



## Shareholder Letter

Dear Shareholders:

During the first quarter of 2007, earnings per share were \$.32, compared to \$.50 for the same period in 2006. The decline in earnings was driven by margin compression – the contraction of the yields earned on loans and investments and the rates paid on deposits and other borrowings – as well as increased provision expense.

The net interest margin compressed from 5.22% in the first quarter of 2006, to 4.50% in the fourth quarter of 2006 and to 4.37% in 2007. Rates were increased in the second half of 2006 to reverse the trend of declining deposits. While the margin remains substantially above peer levels, the current rate environment continues to put pressure on loan pricing. Deposits were flat at \$405 million from the fourth quarter of 2006. Loans grew modestly at 1.2% to \$389 million, reflecting the economy.

Provision for loan losses increased from \$600,000 in the first quarter of 2006 to \$939,000 in 2007. The reserve as a percentage of total loans increased to 2.01% at March 31, 2007, from 1.98% at December 31, 2006, and 1.95% at March 31, 2006. Non-performing loans increased by \$304,000 from the prior quarter to 3.29% of total loans. The year over year increase in non-performing loans was \$6,063,000. The loan loss reserve held constant from the prior quarter at 61% of non-performing loans. Non-performing assets as a percentage of total loans and other real estate owned increased from 1.98% to 3.51% year over year, but improved from the 3.66% reported in the prior quarter. Given the region's economic challenges and weak housing market, management will be vigilant in managing problem loan relationships and taking appropriate measures to ensure sound risk management.

Fee income fell \$68,000 or 6.8%, driven by service charges and fees on deposit accounts. Expenses were reduced by \$427,000 or 11%, due largely to lower employee benefit costs and a reduction in costs for managing foreclosed properties.

The Bank just successfully completed a major systems conversion. This investment will allow us to expand our product offerings and become more efficient.

After joining the Company on March 26, I'm encouraged about the potential for improved profitability as we execute initiatives to enhance our credit quality, manage our capital and grow our business. Livingston County remains a vital market in which to do business. First National will continue to play the lead role in providing the capital for the county's economic growth.

The bank continues to support the community with contributions of resources, both personnel and financial, to various charitable organizations within the county. FNBH contributed just over \$50,000 in the first quarter of 2007, and the Bank remains committed to supporting the community throughout these difficult economic times.

We are committed to continuing the growth of our company, which makes a meaningful difference for our customers, delivers superior shareholder value, and actively contributes to the growth of Livingston County. Thank you for your investment in FNBH and for your business. We look forward to rewarding your faith in us.

Sincerely,

Steven T. Walsh  
President and CEO

## BOARD OF DIRECTORS

**W. Rickard Scofield**  
Chairman  
President, *May & Scofield, Inc.*

**Randolph E. Rudisill**  
Vice Chairman  
Chairman and Director,  
*American Compounding  
Specialties*

**Athena Bacalis**  
Real estate attorney, part owner  
and corporate counsel for *Artisan  
Building Company*

**Gary R. Boss**  
Part owner, *Boss Brothers*

**Barbara Draper**  
Retired President and CEO

**Richard F. Hopper**  
Retired Partner, *KPMG LLP*

**Dona Scott Laskey**  
Attorney

**James R. McAuliffe**  
Retired President,  
*Citizens Insurance Group*

**John M. Pfeffer**  
President and Partner, *Pfeffer,  
Hanniford and Palka CPAs, PC*

**Steven T. Walsh**  
President and CEO

**R. Michael Yost**  
Director,  
*Motorsports Programs and  
Corporate Sponsorships,  
The Auto Club Group*

**Donald K. Burkel**  
Director Emeritus

**Harry E. Griffith**  
Director Emeritus

**Helen V.W. McGarry**  
Director Emeritus

## OFFICERS

**Steven Walsh**  
President and Chief  
Executive Officer

**Violet Gintsis**  
Senior Vice President,  
Senior Lender

**Nancy Morgan**  
Senior Vice President,  
Human Resources

**Janice Trouba**  
Senior Vice President and  
Chief Financial Officer

**Dennis Gehringer**  
Senior Vice President,  
Commercial Lender

**Douglas Schyck**  
Senior Vice President,  
Commercial Lender

**Jeff Billig**  
Vice President,  
Commercial Lender

**Carol Czekaj**  
Vice President, 1st National  
Wealth Management

**Patricia Griffith**  
Vice President,  
Director of Operations

**Robert Laura**  
Vice President, Head of 1st  
National Wealth Management

**Jane Sutterfield**  
Vice President,  
Commercial Lender

**Michael Wiclaw**  
Vice President,  
Chief Risk Officer

**Scott Peters**  
Vice President,  
Commercial Lender

**Edward Barrett**  
Commercial Lender

**Debra Brasseur**  
Risk Management Officer

**Gabi Bresett**  
BSA Officer and Deposit  
Operations

**Kimberlee Foster**  
Controller

**Randy Greene**  
Branch Manager

**Charity Stulz**  
Branch Manager

**Lauri Trapp**  
Branch Manager

# FNBH BANCORP INC

## STATEMENT OF CONDITION

March 31, 2007



Banking with a different point of view...yours.



Brighton • Fowlerville • Genoa • Hartland • Howell • Lake Chemung • M-36

Member FDIC

Owned by FNBH Bancorp Inc.



Livingston County's Community Bank

## CONSOLIDATED | Balance Sheets

(Unaudited)

	March 31 2007	December 31 2006
<b>ASSETS</b>		
Cash and due from banks	\$8,255,095	\$16,373,845
Short term investments	53,600	2,747,642
<b>Total cash and cash equivalents</b>	<b>8,308,695</b>	<b>19,121,487</b>
Certificates of deposit	3,926,000	4,711,000
Investment securities:		
Investment securities held to maturity, net (fair value of \$17,036,196 at March 31, 2007 and \$17,030,269 at December 31, 2006)	16,824,234	16,808,685
Investment securities available for sale, at fair value	22,573,770	24,480,256
Mortgage-backed securities available for sale, at fair value	11,496,547	11,930,591
FHLBI and FRB stock, at cost	994,950	994,950
<b>Total investment securities</b>	<b>51,889,501</b>	<b>54,214,482</b>
Loans:		
Commercial	335,582,018	328,665,048
Consumer	25,938,845	27,720,360
Real estate mortgage	27,562,392	28,195,754
<b>Total loans</b>	<b>389,083,255</b>	<b>384,581,162</b>
Less allowance for loan losses	(7,836,161)	(7,597,900)
<b>Net loans</b>	<b>381,247,094</b>	<b>376,983,262</b>
Premises and equipment, net	9,654,924	9,704,111
Other real estate owned, held for sale	908,150	1,629,250
Accrued interest and other assets	7,852,328	7,532,112
<b>Total assets</b>	<b>\$463,786,692</b>	<b>\$473,895,704</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand (non-interest bearing)	\$60,151,445	\$62,681,088
NOW	38,361,830	41,275,379
Savings and money markets	104,247,608	113,906,147
Time deposits	177,015,894	170,126,892
Brokered certificates of deposit	25,796,874	17,554,785
<b>Total deposits</b>	<b>405,573,651</b>	<b>405,544,291</b>
Other borrowings	4,967,296	13,480,813
Accrued interest, taxes, and other liabilities	3,746,249	4,878,126
<b>Total liabilities</b>	<b>414,287,196</b>	<b>423,903,230</b>
Stockholders' Equity:		
Common stock, no par value. Authorized 4,200,000 shares; 3,039,588 shares issued and outstanding at March 31, 2007 and 3,074,528 shares issued and outstanding at December 31, 2006	6,050,161	6,005,835
Retained earnings	42,998,385	43,625,997
Deferred directors' compensation	742,744	725,186
Accumulated other comprehensive loss, net	(291,794)	(364,544)
<b>Total stockholders' equity</b>	<b>49,499,496</b>	<b>49,992,474</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$463,786,692</b>	<b>\$473,895,704</b>

## CONSOLIDATED | Statements of Income

(Unaudited)

	Three months ended March 31	
	2007	2006
<b>Interest and dividend income:</b>		
Interest and fees on loans	\$7,249,005	\$7,084,563
Interest and dividends on investment securities:		
U.S. Treasury and agency securities	346,179	419,822
Obligations of states and political subdivisions	178,277	190,921
Corporate bonds	—	15,188
Other securities	12,416	13,281
Interest on short term investments	43,448	82,210
Interest on certificates of deposit	48,174	72,369
<b>Total interest and dividend income</b>	<b>7,877,499</b>	<b>7,878,354</b>
<b>Interest expense:</b>		
Interest on deposits	2,929,481	2,055,347
Interest on other borrowings	119,623	37,029
<b>Total interest expense</b>	<b>3,049,104</b>	<b>2,092,376</b>
<b>Net interest income</b>	<b>4,828,395</b>	<b>5,785,978</b>
Provision for loan losses	939,000	600,000
<b>Net interest income after provision for loan losses</b>	<b>3,889,395</b>	<b>5,185,978</b>
<b>Noninterest income:</b>		
Service charges and other fee income	824,377	912,429
Trust income	93,469	72,820
Gain on sale of loans	19,206	11,301
Other	1,284	10,208
<b>Total noninterest income</b>	<b>938,336</b>	<b>1,006,758</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	1,878,561	2,137,520
Net occupancy expense	303,352	315,544
Equipment expense	107,880	130,596
Professional and service fees	510,589	486,293
Computer service fees	125,308	81,171
Printing and supplies	52,171	72,459
Advertising	71,928	105,477
Other	409,129	556,749
<b>Total noninterest expense</b>	<b>3,458,918</b>	<b>3,885,809</b>
<b>Income before federal income taxes</b>	<b>1,368,813</b>	<b>2,306,927</b>
<b>Federal income taxes</b>	<b>389,689</b>	<b>704,179</b>
<b>Net income</b>	<b>\$979,124</b>	<b>\$1,602,748</b>
Per share statistics:		
Basic EPS	\$0.32	\$0.50
Diluted EPS	\$0.32	\$0.50
Dividends	\$0.21	\$0.21
Basic average shares outstanding	3,084,821	3,202,152
Diluted average shares outstanding	3,084,869	3,202,275

FNBH Bancorp's stock price can be found on the NASDAQ Bulletin Board under the symbol FNHM. Purchases can be made by calling Howe Barnes Hoefler & Arnett at 800.800.4693, Monroe Securities, Inc. at 800.766.5560, Stifel, Nicolaus & Co., Inc., at 800.676.0477 or Hill, Thompson, Magid & Co., Inc. at 866.291.6316.