FENTURA FINANCIAL INC
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________________ to ________________

Commission file number 0-23550

Fentura Financial, Inc.

(Exact name of registrant 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
(Registrant's telephone number)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 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 13, 2002

Class - Common Stock Shares Outstanding - 1,734,009

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Fentura Financial, Inc.
Consolidated Balance Sheets

(000's omitted Except share data)	JUNE 30, 2002 (unaudited)	DEC 31, 2001
ASSETS		
Cash and due from banks	$16,925	$19,038
Federal funds sold	18,700	22,800
Total cash & cash equivalents	35,625	41,838
Securities-available for sale	28,539	25,792
Securities-held to maturity, (market value of $9,842 at June 30, 2002 and $13,508 at December 31, 2001)	9,598	13,375
Total securities	38,137	39,167
Loans held for sale	1,592	1,710
Loans:		
Commercial	114,690	116,663
Tax exempt development loans	4,356	2,231
Real estate loans - mortgage	11,421	11,158
Real estate loans - construction	25,778	25,434
Consumer loans	60,581	58,644
Total loans	216,826	214,130
Less: Allowance for loan losses	(3,075)	(3,125)
Net loans	213,751	211,005
Bank Owned Life Insurance	7,572	2,501
Bank premises and equipment	9,406	8,532
Federal Home Loan Bank stock	822	822
Accrued interest receivable	1,481	1,445
Other assets	2,280	2,070
Total assets	$310,666	$309,090
LIABILITIES		
Deposits:		
Non-interest bearing deposits	$44,169	$42,524
Interest bearing deposits	222,818	222,746
Total deposits	266,987	265,270
Short-term borrowings	1,395	2,100
Federal Home Loan Bank Advances	1,124	1,138
Accrued taxes, interest and other liabilities	2,092	2,149
Total liabilities	271,598	270,657
SHAREHOLDERS' EQUITY		
Common stock - no par value 1,734,009 shares issued (1,735,496 in Dec. 2001)	30,623	30,664
Retained earnings	8,247	7,677
Accumulated other comprehensive income	198	92
Total shareholders' equity	39,068	38,433
Total Liabilities and Shareholders' Equity	$310,666	$309,090

See notes to consolidated financial statements.

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

(000's omitted except per share data)	Three Months Ended June 30,		Six Months End June 30,	
	2002	2001	2002	20
INTEREST INCOME				
Interest and fees on loans	$3,974	$4,497	$7,876	$9
Interest and dividends on securities:				
Taxable	255	681	532	1
Tax-exempt	147	166	312	
Interest on federal funds sold	74	233	145	
Total interest income	4,450	5,577	8,865	11
INTEREST EXPENSE				
Deposits	1,352	2,334	2,884	4
Short-term borrowings	24	28	50	
Total interest expense	1,376	2,362	2,934	4
NET INTEREST INCOME	3,074	3,215	5,931	6
Provision for loan losses	69	255	102	
Net interest income after Provision for loan losses	3,005	2,960	5,829	5
NON-INTEREST INCOME				
Service charges on deposit accounts	594	520	1,148	
Trust income	144	160	278	
Other operating income	273	328	506	
Gain on sale of loans	150	174	292	
Gain on sale of securities	0	157	0	
Total non-interest income	1,161	1,339	2,224	2
NON-INTEREST EXPENSE				
Salaries and benefits	1,606	1,506	3,314	3
Occupancy of bank premises	265	206	522	
Equipment expense	387	354	746	
Other operating expenses	822	891	1,539	1
Total non-interest expense	3,080	2,957	6,121	5
INCOME BEFORE TAXES	1,086	1,342	1,932	2
Applicable income taxes	311	400	563	
NET INCOME	$775	$942	$1,369	$1

Per share:				
Net income - basic	$0.45	$0.54	$0.79	$
Net income - diluted	$0.45	$0.54	$0.79	$
Cash dividends declared	$0.23	$0.22	$0.46	$

See notes to consolidated financial statements.

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

(000's omitted)	Six Months Ended June 30, 2002	Six Mon Ended June 3 2001
COMMON STOCK		
Balance, beginning of period	$30,664	$30,3
Issuance of shares under Director stock purchase plan & Dividend reinvestment program	111	2
Purchase of 5,249 shares of stock	(152)	
Balance, end of period	30,623	30,5
RETAINED EARNINGS		
Balance, beginning of period	7,677	5,6
Net income	1,369	1,7
Cash dividends declared	(799)	(7
Balance, end of period	8,247	6,6
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	92	(2
Change in unrealized gain (loss) on securities, net of tax	106	4
Balance, end of period	198	2
TOTAL SHAREHOLDERS' EQUITY	$39,068	$37,4

See notes to consolidated financial statements.

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

(000's omitted)	Six Months Ended June 30, 2002	2001
OPERATING ACTIVITIES:		
Net income	$1,369	$1,761
Adjustments to reconcile net income to cash Provided by Operating Activities:		
Depreciation and amortization	494	427
Provision for loan losses	102	393
Amortization (accretion) on securities	243	(25)
Loans originated for sale	(16,683)	(1,792)
Proceeds from the sale of loans	17,093	1,948
Gain on sale of securities	0	(157)
Gain on sales of loans	(292)	(233)
Net change in bank owned life insurance	(5,071)	0
Net change in interest receivable & other assets	(240)	(92)
Net change in interest payable & other liabilities	(57)	(805)
Total Adjustments	(4,411)	(336)
Net Cash Provided By (Used In) Operating Activities	(3,042)	1,425
Cash Flows From Investing Activities:		
Proceeds from maturities of securities - HTM	4,712	753
Proceeds from maturities of securities - AFS	3,964	2,998
Proceeds from calls of securities - AFS	3,700	11,988
Proceeds from sales of securities - AFS	0	3,667
Purchases of securities - HTM	(945)	0
Purchases of securities - AFS	(10,644)	(7,325)
Net increase in loans	(2,848)	(7,252)
Capital expenditures	(1,368)	(974)
Net Cash Provided By (Used in) Investing Activities	(3,329)	3,855
Cash Flows From Financing Activities:		

Net increase (decrease) in deposits	1,717	13,255
Net increase (decrease) in borrowings	(719)	(3,193)
Purchase of 5,249 shares of stock	(152)	0
Proceeds from stock issuance	111	212
Cash dividends	(799)	(761)
Net Cash Provided By (Used In) Financing Activities	158	9,513
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	($6,213)	$14,793
CASH AND CASH EQUIVALENTS - BEGINNING	$41,838	$20,709
CASH AND CASH EQUIVALENTS - ENDING	$35,625	$35,502
CASH PAID FOR:		
INTEREST	$2,695	$5,051
INCOME TAXES	$821	$1,100

See notes to consolidated financial statements.

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

(000's Omitted)	Six Months Ended June 30, 2002	2001
Net Income	$1,369	$1,761
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising during period	$106	$540
Less: reclassification adjustment for gains included in net income	$0	$104
Other comprehensive income (loss)	$106	$436
Comprehensive income	$1,475	$2,197

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

Note 1. Basis of presentation

The consolidated financial statements include Fentura Financial, Inc. (The Corporation) and its wholly-owned subsidiaries, The State Bank in Fenton, Michigan and Davison State Bank in Davison, Michigan (the Banks). Intercompany transactions and balances are eliminated in consolidation.

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 10 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, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

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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 is presented below. Earnings per common share are presented below for the three months and six months ended June 30, 2002 and 2001:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	20
Basic Earnings Per Common Share:				
Numerator				
Net Income	$775,000	$942,000	$1,369,000	$1,76
Denominator				
Weighted average common shares Outstanding	1,733,535	1,728,190	1,735,080	1,72
Basic earnings per common share	$0.45	$0.54	$0.79	
Diluted Earnings Per Common Share:				
Numerator				
Net Income	$ 775,000	$ 942,000	$1,369,000	$1,76
Denominator				
Weighted average common shares Outstanding for basic earnings per Common share	1,733,535	1,728,190	1,735,080	1,72
Add: Dilutive effects of assumed Exercises of stock options	4,857	3,884	4,269	

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Weighted average common shares And dilutive potential common Shares outstanding	1,738,392	1,732,074	1,739,349	1,72
	=========	=========	=========	====
Diluted earnings per common share	$0.45	$0.54	$0.79	
	=====	=====	=====	

Stock options for 6,841 and 6,975 shares of common stock for the three-month and six-month periods ended June 30, 2002 and 2001 were not considered in computing diluted earnings per common share because they were not dilutive.

Note3. 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.

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

Results of Operations

As indicated in the income statement, earnings for the six months ended June 30, 2002 were $1,369,000 compared to $1,761,000 for the same period in 2001. Net income for the second quarter of 2002 was $775,000 compared to $942,000 for the same period in 2001. Earnings decreased as a result of a decrease in net interest income and an increase in operating expenses. The Corporation continues to focus on core banking activities and new opportunities in current and surrounding markets. Management believes that the softening of the economy that took place in 2001 and projected stable economic condition for the second half of 2002 may continue to place pressure on earnings.

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, 2002 the Corporation s return on average assets (annualized) was 0.90% compared to 1.16% for the same period in 2001. Net income per share - basic and diluted was $0.79 in the first six months of 2002 compared to $1.02 for the same period in 2001.

<u>Net Interest Income</u>

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, 2002 and 2001 are summarized in Table 3 and for the six months ended June 30, 2002 and 2001 are summarized in Table 2. The effects of changes in average interest rates and average balances are detailed in Table 1 below.

Table 1

(000'S OMITTED)	SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO 2001 INCREASE (DECREASE) DUE TO: VOL	YIELD/ RATE	TOTAL
TAXABLE SECURITIES	($678)	($238)	($916)
TAX-EXEMPT SECURITIES	65	(89)	(24)
FEDERAL FUNDS SOLD	(76)	(277)	(353)
TOTAL LOANS	623	(1,890)	(1,267)
LOANS HELD FOR SALE	67	(5)	62
TOTAL EARNING ASSETS	1	(2,499)	(2,498)
INTEREST BEARING DEMAND DEPOSITS	43	(169)	(126)
SAVINGS DEPOSITS	221	(667)	(446)
TIME CD'S $100,000 AND OVER	(439)	(219)	(658)
OTHER TIME DEPOSITS	(285)	(507)	(792)
OTHER BORROWINGS	(2)	(23)	(25)
TOTAL INTEREST BEARING LIABILITIES	(462)	(1,585)	(2,047)
NET INTEREST INCOME	$463	($914)	($451)

As indicated in Table 1, during the six months ended June 30, 2002, net interest income decreased compared to the same period in 2001, principally because of the decrease in prime rate that caused all of the variable rate loan products to reprice to a lower rate. Interest expense decreased largely due to the lowering of core deposit rates and the repricing of certificates of deposits as they have matured and renewed at lower rates.

Net interest income (displayed without consideration of full tax equivalency), average balance sheet amounts, and the corresponding yields for the six months ended June 30, 2002 and 2001 are shown in Table 2. Net interest income for the six months ended June 30, 2002 was $5,931,000 a decrease of $451,000 over the same period in 2001. This represents a decrease of 7.1%. The primary factor contributing to the net interest income decrease was reductions in interest rates by the Federal Reserve Board. Net interest income for the second quarter of 2002 was $3,074,000 a decrease of $141,000 from the same period in 2001 as shown in Table 3. This represents a decrease of 4.4%.

Management expects the economy to continue to be quite steady in the second half of 2002. Accordingly, the Corporation will seek to strategically manage the balance sheet structure to create stability in net interest income. The Corporation expects to aggressively seek out new loan opportunities while continuing to maintain sound credit quality.

As indicated in Table 3, for the three months ended June 30, 2002, the Corporation s net interest margin (without consideration of full tax equivalency) was 4.51% compared with 4.58% for the same period in 2001. Also, the Corporation s net interest margin for the six months ended June 30, 2002 was 4.35% compared with 4.57% for the same period in 2001 and is indicated in Table 2. This decline is attributable to the impact of interest rate reductions by the Federal Reserve Board in 2001. The decrease in interest rates impacts the net interest income in the short term because loans have repriced more quickly than deposits thus reducing net interest income.

Average earning assets decreased 2.4% or approximately $6,714,000 comparing the first six months of 2002 to the same time period in 2001. Loans, the highest yielding component of earning assets, represented 78.6% of earning assets in 2002 compared to 71.2% in 2001. Average interest bearing liabilities decreased 2.4% or $5,349,000 comparing the first six months of 2002 to the same time period in 2001. Non-interest bearing deposits amounted to 15.1% of average earning assets in the first six months of 2002 compared with 14.1% in the same time period of 2001.

Management continually monitors the Corporation s balance sheet to insulate net interest income from significant swings caused by interest rate volatility. If market rates change in 2002, corresponding changes in funding costs will be considered to avoid 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 .

Table 2

AVERAGE BALANCES AND RATES (000's omitted)(Annualized) ASSETS	SIX MONTHS ENDED JUNE 30, 2002 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
Investment securities:				
U.S. Treasury and Government Agencies	$19,503	$390	4.03%	$45,486
State and Political	16,609	308	3.74%	14,064
Other	5,385	146	5.47%	1,062
Total Investment Securities	41,497	844	4.10%	60,612
Fed Funds Sold	17,371	145	1.68%	20,492

Loans:				
Commercial	138,732	4,883	7.10%	118,604
Tax Free	3,054	78	5.15%	812
Real Estate-Mortgage	12,053	475	7.95%	15,291
Consumer	60,353	2,371	7.92%	65,717
Total loans	214,192	7,807	7.35%	200,424
Allowance for Loan Losses	(3,119)			(2,984)
Net Loans	211,073	7,807	7.46%	197,440
Loans Held for Sale	1,937	69	7.18%	183
TOTAL EARNING ASSETS	$274,997	$8,865	6.50%	$281,711
Cash Due from Banks	14,717			10,852
All Other Assets	17,531			13,753
TOTAL ASSETS	$304,126			$303,332
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Interest bearing - DDA	$40,696	204	1.01%	$35,977
Savings Deposits	83,309	606	1.47%	68,855
Time CD's $100,000 and Over	21,520	427	4.00%	36,160
Other Time CD's	74,114	1,647	4.48%	83,937
Total Deposits	219,639	2,884	2.65%	224,929
Other Borrowings	2,225	50	4.53%	2,284
INTEREST BEARING LIABILITIES	$221,864	$2,934	2.67%	$227,213
Non-Interest bearing - DDA	41,569			39,732
All Other Liabilities	1,695			2,321
Shareholders' Equity	38,998			34,066
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$304,126			$303,332
Net Interest Rate Spread			3.83%	
Net Interest Income /Margin		$5,931	4.35%	

Table 3

AVERAGE BALANCES AND RATES (000's omitted)(Annualized) ASSETS	THREE MONTHS ENDED JUNE 30, 2002 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
Investment securities:				
U.S. Treasury and Government Agencies	$17,957	$182	4.07%	$43,459
State and Political	15,614	147	3.78%	13,890

Other	5,358	73	5.46%	1,302
Total Investment Securities	38,929	402	4.14%	58,651
Fed Funds Sold	17,508	74	1.70%	21,462
Loans:				
Commercial	137,983	2,469	7.18%	120,667
Tax Free	3,658	49	5.37%	825
Real Estate-Mortgage	11,823	232	7.87%	15,060
Consumer	61,341	1,191	7.79%	64,663
Total loans	214,805	3,941	7.36%	201,215
Allowance for Loan Losses	(3,150)			(2,992)
Net Loans	211,655	3,941	7.47%	198,223
Loans Held for Sale	1,989	33	6.65%	177
TOTAL EARNING ASSETS	$273,231	$4,450	6.53%	$281,505
Cash Due from Banks	14,938			10,687
All Other Assets	18,583			13,783
TOTAL ASSETS	$303,602			$302,983
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Interest bearing - DDA	$41,466	95	0.92%	$35,950
Savings Deposits	85,190	299	1.41%	70,929
Time CD's $100,000 and Over	20,760	195	3.77%	32,770
Other Time CD's	71,794	763	4.26%	84,936
Total Deposits	219,210	1,352	2.47%	224,585
Other Borrowings	1,788	24	5.38%	1,823
INTEREST BEARING LIABILITIES	$220,998	$1,376	2.50%	$226,408
Non-Interest bearing - DDA	41,766			39,917
All Other Liabilities	1,450			2,118
Shareholders' Equity	39,388			34,540
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$303,602			$302,983
Net Interest Rate Spread			4.04%	
Net Interest Income /Margin		$3,074	4.51%	

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses (*ALL)* reflects management s judgment as to the level considered appropriate to absorb probable losses 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 portions of the allowance 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, 2002, the *ALL* was $3,075,000, or 1.42% of total loans. This compares with $3,125,000, or 1.46%, at December 31, 2001. The decrease of the *ALL* as a percentage of total loans reflects a decrease in the allowance for loan losses and increased loan totals. Management believes that the decrease in allowance to gross loans percentage is appropriate given anticipated risk in the loan portfolio based on asset quality.

The provision for loan losses was $102,000 in the first six months of 2002 and $393,000 for the same time period in 2001. The Corporation decreased the provision in 2002 compared to 2001 to fund the allowance for loan losses to the level management believes is necessary to cover losses inherent in the loan portfolio, particularly considering the lower loan growth rate in the loan portfolio in the 2002 period.

Table 4 also summarizes loan losses and recoveries for the first six months of 2002 and 2001. During the first six months of 2002 the Corporation experienced net charge-offs of $152,000, compared with net charge-offs of $228,000 for the six months ended June 30, 2001. Accordingly, the net charge-off ratio for the first six months of 2002 was .07% compared to .11% for the same period in 2001.

The Corporation maintains formal policies and procedures to control and monitor credit risk. Management believes the allowance for loan losses is adequate to meet credit risks in the loan portfolio. The Corporation s loan portfolio has no significant concentrations in any one industry or 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 are not performing as agreed. As the overall credit quality of the loan portfolio improves, management expects a modest reduction in the allowance for loan losses as a percentage to gross loans in 2002. Of course, deterioration of economic conditions could have an impact on the Corporation s credit quality, which could impact the need for greater provision for loan losses and the level of ALL as a percentage of gross loans. Non-performing loans are discussed further in the section titled Non-Performing Assets .

Table 4

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(000's omitted)	Six Months Ended June 30 2002	Six Months End June 30, 2001
Balance at Beginning of Period	$3,125	$2,932
Charge-Offs:		
Commercial, Financial and Agriculture	(148)	(15)
Real Estate-Mortgage	0	0
Installment Loans to Individuals	(233)	(278)
Total Charge-Offs	(381)	(293)
Recoveries:		
Commercial, Financial and Agriculture	149	2
Real Estate-Mortgage	0	0
Installment Loans to Individuals	80	63
Total Recoveries	229	65
Net Charge-Offs	(152)	(228)

Provision	102	393
Balance at End of Period	$3,075	$3,097
Ratio of Net Charge-Offs to Gross Loans	0.07%	0.11%

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NON-INTEREST INCOME

Table 5

Analysis of Non-Interest Income (000's omitted)	Three Months Ended June 30 2002	2001	Six Months Ended June 30 2002	2001
Service Charges on Deposit Accounts	$594	$520	$1,148	$9
Gain on Sale of Loans	$150	$174	$292	$2
Mortgage Servicing Fees	$0	$1	$0	$
Trust Income	$144	$160	$278	$3
Other Operating Income	$273	$327	$506	$6
Gain on sale of securities - AFS	$0	$157	$0	$1
Total Non-Interest Income	$1,161	$1,339	$2,224	$2,4

Non-interest income decreased in the six months ended June 30, 2002 as compared to the same period in 2001, primarily due to a decrease in trust income, and a decrease in the gain on sale of securities that occurred in 2001. Overall non-interest income was $2,224,000 for the six months ended June 30, 2002 compared to $2,444,000 for the same period in 2001. These figures represent a decrease of 9.0%. Non-interest income decreased 12.8% in the second quarter of 2002 compared with the same period in 2001. Table 5 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 $1,148,000 in the first six months of 2002 compared to $999,000 for the same period of 2001. This represents an increase of 14.9%. Increases are attributable to service charges from growth in core deposits. In the second quarter of 2002 service charges increased 14.2% over 2001.

Gains on the sale of mortgage loans originated by the Banks and sold in the secondary market were $292,000 in the six months ended June 30, 2002 and $233,000 in the same period in 2001. The change is due to an increase in loans sold in the secondary market due to the increase in residential mortgage refinance activity and new loan volumes due to the downward movement of market interest rates. For the second quarter of 2002 gain on sale of mortgages decreased 13.8% over the prior year.

Mortgage servicing fees were $34,000 in the six months ended June 30, 2001 compared to $0 in the same time period in 2002. The decline is attributable to the sale of a significant portion of the Corporation s serviced loans, in the last quarter of 2000. Servicing income was recognized in January of 2001 until these serviced loans were actually transferred to the purchaser.

Trust income decreased $47,000 in the six months ended June 30, 2002 comparing to the same period in the prior year. This 14.5% decrease in fees is attributable to the decline in the value of assets under management within the Corporation s Trust Department. Trust income decreased 10% in the second quarter of 2002 compared with 2001.

Other operating income decreased $190,000 to $506,000 in the first six months of 2002 compared to $696,000 in the same time period in 2001. This is a decrease of 27.3%. Other operating income decreased due to decreases in income from the sale of official checks and a decrease in income from the sale of consumer investment products. In the second quarter of 2002 other operating income decreased 19.8% compared with the same period in 2001.

The Corporation had a gain on sale of securities in the second quarter of 2001. This gain made up 11.7% of the second quarter of 2001 non interest income and 6.4% of the year to date through June 30, 2001 non-interest income.

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Non-Interest Expense

Table 6

Analysis of Non-Interest Expense	Three Months Ended June 30,		Six Months Ended June 30,	
(000's omitted)	2002	2001	2002	2001
Salaries and Benefits	$1,606	$1,506	$3,314	$3,085
Equipment	$387	$354	$746	$680
Occupancy	$265	$206	$522	$421
Office Supplies	$63	$62	$107	$108
Loan & Collection Expense	$50	$56	$88	$82
Advertising	$58	$94	$125	$168
Other Operating Expense	$651	$679	$1,219	$1,389
Total Non-Interest Expense	$3,080	$2,957	$6,121	$5,933

Total non-interest expense was $6,121,000 in the six months ended June 30, 2002 compared with $5,933,000 in the same period of 2001. This is an increase of 3.2%. This increase is largely attributable to an increase in salaries and benefits expense and net occupancy expenses.

Salary and benefit costs, Fentura s largest non-interest expense category, were $3,314,000 in the six months ended June 30, 2002, compared with $3,085,000, or an increase of 7.4%, for the same time period in 2001. Increased costs are primarily a result of a modest increase in the number of employees and an increase in employee benefit costs and commission expenses paid to mortgage originators. The second quarter showed an increase of 6.6% in salaries and benefits.

During the six months ended June 30, 2002 equipment expenses were $746,000 compared to $680,000 for the same period in 2001, an increase of 9.8%. The increases in expenses are attributable to additions to equipment maintenance contracts and equipment depreciation, which increased due to the opening of the Silver Lake Parkway and Grand Blanc branch bank offices. In the second quarter of 2002 equipment expenses increased 9.3% from the second quarter of 2001.

Occupancy expenses at $522,000 increased in the six months ended June 30, 2002 comparing to the same period in 2001 by $101,000 or 24.0%. The increases are attributable to increases in facility repairs, opening of the Grand Blanc & Silver Lake Parkway offices and operation of the Davison State Bank new main office, which opened in the second quarter of 2001 and maintenance contracts expense. Occupancy expenses increased 28.6% in the second quarter of 2002 compared to 2001.

During the six months ended June 30, 2002 office supplies expense at $107,000 decreased $1,000 comparing to the $108,000 in expense for the same period in 2001. The decrease is attributable to volume decreases of regular office supplies and preprinted forms in 2002. Office supplies have stayed steady in comparison between the second quarter in 2002 and 2001.

Loan and collection expenses, at $88,000, were up $6,000 during the six months ended June 30, 2002 comparing to the same time period in 2001. The increase is primarily attributable to an increase in other loan expense and increased credit reports expense. In the second quarter, loan and collection expenses were down 10.7% compared with second quarter of 2001.

Advertising expenses were $125,000 in the six months ended June 30, 2002 compared with $168,000 for the same period in 2001. The decrease of $43,000 or 25.6% was primarily due to the decrease in shareholder expenses and promotional expenses to our over 50 years of age customer segment. Advertising decreased 38.3% in the second quarter of 2002 compared to 2001.

Other operating expenses were $1,219,000 in the six months ended June 30, 2002 compared to $1,389,000 in the same time period in 2001, a decrease of $170,000 or 12.2%. The decrease is attributable to a decrease in the amount of overdrawn deposit account charge-offs and a decrease in legal and consulting expenses. Other operating expenses decreased 4.1% in the second quarter of 2002 compared with the same period in 2001.

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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 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. In the second quarter of 2002, the Corporation bought $5 million in bank owned life insurance policies to increase earning assets. Loans comprise the largest component of earning assets and are the Corporation s highest yielding assets. Customer deposits are the primary source of funding for earning assets while short-term debt and other sources of funds could be further utilized if market conditions and liquidity needs change.

The Corporation s total assets equaled $311 million for June 30, 2002 compared to December 31, 2001 total assets of $309 million. Loans comprised 70.2% of total assets at June 30, 2002 compared to 69.3% at

December 31, 2001. Loans grew $2.7 million with consumer loans and tax-exempt loans leading the advance, which together grew $4.1 million while other loan categories experienced reductions or remained steady. The ratio of non-interest bearing deposits to total deposits was 16.5% at June 30, 2002 compared to 16.0% at December 31, 2001. Interest bearing deposit liabilities totaled $223 million at June 30, 2002 compared to $223 million at December 31, 2001. Total deposits increased $1.7 million with non-interest bearing demand leading the increase with growth of $1.6 million. Short-term borrowings decreased $0.7 million due to the decrease in federal funds purchased from December 31, 2001.

Bank premises and equipment increased $874,000 to $9.4 million at June 30, 2002 comparing to $8.5 million at December 31, 2001. The increase is attributable to the opening of the Silver Lake Parkway branch.

NON-PERFORMING ASSETS

Non-performing assets include loans on which interest accruals have ceased, loans that 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 7 represents the levels of these assets at June 30, 2002 and December 31, 2001.

Non-performing assets increased at June 30, 2002 compared to December 31, 2001. This increase is attributable to an increase in repossessed assets and an increase in non-performing loans. The non-accrual loans increased because two new loans were placed on non-accrual totaling $205,000, and other non-performing assets increased because of an increase in repossessed assets. The increase in non-performing assets does not warrant an increase in the loan loss reserve, because of a decrease in charge-offs and a switch in loan portfolio mix. The charge-off percentage for the six months ended June 30, 2002 is .07% and it was 0.11% in same period in 2001. Also, the mix of the loan portfolio has switched in the past year. In 2001, the Corporation had more indirect & consumer loans in the portfolio and in 2002, the mix is more commercial loans and commercial real estate loans, which are better secured loans.

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. Based on the current economic conditions, management continues to closely monitor credit quality.

Table 7

Non-Performing Assets and Past Due Loans

	June 30, 2002	December 31, 2001
Non-Performing Loans:		
Loans Past Due 90 Days or More & Still		

Accruing	$210,000	$186,000
Non-Accrual Loans	538,000	321,000
Renegotiated Loans	0	0
Total Non-Performing Loans	748,000	507,000
Other Non-Performing Assets:		
Other Real Estate	0	0
REO in Redemption	0	0
Other Non-Performing Assets	55,000	10,000
Total Other Non-Performing Assets	55,000	10,000
Total Non-Performing Assets	$803,000	$517,000
Non-Performing Loans as a % of Total Loans	0.35%	0.24%
Allowance for Loan Losses as a % of Non-Performing Loans	411.10%	616.37%
Accruing Loans Past Due 90 Days or More to Total Loans	0.10%	0.09%
Non-performing Assets as a % of Total Assets	.26%	0.17%

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 2002. 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 the investment portfolio provides secondary liquidity. As of June 30, 2002 federal funds sold represented 6.0% of total assets, compared to 7.4% at December 31, 2001. 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 provided by financing activities was $158,000 in the first six months of 2002 due to the increase in deposits. Comparatively, in the first six months of 2001, cash provided by financing activities was $9,513,000 because of increases in deposits. Cash used in investing activities was $3,269,000 during the first six months of 2002. Cash flow from investing activities decreased for the first six months of 2002 primarily because of an increase in securities purchases and a decrease in securities calls and sales.

CAPITAL MANAGEMENT

Total shareholders   equity rose 1.7% to $39,068,000 at June 30, 2002 compared with $38,433,000 at December 31, 2001. The Corporation s equity to asset ratio was 12.6% at June 30, 2002 and 12.4% at December 31, 2001. The increase in the amount of capital resulted primarily from the increase in retained earnings.

As indicated on the balance sheet at December 31, 2001 the Corporation had accumulated other comprehensive income of $92,000 compared to accumulated other comprehensive income at June 30, 2002 of $198,000. The increase in the income position is attributable to the fluctuation of the market price of 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 8, at June 30, 2002 and at December 31, 2001, 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 retain a designation of   well capitalized .

NON-PERFORMING ASSETS

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Table 8

	Capital Ratios			
	Regulatory Minimum	Fentura Financial, Inc.		
	For "Well Capitalized"	June 30, 2002	December 31, 2001	June 20
Total Capital to risk Weighted assets	10%	15.90%	16.20%	16.
Tier 1 Capital to risk Weighted assets	6%	14.74%	15.00%	14.
Tier 1 Capital to average Assets	5%	12.78%	12.50%	12.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk contained on pages 47 through 48 in Fentura s Annual Report on Form 10-K, is here incorporated by reference.

Fentura Financial, 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 2002, 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 2002 compared to 2001.

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.

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 9 sets forth the distribution of re-pricing of the Corporation s earning assets and interest bearing liabilities as of June 30, 2002, 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.

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Table 9

GAP ANALYSIS JUNE 30, 2002

(000's Omitted)	Within Three Months	Three Months to One Year	One to Five Years	After Five Years
Earning Assets:				
Federal Funds Sold	$ 18,700	$ 0	$ 0	$ 0
Securities	1,400	6,022	25,063	5,652
Loans	107,774	12,552	79,825	16,675
Loans Held for Sale	1,592	0	0	0
Total Earning Assets	$129,466	$ 18,574	$ 104,888	$ 22,327
Interest Bearing Liabilities:				
Interest Bearing Demand Deposits	$ 44,037	$ 0	$ 0	$ 0
Savings Deposits	85,621	0	0	0
Time Deposits Less than $100,000	13,676	27,905	30,062	0
Time Deposits Greater than $100,000	10,130	3,345	8,042	0
Short term borrowings	1,395	0	0	0
Other Borrowings	0	16	260	848
Total Interest Bearing Liabilities	$ 154,859	$ 31,266	$ 38,364	$ 848
Interest Rate Sensitivity GAP	$ (25,393)	$ (12,692)	$ 66,524	$ 21,479
Cumulative Interest Rate Sensitivity GAP	$ (25,393)	$ (38,085)	$ 28,439	$ 49,918
Interest Rate Sensitivity GAP	(0.84)	(0.59)	2.73	26.33
Cumulative Interest Rate Sensitivity GAP Ratio	(0.84)	(0.80)	1.13	1.22

As indicated in Table 9, 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 should theoretically 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 the Corporation's Gap position at June 30, 2002 and the change in net interest income for the six months ended June 30, 2002 compared to the same time period in 2001. At June 30, 2001 the Corporation was negatively gapped through one year and since that time interest rates have declined considerably, yet net interest income declined comparing the first six months of 2002 to the same period in 2001. 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 impact net interest income.

FORWARD LOOKING STATEMENTS

This report contains "forward looking statements" as that term is used in the securities laws. All statements regarding the Corporation's 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 statements contained in this report 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 other filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings. - None

Item 2. Changes in Securities and Use of Proceeds. - None

Item 3. Defaults Upon Senior Securities. - None

Item 4. Submission of Matters to a Vote of Securities Holders.

The annual meeting of shareholders of the Corporation was held on April 24, 2002. The shareholders of the Corporation voted on the following matters at the meeting:

(a) Election of two directors with terms expiring in 2005.

Director Nominee:	For:	Withhold
Peggy L. Haw Jury	1,334,437	44,750
Russell H. Van Gilder, Jr.	1,373,497	5,690

(b)

Proposal to Amend the Articles of Incorporation changing the name of the Corporation	For:	Against	Abstain
	1,293,211	85,976	0

Item 5. Other Information. - None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

99.1 Certificate of the Chief Executive Officer of Fentura Financial, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certificate of the Chief Financial Officer of Fentura Financial, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on 8-K - None.

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Signatures

Pursuant to 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 Financial, Inc.

Date: August 13, 2002

By /s/ Donald L. Grill

Donald L. Grill
President & CEO

Date: August 13, 2002

By /s/ Ronald L. Justice

Ronald L. Justice
Chief Financial Officer

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EXHIBIT INDEX

Exhibit	Description

99.1	Certificate of the Chief Executive Officer of Fentura Financial, Inc. pursuant to 18 U.S.C. Section 1350 , as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certificate of the Chief Financial Officer of Fentura Financial, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 99.1

I, Donald L. Grill, Chief Executive Officer of Fentura Financial, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Fentura Financial, Inc.

Dated: August 13, 2002

/s/ Donald L. Grill

Donald L. Grill
Chief Executive Officer

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EXHIBIT 99.2

I, Ronald L. Justice, Chief Financial Officer of Fentura Financial, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Fentura Financial, Inc.

Dated: August 13, 2002

/s/ Ronald L. Justice

Ronald L. Justice
Chief Financial Officer

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