

FNBH BANCORP INC

Dear Shareholder,

FNBH Bancorp, Inc. reported a net loss of \$7.7 million for the quarter ended December 31, 2008. The quarter was adversely impacted by:

A \$4.8 million non-cash charge was recorded to establish a valuation allowance on deferred tax assets. Accounting standards require companies to assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard that the assets will be realized. Given the losses incurred in 2007 and 2008 and the challenging operating environment currently facing all banks, the \$4.8 million valuation allowance was established. Our remaining deferred tax asset, net of the valuation allowance, at December 31, 2008 is \$820,000. All of our deferred tax assets remain available to offset future taxable income and will be analyzed quarterly for changes affecting the valuation allowance which may be increased or decreased.

A \$1.3 million other-than-temporary impairment charge was taken on a \$4 million collateralized mortgage obligation (CMO) investment. Current accounting standards require companies to review investment securities for potential impairment, which occurs if the fair value of the investment is less than its cost. If a security is determined to be other-than-temporarily impaired, the security is written down to its estimated fair value. Our analyses lead us to conclude that an impairment charge should be taken on the CMO.

A \$4.8 million provision for loan losses was recorded. Cash flow challenges experienced by certain of our customers and significantly declining collateral values resulted in this provision.

For the year ended December 31, 2008, we reported a net loss of \$13.4 million. This compares to a 2007 net loss of \$6.6 million. The \$6.6 million 2007 net loss included a \$3.8 million federal income tax credit. The 2008 and 2007 loss before federal income taxes was \$13.5 million and \$10.3 million, respectively. The financial performance for both periods was adversely impacted by substantial loan loss provision expense.

We continue to maintain good liquidity with \$22 million in cash and cash equivalents and \$47 million in investments and certificates of deposit available for liquidity at December 31, 2008. The Company's 2008 year end risk based capital ratio was at 9.54% and the tier one capital ratio stood at 6.88%. In connection with our various initiatives discussed below, we are committed to enhancing our capital position.

Our 2008 fourth quarter net interest margin remains a strong provider of earnings at 3.93%. Both our loan loss reserve ratio of 4.47% and our net interest margin remain well above peer averages.

Management and the Board have undertaken several important initiatives to improve the performance of our company.

An extensive and detailed risk assessment of numerous commercial loan portfolio credits has been performed, encompassing over 70% of the portfolio balance. As part of this assessment, we have received approximately 200 updated appraisals. Our portfolio evaluation efforts continue in today's challenging economic environment and rapidly changing conditions.

A Special Assets Group was formed to work exclusively with our borrowers experiencing financial stress. Working with these borrowers, we have formulated workout plans and are acting on those plans. As a result of these efforts, we have been able to improve the bank's position with respect to a number of credits.

We have made enhancements to our loan policy and underwriting guidelines and have improved our credit underwriting and risk management processes.

Beginning during 2008 and continuing into 2009, we have implemented changes to reduce the Company's annual noninterest expense by more than \$1.7 million. These expense reductions will be largely offset during 2009 by increased Federal Deposit Insurance Corporation (FDIC) insurance premiums as the FDIC has raised bank premiums to recapitalize the deposit insurance fund. We expect our expense reduction achievements to continue and are seeking additional opportunities to further reduce expenses and operate more efficiently.

We have initiated changes that we expect will generate more than \$600,000 in annual recurring increased noninterest income.

Given our 2008 financial performance, no bonuses were paid and all executive and senior officer salaries were frozen. The \$1.7 million reduction in annual noninterest expense includes the elimination of 23 positions during 2008 and 2009 representing 17% of our total work force.

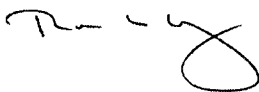
At the Special Shareholder Meeting of February 19, 2009, our shareholders authorized the issuance of preferred stock. The ability to issue preferred shares provides an important vehicle to raise additional capital given economic conditions and uncertainties facing the banking industry. The Board of Directors and management of FNBH Bancorp, Inc. thank our shareholders for approving this measure which provides greater flexibility in our efforts to manage our capital position.

2008 was a particularly challenging year for the banking industry and our bank. We continue to work hard to return the company to profitability. Important initiatives include improving asset quality, reducing non-performing assets, containing credit costs, advancing credit administration practices, diversifying our balance sheet and enhancing processes to reduce costs and improve our customers' experience.

The chairman of our board, Randy Rudisill, and I will be scheduling quarterly meetings to converse with our shareholders. The first of these informal meetings will be March 18, 2009 at 11:00 a.m. in our Howell main office community room. We look forward to and welcome your participation.

Thank you for your continued commitment to community banking and your investment in our company. Should you have any questions or comments, please call me at 517-545-2221 or visit me at our Howell main office.

Sincerely,



Ronald L. Long
President and CEO

FNBH Bancorp, Inc.
Consolidated Balance Sheets (Unaudited)

	December 31 2008	December 31 2007
Assets		
Cash and due from banks	\$ 10,175,999	\$ 13,400,674
Short term investments	11,904,019	16,509,953
Total cash and cash equivalents	22,080,018	29,910,627
Certificates of deposit	4,319,000	4,025,000
Investment securities:		
Investment securities held to maturity, net (fair value of \$15,600,812 at December 31, 2007)	-	15,394,165
Investment securities available for sale, at fair value	24,397,430	14,005,338
Mortgage-backed/CMO securities available for sale, at fair value	17,074,342	8,237,772
Preferred stock available for sale, at fair value	48,800	-
FHLBI and FRB stock, at cost	994,950	994,950
Total investment securities	42,515,522	38,632,225
Loans held for investment:		
Commercial	272,945,793	301,027,391
Consumer	21,711,696	21,887,904
Real estate mortgage	21,159,504	24,960,574
Total loans held for investment	315,816,993	347,875,869
Less allowance for loan losses	(14,122,291)	(10,314,161)
Net loans held for investment	301,694,702	337,561,708
Premises and equipment, net	8,626,526	9,138,784
Other real estate owned, held for sale	2,678,444	1,523,079
Accrued interest and other assets	6,868,314	12,103,045
Total assets	\$ 388,782,526	\$ 432,894,468
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand (non-interest bearing)	\$ 56,404,701	\$ 56,505,803
NOW	35,539,239	35,027,009
Savings and money markets	101,422,737	121,641,368
Time deposits	142,286,835	159,357,927
Brokered certificates of deposit	13,873,571	7,046,389
Total deposits	349,527,083	379,578,496
Other borrowings	8,897,277	9,152,190
Accrued interest, taxes, and other liabilities	2,833,064	3,536,600
Total liabilities	361,257,424	392,267,286
Stockholders' Equity		
Common stock, no par value. Authorized 4,200,000 shares; 3,119,620 shares issued and outstanding at December 31, 2008 and 3,045,153 shares issued and outstanding at December 31, 2007	6,583,158	6,141,835
Retained earnings	19,643,976	33,545,396
Deferred directors' compensation	902,333	859,609
Accumulated other comprehensive income, net	395,635	80,342
Total stockholders' equity	27,525,102	40,627,182
Total liabilities and stockholders' equity	\$ 388,782,526	\$ 432,894,468

FNBH Bancorp, Inc.
Consolidated Statements of Income (Unaudited)

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Interest and dividend income:				
Interest and fees on loans	\$ 4,708,726	\$ 6,419,150	\$ 21,662,130	\$ 27,819,662
Interest and dividends on investment securities:				
U.S. Treasury, agency securities and CMO's	388,461	301,570	1,276,017	1,277,759
Obligations of states and political subdivisions	154,116	163,432	644,588	680,515
Preferred stock	-	-	70,727	-
Other securities	12,679	12,111	50,208	47,070
Interest on certificates of deposit	53,330	48,011	219,489	189,233
Interest on short term investments	15,066	50,092	384,077	159,074
Total interest and dividend income	5,332,378	6,994,367	24,307,236	30,173,314
Interest expense:				
Interest on deposits	1,494,227	2,663,829	7,680,058	11,366,317
Interest on other borrowings	108,814	133,985	438,307	518,395
Total interest expense	1,603,041	2,797,814	8,118,365	11,884,712
Net interest income	3,729,337	4,196,553	16,188,871	18,288,602
Provision for loan losses	4,810,000	2,192,000	14,854,900	14,029,666
Net interest income (loss) after provision for loan losses	(1,080,663)	2,004,553	1,333,971	4,258,936
Noninterest income:				
Service charges and other fee income	710,965	844,943	2,957,150	3,308,112
Trust income	85,153	105,781	374,886	401,768
Gain on sale of mortgage loans	-	4,489	-	39,345
Loss on available for sale securities	(1,464,138)	-	(3,236,635)	(547,571)
Other	(31,355)	2,712	8,694	5,422
Total noninterest income (loss)	(699,375)	957,926	104,095	3,207,077
Noninterest expense:				
Loss on sale/writedown of commercial loans held for sale	-	-	-	4,311,528
Salaries and employee benefits	1,469,768	1,552,784	6,788,477	6,644,273
Net occupancy expense	305,754	344,613	1,192,987	1,218,720
Equipment expense	107,318	121,225	471,309	487,532
Professional and service fees	539,012	508,674	2,264,882	2,035,141
Loan collection and foreclosed property expenses	438,643	63,691	1,104,654	233,768
FDIC assessment fees	331,238	11,228	600,058	47,197
Computer service fees	113,106	149,590	498,878	575,452
Printing and supplies	64,321	73,124	275,840	312,256
Director fees	46,093	57,664	219,357	300,428
Other	352,817	376,847	1,562,140	1,638,815
Total noninterest expense	3,768,070	3,259,440	14,978,582	17,805,110
Loss before federal income taxes (credit)	(5,548,108)	(296,961)	(13,540,516)	(10,339,097)
Federal income taxes (credit)	2,196,734	(91,670)	(127,276)	(3,782,909)
Net loss	\$ (7,744,842)	\$ (205,291)	\$ (13,413,240)	\$ (6,556,188)
Per share statistics:				
Basic EPS	\$ (2.47)	\$ (0.07)	\$ (4.33)	\$ (2.13)
Diluted EPS	\$ (2.47)	\$ (0.07)	\$ (4.33)	\$ (2.13)
Dividends	\$ -	\$ 0.21	\$ 0.16	\$ 0.84
Basic average shares outstanding	3,140,073	3,073,721	3,096,332	3,074,732
Diluted average shares outstanding	3,140,073	3,073,721	3,096,332	3,074,732