in the event the optionee terminates his service due to normal retirement, death or disability, or in the event of a change in control of the Company or the Bank. Options may be exercised within 10 years from the date of grant. Stock options may be exercised up to one year following termination of service or such later period as determined by the Committee. The exercise price of the options will be at least 100% of the fair market value of the underlying Common Stock at the time of the grant. The exercise price may be paid in cash or Common Stock.

Incentive stock options will only be granted to employees of the Bank and/or the Company. Non-employee directors will be granted non-statutory stock options. No incentive stock option granted in connection with the Stock Option Plan may be exercisable more than three months after the date on which the optionee ceases to perform services for the Bank and/or the Company, except that in the event of death, disability, normal retirement, or a change in control of the Bank or the Company, incentive stock options may be exercisable for up to one year; PROVIDED, HOWEVER, that if an optionee ceases to perform services for the Bank or the Company due to retirement or following a change in control (as defined in the Stock Option Plan), any incentive stock options exercised more than three months following the date the optionee ceases to perform services shall be treated as a non-statutory stock option as described above.

Upon the exercise of "limited rights" in the event of a change in control, the optionee will be entitled to receive a lump sum cash payment, or in certain cases, Common Stock, equal to the difference between the exercise price of the option and the fair market value of the shares of Common Stock subject to the option on the date of exercise of the right in lieu of purchasing the stock underlying the option. In the event of death or disability, the Bank and/or the Company, if requested by the optionee or beneficiary, may elect, in exchange for the option, to pay the optionee, or beneficiary in the event of death, the amount by which the fair market value of the Common Stock exceeds the exercise price of the option on the date of the optionee's termination of service for death or disability.

Pursuant to the Stock Option Plan, non-employee directors at the inception of the Plan on April 17, 1996, Rapin, Thomson, and Wallace were each granted options to purchase 6,037 shares of Common Stock. These options were granted at an exercise price of $10.00 per share, which options have all been vested but not exercised. No options have been reserved for future issuance to non-employee directors under the Plan, and therefore Messrs. VanMassenhove and Townsend, who were appointed to the Board

of Directors in September 2001 and April 2002, respectively, have not been awarded options under the Plan. No stock options were granted under the Stock Option Plan during the year ended December 31, 2003.

Set forth below is certain information concerning options outstanding to the Named Executive Officer at December 31, 2003.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired upon Exercise	Value Realized	Number of Unexercised Options at Year-End Exercisable/Unexercisable (#)	Value of The-Mon Y Exercisab
Martin A. Thomson	-----	$-----	6,237 / 800	$77,

RECOGNITION AND RETENTION PLAN. Certain employees and non-employee directors of the Bank and the Company are eligible to participate in the Bank's Recognition and Retention Plan, which was adopted in 1996 (the "Recognition Plan"). A Committee of the Board of Directors composed of "disinterested" directors (the "Recognition Plan Committee") administers the Recognition Plan and makes awards to executive officers and employees. Participants in the Recognition Plan earn (become vested in) shares of Restricted Stock covered by an award and all restrictions lapse over a period of time commencing from the date of the award; PROVIDED, HOWEVER, that the Recognition Plan Committee may accelerate or extend the earnings rate on any awards made to officers and employees under the Recognition Plan. Awards to non-employee directors vest at the rate of 20% of the amount initially awarded commencing one year from the date of the award. Awards to executive officers and employees become fully vested upon termination of employment or service due to death, disability or normal retirement or following a termination of employment or service in connection with a change in the control of the Bank or the Company. Upon termination of employment or service for another reason, unvested shares are forfeited. Awards to non-employee directors fully vest upon a non-employee director's disability, death, normal retirement, or following termination of service in connection with a change in control of the Bank or the Company. Unvested shares of Restricted Stock will be forfeited by a non-employee director upon failure to seek reelection, failure to be reelected, or resignation from the Board (other than in connection with normal retirement, as defined by the

Recognition Plan). See "-Directors' Compensation - Recognition and Retention Plan."

Set forth below is information as of December 31, 2003 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

Plan	Number of securities to be issued upon exercise of outstanding options and rights	Weighted average exercise price	Numb remai iss
Equity compensation plans approved by stockholders	29,011	$10.57	
Equity compensation plans not approved by stockholders	--	--	
Total	29,011		

(1) Consists of 42 shares available for future issuance pursuant to the 1996 Recognition and Retention Plan and 20,067 shares underlying options available for future issuance pursuant to the 1996 Stock Option Plan.

CHANGE IN CONTROL AGREEMENTS. First Federal of Northern Michigan intends to enter into change in control agreements with Martin A. Thomson, President and Chief Executive Officer, and Michael W. Mahler, Executive Vice President, which would provide certain benefits in the event of a change in control of First Federal of Northern Michigan or Alpena Bancshares Inc. Each of the change in control agreements provides for a term of up to 36 months. Commencing on each anniversary date, the Board of Directors may extend the change in control agreements for an additional year. The change in control agreements enable First Federal of Northern Michigan to offer to designated officers certain protections against termination without cause in the event of a change in control (as defined in the agreements). These protections against termination without cause in the event of a change in control are frequently offered by other financial institutions, and First Federal of Northern Michigan may be at a competitive disadvantage in attracting and retaining key employees if it does not offer similar protections.

Following a change in control of Alpena Bancshares Inc. or First Federal of Northern Michigan, an officer is entitled to a payment under the change in control agreement if the officer's employment is involuntarily terminated during the term of such agreement, other than for cause, as defined, death or disability, or if the officer voluntarily terminates employment during the term of such agreement as the result of a demotion, loss of title, office or significant authority, reduction in the officer's annual compensation or benefits, or relocation of the officer's principal place of employment by more than 25 miles from its location immediately prior to the change in control. In the event that an officer who is a party to a change in control agreement is entitled to receive payments pursuant to the change in control agreement, the officer will receive a cash payment up to a maximum of two times the sum of base salary and highest rate of bonuses awarded to the officer over the prior three years, subject to applicable withholding taxes. In addition to the severance payment, each covered officer is entitled to receive life, medical and dental coverage for a period of up to 24 months from the date of termination, as well as a lump-sum payment equal to the excess, if any, of (a) the present value of benefits to which the officer would be entitled under First Federal of Northern Michigan, defined benefit plan if the officer had the additional years of service that he would have had if he had continued working for First Federal of Northern Michigan for 24 months following his termination, over (b) the present value of the benefits to which the officer is actually entitled under First Federal of Northern Michigan's defined benefit plan as of the date of his termination. Notwithstanding any provision to the contrary in the change in control agreement, payments under the change in control agreements are limited so that they will not constitute an excess parachute payment under Section 280G of the Internal Revenue Code.

TRANSACTIONS WITH CERTAIN RELATED PERSONS

In the ordinary course of business, First Federal of Northern Michigan makes loans available to its directors, officers and employees. These loans are made in the ordinary course of business on substantially the same terms (including interest rate), including collateral, as comparable loans to other borrowers. Management believes that these loans neither involve more than the normal risk of collectibility nor present other unfavorable features. Federal regulations permit executive officers and directors to participate in loan programs that are available to other employees, as long as the director or

executive officer is not given preferential treatment compared to other participating employees. Loans made to directors or executive officers, including any modification of such loans, must be approved by a majority of disinterested members of the Board of Directors. The interest rate on loans to directors and officers is the same as that offered to other employees.

Indemnification of DIRECTORS and Officers

The officers, directors, agents and employees of First Federal of Northern Michigan Bancorp, Inc. are indemnified with respect to certain actions pursuant to First Federal of Northern Michigan Bancorp, Inc.'s Maryland articles of incorporation and Maryland law. Maryland law allows First Federal of Northern Michigan Bancorp, Inc. to indemnify any person for expenses, liabilities, settlements, judgments and fines in suits in which such person has been made a party by reason of the fact that he or she is or was a director, officer or employee of First Federal of Northern Michigan Bancorp, Inc. No such indemnification may be given(i) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services for the amount of the benefit or profit in money, property or services actually received; (ii) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding; or (iii) to the extent otherwise provided by Maryland law. The right to indemnification includes the right to be paid the expenses incurred in advance of final disposition of a proceeding.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons by our bylaws or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

BENEFITS TO BE CONSIDERED FOLLOWING COMPLETION OF THE CONVERSION

STOCK OPTION PLAN. We intend to request stockholder approval of a stock option plan no earlier than six months after the completion of the conversion. If approved by stockholders, the new stock option plan, if implemented within one year of the conversion, would reserve an amount equal to 10% of the shares of common stock sold in the offering (including shares issued to the charitable foundation) for issuance upon exercise of stock options. If the stock option plan is implemented more than one year after the conversion, the number of shares reserved under the plan may exceed ten percent of the shares of common stock sold in the stock offering (including shares issued to the foundation). Ten percent of the shares of common stock issued in the offering (including shares issued to the foundation) would amount to 138,720 shares, 163,200 shares, 187,680 shares and 215,350 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. No options would be granted under the new stock option plan until stockholder approval of the plan is received. In the event that shares underlying options come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 5.3% of their ownership interest in First Federal of Northern Michigan Bancorp, Inc. at the midpoint of the offering range.

The exercise price of the options granted under the new stock option plan will be equal to the fair market value of First Federal of Northern Michigan Bancorp, Inc. common stock on the date of grant of the stock options. If the stock option plan is adopted within one year following the conversion, options may vest no faster than 20% per year beginning 12 months after the date of grant. Options granted under the stock option plan would be adjusted for capital changes such as stock splits and stock dividends. Awards will be 100% vested upon termination of employment due to death, disability or following a change in control, and if the stock option plan is adopted more than one year after the conversion, awards

would be 100% vested upon normal retirement. Under Office of Thrift Supervision rules, if the stock option plan is adopted within one year of the conversion, no individual officer may receive more than 25% of the awards under the plan, no non-employee director may receive more than 5% of the awards under the plan, and all non-employee directors as a group may receive in the aggregate no more than 30% of the awards under the plan.

The stock option plan would be administered by a committee of non-employee members of First Federal of Northern Michigan Bancorp, Inc.'s Board of Directors. Options granted under the stock option plan to employees may be "incentive" stock options, which are designed to result in a beneficial tax treatment to the employee but no tax deduction to First Federal of Northern Michigan Bancorp, Inc. Non-qualified stock options may also be granted to employees under the stock option plan, and will be granted to the non-employee directors who receive stock options. In the event an option recipient terminated his or her employment or service as an employee or director, the options would terminate during certain specified periods.

STOCK RECOGNITION AND RETENTION PLAN. We intend to request stockholder approval of a new stock recognition and retention plan, no earlier than six months after the completion of the conversion. If approved by stockholders, the new stock recognition and retention plan would, if implemented within one year of conversion, reserve an amount equal to 4% of the shares of common stock sold in the offering (including shares issued to the foundation), or 55,488 shares, 65,280 shares, 75,072 shares and 86,140 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. If the stock recognition and retention plan is implemented more than one year after the completion of the conversion, the number of shares reserved under the plan may exceed 4% of the shares of common stock sold in the offering (including shares issued to the charitable foundation). We must recognize an expense for shares of common stock awarded over their vesting period at the fair market value of the shares on the date they are awarded. The recipients will be awarded shares of common stock under the stock recognition and retention plan at no cost to them. No awards would be made under the stock recognition and retention plan until the plan is approved by stockholders. If the shares awarded under the stock recognition and retention plan come from authorized but unissued shares of the common stock totaling 4% of the shares sold in the offering, stockholders would experience dilution of approximately 2.2% in their ownership interest in First Federal of Northern Michigan Bancorp, Inc. at the midpoint of the offering range.

Awards granted under the stock recognition and retention plan would be nontransferable and nonassignable. Under Office of Thrift Supervision regulations, if the stock recognition and retention plan is adopted within one year following the conversion, the shares of common stock which are subject to an award may vest no faster than 20% per year beginning 12 months after the date of grant of the award. Awards would be adjusted for capital changes such as stock dividends and stock splits. Awards would be 100% vested upon termination of employment or service due to death, disability, or following a change in control, and if the stock recognition and retention plan is adopted more than one year after the conversion, awards also would be 100% vested upon normal retirement. If employment or service were to terminate for other reasons, the award recipient would forfeit any unvested award. If employment or service were to terminate for cause (as defined), unvested shares would be forfeited. Under Office of Thrift Supervision rules, if the stock recognition and retention plan is adopted within one year of the conversion, no individual officer may receive more than 25% of the awards under the plan, no non-employee director may receive more than 5% of the awards under the plan, and all non-employee directors as a group may receive no more than 30% of the awards under the plan in the aggregate.

The recipient of an award will recognize income equal to the fair market value of the stock earned, determined as of the date of vesting, unless the recipient makes an election under Section 83(b) of the Internal Revenue Code of 1986, as amended, to be taxed earlier. The amount of income recognized by

the recipient would be a deductible expense for tax purposes for First Federal of Northern Michigan Bancorp, Inc.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table provides the beneficial ownership of our common stock held by our directors and executive officers, individually and as a group, and all individuals known to management to own more than 5% of our common stock as of September 30, 2004. The business address of each director and executive officer is 100 South Second Avenue, Alpena, Michigan 49707.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED (1)	PE

James C. Rapin	14,401
Martin A. Thomson	19,058
Thomas R. Townsend	3,037
Gary C. VanMassenhove	1,250
Keith D. Wallace	13,752
Michael W. Mahler	---
Amy E. Essex	---
Jerome W. Tracey	897
All directors and executive officers as a group (8 persons)	52,395
Alpena Bancshares, M.H.C. 100 South Second Avenue, Alpena, Michigan 49707	920,000
Alpena Bancshares, M.H.C. and all directors and executive officers as a group	972,395

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* Less than 1%.

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table of any shares of common stock if he has sole or shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares.

SUBSCRIPTIONS BY DIRECTORS AND EXECUTIVE OFFICERS

The table below sets forth, for each of First Federal of Northern Michigan Bancorp, Inc.'s directors and executive officers and for all of the directors and executive officers as a group, the following information:

(i) the number of exchange shares to be held upon consummation of the conversion, based upon their beneficial ownership of Alpena Bancshares, Inc. common stock as of September 30, 2004;

(ii) the proposed purchases of subscription shares, assuming sufficient shares of common stock are available to satisfy their subscriptions; and

(iii) the total amount of First Federal of Northern Michigan Bancorp, Inc. common stock to be held upon consummation of the conversion.

In each case, it is assumed that subscription shares are sold at the midpoint of the offering range. See "The Conversion--Limitations on Common Stock Purchases." Regulations of the Office of Thrift Supervision prohibit our directors and officers from selling the shares they purchase in the offering for one year after the date of purchase.

PROPOSED PURCHASES OF STOCK

NAME OF BENEFICIAL OWNER	NUMBER OF EXCHANGE SHARES TO BE HELD (2)	IN THE OFFERING (1) NUMBER OF SHARES	AMOUNT	TOTAL COMMON NUMBER OF SHARES
James C. Rapin	25,044	1,500	15,000	26,544
Martin A. Thomson	33,143	10,000	100,000	43,143
Thomas R. Townsend	5,281	2,500	25,000	7,781
Gary C. VanMassenhove	2,173	2,500	25,000	4,673
Keith D. Wallace	23,916	2,500	25,000	26,416
Total	89,557	19,000	190,000	108,557
Michael W. Mahler	---	2,500	25,000	2,500
Amy E. Essex	---	2,500	25,000	2,500
Jerome W. Tracey	1,559	6,000	60,000	7,559
Total	1,559	11,000	110,000	12,559
Total for Directors and Executive Officers	91,116	31,000	300,000	121,116

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* Less than 1%.

(1) Includes proposed subscriptions, if any, by associates.

(2) Based on information presented in "Beneficial Ownership of Common Stock."

(3) Based upon total shares outstanding at the midpoint of the offering range (2,917,530 shares).

THE CONVERSION

The Boards of Directors of Alpena Bancshares, Inc. and Alpena Bancshares, M.H.C. have approved the plan of conversion and reorganization. The plan of conversion and reorganization must also be approved by the members of Alpena Bancshares, M.H.C. (depositors and certain borrowers of First Federal of Northern Michigan) and the stockholders of Alpena Bancshares, Inc. A special meeting of members and a special meeting of stockholders have been called for this purpose. The Office of Thrift Supervision has conditionally approved the plan of conversion and reorganization; however, such approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

GENERAL

The respective Boards of Directors of Alpena Bancshares, M.H.C. and Alpena Bancshares, Inc. adopted the plan of conversion and reorganization on November 12, 2004. The plan of conversion and reorganization was amended on December 7, 2004. Pursuant to the plan of conversion and reorganization, our organization will convert from the mutual holding company form of organization to the fully stock form. Alpena Bancshares, M.H.C., the mutual holding company parent of Alpena Bancshares, Inc., will be merged into First Federal of Northern Michigan, and Alpena Bancshares, M.H.C. will no longer exist. Alpena Bancshares, Inc. which owns 100% of First Federal of Northern Michigan, will be succeeded by a new Maryland corporation named First Federal of Northern Michigan Bancorp, Inc. As part of the conversion, the ownership interest of Alpena Bancshares, M.H.C. will be offered for sale in the stock offering. When the conversion is completed, all of the outstanding common stock of First Federal of Northern Michigan will be owned by First Federal of Northern Michigan Bancorp, Inc., our newly formed Maryland holding company, and all of the outstanding common stock of First Federal of Northern Michigan Bancorp, Inc. will be owned by public stockholders, including a private charitable foundation which we are establishing in connection with the conversion and to which we will contribute up to 37,500 shares of our common stock and up to $375,000 in cash. A diagram of our corporate structure before and after the conversion is set forth in the Summary of this Prospectus.

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Under the plan of conversion and reorganization, at the conclusion of the conversion and offering, each share of Alpena Bancshares, Inc. common stock owned by persons other than Alpena Bancshares, M.H.C. will be converted automatically into the right to receive new shares of First Federal of Northern Michigan Bancorp, Inc. common stock determined pursuant to an exchange ratio. The exchange ratio will ensure that immediately after the exchange of existing shares of Alpena Bancshares, Inc. for new shares, the public stockholders of Alpena Bancshares, Inc. common stock will own the same aggregate percentage of shares of common stock of First Federal of Northern Michigan Bancorp, Inc. that they owned immediately prior to the conversion, excluding any shares they purchased in the offering and cash paid in lieu of fractional shares.

First Federal of Northern Michigan Bancorp, Inc. intends to retain between $2.5 million and $6.6 million of the net proceeds of the offering and to contribute the balance of the net proceeds to First Federal of Northern Michigan. The conversion will be consummated only upon the issuance of at least the minimum number of shares of our common stock offered pursuant to the plan of conversion and reorganization.

The plan of conversion and reorganization provides that we will offer shares of common stock for sale in the subscription offering to eligible account holders, our employee stock ownership plan, supplemental eligible account holders and other members. If all shares are not subscribed for in the subscription offering, we may, at our discretion, offer common stock for sale in a community offering to members of the general public, with a preference given in the following order:

(i) Natural persons residing in the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda and Presque Isle; and

(ii) Alpena Bancshares, Inc.'s public stockholders as of January 31, 2005.

We have the right to accept or reject, in whole or in part, any orders to purchase shares of the common stock received in the community offering. The community offering, if any, may begin at the same time as, during, or after the subscription offering and must be completed within 45 days after the completion of the subscription offering unless otherwise extended by the Office of Thrift Supervision. See "--Community Offering."

We determined the number of shares of common stock to be offered in the offering based upon an independent valuation appraisal of the estimated pro forma market value of First Federal of Northern Michigan Bancorp, Inc. All shares of common stock to be sold in the offering will be sold at $10.00 per share. Investors will not be charged a commission to purchase shares of common stock. The independent valuation will be updated and the final number of the shares of common stock to be issued in the offering will be determined at the completion of the offering. See "--Stock Pricing and Number of Shares to be Issued" for more information as to the determination of the estimated pro forma market value of the common stock.

The following is a brief summary of the conversion and is qualified in its entirety by reference to the provisions of the plan of conversion and reorganization. A copy of the plan of conversion and reorganization is available for inspection at each branch office of First Federal of Northern Michigan and at the Southeast Regional and the Washington, D.C. offices of the Office of Thrift Supervision. The plan of conversion and reorganization is also filed as an exhibit to Alpena Bancshares, M.H.C.'s application to convert from mutual to stock form of which this Prospectus is a part, copies of which may be obtained from the Office of Thrift Supervision. See "Where You Can Find Additional Information."

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REASONS FOR THE CONVERSION

The primary reasons for the conversion and related stock offering are:

o to facilitate growth through branch and whole bank acquisitions as opportunities arise;

o to support internal growth through lending in the communities we serve;

o to enhance existing products and services and support the development of new products and services;

o to improve our overall competitive position; and

o to improve the liquidity of our shares of common stock and enhance stockholder returns through higher earnings and more flexible capital management strategies.

As a fully converted stock holding company, we will have greater flexibility in structuring further mergers and acquisitions, including the form of consideration that we can use to pay for an acquisition. Our current mutual holding company structure and our relatively small asset size limit our ability to offer shares of our common stock as consideration for a merger or acquisition since Alpena Bancshares, M.H.C. is required to own a majority of our shares of common stock. Potential sellers often want stock for at least part of the purchase price. Our new stock holding company structure will enable us to offer stock or cash consideration, or a combination of stock and cash, and will therefore enhance our ability to compete with other bidders when acquisition opportunities arise. We do not currently have any agreement or understanding as to any specific acquisition.

APPROVALS REQUIRED

The affirmative vote of a majority of the total eligible votes of the members of Alpena Bancshares, M.H.C. is required to approve the plan of conversion and reorganization. By their approval of the plan of conversion and reorganization, the members of Alpena Bancshares, M.H.C. will also be approving the merger of Alpena Bancshares, M.H.C. into First Federal of Northern Michigan. The affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock of Alpena Bancshares, Inc. and the affirmative vote of the holders of a majority of the outstanding shares of common stock of Alpena Bancshares, Inc. held by the public stockholders of Alpena Bancshares, Inc. are also required to approve the plan of conversion and reorganization. The plan of conversion and reorganization also must be approved by the Office of Thrift Supervision, which has given its conditional approval.

SHARE EXCHANGE RATIO

Office of Thrift Supervision regulations provide that in a conversion of a mutual holding company to fully stock form, the public stockholders will be entitled to exchange their shares for common stock of the new holding company, provided that the mutual holding company demonstrates to the satisfaction of the Office of Thrift Supervision that the basis for the exchange is fair and reasonable. Each publicly held share of Alpena Bancshares, Inc. common stock will, on the effective date of the conversion, be automatically converted into the right to receive a number of new shares of First Federal of Northern Michigan Bancorp, Inc. common stock. The number of new shares of common stock will be determined pursuant to the exchange ratio, which ensures that the public stockholders of Alpena Bancshares, Inc. common stock will own the same percentage of new common stock in First Federal of Northern Michigan Bancorp, Inc. after the conversion as they held in Alpena Bancshares, Inc.

immediately prior to the conversion, exclusive of their purchase of additional shares of common stock in the offering and their receipt of cash in lieu of fractional exchange shares. The exchange ratio is not dependent on the market value of First Federal of Northern Michigan Bancorp, Inc. common stock. The exchange ratio is calculated based on the percentage of Alpena Bancshares, Inc. common stock held by the public, the independent valuation of First Federal of Northern Michigan Bancorp, Inc. prepared by RP Financial and the number of shares of common stock issued in the offering. The exchange ratio is expected to range from approximately 1.4783 exchange shares for each publicly held share of Alpena Bancshares, Inc. at the minimum of the offering range to 2.3000 exchange shares for each publicly held share of Alpena Bancshares, Inc. at the adjusted maximum of the offering range.

If you are currently a stockholder of Alpena Bancshares, Inc., your existing shares will be canceled and exchanged for new shares of First Federal of Northern Michigan Bancorp, Inc. The number of shares you receive will be based on the final exchange ratio determined as of the closing of the conversion.

The following table shows how the exchange ratio will adjust, based on the number of shares of common stock issued in the offering. The table also shows how many shares of First Federal of Northern Michigan Bancorp, Inc. a hypothetical owner of Alpena Bancshares, Inc. common stock would receive in the exchange for 100 shares owned at the consummation of the conversion.

	NEW SHARES TO BE ISSUED IN THIS OFFERING(1)		NEW SHARES TO BE EXCHANGED FOR EXISTING SHARES OF ALPENA BANCSHARES, INC.		TOTAL SHARES OF COMMON STOCK TO BE ISSUED IN CONVERSION AND OFFERING(1)
	AMOUNT	PERCENT	AMOUNT	PERCENT	
Minimum.............	1,360,000	55.4%	1,092,701	44.6%	2,479,901

Midpoint.............	1,600,000	55.4	1,285,530	44.6	2,917,530
Maximum.............	1,840,000	55.4	1,478,360	44.6	3,355,160
15% above Maximum...	2,116,000	55.4	1,700,113	44.6	3,853,613

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(1) Does not include 27,200, 32,000, 36,800 and 37,500 shares to be issued to the charitable foundation at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

EFFECTS OF CONVERSION ON DEPOSITORS, BORROWERS AND MEMBERS

CONTINUITY. While the conversion is being accomplished, the normal business of First Federal of Northern Michigan of accepting deposits and making loans will continue without interruption. First Federal of Northern Michigan will continue to be a federally chartered savings bank and will continue to be regulated by the Office of Thrift Supervision. After the conversion, First Federal of Northern Michigan will continue to offer existing services to depositors, borrowers and other customers. The directors serving Alpena Bancshares, Inc. at the time of the conversion will be the directors of First Federal of Northern Michigan Bancorp, Inc. after the conversion.

EFFECT ON DEPOSIT ACCOUNTS. Pursuant to the plan of conversion and reorganization, each depositor of First Federal of Northern Michigan at the time of the conversion will automatically continue as a depositor after the conversion, and the deposit balance, interest rate and other terms of such deposit accounts will not change as a result of the conversion. Each such account will be insured by the Federal Deposit Insurance Corporation to the same extent as before the conversion. Depositors will continue to hold their existing certificates, passbooks and other evidences of their accounts.

EFFECT ON LOANS. No loan outstanding from First Federal of Northern Michigan will be affected by the conversion, and the amount, interest rate, maturity and security for each loan will remain as it was contractually fixed prior to the conversion.

EFFECT ON VOTING RIGHTS OF MEMBERS. At present, all depositors and certain borrowers of First Federal of Northern Michigan are members of, and have voting rights in, Alpena Bancshares, M.H.C. as to all matters requiring membership action. Upon completion of the conversion, depositors and qualifying borrowers will cease to be members of Alpena Bancshares, M.H.C. and will no longer have voting rights. Upon completion of the conversion, all voting rights in First Federal of Northern Michigan will be vested in First Federal of Northern Michigan Bancorp, Inc. as the sole stockholder of First Federal of Northern Michigan. The stockholders of First Federal of Northern Michigan Bancorp, Inc. will possess exclusive voting rights with respect to First Federal of Northern Michigan Bancorp, Inc. common stock.

TAX EFFECTS. We will receive an opinion of counsel or tax advisor with regard to federal and state income tax consequences of the conversion to the effect that the conversion will not be taxable for federal or state income tax purposes to Alpena Bancshares, M.H.C., Alpena Bancshares, Inc., the public stockholders of Alpena Bancshares, Inc., members of Alpena Bancshares, M.H.C., eligible account holders, supplemental eligible account holders, or First Federal of Northern Michigan. See "--Material Income Tax Consequences."

EFFECT ON LIQUIDATION RIGHTS. Each depositor in First Federal of Northern Michigan has both a deposit account in First Federal of Northern Michigan and a pro rata ownership interest in the net worth of Alpena

Bancshares, M.H.C. based upon the deposit balance in his or her account. This ownership interest is tied to the depositor's account and has no tangible market value separate from the deposit account. This interest may only be realized in the event of a complete liquidation of Alpena Bancshares, M.H.C. and First Federal of Northern Michigan. Any depositor who opens a deposit account obtains a pro rata ownership interest in Alpena Bancshares, M.H.C. without any additional payment beyond the amount of the deposit. A depositor who reduces or closes his or her account receives a portion or all of the balance in the deposit account but nothing for his or her ownership interest in the net worth of Alpena Bancshares, M.H.C., which is lost to the extent that the balance in the account is reduced or closed.

Consequently, depositors in a stock subsidiary of a mutual holding company normally have no way of realizing the value of their ownership interest, which has realizable value only in the unlikely event that Alpena Bancshares, M.H.C. and First Federal of Northern Michigan are liquidated. If this occurs, the depositors of record at that time, as owners, would share pro rata in any residual surplus and reserves of Alpena Bancshares, M.H.C. after other claims, including claims of depositors to the amounts of their deposits, are paid.

In the unlikely event that First Federal of Northern Michigan were to liquidate after the conversion, all claims of creditors, including those of depositors, would be paid first, followed by distribution of the "liquidation account" to depositors as of October 31, 2003 and December 31, 2004 who continue to maintain their deposit accounts as of the date of liquidation, with any assets remaining thereafter distributed to First Federal of Northern Michigan Bancorp, Inc. as the holder of First Federal of Northern Michigan's capital stock. Pursuant to the rules and regulations of the Office of Thrift Supervision, a post-conversion merger, consolidation, sale of bulk assets or similar combination or transaction with another insured savings institution would not be considered a liquidation and, in such a transaction, the liquidation account would be assumed by the surviving institution. See "--Liquidation Rights."

STOCK PRICING AND NUMBER OF SHARES TO BE ISSUED

The plan of conversion and reorganization and federal regulations require that the aggregate purchase price of the common stock sold in the offering must be based on the appraised pro forma market value of the common stock, as determined by an independent valuation. First Federal of Northern Michigan and Alpena Bancshares, Inc. have retained RP Financial to prepare an independent valuation

appraisal. For its services in preparing the initial valuation, RP Financial will receive a fee of $27,500 and $6,500 for expenses. First Federal of Northern Michigan and Alpena Bancshares, Inc. have agreed to indemnify RP Financial and its employees and affiliates against specified losses, including any losses in connection with claims under the federal securities laws, arising out of its services as independent appraiser, except where such liability results from its negligence or bad faith.

The independent valuation appraisal considered the pro forma impact of the offering. Consistent with the Office of Thrift Supervision appraisal guidelines, the appraisal applied three primary methodologies: the pro forma price-to-book value approach applied to both reported book value and tangible book value; the pro forma price-to-earnings approach applied to reported and core earnings; and the pro forma price-to-assets approach. The market value ratios applied in the three methodologies were based upon the current market valuations of the peer group companies, subject to valuation adjustments applied by RP Financial to account for differences between Alpena Bancshares, Inc. and the peer group. RP Financial placed the greatest emphasis on the price-to-earnings and price-to-book approaches in estimating pro forma market value.

The independent valuation was prepared by RP Financial in reliance upon the information contained in this Prospectus, including the consolidated financial statements of Alpena Bancshares, Inc. RP Financial also considered the following factors, among others:

- the present results and financial condition of Alpena Bancshares, Inc. and the projected results and financial condition of First Federal of Northern Michigan Bancorp, Inc.;

- the economic and demographic conditions in Alpena Bancshares, Inc.'s existing market area;

- certain historical, financial and other information relating to Alpena Bancshares, Inc.;

- a comparative evaluation of the operating and financial characteristics of Alpena Bancshares, Inc. with those of other similarly situated publicly traded savings institutions located in the State of Michigan, and other states in the Midwest United States;

- the aggregate size of the offering of the shares of common stock;

- the impact of the conversion and offering on Alpena Bancshares, Inc.'s stockholders' equity and earnings potential;

- the proposed dividend policy of First Federal of Northern Michigan Bancorp, Inc.;

- the trading market for securities of comparable institutions and general conditions in the market for such securities; and

- the contribution of shares to the charitable foundation.

Included in RP Financial's independent valuation were certain assumptions as to the pro forma earnings of First Federal of Northern Michigan Bancorp, Inc. after the conversion that were utilized in determining the appraised value. These assumptions included estimated expenses, an assumed after-tax rate of return on the net offering proceeds and purchases in the open market of 4% of the common stock issued in the offering by the recognition and retention plan at the $10.00 per share purchase price. See

"Pro Forma Data" for additional information concerning these assumptions. The use of different assumptions may yield different results.

The independent valuation states that as of November 26, 2004, the estimated pro forma market value, or valuation range, of First Federal of Northern Michigan Bancorp, Inc. ranged from a minimum of $24,799,010 to a maximum of $33,551,600, with a midpoint of $29,175,300. The Board of Directors of First Federal of Northern Michigan Bancorp, Inc. decided to offer the shares of common stock for a price of $10.00 per share. The aggregate offering price of the shares will be equal to the valuation range multiplied by the percentage of Alpena Bancshares, Inc. common stock owned by Alpena Bancshares, M.H.C. The number of shares offered will be equal to the aggregate offering price of the shares divided by the price per share. Based on the valuation range, the percentage of Alpena Bancshares, Inc. common stock owned by Alpena Bancshares, M.H.C. and the $10.00 price per share, the minimum of the offering range excluding the shares issued to the foundation will be 1,360,000 shares, the midpoint of the offering range will be 1,600,000 shares and the maximum of the offering range will be 1,840,000 shares.

The Board of Directors of First Federal of Northern Michigan Bancorp, Inc. reviewed the independent valuation and, in particular, considered the following:

- Alpena Bancshares, Inc.'s financial condition and results of operations;

- comparison of financial performance ratios of Alpena Bancshares, Inc. to those of other financial institutions of similar size;

- market conditions generally and in particular for financial institutions; and

- the historical trading price of the publicly held shares of Alpena Bancshares, Inc. common stock.

All of these factors are set forth in the independent valuation. The Board of Directors also reviewed the methodology and the assumptions used by RP Financial in preparing the independent valuation and believes that such assumptions were reasonable. The offering range may be amended with the approval of the Office of Thrift Supervision, if required, as a result of subsequent developments in the financial condition of Alpena Bancshares, Inc. or First Federal of Northern Michigan or market conditions generally. In the event the independent valuation is updated to amend the pro forma market value of First Federal of Northern Michigan Bancorp, Inc. to less than $24,799,010 or more than $38,536,130, the appraisal will be filed with the Securities and Exchange Commission by a post-effective amendment to First Federal of Northern Michigan Bancorp, Inc.'s registration statement.

THE INDEPENDENT VALUATION IS NOT INTENDED, AND MUST NOT BE CONSTRUED, AS A RECOMMENDATION OF ANY KIND AS TO THE ADVISABILITY OF PURCHASING OUR SHARES OF COMMON STOCK. RP FINANCIAL DID NOT INDEPENDENTLY VERIFY OUR CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION THAT WE PROVIDED TO THEM, NOR DID RP FINANCIAL INDEPENDENTLY VALUE OUR ASSETS OR LIABILITIES. THE INDEPENDENT VALUATION CONSIDERS FIRST FEDERAL OF NORTHERN MICHIGAN AS A GOING CONCERN AND SHOULD NOT BE CONSIDERED AS AN INDICATION OF THE LIQUIDATION VALUE OF FIRST FEDERAL OF NORTHERN MICHIGAN. MOREOVER, BECAUSE THE VALUATION IS NECESSARILY BASED UPON ESTIMATES AND PROJECTIONS OF A NUMBER OF MATTERS, ALL OF WHICH MAY CHANGE FROM TIME TO TIME, NO ASSURANCE CAN BE GIVEN THAT PERSONS PURCHASING OUR COMMON STOCK IN THE OFFERING WILL THEREAFTER BE ABLE TO SELL THEIR SHARES AT PRICES AT OR ABOVE THE $10.00 PRICE PER SHARE.

Following commencement of the subscription offering, the maximum of the valuation range may be increased by up to 15%, or up to $38,536,130, without resoliciting subscribers, which will result in a

corresponding increase of up to 15% in the maximum of the offering range to up to 2,116,000 shares, to reflect changes in the market and financial conditions or demand for the shares. We will not decrease the minimum of the valuation range and the minimum of the offering range without a resolicitation of subscribers. The subscription price of $10.00 per share will remain fixed. See "--Limitations on Common Stock Purchases" as to the method of distribution and allocation of additional shares that may be issued in the event of an increase in the offering range to fill unfilled orders in the offering.

If the update to the independent valuation at the conclusion of the offering results in an increase in the maximum of the valuation range to more than $38,536,130 and a corresponding increase in the offering range to more than 2,116,000 shares, or a decrease in the minimum of the valuation range to less than $24,799,010 and a corresponding decrease in the offering range to fewer than 1,360,000 shares, then, after consulting with the Office of Thrift Supervision, we may terminate the plan of conversion and reorganization, cancel deposit account withdrawal authorizations and promptly return by check all funds received with interest at First Federal of Northern Michigan's passbook savings rate of interest. Alternatively, we may hold a new offering, establish a new offering range, extend the offering period and commence a resolicitation of subscribers or take other actions as permitted by the Office of Thrift Supervision in order to complete the conversion and offering. In the event that a resolicitation is commenced, we will promptly cancel deposit account withdrawal authorizations and return all funds received to subscribers as described above. We will notify subscribers of the extension of time and of the rights of subscribers to place a new stock order for a specified period of time. Any resolicitation following the conclusion of the subscription and community offerings would not exceed 45 days unless further extended by the Office of Thrift Supervision for periods of up to 90 days.

An increase in the number of shares to be issued in the offering would decrease both a subscriber's ownership interest and First Federal of Northern Michigan Bancorp, Inc.'s pro forma earnings and stockholders' equity on a per share basis while increasing pro forma earnings and stockholders' equity on an aggregate basis. A decrease in the number of shares to be issued in the offering would increase both a subscriber's ownership interest and First Federal of Northern Michigan Bancorp, Inc.'s pro forma earnings and stockholders' equity on a per share basis, while decreasing pro forma earnings and stockholders' equity on an aggregate basis. For a presentation of the effects of these changes, see "Pro Forma Data."

Copies of the independent valuation appraisal report of RP Financial and the detailed memorandum setting forth the method and assumptions used in the appraisal report are available for inspection at the main office of First Federal of Northern Michigan and as specified under "Where You Can Find Additional Information."

EXCHANGE OF STOCK CERTIFICATES

The conversion of existing outstanding shares of Alpena Bancshares, Inc. common stock into the right to receive new shares of First Federal of Northern Michigan Bancorp, Inc. common stock will occur automatically on the effective date of the conversion. As soon as practicable after the effective date of the conversion, we, or a bank or trust company or other entity designated by us in the capacity of exchange agent, will send a transmittal form to each public stockholder of Alpena Bancshares, Inc. who holds stock certificates. The transmittal forms are expected to be mailed within five business days after the effective date of the conversion and will contain instructions on how to exchange old stock certificates of Alpena Bancshares, Inc. common stock for new stock certificates of First Federal of Northern Michigan Bancorp, Inc. common stock. We expect that stock certificates evidencing new shares of First Federal of Northern Michigan Bancorp, Inc. common stock will be distributed within five business days after we receive properly executed transmittal forms and other required documents. Shares held by public stockholders in street name will be exchanged automatically upon the effective date of the conversion; no transmittal forms will be mailed relating to these shares.

No fractional shares of First Federal of Northern Michigan Bancorp, Inc. common stock will be issued to any public stockholder of Alpena Bancshares, Inc. when the conversion is completed. For each fractional share that would otherwise be issued to a stockholder who holds a stock certificate, we will pay by check an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the $10.00 offering purchase price per share. Payment for fractional shares will be made as soon as practicable after the receipt by the exchange agent of the transmittal forms and the surrendered Alpena Bancshares, Inc. stock certificates. If your shares of common stock are held in street name, you will automatically receive cash in lieu of fractional shares.

YOU SHOULD NOT FORWARD YOUR STOCK CERTIFICATES UNTIL YOU HAVE RECEIVED TRANSMITTAL FORMS, WHICH WILL INCLUDE FORWARDING INSTRUCTIONS.

After the conversion, stockholders will not receive new shares of First Federal of Northern Michigan Bancorp, Inc. common stock and will not be paid dividends on the new shares of First Federal of Northern Michigan Bancorp, Inc. common stock until existing certificates representing shares of Alpena Bancshares, Inc. common stock are surrendered for exchange in compliance with the terms of the transmittal form. When stockholders surrender their certificates, any unpaid dividends will be paid without interest. For all other purposes, however, each certificate that represents shares of Alpena Bancshares, Inc. common stock outstanding at the effective date of the conversion will be considered to evidence ownership of new shares of First Federal of Northern Michigan Bancorp, Inc. common stock into which those shares have been converted by virtue of the conversion.

If a certificate for Alpena Bancshares, Inc. common stock has been lost, stolen or destroyed, our exchange agent will issue a new stock certificate upon receipt of appropriate evidence as to the loss, theft or destruction of the certificate, appropriate evidence as to the ownership of the certificate by the claimant, and appropriate and customary indemnification, which is normally effected by the purchase of a bond from a surety company at the stockholder's expense.

All new shares of First Federal of Northern Michigan Bancorp, Inc. common stock that we issue in exchange for existing shares of Alpena Bancshares, Inc. common stock will be considered to have been issued in full satisfaction of all rights pertaining to such shares of common stock, subject, however, to our obligation to pay any dividends or make any other distributions with a record date prior to the effective date of the conversion that may have been declared by us on or prior to the effective date, and which remain unpaid at the effective date.

SUBSCRIPTION OFFERING AND SUBSCRIPTION RIGHTS

In accordance with the plan of conversion and reorganization, rights to subscribe for shares of common stock in the subscription offering have been granted in the following descending order of priority. The filling of all subscriptions that we receive will depend on the availability of common stock after satisfaction of all subscriptions of all persons having prior rights in the subscription offering and to the maximum, minimum and overall purchase limitations set forth in the plan of conversion and reorganization and as described below under "--Limitations on Common Stock Purchases."

PRIORITY 1: ELIGIBLE ACCOUNT HOLDERS. Each First Federal of Northern Michigan depositor with aggregate deposit account balances of $50.00 or more (a "Qualifying Deposit") on October 31, 2003 (an "Eligible Account Holder") will receive, without payment therefor, nontransferable subscription rights to purchase up to $150,000 (15,000 shares) of our common stock, subject to the overall purchase limitations.

See "--Limitations on Common Stock Purchases." If there are not sufficient shares available to satisfy all subscriptions, shares will first be allocated so as to permit each Eligible Account Holder to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares or the number of shares for which he or she subscribed. Thereafter, unallocated shares will be allocated to each Eligible Account Holder whose subscription remains unfilled in the proportion that the amount of his or her Qualifying Deposit bears to the total amount of Qualifying Deposits of all subscribing Eligible Account Holders whose subscriptions remain unfilled. If an amount so allocated exceeds the amount subscribed for by any one or more Eligible Account Holders, the excess shall be reallocated among those Eligible Account Holders whose subscriptions are not fully satisfied until all available shares have been allocated.

To ensure proper allocation of our shares of common stock, each Eligible Account Holder must list on his or her stock order form all deposit accounts in which he or she has an ownership interest on October 31, 2003. In the event of oversubscription, failure to list an account could result in fewer shares being allocated than if all accounts had been disclosed. In the event of an oversubscription, the subscription rights of Eligible Account Holders who are also directors or executive officers of Alpena Bancshares, Inc. or their associates will be subordinated to the subscription rights of other Eligible Account Holders to the extent attributable to increased deposits in the twelve months preceding October 31, 2003.

PRIORITY 2: TAX-QUALIFIED PLANS. Our tax-qualified employee plans, including our employee stock ownership plan, will receive, without payment therefor, nontransferable subscription rights to purchase up to 10% of the shares of common stock issued in the offering, although our employee stock ownership plan intends to purchase 8% of the shares of common stock issued in the offering.

PRIORITY 3: SUPPLEMENTAL ELIGIBLE ACCOUNT HOLDERS. To the extent that there are sufficient shares of common stock remaining after satisfaction of subscriptions by Eligible Account Holders and our tax-qualified employee stock benefit plans, each First Federal of Northern Michigan depositor with a Qualifying Deposit on December 31, 2004 who is not an Eligible Account Holder ("Supplemental Eligible Account Holder") will receive, without payment therefor, nontransferable subscription rights to purchase up to $150,000 (15,000 shares) of common stock, subject to the overall purchase limitations. See "--Limitations on Common Stock Purchases." If there are not sufficient shares available to satisfy all subscriptions, shares will be allocated so as to permit each Supplemental Eligible Account Holder to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares of common stock or the number of shares for which he or she subscribed. Thereafter, unallocated shares will be allocated to each Supplemental Eligible Account Holder whose subscription remains unfilled in the proportion that the amount of his or her Qualifying Deposit bears to the total amount of Qualifying Deposits of all Supplemental Eligible Account Holders whose subscriptions remain unfilled.

To ensure proper allocation of common stock, each Supplemental Eligible Account Holder must list on the stock order form all deposit accounts in which he or she has an ownership interest at December 31, 2004. In the event of oversubscription, failure to list an account could result in fewer shares being allocated than if all accounts had been disclosed.

PRIORITY 4: OTHER MEMBERS. To the extent that there are shares of common stock remaining after satisfaction of subscriptions by Eligible Account Holders, our tax-qualified employee stock benefit plans, and Supplemental Eligible Account Holders, each depositor of First Federal of Northern Michigan on the voting record date of January 31, 2005 who is not an Eligible Account Holder or Supplemental Eligible Account Holder and each borrower of First Federal of Northern Michigan as of November 4, 1994 whose borrowings remain outstanding as of January 31, 2005 ("Other Members") will receive, without payment therefor, nontransferable subscription rights to purchase up to $150,000 (15,000 shares) of common stock,

subject to the overall purchase limitations. See "--Limitations on Common Stock Purchases." If there are not sufficient shares available to satisfy all subscriptions, available shares will be allocated in the proportion that the amount of the subscription of each Other Member bears to the total amount of the subscriptions of all Other Members whose subscriptions remain unsatisfied.

EXPIRATION DATE. The Subscription Offering will expire at 10:00 a.m., Alpena, Michigan time, on March 15, 2005, unless extended by us for up to 45 days or such additional periods with the approval of the Office of Thrift Supervision, if necessary. Subscription rights will expire whether or not each eligible depositor can be located. We may decide to extend the expiration date of the subscription offering for any reason, whether or not subscriptions have been received for shares at the minimum, midpoint or maximum of the offering range. Subscription rights which have not been exercised prior to the expiration date will become void.

We will not execute orders until at least the minimum number of shares of common stock have been sold in the offering. If at least 1,360,000 shares have not been sold in the offering within 45 days after the expiration date and the Office of Thrift Supervision has not consented to an extension, all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to the subscribers with interest at First Federal of Northern Michigan's passbook savings rate and all deposit account withdrawal authorizations will be canceled. If an extension beyond the 45-day period following the expiration date is granted by the Office of Thrift Supervision, all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to the subscribers with interest at First Federal of Northern Michigan's passbook savings rate and all deposit account withdrawal authorizations will be canceled. We will notify subscribers of the extension of time and of the rights of subscribers to place a new stock order for a specified period of time. Extensions may not go beyond March __, 2007, which is two years after the special meeting of members of Alpena Bancshares, M.H.C. to vote on the conversion.

COMMUNITY OFFERING

To the extent that shares of common stock remain available for purchase after satisfaction of all subscriptions of Eligible Account Holders, our tax-qualified employee stock benefit plans, Supplemental Eligible Account

Holders and Other Members, we may offer shares pursuant to the plan of conversion and reorganization to members of the general public in a community offering. Shares may be offered with the following preferences:

(i) Natural persons residing in the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda, Otsego and Presque Isle;

(ii) Alpena Bancshares, Inc.'s public stockholders as of January 31, 2005; and

(iii) Other members of the general public.

Subscribers in the community offering may purchase up to 15,000 shares of common stock, subject to the overall purchase limitations. See "--Limitations on Common Stock Purchases." The minimum purchase is 25 shares. THE OPPORTUNITY TO PURCHASE SHARES OF COMMON STOCK IN THE COMMUNITY OFFERING CATEGORY IS SUBJECT TO OUR RIGHT, IN OUR SOLE DISCRETION, TO ACCEPT OR REJECT ANY SUCH ORDERS IN WHOLE OR IN PART EITHER AT THE TIME OF RECEIPT OF AN ORDER OR AS SOON AS PRACTICABLE FOLLOWING THE EXPIRATION DATE OF THE OFFERING.

If we do not have sufficient shares of common stock available to fill the orders of natural persons residing in the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda, Otsego and Presque Isle, we will allocate the available shares among those persons in a manner that permits each of them, to the extent possible, to purchase the lesser of 100 shares or the number of shares subscribed for by such person. Thereafter, unallocated shares will be allocated among natural persons residing in those counties whose orders remain unsatisfied on an equal number of shares basis per order. If oversubscription occurs due to the orders of public stockholders of Alpena Bancshares, Inc. as of January 31, 2005, the allocation procedures described above will apply to the stock orders of such persons.

The term "residing" or "resident" as used in this Prospectus means any person who occupies a dwelling within the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda, Otsego and Presque Isle, has a present intent to remain within this community for a period of time, and manifests the genuineness of that intent by establishing an ongoing physical presence within the community, together with an indication that this presence within the community is something other than merely transitory in nature. We may utilize deposit or loan records or other evidence provided to us to decide whether a person is a resident. In all cases, however, the determination shall be in our sole discretion.

EXPIRATION DATE. The community offering, if any, may begin during or after the subscription offering, and is currently expected to terminate at the same time as the subscription offering, and must terminate no more than 45 days following the subscription offering. First Federal of Northern Michigan Bancorp, Inc. may decide to extend the community offering for any reason and is not required to give purchasers notice of any such extension unless such period extends beyond April 29, 2005. If 1,360,000 shares have not been sold in the offering by April 29, 2005, all funds delivered to us will be returned promptly to the purchasers with interest at First Federal of Northern Michigan's passbook savings rate and all withdrawal authorizations will be canceled. If an extension is granted by the Office of Thrift Supervision, we will notify purchasers of the extension of time and of the rights of purchasers to place a new stock order for a specified period of time. These extensions may not go beyond March __, 2007, which is two years after the special meeting of members of Alpena Bancshares, M.H.C. to vote on the conversion.

SYNDICATED COMMUNITY OFFERING

If feasible, our Board of Directors may decide to offer for sale all shares of common stock not subscribed for or purchased in the subscription and community offerings in a syndicated community offering, subject to such terms, conditions and procedures as we may determine, in a manner that will achieve a wide distribution of our shares of common stock. However, we retain the right to accept or reject in whole or in part any orders in the syndicated community offering. In the syndicated community offering, any person may purchase up to $150,000 (15,000 shares) of common stock, subject to the overall maximum purchase limitations. Unless the syndicated community offering begins during the community offering, the syndicated community offering will begin as soon as possible after the completion of the subscription and community offerings.

Since all shares of common stock are being offered on a best-efforts basis, broker-dealers offering shares in the syndicated community offering must conform with certain Securities and Exchange Commission rules. The syndicated community offering will be conducted in accordance with certain Securities and Exchange Commission rules applicable to best efforts offerings. Generally under those rules, Ryan Beck & Co., Inc., a broker-dealer, will deposit funds it receives prior to closing from interested investors into a separate noninterest-bearing bank account. If and when all the conditions for the closing are met, funds for common stock sold in the syndicated community offering will be promptly

delivered to us. If the offering is consummated, but some or all of an interested investor's funds are not accepted by us, those funds will be returned to the interested investor promptly, without interest. If the offering is not consummated, funds in the account will be promptly returned, without interest, to the potential investor. Normal customer ticketing will be used for order placement. In the syndicated community offering, order forms will not be used.

If for any reason we cannot effect a syndicated community offering of shares of common stock not purchased in the subscription and community offerings, or in the event that there is an insignificant number of shares remaining unsold after the subscription, community and syndicated community offerings or in the syndicated community offering, we will try to make other arrangements for the sale of unsubscribed shares, if possible. The Office of Thrift Supervision must approve any such arrangements.

LIMITATIONS ON COMMON STOCK PURCHASES

The plan of conversion and reorganization includes the following limitations on the number of shares of common stock that may be purchased in the offering:

(i) No person may purchase fewer than 25 shares of common stock or more than $150,000 (15,000 shares);

(ii) Our employee stock ownership plan may purchase in the aggregate up to 10% of the shares of common stock issued in the offering (including shares issued to the foundation), including shares issued in the event of an increase in the offering range of up to 15%;

(iii) Except for the employee stock ownership plan, as described above, no person or entity, together with associates or persons acting in concert with such person or entity, may purchase more than $250,000 (25,000 shares) in all categories of the offering combined;

(iv) Current stockholders of Alpena Bancshares, Inc. are subject to an ownership limitation. As previously described, current stockholders of Alpena Bancshares, Inc. will receive new shares of First Federal of Northern Michigan Bancorp, Inc. common stock in exchange for their existing shares of Alpena Bancshares, Inc. common stock. The number of shares of common stock that a stockholder may purchase in the offering, together with associates or persons acting in concert with such stockholder, when combined with the shares that the stockholder and his or her associates will receive in exchange for existing Alpena Bancshares, Inc. common stock, may not exceed 5% of the shares of common stock of First Federal of Northern Michigan Bancorp, Inc. to be issued and outstanding at the completion of the conversion; and

(v) The maximum number of shares of common stock that may be purchased in all categories of the offering by executive officers and directors of First Federal of Northern Michigan and their associates, in the aggregate, when combined with new shares of common stock issued in exchange for existing shares, may not exceed 30% of the shares issued in the conversion.

Depending upon market or financial conditions, our Board of Directors, with the approval of the Office of Thrift Supervision and without further approval of members of Alpena Bancshares, M.H.C., may decrease or increase the purchase and ownership limitations. If a purchase limitation is increased, subscribers in the subscription offering who ordered the maximum amount will be given, and, in our sole discretion, some other large subscribers who through their subscriptions evidence a desire to purchase the maximum allowable number of shares may be given, the opportunity to increase their subscriptions up to

the then applicable limit. The effect of this type of resolicitation will be an increase in the number of shares of common stock owned by subscribers who choose to increase their subscriptions.

In the event of an increase in the offering range of up to 15% of the total number of shares of common stock offered in the offering, shares will be allocated in the following order of priority in accordance with the plan of conversion and reorganization:

(i) to fill the employee stock ownership plan's subscription for up to 10% of the total number of shares of common stock issued in the offering;

(ii) in the event that there is an oversubscription at the Eligible Account Holder, Supplemental Eligible Account Holder or Other Member levels, to fill unfulfilled subscriptions of these subscribers according to their respective priorities; and

(iii) to fill unfulfilled subscriptions in the community offering, with preference given first to natural persons residing in the Michigan counties of Alpena, Alcona, Antrim, Charlevoix, Cheboygan, Crawford, Emmet, Iosco, Kalkaska, Montmorency, Ogemaw, Oscoda, Otsego and Presque Isle, and then to Alpena Bancshares, Inc.'s public stockholders as of January 31, 2005.

The term "associate" of a person means:

(i) any corporation or organization, other than Alpena Bancshares, Inc., First Federal of Northern Michigan or a majority-owned subsidiary of First Federal of Northern Michigan, of which the person is a senior officer, partner or 10% beneficial stockholder;

(ii) any trust or other estate in which the person has a substantial beneficial interest or serves as a trustee or in a similar fiduciary capacity; provided, however, it does not include any employee stock benefit plan in which the person has a substantial beneficial interest or serves as trustee or in a similar fiduciary capacity; and

(iii) any blood or marriage relative of the person, who either has the same home as the person or who is a director or officer of Alpena Bancshares, Inc. or First Federal of Northern Michigan.

The term "acting in concert" means:

(i) knowing participation in a joint activity or interdependent conscious parallel action towards a common goal whether or not pursuant to an express agreement; or

(ii) a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise.

A person or company which acts in concert with another person or company ("other party") shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any tax-qualified employee stock benefit plan will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether common stock held by the trustee and common stock held by the employee stock benefit plan will be aggregated.

We have the sole discretion to determine whether prospective purchasers are "associates" or "acting in concert." Persons living at the same address, and persons exercising subscription rights through qualifying deposits registered at the same address, whether or not related, will be deemed to be acting in concert unless we determine otherwise.

Our directors are not treated as associates of each other solely because of their membership on the Board of Directors. We have the right to determine whether prospective purchasers are associates or acting in concert. Common stock purchased in the offering will be freely transferable except for shares purchased by executive officers and directors of Alpena Bancshares, Inc. or First Federal of Northern Michigan and except as described below. Any purchases made by any associate of Alpena Bancshares, Inc. or First Federal of Northern Michigan for the explicit purpose of meeting the minimum number of shares of common stock required to be sold in order to complete the offering shall be made for investment purposes only and not with a view toward redistribution. In addition, under NASD guidelines, members of the NASD and their associates are subject to certain restrictions on transfer of securities purchased in accordance with subscription rights and to certain reporting requirements upon purchase of these securities. For a further discussion of limitations on purchases of our shares of common stock at the time of conversion and thereafter, see "--Certain Restrictions on Purchase or Transfer of Our Shares after Conversion" and "Restrictions on Acquisition of First Federal of Northern Michigan Bancorp, Inc."

PLAN OF DISTRIBUTION; SELLING AGENT COMPENSATION

To assist in the marketing of our common stock, we have retained Ryan Beck & Co., Inc., which is a broker-dealer registered with the National Association of Securities Dealers, Inc. Ryan Beck & Co., Inc. will assist us on a best efforts basis in the offering by:

(i) acting as our financial advisor for the conversion, providing administration services and managing the Stock Information Center;

(ii) targeting our sales efforts, including assisting in the preparation of marketing materials;

(iii) soliciting orders for common stock; and

(iv) assisting in soliciting proxies of our members.

For these services, Ryan Beck & Co., Inc. will receive an advisory and administrative fee of $25,000 and a sales fee equal to 1.0% of the dollar amount of shares of common stock sold in the subscription and community offerings. The sales fee will be reduced by the advisory and administrative fee. No sales fee will be payable to Ryan Beck & Co., Inc. with respect to shares purchased by officers, directors and employees or their immediate families, shares purchased by our tax-qualified and non-qualified employee benefit plans, or the sh