

# FNBH BANCORP INC

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February 8, 2016

Dear Shareholder,

***Best wishes for a healthy and rewarding 2016 from your friends at First National Bank!***

FNBH Bancorp, Inc. reports the following results for fourth quarter 2015 and as of December 31, 2015:

- Quarterly net income of \$1,274,000, compared to \$357,000 for the fourth quarter 2014
  - *2015 quarterly net income includes \$750,000 in reverse provision expense compared with no reverse provision expense recorded in fourth quarter 2014*
- Year to date net income of \$3,406,000 compared to \$3,050,000 in 2014
- Net loan loss recoveries of \$859,000 compared with \$395,000 in 2014
- Total assets of \$348.2 million, increased from \$322.8 million at year-end 2014
- Tangible book value per share of \$1.23, a 9.8% increase from \$1.12 at year-end 2014
- Increase in total loans of \$10.8 million from year-end 2014
- Reduction in classified loans of \$4.8 million, or 45.5%, since year-end 2014

For additional detail on the Company's subsidiary bank, The First National Bank in Howell, please visit the FDIC's website at [www.fdic.gov](http://www.fdic.gov).

In addition to 2015 earnings and asset quality improvement, our Company achieved:

- Termination of First National Bank in Howell's regulatory Consent Order
- \$51.3 million in closed new dollar loan commitments, increased from \$34.9 million in 2014
- Introduction of comprehensive wealth management services
- Implementation of residential mortgage lending
- Expansion of indirect lending to new local dealerships
- Increased efficiencies

Additional loan portfolio growth will be necessary to substantially increase earnings. In our 2014 year-end shareholder letter, we asked our shareholders to support the Bank with their loan business and loan referral opportunities. **We thank you for your response and ask that you please continue to refer during 2016.** Our loan pricing remains very competitive and we eagerly pursue new lending opportunities.

We may, in the future, once again have the potential to record reverse provision expense. In addition, as core earnings improve, we will closely evaluate the reinstatement of all or a portion of the Company's approximate \$8.5 million net deferred tax asset. We cannot guarantee any further reverse provision expense or reinstatement of any portion of our net deferred tax asset. However, if one or both of these events were to occur, we expect it would significantly enhance book value per share.

On the weekend of March 18<sup>th</sup>, 2016 we will undertake a core data processing conversion with our existing provider. The new platform will significantly enhance our ability to deliver positive, convenient and timely customer experiences. Significant preparation is underway to ensure a smooth conversion. Customers will experience the benefits of the new platform as enhanced capabilities are phased-in throughout 2016.

We have recently added two individuals to both the Company and Bank Board of Directors. Kenneth Marblestone joined the Boards during August 2015 and Robert Clemente was added to the Boards at our February 4, 2016 Board meeting. Both of these individuals bring a wealth of knowledge and expertise to our Boards and we are grateful for their willingness to serve.

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.)*

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 via the information 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, that 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**

**December 31, 2015 Shareholder Correspondence**

(Unaudited)

|   | Three months ended<br>December 31     |            | Twelve months ended<br>December 31 |            |
|---|---------------------------------------|------------|------------------------------------|------------|
|   | 2015                                  | 2014       | 2015                               | 2014       |
|   | (in thousands, except per share data) |            |                                    |            |
| <b>Statement of Operations Data:</b>                  |                                       |            |                                    |            |
| Interest income                                       | \$ 2,826                              | \$ 2,487   | \$ 10,301                          | \$ 10,239  |
| Interest expense                                      | 136                                   | 150        | 550                                | 703        |
| Net interest income                                   | 2,690                                 | 2,337      | 9,751                              | 9,536      |
| Provision for loan losses                             | (750)                                 | -          | (2,250)                            | (2,500)    |
| Noninterest income                                    | 533                                   | 564        | 2,264                              | 2,422      |
| Gain (loss) on available for sale securities          | -                                     | -          | 4                                  | 2          |
| Noninterest expense                                   | 2,671                                 | 2,529      | 10,801                             | 11,390     |
| Income before federal income taxes                    | 1,302                                 | 372        | 3,468                              | 3,070      |
| Net income  | 1,274                                 | 357        | 3,406                              | 3,050      |
| <b>Per Share Data<sup>(1)</sup>:</b>                  |                                       |            |                                    |            |
| Basic and diluted net income per share                | \$ 0.05                               | \$ 0.01    | \$ 0.12                            | \$ 0.11    |
| Weighted average basic and diluted shares outstanding | 27,770,423                            | 27,770,143 | 27,770,410                         | 27,228,196 |

<sup>(1)</sup> 2014 per share data and number of shares include 17,510 shares of Mandatorily Convertible Non-Cumulative Junior Participating Preferred Stock, Series B, converted to common shares at a rate reflecting a price per common share of \$0.70.

|  | December 31,           |            |            |            |            |
|--|------------------------|------------|------------|------------|------------|
|  | 2015                   | 2014       | 2013       | 2012       | 2011       |
|  | (dollars in thousands) |            |            |            |            |
| <b>Balance Sheet Data:</b>                     |                        |            |            |            |            |
| Total assets                                   | \$ 348,169             | \$ 322,826 | \$ 312,290 | \$ 296,871 | \$ 292,080 |
| Loans, gross                                   | 170,826                | 160,046    | 165,115    | 180,191    | 208,844    |
| Allowance for loan losses                      | 5,718                  | 7,109      | 9,214      | 11,769     | 12,690     |
| Securities                                     | 142,587                | 133,315    | 68,459     | 73,365     | 33,104     |
| Deposits                                       | 313,066                | 290,379    | 285,313    | 287,682    | 283,653    |
| Shareholders' equity                           | 34,033                 | 31,144     | 25,106     | 7,369      | 6,609      |
| <b>Ratios:</b>                                 |                        |            |            |            |            |
| Allowance for loan losses to loans outstanding | 3.35%                  | 4.44%      | 5.58%      | 6.53%      | 6.08%      |
| Average equity to average asset ratio          | 9.74%                  | 8.99%      | 3.37%      | 2.35%      | 2.96%      |
| Net interest margin (tax equivalent)           | 3.15%                  | 3.38%      | 3.84%      | 3.88%      | 4.26%      |

|  | December 31,           |                 |                  |                  |                  |
|--|------------------------|-----------------|------------------|------------------|------------------|
|  | 2015                   | 2014            | 2013             | 2012             | 2011             |
|  | (dollars in thousands) |                 |                  |                  |                  |
| <b>Nonperforming Loans and Assets:</b>                                 |                        |                 |                  |                  |                  |
| Nonaccrual loans   | \$ 5,464               | \$ 8,304        | \$ 11,067        | \$ 12,839        | \$ 22,962        |
| Loans past due 90 days and still accruing                              | -                      | 4               | -                | 201              | 9                |
| <b>Total nonperforming loans</b>                                       | <b>5,464</b>           | <b>8,308</b>    | <b>11,067</b>    | <b>13,040</b>    | <b>22,971</b>    |
| Other real estate  | 971                    | 1,174           | 480              | 3,427            | 3,026            |
| <b>Total nonperforming assets</b>                                      | <b>\$ 6,435</b>        | <b>\$ 9,482</b> | <b>\$ 11,547</b> | <b>\$ 16,467</b> | <b>\$ 25,997</b> |
| Nonperforming loans as a percent of total loans                        | 3.20%                  | 5.19%           | 6.70%            | 7.24%            | 11.00%           |
| Allowance for loan losses as a percent of nonperforming loans          | 104.65%                | 85.57%          | 83.26%           | 90.25%           | 55.25%           |
| Nonperforming assets as a percent of total loans and other real estate | 3.75%                  | 5.88%           | 6.97%            | 8.97%            | 12.27%           |

|                          | December 31,    |                  |                  |                  |                  |
|--------------------------|-----------------|------------------|------------------|------------------|------------------|
|                          | 2015            | 2014             | 2013             | 2012             | 2011             |
|                          | (in thousands)  |                  |                  |                  |                  |
| <b>Classified Loans:</b> |                 |                  |                  |                  |                  |
| Commercial               | \$ 62           | \$ 261           | \$ 164           | \$ 694           | \$ 1,328         |
| Commercial Real Estate   | 3,385           | 6,196            | 13,061           | 16,830           | 26,908           |
| Consumer Real Estate     | 2,242           | 3,981            | 4,465            | 5,233            | 6,310            |
| Consumer and Other       | 60              | 121              | 127              | 144              | 159              |
| <b>Total</b>             | <b>\$ 5,749</b> | <b>\$ 10,559</b> | <b>\$ 17,817</b> | <b>\$ 22,901</b> | <b>\$ 34,705</b> |