

# **FNBH BANCORP INC**

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Dear Shareholder,

It is hard for me to believe that a year has passed since I wrote to you about our 2009 performance. The intense pace of activities here at the Bank has made time pass very quickly. During these past 12 months, the Board and management of the Company have been focused on two primary initiatives: (1) improving the Bank's asset quality and earnings; and (2) attracting capital to meet the objectives imposed by our regulators.

With respect to the first initiative, which is more directly within our control, I am pleased to report that we have made meaningful progress. Substantially all of the Bank's asset quality metrics have improved, in some cases considerably. As a result, our loan loss provision expense was reduced by \$9.9 million from 2009. Combined with a \$2.8 million reduction in non-interest expense, our loss per share was reduced from \$4.32 in 2009 to \$1.22 in 2010. While not satisfied with the reporting of a loss, we are pleased that we are headed in the right direction.

As to our capital raise efforts, we have explored a variety of alternatives during 2010. While we have yet to finalize the specific manner and amount of capital to be raised, we remain relatively confident that our 2010 efforts have laid the groundwork for us to complete the capital raise in 2011.

While substantial work remains, our positive asset quality trends and improved operating performance, combined with improved local economic conditions, provides a reasonable basis for optimism in 2011. Given the length and depth of the recent prolonged economic crisis, our efforts to return to profitability have been a gradual and laborious process. Your Board of Directors and management remain committed to achieving this objective.

With respect to the Bank's 2010 performance, core deposit balances remained relatively stable when compared to prior year and were slightly elevated at year end 2010. We believe that this is a notable achievement when combined with our ability to reduce 2010 total noninterest expense by \$2.8 million over the prior year. Our continuing emphasis on high performing people efficiently delivering exceptional customer experiences contributed significantly to this accomplishment.

At December 31, 2010, the Bank's total capital to risk-weighted assets ratio and Tier One capital ratios were 5.58% and 3.50%, respectively. These ratios are significantly less than minimum capital requirements imposed by the Bank's primary regulator. As discussed in prior shareholder letters, the terms of our Consent Order with the Office of the Comptroller of the Currency requires the Bank to maintain total capital of at least 11% of risk-weighted assets and Tier One capital equal to at least 8.50% of adjusted total assets. As noted above, we are continuing to work on our capital raising efforts, and we hope to report to you on the success of these efforts as the year progresses.

Our fourth quarter 4.45% net interest margin remains strong and above our peer group bank average. Year end 2010 on balance sheet liquidity consisted of \$40.6 million in cash and cash equivalents and \$23.7 million in investment securities. As improved local economic conditions and enhanced asset quality metrics continue, management plans to invest a portion of the on balance sheet cash into relatively liquid investment securities during the first quarter of 2011.

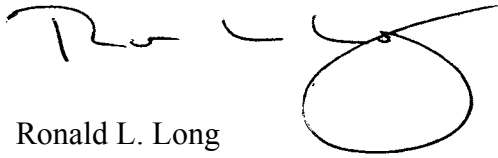
During the fourth quarter of 2010, we were pleased to announce the addition of Mr. Timothy Corrigan as a new director of the Bank and the holding company. We are grateful that this accomplished local business leader and committed fellow shareholder has joined our board.

Our Annual Shareholder Meeting is scheduled for 10:00 a.m. on Thursday, June 23, 2011. We look forward to and welcome your participation.

Please be assured that management, the Board of Directors and your bank staff are diligently working to restore the financial health of the Company so that it may continue as Livingston County's Community Bank for many years to come.

Thank you for your continued commitment to community banking and your investment in our Company. Please call me at 517-545-2221 with questions or to simply arrange a time to meet and get better acquainted.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ronald L. Long'. The signature is stylized with a large, circular flourish at the end.

Ronald L. Long  
President and CEO

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

	December 31, 2010	December 31, 2009
<b>Assets</b>		
Cash and due from banks	\$ 40,376,267	\$ 36,942,636
Short term investments	196,159	101,029
<b>Total cash and cash equivalents</b>	40,572,426	37,043,665
Investment securities:		
Investment securities available for sale, at fair value	27,269,670	22,705,612
FHLBI and FRB stock, at cost	901,350	994,950
<b>Total investment securities</b>	28,171,020	23,700,562
Loans held for investment:		
Commercial	203,025,518	235,937,243
Consumer	16,641,544	18,777,849
Real estate mortgage	16,271,284	19,330,658
<b>Total loans held for investment</b>	235,938,346	274,045,750
Less allowance for loan losses	(13,970,170)	(18,665,173)
<b>Net loans held for investment</b>	221,968,176	255,380,577
Premises and equipment, net	7,692,185	8,091,463
Other real estate owned, held for sale	4,294,212	3,777,119
Facilities held for sale, net	-	60,453
Accrued interest and other assets	2,642,511	4,336,526
<b>Total assets</b>	\$ 305,340,530	\$ 332,390,365
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand (non-interest bearing)	\$ 62,294,189	\$ 65,643,739
NOW	52,018,941	50,642,881
Savings and money market	75,226,475	72,297,919
Time deposits	100,382,011	121,200,201
Brokered certificates of deposit	3,358,573	5,410,951
<b>Total deposits</b>	293,280,189	315,195,691
Other borrowings	-	413,970
Accrued interest, taxes, and other liabilities	1,926,543	2,404,440
<b>Total liabilities</b>	295,206,732	318,014,101
<b>Shareholders' Equity</b>		
Preferred stock, no par value. Authorized 30,000 shares; no shares issued and outstanding	-	-
Common stock, no par value. Authorized 7,000,000 shares at December 31, 2010 and December 31, 2009; 3,165,392 shares issued and outstanding at December 31, 2010 and 3,149,850 shares issued and outstanding at December 31, 2009	6,935,140	6,738,128
Retained earnings	2,747,615	6,641,060
Deferred directors' compensation	708,372	885,919
Accumulated other comprehensive income	(257,329)	111,157
<b>Total shareholders' equity</b>	10,133,798	14,376,264
<b>Total liabilities and shareholders' equity</b>	\$ 305,340,530	\$ 332,390,365

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

	Three months ended Dec 31		Twelve months ended Dec 31	
	2010	2009	2010	2009
<b>Interest and dividend income:</b>				
Interest and fees on loans	\$ 3,196,703	\$ 3,615,742	\$ 13,153,069	\$ 16,009,172
Interest and dividends on investment securities:				
U.S. Treasury, agency securities and CMOs	180,229	232,264	770,493	1,205,935
Obligations of states and political subdivisions	71,363	81,360	282,384	446,827
Other securities	6,120	6,120	20,484	29,984
Interest on certificates of deposit	-	16,269	-	162,812
Interest on short term investments	163	416	487	14,813
<b>Total interest and dividend income</b>	<b>3,454,578</b>	<b>3,952,171</b>	<b>14,226,917</b>	<b>17,869,543</b>
<b>Interest expense:</b>				
Interest on deposits	513,216	880,831	2,494,914	4,566,956
Interest on other borrowings	-	7,713	1,174	65,399
<b>Total interest expense</b>	<b>513,216</b>	<b>888,544</b>	<b>2,496,088</b>	<b>4,632,355</b>
<b>Net interest income</b>	<b>2,941,362</b>	<b>3,063,627</b>	<b>11,730,829</b>	<b>13,237,188</b>
Provision for loan losses	2,375,000	1,200,000	5,975,000	15,846,853
<b>Net interest income (deficiency) after provision for loan losses</b>	<b>566,362</b>	<b>1,863,627</b>	<b>5,755,829</b>	<b>(2,609,665)</b>
<b>Noninterest income:</b>				
Service charges and other fee income	671,391	837,448	2,954,457	3,223,857
Trust income	51,938	77,426	238,602	336,258
Gain on available for sale securities	329,110	106,542	329,110	198,651
Other	29,777	4,511	32,138	9,129
<b>Total noninterest income</b>	<b>1,082,216</b>	<b>1,025,927</b>	<b>3,554,307</b>	<b>3,767,895</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	1,171,020	1,513,521	5,100,377	6,532,037
Net occupancy expense	228,687	286,249	1,048,165	1,138,208
Equipment expense	85,232	93,351	338,412	382,701
Professional and service fees	544,016	487,072	1,826,368	2,058,513
Loan collection and foreclosed property expenses	119,326	339,964	689,826	1,099,083
Computer service fees	112,597	126,401	455,663	464,224
Amortization expense	59,832	66,771	254,582	267,852
FDIC assessment fees	353,885	348,890	1,428,838	1,639,183
Insurance	154,534	151,167	681,299	509,486
Printing and supplies	40,369	44,839	147,437	184,058
Director fees	15,575	15,300	64,025	73,742
Net loss on sale/writedown of OREO and repossessions	124,443	364,457	378,893	827,324
Other	187,863	161,426	732,433	762,270
<b>Total noninterest expense</b>	<b>3,197,379</b>	<b>3,999,408</b>	<b>13,146,318</b>	<b>15,938,681</b>
<b>Loss before federal income taxes</b>	<b>(1,548,801)</b>	<b>(1,109,854)</b>	<b>(3,836,182)</b>	<b>(14,780,451)</b>
<b>Federal income tax expense (benefit)</b>	<b>127,396</b>	<b>(1,552,054)</b>	<b>57,263</b>	<b>(1,084,568)</b>
<b>Net income (loss)</b>	<b>\$ (1,676,197)</b>	<b>\$ 442,200</b>	<b>\$ (3,893,445)</b>	<b>\$ (13,695,883)</b>
Per share statistics:				
Basic and Diluted EPS	\$ (0.52)	\$ 0.14	\$ (1.22)	\$ (4.32)
Dividends	\$ -	\$ -	\$ -	\$ -
Basic and diluted average shares outstanding	3,197,425	3,178,514	3,193,101	3,167,918