

Shareholder Letter

Dear Shareholders:

Since year end, December 31, 2005, assets have declined \$12 million to roughly \$466 million caused by a decline in demand, savings and money market deposit accounts. While these results are disappointing, especially when compared to historical returns, management is focusing on strategies to help the bank achieve growth and profitability.

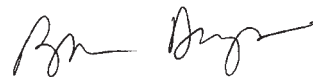
Our earnings were likewise lackluster with net income for the nine months ending September 30, 2006, of \$4,355,000, compared to \$4,744,000 for the same period last year. This was due to several factors. One is the loss of interest income on higher nonperforming assets, now at \$13.9 million. Nonperforming assets are primarily loans on which we do not recognize interest because of diminished credit quality and also includes foreclosed real estate. Another is the increase in the rates paid on deposit balances due to competitive pressures.

Management has focused its efforts on the areas of deposit growth and reduction of nonperforming loans. We are more aggressively pricing deposits and have developed new deposit offerings that will be more competitive in the market place. Nonperforming assets are being scrutinized and actively pursued to return them to earning status as soon as possible. None of the remedies will produce overnight results. It will take some time for customers to respond to our deposit initiatives and loans do not turn quickly in a sluggish economy.

There are some bright lights in this report. One is commercial loans, up \$12 million primarily in the last three months, which will add interest income. While our net interest margin continues to decline as we have raised deposit rates to meet competition, at 4.70% for the quarter, it is still well above peer group averages. Also we continue to be one of the most strongly capitalized banks, with 11% capital giving us a strong base on which to grow and to hold the course during a tough economy.

Based on our strong capital position the board authorized a stock buyback plan. Of the 200,000 shares authorized for repurchase, we have purchased 62,000 shares.

As a community bank, our contributions to the community make a vital difference to the residents of Livingston County. I am excited to report that First National has been named one of 10 distinguished honorees to receive the ArtServe Michigan Governor's Award for Arts & Culture. This prestigious award recognizes distinguished achievement and meritorious work in arts and culture by organizations, businesses and individuals throughout the state.



Barbara Draper
Interim President and CEO

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President, May & Scofield, Inc.

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Vice Chairman
Chairman and Director
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Real estate attorney, part owner
and corporate counsel for Artisan
Building Company

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Part owner, Boss Engineering

Barbara Draper
Interim President and CEO

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Dona Scott Laskey
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Commercial Credit Manager

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Assistant Vice President,
Commercial Lender

Edward Barrett
Commercial Lender

Debra Brasseur
Risk Management Officer

Gabi Bresett
BSA Officer and Deposit
Operations

Kimberlee Foster
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Randy Greene
Branch Manager

Charity Stulz
Branch Manager

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Branch Manager



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Member FDIC

Owned by FNBH Bancorp Inc.

FNBH BANCORP INC

STATEMENT OF CONDITION

September 30, 2006



CONSOLIDATED | Balance Sheets

(Unaudited)

	September 30 2006	December 31 2005
ASSETS		
Cash and due from banks	\$11,792,964	\$19,281,982
Short term investments	3,983,627	4,819,709
Total cash and cash equivalents	15,776,591	24,101,691
Certificates of deposit	5,497,000	7,166,000
Investment securities:		
Investment securities held to maturity, net (fair value of \$17,350,244 at September 30, 2006 and \$16,763,204 at December 31, 2005)	17,084,769	16,425,674
Investment securities available for sale, at fair value	25,602,803	32,388,356
Mortgage-backed securities available for sale, at fair value	12,534,940	12,405,476
FHLBI and FRB stock, at cost	1,042,950	1,153,550
Total investment securities	56,265,462	62,373,056
Loans:		
Commercial	317,651,401	305,387,518
Consumer	29,921,453	36,161,235
Real estate mortgage	29,474,857	31,306,493
Total loans	377,047,711	372,855,246
Less allowance for loan losses	(7,226,118)	(6,991,125)
Net loans	369,821,593	365,864,121
Premises and equipment, net	9,940,910	10,465,856
Other real estate owned, held for sale	1,726,100	679,733
Accrued interest and other assets	6,587,971	6,574,686
Total assets	\$465,615,627	\$477,225,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand (non-interest bearing)	\$65,108,585	\$71,415,340
NOW	57,404,875	40,739,655
Savings and money market	101,145,470	133,865,335
Time deposits	161,116,872	145,927,984
Brokered certificates of deposit	24,645,800	30,137,273
Total deposits	409,421,602	422,085,587
Other borrowings	1,480,813	1,785,094
Accrued interest, taxes, and other liabilities	4,339,217	3,908,137
Total liabilities	415,241,632	427,778,818
Stockholders' Equity:		
Common stock, no par value. Authorized 4,200,000 shares; 3,122,963 shares issued and outstanding at September 30, 2006 and 3,187,374 shares issued and outstanding at December 31, 2005	6,084,262	6,088,540
Retained earnings	44,077,962	43,389,917
Deferred directors' compensation	695,172	575,045
Accumulated other comprehensive loss, net	(483,401)	(607,177)
Total stockholders' equity	50,373,995	49,446,325
Total liabilities and stockholders' equity	\$465,615,627	\$477,225,143

CONSOLIDATED | Statements of Income

(Unaudited)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2006	2005	2006	2005
Interest and dividend income:				
Interest and fees on loans	\$7,300,165	\$6,771,951	\$21,620,016	\$19,281,354
Interest and dividends on investment securities:				
U.S. Treasury and agency securities	397,632	422,107	1,221,039	1,275,136
Obligations of states and political subdivisions	186,290	181,030	562,767	551,675
Corporate bonds	—	15,092	17,560	45,132
Other securities	12,445	12,416	40,730	36,794
Interest on short term investments	45,584	136,983	153,184	250,409
Interest on certificates of deposit	63,359	60,856	207,667	134,791
Total interest and dividend income	8,005,475	7,600,435	23,822,963	21,575,291
Interest expense:				
Interest on deposits	2,679,747	1,847,047	7,099,660	4,820,531
Interest on other borrowings	112,238	59,532	188,063	247,786
Total interest expense	2,791,985	1,906,579	7,287,723	5,068,317
Net interest income	5,213,490	5,693,856	16,535,240	16,506,974
Provision for loan losses	785,000	500,000	2,139,000	2,044,000
Net interest income after provision for loan losses	4,428,490	5,193,856	14,396,240	14,462,974
Noninterest income:				
Service charges and other fee income	914,783	910,535	2,745,478	2,562,155
Trust income	86,505	87,808	249,972	217,425
Gain on sale of loans	10,216	15,944	37,408	55,615
Other	1,950	4,502	2,617	60,100
Total noninterest income	1,013,454	1,018,789	3,035,475	2,895,295
Noninterest expense:				
Salaries and employee benefits	1,754,079	1,822,701	6,121,041	5,636,381
Net occupancy expense	273,297	288,964	867,229	892,022
Equipment expense	183,254	208,427	578,526	632,652
Professional and service fees	447,277	432,898	1,407,220	1,247,862
Computer service fees	81,506	89,445	245,033	263,113
Printing and supplies	68,916	74,608	225,501	254,202
Advertising	81,014	77,055	235,377	217,046
Other	551,192	408,387	1,507,835	1,383,215
Total noninterest expense	3,440,535	3,402,485	11,187,762	10,526,493
Income before federal income taxes	2,001,409	2,810,160	6,243,953	6,831,776
Federal income taxes	602,721	885,700	1,888,920	2,087,696
Net income	\$1,398,688	\$1,924,460	\$4,355,033	\$4,744,080
Per share statistics:				
Basic EPS	\$0.44	\$0.60	\$1.37	\$1.48
Diluted EPS	\$0.44	\$0.60	\$1.37	\$1.48
Dividends	\$0.21	\$0.21	\$0.63	\$0.59
Basic average shares outstanding	3,168,227	3,202,439	3,190,429	3,198,596
Diluted average shares outstanding	3,168,428	3,202,914	3,190,629	3,199,144

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 Hoelter & Arnett at 800-800-4693, Monroe Securities, Inc., at 312-327-2535 or Stifel Nicolaus & Co., Inc., at 1-800-676-0477.