FENTURA BANCORP INC
Form 10-Q
May 15, 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 March 31, 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: May 10, 2001

Class - Common Stock Shares Outstanding - 1,727,905

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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)		MARCH 31, 2001 (unaudited)	DEC 31, 2000
ASSETS			
Cash and due from banks	$	15,733	13,459
Federal funds sold		23,100	7,250
Total cash & cash equivalents		38,833	20,709
Securities-available for sale			
Securities-held to maturity, (market value of $13,503		49,368	53,421
at March 31, 2001 and $13,419 at December 31, 2000)		13,262	13,283
Total securities		62,630	66,704
Loans:			
Commercial		104,176	101,090
Tax exempt development loans		783	835
Real estate loans - mortgage		11,099	10,514
Real estate loans - construction		19,729	17,471
Consumer loans		63,219	65,198
Total loans		199,006	195,108
Less: Allowance for loan losses		(2,950)	(2,932)
Net loans		196,056	192,176
Loans held for sale		190	187
Bank premises and equipment		6,979	6,547
Accrued interest receivable		1,939	1,924
Other assets		4,743	4,643
Total assets	$	311,370	292,890
LIABILITIES			
Deposits:			
Non-interest bearing deposits	$	38,658	34,762
Interest bearing deposits		232,310	213,894

Total deposits		270,968	248,656
Federal funds purchased		0	4,680
Other borrowings		1,366	1,151
Accrued taxes, interest and other liabilities		2,200	2,649
Total liabilities		274,534	257,136
STOCKHOLDERS' EQUITY			
Common stock - $2.5 par value 1,727,905 shares issued (1,722,308 in Dec. 2000)		4,320	4,305
Surplus		26,147	26,016
Retained earnings		6,087	5,648
Accumulated other comprehensive income (loss)		282	(215)
Total stockholder's equity		36,836	35,754
Total Liabilities and Shareholders' Equity	$	311,370	292,890

See notes to consolidated financial statements.

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

(000's omitted Except Per Share Data)	Three Months Ended March 31, 2001	2000
INTEREST INCOME		
Interest and fees on loans	$ 4,584	$ 4,453
Interest and dividends on Investment securities:		
Taxable	767	840
Tax-exempt	170	171
Interest on federal funds sold	265	75
Total interest income	5,786	5,539
INTEREST EXPENSE		
Deposits	2,572	2,219
Short-term borrowings	47	77
Total interest expense	2,619	2,296
NET INTEREST INCOME	3,167	3,243
Provision for loan losses	138	169
Net interest income after Provision for loan losses	3,029	3,074
NON-INTEREST INCOME		
Service charges on deposit accounts	479	467
Fiduciary income	165	162
Other operating income	384	322
Total non-interest income	1,028	951
NON-INTEREST EXPENSE		
Salaries and benefits	1,579	1,455

Occupancy of bank premises	215	202
Equipment expense	327	373
Other operating expenses	778	852
Total non-interest expense	2,899	2,882
INCOME BEFORE TAXES	1,158	1,143
Federal income taxes	339	270
NET INCOME	$ 819	$ 873
Per share:		
Net income - basic	$ 0.48	$ 0.51
Net income - diluted	$ 0.47	$ 0.51
Dividends	$ 0.22	$ 0.21
Average number of common Shares outstanding	1,723,798	1,707,661

See notes to consolidated financial statements.

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

(000's omitted)	Three Months Ended March 31, 2001	Three Mo Ended March 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	15	
Balance, end of period	4,320	
SURPLUS		
Balance, beginning of period	26,016	1
Issuance of shares under Director stock purchase plan, Stock purchase plan, and Dividend reinvestment program	131	
Balance, end of period	26,147	1
RETAINED EARNINGS		
Balance, beginning of period	5,648	1
Net income	819	
Cash dividends declared	(380)	
Balance, end of period	6,087	1
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	(215)	(
Change in unrealized gain (loss) on securities, net of tax	497	

Balance, end of period	282	(
TOTAL SHAREHOLDERS' EQUITY	$ 36,836	$ 3

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(000's omitted, Except Per Share Data)	2001	2000
OPERATING ACTIVITIES:		
Net income	$819	$873
Adjustments to reconcile net income to cash Provided by Operating Activities:		
Depreciation and amortization	209	246
Provision for loan losses	138	150
Amortization (accretion) on securities	18	(12)
Loans originated for sale	(1951)	(641)
Loans sold	1,948	626
Gain on investment securities	0	0
Decrease (increase) in interest receivable	15	(211)
Decrease (increase) in other assets	(286)	1,047
Increase (decrease) in accrued taxes, Interest, and other liabilities	(449)	87
Total Adjustments	(358)	1,292
Net Cash Provided By (Used In) Operating Activities	461	2,165
Cash Flows From Investing Activities:		
Net decrease in deposits with other banks	0	0
Proceeds from maturities of investment activities - HTM	0	20
Proceeds from maturities of investment activities - AFS	8,289	786
Purchases of investment securities - HTM	0	0
Purchases of investment securities - AFS	(3,579)	0
Net increase in customer loans	(4,018)	(6,924)
Capital expenditures	(641)	(1,163)
Net Cash Used in Investing Activities	51	(7,281)
Cash Flows From Financing Activities:		
Net increase (decrease) in DDA/SAV deposits	6,010	791
Net increase (decrease) in Time deposits	16,302	6,142
Net increase in borrowings	(4,465)	13,220
Proceeds from stock issuance	145	167
Cash dividends	(380)	(357)
Net Cash Provided By (Used In) Financing Activities	17,612	19,963

NET INCREASE IN CASH AND CASH EQUIVALENTS	$18,124	$14,847
CASH AND CASH EQUIVALENTS - BEGINNING	$20,709	$13,614
CASH AND CASH EQUIVALENTS - ENDING	$38,833	$28,461
CASH PAID FOR:		
INTEREST	$2,501	$2,186
INCOME TAXES	$400	$0

See notes to consolidated financial statements.

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

(000's Omitted)	Three Months Ended March 31, 2001	2000
Net Income	$819	$873
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) arising during period	$497	($302)
Less: reclassification adjustment for gains included in net income	$0	$0
Other comprehensive income	$497	($302)
Comprehensive income	$1,316	$571

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 three months ended March 31, 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.

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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 three months ended March 31, 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	Three Months Ended March 31, 2001 (unaudited)	2000
Summary of Consolidated Statements of Income:		
Interest Income	$5,786	$5,539
Interest Expense	2,619	2,296
Net Interest Income	3,167	3,243
Provision for Loan Losses	138	169
Net Interest Income after Provision for Loan Losses	3,029	3,074
Total Other Operating Income	1,105	951
Total Other Operating Expense	2,976	2,882
Income Before Income Taxes	1,158	1,143
Provision for Income Taxes	339	270
Net Income	$819	$873
Net Income Per Share - Basic	$0.48	$0.51
Net Income Per Share - Diluted	$0.47	$0.51
Other Financial and Statistical Data:		
Tier 1 Capital to Risk Weighted Assets	13.57%	13.58%
Total Capital to Risk Weighted Assets	14.76%	14.82%
Tier 1 Capital to Average Assets	11.01%	11.71%
Total Cash Dividends	$380	$357
Book Value Per Share	$21.32	$18.85
Cash Dividends Paid Per Share	$0.22	$0.21
Period End Market Price Per Share	$27.00	$28.10
Dividend Pay-out Ratio	46.40%	40.89%
Return on Average Stockholders' Equity	8.99%	10.73%
Return on Average Assets	1.08%	1.22%
Net Interest Margin (FTE)	4.69%	5.01%
Summary of Consolidated Balance Sheets:	Mar.31, 2001	Dec. 31, 2000
Assets	$311,370	$292,890
Securities	62,630	66,704
Loans	199,196	195,108
Deposits	270,968	248,656
Shareholders' Equity	36,836	35,754
Total Equity to Assets	11.83%	10.60%

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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 for the three months Ended March 31, 2001 and 2000:

	2001	2000
Basic Earnings Per Common Share:		
Numerator		
Net Income	$819,000	$873,000
Denominator		
Weighted average common shares Outstanding	1,723,798	1,707,661
Basic earnings per common share	$0.48	$0.51
Diluted Earnings Per Common Share:		
Numerator		
Net Income	$819,000	$873,000
Denominator		
Weighted average common shares Outstanding for basic earnings per Common share	1,723,798	1,707,661
Add: Dilutive effects of assumed Exercises of stock options	3,206	6,092
Weighted average common shares and dilutive potential common Shares outstanding	1,727,004	1,713,753
Diluted earnings per common share	$0.47	$0.51

Stock options for 6,975 and 2007 shares of common stock for the three month periods ended March 31, 2001 and 2000 were not considered in computing diluted earning per common shares because they were not dilutive.

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Results of Operations

Table 1 summarizes selected financial data for the three months ended March 31, 2001 and 2000. As indicated in Table 1 earnings for the three months ended March 31, 2001 were $819,000 compared to $873,000 for the same period in 2000. Earnings decreased as a result a tightening of net interest income and increased operating expenses. Despite this earnings decline, 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 three months ended March 31, 2001 the Corporation's return on average assets was 1.08% compared to 1.22% for the same period in 2000. Net income per share-basic was $.48 in the first three months of 2001 compared to $.51 for the same period in 2000.

Total assets increased approximately $18,000,000 from December 31, 2000 to $311,370,000 at March 31, 2001. Stockholders' Equity increased approximately $1,082,000 from December 31, 2000 to $36,836,000 at March 31, 2001. The increase in equity should allow the Corporation to continue its growth strategy.

Net Interest Income

Net interest income and average balances and yields on major categories of interest-earning assets and interest-bearing liabilities for the three months ended March 31, 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 VOLUM
AND INTEREST RATES

	THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO 2000 INCREASE (DECREASE) DUE TO:			THREE MO 2000 INCR
(000'S OMITTED)	VOL	YIELD/ RATE	TOTAL	VOL
TAXABLE SECURITIES	($66)	($7)	($73)	$3
TAX-EXEMPT SECURITIES	(6)	5	(1)	41
FEDERAL FUNDS SOLD	232	(42)	190	(90)
TOTAL LOANS	134	(4)	130	716
LOANS HELD FOR SALE	0	1	1	(182)
TOTAL EARNING ASSETS	294	(47)	247	488
INTEREST BEARING DEMAND DEPOSITS	(14)	(2)	(16)	(9)
SAVINGS DEPOSITS	(28)	11	(17)	33
TIME CD'S $100,000 AND OVER	133	59	192	87
OTHER TIME DEPOSITS	72	122	194	15
OTHER BORROWINGS	(27)	(3)	(30)	43
TOTAL INTEREST BEARING LIABILITIES	136	187	323	169
NET INTEREST INCOME	$158	($234)	($76)	$319

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As indicated in Table 2, during the three months ended March 31, 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 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 March 31, 2001 and 2000 are shown in Table 3. Net interest income for the three months ended March 31, 2001 was $3,167,000 a decrease of $76,000 over the same period in 2000. This represents a decrease of 2.3%. 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. Also indicated in Table 3, for the three months ended March 31, 2000 net interest income was $3,243,000. This is an increase of $115,000 or 3.7% over the same period in 1999. The increase in 2000 is attributable to the increase in interest income from loan growth.

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 March 31, 2001, the Corporation's net interest margin (without consideration of full tax equivalency) was 4.55% compared with 4.90% for the same period in 2000. This decline is attributable to the impact of interest rates reduction 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 6.0% or approximately $15,953,000 comparing the first quarter of 2001 to the same time period in 2000. Loans, the highest yielding component of earning assets, represented 70.7% of earning assets in 2001 compared to 72.8% in 2000. Average interest bearing liabilities increased 3.2% or $7,010,000 comparing the first quarter of 2001 to the same time period in 2000. Non-interest bearing deposits amounted to 13.1% of average earning assets in the first quarter of 2001 compared with 12.1% in the same time period on 2000.

Management continually monitors the Corporation's balance sheet 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 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".

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Table 3

AVERAGE BALANCES AND RATES (000's omitted) ASSETS	THREE MONTHS ENDED MARCH 31 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	47,511	751	6.41%	51,728
State and Political	14,239	170	4.84%	14,764
Other	1,096	16	5.92%	1,077
Total Investment Securities	62,846	937	6.05%	67,569
Fed Funds Sold	19,522	265	5.51%	4,745
Loans:				
Commercial	116,539	2,691	9.36%	102,018
Tax Free	799	10	5.08%	588
Real Estate-Mortgage	15,522	362	9.46%	25,316

Consumer	66,773	1,517	9.21%	65,816
Total loans	199,633	4,580	9.30%	193,738
Allowance for Loan Loss	(2,975)			(2,984)
Net Loans	196,658	4,580	9.45%	190,754
Loans Held for Sale	188	4	8.63%	184
TOTAL EARNING ASSETS	$282,189	$5,786	8.32%	$266,236
Cash Due from Banks	11,018			10,732
All Other Assets	13,786			13,190
TOTAL ASSETS	$304,018			$287,174
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Non-Interest bearing - DDA	$37,056			$32,174
Interest bearing - DDA	37,829	171	1.83%	41,030
Savings Deposits	64,448	559	3.52%	67,777
Time CD's $100,000 and Over	41,434	642	6.28%	31,926
Other Time CD's	81,558	1,200	5.97%	76,040
Total Deposits	262,325	2,572	3.98%	248,947
Other Borrowings	2,744	47	6.95%	4,230
INTEREST BEARING LIABILITIES	$228,013	$2,619	4.66%	$221,003
All Other Liabilities	2,523			1,446
Shareholders' Equity	36,426			32,551
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$304,018			$287,174
Net Interest Rate Spread			3.66%	
Impact of Non-Interest Bearing Funds on Margin			0.89%	
Net Interest Income /Margin		$3,167	4.55%	

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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 March 31, 2001, the ALL was $2,950,000, or 1.48% of total loans. This compares with $2,932,000, or 1.50%, at December 31, 2000. The reduction of the ALL as a percentage of total loans reflects reduction in the allowance for loan losses and increased loan totals.

The provision for loan losses was $138,000 in the first three months of 2001 and $169,000 for the same time period in 2000. The Bank decreased the provision in 2001 comparing to 2000 because of an overall improvement in asset quality.

Table 4 summarizes loan losses and recoveries for the first quarter of 2000 and 2001. During the first three months of 2001 the Corporation experienced net charge-offs of $120,000, compared with net charge-offs of $84,000 for the same

time period in 2000. Accordingly, the net charge-off ratio for the first quarter of 2001 was .06% 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 4 ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	Three Months Ended March 31	
(000's omitted)	2001	2000
Balance at Beginning of Period	$2,932	$2,961
Charge-Offs:		
Commercial, Financial and Agriculture	(6)	(9)
Real Estate-Mortgage	0	0
Installment Loans to Individuals	(141)	(99)
Lease Financing	0	0
Total Charge-Offs	(147)	(108)
Recoveries:		
Commercial, Financial and Agriculture	2	1
Real Estate-Mortgage	0	0
Installment Loans to Individuals	25	23
Lease Financing	0	0
Total Recoveries	27	24
Net Charge-Offs	(120)	(84)
Provision	138	169
Balance at End of Period	$2,950	$3,046
Ratio of Net Charge-Offs During the Period	0.06%	0.04%

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NON-INTEREST INCOME

TABLE 5

Three Months Ended

Analysis of Non-Interest Income (000's omitted)	March 31, 2001	March 31, 2000
Service Charges on Deposit Accounts	$479	$467
Gain on Sale of Mortgages	$59	$13
Mortgage Servicing Fees	$33	$65
Fiduciary Income	$165	$162
Other Operating Income	$292	$244
Total Non-Interest Income	$1,028	$951

Non-interest income increased in the three months ended March 31, 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 other operating income. Overall non-interest income was $1,028,000 in the three months ended March 31, 2001 compared to $951,000 for the same period in 2000. These figures represent an increase of 8.1%. 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 $479,000 in the first quarter 2001 compared to $467,000 for the same period of 2000. This represents an increase of 2.6%. An increase in average balances maintained in savings accounts offset service charges and a reduction in fees from non-sufficient funds balances.

Gains on the sale of mortgage loans originated by the Banks and sold in the secondary market were $59,000 in the quarter ended March 31, 2001 and $13,000 in the same period in 2000. The increase occurred because of an increase in residential mortgage refinance activity and new loan volumes due to the downward movement of market interest rates.

Mortgage servicing fees were $33,000 in the three months ended March 31, 2001 compared to $65,000 in the same time period in 2000. This is a decline of $32,000 or 49.2%. The decline is attributable to the sale of a significant portion of the Corporation's serviced loans, in the last quarter of 2000.

Fiduciary income increased $3,000 in the three months ended March 31, 2001 comparing to the same period in the prior year. This 0.2% increase in fees is attributed to growth in the assets under management within the Corporation's Trust Department.

Other operating income increased $48,000 to $292,000 in the first quarter of 2001 compared to $244,000 in the same time period in 2000. This is an increase of 19.7%. 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.

Non-Interest Expense

TABLE 6

Analysis of Non-Interest Expense (000's omitted)	Three Months Ended March 31,

	2001	2000
Salaries and Benefits	$1,579	$1,455
Equipment	$327	$373
Net Occupancy	$215	$202
Office Supplies	$46	$74
Loan & Collection Expense	$26	$121
Advertising	$74	$55
Other Operating Expense	$632	$602
Total Non-Interest Expense	$2,899	$2,882

Total non-interest expense was $2,899,000 in the three months ended March 31, 2001 compared with $2,882,000 in the same period of 2000. This is a increase of 0.6%. This increase is largely attributable to an increase in salary and benefits expense and an increase in other operating expenses.

Salary and benefit costs, Fentura's largest non-interest expense category, were $1,579,000 in the three months ended March 31, 2001, compared with $1,455,000, or an increase of 8.5%, for the same time period in 2000. Increased costs are primarily a result of normal annual salary increases, an increase in employee benefit costs, and an increase in salary costs in connection with the opening of the second bank, Davison State Bank.

During the three months ended March 31, 2001 equipment expenses were $327,000 compared to $373,000 for the same period in 2000, a decrease of 12.3%. The decrease in expense is attributable to equipment depreciation which decreased due to the roll off of fully depreciated assets.

Occupancy expenses at $215,000 increased in the three months ended March 31, 2001 comparing to the same period in 2000 by $13,000 or 6.4%. The increase is attributable to increases in facility repairs and maintenance contracts expense.

During the three months ended March 31, 2001 office supplies expense at $46,000 decreased $28,000 comparing to the $74,000 in expense for the same period in 2000. This decrease is attributable to volume decreases of regular office supplies and preprinted forms in 2001.

Loan and collection expenses, at $26,000, were down $95,000 during the three months ended March 31, 2001 comparing to the same time period in 2000. The decrease is 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 $632,000 in the three months ended March 31, 2001 compared to $602,000 in the same time period in 2000, an increase of $30,000 or 5.0%. The increase is attributable to an increase in deposit account charge-offs and losses and an increase in legal and consulting expenses.

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 $311 million for March 31, 2001 exceeding December 31, 2000 total assets of $293 million by $18 million or 6.1%. Loans comprised 63.9% of total assets at March 31, 2001 compared to 66.6% at December 31, 2000. Loans grew $3.9 million with commercial loans leading the advance by $3.1 million. The ratio of non-interest bearing deposits to total deposits was 16.6% at March 31, 2001 compared to 16.25% at December 31, 2000. Interest bearing liabilities totaled $233 million at March 31, 2001 compared to $220 million at December 31, 2000. Deposits grew $18.4 million and Fed Funds Purchased decreased $4.7 million to make up the change in interest bearing liabilities at March 31, 2001.

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 7 represents the levels of these assets at March 31, 2001 and December 31, 2000.

Non-performing assets decreased modestly at March 31, 2001 compared to December 31, 2000. This decrease is attributable to a decrease in loans past due 90 days or more and still accruing. These loans decreased because of restructuring of one commercial loan.

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 7

Non-Performing Assets and Past Due Loans

	March 31, 2001	Dec. 31, 2000
Non-Performing Loans:		
Loans Past Due 90 Days or More & Still Accruing	$172,000	$489,000
Non-Accrual Loans	778,000	731,000
Renegotiated Loans	0	0
Total Non-Performing Loans	950,000	1,220,000
Other Non-Performing Assets:		
Other Real Estate	37,000	0
REO in Redemption	0	0
Other Non-Performing Assets	117,000	159,000
Total Other Non-Performing Assets	154,000	159,000

Total Non-Performing Assets	$1,104,000	$1,379,000
Non-Performing Loans as a % of Total Loans	0.48%	0.63%
Allowance for Loan Losses as a % of Non-Performing Loans	310.53%	240.33%
Accruing Loans Past Due 90 Days or More to Total Loans	0.09%	0.25%
Non-performing Assets as a % of Total Assets	0.35%	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 perspective 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 three months of 2001 and 2000. 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 March 31, 2001 federal funds sold represented 7.4% of total assets, compared to 2.5% at March 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 $17,612,000 in the first three months of 2001 due to the increase in deposits. Comparatively, in the first three months of 2000, cash flows from financing activities increased $19,963,000 because of increases in deposits and borrowings. Cash flows from investing activities were $51,000 during the first three months of 2000. The increases in investing activities at

the end of the first quarter of 2001, were offset by maturing and called investment securities.

CAPITAL MANAGEMENT

Total shareholders' equity rose 3.0% to $36,836,000 at March 31, 2001 compared with $35,754,000 at December 31, 2000. The Corporation's equity to asset ratio was 11.8% at March 31, 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 three months of 2001, the Corporation increased its cash dividends by 4.8% to $.22 per share compared with $.21 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 March 31, 2001 of $282,000. 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.

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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 reserve 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 March 31, 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".

Table 8

	Capital Ratios			
	Regulatory Minimum For "Well Capitalized"	Fentura Bancorp, Inc. March 31, 2001	December 31, 2000	Mar 2
Total Capital to risk Weighted assets	10%	14.76%	16.20%	14
Tier 1 Capital to risk weighted assets	6%	13.57%	15.00%	13

Tier 1 Capital to average assets	5%	11.01%	12.10%	11

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 three 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 9 sets forth the distribution of re-pricing of the Corporation's earning assets and interest bearing liabilities as of March 31, 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 9 GAP ANALYSIS MARCH 31, 2001

(000's Omitted)	Within Three Months	Three Months-One Year	One to Five Years	After Five Years

Earning Assets:				
Federal Funds Sold	23,100	0	0	0
Investment Securities	4,810	5,403	25,642	26,775
Loans	78,519	8,066	81,028	31,393
Loans Held for Sale	190	0	0	0
Total Earning Assets	$106,619	$13,469	$106,670	$58,168
Interest Bearing Liabilities:				
Interest Bearing Demand Deposits	$37,227	$ 0	$ 0	$ 0
Savings Deposits	68,228	0	0	0
Time Deposits Less than $100,000	15,398	35,852	29,467	2,881
Time Deposits Greater than $100,000	24,785	13,753	4,719	0
Other Borrowings	225	0	40	1,101
Total Interest Bearing Liabilities	$145,863	$49,605	$34,226	$3,982
Interest Rate Sensitivity GAP	($39,244)	($36,136)	$72,444	$54,186
Cumulative Interest Rate Sensitivity GAP	($39,244)	($75,380)	($2,936)	$51,250
Interest Rate Sensitivity GAP	(0.73)	(0.27)	3.12	14.61
Cumulative Interest Rate Sensitivity GAP Ratio	(0.73)	(.61)	(0.99)	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 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. 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.

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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.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Report on Form 8-K
A Report on Form 8-K dated March 26, 2001 reporting a change in registrant's independent accountant was filed March 28, 2001.

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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 May 11, 2001 By /s/ Donald L. Grill
Donald L. Grill
President & CEO

Date May 11, 2001 By /s/ Ronald L. Justice
Ronald L. Justice
Chief Financial Officer

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