

Shareholder Letter

Dear Shareholders:

During the second quarter of 2007, First National incurred a loss of \$3,213,000 or \$1.05 per share, compared to earnings per share of \$.32 in the first quarter of 2007 and \$.42 for the same period in 2006. The loss was driven primarily by significantly higher provision expense, which was partially due to reclassifying

loans as held for sale, and by margin compression – the contraction of the yields earned on loans and investments and the rates paid on deposits and other borrowings.

The provision for loan losses increased from \$939,000 in the first quarter of 2007 to \$6,535,000 in the second quarter of 2007, attributable to increases in charge-offs, delinquencies and non-performing loans. The Bank is able to absorb this loss because of our relatively strong capital position. Management recognizes the challenges posed by the economic environment in Michigan and is proactively addressing the resulting issues. In the second quarter of 2007, the Bank identified a number of non-performing loans that will require special management, such as more aggressive collection and/or foreclosure efforts or the possible sale of the loans to a third party at a discount. Under current accounting rules, management's intent to sell these loans required the Bank to treat these loans as "held for sale" and to write down the value of the loans to their estimated current fair market value. This write-down in value resulted in a \$4 million pre-tax loss, which comprises a substantial part of our second quarter loss as reflected in the increase in the provision for loan losses. However, classifying these loans as "held for sale" does not necessarily mean that all of these loans will be sold. The ultimate disposition of the loans will be subject to the final pricing, and other terms and conditions that are acceptable to the Bank. When a loan is sold, there will be a gain or loss recorded on the sale based on the outcome of the sale relative to the written-down value of the loan. The reserve as a percentage of total loans increased from 2.01% at March 31, 2007 to 2.05% at June 30, 2007. Our borrowers continue to be challenged by weak economic conditions and particularly the deteriorating housing market. Management's top priority is to continue exploring all possibilities for managing troubled loan relationships and mitigating credit risk.

The net interest margin compressed slightly from 4.37% in the first quarter of 2007, to 4.36% in the second quarter of 2007, compared to 5.04% during the second quarter of 2006. The year over year decline in quarterly net interest income was \$768,000, while the decline from the prior quarter was

\$60,000. While the margin remains substantially above peer levels, the current rate environment continues to put pressure on loan pricing. Deposits declined to \$392 million from \$399 million at the end of the second quarter of 2006, attributable to a \$9 million decline in brokered deposits. Customer deposits were modestly higher than one year ago. This reflects, in part, deposit rate increases during the second half of 2006, which helped maintain deposits but had an adverse impact on our margin on a comparative quarter basis. Loans declined to \$377 million from \$389 million at the end of the first quarter.

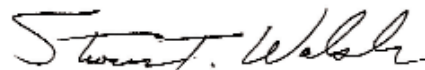
Noninterest income fell \$569,000 from the prior quarter. The decline was primarily attributable to the impairment loss recognized on investment securities. First National sold lower yielding securities in the third quarter, recognizing the impairment in the second quarter, and replaced them with higher yielding securities (reflecting current market rates), which will have a positive impact on the Company's net interest margin in future periods. Expenses increased by \$111,000 from the prior quarter driven by costs related to the conversion to the new core banking system, but declined by \$718,000 year over year or 9%, due largely to lower employee benefit costs for profit sharing.

First National has historically invested in the community and been the leading provider of capital to support economic growth. We remain committed to our mission and will persevere in spite of the difficult economic conditions and their above mentioned detrimental impact on our results.

The Bank continues to support the community with contributions of resources, both personnel and financial, to various charitable organizations within the county. FNBH remains committed to supporting the community throughout these difficult economic times.

We are clearly disappointed with our second quarter results. Consequently, we intend to take all appropriate measures to restore levels of profitability traditionally generated by the Bank, while simultaneously reducing risk. Our dividend was maintained at \$.21 per share, reflecting our optimism about the long-term future and our relatively strong capital position. Thank you for your investment in First National and for your business. We look forward to rewarding your faith in us.

Sincerely,



Steven T. Walsh
President and CEO

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and corporate counsel for Artisan
Building Company

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Retired Partner, KPMG LLP

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Attorney

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Randy Greene
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Branch Manager

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Branch Manager

FNBH BANCORP INC

STATEMENT OF CONDITION

June 30, 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.



CONSOLIDATED | Balance Sheets

(Unaudited)

	June 30 2007	December 31 2006
ASSETS		
Cash and due from banks	\$10,907,208	\$16,373,845
Short term investments	54,301	2,747,642
Total cash and cash equivalents	10,961,509	19,121,487
Certificates of deposit	3,731,000	4,711,000
Investment securities:		
Investment securities held to maturity, net (fair value of \$15,800,451 at June 30, 2007 and \$17,030,269 at December 31, 2006)	15,802,742	16,808,685
Investment securities available for sale, at fair value	17,101,344	24,480,256
Mortgage-backed securities available for sale, at fair value	10,862,886	11,930,591
FHLBI and FRB stock, at cost	994,950	994,950
Total investment securities	44,761,922	54,214,482
Loans held for sale	13,140,590	—
Loans held for investment:		
Commercial	313,121,086	328,665,048
Consumer	24,696,531	27,720,360
Real estate mortgage	25,945,230	28,195,754
Total loans held for investment	363,762,847	384,581,162
Less allowance for loan losses	(7,465,452)	(7,597,900)
Net loans held for investment	356,297,395	376,983,262
Premises and equipment, net	9,422,300	9,704,111
Other real estate owned, held for sale	833,008	1,629,250
Accrued interest and other assets	10,209,434	7,532,112
Total assets	\$449,357,158	\$473,895,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand (non-interest bearing)	\$67,725,853	\$62,681,088
NOW	34,419,952	41,275,379
Savings and money markets	104,427,390	113,906,147
Time deposits	165,671,962	170,126,892
Brokered certificates of deposit	20,004,252	17,554,785
Total deposits	392,249,409	405,544,291
Other borrowings	7,306,218	13,480,813
Accrued interest, taxes, and other liabilities	3,805,796	4,878,126
Total liabilities	403,361,423	423,903,230
Stockholders' Equity:		
Common stock, no par value. Authorized 4,200,000 shares; 3,045,346 shares issued and outstanding at June 30, 2007 and 3,074,528 shares issued and outstanding at December 31, 2006	6,098,227	6,005,835
Retained earnings	39,146,958	43,625,997
Deferred directors' compensation	812,960	725,186
Accumulated other comprehensive loss, net	(62,410)	(364,544)
Total stockholders' equity	45,995,735	49,992,474
Total liabilities and stockholders' equity	\$449,357,158	\$473,895,704

CONSOLIDATED | Statements of Income

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Interest and dividend income:				
Interest and fees on loans	\$7,312,636	\$7,235,288	\$14,561,641	\$14,319,851
Interest and dividends on investment securities:				
U.S. Treasury and agency securities	312,876	403,585	659,055	823,407
Obligations of states and political subdivisions	171,329	185,556	349,606	376,477
Corporate bonds	—	2,372	—	17,560
Other securities	11,877	15,004	24,293	28,285
Interest on certificates of deposit	45,195	71,939	93,369	144,308
Interest on short term investments	8,262	25,390	51,710	107,600
Total interest and dividend income	7,862,175	7,939,134	15,739,674	15,817,488
Interest expense:				
Interest on deposits	2,952,852	2,364,566	5,882,333	4,419,913
Interest on other borrowings	141,084	38,796	260,707	75,825
Total interest expense	3,093,936	2,403,362	6,143,040	4,495,738
Net interest income	4,768,239	5,535,772	9,596,634	11,321,750
Provision for loan losses	6,534,666	754,000	7,473,666	1,354,000
Net interest income (loss) after provision for loan losses	(1,766,427)	4,781,772	2,122,968	9,967,750
Noninterest income:				
Service charges and other fee income	816,295	919,688	1,640,672	1,830,695
Trust income	100,780	79,684	194,249	163,467
Gain on sale of mortgage loans	4,587	15,891	23,793	27,192
Loss on securities	(553,407)	—	(553,407)	—
Other	774	—	2,058	667
Total noninterest income	369,029	1,015,263	1,307,365	2,022,021
Noninterest expense:				
Salaries and employee benefits	1,649,548	2,229,442	3,528,109	4,366,962
Net occupancy expense	280,372	278,388	583,724	593,932
Equipment expense	133,453	138,904	241,333	269,500
Professional and service fees	553,160	483,314	1,063,749	977,746
Computer service fees	162,977	82,356	288,285	163,527
Printing and supplies	131,045	84,126	183,216	156,585
Director fees	80,597	86,502	180,111	166,742
Advertising	73,693	48,886	145,621	154,363
Other	505,007	429,500	814,622	897,870
Total noninterest expense	3,569,852	3,861,418	7,028,770	7,747,227
Income (loss) before federal income taxes	(4,967,250)	1,935,617	(3,598,437)	4,242,544
Federal income taxes (credit)	(1,754,376)	582,020	(1,364,687)	1,286,199
Net income (loss)	\$(3,212,874)	\$1,353,597	\$(2,233,750)	\$2,956,345
Per share statistics:				
Basic EPS	\$(1.05)	\$0.42	\$(0.73)	\$0.92
Diluted EPS	\$(1.05)	\$0.42	\$(0.73)	\$0.92
Dividends	\$0.21	\$0.21	\$0.42	\$0.42
Basic average shares outstanding	3,068,991	3,201,281	3,076,862	3,201,714
Diluted average shares outstanding	3,068,991	3,201,353	3,076,862	3,201,784

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.