ALPENA BANCSHARES INC
Form 10QSB
May 15, 2003

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 MARCH 31, 2003

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: (989) 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 preceeding 12 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 May 8, 2003
(Title of Class)	1,646,558 shares

Transitional Small Business Disclosure Format: Yes ________ No X .

ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

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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:

PART II - OTHER INFORMATION

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.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	March
	(Unau
ASSETS	
Cash and cash equivalents:	
Cash on hand and due from banks	$3,2
Overnight deposits with FHLB	12,6
Total cash and cash equivalents	15,9
Securities available-for-sale	44,3
Loans held for sale	3,9
Loans receivable, net of allowance for loan losses of $1,043,103 at March 31, 2003 and $922,000 at December 31, 2002	146,4
Foreclosed real estate and other repossessed assets	
Real estate held for investment	5
Federal Home Loan Bank stock, at cost	4,2
Premises and equipment	5,1
Accrued interest receivable	1,3
Core deposit intangibles	1,6
Other assets	2,3
Total assets	$226,0
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$153,6
Advances from borrowers for taxes and insurance	1
Federal Home Loan Bank advances	47,4
Accrued expenses and other liabilities	2,5
Deferred income taxes	6
Total liabilities	204,4
Commitments and contingencies	
Stockholders' equity:	
Common stock ($1.00 par value, 20,000,000 shares authorized, 1,646,358 and 1,645,248 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively)	1,6
Additional paid-in capital	5,2
Retained earnings, restricted	4,4
Retained earnings	9,3
Accumulated other comprehensive income	9

Total stockholders' equity	21,6
Total liabilities and stockholders' equity	$226,0

See accompanying notes to consolidated financial statements.

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ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended March 31,	
	2003	2002
	(Unaudited)	
INTEREST INCOME:		
Interest and fees on loans	$ 2,821,146	$ 3,294,736
Interest and dividends on investments	501,411	477,151
Interest on mortgage-backed securities	77,724	28,284
Total interest income	3,400,281	3,800,171
INTEREST EXPENSE:		
Interest on deposits	1,029,892	1,566,151
Interest on borrowings	672,237	733,639
Total interest expense	1,702,129	2,299,790
Net interest income	1,698,149	1,500,381
Provision for loan losses	162,500	75,000
Net interest income after provision for loan losses	1,535,649	1,425,381
OTHER INCOME:		
Service charges and other fees	160,368	182,483
Mortgage banking activities	376,115	321,369
Gain on sale of available-for-sale investments ...	--	--
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets..	2,865	(7,268)
Other	43,011	46,534
Total other income	582,359	543,118

OTHER EXPENSES:		
Compensation and employee benefits	1,176,168	1,015,737
Federal insurance premiums	6,682	7,563
Advertising	43,735	47,496
Occupancy	270,519	259,205
Amortization of core deposit intangible	51,252	51,252
Other	445,605	444,078
Total other expenses	1,993,961	1,825,331
Income before income tax expense	124,047	143,168
Income tax expense	38,470	51,703
Net income	$ 85,577	$ 91,465
Per share data:		
Basic earnings per share	$ 0.05	$ 0.06
Weighted average number of shares outstanding	1,646,347	1,641,798
Diluted earnings per share	$ 0.05	$ 0.06
Weighted average number of shares outstanding, including dilutive stock	1,656,740	1,652,513
Dividends per common share	$ 0.125	$ 0.125

See accompanying notes to consolidated financial statements.

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ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2003

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulat Other Comprehens Income
Balance at December 31, 2002	$ 1,645,258	$ 5,216,075	$ 13,818,394	$ 1,067,
Stock issued upon exercise of stock options (1,100 shares)	1,100	9,488	--	
RRP stock release (200 shares)	200	2,750	--	
Net income for the period	--	--	85,577	

Changes in unrealized gain on available-for-sale securities ...	--	--	--	(77,
Total comprehensive income	--	--	--	
Dividends declared	--	--	(90,820)	
Balance at March 31, 2003	$ 1,646,558	$ 5,228,312	$ 13,813,150	$ 990,

See accompanying notes to consolidated financial statements.

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ALPENA BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW

	For the
	2003
Cash flows from operating activities:	
Net income	$ 85,
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	114,
Amortization of core deposit intangible	51,
Provision for loan losses	162,
Accretion of discounts, amortization of premiums, and other deferred yield items, net	70,
(Gain) loss on sale of investment securities available for sale	
Originations of loans held for sale	(19,864,
Principal amount of loans sold	16,435,
(Gain) loss on sale of real estate held for investment	
(Gain) loss on sale of premises and equipment, real estate owned and other repossessed assets	(2,
(Increase) decrease in accrued interest receivable	2,
(Increase) in prepaid expenses and other assets	(128,
Increase (decrease) in accrued expenses and other liabilities	681,
Increase in other, net	4,
Net cash provided by (used in) operating activities	(2,387,
Cash flows from investing activities:	
(Increase) decrease in net loans receivable	4,680,
Proceeds from sales or maturity of:	
Investment securities available-for-sale	3,245,
Real estate held for investment	
Real estate owned, other repossessed assets and premises and equipment	51,

Purchases of:	
Investment securities available-for-sale	(847,
Real estate held for investment	(94,
Premises and equipment	(471,
Principal payments received on:	
Investment securities	
Mortgage-backed securities	
Net cash provided by (used in) investing activities	6,562,
Cash flows from financing activities:	
Repayments of Federal Home Loan Bank advances	(1,000,
Increase (decrease) in deposits	(2,420,
Increase (decrease) in advance payments by borrowers for taxes and insurance..	131,
Dividend paid on common stock	(90,
Issuance of common stock	10,
Net cash provided by (used in) financing activities	(3,369,
Net increase (decrease) in cash and cash equivalents	806,
Cash and cash equivalents at beginning of period	15,098,
Cash and cash equivalents at end of period	$ 15,905,
Supplemental disclosure of cash flow information:	
Cash paid during the period for income taxes	
Cash paid during the period for interest	$ 1,705,

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 subsidiary, First Federal of Northern Michigan (the "Bank") and its wholly owned subsidiary Financial Service and Mortgage Corporation ("FSMC"), respectively. 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 March 31, 2003, 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, 2002. Results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

CRITICAL ACCOUNTING POLICY - The Company's critical accounting policy relates to the allowance for losses on loans. The Company has 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 management's 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 management's 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. Such 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, management's 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 management to make subjective judgments that often require assumptions or estimates about uncertain matters. The Company's critical accounting policies are periodically reviewed by the Audit Committee and full Board of Directors.

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 Company 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 Company 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. As of March 31, 2003 and December 31, 2002, the Bank was servicing loans sold to others totaling $125.8 million and $119.7 million respectively. 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 using a model that takes into account several variables. 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. In general, the value of mortgage service rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increases as interest rates rise and decrease as interest rates fall.

The evaluation was last performed as of December 31, 2002. The key economic assumptions made in determining the fair value of the mortgage servicing rights included the following:

Annual Constant Prepayment Speed (CPR):	17.55%
Weighted Average Life Remaining (in months):	263.7
Discount Rate used:	7.36%

At the December 31, 2002 valuation, the mortgage servicing rights value was calculated, based on the above factors, to be $1,094,378. The net book value as of December 31, 2002 was $868,559. This means that the Bank is conservative in estimating the value of the asset for book purposes. The Bank chose to not perform the valuation at March 31, 2003 since the difference exceeded 25% of the value carried on the Company's books at December 31, 2002.

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.

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 is based on weighted average shares outstanding assuming the exercise of the dilutive stock options, which are the only potential stock of the Company as defined in Statement of Financial Accounting Standard No. 128, Earnings per Share. 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 capital stock is owned by Alpena Bancshares M.H.C. ("the M.H.C."), a mutual holding company. 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 depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company's results of operations and financial condition, tax considerations and general economic conditions. The M.H.C. (the majority shareholder of the Company) filed a notice with the Office of Thrift Supervision (the "OTS") requesting approval to waive receipt of cash dividends from the Company for each quarterly dividend to be paid for the year ending December 31, 2003. In a letter dated February 5, 2003, the OTS did not object to the dividend waiver request for the four quarters ending December 31, 2003.

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On March 18, 2003, the Company declared a cash dividend on its common stock, payable on, or about April 25, 2003, to shareholders of record as of March 31, 2003, equal to $0.125 per share. The dividend on all shares outstanding totaled $206,000, of which $91,000 was paid to shareholders. Because the OTS has agreed to allow the M.H.C. to waive receipt of its dividend (amounting to $115,000), this dividend was not paid.

NOTE 4--1996 STOCK OPTION PLAN AND 1996 RECOGNITION AND RETENTION PLAN.

At March 31, 2003 the Company had outstanding stock options for 39,933 shares with a weighted exercise price of $10.37 compared to outstanding options for 41,033 shares at a weighted exercise price of $10.35 at December 31, 2002. During the three months ended March 31, 2003, the Board of Directors granted no options. During this same period, options for 1,100 shares were exercised. At March 31, 2003, options had exercise prices ranging from $9.625 to $13.75 per share and a weighted average remaining contractual life of 3.83 years.

During the three months ended March 31, 2003 the Company awarded 200 shares, which were vested at the time of the award, under the Recognition and Retention Plan ("RRP"). Shares issued under the RRP and exercised pursuant to the exercise of stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

For the quarter ended March 31, 2003, options for 1,000 shares were vested. The expense associated with those vested options would have been $1,040 had the company elected to adopt FAS 148 (see below).

NOTE 5 - OTHER EXPENSES.

At March 31, 2003 other expenses totaled $445,605. This is comprised of several larger expenses for the quarter including printing and office supplies of $41,000, service bureau charges for the bank operating system of $78,000, and professional services including audit, legal, and regulatory fees of $70,000. The balance of the total is comprised of expenses lower than $40,000.

RECENT ACCOUNTING PRONOUNCEMENTS - In July 2001, Statement of Financial Accounting Standards No 142, Goodwill and Other Intangibles (FAS 142), was issued. SFAS 142 changes the accounting treatment of goodwill effective January 1, 2002. The entire amount of intangible assets reported by the Company is attributable to core deposit intangible. Therefore, the adoption of FAS 142 has no impact on the Company's financial statements.

In November 2002, FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires disclosures be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires the recognition of a liability by a guarantor at the inception of certain guarantees that it has issued and that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 does not have a material effect on the Company's financial statements since the Company does not issue such guarantees.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-based Compensation-transition and Disclosure, which amends FASB 123, Accounting for Stock-Based Compensation. Statement No.148 is effective for fiscal years ending after December 15, 2002. Statement No. 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123. The Company has not adopted the fair value-based method of accounting for stock-based compensation as of March 31, 2003; therefore, there is no impact to the Company's financial statements.

ALPENA BANCSHARES, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

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

The following discussion compares the financial condition of the Company consolidated with its wholly owned direct and indirect subsidiaries at March 31, 2003 and December 31, 2002, and the results of operations for the three month periods ended March 31, 2003 and 2002. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

FINANCIAL CONDITION

ASSETS: Total assets declined $2.7 million, or 1.2%, to $226.1 million at March 31, 2003 from $228.8 million at December 31, 2002. Cash and cash and equivalents increased by $807,000, or 5.3%, to $15.9 million at March 31, 2003 from $15.1 million at December 31, 2002. Investment securities available for sale decreased $2.6 million, or 5.5% in the first three months as two bonds matured during the quarter. Net loans receivable decreased $4.8 million, or 3.2%, to $146.5 million at March 31, 2003 from $151.3 million at December 31, 2002 primarily as a result of borrower refinancing of balloon mortgage loans into 15 and 30 year fixed rate loans, most of which were subsequently sold by the Company in the secondary market. Such sales totaled $16.4 million for the three months ended March 31, 2003.

LIABILITIES: Deposits decreased $2.4 million, or 1.6% to $153.7 million at March 31, 2003 from $156.1 million at December 31, 2002. This decrease was primarily attributable to lower interest rates offered on certificate of deposit accounts which resulted in some of the maturing funds being withdrawn. Borrowings in the form of Federal Home Loan Bank advances declined $1.0 million, or 2.1%, to $47.4 million at March 31, 2003 from $48.4 million at December 31, 2002.

EQUITY: Stockholders' equity decreased by $69,000, or .3%, to $21.7 million at March 31, 2003 from $21.8 million at December 31, 2002. The slight decrease in stockholders' equity was due to a decrease in accumulated other comprehensive income of $77,000 resulting from slightly lower market values on available-for-sale securities and a dividend of $91,000 that was declared during the quarter ended March 31, 2003. These decreases to equity were partially offset by net income of $86,000.

RESULTS OF OPERATIONS

GENERAL: Net income decreased 6.4% to $86,000 for the three months ended March 31, 2003 from $91,000 for the same period ended March 31, 2002. The decrease for the three month period was primarily due to an increase in the provision for loan loss which was increased by $87,500 over the same period one year earlier. Net interest income was higher compared to the first quarter 2003 but was offset by an increase in compensation and employee benefits expenses.

INTEREST INCOME: Interest income was $3.4 million for the three months ended March 31, 2003, compared to $3.8 million for the comparable period in 2002. The decrease in interest income for the three month period from the prior year was primarily due to the sale of longer term fixed rate mortgage loans and the subsequent reinvestment of these proceeds into lower yielding assets (investment securities). The sale of these loans resulted in a decline in the average balance of residential mortgage loans of $26.4 million, or 20.4%, for the three month period ended March 31, 2003 from the prior year period. This decline was partially offset by increases in the average balance of non-mortgage loans of $7.1 million, or 17.1%, and the increase in the

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ALPENA BANCSHARES, INC. AND SUBSIDIARIES

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

RESULTS OF OPERATIONS (continued)

average balance of other investments of $3.3 million, or 5.9%, for the three month period ended March 31, 2003, compared to the same period in the prior year.

INTEREST EXPENSE: Interest expense was $1.7 million for the three month period ended March 31, 2003 compared to $2.3 million for the same period in 2002. The 26.0% 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 period ended March 31, 2003 compared to the same 2002 period. The average balance of deposits and FHLB borrowings declined in total from $212.6 million to $194.9 million from the period ended March 31, 2002 to

March 31, 2003. Of this $17.7 million reduction, $14.3 million was related to deposit, which went from a $161.7 million average balance for the period ended March 31, 2002 to $147.4 million average balance for the period ended March 31, 2003.

NET INTEREST INCOME: Net interest income increased to $1.7 million for the three month period ended March 31, 2003 compared to $1.5 million for the same period in 2002. For the three months ended March 31, 2003, average interest-earning assets declined $16.0 million, or 7.1% when compared to the same period in 2002. Average interest-bearing liabilities decreased $17.7 million, or 8.3% for the same period. The yield on average interest-earning assets declined to 6.50% for the three month period ended March 31, 2003 from 6.66% for the same period ended in 2002. The cost of average interest-bearing liabilities declined to 3.52% from 4.37% for the three month period ended March 31, 2003 and March 31, 2002, respectively. As a result of the decrease in the overall cost of funds, the net interest rate margin increased to 3.23% for the three month period ended March 31, 2003, from 2.55% for same period in 2002.

DELINQUENT LOANS AND NONPERFORMING ASSETS: The following table sets forth information regarding loans delinquent 90 days or more and REO/ORA by the Bank at the dates indicated. As of the dates indicated, the Bank did not have any material restructured loans within the meaning of SFAS 15.

		At Decem	
		(In Thou	
	March 31, 2003	2002	2001
Total non-accrual loans delinquent 90 days or more (3)..	$ 581	$ 662	$ --
Accrual loans delinquent 90 days or more:			
One- to four-family residential	677	566	475
Other real estate loans	--	--	--
Consumer / Commercial	$1,203	$ 241	$ 201
Total accrual loans delinquent 90 days or more	$1,880	$ 807	$ 676
Total nonperforming loans (1)	$2,461	$1,469	$ 676
Total real estate owned (2)	80	128	197
Total nonperforming assets	$2,541	$1,597	$ 873
Total nonperforming loans to net loans receivable	1.64%	0.97%	0.38%
Total nonperforming loans to total assets	1.09%	0.64%	0.28%
Total nonperforming assets to total assets	1.12%	0.70%	0.36%

(1) All the Bank's loans delinquent 90 days or more are classified as nonperforming.

(2) Represents the net book value of property acquired by the Bank through foreclosure or deed in lieu of foreclosure. Upon acquisition, this property is recorded at the lower of its fair market value or the principal balance of the related loan.

(3) For the three months ended March 31, 2003 and the twelve months ended

December 31, 2002, the interest that would have been reported was $14,000 and $27,000 respectively were these loans not in non-accrual status.

PROVISION FOR LOAN LOSSES: The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The provision for loan losses amounted to $162,500 for the three month period ended March 31, 2003 and $75,000 for the comparable period in 2002. The increase in the reserve allowance relates to the increase in the trend of delinquencies seen over the last twelve months. At March 31, 2003, the percent of nonperforming loans increased to 164 basis points from 97 basis points at December 31, 2002. As a percent of total assets, nonperforming loans increased to 109 basis points at March 31, 2003 from 64 basis points at December 31, 2002.

NONINTEREST INCOME: Other income was $582,000 for the three month period ended March 31, 2003, compared to $543,000 for the same period in 2002. This represented an increase of $39,000 or 7.2% improvement. Service charges and other fees were $24,000 lower which primarily related to lower NSF fees for the first three months of 2003 compared to the same period in 2002. Comparing to the first quarter 2002, mortgage banking activities income was higher by $55,000. This represented an increase of 17% over the quarter ended March 31 2002. This increase related to the gain on sale of mortgages sold in the secondary market. This was a function of the increased volume of refinance activity when compared to the same period one year earlier.

NONINTEREST EXPENSE: Other expenses were $2.0 million for the three month period ended March 31, 2003, compared to $1.8 million for the same period in 2002. The 9.2% increase for the three month period was primarily due to increases in compensation and employee benefits expenses. These increases for the first quarter of 2003 related to the compensation and benefits associated with the additional mortgage and commercial lenders that have been hired since March 2002.

INCOME TAXES: Federal income taxes decreased to $38,000 for the three month period ended March 31, 2003 compared to $52,000 for the same period in 2002. The decrease for the three month period was attributable to the lower pre-tax income along with a lower rate which was more in line with the recently filed 2002 federal tax return.

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 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 as of March 31, 2003 was $45.5 million, or 24.0%, compared to $47.0 million, or 24.4% at December 31, 2002. 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, balloon and shorter term fixed rate 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 three month period ended March 31, 2003 the

Company originated $32.0 million in residential mortgage loans, of which $9.1 million were retained in portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to $20.2 million in originations during the first three months of 2002 of which $12.5 million were retained in portfolio. The Company also originated $4.8 million of commercial loans and $3.1 million of consumer loans in the first three months of 2003 compared to $6.7 million of commercial loans and $883,000 of consumer loans for the same period in 2002. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 67.0% and 68.8%, commercial loans 20.0% and 18.3% and consumer loans 13.0 % and 12.9% at March 31, 2003 and December 31, 2002, respectively. At March 31, 2003, the Company had outstanding loan commitments of $55.2 million. These commitments include $17.6 million for permanent one-to-four family dwellings, $25.5 million for non-residential loans, $2.7 million of undisbursed loan proceeds for construction of one-to-four family dwellings, $5.3 million of undisbursed lines of credit on home equity loans, $3.1 million of unused credit card lines and $1.0 million of unused commercial lines of credit.

Deposits are a primary source of funds for use in lending and for other general business purposes. At March 31, 2003 deposits funded 67.9% of the Company's total assets compared to 68.2% at December 31, 2002. Certificates of deposit scheduled to mature in less than one year at March 31, 2003 totaled $48.2 million. Management believes that a significant portion of such deposits will remain with the Company. The Bank monitors the deposit rates offered by competition in the area and sets rates that take into account the prevailing market conditions along with the Bank's liquidity position. Moreover, management believes that that the growth in assets is not expected to require significant in-flows of liquidity. As such, the Bank does 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 March 31, 2003 the Company had $47.4 million in FHLB advances. Total borrowings as a percentage of total assets were 21.0% at March 31, 2003 as compared to 21.2% at December 31, 2002. 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.

CAPITAL RESOURCES

Stockholders' equity at March 31, 2003 was $21.7 million, or 9.60% of total assets, compared to $21.7 million, or 9.50% of total assets, at December 31, 2002 (See "Consolidated Statement of Changes in Stockholders' Equity"). The Bank is subject to certain capital-to-assets levels in accordance with the OTS regulations. The Bank exceeded all regulatory capital requirements at March 31, 2003. 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 March 31, 2003:

	Actual		Regulatory Minimum		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Capital Requirements:						
Tangible equity capital	$18,182	8.18%	$3,332	1.50%	$4,443	2.00%
Tier 1 (Core) capital	$18,182	8.18%	$8,886	4.00%	$11,108	5.00%
Total risk-based capital	$19,172	14.50%	$10,575	8.00%	$13,219	10.00%
Tier 1 risk-based capital	$18,182	13.75%	$5,287	4.00%	$7,932	6.00%

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ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

PART I - FINANCIAL INFORMATION

ITEM 3 - CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days prior to the filing of this report, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-14(c)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the foregoing evaluation.

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ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

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:
Not applicable

Item 6 - Exhibits and Reports on Form 8-K:
(a) Exhibits:
Exhibit 99.1 Statement of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:
On March 13, 2003, the Company announced that on February 28, 2003, it entered into a stock purchase agreement to purchase all of the shares of the InsuranCenter of Alpena on or about May 1, 2003.

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ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

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: May 15, 2003 /s/ Martin A. Thomson

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

Date: May 15, 2003 /s/ Michael W. Mahler

Michael W. Mahler
Title: Chief Financial Officer
(Duly Authorized Officer)

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ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Martin A. Thomson, President and Chief Executive Officer, certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of Alpena Bancshares, Inc.;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 15, 2003 /s/ Martin A. Thomson
Date ---------------------
Martin A. Thomson
President and Chief Executive Officer

ALPENA BANCSHARES, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. Mahler, Chief Financial Officer, certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of Alpena Bancshares, Inc.;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as

defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 15, 2003 /s/ Michael W. Mahler
Date ---------------------
Michael W. Mahler
Chief Financial Officer

10-Q EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
EX-99.1	Statement of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of Sarbanes-Oxley Act of 2002