FENTURA BANCORP INC
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001
[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ___________ to _______________

Commission file number 0-23550

Fentura Bancorp, Inc.
(Exact name of small business issuer as specified in its charter)

Michigan	38-2806518
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Fenton Sq, P.O. Box 725, Fenton, Michigan 48430
(Address of Principal Executive Offices)

(810) 629-2263
(Issuer's telephone number)

None
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
__X__ Yes ___ No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: August 10, 2001

Class - Common Stock	Shares Outstanding - 1,730,264

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Fentura Bancorp, Inc.
Consolidated Balance Sheets

(000's omitted Except Per Share Data)		JUNE 30, 2001 (unaudited)	DEC. 31, 2000
ASSETS			
Cash and due from banks	$	14,402	13,459
Federal funds sold		21,100	7,250
Total cash & cash equivalents		35,502	20,709
Securities-available for sale		42,358	53,421
Securities-held to maturity, (market value of $12,680 at June 30, 2001 and $13,419 at December 31, 2000)		12,510	13,283
Total securities		54,868	66,704
Loans:			
Commercial		99,573	101,090
Tax exempt development loans		803	835
Real estate loans - mortgage		16,028	10,514
Real estate loans - construction		23,915	17,471
Consumer loans		61,813	65,198
Total loans		202,132	195,108
Less: Allowance for loan losses		(3,097)	(2,932)
Net loans		199,035	192,176
Loans held for sale		264	187
Bank premises and equipment		7,094	6,547
Accrued interest receivable		1,660	1,924
Other assets		5,372	4,643

Total assets	$	303,795	292,890
LIABILITIES			
Deposits:			
Non-interest bearing deposits	$	35,852	34,762
Interest bearing deposits		226,059	213,894
Total deposits		261,911	248,656
Federal funds purchased		0	4,680
Other borrowings		2,638	1,151
Accrued taxes, interest and other liabilities		1,844	2,649
Total liabilities		266,393	257,136
SHAREHOLDERS' EQUITY			
Common stock - $2.5 par value 1,730,264 shares issued (1,722,308 in Dec. 2000)		4,326	4,305
Surplus		26,207	26,016
Retained earnings		6,648	5,648
Accumulated other comprehensive income (loss)		221	(215)
Total shareholders' equity		37,402	35,754
Total Liabilities and Shareholders' Equity	$	303,795	292,890

See notes to consolidated financial statements.

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Fentura Bancorp, Inc.
Consolidated Statements of Income (Unaudited)

(000's omitted except per share data)		Three Months Ended June 30, 2001	2000		2
INTEREST INCOME					
Interest and fees on loans	$	4,497	4,728	$	
Interest and dividends on investment securities:					
Taxable		681	829		
Tax-exempt		166	165		
Interest on federal funds sold		233	197		
Total interest income		5,577	5,919		
INTEREST EXPENSE					
Deposits		2,334	2,275		
Short-term borrowings		28	237		
Total interest expense		2,362	2,512		
NET INTEREST INCOME		3,215	3,407		
Provision for loan losses		255	201		
Net interest income after provision for loan losses		2,960	3,206		

NON-INTEREST INCOME				
Service charges on deposit accounts		520	486	
Fiduciary income		160	159	
Other operating income		328	356	
Gain on sale of loans		174	52	
Investment gains		157	0	
Total non-interest income		1,339	1,053	
NON-INTEREST EXPENSE				
Salaries and benefits		1,506	1,486	
Occupancy of bank premises		206	196	
Equipment expense		354	408	
Other operating expenses		891	986	
Total non-interest expense		2,957	3,076	
INCOME BEFORE TAXES		1,342	1,183	
Applicable income taxes		400	353	
NET INCOME	$	942	830	$
Per share:				
Net income - basic	$	0.54	0.48	$
Net income - diluted	$	0.54	0.48	$
Dividends	$	0.22	0.21	$

See notes to consolidated financial statements.

Fentura Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(000's omitted)		Six Months Ended June 30, 2001		Six Mon Ende June 3 2000
COMMON STOCK				
Balance, beginning of period	$	4,305	$	
Issuance of shares under Director stock purchase plan, Stock purchase plan, and Dividend reinvestment program		21		
Impact of 20% stock dividend		0		
Balance, end of period		4,326		
SURPLUS				
Balance, beginning of period		26,016		1
Issuance of shares under Director stock purchase plan, Stock purchase plan, and Dividend reinvestment program		191		
Impact of 20% stock dividend		0		

Balance, end of period	26,207	2
RETAINED EARNINGS		
Balance, beginning of period	5,648	1
Net income	1,761	
Cash dividends declared	(761)	
Impact of 20% stock dividend	0	(
Balance, end of period	6,648	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	(215)	(
Change in unrealized gain (loss) on securities, net of tax	436	
Balance, end of period	221	(
TOTAL SHAREHOLDERS' EQUITY	$ 37,402	$ 3

See notes to consolidated financial statements.

Fentura Bancorp, Inc.
Consolidated Statements of Cash Flows (Unaudited)

(000's omitted, Except Per Share Data)	Six Months Ended June 30, 2001	2000
OPERATING ACTIVITIES:		
Net income	$1,761	$1,703
Adjustments to reconcile net income to cash Provided by Operating Activities:		
Depreciation and amortization	427	510
Provision for loan losses	393	370
Amortization (accretion) on securities	(25)	(25)
Loans originated for sale	(1,792)	(2,930)
Proceeds from the sale of loans	1,948	2,971
Gain in sales of loans	(233)	(65)
Gain on investment securities	(157)	0
Decrease (increase) in interest receivable	264	(201)
Decrease (increase) in other assets	(954)	1,408
Increase (decrease) in accrued taxes, Interest, and other liabilities	(805)	(173)
Total Adjustments	(934)	1,865
Net Cash Provided By (Used In) Operating Activities	827	3,568
Cash Flows From Investing Activities:		
Net decrease in deposits with other banks	0	0
Proceeds from maturities of investment activities - HTM	773	248
Proceeds from maturities of investment activities - AFS	2,998	1,518

Proceeds from calls of investment securities - AFS	12,566	0
Proceeds from sales of investment securities - AFS	3,667	0
Purchases of investment securities - HTM	0	0
Purchases of investment securities - AFS	(7,325)	0
Net increase in loans	(7,252)	(10,282)
Capital expenditures	(974)	(1,152)
Net Cash Provided By (Used in) Investing Activities	4,453	(9,668)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	13,255	6,263
Net increase (decrease) in borrowings	(3,193)	13,435
Proceeds from stock issuance	212	257
Cash dividends	(761)	(715)
Net Cash Provided By (Used In) Financing Activities	9,513	19,240
NET INCREASE IN CASH AND CASH EQUIVALENTS	$14,793	$13,140
CASH AND CASH EQUIVALENTS - BEGINNING	$20,709	$13,614
CASH AND CASH EQUIVALENTS - ENDING	$35,502	$26,754
CASH PAID FOR:		
INTEREST	$5,051	$4,670
INCOME TAXES	$1,100	$627

See notes to consolidated financial statements.

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Fentura Bancorp, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)

(000's Omitted)	Six Months Ended June 30, 2001	2000
Net Income	$1,761	$1,703
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising During period	$540	($192)
Less: reclassification adjustment for gains included in net income	$104	$0
Other comprehensive income (loss)	$436	($192)
Comprehensive income	$2,197	$1,511

Fentura Bancorp, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim

financial information and the instructions for Form - 10Q and Article 9 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. All share and per share amounts have been retroactively adjusted to reflect the 20% stock dividend paid on May 26, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's annual report on Form 10-K for the year ended December 31, 2000.

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Note 2. Earnings per common share

A reconciliation of the numerators and denominators used in the computation of basic earnings per common share and diluted. Earnings per common share are presented below for the three and six months ended June 30, 2001 and 2000:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Basic Earnings Per Common Share:				
Numerator				
Net Income	$942,000	$830,000	$1,761,000	$1,703,000
Denominator				
Weighted average common shares Outstanding	1,728,190	1,711,525	1,726,006	1,709,593
Basic earnings per common share	$0.54	$0.48	$1.02	$1.00
Diluted Earnings Per Common Share:				
Numerator				
Net Income	$ 942,000	$830,000	$1,761,000	$1,703,000
Denominator				
Weighted average common shares Outstanding for basic earnings per Common share	1,728,190	1,711,525	1,726,006	1,709,593
Add: Dilutive effects of assumed Exercises of stock options	3,884	5,126	3,607	5,409
Weighted average common shares And dilutive potential common Shares outstanding	1,732,074	1,716,651	1,729,614	1,715,002
Diluted earnings per common share	$0.54	$0.48	$1.02	$0.99

Stock options for 6,975 shares of common stock for the three month and the six month periods ended June 30, 2001 and 2000 were not considered in computing diluted earnings per common share because they were not dilutive.

Note 3. Commitments and contingencies

There are various contingent liabilities that are not reflected in the financial statements including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's consolidated financial condition or results of operations.

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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

This item provides a narrative discussion and analysis of the consolidated financial condition and results of operations of Fentura Bancorp, Inc. (the Corporation), together with its operating subsidiaries, The State Bank and Davison State Bank (the Banks), for the six months ended June 30, 2001 and 2000. The supplemental financial data included throughout should be read in conjunction with the primary financial statements presented on pages 3 through 7. It provides a more detailed and comprehensive review of the operating results and financial position than could be obtained from the financial statements alone.

Table 1 Selected Financial Data

$ in thousands except per share data and ratios	Six Months Ended June 30, 2001 (unaudited)	2000 (unaudited)
Summary of Consolidated Statements of Income:		
Interest Income	$11,363	$11,458
Interest Expense	4,981	4,808
Net Interest Income	6,382	6,650
Provision for Loan Losses	393	370
Net Interest Income after Provision for Loan Losses	5,989	6,280
Total Other Operating Income	2,444	2,004
Total Other Operating Expense	5,933	5,958
Income Before Income Taxes	2,500	2,326
Provision for Income Taxes	739	623
Net Income	$1,761	$1,703
Net Income Per Share - Basic	$1.02	$1.00
Net Income Per Share - Diluted	$1.02	$0.99
Other Financial and Statistical Data:		
Tier 1 Capital to Risk Weighted Assets	14.91%	13.85%
Total Capital to Risk Weighted Assets	16.15%	15.10%
Tier 1 Capital to Average Assets	12.19%	12.66%
Total Cash Dividends	$760	$715
Book Value Per Share	$21.65	$19.21

Cash Dividends Paid Per Share	$0.44	$0.42
Period End Market Price Per Share	$27.90	$30.00
Dividend Pay-out Ratio	43.15%	41.98%
Return on Average Shareholders' Equity	10.34%	10.40%
Return on Average Assets	1.16%	1.16%
Net Interest Margin (FTE)	4.69%	5.01%

Summary of Consolidated Balance Sheets:	June 30, 2001	June 30, 2000
Assets	$303,795	$304,199
Securities	54,868	65,854
Loans	202,132	201,478
Deposits	261,911	253,314
Shareholders' Equity	37,402	32,918
Total Equity to Assets	12.31%	10.82%

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Results of Operations

Table 1 summarizes selected financial data for the six months ended June 30, 2001 and 2000. As indicated in Table 1 earnings for the six months ended June 30, 2001 were $1,761,000 compared to $1,703,000 for the same period in 2000. Earnings increased as a result of an increase in operating income and a reduction in operating expenses. The Corporation continues to work on core banking activities and new opportunities in our current and surrounding markets remain strong and accordingly, management believes overall performance will remain strong throughout 2001. However, performance in 2001 could be negatively affected by any further softening of the economy.

The banking industry uses standard performance indicators to help evaluate a banking institution's performance. Return on average assets is one of these indicators. For the six months ended June 30, 2001 the Corporation's return on average assets was 1.16% compared to 1.16% for the same period in 2000. Net income per share-basic was $1.02 in the first six months of 2001 compared to $1.00 for the same period in 2000.

Net Interest Income

Net interest income and average balances and yields on major categories of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2001 and 2000 are summarized in Table 4. Net interest income and average balances and yields on major categories of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2001 and 2000 are summarized in Table 3. The effects of changes in average interest rates and average balances are detailed in Table 2 below.

Table 2

CHANGES IN NET INTEREST INCOME
DUE TO CHANGES IN AVERAGE VOLUME
AND INTEREST RATES

	SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO 2000 INCREASE (DECREASE) DUE TO:		
(000'S OMITTED)	VOL	YIELD/ RATE	TOTAL

TAXABLE SECURITIES	($182)	($39)	($221)
TAX-EXEMPT SECURITIES	0	0	0
FEDERAL FUNDS SOLD	347	(121)	226
TOTAL LOANS	143	(243)	(100)
LOANS HELD FOR SALE	0	0	0
TOTAL EARNING ASSETS	308	(403)	(95)
INTEREST BEARING DEMAND DEPOSITS	(49)	0	(49)
SAVINGS DEPOSITS	17	(117)	(100)
TIME CD'S $100,000 AND OVER	106	22	128
OTHER TIME DEPOSITS	233	200	433
OTHER BORROWINGS	(239)	0	(239)
TOTAL INTEREST BEARING LIABILITIES	68	105	173
NET INTEREST INCOME	$240	($508)	($268)

As indicated in Table 2, during the six months ended June 30, 2001, net interest income decreased compared to the same period in 2000, principally because of the increase in interest expense resulting from growth of certificate of deposit balances and the increase in interest rates paid on these deposits, which rose with market rates throughout 2000.

Net interest income (displayed without consideration of full tax equivalency), average balance sheet amounts, and the corresponding yields for the three months ended June 30, 2001 and 2000 are shown in Table 3. Net interest income for the three months ended June 30, 2001 was $3,215,000 a decrease of $192,000 over the same period in 2000. This represents a decrease of 5.6%. The primary factor contributing to the net interest income decrease was an increase in interest expense from deposit growth and the reduction in interest rates by the Federal Reserve Board.

Net interest income, average balance sheet amounts, and the corresponding yields for the six months ended June 30, 2001 and 2000 are shown in Table 4. Net interest income for the six months ended June 30, 2001 was $6,382,000 a decrease of $268,000 over the same period in 2000. This represents a decrease of 4.0%. The primary factor contributing was the reduction in interest rates by the Federal Reserve Board.

Management expects a continued strong local economy throughout 2001 and because of this believes loan demand will become stronger in the upcoming year. Accordingly, the Corporation will aggressively seek out new loan opportunities while continuing to maintain sound credit quality. Management also believes that continued loan growth and managing deposit rates will stabilize net interest income in 2001.

As indicated in Table 3, for the three months ended June 30, 2001, the Corporation's net interest margin (without consideration of full tax equivalency) was 4.58% compared with 4.89% for the same period in 2000. This decline is attributable to the impact of interest rate reductions by the Federal Reserve Board and the increase in interest expense due to certificate of deposit growth. The decrease in interest rates impacts the net interest income in the

short term because loans start to reprice quicker than our deposits thus reducing net interest income.

Average earning assets increased 0.4% or approximately $1,010,000 comparing the second quarter of 2001 to the same time period in 2000. Loans, the highest yielding component of earning assets, represented 71.5% of earning assets in 2001 compared to 71.6% in 2000. Average interest bearing liabilities decreased 2.5% or $5,755,000 comparing the second quarter of 2001 to the same time period in 2000. Non-interest bearing deposits amounted to 14.2% of average earning assets in the second quarter of 2001 compared with 12.4% in the same time period on 2000.

Management continually monitors the Corporation's balance sheet in an effort to insulate net interest income from significant swings caused by interest rate volatility. If market rates continue to change in 2001, corresponding changes in funding costs will be considered to limit any potential negative impact on net interest income. The Corporation's policies in this regard are further discussed in the section titled "Interest Rate Sensitivity Management".

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Table 3

AVERAGE BALANCES AND RATES (000's omitted) ASSETS	THREE MONTHS ENDED JUNE 30, 2001 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
Interest bearing deposits in Banks	$0	$0	0.00%	$0
Investment securities:				
U.S. Treasury and Government Agencies	43,459	657	6.06%	51,728
State and Political	13,890	166	4.79%	14,398
Other	1,302	24	7.39%	1,077
Total Investment Securities	58,651	847	5.79%	66,110
Fed Funds Sold	21,462	233	4.35%	13,224
Loans:				
Commercial	120,667	2,734	9.09%	104,528
Tax Free	825	11	5.35%	548
Real Estate-Mortgage	15,060	306	8.15%	26,205
Consumer	64,663	1,443	8.95%	69,679
Total loans	201,215	4,494	8.96%	200,960
Allowance for Loan Loss	(2,992)			(3,156)
Net Loans	198,223	4,494	9.09%	197,804
Loans Held for Sale	177	3	6.80%	201
TOTAL EARNING ASSETS	$281,505	$5,577	7.95%	$280,495
Cash Due from Banks	10,687			11,251
All Other Assets	13,783			13,048
TOTAL ASSETS	$302,983			$301,638
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Non-Interest bearing - DDA	$39,917			$34,776
Interest bearing - DDA	35,950	150	1.67%	41,660
Savings Deposits	70,929	502	2.84%	68,122
Time CD's $100,000 and Over	32,770	450	5.51%	33,263

Other Time CD's	84,936	1,232	5.82%	74,302
Total Deposits	264,502	2,334	3.54%	252,123
Other Borrowings	1,823	28	6.16%	14,816
INTEREST BEARING LIABILITIES	$226,408	$2,362	4.18%	$232,163
All Other Liabilities	2,118			1,277
Shareholders' Equity	34,540			33,422
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$302,983			$301,638
Net Interest Rate Spread			3.76%	
Impact of Non-Interest Bearing Funds on Margin			0.82%	
Net Interest Income /Margin		$3,215	4.58%	

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Table 4

AVERAGE BALANCES AND RATES (000's omitted) ASSETS	SIX MONTHS ENDED JUNE 30, 2001 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	2 AVERAGE BALANCE
Interest bearing deposits in Banks	$0	$0	0.00%	$0
Investment securities:				
U.S. Treasury and Government Agencies	45,486	1,408	6.24%	51,182
State and Political	14,064	336	4.82%	14,580
Other	1,062	40	7.60%	1,077
Total Investment Securities	60,612	1,784	5.94%	66,839
Fed Funds Sold	20,492	498	4.90%	8,984
Loans:				
Commercial	118,604	5,425	9.22%	103,273
Tax Free	812	21	5.22%	568
Real Estate-Mortgage	15,291	668	8.81%	25,761
Consumer	65,717	2,960	9.08%	67,747
Total loans	200,424	9,074	9.13%	197,349
Allowance for Loan Loss	(2,984)			(3,070)
Net Loans	197,440	9,074	9.27%	194,279
Loans Held for Sale	183	7	7.71%	192
TOTAL EARNING ASSETS	$281,711	$11,363	8.13%	$273,364
Cash Due from Banks	10,852			10,991
All Other Assets	13,753			13,119
TOTAL ASSETS	$303,332			$294,404
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Non-Interest bearing - DDA	$39,732			$33,718
Interest bearing - DDA	35,977	330	1.85%	41,449
Savings Deposits	68,855	1,052	3.08%	67,848

Time CD's $100,000 and Over	36,160	1,085	6.05%	32,586
Other Time CD's	83,937	2,439	5.86%	75,180
Total Deposits	264,661	4,906	3.74%	250,781
Other Borrowings	2,284	75	6.62%	9,517
INTEREST BEARING LIABILITIES	$227,213	$4,981	4.42%	$226,580
All Other Liabilities	2,321			1,368
Shareholders' Equity	34,066			32,738
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$303,332			$294,404
Net Interest Rate Spread			3.71%	
Impact of Non-Interest Bearing Funds on Margin			0.86%	
Net Interest Income /Margin		$6,382	4.57%	

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses (ALL) reflects management's judgment as to the level considered appropriate to absorb losses inherent in the loan portfolio. Fentura's subsidiary banks' methodology in determining the adequacy of the ALL includes a review of individual loans, historical loss experience, current economic conditions, portfolio trends, and other pertinent factors. Although reserves have been allocated to various portfolio segments, the ALL is general in nature and is available for the portfolio in its entirety. At June 30, 2001, the ALL was $3,097,000, or 1.53% of total loans. This compares with $3,257,000, or 1.62%, at June 30, 2000. The reduction of the ALL as a percentage of total loans reflects a reduction in the allowance for loan losses and increased loan totals. Management feels that a lower allowance to gross loans is appropriate given the changes in the portfolio mix and overall asset quality.

The provision for loan losses was $393,000 in the first six months of 2001 and $370,000 for the same time period in 2000. The Corporation increased the provision in 2001 compared to 2000 to fund the allowance for loan losses to a level management feels is necessary to cover losses inherent in the loan portfolio, particularly considering the growth in the loan portfolio in the 2001 period.

Table 5 also summarizes loan losses and recoveries for the first six months of 2000 and 2001. During the first six months of 2001 the Corporation experienced net charge-offs of $228,000, compared with net charge-offs of $74,000 for the same time period in 2000. Accordingly, the net charge-off ratio for the first six months of 2001 was .11% compared to .04% for the same time period in 2000.

The Corporation maintains formal policies and procedures to control and monitor credit risk. Management believes the allowance for loan losses is adequate to meet normal credit risks in the loan portfolio. The Corporation's loan portfolio has no significant concentrations in any one industry nor any exposure in foreign loans. The Corporation has not extended credit to finance highly leveraged transactions nor does it intend to do so in the future. Employment levels and other economic conditions in the Corporation's local markets may have a significant impact on the level of loan losses. Management continues to identify and devote attention to credits that may not be performing as agreed. Therefore, in light of the aforementioned, and assuming continued strong economic conditions and asset quality, management expects a modest reduction to the allowance for loan losses as a percentage to gross loans in 2001. Of course, should economic conditions deteriorate management may need to increase the

provision for loan losses and maintain or increase the ALL as a percentage of gross loans. Non-performing loans are discussed further in the section titled "Non-Performing Assets".

Table 5 ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(000's omitted)	Six Months Ended June 30 2001	2000
Balance at Beginning of Period	$2,932	$2,961
Charge-Offs:		
Commercial, Financial and Agriculture	(15)	(9)
Real Estate-Mortgage	0	0
Installment Loans to Individuals	(278)	(176)
Total Charge-Offs	(293)	(185)
Recoveries:		
Commercial, Financial and Agriculture	2	71
Real Estate-Mortgage	0	0
Installment Loans to Individuals	63	40
Total Recoveries	65	111
Net Charge-Offs	(228)	(74)
Provision	393	370
Balance at End of Period	$3,097	$3,257
Ratio of Net Charge-Offs to Gross Loans	0.11%	0.04%

NON-INTEREST INCOME

TABLE 6

Analysis of Non-Interest Income (000's omitted)	Three Months Ended June 30 2001	2000	Six Months Ended June 30 2001	2000
Service Charges on Deposit Accounts	$520	$486	$999	$953
Gain on Sale of Mortgages	$174	$52	$233	$65
Mortgage Servicing Fees	$1	$63	$34	$128
Fiduciary Income	$160	$159	$325	$321
Other Operating Income	$327	$293	$696	$537
Investment Gains	$157	$0	$157	$0
Total Non-Interest Income	$1,339	$1,053	$2,444	$2,004

Non-interest income increased in the six months ended June 30, 2001 as compared to the same period in 2000, due to an increase in the gain on sale of mortgage loans, and an increase in the gain on sale of investment securities. Non-interest income increased in the second quarter of 2001 as compared to the same quarter in 2000, due to increase in other operating income, gain on sale of mortgages and gain on the sale of investment securities. Overall non-interest

income was $2,444,000 in the six months ended June 30, 2001 compared to $2,004,000 for the same period in 2000. These figures represent an increase of 21.9%. Table 6 provides a more detailed breakdown of the components of non-interest income than can be found in the income statement on page 4.

The most significant category of non-interest income is service charges on deposit accounts. These fees were $999,000 in the first six months of 2001 compared to $953,000 for the same period of 2000. This represents an increase of 4.8%. The service charges for the second quarter of 2001 were $520,000 compared to $486,000 in the same period in 2000.

Gains on the sale of mortgage loans originated by the Banks and sold in the secondary market were $233,000 in the six months ended June 30, 2001 and $65,000 in the same period in 2000. For the second quarter of 2001, gains on sale of mortgages were $174,000 compared to $52,000 for the same period in 2000. The change is due to the increase in residential mortgage refinance activity and new loan volumes due to the downward movement of market interest rates.

Mortgage servicing fees were $34,000 in the six months ended June 30, 2001 compared to $128,000 in the same time period in 2000. This is a decline of $94,000 or 73.4%. Mortgage servicing fees for the second quarter of 2001 were $1,000 compared to $63,000 in the same period of 2000. The decline is attributable to the sale of a significant portion of the Corporation's serviced loans, in the last quarter of 2000. There is also a significant decline comparing these fees from the first quarter of 2001 at $34,000 to the second quarter 2001 at $1,000. This decline is also attributable to the sale that took place at the end of 2000. Servicing income was recognized in January of 2001 until these serviced loans were actually transferred to the purchaser.

Fiduciary income increased $4,000 in the six months ended June 30, 2001 comparing to the same period in the prior year. This 0.1% increase in fees is attributed to growth in the assets under management within the Corporation's Trust Department.

Investment gains on the sale of securities totaled $157,000 for the six months ended June 30, 2001 compared to $0 for the same period in 2000. Fentura took advantage of the interest rate decreases and sold three securities for a gain totaling $157,000.

Other operating income increased $159,000 to $696,000 in the first six months of 2001 compared to $537,000 in the same time period in 2000. This is an increase of 29.6%. Other operating income for the second quarter of 2001 of $327,000 compared to $293,000 in the same period of 2000. Other operating income increased due to increases in income from the sale of official checks and an increase in income from the sale of consumer investment products.

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Non-Interest Expense

TABLE 7

Analysis of Non-Interest Expense	Three Months Ended June 30,		Six Months Ended June 30,	
(000's omitted)	2001	2000	2001	2000
Salaries and Benefits	$1,506	$1,486	$3,085	$2,941
Equipment	$354	$408	$680	$781
Net Occupancy	$206	$196	$421	$398

Office Supplies	$62	$87	$108	$161
Loan & Collection Expense	$56	$85	$82	$206
Advertising	$94	$71	$168	$126
Other Operating Expense	$679	$743	$1,389	$1,345
Total Non-Interest Expense	$2,957	$3,076	$5,933	$5,958

Total non-interest expense was $5,933,000 in the six months ended June 30, 2001 compared with $5,958,000 in the same period of 2000. This is a decrease of 0.4%. This decrease is largely attributable to an decrease in loan and collection expense and equipment expenses.

Salary and benefit costs, Fentura's largest non-interest expense category, were $3,085,000 in the six months ended June 30, 2001, compared with $2,941,000, or an increase of 4.9%, for the same time period in 2000. Increased costs are primarily a result of a modest increase in the number of employees. The second quarter showed a slight increase in the salaries and benefits due to an increase in employee benefit costs, and an increase in salary costs in connection with the opening of the Davison State Bank.

During the six months ended June 30, 2001 equipment expenses were $680,000 compared to $781,000 for the same period in 2000, a decrease of 12.9%. The equipment expenses for the second quarter of 2001 were $354,000 compared to $408,000 in the same period of 2000. The decreases in expenses are attributable to a reduction in equipment maintenance contracts and equipment depreciation which decreased due to the roll off of fully depreciated assets.

Occupancy expenses at $421,000 increased in the six months ended June 30, 2001 comparing to the same period in 2000 by $23,000 or 5.8%. Occupancy expenses for the second quarter of 2001 were $206,000 compared to $196,000 for the second quarter of 2000. The increases are attributable to increases in facility repairs and maintenance contracts expense.

During the six months ended June 30, 2001 office supplies expense at $108,000 decreased $53,000 comparing to the $161,000 in expense for the same period in 2000. Office supplies for the second quarter of 2001 were $62,000 compared to $87,000 in the same period of 2000. The decreases are attributable to volume decreases of regular office supplies and preprinted forms in 2001.

Loan and collection expenses, at $82,000, were down $124,000 during the six months ended June 30, 2001 comparing to the same time period in 2000. The loan and collection expenses in the second quarter of 2001 were $56,000 compared to $85,000 for the same period in 2000. The decreases are primarily attributable to a decrease in legal expenses in connection with collection efforts and a decrease in fees paid to dealers for indirect lending transactions.

Other operating expenses were $1,389,000 in the six months ended June 30, 2001 compared to $1,345,000 in the same time period in 2000, an increase of $44,000 or 3.3%. Other operating expenses for the second quarter of 2001 were $679,000 compared to $743,000 in the same period of 2000. The increases are attributable to an increase in the amount of overdrawn deposit account charge-offs and an increase in legal and consulting expenses.

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Financial Condition

Proper management of the volume and composition of the Corporation's earning assets and funding sources is essential for ensuring strong and consistent

earnings performance, maintaining adequate liquidity and limiting exposure to risks caused by changing market conditions. The Corporation's investment securities portfolio is structured to provide a source of liquidity through maturities and generate an income stream with relatively low levels of principal risk. The Corporation does not engage in securities trading. Loans comprise the largest component of earning assets and are the Corporation's highest yielding assets. Client deposits are the primary source of funding for earning assets while short term debt and other sources of funds could be utilized if market conditions and liquidity needs change.

The Corporation's total assets equaled $304 million at June 30, 2001 compared to December 31, 2000 total assets of $293 million. Loans comprised 66.5% of total assets at June 30, 2001 compared to 66.6% at December 31, 2000. Loans grew $7 million, with real estate and construction loans leading the advance by $12.0 million and the other loan categories experiencing reductions The ratio of non-interest bearing deposits to total deposits was 13.9% at June 30, 2001 compared to 14.0% at December 31, 2000. Interest bearing deposit liabilities totaled $226 million at June 30, 2001 compared to $214 million at December 31, 2000. Deposits grew $13.2 million and Fed Funds Purchased decreased $4.7 million to make up the change in interest bearing liabilities at June 30, 2001.

Bank premises and equipment increased $547,000 to $7.1 million at June 30, 2001 comparing to $6.5 million at December 31, 2000. The increase is attributable to the renovation of an existing facility and the construction completion of a new headquarters for Davison State Bank.

NON-PERFORMING ASSETS

Non-performing assets include loans on which interest accruals have ceased, loans which have been renegotiated, and real estate acquired through foreclosure. Past due loans are loans which were delinquent 90 days or more, but have not been placed on non-accrual status. Table 8 represents the levels of these assets at June 30, 2001 and December 31, 2000.

Non-performing assets decreased modestly at June 30, 2001 compared to December 31, 2000. This decrease is attributable to a decrease in both loans that are non-accrual and loans which are past due 90 days or more and still accruing. The non-accrual loans decreased because of both charge-offs taken in the first half of 2001 and loans which were made current by the borrower, and loans past due 90 days or more and still accruing decreased due to the collection of payments making certain loans current.

The level and composition of non-performing assets are affected by economic conditions in the Corporation's local markets. Non-performing assets, charge-offs, and provisions for loan losses tend to decline in a strong economy and increase in a weak economy, potentially impacting the Corporation's operating results. In addition to non-performing loans, management carefully monitors other credits that are current in terms of principal and interest payments but, in management's opinion, may deteriorate in quality if economic conditions change.

Table 8

Non-Performing Assets and Past Due Loans

	June 30, 2001	December 31, 2000
Non-Performing Loans:		

Loans Past Due 90 Days or More & Still Accruing	$155,000	$489,000
Non-Accrual Loans	547,000	731,000
Renegotiated Loans	0	0
Total Non-Performing Loans	702,000	1,220,000
Other Non-Performing Assets:		
Other Real Estate	37,000	0
REO in Redemption	0	0
Other Non-Performing Assets	114,000	159,000
Total Other Non-Performing Assets	151,000	159,000
Total Non-Performing Assets	$853,000	$1,379,000
Non-Performing Loans as a % of Total Loans	0.35%	0.63%
Allowance for Loan Losses as a % of Non-Performing Loans	441.17%	240.33%
Accruing Loans Past Due 90 Days or More to Total Loans	0.08%	0.25%
Non-performing Assets as a % of Total Assets	.28%	0.47%

LIQUIDITY AND INTEREST RATE RISK MANAGEMENT

Asset/Liability management is designed to assure liquidity and reduce interest rate risks. The goal in managing interest rate risk is to maintain a strong and relatively stable net interest margin. It is the responsibility of the Asset/Liability Management Committee (ALCO) to set policy guidelines and to establish short-term and long-term strategies with respect to interest rate exposure and liquidity. The ALCO, which is comprised of key members of management, meets regularly to review financial performance and soundness, including interest rate risk and liquidity exposure in relation to present and prospective markets, business conditions, and product lines. Accordingly, the committee adopts funding and balance sheet management strategies that are intended to maintain earnings, liquidity, and growth rates consistent with policy and prudent business standards.

Liquidity maintenance together with a solid capital base and strong earnings performance are key objectives of the Corporation. The Corporation's liquidity is derived from a strong deposit base comprised of individual and business deposits. Deposit accounts of customers in the mature market represent a substantial portion of deposits of individuals. The Banks' deposit base plus other funding sources (federal funds purchased, other liabilities and shareholders' equity) provided primarily all funding needs in the first six months of 2001. While these sources of funds are expected to continue to be available to provide funds in the future, the mix and availability of funds will depend upon future economic conditions. The Corporation does not foresee any difficulty in meeting its funding requirements.

Primary liquidity is provided through short-term investments or borrowings (including federal funds sold and purchased) while secondary liquidity is provided by the investment portfolio. As of June 30, 2001 federal funds sold represented 7.4% of total assets, compared to 2.5% at December 31, 2000. The Corporation regularly monitors liquidity to ensure adequate cash flows to cover unanticipated reductions in the availability of funding sources.

Interest rate risk is managed by controlling and limiting the level of earnings volatility arising from rate movements. The Corporation regularly performs reviews and analysis of those factors impacting interest rate risk. Factors include maturity and re-pricing frequency of balance sheet components, impact of rate changes on interest margin and prepayment speeds, market value impacts of rate changes, and other issues. Both actual and projected performance is reviewed, analyzed, and compared to policy and objectives to assure present and future financial viability.

As indicated in the statement of cash flows, cash flows from financing activities increased $9,513,000 in the first six months of 2001 due to the increase in deposits. Comparatively, in the first six months of 2000, cash flows from financing activities increased $19,240,000 because of increases in deposits and borrowings. Cash flows from investing activities were $3,541,000 during the first six months of 2000. The increases in investing activities at the end of the second quarter of 2001, were offset by maturing and called investment securities.

CAPITAL MANAGEMENT

Total shareholders' equity rose 4.6% to $37,402,000 at June 30, 2001 compared with $35,754,000 at December 31, 2000. The Corporation's equity to asset ratio was 12.3% at June 30, 2001 and 12.2% at December 31, 2000. The increase in the amount of capital was obtained through retained earnings and the proceeds from the issuance of new shares. In the first six months of 2001, the Corporation increased its cash dividends by 4.8% to $.44 per share compared with $.42 in the same period in 2000.

As indicated on the balance sheet at December 31, 2000 the Corporation had accumulated other comprehensive loss of $215,000 compared to accumulated other comprehensive income at June 30, 2001 of $221,000. The increase to an income position is attributable to the downward movement of market interest rates and the interest rate structures on those securities held in the available for sale portfolio.

Regulatory Capital Requirements

Bank holding companies and their bank subsidiaries are required by banking industry regulators to maintain certain levels of capital. These are expressed in the form of certain ratios. These ratios are based on the degree of credit risk in the Corporation's assets. All assets and off-balance sheet items such as outstanding loan commitments are assigned risk factors to create an overall risk weighted asset total. Capital is separated into two levels, Tier I capital (essentially total common shareholders' equity less goodwill) and Tier II capital (essentially the allowance for loan losses limited to 1.25% of gross risk-weighted assets). Capital levels are then measured as a percentage of total risk weighted assets. The regulatory minimum for Tier I capital to risk weighted assets is 4% and the minimum for Total capital (Tier I plus Tier II) to risk weighted assets is 8%. The Tier I leverage ratio measures Tier I capital to average assets and must be a minimum of 4%. As reflected in Table 9, at June 30, 2001 and at December 31, 2000, the Corporation was well in excess of the minimum capital and leverage requirements necessary to be considered a "well capitalized" banking company.

The FDIC has adopted a risk-based insurance premium system based in part on a bank's capital adequacy. Under this system a depository institution is classified as well capitalized, adequately capitalized, or undercapitalized according to its regulatory capital levels. Subsequently, a financial institution's premium levels are based on these classifications and its regulatory supervisory rating (the higher the classification the lower the premium). It is the Corporation's goal to maintain capital levels sufficient to receive a designation of "well capitalized".

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Table 9

	Capital Ratios			
	Regulatory Minimum For "Well Capitalized"		Fentura Bancorp, Inc.	
		June 30, 2001	December 31, 2000	Jun 2
Total Capital to risk weighted assets	10%	16.15%	16.20%	15
Tier 1 Capital to risk weighted assets	6%	14.91%	15.00%	13
Tier 1 Capital to average Assets	5%	12.19%	12.10%	12

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk contained and incorporated by reference on pages 40 through 42 in Fentura's Annual Report on Form 10-K, is here incorporated by reference.

Fentura Bancorp, Inc. faces market risk to the extent that both earnings and the fair value of its financial instruments are affected by changes in interest rates. The Corporation manages this risk with static GAP analysis and has begun simulation modeling. For the first six months of 2001, the results of these measurement techniques were within the Corporation's policy guidelines. The Corporation does not believe that there has been a material change in the nature of the Corporation's primary market risk exposures, including the categories of market risk to which the Corporation is exposed and the particular markets that present the primary risk of loss to the Corporation, or in how those exposures are managed in 2001 compared to 2000.

The Corporation's market risk exposure is mainly comprised of its vulnerability to interest rate risk. Prevailing interest rates and interest rate relationships in the future will be primarily determined by market factors which are outside of the Corporation's control. All information provided in this section consists of forward looking statements. Reference is made to the section captioned "Forward Looking Statements" in this quarterly report for a discussion of the limitations on the Corporation's responsibility for such statements.

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INTEREST RATE SENSITIVITY MANAGEMENT

Interest rate sensitivity management seeks to maximize net interest income as a result of changing interest rates, within prudent ranges of risk. The Corporation attempts to accomplish this objective by structuring the balance sheet so that re-pricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these re-pricing opportunities at any point in time constitute a bank's interest rate sensitivity. The Corporation currently does not utilize derivatives in managing interest rate risk.

An indicator of the interest rate sensitivity structure of a financial institution's balance sheet is the difference between rate sensitive assets and rate sensitive liabilities, and is referred to as "GAP".

Table 10 sets forth the distribution of re-pricing of the Corporation's earning assets and interest bearing liabilities as of June 30, 2001, the interest rate sensitivity GAP, as defined above, the cumulative interest rate sensitivity GAP, the interest rate sensitivity GAP ratio (i.e. interest rate sensitive assets divided by interest rate sensitive liabilities) and the cumulative sensitivity GAP ratio. The table also sets forth the time periods in which earning assets and liabilities will mature or may re-price in accordance with their contractual terms.

Table 10 GAP ANALYSIS JUNE 30, 2001

(000's Omitted)	Within Three Months	Three Months- One Year	One to Five Years	After Five Years
Earning Assets:				
Federal Funds Sold	$ 21,100	$ 0	$ 0	$ 0
Investment Securities	5,751	8,074	11,373	29,670
Loans	78,322	18,846	81,307	23,657
Loans Held for Sale	264	0	0	0
Total Earning Assets	$ 105,437	$ 26,920	$ 92,680	$ 53,327
Interest Bearing Liabilities:				
Interest Bearing Demand Deposits	$ 39,571	$ 0	$ 0	$ 0
Savings Deposits	74,695	0	0	0
Time Deposits Less than $100,000	12,429	43,112	26,029	154
Time Deposits Greater than $100,000	12,498	13,014	4,557	0
Other Borrowings	1,500	0	245	893
Total Interest Bearing Liabilities	$ 140,693	$ 56,126	$ 30,831	$ 1,047
Interest Rate Sensitivity GAP	$ (35,256)	$ (29,206)	$ 61,849	$ 52,280
Cumulative Interest Rate Sensitivity GAP	$ (35,256)	$ (64,462)	$ (2,613)	$ 49,667
Interest Rate Sensitivity GAP	(0.75)	(0.48)	3.01	50.93
Cumulative Interest Rate Sensitivity GAP Ratio	(0.75)	(0.67)	(0.99)	1.22

As indicated in Table 10, the short-term (one year and less) cumulative interest rate sensitivity gap is negative. Accordingly, if market interest rates increase, this negative gap position would have a short- term negative impact on interest margin. Conversely, if market rates continue to decline this would have a short-term positive impact. However, gap analysis is limited and may not provide an accurate indication of the impact of general interest rate movements on the net interest margin since the re-pricing of various categories of assets and liabilities is subject to the Corporation's needs, competitive pressures, and the needs of the Corporation's customers. In addition, various assets and liabilities indicated as re-pricing within the same period may in fact re-price at different times within such period and at different rate volumes. These limitations are evident when considering our Gap position at June 30, 2000 and the change in net interest income for the six months ended June 30, 2001 compared to the same time period in 2000. At June 30, 2000 the Corporation was negatively gapped through one year and since that time interest rates have lowered considerably, yet net interest income declined comparing the first six months of 2001 to the same period in 2000. This occurred because certain deposit categories, specifically interest bearing demand and savings, did not re-price

at the same time or at the same level as asset portfolios. Additionally, simulation modeling, which measures the impact of upward and downward

movements of interest rates on interest margin and the market value of equity, indicates that an upward movement of interest rates would not significantly reduce net interest income.

FORWARD LOOKING STATEMENTS

This report contains "forward looking statements" as that term is used in the securities laws. All statements regarding our expected financial position, performance, business and strategies are forward looking statements. These statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Corporation itself. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "projects," variations of such words and similar expressions are intended to identify such forward looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") which are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecast in such forward looking statements. The Corporation undertakes no obligation to update, amend or clarify forward looking statements as a result of new information, future events, or otherwise.

Future Factors that could cause a difference between an ultimate actual outcome and a preceding forward looking statement include, but are not limited to, changes in interest rate and interest rate relationships, demands for products and services, the degree of competition by traditional and non-traditional competitors, changes in banking laws or regulations, changes in tax laws, changes in prices, the impact of technological advances, government and regulatory policy changes, the outcome of pending and future litigation and contingencies, trends in customer's behaviors as well as their ability to repay loans, and the local economy. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included in our filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

Item 5. Submission of Matters to a Vote of Security Holders

The Corporation's annual meeting was held on April 25, 2001. The only matter submitted to a vote of shareholders at the meeting was the election of directors. The following directors were each elected to a three year term expiring in 2004 based on the vote set opposite their names:

	For	Authority Withheld	Abstentions and Broker Non-Votes
David A. Duthie	1,227,645	65,296	-0-
J. David Karr	1,251,984	40,957	-0-
Thomas P. McKenney	1,251,467	41,474	-0-

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Report on Form 8-K - None.

Signatures

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Fentura Bancorp, Inc.

Date August 14, 2001 By /s/ Donald L. Grill
Donald L. Grill
President & CEO

Date August 14, 2001 By /s/ Ronald L. Justice
Ronald L. Justice
Chief Financial Officer