

FNBH BANCORP INC

2006 Annual Report

A holding company for First National Bank in Howell

Banking with a different point of view... yours



Financial Highlights



<u>Year Ended December 31</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<i>(in thousands, except per share data)</i>					
Summary of Operations:					
Interest income	\$31,818	\$29,315	\$24,992	\$24,856	\$25,729
Interest expense	10,295	7,054	5,606	6,167	8,017
Net interest income	21,523	22,261	19,386	18,689	17,712
Provision for loan losses	2,639	3,037	1,190	1,270	625
Noninterest income	4,031	3,820	4,110	3,874	3,621
Noninterest expense	14,939	13,653	13,287	12,848	11,775
Income before tax	7,976	9,391	9,019	8,445	8,933
Federal income tax	2,390	2,884	2,728	2,554	2,629
Net Income	5,586	6,507	6,291	5,891	6,304
Basic Per Share Data:					
Net income	\$1.76	\$2.03	\$1.98	\$1.86	\$2.00
Dividends paid:					
First quarter	0.210	0.190	0.170	0.170	0.125
Second quarter	0.210	0.190	0.170	0.170	0.163
Third quarter	0.210	0.210	0.190	0.170	0.170
Fourth quarter	0.210	0.210	0.190	0.170	0.170
Book value	16.26	15.51	14.38	13.01	11.90
Price range of common stock:					
High	27.00	31.75	32.00	31.00	25.00
Low	25.25	25.00	26.00	23.00	19.25
Ratios Based on Net Income:					
Return on average shareholders' equity	11.06%	13.63%	14.51%	14.90%	17.97%
Return on average assets	1.20%	1.39%	1.41%	1.39%	1.58%
Balance Sheet:					
Assets	\$473,896	\$477,225	\$456,910	\$449,818	\$420,686
Loans	384,481	372,855	357,377	347,086	327,117
Investment securities	54,214	62,373	64,348	55,435	44,611
Deposits	405,544	422,086	399,263	399,073	374,072
Shareholders' equity	49,992	49,446	45,716	41,235	37,580

Letter to shareholders

PLEASE ALLOW ME A MOMENT OF YOUR TIME TO SHARE WITH YOU, OUR SHAREHOLDERS, MY ENTHUSIASM FOR THE OPPORTUNITY TO

lead our company. First National Bank is in an enviable position among community banks. The bank enjoys a favorable reputation in the communities it serves, which I gathered during my recruiting visits to the area, by asking the people I met. The team of associates shares an enthusiasm for caring for customers and an esprit de corps, which bonds them together. Your board of directors demonstrated remarkable commitment, professionalism and diligence during the search process for the role I'm assuming.

Livingston County, the bank's market, exudes charm and offers the potential for stand out growth. Your company has many inherent advantages. The same qualities, that make First National an extraordinary professional opportunity for me personally, make the company a smart investment for shareholders. I'm delighted to be part of First National and the Livingston County community. It is an honor to have the opportunity to serve you, the owners, and our customers. I'm passionate about building upon this established tradition!

First National Bank changed leadership during 2006. Barbara Draper returned from retirement to lead the organization through a time of transition. With the head winds of a difficult economic environment and management transition, Barbara shepherded the company onto the path of stability. On behalf of the board of directors and staff of the organization, we thank Barbara for her dedicated service and exemplary leadership.

First National Bank will grow and drive shareholder returns by providing a superior customer experience grounded in personal relationships. Most banks talk service quality, but few walk the talk. Serving our customers and enabling the growth of our community is our mission.

For 2006, earnings per share declined from \$2.03 to \$1.76, a decline of 13.3%, in the face of margin compression, rising loan delinquencies and increased costs. Net income was \$5,586,000, a 14.2% decline from 2005.

Provision for loan losses decreased from \$3,037,000 in 2005 to \$2,639,000 in 2006. The reserve as a percentage of total loans increased to 1.98% at December 31, 2006 from 1.87% at December 31, 2005 due in part to an increase in nonperforming loans to \$12,487,000 in 2006 from \$5,625,000 in 2005. Management regularly reviews the loan portfolio to ensure that lending risks are properly assessed. The processes for risk evaluation and management were bolstered significantly in 2006. With the current economic environment, management will be vigilant in overseeing the loan portfolio and taking appropriate steps to ensure sound risk management.

The net interest margin compressed from 5.07% in 2005 to 4.94% in 2006. Although the margin remains substantially above peer levels, the current rate environment has put pressure on pricing. Average deposits declined 2.3%, and rates were increased in an effort to reverse the trend. Average loans grew modestly at 2.1%, reflecting the economy; the growth occurred in the last half of the year thereby increasing year-end balances by 3.1%.

Fee income rose 5.5%, driven by service charges on deposit accounts and other fee income on loans and deposits. Expenses rose 9.4%, due to increases in salaries and benefit costs related to additions to the commercial credit and lending staff as well as increases in other professional and consulting fees.

In the fall of 2006, First National Bank was among ten recipients of the ArtServe Michigan Governor's Awards for Arts & Culture, for its support of the arts in Livingston County. The Bank contributed \$190,000 to various charitable organizations in 2006 including the arts, education, health and human services and many community events.

We are committed to continuing the growth of a company that 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 First National and for your business. We look forward to rewarding your faith in us.

Sincerely,

Steven Walsh
President/CEO



STEVEN WALSH
President/CEO

BANKING WITH A DIFFERENT POINT OF VIEW...YOURS!

It's our way of life. Always has been. Always will be.

In an era of mega-mergers, global corporations and big banks, is it possible for a small community bank to distinguish itself? Is friendly, knowledgeable service still worth something in today's currency?

We think so.

We think there's value in treating our customers like neighbors. In offering the same array of financial services they might expect only from a bigger bank, plus one thing more – the ability to listen to their financial needs and goals.

A customer is the most important asset of a bank. So at First National we do everything we can to protect that asset. We offer the same financial expertise and competitive rates, but we pay attention to far more than just our bottom line. It's why we say that, at First National, we conduct banking with a different point of view...yours.

Importantly, those aren't just some catchy words – we live by them. Perhaps that's why we were voted the Best Bank in Livingston County by readers of the Livingston County Daily Press & Argus.

It's also why we continue to develop new ideas and new products to meet customers evolving needs. In 2006, we introduced the new name of 1st National Wealth Management for our trust and investment department and launched Business Advantage Checking for commercial accounts and Take Charge Checking and our Step Up Money Market Account for personal accounts.

There will be plenty more innovations in 2007, including a major upgrade to our bank wide computer system platform. It will increase speed and flexibility, allowing us to respond more quickly to customer requests whether in-person, over the phone or online and allow for improved deposit and loan products.

Through it all, we will continue to remain a proud member of the community, contributing 2% of our pretax earnings to community enrichment and the arts. These include United Way, LACASA, Community Theater of Howell, Hartland Players, Howell Opera House, Brighton Performing Arts Center, Brighton Art Guild, Brighton Chamber Jazz Festival, Livingston Arts Council and college scholarships for high school senior's, among many others.

Is it possible for a community bank to distinguish itself? We think so. And we will continue our efforts to do so in the year ahead.

ANNUAL MEETING

The 2007 Annual Meeting of shareholders will be held Wednesday, May 16, 2007 at 7 pm at First National Bank, 101 E. Grand River Howell, Michigan.

FNBH Bancorp, Inc. Common Stock

FNBH Bancorp, Inc. common stock is traded on the NASDAQ Bulletin Board under the symbol FNHM.

Stock Transfer Agent and Registrar

Stockholders requiring a change of name, address or ownership of stock, as well as information about shareholder records or lost or stolen certificates, dividend checks or direct deposit, should contact:

AMERICAN STOCK TRANSFER & TRUST COMPANY

59 Maiden Lane, Plaza Level
New York, NY, 10038
1-800-937-5449
www.amstock.com

Market Makers

The following companies are the principal market makers for FNBH Bancorp, Inc. stock on the NASDAQ Bulletin Board.

Howe Barnes Hoffer & Arnett

135 South LaSalle Street, Suite 1500, Chicago, IL 60603
1-800-800-4693 Contact: LOU COINES

Hill, Thompson, Magid & Co., Inc.

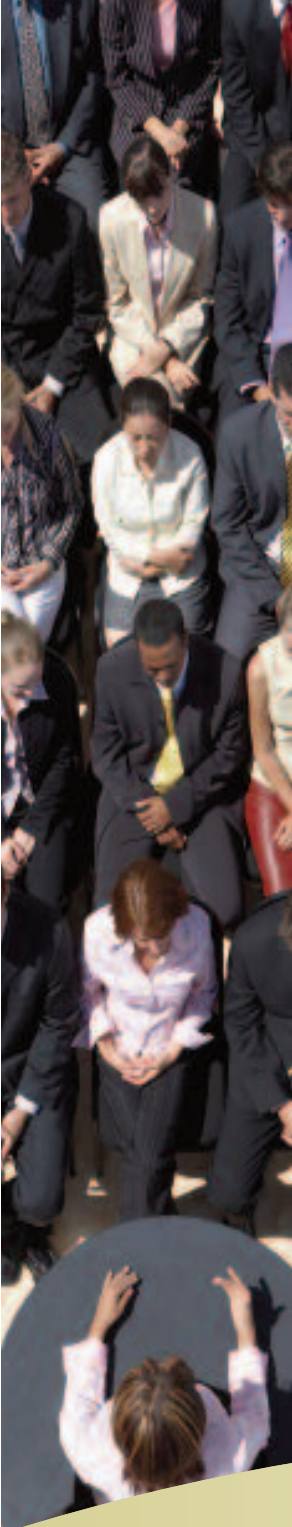
15 Exchange Place Suite 800, Jersey City, New Jersey 07302
1-866-291-6316 Contact: CHARLES TRAPP

Monroe Securities

343 W. Erie Street, Suite 410, Chicago, IL 60610
1-312-327-2535 Contact: RUSSELL FELTES

Stifel, Nicolaus & Co., Inc.

2100 Raybrook SE, Suite 200, Grand Rapids, MI 49546
1-800-676-0477 Contact: PAUL DRUEKE



Livingston County Economic Highlights

THANKS A MILLION, DON!

Donald Burkel retired from the Board of Directors in 2006. He was elected to the Board in 1981 and during the years of his dedicated service, he was actively involved with the bank and our community. Don's invaluable wisdom and fresh perspective for our customers and community is greatly appreciated.

BOARD OF DIRECTORS

W. RICKARD SCOFIELD
Chairman

RANDOLPH E. RUDISILL
Vice Chairman

ATHENA BACALIS

GARY R. BOSS

BARBARA DRAPER

RICHARD F. HOPPER

DONA SCOTT LASKEY

JAMES R. MCAULIFFE

JOHN M. PFEFFER

STEVEN T. WALSH

R. MICHAEL YOST

DONALD K. BURKEL
Director Emeritus

HARRY GRIFFITH
Director Emeritus

HELEN V.W. MCGARRY
Director Emeritus

FIRST NATIONAL BANK OFFICERS

STEVEN WALSH President and Chief Executive Officer	JANE SUTTERFIELD Vice President, Commercial Lender
VIOLET GINTSIS Senior Vice President, Senior Lender	MICHAEL WIECLAW Vice President, Commercial Credit Manager
NANCY MORGAN Senior Vice President, Human Resources	SCOTT PETERS Assistant Vice President, Commercial Lender
JANICE TROUBA Senior Vice President and Chief Financial Officer	EDWARD BARRETT Commercial Lender
DENNIS GEHRINGER Senior Vice President, Commercial Lender	GABI BRESETT BSA Officer and Deposit Operations
DOUGLAS SCHYCK Senior Vice President, Commercial Lender	DEBRA BRASSEUR Risk Management Officer
JEFF BILLIG Vice President, Commercial Lender	KIMBERLEE FOSTER Controller
CAROL CZEKAJ Vice President, 1st National Wealth Management	RANDY GREENE Branch Manager
PATRICIA GRIFFITH Vice President, Director of Operations	CHARITY STULZ Branch Manager
ROBERT LAURA Vice President, Head of 1st National Wealth Management	LAURI TRAPP Branch Manager



HOUSEHOLD INCOME*

- Highest household income in Michigan - \$67,400
- Second highest family income in Michigan - \$75,300

POPULATION GROWTH*

- 2006 185,700
- 2010 197,300
- 2020 238,900

% Change 2006 – 2010	6.2%
% Change 2006 – 2020	28.6%

* US Bureau of the Census

JOB MARKET

33% of Livingston County employers interviewed by the Manpower Employment Outlook Survey plan to hire more employees during 2Q 2007, compared to the Michigan state average of 22%. This represents a 94% increase from 1Q 2007.

Percent of highest paid occupations in Livingston County

- Management/Professional 37%
- Sales/Offices 26%

The Michigan Economic Development Council reported that Livingston County has the most projects underway than any other county in Michigan in 2006.

- 39 projects
 - 20 Manufacturing/commercial;
 - 9 Non-manufacturing/commercial
 - 27 new; 12 expansion
 - 980 new jobs
 - \$202 million in investments
 - 1,822,000 square feet



517-546-3150

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