

# FNBH BANCORP INC

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November 4, 2016

Dear Shareholder,

FNBH Bancorp, Inc. reports the following results as of and for the three and nine months ended September 30, 2016:

- Year to date net income of \$4,585,000 compared to \$2,132,000 in 2015  
*2016 year to date net income includes \$2,350,000 of reverse provision expense compared to \$1,500,000 of reverse provision expense recognized in the same prior year period*
- Quarterly net income of \$1,634,000 compared to \$1,730,000 for the third quarter of 2015  
*2016 third quarter net income includes \$750,000 of reverse provision expense compared to \$1,500,000 of reverse provision expense recorded in the third quarter 2015*
- Total assets of \$383.8 million, increased from \$348.2 million at year-end 2015
- Tangible book value per share of \$1.44, compared to \$1.23 at year-end 2015
- Increase in total loans of \$29.2 million, or 17.1% from year-end 2015
- Reduction in nonperforming assets of \$2.6 million, or 40.0%, since year-end 2015

For additional detail on the Company's subsidiary bank, First National Bank in Howell, please visit the FDIC's website at [https://www5.fdic.gov/Call\\_TFR\\_Rpts/](https://www5.fdic.gov/Call_TFR_Rpts/).

Third quarter 2016 results again benefitted from payoffs received on a handful of former large nonperforming loan relationships. These payoffs allowed for the recognition of interest income and facilitated reverse provision expense to adjust the allowance for recoveries of charge-offs previously taken on these loans. Net recoveries recognized through the nine months ended September 30, 2016 totaled \$2.0 million compared to \$0.6 million in the same prior year period.

During the third quarter we continued to rollout technology improvements to enhance the customer experience and improve internal efficiencies. These features include remote deposit anywhere, text notifications for debit card transactions, acceptance of electronic signatures for loan and deposit documents, ID card scanning for expedited customer identification, custom PIN selection at card activation or PIN resets without visiting a branch, person-to-person payments via our mobile banking app, and internal document imaging for electronic storage of loan and deposit documents. Our new phone banking system went live in early October and now offers features like voice and touch tone entry, requests for account information sent by email, and merchant check verification, among other options.

Additional customer experience enhancements planned for the fourth quarter include an in/outbound bank-to-bank transfer capability and *Smart Pay Express*, a specialized online payment and donation solution. Bank staff will begin to realize efficiencies utilizing *eDistribution* for automated internal scheduling and routing of electronic documents and related functionality to better manage and track documents.

In August, *The Livingston County Press & Argus' "People's Choice"* awards named First National Bank "*Best Bank*" in Livingston County! We're very proud of this recognition and especially thankful to our customers and our staff for making it possible.

We recently welcomed Marty Smith, an experienced local commercial lending executive, as Chief Lending Officer to lead our commercial lending group. Jerry Moyer, our Chief Lending Officer over the past 8 years, has announced his retirement effective January 1, 2017. We are forever thankful to Jerry for his important contributions to the Bank's survival through the Great Recession and to our subsequent success.

We will be working closely with our external auditors during the fourth quarter of 2016 to determine the potential to reinstate the Company's approximate \$8.0 million net deferred tax asset. While we cannot guarantee the reinstatement of any portion of our net deferred tax asset, or the timing of any such reinstatement, such a reinstatement would significantly enhance book value per share.

While considerable reverse provision expense has been recorded over the past several years as a result of significant recoveries of previous loan charge off amounts along with economic and loan portfolio improvement, our allowance for loan losses as a percentage of outstanding loans remains substantially greater than our peers. Should these economic factors continue in the Bank's favor, we may in the future have the opportunity to record further reverse provision expense. While we cannot guarantee any additional reverse provision expense, or the timing of any such reverse provision, such reverse provisions would also enhance book value per share.

We continue to focus on additional loan portfolio growth to rebuild the Bank's balance sheet in order to increase earnings. We are grateful for the success we've experienced thus far and once again ask our shareholders to support the Bank with their loan business and loan referral opportunities. Our loan pricing remains very competitive and we eagerly pursue new lending opportunities. **Thank you for your business. Please continue to keep us top of mind and share your referrals with us.**

The Company's common stock is quoted and traded under the symbol "FNHM" on the OTCBB. If you are interested in buying or selling shares of FNBH Bancorp, Inc., please contact either:

- Thomas Dooley or Nick Bicking with Boenning & Scattergood at 866-326-8113. *(Products and services are offered through Boenning & Scattergood. Boenning & Scattergood is not affiliated with FNBH Bancorp, Inc.)*
- Tim Padala at 734-741-3906 or Mike Sammon at 312-242-0433 with FIG Partners LLC. *(Products and services are offered through FIG Partners LLC. FIG Partners LLC is not affiliated with FNBH Bancorp, Inc.)*

We thank you for your investment and your commitment to community banking. Your questions and suggestions are always welcome. Please contact me or any of our Directors anytime. Our contact information is provided below.

Cordially,

  
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#### DISCLAIMER

*Discussions and statements in this letter that are not statements of historical fact, including, without limitation, statements that include terms such as "will," "may," "should," "believe," "expect," "forecast," "anticipate," "estimate," "project," "intend," "likely," "optimistic" and "plan," and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about or expectations regarding any future reverse provision expense or reinstatement of our net deferred tax asset; and descriptions of other steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons. For example, our loan portfolio may not*

*perform as we expect; we may not be successful with our cost reduction, loan growth, and other initiatives; and/or economic conditions could deteriorate in a manner that further hurts our financial condition or performance.*

*Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, which we currently consider to be immaterial, or that develop after the date of this letter. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this letter are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.*

**FNBH BANCORP, INC.**  
**SUMMARY FINANCIAL DATA**  
**September 30, 2016 Shareholder Correspondence**  
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015

(in thousands, except per share amounts)

**Income Statement Data:**

Interest income	\$ 3,221	\$ 2,520	\$ 9,202	\$ 7,475
Interest expense	131	136	396	413
Net interest income	3,090	2,384	8,806	7,062
Provision (credit) for loan losses	(750)	(1,500)	(2,350)	(1,500)
Noninterest income	497	552	1,533	1,730
Net gain on available for sale securities	9	5	84	4
Net gain (loss) on sale/write-down of other real estate owned	(50)	-	(26)	(8)
Noninterest expense	2,701	2,699	8,218	8,122
Income before income taxes	1,595	1,742	4,529	2,166
Net income	1,634	1,730	4,585	2,132

**Per Share Data:**

Basic and diluted net income per share	\$ 0.06	\$ 0.06	\$ 0.17	\$ 0.08
Weighted average basic and diluted shares outstanding	27,771,689	27,771,689	27,771,689	27,771,689

	September 30,	December 31,			
	2016	2015	2014	2013	2012

(in thousands)

**Balance Sheet Data:**

Total assets	\$ 383,847	\$ 348,169	\$ 322,826	\$ 312,290	\$ 296,871
Loans, gross	200,048	170,826	160,046	165,115	180,191
Allowance for loan losses	5,383	5,718	7,109	9,214	11,769
Securities	150,057	142,587	133,315	68,459	73,365
Deposits	342,510	313,066	290,379	285,313	287,682
Shareholders' equity	40,020	34,033	31,144	25,106	7,369

**Ratios:**

Allowance for loan losses to loans outstanding	2.69%	3.35%	4.44%	5.58%	6.53%
Average equity to average asset ratio	10.29%	9.74%	8.99%	3.37%	2.35%
Net interest margin (tax equivalent)	3.41%	3.15%	3.38%	3.84%	3.88%

	September 30,	December 31,			
	2016	2015	2014	2013	2012

(in thousands)

**Nonperforming Loans and Assets:**

Nonaccrual loans	\$ 3,668	\$ 5,464	\$ 8,304	\$ 11,067	\$ 12,839
Loans past due 90 days and still accruing	-	-	4	-	201
<b>Total nonperforming loans</b>	<b>3,668</b>	<b>5,464</b>	<b>8,308</b>	<b>11,067</b>	<b>13,040</b>
Other real estate	190	971	1,174	480	3,427
<b>Total nonperforming assets</b>	<b>\$ 3,858</b>	<b>\$ 6,435</b>	<b>\$ 9,482</b>	<b>\$ 11,547</b>	<b>\$ 16,467</b>

Nonperforming loans as a percent of total loans	1.83%	3.20%	5.19%	6.70%	7.24%
Allowance for loan losses as a percent of nonperforming loans	146.76%	104.65%	85.57%	83.26%	90.25%
Nonperforming assets as a percent of total loans and other real estate	2.26%	3.75%	5.88%	6.97%	8.97%

	September 30,	December 31,			
	2016	2015	2014	2013	2012

(in thousands)

**Classified Loans:**

Commercial	\$ -	\$ 62	\$ 261	\$ 164	\$ 694
Commercial Real Estate	2,273	3,385	6,196	13,061	16,830
Consumer Real Estate	1,408	2,242	3,981	4,465	5,233
Consumer and Other	43	60	121	127	144
<b>Total</b>	<b>\$ 3,724</b>	<b>\$ 5,749</b>	<b>\$ 10,559</b>	<b>\$ 17,817</b>	<b>\$ 22,901</b>