

**FNBH BANCORP, INC.**

**CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS  
Modified November 9, 2010**

**I. Purpose**

The primary function of the Audit Committee is to assist the Board by overseeing (1) the quality and integrity of the Company's accounting, auditing and reporting practices, (2) the performance of the Company's internal audit function and independent auditor, and (3) the Company's disclosure controls and system of internal controls regarding finance, accounting, legal compliance, and ethics that management and the Board of Directors have established.

The Audit Committee shall provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditors and the Board of Directors.

**II. Membership**

- A. Independence. The Audit Committee shall be comprised of two or more members, each of whom (1) shall not have participated in the preparation of the financial statements of the Company or any subsidiary during the prior three-year period, and (2) shall be free from any relationship to the Company that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic financial and accounting practices.
- B. Appointment. The members shall be nominated by the Nominating and Corporate Governance Committee and appointed annually to one-year terms by the Board. The Nominating and Corporate Governance Committee shall recommend, and the Board shall designate, one member of the Audit Committee as Chair.
- C. Limitations. A member of the Audit Committee shall not simultaneously serve on the audit committee of more than two other public companies. In addition, at its discretion, the Board of Directors may permit or prohibit a member of the Audit Committee from simultaneously serving on the Trust Committee of First National Bank in Howell or any other committee directly related to the operation of the Bank's Trust & Investments department.
- D. Removal. Members may be removed by the Board.

### **III. Meetings and Procedures**

Meetings of the Audit Committee shall be subject to the Committee procedure rules set forth in the Company's Bylaws and its own rules of procedure, which shall be consistent with those Bylaws and the following:

- A. The Audit Committee shall meet at least 4 times annually and more frequently as circumstances require. Each regularly scheduled meeting of the Committee shall conclude with an executive session of the Committee, absent members of management and on such terms and conditions as the Committee may elect. In addition, the Committee may meet periodically with management, the Company's internal auditors and the independent auditors in separate executive sessions to discuss any matters that the Audit Committee or the internal auditors or independent auditors believe should be discussed privately.
- B. Following each of its meetings, the Audit Committee shall deliver a verbal report on the meeting to the Board, including a description of all actions taken by the Audit Committee.
- C. The Audit Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

### **IV. Responsibilities and Duties**

The Audit Committee shall have the following duties and responsibilities:

- A. Document and Report Review
  - 1. Review, reassess, and update this Charter periodically or as conditions dictate (at least, annually).
  - 2. Review and discuss with management the Company's audited financial statements and any reports or other financial information submitted to any governmental body or to the public, including any report issued by the independent accountants that the committee deems necessary.
  - 3. Recommend to the Board whether the financial statements should be included in the Annual Report on Form 10-K.
  - 4. Review with management and the independent auditors the quarterly report on Form 10-Q prior to its filing.
  - 5. Review earnings press releases with management prior to dissemination.
  - 6. Review reports of the internal auditor and management's response to such reports.

7. Review all full audit and compliance reports. The committee shall review and discuss High and Moderate rated audit and compliance issues and all High issues and a sample of Moderate issues (selected by the audit committee) will receive follow-up to ensure the issue was properly corrected.

B. Independent Auditors

1. Appoint, approve the compensation of, and provide oversight of the Company's independent auditor, including the removal of the Company's independent auditors. The independent auditors shall report directly to the Committee, and the Committee shall oversee the resolution of any disagreements between management and the independent auditors.
2. Administer the Company's Policy Regarding the Approval of Audit and Nonaudit Services Provided by the Independent Auditor.
3. Hold timely discussions with the independent auditors regarding:
  - (a) All critical accounting policies and practices;
  - (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
  - (c) Other material written communications between the independent auditor and management including, but not limited to, management letter and schedule of unadjusted differences;
  - (d) An analysis of the auditor's judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements; and
  - (e) All significant relationships the accountants have with the Company to determine the accountants' objectivity and independence, undertaking or recommending appropriate action to ensure and continue that independence.
4. At least annually, obtain and review a report by the independent auditor describing:

- (a) All relationships between the independent auditor and the Company; and
- (b) All significant relationships the auditors have with the Company to determine the auditor's objectivity and independence, undertaking or recommending appropriate action to ensure and continue that independence.

C. Financial Reporting Processes

1. Review the integrity of the Company's financial reporting process, both internal and external, giving consideration to consultation with management, the independent accountants and the internal auditor.
2. Consider and approve, as appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent accountants, management or the internal auditor.
3. Review and approve all related party transactions with the Company's directors, officers, and controlling shareholders, excluding those transactions between the Company's subsidiary and such persons that are in compliance with applicable banking regulations.
4. Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, or auditing matters, including procedures necessary to receive and respond to confidential and anonymous submissions by Company employees regarding questionable accounting or auditing matters.

D. Internal Audit

1. Appoint and provide oversight of the Company's independent internal and compliance auditors, including the removal of the Company's auditors. The internal and compliance auditors shall report directly to the Committee, and the Committee shall oversee the resolution of any disagreements between management and the independent auditors.
2. Review and approve the tri-annual audit plan submitted by the internal and compliance officers and any variations to the plan.
3. Ensure that the Company's internal and compliance audit staff is independent of all functions that it evaluates, including making investment and dispositive decisions, making original and correcting entries to the ledgers, signing trust checks, authorizing changes in trust systems without concurrence of trust management, and acting as security officers of First National Bank in Howell.

4. Review and approve the internal audit coordinator (IAC) reports on internal audit issues.

E. Ethical and Legal Compliance

1. Review, with the Company's counsel, legal compliance matters including corporate securities trading policies.
2. Review, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements.
3. Discuss and review the Company's major financial and accounting risk exposures and steps taken by management to control or mitigate those exposures.

F. Other

1. Review with the independent auditors, the internal auditing function and the extent to which changes or improvement in financial or accounting practices, as approved by the Audit Committee, have been implemented.
2. Review and approve the report that the SEC requires to be included in the Company's annual Proxy Statement.
3. To the extent it deems appropriate, obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate to perform its duties and responsibilities.
4. Perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.
5. Perform an annual self-assessment relative to the Committee's purpose, duties, and responsibilities.