

# **FNBH BANCORP INC**

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Dear Shareholder,

As I emphasized in my last letter, the downturn in residential real estate continues to impact our profitability as Michigan, and Livingston County specifically, remain under economic stress. In response to these challenging times, we are focusing our 2008 efforts on strategic initiatives that will restore us to our long-term performance plans.

Net income for the first quarter of 2008 was \$580,000, a \$785,000 improvement over the fourth quarter 2007 loss of \$205,000. This is a decrease of \$399,000 (40.8%) compared to March 31, 2007 earnings. Basic and diluted net income per share was \$.19, a decrease of \$.13 (40.6%) compared to the same period last year. Return on assets was .55% and return on equity was 5.67% for the first quarter of 2008.

In May we declared a dividend of \$.08, which once again is being funded from borrowings at the holding company. Our ability to pay future dividends will require specific approval from the Office of the Comptroller of the Currency (OCC). Our focus remains on restoring profitability through cost savings and diversified growth.

As a result of our operating performance and the decrease in our share price, many shareholders are asking, “What are the Bank’s plans going forward?” My response focuses on five key drivers including leadership, customer experience, expense management, asset quality, and strategic planning.

First, we have improved our leadership team through selective additions of new people and the promotion of individuals from within the Bank. Strong leadership is essential in providing the appropriate focus for our employees and I believe talent is the key driver of sustainable growth and represents the best investment we can make.

Second, we have established a major initiative to “improve our customer experience”. This is a comprehensive undertaking that involves every employee in the Bank, as well as our Board of Directors. Our initiatives emphasize putting the customer first and to see things from a customer’s perspective first.

Third, we are managing our expenses to stress leanness and efficiencies in our operations. During challenging economic times, disciplined cost containment must be viewed as a revenue source that all business line managers must drive and be measured against.

Fourth, we are managing our asset quality by reemphasizing a credit culture. There is a great deal of focus on problem loans and reducing our level of non-earning assets. As important is the development of new business activity within the marketplace to improve our portfolio quality. The additions of several career commercial lenders and a new Chief Lending Officer provides us with the expertise, knowledge, and staffing to help us improve our asset quality and create future growth.

Finally, we are working on a revision to our Strategic Plan that will chart the course for First National's future. The underpinnings of that plan are to restore profitability and growth in order to maximize shareholder value and return this franchise to the envy of peer banks.

Looking forward, I am encouraged by new initiatives being implemented by our staff. They include a website redesign, the development of Treasury Management products, and the additions of Brokerage and Financial Planning services. Each offers additional insight into our desire to attract a broader more diverse customer base.

This letter also marks the end of a rewarding journey for me as President and CEO of First National Bank. Through my tenure I have greatly appreciated the patience and care that the employees, shareholders, and customers have provided me. On May 12, 2008, Ronald Long, a Michigan native and career banker, will succeed me as President and CEO of First National Bank. Ron is an accomplished senior executive who brings a proven track record and a community banking background to the Bank.

Together, with our focused initiatives and a strong leadership team, First National is poised to weather the current economic storm and emerge in a stronger, more competitive form. Thank you for your commitment and investment in First National Bank.

Sincerely,

A handwritten signature in black ink, appearing to read "James R. McAuliffe". The signature is fluid and cursive, with a large initial "J" and "M".

James R. McAuliffe  
President and CEO

**FNBH Bancorp, Inc.**  
**Consolidated Balance Sheets (Unaudited)**

|   | <b>March 31</b>       | December 31           |
|---|-----------------------|-----------------------|
|   | <b>2008</b>           | 2007                  |
| <b>Assets</b>   |                       |                       |
| Cash and due from banks   | \$ 8,885,129          | \$ 13,400,674         |
| Short term investments  | 14,389,913            | 16,509,953            |
| <b>Total cash and cash equivalents</b>  | <b>23,275,042</b>     | 29,910,627            |
| Certificates of deposit   | 4,613,000             | 4,025,000             |
| Investment securities held to maturity, net (fair value of \$16,584,254 at March 31, 2008 and \$15,600,812 at December 31, 2007)  | 16,303,214            | 15,394,165            |
| Agency securities available for sale, at fair value   | 9,766,481             | 14,005,338            |
| Mortgage-backed/CMO securities available for sale, at fair value  | 8,090,966             | 8,237,772             |
| Preferred stock available for sale, at fair value   | 1,957,229             | -                     |
| FHLBI and FRB stock, at cost  | 994,950               | 994,950               |
| <b>Total investment securities</b>  | <b>37,112,840</b>     | 38,632,225            |
| Loans held for investment:  |                       |                       |
| Commercial  | 300,614,321           | 301,027,391           |
| Consumer  | 20,855,148            | 21,887,904            |
| Real estate mortgage  | 24,021,748            | 24,960,574            |
| <b>Total loans held for investment</b>  | <b>345,491,217</b>    | 347,875,869           |
| Less allowance for loan losses  | (10,175,285)          | (10,314,161)          |
| <b>Net loans held for investment</b>  | <b>335,315,932</b>    | 337,561,708           |
| Premises and equipment, net   | 8,994,450             | 9,138,784             |
| Other real estate owned, held for sale  | 1,106,059             | 1,523,079             |
| Accrued interest and other assets   | 10,622,336            | 12,103,045            |
| <b>Total assets</b>   | <b>\$ 421,039,659</b> | <b>\$ 432,894,468</b> |
| <b>Liabilities and Stockholders' Equity</b>   |                       |                       |
| <b>Liabilities</b>  |                       |                       |
| Deposits:   |                       |                       |
| Demand (non-interest bearing)   | \$ 57,714,658         | \$ 56,505,803         |
| NOW   | 34,711,399            | 35,027,009            |
| Savings and money markets   | 110,924,990           | 121,641,368           |
| Time deposits   | 163,451,449           | 159,357,927           |
| Brokered certificates of deposit  | 1,122,317             | 7,046,389             |
| <b>Total deposits</b>   | <b>367,924,813</b>    | 379,578,496           |
| Other borrowings  | 8,997,277             | 9,152,190             |
| Accrued interest, taxes, and other liabilities  | 2,984,434             | 3,536,600             |
| <b>Total liabilities</b>  | <b>379,906,524</b>    | 392,267,286           |
| <b>Stockholders' Equity</b>   |                       |                       |
| Common stock, no par value. Authorized 4,200,000 shares; 3,056,392 shares issued and outstanding at March 31, 2008 and 3,045,153 shares issued and outstanding at December 31, 2007 | 6,178,317             | 6,141,835             |
| Retained earnings   | 33,881,598            | 33,545,396            |
| Deferred directors' compensation  | 859,795               | 859,609               |
| Accumulated other comprehensive income, net   | 213,425               | 80,342                |
| <b>Total stockholders' equity</b>   | <b>41,133,135</b>     | 40,627,182            |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 421,039,659</b> | <b>\$ 432,894,468</b> |

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

|  | <b>Three months ended March 31</b> |                   |
|--|------------------------------------|-------------------|
|  | <b>2008</b>                        | <b>2007</b>       |
| <b>Interest and dividend income:</b>                       |                                    |                   |
| Interest and fees on loans                                 | \$ 6,019,184                       | \$ 7,249,005      |
| Interest and dividend on investment securities:            |                                    |                   |
| U.S. Treasury, agency securities and CMO's                 | 281,738                            | 346,179           |
| Obligations of states and political subdivisions           | 165,407                            | 178,277           |
| Preferred Stock  | 16,854                             | -                 |
| Other securities   | 11,382                             | 12,416            |
| Interest on short term investments                         | 146,584                            | 43,448            |
| Interest on certificates of deposit                        | 54,598                             | 48,174            |
| <b>Total interest and dividend income</b>                  | <b>6,695,747</b>                   | <b>7,877,499</b>  |
| <b>Interest expense:</b>                                   |                                    |                   |
| Interest on deposits                                       | 2,503,875                          | 2,929,481         |
| Interest on other borrowings                               | 107,861                            | 119,623           |
| <b>Total interest expense</b>                              | <b>2,611,736</b>                   | <b>3,049,104</b>  |
| <b>Net interest income</b>                                 | <b>4,084,011</b>                   | <b>4,828,395</b>  |
| Provision for loan losses                                  | 688,900                            | 939,000           |
| <b>Net interest income after provision for loan losses</b> | <b>3,395,111</b>                   | <b>3,889,395</b>  |
| <b>Noninterest income:</b>                                 |                                    |                   |
| Service charges and other fee income                       | 726,059                            | 824,377           |
| Trust income   | 100,347                            | 93,469            |
| Gain on sale of mortgage loans                             | -                                  | 19,206            |
| Other  | 27,512                             | 1,284             |
| <b>Total noninterest income</b>                            | <b>853,918</b>                     | <b>938,336</b>    |
| <b>Noninterest expense:</b>                                |                                    |                   |
| Salaries and employee benefits                             | 1,721,126                          | 1,878,561         |
| Net occupancy expense                                      | 356,550                            | 303,352           |
| Equipment expense  | 117,259                            | 107,880           |
| Professional and service fees                              | 507,279                            | 510,589           |
| Computer service fees                                      | 129,537                            | 125,308           |
| Printing and supplies                                      | 105,968                            | 52,171            |
| Director fees  | 58,283                             | 99,513            |
| Advertising  | 56,002                             | 71,928            |
| Other  | 423,532                            | 309,616           |
| <b>Total noninterest expense</b>                           | <b>3,475,536</b>                   | <b>3,458,918</b>  |
| <b>Income before federal income taxes</b>                  | <b>773,493</b>                     | <b>1,368,813</b>  |
| <b>Federal income taxes</b>                                | <b>193,622</b>                     | <b>389,689</b>    |
| <b>Net income</b>  | <b>\$ 579,871</b>                  | <b>\$ 979,124</b> |
| Per share statistics:                                      |                                    |                   |
| Basic EPS  | \$ 0.19                            | \$ 0.32           |
| Diluted EPS  | \$ 0.19                            | \$ 0.32           |
| Dividends  | \$ 0.08                            | \$ 0.21           |
| Basic average shares outstanding                           | 3,076,057                          | 3,084,821         |
| Diluted average shares outstanding                         | 3,076,089                          | 3,084,869         |