ALPENA BANCSHARES INC
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
450 FIFTH STREET, N.W.
WASHINGTON, D.C. 20549

FORM 10-QSB

X — QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-31957

ALPENA BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

UNITED STATES	38-3567362
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 S. SECOND AVENUE, ALPENA, MICHIGAN 49707
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (517) 356-9041

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes __X__ No _____

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, Par Value $1.00	Outstanding at November 1, 2001
(Title of Class)	1,641,579 shares

QUARTER ENDED SEPTEMBER 30, 2001

PART I - FINANCIAL INFORMATION

Interim Financial Information required by Rule 10-01 of Regulation S-X and Item 303 of Regulation S-K is included in this Form 10-QSB as referenced below:

ITEM 1 - FINANCIAL STATEMENTS

Consolidated Statements of Financial Condition at September 30, 2001 and December 31, 2000.....
Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2001 and September 30, 2000.....
Consolidated Statement of Changes in Stockholders' Equity For the Nine Months Ended September 30, 2001.....
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2001 and September 30, 2000.....
Notes to Consolidated Financial Statements.....

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.....

PART II - OTHER INFORMATION

OTHER INFORMATION.....
SIGNATURES.....

When used in this Form 10-QSB or future filings by Alpena Bancshares, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

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

ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2001
	(Unaudi
ASSETS	
Cash and cash equivalents:	
Cash on hand and due from banks	$ 3,747,095
Overnight deposits with FHLB	16,360,153
Total cash and cash equivalents	20,107,248
Securities available-for-sale	21,506,198
Loans held for sale	119,104
Loans receivable, net of allowance for loan losses of $677,000 in 2001 and $649,000 in 2000)	190,365,872
Foreclosed real estate and other repossessed assets	157,192
Real estate held for investment	685,683
Federal Home Loan Bank stock, at cost	4,293,600
Premises and equipment	4,800,143
Accrued interest receivable	1,403,200
Core deposit intangibles	1,987,775
Other assets	1,778,957
Total assets	$ 247,204,972
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 167,110,693
Advances from borrowers for taxes and insurance	603,559
Federal Home Loan Bank advances	56,934,600
Accrued expenses and other liabilities	1,851,439
Deferred income taxes	304,629
Total liabilities	226,804,920
Commitments and contingencies	--
Stockholders' equity:	
Common stock ($1.00 par value, 20,000,000 shares authorized, 1,641,579 and 1,642,200 shares issued and outstanding in 2001 and 2000, respectively	1,641,579
Additional paid-in capital	5,179,398
Retained earnings, restricted	3,772,000
Retained earnings	9,362,776
Shares purchased for Recognition and Retention Plan	--
Accumulated other comprehensive income	444,299
Total stockholders' equity	20,400,052

Total liabilities and stockholders' equity	$ 247,204,972

See accompanying notes to consolidated financial statements.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		
	2001	2000	
			(Unaudited)
Interest income:			
Interest and fees on loans	$ 3,794,767	$ 4,345,533	$
Interest and dividends on investments	474,527	301,221	
Interest on mortgage-backed securities	34,530	26,022	
Total interest income	4,303,824	4,672,776	
Interest expense:			
Interest on deposits	1,934,685	1,895,546	
Interest on borrowings	855,251	1,316,817	
Total interest expense	2,789,936	3,212,363	
Net interest income	1,513,888	1,460,413	
Provision for loan losses	75,000	45,000	
Net interest income after provision for loan losses	1,438,888	1,415,413	
Other income:			
Service charges and other fees	290,766	215,551	
Mortgage banking activities	257,858	84,051	
Gain on sale of available-for-sale investments	182,906	756,894	
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	(145,327)	(297,228)	
Other	47,413	19,955	

Total other income	633,616	779,223	
Other expenses:			
Compensation and employee benefits	991,390	731,870	
Federal insurance premiums	7,845	7,945	
Advertising	44,828	39,108	
Occupancy	294,964	239,887	
Amortization of core deposit intangible	51,256	51,254	
Other	287,672	248,580	
Other expenses	1,677,955	1,318,644	
Income before income tax expense	394,549	875,992	
Income tax expense	148,049	301,487	
Net income	$ 246,500	$ 574,505	$
Earnings per share data:			
Basic earnings per share	$ 0.15	$ 0.35	$
Weighted average number of shares outstanding	1,641,579	1,642,200	
Diluted earnings per share	$ 0.15	$ 0.35	$
Weighted average number of shares outstanding, including dilutive stock options	1,642,916	1,642,200	
Dividends per common share	$ 0.125	$ 0.125	$

See accompanying notes to consolidated financial statements.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Balance at December 31, 2000	$ 1,642,200	$ 5,122,163	$ 12,486,139	$ 225,080
Stock issued upon exercise of stock options (200 shares)	--	--	--	--

Forfeiture of shares in connection with RRP stock	(621)	--	--	--
RRP stock release		57,235		
Net income for the period	--	--	918,781	--
Changes in unrealized gain on available-for-sale securities	--	--	--	219,219
Total comprehensive income	--	--	--	--
Dividends declared	--	--	(270,144)	--
Balance at September 30, 2001	$ 1,641,579	$ 5,179,398	$ 13,134,776	$ 444,299

See accompanying notes to consolidated financial statements.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nin Septe
	2001
	(Una
Cash flows provided by (used in) operating activities:	
Net income	$ 918,781
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation	319,100
Amortization of core deposit intangible	153,759
(Gain) loss on sale of investment securities available for sale	(182,906)
(Gain) loss on sale of real estate held for investment	28,210
(Gain) loss on sale of premises and equipment, real estate owned and other repossessed assets	157,064
Accretion of discounts, amortization of premiums, and other deferred yield items, net	33,667
Increase (decrease) in advance payments by borrowers for taxes and insurance	348,317
Provision for loan losses	180,000
(Increase) decrease in accrued interest receivable	86,641
(Increase) decrease in prepaid expenses and other assets	(397,035)
Increase (decrease) in accrued expenses and other liabilities	(26,495)

Increase (decrease) in deferred income taxes	--
Increase (decrease) in other, net	(275,916)
Net cash provided by (used in) operating activities	1,343,187
Cash flows provided by (used in) investing activities:	
Proceeds from sales of:	
Investment securities available-for-sale	185,844
Real estate held for investment	374,583
Real estate owned, other repossessed assets and premises and equipment	239,706
Purchases of:	
Investment securities available-for-sale	(13,166,342)
Real estate held for investment	(14,550)
Premises and equipment	(590,190)
Originations of loans held for sale	(48,577,484)
Principal amount of loans sold	49,308,333
(Increase) decrease in net loans receivable	28,200,602
Principal payments received on:	
Investment securities	7,000,000
Mortgage-backed securities	406,915
Net cash provided by (used in) investing activities	23,367,417
Cash flows provided by (used in) financing activities:	
Proceeds from Federal Home Loan Bank advances	22,500,000
Repayments of Federal Home Loan Bank advances	(48,000,000)
Increase (decrease) in deposits	4,339,286
Dividend paid on common stock	(270,144)
Issuance of common stock	--
Net cash provided by (used in) financing activities	(21,430,858)
Net increase (decrease) in cash and cash equivalents	3,279,746
Cash and cash equivalents at beginning of period	16,827,502
Cash and cash equivalents at end of period	$ 20,107,248
Supplemental disclosure of cash flow information:	
Cash paid during the period for income taxes	$ 385,000
Cash paid during the period for interest	$ 8,735,599

See accompanying notes to consolidated financial statements.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting and include the accounts of Alpena Bancshares, Inc. (the "Company") and its wholly-owned direct and indirect subsidiaries, First Federal of Northern Michigan (the "Bank") and Financial Service and Mortgage Corporation ("FSMC"). FSMC invests in real estate that includes leasing, selling, developing, and maintaining real estate properties. All significant intercompany balances and transactions have been eliminated in the consolidation.

These interim financial statements are prepared without audit and reflect all adjustments, which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2001, and its results of operations and statement of cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary and should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Annual Report for the year ended December 31, 2000. Results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

REAL ESTATE HELD FOR SALE - FSMC is engaged in the development and sale of real estate. Land held for sale or development is carried at cost, including development costs, not in excess of fair value less costs to sell determined on an individual project basis.

MORTGAGE BANKING ACTIVITIES - In 2000, the Bank began selling to investors a portion of its originated residential mortgage loans. The mortgage loans serviced for others are not included in the consolidated statements of financial condition.

When the Bank acquires mortgage servicing rights through the origination of mortgage loans and sells those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. Capitalized mortgage servicing rights are amortized 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. Capitalized mortgage servicing rights are periodically evaluated for impairment. If impairment is identified, the amount of impairment is charged to earnings with the establishment of a valuation allowance against the capitalized mortgage servicing rights.

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

INCOME TAXES - The provision for income taxes is based upon the effective tax rate expected to be applicable for the entire year.

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ALPENA BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

EARNINGS PER SHARE - Basic earnings per share is based on the weighted average number of shares outstanding in each period. Fully diluted earnings per share are based on weighted average shares outstanding assuming the exercise of the dilutive stock options. The Company uses the treasury stock method to compute fully diluted earnings per share, which assumes proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period.

NOTE 2--REORGANIZATION.

The Company was formed as the Bank's holding company on November 14, 2000 pursuant to a plan of reorganization adopted by the Bank and its stockholders. Pursuant to the reorganization, each share of the Bank's stock held by existing stockholders of the Bank was exchanged for a share of common stock of the Company by operation of law. The reorganization had no financial statement impact and is reflected for all prior periods presented. Approximately 56% of the Company's outstanding common stock is owned by Alpena Bancshares M.H.C., a mutual holding company (the "M.H.C."). The remaining 44% of the Company's stock is owned by the general public. The activity of the M.H.C. is not included in these financial statements.

NOTE 3--DIVIDENDS.

Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company's results of operation and financial condition, tax considerations and general economic conditions. Alpena Bancshares, M.H.C. (the majority shareholder of the Company) filed a notice with the Office of Thrift Supervision (the "OTS") requesting approval to waive payment of cash dividends from the Company for each quarterly dividend to be paid for the year ending December 31, 2001. In a letter dated April 13, 2001, the OTS did not object to the dividend waiver request for the four quarters ending December 31, 2001, subject to the following conditions: (1) for as long as the Company is controlled by the M.H.C. the amount of dividends waived by the M.H.C. must be segregated and considered as a restriction on retained earnings of the Company (the cumulative dividends waived to date are $3.772 million); (2) the amount of the dividend waived by the M.H.C. shall be available for declaration as a dividend solely to the M.H.C.; and (3) the amount of the dividend waived by the M.H.C. must be considered as having been paid by the Company in evaluating any proposed dividend. In addition, the OTS may rescind its non-objection to the waiver of dividends for subsequent periods, if, based on subsequent

developments, the proposed waivers are determined to be detrimental to the safe and sound operation of the Company.

On September 14, 2001, the Company declared a cash dividend on its common stock, payable on, or about, October 25, 2001, to shareholders of record as of September 30, 2001, equal to $0.125 per share. The dividend on all shares outstanding totaled $205,000, of which $90,000 was paid to shareholders. Because the OTS has agreed to allow the M.H.C. to waive its dividend (amounting to $115,000), this dividend will not be paid.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES

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

The following discussion compares the financial condition of the Company and its wholly owned direct and indirect subsidiaries at September 30, 2001 and December 31, 2000, and the results of operations for the three and nine month periods ended September 30, 2001 and 2000. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

FINANCIAL CONDITION

Total assets declined $19.8 million, or 7.4%, to $247.2 million at September 30, 2001 from $267.0 million at December 31, 2000. Net loans decreased $29.3 million, or 13.3%, to $190.5 million at September 30, 2001 from $219.8 million at December 31, 2000 as a result of borrower refinancing of balloon mortgage loans into 15 and 30 year fixed rate loans that were subsequently sold by the Bank in the secondary market. Such sales totaled $49.3 million for the nine months ended September 30, 2001.

Deposits increased $4.3 million, or 2.7%, to $167.1 million at September 30, 2001 from $162.8 million at December 31, 2000. Of this increase, $4.6 million was attributable to the Bank obtaining brokered certificates of deposit with maturities ranging from one to five years. These certificates were obtained at rates, which at the time were more favorable than those from other sources, including FHLB advances. Borrowings in the form of Federal Home Loan Bank advances declined $25.5 million, or 30.9%, to $56.9 million at September 30, 2001 from $82.4 million at December 31, 2000. This decrease was a result of the previously mentioned changes in loans receivable and deposits.

Stockholders' equity increased by $929,000, or 4.8%, to $20.4 million at September 30, 2001 from $19.5 million at December 31, 2000. The increase in stockholders' equity was primarily due to net income of $919,000 and an increase in accumulated other comprehensive income of $219,000 as the result of higher market values on available-for-sale securities in the generally lower market interest rate environment. These increases were partially offset by dividends of $270,000 paid to the stockholders.

RESULTS OF OPERATIONS

Net income declined 57.1% to $247,000 for the three months ended September 30, 2001 from $575,000 for the same period ended September 30, 2000. Net income for the nine months ended September 30, 2001 was $919,000, a decline of $459,000 or 33.3% from the same period in 2000. The decreases in net income were primarily due to other income realized from the sale of investment securities in 2000 and an increase in operating expenses in 2001. The declines were partially offset by an increase in mortgage banking income as well as higher service charges and other fees in 2001.

Interest income was $4.3 million and $13.5 million for the three and nine months ended September 30, 2001, respectively, from $4.7 million and $13.9 million for the comparable periods in 2000. The decrease in interest income for the three and nine month periods ended September 30, 2001 from the prior year periods was primarily due to the sale of mortgage loans. The sale of these loans resulted in a decline in the average balance of residential mortgage loans of approximately $42.1 million and $31.0 million for the three and nine month periods ended September 30, 2001, respectively, from the prior year periods. These declines were partially offset by increases in the average balances of non-mortgage loans of $10.6 million and $12.5 million, investment securities of $7.5 million and $5.5 million and other investments, which are primarily overnight deposits, of $15.0 million and $7.4 million for the three and nine months ended September 30, 2001, respectively, from the prior year periods.

RESULTS OF OPERATIONS (continued)

Interest expense was $2.8 million and $8.8 million for the three and nine month periods ended September 30, 2001 compared to $3.2 million and $9.3 million for the same periods in 2000. The decline in interest expense was attributable to lower interest rates paid on interest-bearing liabilities and to lower average balances on these liabilities for the periods ended September 30, 2001 compared to the same periods one year earlier.

Net interest income was relatively unchanged at $1.5 million and $4.6 million for each of the three and nine months ended September 30, 2001 and 2000. For the three and nine months ended September 30, 2001, the percentage of average interest-earning assets to average interest-bearing liabilities increased to 104.5% and 104.1% from 103.0% and 102.9% for the same periods one year earlier. The net interest rate spread declined to 2.39% for both the three and nine months ended September 30, 2001 from 2.44% and 2.50% for the same periods in 2000. The yield on average interest-earning assets declined to 7.32% for the three months ended September 30, 2001 from 7.83% for the period ended September 30, 2000, while the yield for the nine month period declined to 7.56% from 7.75%. The cost of average interest-bearing liabilities declined to 4.92% from 5.39% for the three months ended September 30, 2001 and September 30, 2000, respectively. This cost declined to 5.17% from 5.25% for the nine month period ended September 30, 2001 when compared to the same period one year earlier.

Provision for loan losses increased to $75,000 and $180,000 for the three and

nine months ended September 30, 2001, respectively, compared to $45,000 and $135,000 for the same periods in 2000. Management continues to monitor loan loss provisions because of the inherent risk of the loan (primarily commercial and consumer) portfolio. Net loans receivable, excluding loans held for sale, were $190.4 million at September 30, 2001 compared to $219.0 million at December 31, 2000. Total nonperforming assets declined slightly to $806,000 at September 30, 2001 from $820,000 at December 31, 2000.

While management believes that, based on information currently available, the allowance for loan losses is sufficient to cover losses inherent in the Company's loan portfolio at this time, no assurance can be given that the level of allowance will be sufficient to cover future loan losses or that future adjustments to the allowance will not be necessary if economic and/or other conditions differ substantially from the economic and other conditions considered by management in evaluating the adequacy of the current level of the allowance.

Other income declined $145,000 to $634,000 for the three months ended September 30, 2001, and increased $183,000 to $1.7 million for the nine month period ended September 30, 2001 from the same periods one year earlier. The increase was primarily attributable to mortgage banking activities income, and also partially due to increases in various fees collected. These increases were partially offset by having lower recorded gains from the sale of available-for-sale securities in 2001. During 2000, the Company began selling new originations of 15 to 30 year fixed rate loans in the secondary market generally with servicing retained. For the three and nine month periods ended September 30, 2001, the Company had mortgage banking activities income of $258,000 and $802,000, respectively, compared to $84,000 and $138,000 for the same periods in 2000. Also in 2000, the Company recognized gains in the liquidation of certain available-for-sale securities to enhance both liquidity and future earnings. These gains totaled approximately $183,000 for the three and nine month periods ended September 31, 2001 which reflect declines of $574,000 and $820,000 from the three and nine months periods ended September 30, 2000, respectively.

RESULTS OF OPERATIONS (continued)

Other expenses were $1.7 million and $4.7 million for the three and nine months ended September 30, 2001, respectively, compared to $1.3 million and $3.9 million for the same periods ended September 30, 2000. The increase was attributable to higher compensation and benefits, occupancy, and other expenses. The increase in compensation and benefit expense was primarily due to additional personnel, general overall increases in wage rates, an increase in commissions paid due to increased loan originations and a higher cost of benefits in the 2001 period. Occupancy expense increased primarily because of increased depreciation expense on equipment. The increase in other expense was attributable to increases in several various expense accounts.

Federal income taxes declined to $148,000 and $525,000 for the three and nine month periods ended September 30, 2001, respectively, compared to $301,000 and

$712,000 for the same periods in 2000. The decrease was attributable to the decline in taxable income.

11.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES

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

LIQUIDITY

The Company's primary sources of funds are deposits, FHLB advances, and proceeds from principal and interest payments and prepayments on loans and mortgage-backed and investment securities. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

Liquidity represents the amount of an institution's assets that can be quickly and easily converted into cash without significant loss. The most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency guaranteed securities and certificates of deposit. The Company is required to maintain sufficient levels of liquidity as defined by the OTS regulations. This requirement may be varied at the direction of the OTS. Regulations currently in effect require that the Company must maintain sufficient liquidity to ensure its safe and sound operation. The Company's objective for liquidity is to be above 6%. Liquidity for the three months ended September 30, 2001 averaged $27.1 million, or 17.6%, compared to $15.9 million, or 7.68% and $16.5 million, or 8.10% for the three months ended December 31, 2000 and September 30, 2000, respectively. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period.

The Company intends to retain for the portfolio certain originated residential mortgage loans (primarily adjustable rate and balloon mortgage loans) and to generally sell the remainder in the secondary market. The Company will from time to time participate in or originate commercial real estate loans, including real estate development loans. During the nine months ended September 30, 2001 the Company originated $79.4 million in residential mortgage loans, of which $30.1 million were retained in the portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to $36.2 million in originations during the first nine months of 2000 of which $26.2 million were retained in the portfolio. The Company also originated $11.4 million of commercial loans and $9.3 million of consumer loans in the first nine months of 2001 compared to $6.4 million of commercial loans and $11.5 million of consumer loans for the same period in 2000. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 81.3% and 84.0%, commercial loans 5.8% and 4.8% and consumer loans 12.9% and 11.2% at September 30, 2001 and December 31, 2000, respectively.

Deposits are a primary source of ; funds for use in lending and for other general business purposes. At September 30, 2001, deposits funded 67.6% of the Company's total assets compared to 61.0% at December 31, 2000. Management believes that a significant portion of such deposits will remain with the

Company. 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, 2001, the Company had $56.9 million in FHLB advances. Total borrowings as a percentage of total assets were 23.0% at September 30, 2001 as compared to 30.9% at December 31, 2000. The Company has sufficient available collateral to obtain additional advances from the FHLB, and, based upon current FHLB stock ownership, could obtain up to a total of approximately $85 million in such advances.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES

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

CAPITAL RESOURCES

Stockholders' equity at September 30, 2001 was $20.4 million, or 8.3% of total assets, compared to $19.5 million, or 7.3% of total assets, at December 31, 2000. (See "Consolidated Statement of Changes in Stockholders' Equity.") The Bank is subject to three capital-to-assets levels in accordance with the OTS regulations. The Bank exceeded all regulatory capital requirements at September 30, 2001. The following table summarizes the Bank's actual capital with the regulatory capital requirements and with requirements to be "Well Capitalized" under prompt corrective action provisions, as of September 30, 2001:

	Actual		Regulatory Minimum		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Capital Requirements:						
Tangible equity capital	$16,643	6.82%	$ 3,658	1.50%	$ 4,878	2.00%
Tier 1 (Core) capital	$16,643	6.82%	$ 9,756	4.00%	$12,195	5.00%
Total risk-based capital	$17,320	12.86%	$10,778	8.00%	$13,472	10.00%
Tier 1 risk-based capital	$16,642	12.35%	$ 5,389	4.00%	$ 8,083	6.00%

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings:
Not applicable.

Item 2 - Changes in Securities:
Not applicable.

Item 3 - Defaults Upon Senior Securities:
Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders:
Not applicable

Item 5 - Other Information:
In the first quarter of 2001, the Bank changed its name to "First Federal of Northern Michigan" from "First Federal Savings and Loan Association of Alpena, MI", to more accurately reflect the market area served by the Bank.

Item 6 - Exhibits and Reports on Form 8-K:
(a) Exhibits:
None
(b) Reports on Form 8-K:
None

ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2001

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALPENA BANCSHARES, INC.
Registrant

Date: November 14, 2001
/s/ Martin A. Thomson

Martin A. Thomson
Title: President and Chief Executive Officer
(Duly Authorized Officer)

Date: November 14, 2001
/s/ James D. Hubinger

James D. Hubinger

Title: Treasurer and Chief Financial Officer
(Principal Financial Officer)

15.