FENTURA BANCORP INC
Form 10-Q
November 14, 2001

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 EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

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 Bancorp, 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)

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

Check whether the registrant (1) 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: November 10, 2001

Class - Common Stock Shares Outstanding - 1,732,877

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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)	SEPT 30, 2001 (unaudited)	DEC. 31, 2000
ASSETS		
Cash and due from banks	$13,770	$13,459
Federal funds sold	38,050	7,250
Total cash & cash equivalents	51,820	20,709
Securities-available for sale	41,332	53,421
Securities-held to maturity, (market value of $11,391 at September 30, 2001 and $13,419 at December 31, 2000)	11,163	13,283
Total securities	52,495	66,704
Loans:		
Commercial	118,394	101,090
Tax exempt development loans	971	835
Real estate loans - mortgage	9,189	10,514
Real estate loans - construction	8,243	17,471
Consumer loans	59,945	65,198
Total loans	203,070	195,108
Less: Allowance for loan losses	(3,145)	(2,932)
Net loans	199,925	192,176
Loans held for sale	1,208	187
Bank premises and equipment	7,771	6,547
Accrued interest receivable	1,682	1,924
Other assets	4,331	4,643
Total assets	$319,232	$292,890

LIABILITIES

Deposits:		
Non-interest bearing deposits	$44,197	$34,762
Interest bearing deposits	232,198	213,894
Total deposits	276,395	248,656
Federal funds purchased	0	3,250
Other borrowings	2,638	2,581
Accrued taxes, interest and other liabilities	2,117	2,649
Total liabilities	281,150	257,136
SHAREHOLDERS' EQUITY		
Common stock - $2.5 par value 1,732,877 shares issued (1,722,308 in Dec. 2000)	4,332	4,305
Surplus	26,266	26,016
Retained earnings	7,074	5,648
Accumulated other comprehensive income (loss)	410	(215)
Total shareholders' equity	38,082	35,754
Total Liabilities and Shareholders' Equity	$319,232	$292,890

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Ni
(000's omitted except per share data)	2001	2000	2001
INTEREST INCOME			
Interest and fees on loans	$4,355	$4,813	$13,
Interest and dividends on investment securities:			
Taxable	537	813	1,
Tax-exempt	165	160	
Interest on federal funds sold	311	181	
Total interest income	5,368	5,967	16,
INTEREST EXPENSE			
Deposits	2,212	2,342	7,
Short-term borrowings	27	217	
Total interest expense	2,239	2,559	7,
NET INTEREST INCOME	3,129	3,408	9,
Provision for loan losses	179	153	
Net interest income after provision for loan losses	2,950	3,255	8,
NON-INTEREST INCOME			
Service charges on deposit accounts	511	484	1,
Fiduciary income	159	206	
Other operating income	345	344	1,
Gain on sale of loans	170	60	

Gains on sale of securities - AFS	160	0	
Total non-interest income	1,345	1,094	3,
NON-INTEREST EXPENSE			
Salaries and benefits	1,643	1,472	4,
Occupancy of bank premises	236	199	
Equipment expense	376	377	1,
Other operating expenses	880	844	2,
Total non-interest expense	3,135	2,892	9,
INCOME BEFORE TAXES	1,160	1,457	3,
Applicable income taxes	354	437	1,
NET INCOME	$806	$1,020	$2,
Per share:			
Net income - basic	$0.47	$0.60	$1
Net income - diluted	$0.46	$0.59	$1
Dividends	$0.22	$0.21	$0

See notes to consolidated financial statements.

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

(000's omitted)	Nine Months Ended Sept 30, 2001	Nine Mon Ended Sept 3 2000
COMMON STOCK		
Balance, beginning of period	$4,305	$3,5
Issuance of shares under Director stock purchase plan, Stock purchase plan, and Dividend reinvestment program	27	
Impact of 20% stock dividend	0	7
Balance, end of period	4,332	4,2
SURPLUS		
Balance, beginning of period	26,016	18,3
Issuance of shares under Director stock purchase plan, Stock purchase plan, and Dividend reinvestment program	250	3
Impact of 20% stock dividend	0	7,2
Balance, end of period	26,266	25,9
RETAINED EARNINGS		

Balance, beginning of period	5,648	11,0
Net income	2,567	2,7
Cash dividends declared	(1,141)	(1,0
Impact of 20% stock dividend	0	(7,9
Balance, end of period	7,074	4,7
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	(215)	(1,0
Change in unrealized gain (loss) on securities, net of tax	625	2
Balance, end of period	410	(8
TOTAL SHAREHOLDERS' EQUITY	$38,082	$34,1

See notes to consolidated financial statements.

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

(000's omitted)	Nine Months Ended September 30, 2001	2000
OPERATING ACTIVITIES:		
Net income	$2,567	$2,723
Adjustments to reconcile net income to cash Provided by Operating Activities:		
Depreciation and amortization	672	692
Provision for loan losses	572	523
Amortization (accretion) on securities	(5)	(27)
Loans originated for sale	(30,542)	(6,472)
Proceeds from the sale of loans	29,924	6,681
Gain in sales of loans	(403)	0
Gain on sales of securities - AFS	(317)	0
Decrease (increase) in interest receivable	242	(441)
Decrease (increase) in other assets	312	1,059
Increase (decrease) in accrued taxes, Interest, and other liabilities	(532)	93
Total Adjustments	(77)	2,108
Net Cash Provided By (Used In) Operating Activities	2,490	4,831
Cash Flows From Investing Activities:		
Net decrease in deposits with other banks	0	0
Proceeds from maturities of investment activities - HTM	3,773	3,503
Proceeds from maturities of investment activities - AFS	4,074	2,299
Proceeds from calls of investment securities - AFS	18,596	0
Proceeds from sales of investment securities - AFS	10,431	0

Purchases of investment securities - HTM	(1,738)	(3,000)
Purchases of investment securities - AFS	(19,613)	(500)
Net increase in loans	(8,321)	(12,255)
Capital expenditures	(2,263)	(1,149)
Net Cash Provided By (Used in) Investing Activities	4,939	(11,102)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	27,739	8,010
Net increase (decrease) in borrowings	(3,193)	10,943
Proceeds from stock issuance	277	350
Cash dividends	(1,141)	(1,075)
Net Cash Provided By (Used In) Financing Activities	23,682	18,228
NET INCREASE IN CASH AND CASH EQUIVALENTS	$31,111	$11,957
CASH AND CASH EQUIVALENTS - BEGINNING	$20,709	$13,614
CASH AND CASH EQUIVALENTS - ENDING	$51,820	$25,571
CASH PAID FOR:		
INTEREST	$7,278	$6,598
INCOME TAXES	$1,518	$1,102

See notes to consolidated financial statements.

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

(000's Omitted)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months September 2001
Net Income	$806	$1,020	$2,567
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) arising During period	$348	$469	$834
Less: reclassification adjustment for gains included in net income	$106	$0	$209
Other comprehensive income (loss)	$242	$469	$625
Comprehensive income	$1,048	$1,489	$3,192

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 nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. All share and per share amounts have been retroactively adjusted to reflect the 20% stock dividend paid on May 26, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's annual report on Form 10-K for the year ended December 31, 2000.

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 and nine months ended September 30, 2001 and 2000:

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2001	2000	2001	20
Basic Earnings Per Common Share:				
Numerator				
Net Income	$806,000	$1,020,000	$2,567,000	$2,72
Denominator				
Weighted average common shares Outstanding	1,730,576	1,711,226	1,727,556	1,71
Basic earnings per common share	$0.47	$0.60	$1.49	
Diluted Earnings Per Common Share:				
Numerator				
Net Income	$ 806,000	$1,020,000	$2,567,000	$2,72
Denominator				
Weighted average common shares Outstanding for basic earnings per Common share	1,730,576	1,711,226	1,727,556	1,71
Add: Dilutive effects of assumed Exercises of stock options	3,528	3,341	3,574	
Weighted average common shares And dilutive potential common Shares outstanding	1,734,104	1,714,567	1,731,130	1,71
Diluted earnings per common share	$0.46	$0.59	$1.48	

Stock options for 6,975 and 10,219 shares of common stock for the nine month period ended September 30, 2001 and 2000 and the 6,975 and 10,219 shares of common stock for the three month period ended September 30, 2001 and 2000 were not considered in computing diluted earnings per common share because they were not dilutive.

Note 3. Commitments and contingencies

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

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

Results of Operations

As indicated in the income statement, earnings for the nine months ended September 30, 2001 were $2,567,000 compared to $2,723,000 for the same period in 2000. Earnings decreased as a result of an decrease in net interest income and an increase in operating expenses. The Corporation continues to focus on core banking activities and new opportunities in our current and surrounding markets. Management believes that the softening of the economy that has taken place throughout 2001 and projected for the reminder could continue to place pressure on current and future 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 nine months ended September 30, 2001 the Corporation's return on average assets was 1.12% compared to 1.22% for the same period in 2000. For the three months ended September 30, 2001 the Corporation's return on average assets was 1.03% compared to 1.35% for the same period in 2000. Net income per share-basic was $1.49 in the first nine months of 2001 compared to $1.59 for the same period in 2000.

Net Interest Income

Net interest income and average balances and yields on major categories of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2001 and 2000 are summarized in Table 3. Net interest income and average balances and yields on major categories of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2001 and 2000 are summarized in Table 2. The effects of changes in average interest rates and average balances are detailed in Table 1 below.

Table 1

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

TAXABLE SECURITIES	($386)	($111)	($497)
TAX-EXEMPT SECURITIES	(6)	12	6
FEDERAL FUNDS SOLD	725	(369)	356
TOTAL LOANS	899	(1,068)	(169)
LOANS HELD FOR SALE	(388)	(2)	(390)
TOTAL EARNING ASSETS	844	(1,538)	(694)
INTEREST BEARING DEMAND DEPOSITS	(66)	(5)	(71)
SAVINGS DEPOSITS	100	(294)	(194)
TIME CD'S $100,000 AND OVER	105	(104)	1
OTHER TIME DEPOSITS	360	186	546
OTHER BORROWINGS	(425)	(4)	(429)
TOTAL INTEREST BEARING LIABILITIES	74	(221)	(147)
NET INTEREST INCOME	$770	($1,317)	($547)

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As indicated in Table 1, during the nine months ended September 30, 2001, net interest income decreased compared to the same period in 2000, principally because of the decrease in prime rate that allowed all of the variable rate loan products to reprice at a lower rate. Interest expense decreased mildly due to the lowering in core deposit rates due to the rate decreases and the lagged effect of repricing certificates of deposit at maturity.

Net interest income (displayed without consideration of full tax equivalency), average balance sheet amounts, and the corresponding yields for the three months ended September 30, 2001 and 2000 are shown in Table 2. Net interest income for the three months ended September 30, 2001 was $3,129,000 a decrease of $279,000 over the same period in 2000. This represents a decrease of 8.2%. The primary factor contributing to the net interest income decrease was reductions in interest rates by the Federal Reserve Board.

Net interest income, average balance sheet amounts, and the corresponding yields for the nine months ended September 30, 2001 and 2000 are shown in Table 3. Net interest income for the nine months ended September 30, 2001 was $9,511,000 a decrease of $547,000 over the same period in 2000. This represents a decrease of 5.4%. The primary factor contributing to the decrease was the reduction in interest rates by the Federal Reserve Board.

Management expects the continued softening of the economy throughout the remainder of 2001. Accordingly, the Corporation will seek to strategically manage the balance sheet structure to create stability in net interest income. The Corporation will aggressively seek out new loan opportunities while continuing to maintain sound credit quality.

As indicated in Table 2, for the three months ended September 30, 2001, the Corporation's net interest margin (without consideration of full tax equivalency) was 4.28% compared with 4.86% 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 have repriced quicker than deposits thus reducing net interest income.

Average earning assets increased 3.9% or approximately $10,850,000 comparing the third quarter of 2001 to the same time period in 2000. Loans, the highest yielding component of earning assets, represented 69.7% of earning assets in 2001 compared to 68.6% in 2000. Average interest bearing liabilities increased 1.5% or $3,442,000 comparing the third quarter of 2001 to the same time period in 2000. Non-interest bearing deposits amounted to 14.9% of average earning assets in the third quarter of 2001 compared with 13.3% in the same time period of 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".

Table 2

AVERAGE BALANCES AND RATES (000's omitted) ASSETS	THREE MONTHS ENDED SEPTEMBER 30, 2001 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	2 AVERAGE BALANCE
Investment securities:				
U.S. Treasury and Government Agencies	$33,657	$488	5.75%	$50,410
State and Political	14,568	165	4.49%	14,026
Other	4,086	49	4.76%	1,077
Total Investment Securities	52,311	702	5.32%	65,513
Fed Funds Sold	35,590	311	3.47%	11,420
Loans:				
Commercial	123,710	2,629	8.43%	106,136
Tax Free	772	10	5.14%	492
Real Estate-Mortgage	9,138	251	10.90%	15,363
Consumer	64,335	1,391	8.58%	69,186
Total loans	197,955	4,281	8.58%	191,177
Allowance for Loan Loss	(3,111)			(3,283)
Net Loans	194,844	4,281	8.72%	187,894
Loans Held for Sale	4,186	74	7.01%	10,645
TOTAL EARNING ASSETS	$290,042	$5,368	7.34%	$278,755
Cash Due from Banks	10,938			11,589
All Other Assets	13,997			13,784
TOTAL ASSETS	$311,866			$300,845
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Non-Interest bearing - DDA	$40,514			$37,082
Interest bearing - DDA	36,589	156	1.69%	40,264
Savings Deposits	76,720	491	2.54%	66,689
Time CD's $100,000 and Over	32,704	402	4.88%	32,639
Other Time CD's	83,061	1,163	5.56%	74,405

Total Deposits	269,588	2,212	3.26%	251,079
Other Borrowings	1,952	27	5.49%	13,587
INTEREST BEARING LIABILITIES	$231,026	$2,239	3.85%	$227,584
All Other Liabilities	2,206			2,433
Shareholders' Equity	38,120			33,746
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$311,866			$300,845
Net Interest Rate Spread			3.49%	
Impact of Non-Interest Bearing Funds on Margin			0.79%	
Net Interest Income /Margin		$3,129	4.28%	

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Table 3

AVERAGE BALANCES AND RATES (000's omitted) ASSETS	NINE MONTHS ENDED SEPTEMBER 30, 2001 AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	2 AVERAGE BALANCE
Investment securities:				
U.S. Treasury and Government Agencies	$41,543	1,890	6.08%	$50,868
State and Political	14,232	501	4.71%	14,395
Other	2,285	95	5.56%	1,077
Total Investment Securities	58,060	2,486	5.72%	66,340
Fed Funds Sold	25,525	809	4.24%	9,796
Loans:				
Commercial	120,306	8,059	8.96%	104,227
Tax Free	799	31	5.19%	543
Real Estate-Mortgage	11,290	822	9.73%	15,159
Consumer	65,257	4,342	8.90%	68,227
Total loans	197,652	13,254	8.97%	188,156
Allowance for Loan Loss	(2,027)			(3,141)
Net Loans	194,625	13,254	9.10%	185,015
Loans Held for Sale	3,467	182	7.02%	10,811
TOTAL EARNING ASSETS	$284,704	$16,731	7.86%	$275,103
Cash Due from Banks	10,881			11,191
All Other Assets	13,865			13,288
TOTAL ASSETS	$306,423			$296,441
LIABILITIES & SHAREHOLDERS' EQUITY:				
Deposits:				
Non-Interest bearing - DDA	$38,292			$34,711
Interest bearing - DDA	36,180	487	1.80%	41,007
Savings Deposits	71,476	1,541	2.88%	67,506
Time CD's $100,000 and Over	35,007	1,487	5.68%	32,696
Other Time CD's	83,646	3,603	5.76%	74,829
Total Deposits	264,601	7,118	3.60%	250,749
Other Borrowings	2,174	102	6.27%	10,878

INTEREST BEARING LIABILITIES	$228,483	$7,220	4.22%	$226,916
All Other Liabilities	2,284			1,717
Shareholders' Equity	37,364			33,097
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$306,423			$296,441
Net Interest Rate Spread			3.63%	
Impact of Non-Interest Bearing Funds on Margin			0.83%	
Net Interest Income /Margin		$9,511	4.47%	

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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 September 30, 2001, the ALL was $3,145,000, or 1.55% of total loans. This compares with $2,932,000, or 1.50%, at December 31, 2000. The increase of the ALL as a percentage of total loans reflects a modest increase in the allowance for loan losses and increased loan totals. Management feels that the allowance to gross loans is appropriate given the changes in the portfolio mix and overall asset quality.

The provision for loan losses was $572,000 in the first nine months of 2001 and $523,000 for the same time period in 2000. The Corporation increased the provision in 2001 compared to 2000 to fund the allowance for loan losses to a level management feels is necessary to cover losses inherent in the loan portfolio, particularly considering the growth in the loan portfolio in the 2001 period.

Table 4 also summarizes loan losses and recoveries for the first nine months of 2000 and 2001. During the first nine months of 2001 the Corporation experienced net charge-offs of $359,000, compared with net charge-offs of $523,000 for the nine months ended September 30, 2000. Accordingly, the net charge-off ratio for the first nine months of 2001 was .18% compared to .09% for the same 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 extendcredit 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, management expects a modest reduction to the allowance for loan losses as a percentage to gross loans in 2001. 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)	Nine Months Ended September 30 2001	Nine Months En September 30 2000
Balance at Beginning of Period	$2,932	$2,961
Charge-Offs:		
Commercial, Financial and Agriculture	(54)	(18)
Real Estate-Mortgage	0	0
Installment Loans to Individuals	(416)	(333)
Total Charge-Offs	(470)	(351)
Recoveries:		
Commercial, Financial and Agriculture	3	106
Real Estate-Mortgage	2	0
Installment Loans to Individuals	106	69
Total Recoveries	111	175
Net Charge-Offs	(359)	(176)
Provision	572	523
Balance at End of Period	$3,145	$3,308
Ratio of Net Charge-Offs to Gross Loans	0.18%	0.09%

NON-INTEREST INCOME

TABLE 5

Analysis of Non-Interest Income (000's omitted)	Three Months Ended September 30 2001	2000	Nine Months Ended September 30 2001	2000
Service Charges on Deposit Accounts	$511	$484	$1,541	$1,4
Gain on Sale of Mortgages	$170	$60	$403	$1
Mortgage Servicing Fees	$0	$62	$35	$1
Fiduciary Income	$159	$206	$484	$5
Other Operating Income	$345	$282	$1,089	$8
Gain on sale of securities - AFS	$160	$0	$317	
Total Non-Interest Income	$1,345	$1,094	$3,869	$3,0

Non-interest income increased in the nine months ended September 30, 2001 as compared to the same period in 2000, primarily due to an increase in the gain on sale of mortgage loans, and an increase in the gain on sale of investment securities. Non-interest income increased in the third quarter of 2001 as compared to the same quarter in 2000, primarily due to increase in other operating income, gain on sale of mortgages and gain on the sale of investment securities. Overall non-interest income was $3,869,000 in the nine months ended September 30, 2001 compared to $3,098,000 for the same period in 2000. These figures represent an increase of 24.9%. 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 $1,541,000 in the first nine months of 2001 compared to $1,437,000 for the same period of 2000. This represents an increase of 7.2%. The service charges for the third quarter of 2001 were $511,000 compared to $484,000 in the same period in 2000. Increases are attributable to service charges from growth in core deposits.

Gains on the sale of mortgage loans originated by the Banks and sold in the secondary market were $403,000 in the nine months ended September 30, 2001 and $125,000 in the same period in 2000. For the third quarter of 2001, gains on sale of mortgages were $170,000 compared to $60,000 for the same period in 2000. 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.

Mortgage servicing fees were $35,000 in the nine months ended September 30, 2001 compared to $190,000 in the same time period in 2000. This is a decline of $156,000 or 82.1%. Mortgage servicing fees for the third quarter of 2001 were $0 compared to $62,000 in the same period of 2000. The decline is attributable to the sale of a significant portion of the Corporation's serviced loans, in the last quarter of 2000. There is also a significant decline comparing these fees from the first quarter of 2001 at $34,000 to the second quarter 2001 at $1,000. This decline is also attributable to the sale that took place at the end of 2000. Servicing income was recognized in January of 2001 until these serviced loans were actually transferred to the purchaser.

Fiduciary income decreased $43,000 in the nine months ended September 30, 2001 comparing to the same period in the prior year. This 8.2% decrease in fees is attributable to the decline in the value of assets under management within the Corporation's Trust Department.

Investment gains on the sale of securities totaled $317,000 for the nine months ended September 30, 2001 compared to $0 for the same period in 2000. The gain on the sale of securities was taken to reposition the investment portfolio through the laddering of maturities.

Other operating income increased $270,000 to $1,089,000 in the first nine months of 2001 compared to $819,000 in the same time period in 2000. This is an increase of 32.9%. Other operating income for the third quarter of 2001 of $345,000 compared to $282,000 in the same period of 2000. Other operating income increased due to increases in income from the sale of official checks and an increase in income from the sale of consumer investment products.

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Non-Interest Expense

TABLE 6

Analysis of Non-Interest Expense (000's omitted)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Salaries and Benefits	$1,643	$1,472	$4,728	$4,413
Equipment	$376	$377	$1,056	$1,158
Net Occupancy	$236	$199	$657	$597
Office Supplies	$83	$74	$192	$235
Loan & Collection Expense	$48	$44	$130	$250
Advertising	$88	$63	$256	$189

Other Operating Expense	$661	$663	$2,129	$2,008
Total Non-Interest Expense	$3,135	$2,892	$9,148	$8,850

Total non-interest expense was $9,148,000 in the nine months ended September 30, 2001 compared with $8,850,000 in the same period of 2000. This is a increase of 3.4%. 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 $4,728,000 in the nine months ended September 30, 2001, compared with $4,413,000, or an increase of 7.1%, for the same time period in 2000. Increased costs are primarily a result of modest increase in the number of employees. The third quarter showed a increase in the salaries and benefits due to 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 nine months ended September 30, 2001 equipment expenses were $1,056,000 compared to $1,158,000 for the same period in 2000, a decrease of 8.8%. The equipment expenses for the third quarter of 2001 were $376,000 compared to $377,000 in the same period of 2000. The decreases in expenses are attributable to reductions in equipment maintenance contracts and equipment depreciation which decreased due to the roll off of fully depreciated assets.

Occupancy expenses at $657,000 increased in the nine months ended September 30, 2001 comparing to the same period in 2000 by $60,000 or 10.1%. Occupancy expenses for the third quarter of 2001 were $236,000 compared to $199,000 for the third quarter of 2000. The increases are attributable to increases in facility repairs, remodeling of the The State Bank main office and the opening and operation of the Davison State Bank new main office, which opened in the second quarter of 2001 and maintenance contracts expense.

During the nine months ended September 30, 2001 office supplies expense at $192,000 decreased $43,000 comparing to the $235,000 in expense for the same period in 2000. Office supplies for the third quarter of 2001 were $83,000 compared to $74,000 in the same period of 2000. The decrease is attributable to volume decreases of regular office supplies and preprinted forms in 2001.

Loan and collection expenses, at $130,000, were down $120,000 during the nine months ended September 30, 2001 comparing to the same time period in 2000. The decrease is primarily attributable to the scaling back of indirect lending functions. The loan and collection expenses in the third quarter of 2001 were $48,000 compared to $44,000 for the same 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 $2,129,000 in the nine months ended September 30, 2001 compared to $2,008,000 in the same time period in 2000, an increase of $121,000 or 6.0%. The increase is attributable to an increase in the amount of overdrawn deposit account charge-offs and an increase in legal and consulting expenses. Other operating expenses for the third quarter of 2001 were $661,000 compared to $663,000 in the same period of 2000.

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Financial Condition

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

The Corporation's total assets equaled $319 million for September 30, 2001 compared to December 31, 2000 total assets of $293 million. Loans comprised 63.6% of total assets at September 30, 2001 compared to 66.6% at December 31, 2000. Loans grew $8 million with commercial loans leading the advance by $17.0 million and the other loan categories experiencing reductions The ratio of non-interest bearing deposits to total deposits was 16.0% at September 30, 2001 compared to 14.0% at December 31, 2000. Interest bearing deposit liabilities totaled $232 million at September 30, 2001 compared to $214 million at December 31, 2000. Deposits grew $27.7 million and Fed Funds Purchased decreased $3.2 million to make up the change in interest bearing liabilities at September 30, 2001.

Bank premises and equipment increased $1,224,000 to $7.8 million at September 30, 2001 comparing to $6.5 million at December 31, 2000. The increase is attributable to the renovation of an existing facility and the construction completion of a new headquarters for Davison State Bank.

NON-PERFORMING ASSETS

Non-performing assets include loans on which interest accruals have ceased, loans which have been renegotiated, and real estate acquired through foreclosure. Past due loans are loans which were delinquent 90 days or more, but have not been placed on non-accrual status. Table 7 represents the levels of these assets at September 30, 2001 and December 31, 2000.

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

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

Table 7

Non-Performing Assets and Past Due Loans

	Sept. 30, 2001	December 31, 2000

Non-Performing Loans:		
Loans Past Due 90 Days or More & Still Accruing	$236,000	$489,000
Non-Accrual Loans	426,000	731,000
Renegotiated Loans	0	0
Total Non-Performing Loans	662,000	1,220,000
Other Non-Performing Assets:		
Other Real Estate	0	0
REO in Redemption	0	0
Other Non-Performing Assets	70,000	159,000
Total Other Non-Performing Assets	70,000	159,000
Total Non-Performing Assets	$732,000	$1,379,000
Non-Performing Loans as a % of Total Loans	0.36%	0.63%
Allowance for Loan Losses as a % of Non-Performing Loans	475.08%	240.33%
Accruing Loans Past Due 90 Days or More to Total Loans	0.12%	0.25%
Non-performing Assets as a % of Total Assets	.23%	0.47%

LIQUIDITY AND INTEREST RATE RISK MANAGEMENT

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

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

Primary liquidity is provided through short-term investments or borrowings (including federal funds sold and purchased) while secondary liquidity is provided by the investment portfolio. As of September 30, 2001 federal funds sold represented 11.9% of total assets, compared to 2.5% at December 31, 2000. The Corporation regularly monitors liquidity to ensure adequate cash flows to cover unanticipated reductions in the availability of funding sources.

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

As indicated in the statement of cash flows, cash flows from financing activities increased $23,682,000 in the first nine months of 2001 due to the increase in deposits. Comparatively, in the first nine months of 2000, cash flows from financing activities increased $18,228,000 because of increases in deposits and borrowings. Cash flows from investing activities were $4,939,000 during the first nine months of 2001. The increases in investing activities at the end of the third quarter of 2001, were offset by maturing and called investment securities.

CAPITAL MANAGEMENT

Total shareholders' equity rose 6.5% to $38,082,000 at September 30, 2001 compared with $35,754,000 at December 31, 2000. The Corporation's equity to asset ratio was 11.9% at September 30, 2001 and 12.2% at December 31, 2000. The increase in the amount of capital was obtained primarily through retained earnings. In the first nine months of 2001, the Corporation increased its cash dividends by 4.8% to $.66 per share compared with $.63 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 September 30, 2001 of $410,000. The increase to an income position is attributable to the downward movement of market interest rates and the interest rate structures on those securities held in the available for sale portfolio.

Regulatory Capital Requirements

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

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

Table 8

	Capital Ratios			
	Regulatory Minimum For "Well Capitalized"	Sept. 30, 2001	Fentura Bancorp, Inc. December 31, 2000	Sep 2
Total Capital to risk Weighted assets	10%	17.03%	16.20%	15
Tier 1 Capital to risk Weighted assets	6%	15.77%	15.00%	14
Tier 1 Capital to average Assets	5%	12.10%	12.10%	11

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk contained 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 nine 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.

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

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Table 9 GAP ANALYSIS SEPTEMBER 30, 2001

(000's Omitted)	Within Three Months	Three Months One Year	One to Five Years	After Five Years
Earning Assets:				
Federal Funds Sold	$ 38,050	$ 0	$ 0	$ 0
Investment Securities	4,802	8,924	17,890	20,879
Loans	90,859	14,247	76,361	21,603
Loans Held for Sale	1,208	0	0	0
Total Earning Assets	$134,919	$ 23,171	$ 94,251	$ 42,482
Interest Bearing Liabilities:				
Interest Bearing Demand Deposits	$ 37,360	$ 0	$ 0	$ 0
Savings Deposits	78,128	0	0	0
Time Deposits Less than $100,000	15,663	42,791	24,871	185
Time Deposits Greater than $100,000	18,032	11,998	3,171	0
Other Borrowings	1,500	10	245	883
Total Interest Bearing Liabilities	$150,683	$ 54,799	$ 28,287	$ 1,068
Interest Rate Sensitivity GAP	$ (15,764)	$ (31,628)	$ 65,964	$ 41,414
Cumulative Interest Rate Sensitivity GAP	$ (15,764)	$ (47,392)	$ 18,572)	$ 59,986
Interest Rate Sensitivity GAP	(0.90)	(0.42)	3.33	39.78
Cumulative Interest Rate Sensitivity GAP Ratio	(0.90)	(0.77)	1.08	1.26

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 our Gap position at September 30, 2000 and the change in net interest income for the nine months ended September 30, 2001 compared to the same time period in 2000. At September 30, 2000 the Corporation was negatively gapped through one year and since that time interest rates have lowered considerably, yet net interest income declined comparing the first nine months of 2001 to the same period in 2000. This occurred because certain deposit categories, specifically interest bearing demand and savings, did not re-price at the same time or at the same level as asset portfolios. Additionally, simulation modeling, which measures the impact of upward and downward movements of interest rates on interest margin and the market value of equity, indicates that an upward movement of interest rates would not significantly reduce net interest income.

FORWARD LOOKING STATEMENTS

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

Future Factors that could cause a difference between an ultimate actual outcome and a preceding forward looking 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

None

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 Bancorp, Inc.

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

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