

# Shareholder Letter

Dear Shareholders:

First of all, it is a pleasure to be working again at First National. This is simply a wonderful organization filled with many fine people whom I have missed over the last two years, and the same is true of the community. It is also a fine bank which has been a helpful financial partner with many a family and many a successful business and I look forward to again participating in that long tradition of community banking.

I am pleased to report our first quarter financial results. Net income was \$1,603,000 compared to \$1,661,000 in the same period of 2005. We continued with a strong net interest margin, which climbed to 5.22%, up from 4.90% at March 31, 2005. Rising interest rates over the last year pulled our asset yields up at a faster clip than our deposit yields due to the fact that more of our assets reprice in the short term, while deposits are longer term and lag in repricing. We continue to experience competitive pressures on the pricing of loans and deposits, which could affect the net interest margin. The higher margin drove gains in net interest income, which rose to \$5,786,000 from \$5,287,000 at March 31, 2005. Also benefiting earnings was a slight gain in noninterest income of \$36,000. Countering these gains, however, was an increase in the provision for loan losses of \$234,000 and higher noninterest expenses, which were \$3,886,000 for three months ending March 31, 2006, compared to \$3,496,000 for the same period in 2005. Noninterest expenses included an increase to salaries and employee benefits and to professional and service fees, which were related to strategic planning and higher loan and collection costs.

The balance sheet remained in a relatively neutral position. Assets at March 31, 2006, were \$468 million compared to \$477 million at December 31, 2005, and \$465 million at March 31, 2005. Average commercial loans grew to \$306 million at March 31, 2006, up from \$297 million at December 31, 2005, and \$288 million at March 31, 2005, while consumer and mortgage loans declined by \$3 million from year-end and \$4 million from the first quarter 2005.

The board approved a stock repurchase program, agreeing to repurchase up to 100,000 shares at fair market value. The buy-back program will allow us to reduce the number of shares outstanding which would increase your earnings per share and return on equity.

Although the local economy has not been as robust as Livingston County has been noted for in the past, we continue to see opportunities for growth and will be working to make that happen. I continue to think we have the outstanding people needed to garner growth in quality loans and deposits and have added some new faces to the senior management team to supplement this effort. Joining us just a week ago is Victor Perez, SVP of IT and Operations, who we welcome as head of our technology group, a critical function in this day of speedy access and processing.

I would like to bring to your attention the retirement of Don Burkel who has been a bank director for 15 years. If you see him please thank him for all his years of service and wisdom. He has been an exemplary director always keeping the community foremost in our minds. I am glad, though, to not be saying good-bye, since he will remain as a director emeritus.



Barbara Draper  
Interim President and CEO

## BOARD OF DIRECTORS

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President, May & Scofield, Inc.

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Vice Chairman  
Chairman and Director  
American Compounding  
Specialties

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Real estate attorney, part owner  
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Building Company

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

**Barbara Draper**  
Interim President and CEO

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Retired Partner, KPMG LLP

**Dona Scott Laskey**  
Attorney

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

**R. Michael Yost**  
Director,  
MotorSports Programs,  
The Auto Club Group

**Donald K. Burkel**  
Director Emeritus

**Harry E. Griffith**  
Director Emeritus

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

**Roy A. Westran**  
Director Emeritus

## OFFICERS

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Executive Officer

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**Violet Gintsis**  
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Senior Lender

**Nancy Morgan**  
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Human Resources

**Victor Perez**  
Senior Vice President,  
IT and Operations

**Janice Trouba**  
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Chief Financial Officer

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Retail Banking

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Senior Vice President,  
Commercial Lender

**Douglas Schyck**  
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Vice President,  
Commercial Lender

**Carol Czekaj**  
Vice President, 1st Trust  
& Investments

**Patricia Griffith**  
Vice President, Director  
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**Robert Hajdu**  
Vice President,  
Commercial Lender

**John Hulyk**  
Vice President,  
Commercial Lender

**Robert Laura**  
Vice President, 1st Trust  
& Investments

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Commercial Lender

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Vice President,  
Commercial Credit Manager

**Scott Peters**  
Assistant Vice President,  
Commercial Lender

**Debra Brasseur**  
Risk Management Officer

**Gabi Bresett**  
BSA Officer and Deposit  
Operations

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Controller

**Randy Greene**  
Branch Manager

**Charity Stulz**  
Branch Manager

**Lauri Trapp**  
Branch Manager



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# FNBH BANCORP INC

## STATEMENT OF CONDITION

March 31, 2006



## CONSOLIDATED | Balance Sheets

(Unaudited)

	March 31 2006	December 31 2005
<b>ASSETS</b>		
Cash and due from banks	\$10,100,204	\$19,281,982
Short term investments	5,784,704	4,819,709
<b>Total cash and cash equivalents</b>	<b>15,884,908</b>	<b>24,101,691</b>
Certificates of deposit	6,772,000	7,166,000
Investment securities:		
Investment securities held to maturity, net (fair value of \$17,889,324 at March 31, 2006 and \$16,763,204 at December 31, 2005)	17,634,116	16,425,674
Investment securities available for sale, at fair value	32,379,043	32,388,356
Mortgage-backed securities available for sale, at fair value	11,779,931	12,405,476
FHLBI and FRB stock, at cost	1,153,550	1,153,550
<b>Total investment securities</b>	<b>62,946,640</b>	<b>62,373,056</b>
Loans:		
Commercial	306,564,290	305,387,518
Consumer	33,857,705	36,161,235
Real estate mortgage	31,397,729	31,306,493
<b>Total loans</b>	<b>371,819,724</b>	<b>372,855,246</b>
Less allowance for loan losses	(7,234,105)	(6,991,125)
<b>Net loans</b>	<b>364,585,619</b>	<b>365,864,121</b>
Premises and equipment, net	10,293,431	10,465,856
Other real estate owned, held for sale	658,323	679,733
Accrued interest and other assets	6,665,172	6,574,686
<b>Total assets</b>	<b>\$467,806,093</b>	<b>\$477,225,143</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand (non-interest bearing)	\$68,213,409	\$71,415,340
NOW	43,172,206	40,739,655
Savings and money markets	116,117,179	133,865,335
Time deposits	153,616,948	145,927,984
Brokered certificates of deposit	30,797,861	30,137,273
<b>Total deposits</b>	<b>411,917,603</b>	<b>422,085,587</b>
Other borrowings	1,480,813	1,785,094
Accrued interest, taxes, and other liabilities	4,197,240	3,908,137
<b>Total liabilities</b>	<b>417,595,656</b>	<b>427,778,818</b>
Stockholders' Equity:		
Common stock, no par value. Authorized 4,200,000 shares; 3,181,032 shares issued and outstanding at March 31, 2006 and 3,187,374 shares issued and outstanding at December 31, 2005	6,106,215	6,088,540
Retained earnings	44,157,837	43,389,917
Deferred directors' compensation	600,088	575,045
Accumulated other comprehensive loss, net	(653,703)	(607,177)
<b>Total stockholders' equity</b>	<b>50,210,437</b>	<b>49,446,325</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$467,806,093</b>	<b>\$477,225,143</b>

## CONSOLIDATED | Statements of Income

(Unaudited)

	Three months ended March 31	
	2006	2005
<b>Interest and dividend income:</b>		
Interest and fees on loans	\$7,084,563	\$6,016,857
Interest and dividend on investment securities:		
U.S. Treasury and agency securities	419,822	426,387
Obligations of states and political subdivisions	190,921	185,663
Corporate bonds	15,188	15,099
Other securities	13,281	11,577
Interest on short term investments	82,210	84,878
Interest on certificates of deposit	72,369	23,235
<b>Total interest and dividend income</b>	<b>7,878,354</b>	<b>6,763,696</b>
<b>Interest expense:</b>		
Interest on deposits	2,055,347	1,370,798
Interest on other borrowings	37,029	105,861
<b>Total interest expense</b>	<b>2,092,376</b>	<b>1,476,659</b>
<b>Net interest income</b>	<b>5,785,978</b>	<b>5,287,037</b>
Provision for loan losses	600,000	366,000
<b>Net interest income after provision for loan losses</b>	<b>5,185,978</b>	<b>4,921,037</b>
<b>Noninterest income:</b>		
Service charges and other fee income	912,429	834,248
Trust income	72,820	64,671
Gain on sale of loans	11,301	16,307
Other	10,208	55,598
<b>Total noninterest income</b>	<b>1,006,758</b>	<b>970,824</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	2,137,520	1,968,809
Net occupancy expense	315,544	323,685
Equipment expense	198,503	204,446
Professional and service fees	486,293	342,433
Computer service fees	81,171	87,296
Printing and supplies	72,459	88,986
Advertising	105,477	55,098
Other	488,842	425,062
<b>Total noninterest expense</b>	<b>3,885,809</b>	<b>3,495,815</b>
<b>Income before federal income taxes</b>	<b>2,306,927</b>	<b>2,396,046</b>
<b>Federal income taxes</b>	<b>704,179</b>	<b>735,096</b>
<b>Net income</b>	<b>\$1,602,748</b>	<b>\$1,660,950</b>
Per share statistics:		
Basic EPS	\$0.50	\$0.52
Diluted EPS	\$0.50	\$0.52
Dividends	\$0.21	\$0.19
Basic average shares outstanding	3,202,152	3,193,886
Diluted average shares outstanding	3,202,275	3,194,899

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