FENTURA FINANCIAL INC
Form DEF 14A
March 27, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN
PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the registrant [X]
Filed by a party other than the registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

FENTURA FINANCIAL, INC.
(Name of registrant as specified in its charter)

____
(Name of person(s) filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):
[X] No fee required
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies: ________________________________

(2) Aggregate number of securities to which transaction applies:________________________________

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): ______________________

(4) Proposed maximum aggregate value of transaction: ________________________________

(5) Total fee Paid: ____

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid: ______________________________

(2) Form, schedule, or registration statement no.: ______________________________

(3) Filing party: ______________________________

(4) Date filed: ______________________________

NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS

FENTURA FINANCIAL, INC.
175 North Leroy Street
P.O. Box 725
Fenton, Michigan 48430

The Fentura Financial, Inc. 2003 Annual Shareholders Meeting will be held at the St. John Activity Center, 610 N. Adelaide Street, Fenton, Michigan, Wednesday, April 30, 2003, at 7:00 p.m. for the following purposes:

1. To elect two directors; and
2. Transact any other business that may properly come before the meeting or any adjournment of the meeting.

The Board of Directors has fixed the close of business on March 21, 2003, as the record date for the purpose of determining shareholders who are entitled to notice of and to vote at the meeting and any adjournment of the meeting.

BY ORDER OF THE BOARD
OF DIRECTORS

Ronald L. Justice
Secretary

Fenton, Michigan
March 27, 2003

IMPORTANT

All shareholders are cordially invited to attend the meeting. WHETHER OR NOT YOU PLAN TO ATTEND IN PERSON, YOU ARE URGED TO DATE AND SIGN THE ENCLOSED PROXY FORM AND RETURN IT PROMPTLY IN THE POSTAGE PAID ENVELOPE PROVIDED. This will assure your representation and a quorum for the transaction of business at the meeting. If you do attend the meeting in person and if you have submitted a proxy form, it will not be necessary for you to vote in person at the meeting. However, if you attend the meeting and wish to change your proxy vote, you will be given an opportunity to do so.

PROXY STATEMENT

FENTURA FINANCIAL, INC.
175 North Leroy Street
P.O. Box 725
Fenton, Michigan 48430
Telephone: (810) 750-8725

ANNUAL MEETING OF SHAREHOLDERS

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Fentura Financial, Inc. (the Corporation) to be voted at the annual meeting of its shareholders to be held at the St. John Activity Center, 610 N. Adelaide Street, Fenton, Michigan, on Wednesday, April 30, 2003, at 7:00 p.m., Fenton time, and at any adjournment of the meeting, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. This proxy statement and form of proxy are first being sent to shareholders on or about March 31, 2003.

If a proxy in the accompanying form is properly executed, duly returned to the Corporation, and not revoked, the shares represented by the proxy will be voted at the annual meeting of the Corporation s shareholders and at any adjournment of that meeting. Where a shareholder specifies a choice, a proxy will be voted as specified. If no choice is specified, the shares represented by the proxy will be voted for election of all nominees of the Board of Directors. The Corporation s management does not know of any other matters to be presented at the annual meeting. If other matters are presented, the shares represented by proxy will be voted at the discretion of the persons designated as proxies, who will take into consideration the recommendations of the Corporation s management.

Any shareholder executing a proxy in the enclosed form has the power to revoke it by notifying the Secretary of the Corporation in writing at the address indicated above at any time before it is exercised, or by appearing at the meeting and voting in person.

Solicitation of proxies is being made by mail. Directors, officers, and regular employees of the Corporation and its subsidiaries may also solicit proxies in person or by telephone without additional compensation. In addition, banks, brokerage firms, and other custodians, nominees, and fiduciaries may solicit proxies from the beneficial owners of shares they hold and may be reimbursed by the Corporation for reasonable expenses incurred in sending proxy material to beneficial owners of the Corporation s stock. The Corporation will pay all expenses of soliciting proxies.

Boards of Directors

The names of Directors of the Corporation and its two subsidiary banks, The State Bank and Davison State Bank are set forth below.

FENTURA FINANCIAL, INC.
BOARD OF DIRECTORS

Donald L. Grill
President & CEO
Fentura & The State Bank

Peggy L. Haw Jury
CPA, CFE, Chairman BKR
Dupuis & Ryden, P.C.

J. David Karr
Attorney

Thomas P. McKenney
Attorney

Brian P. Petty
Owner & President
Fenton Glass Service, Inc.

Forrest A. Shook
President, NLB Corporation

Russell H. Van Gilder, Jr.
Chairman, VG's Food
Center, Inc.

THE STATE BANK
BOARD OF DIRECTORS

Louis O. Blessing
President, Blessing Plumbing &
Heating, Inc.

Donald L. Grill
President & CEO
Fentura & The State Bank

Mark T. Hamel
Owner, The French Laundry

Philip J. Lasco
Owner & President
Lasco Ford

Thomas P. McKenney
Attorney

James T. Peabody
Partner, Smith-Peabody-
Stiles-Insurance Agency

Brian P. Petty
Owner & President
Fenton Glass Service, Inc.

Glen J. Pieczynski
Owner & President, Linden
True Value Hardware, Inc.

Janis L. Rizzo
Controller, McLaren
Health Care Corporation

Roger L. Sharp
President, Sharp Funeral
Home, Inc.

DAVISON STATE BANK
BOARD OF DIRECTORS

Thomas G. Donaldson, Retired
Former CFO, McLaren Health
Care Corporation

Kenneth R. Duetsch
Broker, Red Carpet Keim-
Davison

John A. Emmendorfer, Jr.
President & CEO
Davison State Bank

David H. Fulcher
President, The Fulcher
Companies, Inc.

Donald L. Grill
President & CEO
Fentura & The State Bank

Kevin M. Hammer
Senior Vice President
Davison State Bank

Peggy L. Haw Jury
CPA, CFE, Chairman BKR
Dupuis & Ryden, P.C.

J. David Karr
Attorney

Craig L. Stefanko
DCC Development/Minto
Brothers Construction

William J. Zirnhelt
Owner, Zip's Party Store

2003 ELECTION OF DIRECTORS

The only matter scheduled to be considered at the annual meeting will be the election of two persons to the Board of Directors of the Corporation. The Corporation s Board of Directors is divided into three classes. Each year, on a rotating basis, the terms of office of the directors in one of the three classes expire. Directors are elected for a three (3) year term. The directors whose terms expire at the annual meeting (Class III Directors) are Forrest A. Shook and Donald L. Grill. The Board has nominated these same individuals for reelection as Class III Directors. If elected, the terms of these directors will expire at the 2006 annual meeting of shareholders.

Except for those individuals nominated by the Board of Directors, no persons may be nominated for election at the 2003 annual meeting. The Corporation s Bylaws require at least 120 days prior written notice of any other proposed shareholder nominations and no such notice has been received.

The proposed nominees are willing to be elected and to serve. In the event that any nominee is unable to serve or is otherwise unavailable for election, which is not now contemplated, the incumbent Board of Directors may or may not select a substitute nominee. If a substitute nominee is selected, all proxies will be voted for the person so selected. If a substitute nominee is not so selected, all proxies will be voted for the election of the remaining nominee. Proxies will not be voted for a greater number of persons than the number of nominees named.

A vote of shareholders holding a plurality of shares voting is required to elect directors. For the purpose of counting votes on this proposal, abstentions, broker nonvotes, and other shares not voted will not be counted as shares voted.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE
FOR ELECTION OF ALL NOMINEES AS DIRECTORS

STOCK OWNERSHIP INFORMATION

Stock Ownership Of Directors, Executive Officers And Certain Major Shareholders

At the close of business on March 21, 2003, the record date for determination of the shareholders entitled to vote at the annual meeting, the Corporation had issued and outstanding 1,713,430 shares of its common stock, the only class of voting securities presently outstanding. Each share entitles its holder to one vote on each matter to be voted upon at the meeting.

In general, beneficial ownership includes those shares a Director or officer has the power to vote or transfer, and stock options that are exercisable currently or within 60 days. The table below shows the beneficial stock ownership of the Corporation s Directors and executive officers named in the summary compensation table below and those shareholders who hold more than 5% of the total outstanding shares as of March 21, 2003.

Name of Beneficial Owner	Shares Beneficially Owned[1]	Percent Of Outstanding[2]
Donald L. Grill (Director, Executive Officer)..........................	5,414.3103[3]	*
Peggy L. Haw Jury (Director)..	1,014.7786[3]	*
Ronald L. Justice (Executive Officer)......................................	166.1144[3]	*
J. David Karr (Director)...	1,297.8431[3]	*
Thomas P. McKenney (Director)..	4,662.3359[3][4]	*
Brian P. Petty (Director)...	10,816.4951[3][4]	*
Robert E. Sewick (Executive Officer).....................................	1,049.0000	*
Forrest A. Shook (Director)...	17,892.5580[3][4]	1.044%
Russell H. Van Gilder, Jr. (Director).......................................	32,696.0000[4]	1.908%
Donald E. Johnson, Jr.[5]..	178,936.0000	10.443%
Linda J. Lemieux[5]...	94,908.0000	5.539%
Mary Alice Heaton[5]..	93,294.0000	5.445%
Directors and Executive Officers as a group (9 persons)...	754,009.4354	4.377%

(1) The number of shares in this column includes shares owned directly or indirectly, through any contract, arrangement, understanding or relationship, or the indicated beneficial owner otherwise has the power to vote, or direct the voting of, and/or has investment power. Also includes shares that may be acquired pursuant to stock options that are exercisable within 60 days.

(2) The symbol * shown in this column indicates ownership of less than 1%.

(3) Ownership and voting rights of all shares are joint with spouse or individually held, except that Mr. Shook beneficially owns 1,809 shares through his business NLB Corporation.

(4) Includes 1,840 shares that may be acquired pursuant to stock options that are exercisable within 60 days. (5) Each person s address is: SNB Trust Operations, 101 North Washington Avenue, Saginaw, Michigan 48607

(5) Each person's address is: SNB Trust Operations, 101 North Washington Avenue, Saginaw, Michigan 48607

THE CORPORATION S BOARD OF DIRECTORS

The Board of Directors of the Corporation held twelve (12) regularly scheduled meetings and no special meetings during 2002. All incumbent directors attended at least 75% of all meetings of the Board of Directors and any Committees on which they served.

Biographical information concerning the current directors and the nominees who are nominated for election to the Board of Directors at the annual meeting is presented below. Except as otherwise indicated, all directors and nominees have had the same principal employment for over five years.

Nominees for 3-Year Terms Expiring 2003

Forrest A. Shook, age 60, has been a director and vice chairman of the Board of Directors of the Corporation since 1997. He was a member of The State Bank Board from 1996 through 2000 and served as its Vice Chairman from 1997 through 2000. Mr. Shook is a Class III Director. Mr. Shook is the founder and President of NLB Corporation located in Wixom, Michigan. NLB Corporation manufactures high pressure pumps that are used around the world in many applications.

Donald L. Grill, age 55, has been a Director since 1996. Mr. Grill is a Class III Director. Mr. Grill joined the Corporation as President and Chief Executive Officer in late 1996. From 1976- 1983, Mr. Grill was employed by Chemical Bank-Key State in Owosso, Michigan. From 1983-1996, Mr. Grill was employed by First of America Bank Corporation and served as President and Chief Executive Officer of First of America Bank-Frankenmuth.

Directors with Terms Expiring in 2005

Peggy L. Haw Jury, age 51, serves as a director of Davison State Bank and was appointed as a Class II Director of the Corporation effective January of 2001. She is a Certified Public Accountant and a principal and Chair of the Board of the CPA firm BKR Dupuis & Ryden. Since 1996, Ms. Jury has also been a partner in a financial advisory services business, D&R Financial Services, LLC.

Russell H. Van Gilder, Jr., age 69, has been a director of the Corporation since 1987 and Chairman since 1997. He was a member of The State Bank Board from 1981 through December 2000 and served as its Chairman from 1997 through 2000. He is a Class II Director. Mr. Van Gilder founded VG s Food Center, Inc. where he is currently Chairman of the Board.

Directors with Terms Expiring in 2004

Brian P. Petty, age 46, was appointed a Class I Director of the Corporation effective September 26, 2002, to fill the remaining term of Mr. David A. Duthie who resigned from the Board in September of 2002. Mr. Petty has served

as a Director of The State Bank since January of 1994 and currently serves as Vice Chairman since 2000. Mr. Petty previously served as a director of the Corporation from March of 1995 to December of 2000. Mr. Petty is the owner and president of Fenton Glass Service, Inc., which sells and installs glass for automobile, residential, industrial and specialty uses.

J. David Karr, age 64, serves as a director and Chairman of Davison State Bank and was appointed as a Class I Director of the Corporation effective January 2001 and was elected by the shareholders at the 2001 annual meeting. Mr. Karr is an attorney with a private practice located in Davison, Michigan.

Thomas P. McKenney, age 50, has been a director of the Corporation since 1992 and a director of The State Bank since 1991. He has served as Chairman of The State Bank Board since January 2001. Mr. McKenney is an attorney with a private practice located in Bloomfield Hills, Michigan.

DIRECTOR COMPENSATION

The Corporation and Affiliate Bank directors are compensated in three ways: cash retainer fees, stock options and participation in stock purchase plans. Each director of the Corporation is paid a $9,000 annual retainer fee. The Chairman of the Board receives an additional annual $2,000 retainer fee. Directors of the Corporation who also serve on Affiliate Bank Boards do not receive additional compensation because of their Affiliate Bank Board service, even though a portion of their total compensation may be internally expensed through the Affiliate Bank.

Stock option grants are available to directors who are not employees of the Corporation under the 1996 Nonemployee Director Stock Option Plan. However, no options were granted to directors during the year 2002. Exercisable stock options issued in prior years are included in the table and footnotes which appear on page 4.

Directors of the Corporation and the Affiliate Banks may also use director cash retainer fees to purchase shares of the Corporation issued by the Corporation at fair market value under the Corporation s Director Stock Retainer Plan. Directors may also use other personal funds to purchase shares of the Corporation at fair market value from the Corporation under the Corporation s Director Stock Purchase Plan. No more than 4,176 shares in total may be purchased each year under the Director Stock Retainer Plan and no more than 9,600 shares in total may be purchased each year under the Director Stock Purchase Plan.

CODE OF ETHICS

The Corporation s Board of Directors adopted a Code of Ethics on March 27, 2003. The Code details principles and responsibilities governing professional and ethical conduct for all Corporation Directors and Executive Officers. The Code is filed as an exhibit to the Corporation s annual report on Form 10-K.

COMMITTEES OF THE CORPORATION BOARD

The Corporation maintains the following standing committees: Executive, Forward Planning, Director Selection, Audit, and Compensation/ESOP.

Executive Committee

The Executive Committee, which met four (4) times in 2002, consists of Messrs. Van Gilder, Shook and Grill. This Committee reviews in depth the status and progress of various projects, management activities and the Corporation s financial performance. As necessary, it provides guidance and makes recommendations to management and/or the Board of Directors.

Forward Planning

The Forward Planning Committee consists of Messrs. Van Gilder, Shook and Grill. This Committee evaluates and recommends strategic initiatives and alternatives to guide the future performance and direction of the Corporation. All Forward Planning matters during 2002 were considered by the full Board at regular Board meetings.

Director Selection

The Corporation s Director Selection Committee consists of Messrs. Van Gilder, McKenney and Shook. This Committee coordinates the process of identifying, interviewing and recommending new director candidates. In reviewing director selections, the Committee will consider recommendations of shareholders. Shareholders who wish to recommend nominees should submit their recommendations in writing, delivered or mailed to the Secretary of the Corporation. During 2002, all Committee deliberations were considered by the full Board at regular Board meetings.

Audit Committee

Ms. Haw Jury and Messrs. Petty and Karr are the members of the Corporation s Audit Committee. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information provided by the Corporation to shareholders, governmental agencies or the public, the Corporation s systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established, and the Corporation s auditing, accounting and financial reporting processes generally.

The Corporation s Board of Directors has determined that Ms. Haw Jury qualifies as an Audit Committee Financial Expert as defined in Rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002.

The Audit Committee is guided by an Audit Committee Charter which was originally adopted by the Board of Directors during 2001. During March of 2003 the Charter was modified to comply with the Sarbanes-Oxley Act and a copy has been attached to this Proxy Statement. All of the members of the Audit Committee are independent, as defined in Rule 4200(a) of the NASD Listing Standards. During 2002, the Audit Committee held two (2) meetings. On March 27, 2003, the Audit Committee submitted to the Board the following report:

AUDIT COMMITTEE REPORT

We have reviewed and discussed with management the Corporation s audited financial statements as of and for the year ended December 31, 2002.

We have discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Corporation s Form 10-K for the year ended December 31, 2002.

Respectfully submitted,

Peggy L. Haw Jury
Brian P. Petty
J. David Karr

Compensation/ESOP Committee

The members of the Compensation/ESOP Committee are Ms. Haw Jury and Messrs. Van Gilder and Brian P. Petty. This Committee oversees the administration of the Corporation s compensation and benefit programs. The performance of the CEO and all Compensation/ESOP Committee items were considered by the full Board at regular Board meetings during the year.

REPORT ON COMPENSATION/ESOP COMMITTEE

The Corporation and Affiliate Bank Boards use compensation programs based on the following compensation principles: to provide the level of total compensation necessary to attract and retain quality employees at all levels of the organization; compensation is linked to performance and to the interests of shareholders; incentive compensation programs recognize both individual and corporate performance; and compensation balances rewards for short-term and long-term results.

The Corporation and the Affiliate Banks provide a comprehensive compensation program that is both innovative and competitive in order to attract and retain qualified talent. The Affiliate Banks through their Compensation Committees review market data in order to assess the Affiliate Banks competitive position and each component of compensation including base salary, annual incentive and long-term incentive compensation.

Donald L. Grill became President and Chief Executive Officer of the Corporation and The State Bank in December of 1996 and is evaluated annually as to his personal performance, and regarding his role in directing the Corporation s performance. The full Corporation Board annually reviews Mr. Grill s performance. The Board considers Bank performance, community involvement and director/chairman communication, along with employee assessments gathered by the Human Resources Department in evaluating Mr. Grill s performance.

Respectfully submitted,
Year 2002 Compensation/ESOP
Committee

Peggy L. Haw Jury
Brian P. Petty
Russell H. Van Gilder, Jr.

COMPENSATION/ESOP COMMITTEE INTERLOCKS

The members of the Compensation Committee are set forth in the preceding section. There are no members of the Compensation Committee who were officers or employees of the Corporation, former officers of the Corporation or its subsidiaries or had any relationship otherwise requiring disclosure here.

EXECUTIVE COMPENSATION

During 2002, the Corporation did not compensate any of its Executive Officers, each of whom was also an Executive Officer of one of the Affiliate Banks and is paid for services by an Affiliate Bank. The following table shows the compensation for services to Affiliate Banks of Affiliate Bank executive officers who received cash compensation in excess of $100,000 for the year 2002.

		Annual Compensation			
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation[1]	All Other Compensation[2]
David L. Grill	2002	$198,739	$17,576	$ 9,000	$9,724
President	2001	192,610	46,979	9,550	11,168
Chief Executive Officer	2000	187,000	54,098	10,250	9,245
of the Corporation and					

The State Bank						
Ronald L. Justice	2002	$ 99,000	$7,823	$	-	$ 6,135
Chief Financial Officer	2001	95,400	17,545		-	7,137
of the Corporation	2000	90,000	19,373		-	6,796
Robert E. Sewick	2002	$126,400	$9,680	$	-	$ 8,029
Senior Vice President	2001	123,600	25,451		-	8,462
and Senior Loan Officer of The State Bank	2000	120,000	27,413		-	1,274

(1) Includes fees paid to Mr. Grill for his service as a director. Inside Director fees were eliminated effective December 31, 2002.

(2) The column of All Other Compensation consists of Employer s 401k and ESOP contribution(s).

Stock Option Information

The Corporation s 1996 Employee Stock Option Plan permits the grant of stock options to the officers and other key employees of the Corporation and its subsidiaries. Stock options are believed to help align the interests of employees with the interests of shareholders by promoting stock ownership by employees and rewarding them for appreciation in the price of the Corporation s stock.

The following tables contain information concerning stock options granted during 2002 to and retained by the named executives of the Corporation at December 31, 2002. None of the named executives exercised any stock options during the year 2002.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants					
					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[3]	
Name	Number of Shares Underlying Options Granted[1]	Percent of Total Options Granted to Employees In Fiscal Year	Exercise Price[2]	Expiration Date	5%	10%
Donald L. Grill	956	32.4%	$26.50	2012	15,932	40,376
Ronald L. Justice	331	11.2%	26.50	2012	5,516	13,980

Robert E. Sewick	480	16.3%	26.50	2012	8,000	20,272

YEAR END OPTION VALUES

	Number of Shares Underlying Unexercised Options at Year End[1] Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Year End Exercisable/Unexercisable
Donald L. Grill	0/2,721	0/18,248
Ronald L. Justice	0/927	0/6,444
Robert E. Sewick	240/1,231	0/9,213

(1) The numbers have been adjusted in accordance with the stock option plan to reflect stock dividends and stock splits.

(2) The per share exercise price of each option is equal to the market value of the common stock on the date each option was granted. All outstanding options were granted for a term of ten years. Options terminate, subject to certain limited exercise provisions, in the event of death, retirement or other termination of employment. The right to exercise each option vests as to one-third of the shares covered by the option on the third, fourth and fifth anniversary of the date of grant.

(3) These amounts are based on assumed rates of appreciation over the entire option period without any discount to present value. Actual gains, if any, on stock option exercises will be dependent on overall market conditions and on the future performance of the Corporation s common stock. The amounts realized, if any, may be more or less than the amounts reflected in the table.

RETIREMENT AND CHANGE IN CONTROL ARRANGEMENTS

Retirement Plans

Supplemental Executive Retirement Plan

The Corporation and The State Bank have established a Supplemental Executive Retirement Plan (SERP) for key executives. The plan is designed to encourage executives to remain long term employees of the Corporation and The State Bank, and to provide the executive with supplemental retirement income. Unfunded plan benefits are accrued based on participant longevity and the Corporation s return on equity. In 2002, the SERP accrued $22,877 on behalf of Donald L. Grill and $9,550 on behalf of Robert E. Sewick.

The SERP target retirement benefit is an annual retirement payment equal to a percentage of the executive s projected final salary, 25% for Mr. Grill and 20% for Mr. Sewick. Estimated annual benefits payable over a period of 15 years following retirement at age 65 are $62,853 for Mr. Grill and $35,056 for Mr. Sewick. The retirement benefits accruing on behalf of the executives are backed by prepaid life insurance policies. The Corporation plans to use the investment earnings on these policies to pay all or part of the annual costs for the SERP.

Split-Dollar Retirement Plan

The Corporation and the Affiliate Banks have established a Split Dollar Supplemental Retirement Plan (the Split Dollar Plan) for key executives not covered under the SERP. The plan is designed to encourage executives to remain long term employees of the Corporation and the Affiliate Banks, and to provide the executive with supplemental retirement income. The plan is a life insurance backed product that allows participants to direct the investment of funds through various investment vehicles. During the first quarter of 2002, $16,321 was invested through the Split Dollar Plan on behalf of Ronald L. Justice. Upon retirement, the executives who participate in the plan receive the earnings from funds invested on their behalf and the invested funds are returned to their employer.

Qualified Retirement Plans

The Corporation and the Affiliate Banks offer two separate qualified retirement plans, the first of which is the Employee Stock Ownership Plan (ESOP) and the second is a 401k profit sharing plan. The ESOP is one hundred percent funded by Affiliate Banks. Based on particular Affiliate Bank s earnings the Board approves an amount to be distributed into eligible participants accounts. In order to promote longevity with the Affiliate Banks, this plan includes a vesting schedule of seven years before a participant is fully vested. The 401k profit sharing plan allows participants to defer compensation, before taxes, in order to invest in various investment vehicles. Participants also receive a corporate match of 50% up to a maximum of 6% (participants are allowed to defer up to 15%).

Severance Agreement

The Corporation and The State Bank have entered into a Severance Compensation Agreements with each of Messrs. Grill, Justice and Sewick. Under this agreement, if a change in control (as defined in the agreement) occurs while the Executive is an employee of the Corporation or The State Bank, and if within five years thereafter the Executive s employment is terminated by either of them without cause, by the Executive for good reason, or by either party because of the Executive s death or disability (in each case, as such terms are defined in the agreements), then the Corporation and The State Bank are required to pay the Executive an annual amount equal to 50% of the highest amount of the Executive s annual compensation (as defined in the agreement) in the five preceding calendar years, for a period of five years after the termination date (or until the first day of the month immediately preceding the Executive s normal retirement date. if earlier). If the Executive dies after this payment obligation begins, or if the Executive so elects, the Corporation and The State Bank will be obligated to make a lump sum payment of these payments, discounted to the then present value using a 10% per year discount rate. In addition, the Corporation and The State Bank are required to provide the Executive with hospital and medical coverage for the full COBRA period. However, if the payments exceed the ceiling amount for deductibility under Section 280G of the internal Revenue Code of 1986 (generally, three times the Executive s annual compensation), then the payments shall be reduced to the maximum amount allowable under Section 280G.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

The Consolidated financial statements of the Corporation for the year ended December 31, 2002, have been examined by Crowe Chizek and Company LLP, independent public accountants. A representative of Crowe Chizek and Company is expected to be present at the annual meeting with the opportunity to make a statement, if desired, and will be available to respond to appropriate questions. The Corporation s Audit Committee selects the Corporation s auditors before the end of each calendar year.

Audit Fees

Aggregate fees billed for professional services rendered for the audit of the Corporation s annual consolidated financial statements for the fiscal year ended December 31, 2002 and the review of financial statements included in the Corporation s Forms 10-Q filed with the Securities and Exchange Commission for that fiscal year were: $64,320.

Financial Information System Design and Implementation Fees

No professional services were rendered by Crowe Chizek and Company LLP for the year ended December 31, 2002 with respect to, directly or indirectly, operating, or supervising the operation of, the Corporation s information systems or managing the Corporation s local area network or designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the Corporation s financial statements taken as a whole.

All Other Fees

The aggregate fees billed for services rendered by Crowe Chizek and Company LLP for services not covered under the two preceding captions (principally tax services) totaled $7,010.

The Corporation s Audit Committee has concluded that the provision of services covered under the caption All Other Fees is compatible with Crowe Chizek and Company LLP maintaining their independence. None of the hours expended on Crowe Chizek s engagement to audit the Corporation s consolidated financial statements for the year ended December 31, 2002 were attributed to work performed by persons other than Crowe Chizek s full-time, permanent employees.

SHAREHOLDER RETURN PERFORMANCE GRAPH

The graph compares the cumulative total shareholder return on the Corporation s common stock for the last five years with the cumulative total return of the Midwest Quadrant Pink Bank Index, published by SNL Financial L.C., and the Nasdaq Market Index assuming a $100 investment at the end of 1997. The Nasdaq Market Index is a broad equity market index. The Midwest Quadrant Pink Bank Index is composed of 67 banks and bank holding companies located in the Midwest and whose shares primarily trade on the Over-the-Counter Bulletin Board.

Cumulative total return is measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period. The graph assumes the investment of $100 in the Corporation s common stock, the Nasdaq Market Index, and the Midwest Quadrant Pink Bank Index at the market close on December 31, 1997 and the reinvestment of all dividends through the period ending December 31, 2002.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG FENTURA FINANCIAL, INC., NASDAQ MARKET INDEX,
AND MIDWEST QUADRANT PINK BANK INDEX

	1997	1998	1999	2000	2001	2002
Fentura Financial	100	195.44	191.81	124.74	131.57	185.17
Midwest Bank Index	100	122.77	106.18	87.51	80.71	103.52
NASDAQ Market Index	100	140.99	261.48	157.42	124.89	86.33

*Source: SNL Financial L.C.

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COMPLIANCE WITH SECTION 16 REPORTING

The rules of the Securities and Exchange Commission require that the Corporation disclose late filings of reports of stock ownership (and changes in stock ownership) by its Directors, Executive Officers and beneficial owners of more than 10% of the Corporation s common stock. Based solely on its review of the copies of such reports received by it, and written representations from certain reporting persons, the Corporation believes that during the year ended December 31, 2002, its Directors, Executive Officers and beneficial owners of more than 10% of the Corporation s common stock have complied with all filing requirements applicable to them, with the exception of one late report by Mr. Petty. Mr. Petty was appointed to the Board on September 26, 2002 to fill a vacancy created by Mr. Duthie s resignation. Mr. Petty s Form 3 filing was not made until October 29, 2002, as a result of miscommunication in filing procedures as the Corporation made arrangements for Section 16(a) filer to file electronically rather than via hard copy.

OTHER INFORMATION

Annual Report on Form 10K

The Corporation will provide a copy of its 2002 Annual Report on SEC Form 10K to any shareholder who asks for it in writing, without charge. Please direct your request to our Secretary, Ronald L. Justice, at 175 North Leroy Street, Fenton, Michigan 48430. The Form 10-K and certain other periodic filings are filed with the Securities and Exchange Commission (SEC). The SEC maintains an Internet web site that contains reports and other information regarding companies, including the Corporation, that file electronically. The SEC s web site address is http\\www.sec.gov.

Transactions with Certain Interested Parties

Certain of the Corporation s Directors and executive officers, including their affiliates, were loan customers of Affiliate Banks during 2002, 2001, and 2000. Such loans were made in the ordinary course of business at normal credit terms and interest rates, and do not represent more than a normal risk of collection. Total loans to these persons at December 31, 2002, 2001, and 2000 amounted to $4,971,000, $1,532,000 and $1,134,000, respectively. During 2002, $4,248,000 of new loans were made and repayments totaled $312,000. At December 31, 2002, these loans aggregated 12.45% of consolidated stockholders equity.

Shareholder Proposals

An eligible shareholder who wants to have a qualified proposal considered for inclusion in the proxy statement for the 2004 Annual Meeting of Shareholders must notify the Corporation s Secretary by delivering a copy of the proposal to the Corporation s offices no later than November 28, 2003. If a shareholder notifies the Corporation after forth-five (45) days before the first anniversary of the date on which this Proxy Statement is first mailed of an intent to present a proposal at the 2004 annual meeting of shareholders, the Corporation will have the right to exercise its discretionary voting authority with respect to such proposal without including information regarding such proposal in its proxy materials.

Expenses of Solicitation

The Corporation pays the cost of preparing, assembling and mailing this proxy-soliciting material. In addition to the use of the mail, proxies may be solicited personally, by telephone or telegraph, or by the Corporation s officers and employees without additional compensation. The Corporation pays all costs of solicitation, including certain expenses of brokers and nominees who mail proxy material to their customers or principals.

BY ORDER OF THE BOARD OF DIRECTORS,

Ronald L. Justice
Secretary

Dated: March 27, 2003

See enclosed voting (proxy) form please sign and mail promptly.

Fentura Financial, Inc.
P.O. Box 725
Fenton, Michigan 48430-0725

This Proxy is solicited on behalf of the Board of Directors

PROXY

The undersigned hereby appoints Thomas P. McKenney and Forrest A. Shook as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated below, all the shares of Common Stock of Fentura Financial, Inc. held of record by the undersigned on March 21, 2003, at the annual meeting of shareholders to be held April 30, 2003, and at any adjournment thereof.

1. In the election of two directors, each to be elected for a term expiring in 2006

[ ] **FOR** the nominees listed below

[ ] **WITHHOLD AUTHORITY** to vote for the nominees listed below

Forrest A. Shook - Donald L. Grill

(INSTRUCTION: To withhold authority to vote for any individual nominee strike a line through the nominee's name in the list above.)

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this Proxy will be voted FOR all nominees listed in No. 1.**

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

____________________________________ Signature

____________________________________ Signature if held jointly

Dated: __________________, 2003

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY FORM PROMPTLY USING THE ENCLOSED ENVELOPE.

FENTURA FINANCIAL, INC.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2002, 2001 and 2000

and

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FENTURA FINANCIAL, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Fentura Financial, Inc.
Fenton, Michigan

We have audited the accompanying consolidated balance sheets of Fentura Financial, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, statements of comprehensive income, changes in stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of income and cash flows of the Corporation for the period ended December 31, 2000 were audited by other auditors whose report dated January 26, 2001 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2002 and 2001 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fentura Financial, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe, Chizek and Company LLP

Grand Rapids, Michigan
February 6, 2003

Report of Independent Certified Public Accountants

Stockholders and Board of Directors
Fentura Financial, Inc.

We have audited the accompanying consolidated statements of income, comprehensive income, stockholders equity, and cash flows for the year ended December 31, 2000 of Fentura Financial, Inc. (formerly Fentura Bancorp, Inc.) These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Fentura Financial, Inc. and for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Southfield, Michigan
January 26, 2001

See accompanying notes to consolidated financial statements.

FENTURA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001
(000 s omitted except per share data)

	2002
ASSETS	
Cash and due from banks	$ 20,26
Federal funds sold	10,30
Total cash and cash equivalents	30,56
Securities available for sale, at fair value	48,98
Securities held to maturity (fair value of $14,051 at December 31, 2002 and $13,508 at December 31, 2001)	13,72
Loans held for sale	5,50
Loans, net of allowance for loan losses of $3,184 and $3,125 in 2002 and 2001, respectively	221,03
Bank premises and equipment	9,75
Accrued interest receivable	1,59
Bank owned life insurance	6,23
Federal Home Loan Bank stock	82
Other assets	2,26
	$ 340,48
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing deposits	$ 44,87
Interest-bearing deposits	250,99
Total deposits	295,86
Short-term borrowings	1,50
Federal Home Loan Bank Advances	1,12
Accrued taxes, interest and other liabilities	2,06
Total liabilities	300,55

Stockholders' equity	
Common stock - $0 par value 1,722,126 shares issued - 2002; 1,735,496 - 2001	30,23
Retained earnings	9,39
Accumulated other comprehensive income	29
	39,92
	$ 340,48

See accompanying notes to consolidated financial statements.

5.

FENTURA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2002, 2001 and 2000
(000 s omitted except per share data)

	2002	2001
Interest income		
Loans, including fees	$ 15,924	$ 17,555
Securities:		
Taxable	1,046	2,426
Tax-exempt	644	660
Short-term investments	338	926
Total interest income	17,952	21,567
Interest expense		
Deposits	5,623	8,958
Short-term borrowings	16	47
Federal Home Loan Bank Advances	83	86
Total interest expense	5,722	9,091
Net interest income	12,230	12,476
Provision for loan losses	426	751
Net interest income after provision for loan losses	11,804	11,725
Noninterest income		
Service charges on deposit accounts	2,594	2,286
Gain on sale of mortgages	1,009	659
Mortgage servicing	0	0
Trust income	540	566

Gain on sale of securities	0	674
Other income and fees	1,251	1,178
Total noninterest income	5,394	5,363
Noninterest expense		
Salaries and employee benefits	6,454	5,988
Occupancy	1,061	886
Furniture and equipment	1,563	1,411
Office supplies	305	300
Loan and collection	183	178
Advertising and promotional	315	320
Other professional services	1,100	1,144
Other general and administrative	1,272	1,473
Total noninterest expense	12,253	11,700
Net income before taxes	4,945	5,388
Applicable income taxes	1,479	1,611
Net income	$ 3,466	$ 3,777
Per share:		
Earnings - basic	$ 2.00	$ 2.18
Earnings - diluted	2.00	2.18

See accompanying notes to consolidated financial statements.

FENTURA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2002, 2001 and 2000
(000 s omitted except per share data)

	2002	2001
Net income	$ 3,466	$ 3,7
Other comprehensive income:		
Unrealized holding gains on available for sale securities	311	1,1
Less: reclassification adjustment for gains and losses later recognized in income	0	6
Net unrealized gains	311	4
Tax effect on unrealized holding gains	(106)	(1
Other comprehensive income, net of tax	205	3

Comprehensive income	$ 3,671	$ 4,0

See accompanying notes to consolidated financial statements.

FENTURA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Years ended December 31, 2002, 2001 and 2000
(000 s omitted except per share data)

	Common Stock	Ret Ear
Balance, January 1, 2000	$ 21,872	$
Net Income		
Cash Dividends ($.97 per share)	0	
Issuance of shares under stock purchase plans	470	
Stock repurchase	(1)	
Stock dividend	7,980	
Other comprehensive income (net of tax)	0	
Balance, December 31, 2000	30,321	
Net Income	0	
Cash Dividends ($1.01 per share)	0	
Issuance of shares under stock purchase plans	343	
Other comprehensive income (net of tax)	0	

Balance, December 31, 2001	30,664	
Net Income	0	
Cash Dividends ($1.01 per share)	0	
Stock repurchase (23,259 shares)	(719)	
Issuance of shares under stock purchase plans	291	
Other comprehensive income (net of tax)	0	
Balance, December 31, 2002	$ 30,236	$

See accompanying notes to consolidated financial statements.

FENTURA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2001 and 2000
(000 s omitted except per share data)

	2002	2001
Cash flows from operating activities		
Net income	$ 3,466	$ 3,7
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	1,599	9
Deferred income taxes (benefit)	(88)	(1
Provision for loan losses	426	7
Gain on sale of mortgage servicing rights	0	
Gain on sale of loans	(1,009)	(6
Loans originated for sale	(62,672)	(48,5
Proceeds from the sale of loans	59,882	47,7
Gain on sales of securities	0	(6
Net change in accrued interest receivable and other assets	(580)	4
Net change in accrued interest payable and other liabilities	(105)	(3
Net cash from operating activities	919	3,1
Cash flows from investing activities		
Proceeds from maturities of securities - HTM	5,233	4,0
Proceeds from maturities of securities - AFS	7,810	8,6
Proceeds from calls of securities - HTM	325	
Proceeds from calls of securities - AFS	10,285	20,5
Proceeds from sales of securities - AFS	0	27,2
Purchases of securities - HTM	(5,925)	(4,2

Purchases of securities - AFS	(41,517)	(28,4
Originations of loans, net of principal repayments	(10,458)	(19,5
Proceeds from sale of mortgage servicing rights	0	
Purchase of bank owned life insurance	(3,500)	
Acquisition of premises and equipment	(2,257)	(2,9
Net cash from investing activities	(40,004)	5,3
Cash flows from financing activities		
Net change in deposits	30,599	16,6
Net change in short-term borrowings	(600)	(2,5
Repayments on advances from Federal Home Loan Bank	(14)	(
Cash dividends paid	(1,748)	(1,7
Net proceeds from stock issuance and purchases	(428)	3
Net cash from financing activities	27,809	12,6
Net increase in cash and cash equivalents	11,276	21,1
Cash and cash equivalents at beginning of year	41,838	20,7
Cash and cash equivalents at end of year	$ 30,562	$ 41,8
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 5,909	$ 8,8
Income taxes	1,569	1,7

See accompanying notes to consolidated financial statements.

FENTURA FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Fentura Financial, Inc. (the Corporation) and its wholly owned subsidiaries, The State Bank in Fenton, Michigan; Fentura Mortgage Company and Davison State Bank in Davison, Michigan (the Banks). Intercompany transactions and balances are eliminated in consolidation.

The Corporation provides banking and trust services principally to individuals, small businesses and governmental entities through its nine community banking offices in Genesee, Livingston and Oakland Counties in southeastern Michigan. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be

repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of securities, fair values of financial instruments and status of contingencies are particularly subject to change.

Cash Flows: Cash and cash equivalents includes cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for loan and deposit transactions.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income. Other securities such as Federal Home Loan Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days (180 days for residential mortgages). Payments received on such loans are reported as principal reductions.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over useful lives ranging from 3 to 50 years.

(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Bank owned life insurance: The Corporation has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Stock Compensation: Employee compensation expense under stock option plans is reported if options are granted below market price at grant date. Pro forma disclosures of net income and earnings per share are shown using the fair value method of SFAS No. 123 to measure expense for options granted after 1994, using an option pricing model to estimate fair value.

The stock option plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) as permitted under Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (SFAS 123). In accordance with APB 25, no compensation expense is required nor has been recognized for the options issued under existing plans. Had the Corporation chosen not to elect APB 25, SFAS 123 would apply and compensation expense would have been recognized, and the Corporation s earnings would have been as follows (in thousands, except per share data):

	2002	2001
Net income		
As reported	$3,466	$3,777
Deduct: Stock-based compensation expense determined under a fair value based system	(20)	(10)
Proforma	3,446	3,767

Basic net income per share		
As reported	2.00	2.18
Proforma	1.99	2.18
Diluted net income per share		
As reported	2.00	2.18
Proforma	1.99	2.17
Weighted average fair value of options granted during year	$ 6.67	$ 8.36

(Continued)

12.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proforma net income includes compensation cost for the Corporation s stock option plan based on the fair value of the grants as of the dates of the awards consistent with the method prescribed by SFAS 123. The fair value of each option grant is estimated using the Black-Scholes option-pricing model. Assumptions used in the model for options granted during 2000 were as follows: an expected life of 10 years, a dividend yield of 3%, a risk free return of 6.88% and expected volatility of 52%. Assumption used in the model for options granted during 2001 were as follows: an expected life of 6 years, a dividend yield of 3.45%, a risk free return of 5.09% and expected volatility of 40%. Assumptions used in the model for options granted during 2002 were as follows: an expected life of 6 years, a dividend yield of 3.8%, a risk free return of 4.62% and expected volatility of 31%.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

Newly Issued But Not Yet Effective Accounting Standards: New accounting standards on asset retirement obligations, restructuring activities and exit costs, operating leases, and early extinguishment of debt were issued in 2002. Management determined that when the new accounting standards are adopted in 2003 they will not have a material impact on the Corporation s financial condition or results of operations.

(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $4,750,000 and $3,500,000 was required to meet regulatory reserve and clearing requirements at year-end 2002 and 2001 respectively. These balances do not earn interest.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the banks to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the Corporation s chief decision-makers monitor the revenue streams of the various Corporation products and services, operations are managed and financial performance is evaluated on a Corporate-wide basis. Accordingly, all of the Corporation s financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

(Continued)

NOTE 2 EARNINGS PER SHARE

The factors in the earnings per share computation follow.

	2002	2001
Basic		
Net income	$ 3,466,000	$ 3,777,000
Weighted average common shares outstanding	1,731,677	1,728,983
Basic earnings per common share	$ 2.00	$ 2.18
Diluted		
Net income	$ 3,466,000	$ 3,777,000
Weighted average common shares outstanding for basic earnings per common share	1,731,677	1,728,983
Add: Dilutive effects of assumed exercises of stock options	4,566	3,456
Average shares and dilutive potential common shares	1,736,243	1,732,439
Diluted earnings per common share	$ 2.00	$ 2.18

Stock options for 5,737, 6,841 and 10,176 shares of common stock were not considered in computing diluted earnings per common share for 2002, 2001 and 2000 respectively, because they were antidilutive.

(Continued)

NOTE 3 SECURITIES

Year-end securities are as follows (in thousands):

Available for Sale

	Fair Value	Gross Unrealized Gains	Gross Unrealiz Losses

2002			
U.S. Government and federal agency	$ 29,027	$ 144	$
State and municipal	9,388	100	(
Mortgage-backed	7,093	192	
Corporate	3,078	47	
Equity securities	395	0	
	$ 48,981	$ 483	$ (
2001			
U.S. Government and federal agency	$ 8,818	$ 56	$
State and municipal	3,679	3	(
Mortgage-backed	7,870	65	(
Corporate	5,425	64	
	$ 25,792	$ 188	$ (

Held to Maturity

	Amortized Cost	Gross Unrecognized Gains	Gros Unrecogni Losse
2002			
State and municipal	$ 13,722	$ 332	$
2001			
State and municipal	$ 13,375	$ 174	$ (

Sales of available for sale securities were as follows (in thousands):

	2002	2001
Proceeds	$ 0	$ 27,2
Gross gains	0	6
Gross losses	0	

(Continued)

NOTE 3 SECURITIES (Continued)

Held to Maturity

Contractual maturities of debt securities at year-end 2002 were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, and equity securities are shown separately (in thousands).

	Held to Maturity		Av
	Amortized Cost	Fair Value	
Due in one year or less	$ 6,111	$ 6,125	
Due from one to five years	3,547	3,720	
Due from five to ten years	2,267	2,366	
Due after ten years	1,797	1,840	
Mortgage-backed securities	0	0	
Equity securities	0	0	
	$ 13,722	$ 14,051	

Securities pledged at year-end 2002 and 2001 had a carrying amount of $2,065,000 and $2,123,000 and were pledged to secure public deposits and repurchase agreements.

NOTE 4 LOANS

Major categories of loans at December 31, are as follows (in thousands):

	2002
Commercial	$ 129,56
Real estate - construction	27,03
Real estate - mortgage	11,94
Consumer	55,68
	224,22
Less allowance for loan losses	3,18
	$ 221,03

The Corporation originates primarily residential and commercial real estate loans, commercial, construction and installment loans. The Corporation estimates that 80% of their loan portfolio is based in Genesee and Livingston counties within southeast Michigan with the remainder of the portfolio distributed throughout Michigan. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

(Continued)

NOTE 4 LOANS (Continued)

Certain directors and executive officers of the Corporation, including their affiliates are loan customers of the Banks. Such loans were made in ordinary course of business at the Banks normal credit terms and interest rates, and do not represent more than a normal risk of collection. Total loans to these persons at December 31, 2002 and 2001 amounted to $4,971,000 and $1,532,000 respectively. During 2002, $4,248,000 of new loans were made to these persons, repayments totaled $312,000 and changes in composition resulted in a decline of $497,000.

Activity in the allowance for loan losses for the years are as follows (in thousands)

	2002	2001
Balance, beginning of year	$ 3,125	$ 2,9
Provision for loan losses	426	7
	3,551	3,6
Loans charged off	(846)	(7
Loan recoveries	479	1
Balance, end of year	$ 3,184	$ 3,1

Loan impairment is measured by estimating the expected future cash flows and discounting them at the respective effective interest rate or by valuing the underlying collateral. The recorded investment in these loans is as follows at December 31, (in thousands):

	2002
Principal amount not requiring allocation	$
Principal amount requiring allocation	2,4
	$ 2,4
Amount of the allowance for loan loss allocated	$ 4

Loans for which the accrual of interest has been discontinued at December 31, 2002 and 2001 amounted to $512,000 and $321,000, respectively, and are included in the impaired loans above. Loans past due greater than 90 days and still accruing interest amounted to $72,000 and $186,000 at December 31, 2002 and 2001.

Interest income recognized on impaired loans based on cash collections totaled approximately $72,000 and $142,000 for the years ended December 31, 2002 and 2001, respectively. The average recorded investment in impaired loans was $2,642,000 and $2,597,000 during the years ended December 31, 2002 and 2001 respectively.

(Continued)

NOTE 5 - PREMISES AND EQUIPMENT, NET

Bank premises and equipment is comprised of the following at December 31 (in thousands):

	2002	2
Land and land improvements	$ 1,375	$
Building and building improvements	8,510	
Furniture and equipment	8,425	
Construction in progress	658	
	18,968	
Less accumulated depreciation	9,214	
	$ 9,754	$

Depreciation expense was $1,035,000, $936,000 and $984,000 for 2002, 2001 and 2000, respectively.

The Corporation leases property for certain branches and ATM locations. Rent expense for 2002 was $133,000, for 2001 was $133,000 and for 2000 was $130,000. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2003	$ 138,090
2004	129,240
2005	105,240
2006	66,300
2007	30,000
Thereafter	0
	$ 468,870

(Continued)

NOTE 6 DEPOSITS

The following is a summary of deposits at December 31 (in thousands):

	2002	2
Noninterest-bearing:		
Demand	$ 44,875	$
Interest-bearing:		
Savings	91,972	

Money market demand	51,194	
Time, $100,000 and over	33,540	
Time, $100,000 and under	74,288	
	$ 295,869	$

Scheduled maturities of time deposits at December 31, were as follows (in thousands):

	2002	2
In one year	$ 58,246	$
In two years	19,462	
In three years	11,982	
In four years	1,431	
In five years	16,579	
Thereafter	128	
	$ 107,828	$

Deposits from principal officers, directors, and their affiliates at year-end December 31, 2002 and 2001 were $3,759,000 and $1,564,000.

NOTE 7 OTHER BORROWINGS

Short-Term Borrowings

Short-term borrowings consist of term federal funds purchased and treasury tax and loan deposits and generally are repaid within one to 120 days from the transaction date.

Federal Home Loan Bank Advances

The Bank has the authority and approval from the Federal Home Loan Bank (FHLB) to borrow up to $20 million collateralized by 1-4 family mortgage loans, government and agency securities, and mortgage-backed securities. The advances outstanding at December 31, 2002 and 2001 mature in 2016, cannot be prepaid without penalty and bears interest at 7.34%. The amount of pledged assets are $11,914,000 at December 31, 2002 and $18,867,000 at December 31, 2001.

(Continued)

20.

NOTE 8 INCOME TAXES

The provision for income taxes reflected in the consolidated statements of income for the years ended December 31, consists of the following (in thousands):

2002	2001	20

Current expense	$ 1,567	$ 1,781	$
Deferred (benefit) expense	(88)	(170)	
	$ 1,479	$ 1,611	$

Income tax expense was less than the amount computed by applying the statutory federal income tax rate to income before income taxes. The reasons for the difference are as follows in (in thousands):

	2002	2001	20
Income tax at statutory rate	$ 1,681	$ 1,832	$
Tax exempt interest	(253)	(179)	
Other	51	(42)	
	$ 1,479	$ 1,611	$

The net deferred tax asset recorded includes the following amounts of deferred tax assets and liabilities (in thousands):

	2002	20
Deferred tax assets		
Allowance for loan losses	$ 931	$
Compensation	177	
Other	91	
	1,199	
Deferred tax liabilities		
Accretion	(13)	
Unrealized gain on securities available for sale	(153)	
Depreciation	(123)	
Other	(28)	
	(317)	
	$ 882	$

A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has determined that no valuation allowance is required at December 31, 2002 or 2001.

NOTE 9 BENEFIT PLANS

The Corporation has a noncontributory discretionary employee stock ownership plan (Plan) covering substantially all of its employees. It is a requirement of the plan to invest principally in the Corporation s common stock. The contribution to the Plan in 2002, 2001 and 2000 was $88,000, $100,000 and $120,000, respectively.

The Corporation has also established a 401(k) Plan in which 50% of the employees contribution can be matched with a discretionary contribution by the Corporation up to a maximum of 6% of gross wages. The contribution to the 401(k) Plan for 2002, 2001 and 2000 was $100,000, $84,000 and $79,000, respectively.

NOTE 10 STOCK PURCHASE AND OPTION PLANS

Director and Employee Plans

On December 26, 2001, the Corporation approved a plan to repurchase up to 50,000 shares of its common stock. The timing of the purchases and the actual number of shares purchased have been in market conditions. Shares have been repurchased from time to time in the open market or in privately negotiated transactions. Shares repurchased will be available for future issuance in the discretion of the Corporation s Board of Directors. The Corporation repurchased 23,259 shares in 2002.

The Directors Stock Purchase Plan permits directors of the Corporation to purchase shares of common stock made available for purchase under the plan at the fair market value on the fifteenth day prior to the annual issuance date. The total number of shares issuable under this plan is limited to 9,600 shares in any calendar year.

The Retainer Stock Plan allows directors to elect to receive shares of common stock in full or partial payment of the director s retainer fees and fees for attending meetings. The number of shares is determined by dividing the dollar amount of fees to be paid in shares by the market value of the stock on the first business day prior to the payment date.

The Executive Stock Bonus Plan permits the administrator of the plan to grant shares of the Corporation s common stock to eligible employees. Any executive or managerial level employee is eligible to receive grants under the plan. The Board of Directors administers the plan.

(Continued)

NOTE 10 STOCK PURCHASE AND OPTION PLANS (Continued)

Dividend Investment Plan

The Automatic Dividend Reinvestment Plan (DRIP) permits enrolled shareholders to automatically use dividends paid on common stock to purchase additional shares of the Corporation s common stock at the fair market value on the investment date. Any shareholder who is the beneficial or record owner of not more than 9.9% of the issued and outstanding shares of the Corporation s common stock is eligible to participate in the plan.

Pursuant to a separate agreement with a family who collectively holds more than 9.9% of the Corporation s stock on or prior to January 31 of each year beginning January 31, 1997, the Corporation is to advise the family, in a written notice, of the number of shares sold under the DRIP. Each family member will have the option, until February 28 of the same year, to purchase from the Corporation one-third of the total number of shares that would be sufficient to prevent the dilution to all family members as a group that result solely as a result of the DRIP shares. The purchase price under this agreement is the fair market value on December 31 of the year immediately preceding the year in which the written notice is given. Similarly, a reverse agreement exists which allows the corporation to redeem family shares to maintain the family ownership percentage in the event that stock repurchase activity more than offsets the shares available because of the DRIP.

Stock Option Plans

The Nonemployee Director Stock Option Plan grants options to nonemployee directors to purchase the Corporation s common stock on April 1 each year. The purchase price of the shares is the fair market value at the date of the grant, and there is a three-year vesting period before options may be exercised. Options to acquire no more than 6,720 shares of stock may be granted under the Plan in any calendar year and options to acquire not more than 67,200 shares in the aggregate may be outstanding at any one time.

The Employee Stock Option Plan grants options to eligible employees to purchase the Corporation s common stock at or above, the fair market value of the stock at the date of the grant. Awards granted under this plan are limited to an aggregate of 72,000 shares. The administrator of the plan is a committee of directors. The administrator has the power to determine the number of options to be granted, the exercise price of the options and other terms of the options, subject to consistency with the terms of the plan.

(Continued)

NOTE 10 STOCK PURCHASE AND OPTION PLANS (Continued)

The following summarizes shares issued under the various plans:

	2002	2001	2
Automatic dividend reinvestment plan	8,032	10,407	
Director stock purchase & retainer stock	516	0	
Other issuance of stock	1,341	2,781	
	9,889	13,188	

The following table summarizes stock option activity:

	Number of Options	Weig Averag

Options outstanding at January 1, 2000	17,904	$ 2
Options granted 2000	1,767	3
Options outstanding at December 31, 2000	19,671	2
Options granted 2001	3,244	2
Options forfeited 2001	(332)	3
Options outstanding at December 31, 2001	22,583	2
Options granted 2002	2,947	2
Options forfeited 2002	(2,760)	2
Options outstanding at December 31, 2002	22,770	$ 2

(Continued)

NOTE 10 STOCK PURCHASE AND OPTION PLANS (Continued)

Information pertaining to options outstanding at December 31, is as follows:

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Life	Weighted Average Price
2002			
$15.00 - $20.00	6,624	3.79	$ 17.44
$20.00 - $30.00	10,409	7.30	24.78
$30.00 - $40.00	5,497	7.02	37.59
$40.00 - $50.00	240	6.50	45.00
Outstanding at end of year	22,770		
Weighted average exercised price of exercisable at the end of the year			$ 25.16
2001			
$15.00 - $20.00	7,728	4.75	$ 17.35
$20.00 - $30.00	8,014	7.31	23.94
$30.00 - $40.00	6,601	8.00	37.45
$40.00 - $50.00	240	7.51	45.00

Outstanding at end of year	22,583
	=========
2000	

Outstanding at end of year	19,671
	=========

(Continued)

NOTE 11 REGULATORY MATTERS

The Corporation (on a consolidated basis) and its Bank subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Banks must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items are calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002, that the Corporation and the Banks meet all capital adequacy requirements to which they are subject. As of December 31, 2001 and 2001, the most recent notifications from Federal Deposit Insurance Corporation categorized the Corporation and the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Corporation and the Banks must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since the notifications that management believes have changed the Banks category.

	Actual		For Capital Adequacy Purposes		C P A
As of December 31, 2002	Amount	Ratio	Amount	Ratio	A
Total Capital (to Risk Weighted Assets)					
Consolidated	$ 42,815	15.2%	$ 22,538	8.0%	$
The State Bank	27,663	11.2	19,680	8.0	
Davison State Bank	4,347	13.3	2,619	8.0	
Tier 1 Capital					

(to Risk Weighted Assets)				
Consolidated	39,631	14.1	11,269	4.0
The State Bank	24,862	10.1	9,840	4.0
Davison State Bank	3,964	12.1	1,310	4.0

(Continued)

NOTE 11 REGULATORY MATTERS (Continued)

Tier 1 Capital (to Average Assets)				
Consolidated	39,631	12.6	12,607	4.0
The State Bank	24,862	8.9	11,161	4.0
Davison State Bank	3,964	9.9	1,606	4.0

	Actual		For Capital Adequacy Purposes		C P A A
As of December 31, 2001	Amount	Ratio	Amount	Ratio	
Total Capital					
(to Risk Weighted Assets)					
Consolidated	$ 41,466	16.2%	$ 20,440	8.0%	$
The State Bank	35,072	15.2	18,473	8.0	
Davison State Bank	3,123	12.3	2,024	8.0	
Tier 1 Capital					
(to Risk Weighted Assets)					
Consolidated	38,341	15.0	10,220	4.0	
The State Bank	32,283	13.9	9,236	4.0	
Davison State Bank	2,832	11.2	1,012	4.0	
Tier 1 Capital (to Average Assets)					
Consolidated	38,341	12.5	12,270	4.0	
The State Bank	32,283	11.7	11,076	4.0	
Davison State Bank	2,832	9.1	1,244	4.0	

NOTE 12 FINANCIAL INSTRUMENTS

The estimated fair values of the Corporation s financial instruments at December 31, are as follows (in thousands):

	2 0 0 2		
	Carrying Amount	Fair Value	Carryin Amount
Assets:			
Cash and cash equivalents	$ 30,562	$ 30,562	$ 41,8
Securities - available for sale	48,981	48,981	25,7
Securities - held to maturity	13,722	14,051	13,3

FHLB stock	822	822	8
Loans held for sale	5,509	5,565	1,7
Loans	221,037	229,739	211,0
Accrued interest receivable	1,595	1,595	1,4

(Continued)

NOTE 12 FINANCIAL INSTRUMENTS (Continued)

Liabilities:			
Deposits	295,869	297,219	265,2
Short-term borrowings	1,500	1,500	2,1
FHLB advances	1,124	1,305	1,1
Accrued interest payable	551	551	7

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents
The carrying amounts reported in the balance sheet for cash and short-term instruments approximate their fair values.

Securities (including mortgage-backed securities)
Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held for sale
The market value of these loans represents estimated fair value. The market value is determined in the aggregate on the basis of existing forward commitments or fair values attributable to similar loans.

Loans
For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Off-balance-sheet instruments
The Corporation s off-balance-sheet instruments approximate their fair values.

Deposit liabilities
The fair values disclosed for demand deposits are, by definition equal to the amount payable on demand at the reporting date. The carrying amounts for variable rate, fixed term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed certificates of deposit are estimated using discounted cash flow calculation that applies interest rates currently being offered on similar certificates. The carrying amount of accrued interest payable approximates its fair value.

NOTE 12 FINANCIAL INSTRUMENTS (Continued)

Short-term borrowings
The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings approximate their fair values.

FHLB advances
Rates currently available for FHLB debt with similar terms and remaining maturities are used to estimate the fair value of the existing debt.

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Corporation s financial instruments, fair value estimates are based on management s judgments regarding future expected loss experience, current economic conditions, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Off-balance-sheet risk
Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year- end.

	2002	2
Commitments to make loans (at market rates)	$ 26,528	$
Unused lines of credit and letters of credit	52,795	

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2002, $4,205,000 of the outstanding loan commitments had fixed interest rates ranging from 4.9% to 8.0% and maturities ranging from one year to five years.

NOTE 13 PARENT ONLY CONDENSED FINANCIAL INFORMATION

The condensed financial information that follows presents the financial condition of Fentura Bancorp, Inc. (parent company only), along with the results of its operations and its cash flows.

CONDENSED BALANCE SHEETS
December 31 (in thousands)

	2002
ASSETS	
Cash and cash equivalents	$ 7,7
Securities available for sale, at market	2,9
Other assets	
Investment in subsidiaries	29,1
	$ 39,9
STOCKHOLDERS' EQUITY	
Common stock	$ 30,2
Retained earnings	9,3
Accumulated other comprehensive income (loss)	2
	$ 39,9

CONDENSED STATEMENTS OF INCOME
Years ended December 31 (in thousands)

	2002	2001
Interest on securities	$ 37	$
Gain on sale of securities	0	
Dividends from subsidiaries	10,799	1,7
Operating expenses	(98)	(1
Equity in undistributed income of subsidiaries	(7,289)	2,0
Income before income taxes	3,449	3,7
Federal income tax expense (benefit)	(17)	(
Net income	$ 3,466	$ 3,7

NOTE 13 - PARENT ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31 (in thousands)

	2002	2001
Cash flows from operating activities		
Net income	$ 3,466	$ 3,7
Gain on sale of securities	0	(
Amortization	21	
Change in other assets	(37)	
Equity in undistributed income of subsidiary	7,289	(2,0
Net cash provided by operating activities	10,739	1,6
Cash flows provided by investing activities		
Sale of equity securities	0	4
Purchase of equity securities	(395)	
Sales and maturities of securities - AFS	3,524	
Purchases of securities - AFS	(6,112)	
(Increase) decrease in land held in investment	0	
Investment in subsidiary	(1,000)	
Net cash provided by investing activities	(3,983)	4
Cash flows used in financing activities		
Dividends paid	(1,748)	(1,7
Stock repurchase	(719)	
Proceeds from stock issuance	291	3
Net cash used in financing activities	(2,176)	(1,4
Increase (decrease) in cash and cash equivalents	4,580	7
Cash and cash equivalents at beginning of year	3,200	2,4
Cash and cash equivalents at end of year	$ 7,780	$ 3,2

NOTE 14 SUMMARY OF QUARTERLY FINANCIAL DATA UNAUDITED

The unaudited quarterly results of operations for 2002, 2001 and 2000 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarte
2002			
Interest income	$ 4,416	$ 4,450	$ 4,5
Interest expense	1,559	1,376	1,4
Provision for loan losses	33	69	1
Noninterest income	1,056	1,161	1,3
Noninterest expenses	3,034	3,080	3,1
Income before income taxes	846	1,086	1,3
Provision for income taxes	253	311	4
Net income	593	775	9
Earnings per share			
Basic	.34	.45	.
Diluted	.34	.45	.
2001			
Interest income	$ 5,786	$ 5,577	$ 5,3
Interest expense	2,619	2,362	2,2
Provision for loan losses	138	255	1
Noninterest income	1,028	1,339	1,3
Noninterest expenses	2,899	2,957	3,1
Income before income taxes	1,158	1,342	1,1
Provision for income taxes	339	400	3
Net income	819	942	8
Earnings per share			
Basic	.48	.54	.
Diluted	.47	.54	.

NOTE 14 - SUMMARY OF QUARTERLY FINANCIAL DATA - UNAUDITED (Continued)

	First Quarter	Second Quarter	Third Quarte

2000			
Interest income	$ 5,539	$ 5,919	$ 5,9
Interest expense	2,296	2,512	2,5
Provision for loan losses	169	201	1
Noninterest income	951	1,053	1,0
Noninterest expenses	2,882	3,076	2,8
Income before income taxes	1,143	1,183	1,4
Provision for income taxes	270	353	4
Net income	873	830	1,0
Earnings per share			
Basic	.51	.48	.
Diluted	.51	.48	.

Management s Discussion and Analysis of Financial Condition and Results of Operations

This section provides a narrative discussion and analysis of the consolidated financial condition and results of operations of Fentura Financial, Inc. (the Corporation), together with its subsidiaries, The State Bank and Davison State Bank (the Banks), for the years ended December 31, 2002, 2001, and 2000. The supplemental financial data included throughout this discussion should be read in conjunction with the primary financial statements presented on pages 2 through 30 of this report. It provides a more detailed and comprehensive review of operating results and financial position than could be obtained from a reading of the financial statements alone.

TABLE 1 **Selected Financial Data**

$ in thousands except per share data And ratios	**2002**	**2001**	**2000**	
Summary of Consolidated Statements of Income:				
Interest Income	$17,952	$21,567	$23,327	$21
Interest Expense	5,722	9,091	9,890	8
Net Interest Income	12,230	12,476	13,437	13
Provision for Loan Losses	426	751	584	
Net Interest Income after Provision	11,804	11,725	12,853	12
Total Other Operating Income	5,394	5,363	4,528	4
Total Other Operating Expense	12,253	11,700	11,436	11
Income Before Income Taxes	4,945	5,388	5,945	5
Provision for Income Taxes	1,479	1,611	1,729	1

Net Income	$3,466	$3,777	$4,216	$4
Net Income Per Share - Basic	$2.00	$2.18	$2.46	$
Net Income Per Share - Diluted	$2.00	$2.18	$2.45	$
Summary of Consolidated Balance Sheets:				
Assets	$340,483	$309,090	$292,890	$283
Securities, including FHLB stock	63,525	39,989	66,704	67
Loans, including loans held for sale	229,730	215,840	195,295	191
Deposits	295,869	265,270	248,656	247
Stockholders' Equity	39,928	38,433	35,754	31
Other Financial and Statistical Data:				
Tier 1 Capital to Risk Weighted Assets	14.10%	15.01%	14.96%	13
Total Capital to Risk Weighted Assets	15.20%	16.23%	16.21%	14
Tier 1 Capital to Average Assets	12.60%	12.50%	12.15%	11
Total Cash Dividends	$1,748	$1,748	$1,659	$1
Book Value Per Share	$23.19	$22.15	$20.76	$1
Cash Dividends Paid Per Share	$1.01	$1.01	$0.97	$
Period End Market Price Per Share	$34.75	$25.50	$25.13	$3
Dividend Pay-out Ratio	50.43%	46.28%	39.35%	39
Return on Average Stockholders' Equity	8.78%	10.01%	12.56%	12
Return on Average Assets	1.10%	1.23%	1.42%	1
Net Interest Margin	4.46%	4.53%	5.07%	5
Total Equity to Assets at Period End	11.73%	12.43%	12.21%	11

34.

RESULTS OF OPERATIONS

The Corporation achieved net income of $3,466,000 for the year of 2002. Net Income for 2002 decreased $311,000 or 8.2%. Net income decreased primarily due to interest rate drops during 2002. Contributing to the 2002 results was the increase in total noninterest income of $31,000 or 0.6%. Non-interest expense increased by $553,000 or 4.7%. The Corporation anticipates that the interest rate environment will remain steady or possibly increase in 2003, which should have a positive impact on operations.

Standard performance indicators used in the banking industry help management evaluate the Corporation s performance. Two of these performance indicators are return on average assets and return on average equity. For 2002, 2001, and 2000 respectively, the Corporation posted a return on average assets of 1.10%, 1.23%, and 1.42%. Return on average equity was 8.78% in 2002, 10.01% in 2001, and 12.56% in 2000. Equity increased 3.9% in 2002, which will allow the Corporation to continue its growth strategy. Total assets increased $31 million in 2002, $16 million in 2001, and $9 million in 2000. Basic earnings per share were $2.00 in 2002, $2.18 in 2001, and $2.46 in 2000.

NET INTEREST INCOME

Net interest income, the principal source of income, is the amount of interest income generated by earning assets (principally securities and loans) less interest expense paid on interest bearing liabilities (largely deposits and other borrowings).

A critical task of management is to price assets and liabilities so that the spread between the interest earned on assets and the interest paid on liabilities is maximized without unacceptable risk. While interest rates on interest earning assets and interest bearing liabilities are subject to market forces, in general, the Corporation can exert more control over deposit costs than earning assets rates. Loan products carry either fixed rates of interest or rates tied to market indices determined independently. The Corporation sets its own rates on deposits, providing management with some flexibility in determining the timing and proportion of rate changes for the cost of its deposits.

Table 2 summarizes the changes in net interest income resulting from changes in volume and rates for the years ended December 31, 2002 and 2001. Net interest income (displayed with consideration of full tax equivalency), average balance sheet amounts, and the corresponding yields for the last three years are shown in Table 3. Tax equivalent interest income decreased by $220,000 in 2002, or 1.7% and by $979,000 or 7.1% in 2001. The primary factor contributing to the decrease in net interest income was the eleven prime rate cuts during 2001, followed by another cut in late 2002, which reduced interest income more than the reduction in interest expense.

As indicated in Table 3, for the year ended December 31, 2002, the Corporation s net interest margin was 4.46% compared with 4.53% and 5.07% for the same period in 2001 and 2000 respectively, and continues to remain substantially above peer performance. The slight decrease in 2002 is due to lower earning asset yields due to the cuts in the prime rate. The decrease in margin in 2001 is attributable to a decrease in the Corporation s earning assets yields due to the cuts in the prime rate. Cost of funding decreased in response to decreases in treasury rates and local competitor s rates.

Average earning assets decreased 0.3% in 2002. Average earning assets increased 4.0% in 2001, and 7.4% in 2000. Loans, the highest yielding component of earning assets, represented 77.2% of earning assets in 2002, compared to 71.1% in 2001 and 72.3% in 2000. Average interest bearing liabilities increased 0.9% in 2002, 1.4% in 2001, and 7.0% in 2000. Non-interest bearing deposits amounted to 15.5% of average earning assets in 2001 compared with 13.7% in 2001 and 13.1% in 2000.

TABLE 2

Changes in Net Interest Income
Due to Changes in Average Volume
and Interest Rates
Years Ended December 31,

	INCREASE (DECREASE) 2002 DUE TO:			INCREASE (DECREASE) 2001 DUE TO:		
(000's omitted)	**VOL**	**YIELD/ RATE**	**TOTAL**	**VOL**	**YIELD/ RATE**	**T**
TAXABLE SECURITIES	($903)	($477)	($1,380)	($625)	($256)	($
TAX-EXEMPT SECURITIES	209	(269)	(60)	4	(36)	
FEDERAL FUNDS SOLD	(124)	(464)	(588)	1,022	(739)	

TOTAL LOANS	1,172	(2,838)	(1,666)	420	(1,658)	(1,
LOANS HELD FOR SALE	111	(6)	105	92	(2)	
TOTAL EARNING ASSETS	465	(4,054)	(3,589)	913	(2,691)	(1,
INTEREST BEARING DEMAND DEPOSITS	100	(286)	(186)	(68)	(74)	(
SAVINGS DEPOSITS	326	(1,048)	(722)	217	(632)	(
TIME CDs $100,000 AND OVER	(467)	(305)	(772)	(11)	(237)	(
OTHER TIME DEPOSITS	(454)	(1,201)	(1,655)	450	47	
OTHER BORROWINGS	(9)	(25)	(34)	(478)	(13)	(
TOTAL INTEREST BEARING LIABILITIES	(504)	(2,865)	(3,369)	110	(909)	(
NET INTEREST INCOME	$969	($1,189)	($220)	$803	($1,782)	($

TABLE 3
(000's omitted)

Summary of Net Interest Income
Years Ended December 31,

	2002			**2001**			
ASSETS	**AVG BAL**	**INC/EXP**	**YIELD**	**AVG BAL**	**INC/EXP**	**YIELD**	**AVG**
Securities:							
U.S. Treasury and Government Agencies	21,800	788	3.61%	38,674	2,253	5.83%	5
State and Political (1)	17,387	976	5.61%	14,471	1,036	7.16%	1
Other	4,667	258	5.53%	3,472	173	4.98%	
Total Securities	43,854	2,022	4.61%	56,617	3,462	6.11%	6
Fed Funds Sold	20,904	338	1.62%	24,129	926	3.84%	
Loans:							
Commercial	137,622	9,868	7.17%	122,712	10,557	8.60%	10
Tax Free (1)	4,095	279	6.81%	1,021	73	7.12%	
Real Estate-Mortgage	13,504	1,044	7.73%	12,857	1,162	9.85%	2
Consumer	60,568	4,619	7.63%	65,635	5,684	8.66%	6
Total loans	215,789	15,810	7.33%	202,225	17,476	8.64%	19
Allowance for Loan Loss	(3,127)			(3,050)			(3
Net Loans	212,662	15,810	7.43%	199,175	17,476	8.77%	19
Loans Held for Sale	3,294	209	6.34%	1,595	104	6.52%	

TOTAL EARNING ASSETS	$283,841	$18,379	6.47%	$284,566	$21,968	7.72%	$27
Cash Due from Banks	15,648			11,466			1
All Other Assets	18,807			13,880			1
TOTAL ASSETS	$315,169			$306,862			$29
LIABILITIES & SHAREHOLDERS' EQUITY:							
Deposits:							
Interest bearing - DDA	42,637	405	0.95%	36,457	591	1.62%	4
Savings Deposits	85,746	1,174	1.37%	73,151	1,896	2.59%	6
Time CD's $100,000 and Over	24,305	1,022	4.20%	32,847	1,794	5.46%	3
Other Time CD's	75,114	3,022	4.02%	83,197	4,677	5.62%	7
Total Interest Bearing Deposits	227,802	5,623	2.47%	225,652	8,958	3.97%	21
Other Borrowings	2,081	99	4.76%	2,240	133	5.94%	
INTEREST BEARING LIABILITIES	$229,883	$5,722	2.49%	$227,892	$9,091	3.99%	$22
Non-interest bearing - DDA	43,908			39,014			3
All Other Liabilities	1,885			2,237			
Shareholders Equity	39,493			37,719			3
TOTAL LIABILITIES and S/H EQUITY	$315,169			$306,862			$29
Net Interest Rate Spread			3.98%			3.73%	
Net Interest Income/Margin		$12,657	4.46%		$12,877	4.53%	

(1) Presented on a fully taxable equivalent basis using a federal income tax rate of 34%.

37.

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses reflects management s judgment as to the level considered appropriate to absorb probable incurred losses in the loan portfolio. The Corporation s methodology in determining the adequacy of the allowance includes a review of individual loans, size and composition of the loan portfolio, historical loss experience, current economic conditions, financial condition of borrowers, the level and composition of non-performing loans, portfolio trends, estimated net charge-offs, and other pertinent factors. Although reserves have been allocated to various portfolio segments, the allowance is general in nature and is available for the portfolio in its entirety. At December 31, 2002, the allowance for loan losses was $3,184,000 or 1.42% of total loans. This compares with $3,125,000 or 1.46% at December 31, 2001 and $2,932,000, or 1.50%, at December 31, 2000. The Corporation has lowered the allowance for loan losses as a percent of total loans because of an improvement in overall asset quality.

The provision for loan losses was $426,000 in 2002 and $751,000 and $584,000 in 2001 and 2000 respectively. The decrease in the provision in 2002 reflects management s effort to maintain adequate reserves commensurate with loan growth. In 2002, loans charged-off had a modest increase due to some non-performing commercial loans. In 2001, loans charged-off decreased, due to a non-repetitive, substantial charge-off on non-performing commercial loans in

2000 and an increase in loans charged-off in the indirect loan portfolio in 2000. This increased charge-off level resulted in an increase in provision for loan losses in 2001.

Table 4 summarizes loan losses and recoveries from 1998 through 2002. During 2002 the Corporation experienced net charge-offs of $367,000, compared with net charge-offs of $558,000 and $613,000 in 2001 and 2000, respectively. The net charge-off ratio is the net of charge-off loans minus the recoveries from loans divided by gross loans. Accordingly, the net charge-off ratio for 2002 was .16% compared to .28% and .31% at the end of 2001 and 2000, respectively. The net charge-off ratio decreased due to an increase in commercial recoveries in 2002. The net charge-off ratio decreased slightly due to fewer charge-offs from the commercial and consumer portfolios in 2001. The net charge-off ratio increased in 2000 primarily due to a write down on a non-performing commercial loan.

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 or any exposure in foreign loans. The Corporation has not extended credit to finance highly leveraged transactions nor does it intend to do so in the future. Employment levels and other economic conditions in the Corporation s local markets may have a significant impact on the level of credit losses. Management continues to identify and devote attention to credits that may not be performing as agreed. Because of these factors and the uncertainty of economic conditions, management expects to maintain the current level of the allowance for loan losses as a percentage of gross loans in 2003. 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)

	Years Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Balance Beginning of Period	$3,125	$2,932	$2,961	$2,955	$2,955
Charge-offs:					
Commercial, Financial and Agricultural	(329)	(226)	(284)	(72)	(454)
Real Estate-Construction	0	0	0	0	0
Real Estate-Mortgage	(7)	0	0	(2)	(77)
Installment Loans to Individuals	(510)	(487)	(522)	(377)	(537)
Total Charge-offs	(846)	(713)	(806)	(451)	(1,068)
Recoveries:					
Commercial, Financial and Agricultural	344	28	107	13	43
Real Estate-Construction	0	0	0	0	0
Real Estate-Mortgage	0	0	0	0	37
Installment Loans to Individuals	135	125	86	71	92
Total Recoveries	479	155	193	84	172
Net Charge-offs	(367)	(558)	(613)	(367)	(896)
Provision	426	751	584	545	724
Balance at End of Period	$3,184	$3,125	$2,932	$2,961	$2,783
Ratio of Net Charge-Offs During the Period	0.16%	0.28%	0.31%	0.19%	0.55%

NON-INTEREST INCOME

Non-interest income was $5,394,000 in 2002, $5,363,000 and $4,528,000 in 2001 and 2000 respectively. These amounts represent an increase of 0.6% in 2002 compared to 2001 and an increase of 18.4% comparing 2001 to 2000.

The most significant category of non-interest income is service charges on deposit accounts. These fees were $2,594,000 in 2002, compared to $2,286,000 and $1,915,000 in 2001 and 2000 respectively. This is an increase of $308,000 or 13.5% in 2002 and a increase of $371,000 or 19.4% in 2001. In 2002, the increase was due to a new overdraft privilege product and an increase in business deposit account service charges. The increase in 2001 was due to higher overdraft charges and deposit account service charges being higher due to deposit growth. The decrease in 2000 is attributable to higher individual checking and saving account balances offsetting service charges.

Gains on the sale of mortgage loans originated by the Banks and sold in the secondary market were $1,009,000 in 2002, $659,000 in 2001, and $179,000 in 2000. The 53.1% increase in 2002 is due to the increase in mortgage loan production because of the lowest interest rates in thirty years. The 268.2% increase in 2001 is due to the increase in mortgage loan production caused by an increase in new home purchases and refinancing activity due to low mortgage interest rates. The Corporation sells the majority of the mortgage loans originated in the secondary market on a servicing released basis; thus the Corporation did not receive mortgage-servicing fees in 2002 or 2001.

Trust income decreased $26,000 in 2002 to $540,000 compared to $566,000 in 2001 and $695,000 in 2000. The 4.6% decrease in 2002 is due to portfolio turnover and the decline in market value of these assets. The decrease in 2001 was due to drop in assets under management and market value of these assets.

In 2002, the Corporation did not recognize a gain on security transactions compared to $674,000 gain on security transactions in 2001, and no gains in 2000. In 2001, these gains were a result of several transactions wherein the Corporation sold investment securities and reinvested in issues, which will provide greater total income potential.

Other income and fees includes income from the sale of checks, safe deposit box rent, merchant account income, ATM income, and other miscellaneous income items. Other income and fees were $1,251,000 in 2002 compared to $1,178,000 and $1,108,000 in 2001 and 2000 respectively. The increase in 2002 is due to an increase cash surrender value of bank owned life insurance. The increase in 2001 is due to an increase in income from the sale of official checks.

NON-INTEREST EXPENSE

Total non-interest expense was $12,253,000 in 2002 compared to $11,700,000 in 2001 and $11,436,000 in 2000. This is an increase of 4.7% in 2002 and 2.3% in 2001.

Salaries and employee benefits, the Corporation s largest operating expense category, were $6,454,000 in 2002, compared with $5,988,000 in 2001, and $5,801,000 in 2000. Increased costs are a result of annual salary increases, increases in health care expenses and staff additions in connection with a new branch office in Grand Blanc.

In 2002, equipment expenses were $1,563,000 compared to $1,411,000 in 2001 and $1,552,000 in 2000, an increase of 10.8% in 2002 and a decrease of 9.1% in 2001. The increase is attributable to equipment maintenance costs increasing due to more equipment to cover and increase in equipment depreciation. Equipment maintenance expense decreased due to better-negotiated contracts in 2001.

Occupancy expenses associated with the Corporation s facilities were $1,061,000 in 2002 compared to $886,000 in 2001 and $784,000 in 2000. In 2002, this was an increase of 19.8% and in 2001 an increase of 13.0%. The increase in 2002 is due to the expenses associated with the opening of the new Silver Parkway office and the opening of the second Grand Blanc office of The State Bank. The increase in 2001 is due to the opening of the new main office of Davison State Bank and the new Grand Blanc office of The State Bank.

Office supplies were $305,000 in 2002 compared to $300,000 in 2001 and $ 311,000 in 2000. In 2002, this was an increase of 1.7% and in 2001 a decrease of 3.5 %. The slight increase in 2002 is attributable to a modest increase in purchases of various normal office supplies. The decrease in 2001 was due to the reduction of office supplies expenses from 2000 where expenses were higher for the initial supplies for the new Davison State Bank.

Loan and collection expenses were $183,000 in 2002 compared to $178,000 in 2001, and $289,000 in 2000. The slight increase in 2002 of 2.8% was due to the increase in filing and recording fees due to the growth in the loan portfolio. The decrease in 2001 of $111,000 or 38.4% was due to the decrease in dealer service fees paid in connection with indirect auto lending.

Advertising expenses were $315,000 in 2002 compared to $320,000 in 2001, and $263,000 in 2000. The slight decrease in 2002 of $5,000 or 1.6% was due to a reduction in other promotional materials. The increase of $57,000 or 21.7% in 2001was due to the promotion of the new Davison State Bank and the promotion of the new Grand Blanc office of The State Bank.

The makeup of other professional fees includes audit fees, consulting fees, legal fees, and various other professional services. Other professional services were $1,100,000 in 2002 compared to $1,144,000 in 2001, and $1,000,000 in 2000. The decrease in 2002 of $44,000 or 3.8% was due to lower consulting fees. The increase of $144,000 or 14.4% in 2001 was attributable to the costs of researching a potential stock offering for Davison State Bank and increases in audit and legal fees for both banks.

Other general and administrative expenses were $1,272,000 in 2002 compared to $1,473,000 in 2001, and $1,436,000 in 2000. The decreases in these expenses were due to lower other losses from charged off accounts and lower correspondent bank charges in 2002. These expenses were higher in 2001 because of an increase in other losses from charged off accounts and increases in check processing costs.

FINANCIAL CONDITION

Proper management of the volume and composition of the Corporation s earning assets and funding sources is essential for ensuring strong and consistent earnings performance, maintaining adequate liquidity and limiting exposure to risks caused by changing market conditions. The Corporation s securities portfolio is structured to provide a source of liquidity through maturities and to 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 averaged $315 million for 2002 exceeding 2001 s average of $307 million by $8 million or 2.6%. Average loans comprised 68.5% of total average assets during 2002 compared to 65.9% in 2001. Loans grew $13.6 million on average with commercial loans leading the advance by $14.9 million or 12.2%. The ratio of average non-interest bearing deposits to total deposits was 16.2% in 2002 compared to 14.7% during 2001. Interest bearing deposits comprised 99.1% of total average interest bearing liabilities during 2002, increased from 99.0% during 2001. The Corporation s year end total assets were $340 million for 2002 up from $309 million in 2001. The increase was due to the higher loan demand and an increase in securities funded by deposit growth in 2002.

SECURITIES PORTFOLIO

Securities totaled $62,703,000 at December 31, 2002 compared to $39,167,000 at December 31, 2001. This was an increase of $23,536,000 or 60.1%. The increase in 2002 resulted principally from the purchasing new securities to replace the securities sold in December 2001 and purchasing of new securities throughout the year. At December 31, 2002 these securities comprised 21.4% of earning assets, up from 14.1% at December 31, 2001. The Corporation considers all of its securities as available for sale except for Michigan tax-exempt securities, which are classified as held to maturity. Increases in loan balances from new loan growth in excess of the amount of deposit growth, coupled with the increase in securities in 2002 accounts for the decrease in federal funds sold. Fed funds sold were $10,300,000 at December 31, 2002 compared with $22,800,000 at December 31, 2001.

The Corporation s present policies with respect to the classification of securities are discussed in Note 1 to the Consolidated Financial Statements. As of December 31, 2002, the estimated aggregate fair value of the Corporation s securities portfolio was $779,000 above amortized cost. At December 31, 2002 gross unrealized gains were $816,000 and gross unrealized losses were $36,000. A summary of estimated fair values and unrealized gains and losses for the major components of the securities portfolio is provided in Note 3 to the Consolidated Financial Statements. Yields on municipal securities presented in Table 5 below have not been tax effected.

TABLE 5
Analysis and Maturities of Securities

(000's omitted)	Amortized Cost	Fair Value	Yield
AVAILABLE FOR SALE			
U.S. Agencies			
One year or less	$4,018	$4,085	3.65%
Over one through five years	22,761	22,836	2.24%
Over five through ten years	2,104	2,106	2.53%
Over ten years	0	0	0.00%
Total	28,883	29,027	
Mortgage-Backed			
One year or less	$0	$0	0.00%
Over one through five years	0	0	0.00%
Over five through ten years	603	630	4.41%
Over ten years	6,298	6,463	4.41%

Total	6,901	7,093	

State and Political			
One year or less	$2,529	$2,532	1.95%
Over one through five years	2,887	2,911	2.08%
Over five through ten years	265	271	2.70%
Over ten years	3,640	3,674	2.70%
Total	9,321	9,388	
Corporate Bonds			
One year or less	$2,014	$2,025	3.63%
Over one through five years	1,017	1,053	5.80%
Over five through ten years	0	0	0.00%
Over ten years	0	0	0.00%
Total	3,031	3,078	
Equity Securities	$395	$395	
HELD TO MATURITY			
State and Political			
One year or less	$6,111	$6,125	2.17%
Over one through five years	3,547	3,720	4.15%
Over five through ten years	2,267	2,366	4.74%
Over ten years	1,797	1,840	4.93%
Total	13,722	14,051	
Total Securities	$62,253	$63,032	

LOAN PORTFOLIO

The Corporation extends credit primarily within in its local markets in Genesee, Oakland, and Livingston counties. The Corporation s commercial loan portfolio is widely diversified with no concentration within a single industry that exceeds 10% of total loans. The Corporation s respective loan portfolio balances are summarized in Table 6.

Total loans increased $10,085,000 at December 31, 2002, with total loans comprising 75.6% of earning assets as compared to 76.5% of December 31, 2001 earning assets. Local economic conditions remained reasonably steady throughout 2002. The steadiness of the local economy supported continued commercial business growth including commercial development. Accordingly, the Corporation experienced strong demand for commercial loans. In 2002, commercial loans increased approximately $10,668,000 to $129,562,000 or 9.0%. Additionally, real estate construction and development loans increased $1,598,000 or 6.3% to $27,032,000 at December 31, 2002. Consumer loans decreased in 2002 approximately $2,908,000 due to decrease in indirect loans. In 2001, real estate construction and development loans increased $7,963,000 or 46% to $25,434,000 at December 31, 2001. Consumer loans decreased modestly in 2001.

Management expects the local economy to support continued growth and development in 2003 and will aggressively seek out new loan opportunities while continuing to maintain sound credit quality.

TABLE 6
Loan Portfolio

December 31, (000's omitted)	2002	2001	2000	1999	1998
Commercial	$129,562	$118,894	$101,925	$92,896	$78,
Real estate - construction	27,032	25,434	17,471	12,481	9,
Real estate - mortgage	11,944	11,158	10,514	21,409	11,
Consumer	55,683	58,644	65,198	64,280	62,
Total	$224,221	$214,130	$195,108	$191,066	$161,

The Corporation originates primarily residential and commercial real estate loans, commercial, construction, and consumer loans. The Corporation estimates that 80% of the loan portfolio is based in Genesee and Livingston counties within southeast Michigan. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area

TABLE 7
Maturities of the Loan Portfolio by Loan Type

December 31, 2002 (000's omitted)	Within One Year	One-Five Years	After Five Years	Total
Commercial	$ 38,206	$ 77,795	$ 13,561	$ 129,562
Real estate - construction	21,036	5,996	0	27,032
Real estate - mortgage	3,304	3,676	4,964	11,944
Consumer	8,294	28,872	18,517	55,683
	$ 70,840	$ 116,339	$ 37,042	$ 224,221

TABLE 8
Maturities of the Loan Portfolio by Rate Categories

December 31, 2002 (000's omitted)	Within One Year	One-Five Years	After Five Years	Total
Loans:				
Fixed Rate	$ 27,924	$ 78,693	$ 19,070	$ 125,687
Variable Rate	42,916	37,646	17,972	98,534

$ 70,840	$ 116,339	$ 37,042	$ 224,221
========	=========	========	=========

Credit risk is managed via specific credit approvals and monitoring procedures. The Corporation s outside loan review function examines the loan portfolio on a periodic basis for compliance with credit policies and for identification of problem loans. These procedures provide management with information for setting appropriate direction and taking corrective action as needed.

The Corporation closely monitors its construction and commercial mortgage loan portfolios. Construction loans at December 31, 2002, which comprised 12.1% of total loans, totaled $27,032,000 as compared to $25,434,000 and $17,471,000 at the end of 2001 and 2000 respectively.

The construction and commercial real estate loan properties are located principally in the Corporation s local markets. Included are loans to various industries and professional organizations. The Corporation believes that these portfolios are well diversified and do not present a significant risk to the institution.

NON-PERFORMING ASSETS

Non-performing assets include loans on which interest accruals have ceased, loans which have been re-negotiated, real estate acquired through foreclosure, and loans past due 90 days or more and still accruing. Table 9 represents the levels of these assets at December 31, 1998 through 2002.

Total non-performing assets increased slightly at December 31, 2002 compared to 2001 due to an increase in non-accrual loans and an increase in other real estate owned and other non-performing assets. The improvement in total non-performing assets at December 31, 2001 compared to 2000 is attributable to reduction in non-accrual and past due loans accruing over 90 days. This is due to the improvement in loan quality over the past few years.

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 9
Non-Performing Assets and Past Due Loans (000's omitted)

	December 31,				
	2002	**2001**	**2000**	**1999**	**1**
Non-Performing Loans:					
Loans Past Due 90 Days or More & Still Accruing	$72	$186	$489	$240	
Non-Accrual Loans	512	321	731	859	
Renegotiated Loans	0	0	0	6	
Total Non-Performing Loans	584	507	1,220	1,105	
Other Non-Performing Assets:					
Other Real Estate	110	0	0	288	
Other Real Estate Owned in Redemption	164	0	0	179	

Other Non-Performing Assets	92	10	159	56
Total Other Non-Performing Assets	366	10	159	523
Total Non-Performing Assets	$950	$517	$1,379	$1,628
Non-Performing Loans as a % of Total Loans	0.26%	0.24%	0.63%	0.58%
Non-Performing Assets as a % of Total Loans and Other Real Estate	0.42%	0.25%	0.71%	0.85%
Allowance for Loan Losses as a % of Non-Performing Loans	545.21%	616.37%	240.33%	267.96%
Accruing Loans Past Due 90 Days or More to Total Loans	0.03%	0.09%	0.25%	0.13%
Non-performing Assets as a % of Total Assets	0.28%	0.17%	0.47%	0.57%

Table 10 reflects the allocation of the allowance for loan losses and is based upon ranges of estimates and is not intended to imply either limitations on the usage of the allowance or precision of the specific amounts. The Corporation does not view the allowance for loan losses as being divisible among the various categories of loans. The entire allowance is available to absorb any future losses without regard to the category or categories in which the charged-off loans are classified. Table 10 also reflects the percentage ratio of outstanding loans by category to total loans at the end of the respective year.

TABLE 10
Allocation of the Allowance for Loan Losses

	2002		2001		2000		1999		
December 31,		**Loan**		**Loan**		**Loan**		**Loan**	
(000's omitted)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**A**
Commercial and construction	$2,222	69.84%	$2,121	67.40%	$1,645	58.69%	$1,682	53.19%	
Real estate mortgage	65	5.33%	60	5.21%	94	7.89%	144	13.17%	
Consumer	897	24.83%	819	27.39%	890	33.42%	963	33.64%	
Unallocated	0		125		303		172		
Total	$3,184	100.00%	$3,125	100.00%	$2,932	100.00%	$2,961	100.00%	

The following describes the Corporation s policy and related disclosures for impaired loans. The Corporation maintains an allowance for impaired loans. A loan is considered impaired when management determines it is probable that the principal and interest due under the contractual terms of the loan will not be collected. In most instances, impairment is measured based on the fair value of the underlying collateral. Impairment may also be measured based on the present value of expected future cash flows discounted at the loan s effective interest rate. Interest income on impaired non-accrual loans is recognized on a cash basis. Interest income on all other impaired loans is recorded on an

accrual basis.

Certain of the Corporation s non-performing loans included in Table 9 are considered impaired. The Corporation measures impairment on all large balance non-accrual commercial loans. Certain large balance accruing loans rated substandard or worse are also measured for impairment. Impairment losses are adequately covered by the provision for loan losses. The policy does not apply to large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. Loans collectively evaluated for impairment include certain smaller balance commercial loans, consumer loans, residential real estate loans, and credit card loans, and are not included in the impaired loan data in the following paragraphs.

At December 31, 2002, loans considered to be impaired totaled $2,403,000. All amounts included within impaired loans required specific allowance. The average recorded investment in impaired loans was $2,642,000 in 2002. The interest income recognized on impaired loans based on cash collections totaled $72,000 during 2002.

At December 31, 2001, loans considered to be impaired totaled $2,880,000. All amounts included in impaired loans required specific allowance. The average recorded investment in impaired loans was $2,597,000 in 2001. The interest income recognized on impaired loans based on cash collections totaled $142,000 during 2001.

The Corporation maintains policies and procedures to identify and monitor non-accrual loans. A loan is placed on non-accrual status when there is doubt regarding collection of principal or interest, or when principal or interest is past due 90 days or more. Interest accrued but not collected is reversed against income for the current quarter and charged to the allowance for loan losses for prior quarters when the loan is placed on non-accrual status.

DEPOSITS

TABLE 11
Average Deposits

Years Ended December 31,	2002		2001		2000		1999		
(000's omitted)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Av Ba
Non-int. bearing demand	$43,908		$39,014		$35,711		$29,912		$
Interest-bearing demand	42,637	0.95%	36,457	1.62%	40,199	1.82%	41,996	1.70%	
Savings	85,746	1.37%	73,151	2.59%	66,890	3.45%	66,141	2.94%	
Time	99,419	4.07%	116,044	5.58%	108,149	5.75%	100,053	5.23%	1
Total	$271,710	2.07%	$264,666	3.38%	$250,949	3.69%	$238,102	3.31%	$2

The Corporation s average deposit balances and rates for the past five years are summarized in Table 11. Total average deposits were 2.7% higher in 2002 as compared to 2001. Deposit growth was derived primarily from increases in non-interest bearing demand, and savings deposits. Interest-bearing demand deposits comprised 15.7% of total deposits while savings deposits comprised 31.6% of total deposits.

As of December 31, 2002 certificates of deposit of $100,000 or more accounted for approximately 11.3% of total deposits compared to 8.5% at December 31, 2001. The maturities of these deposits are summarized in Table 12.

TABLE 12

Maturity of Time Certificates of Deposit of $100,000 or More

(000's omitted)	December 31, 2002	December 31, 2001
Three months or less	$9,701	$12,309
Over three through six months	3,110	4,004
Over six through twelve months	7,532	1,768
Over twelve months	13,197	4,516
Total	$33,540	$22,597

FEDERAL INCOME TAXES

The Corporation s effective tax rate was 29.9% for 2002, 29.9% for 2001 and 29.1% for 2000. The principal difference between the effective tax rates and the statutory tax rate of 34% is the Corporation s investment in securities and loans, which provide income exempt from federal income tax. Additional information relating to federal income taxes is included in Note 8 to the Consolidated Financial Statements.

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 senior 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 Corporation s deposit base plus other funding sources (federal funds purchased, other liabilities and shareholders equity) provided primarily all funding needs in 2002, 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 and market conditions. The Corporation does not foresee any difficulty in meeting its funding requirements.

Primary liquidity is provided through short-term investments or borrowings (including federal funds sold and purchased), while the security portfolio provides secondary liquidity along with FHLB advances. As of December 31, 2002 federal funds sold represented 3.0% of total assets, compared to 7.4% at the end of 2001. The Corporation regularly monitors liquidity to ensure adequate cash flows to cover unanticipated reductions in the availability of funding sources.

Interest rate risk is managed by controlling and limiting the level of earnings volatility arising from rate movements. The Corporation regularly performs reviews and analyses 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,

are reviewed, analyzed, and compared to policy and objectives to assure present and future financial viability.

The Corporation had cash flows from financing activities resulting primarily from the inflow of savings deposits and short-term borrowings. In 2002, these deposits increased $30,599,000 and these borrowings decreased $600,000. Cash used by investing activities was $40,004,000 in 2002 compared to cash provided of $5,321,000 in 2001. The change in investing activities is due to the purchasing of securities in 2002 compared to sales and calls of securities in 2001.

CAPITAL RESOURCES

Management closely monitors capital levels to provide for current and future business needs and to comply with regulatory requirements. Regulations prescribed under the Federal Deposit Insurance Corporation Improvement Act of 1991 have defined well capitalized institutions as those having total risk-based ratios, tier 1 risk-based capital ratios and tier 1 leverage ratios of at least 10%, 6%, and 5% respectively. At December 31, 2002, the Corporation was well in excess of the minimum capital and leverage requirements necessary to be considered a well capitalized banking company as defined by federal law.

Total shareholders equity rose 3.9% to $39,928,000 at December 31, 2002, compared with $38,433,000 at December 31, 2001. The Corporation s equity to asset ratio was 11.7% at December 31, 2002, compared to 12.4% at December 31, 2001. The increase in the amount of capital was obtained through retained earnings. In 2002, the Corporation paid the same dividend as in 2001 at $1.01 per share.

At December 31, 2002, the Corporation s tier 1 and total risk-based capital ratios were 14.1% and 15.2%, respectively, compared with 15.0% and 16.2% in 2001. The decrease in the risk-based capital ratios is largely due to the increase in loan volume and the increase in the security portfolio. The Corporation s tier 1 leverage ratio was 12.6% at December 31, 2002 compared with 12.5% at December 31, 2001. This increase in the leverage ratio was due to the increase in capital.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fentura Financial, Inc. faces market risk to the extent that both earnings and the fair value of its financial instruments are affected by changes in interest rates. The Corporation manages this risk with static GAP analysis and has begun simulation modeling. Throughout 2002, the results of these measurement techniques were within the Corporation s policy guidelines. The Corporation does not believe that there has been a material change in the nature of the Corporation s substantially influenced 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 were managed in 2002 compared to 2001.

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

The following table provides information about the Corporation s financial instruments that are sensitive to changes in interest rates as of December 31, 2002. The table shows expected cash flows from market sensitive instruments for each of the next five years and thereafter. The expected maturity date values for loans and securities (at amortized cost) were calculated without adjusting the instruments contractual maturity dates for expected prepayments. Maturity date values for interest bearing core deposits were not based on estimates of the period over which the deposits would be outstanding, but rather the opportunity for re-pricing. The Corporation believes that re-pricing dates, as opposed to expected maturity dates, may be more relevant in analyzing the value of such instruments and are reported as such in the following table.

TABLE 13
Rate Sensitivity of Financial Instruments

(000's omitted)	2002	2003	2004	2005	2006	Thereafter	Tot
Rate Sensitive Assets:							
Fixed interest rate loans	$27,924	$23,447	$22,125	$19,706	$13,415	$19,070	$125
Average interest rate	6.39%	7.43%	6.84%	5.35%	6.25%	4.82%	
Variable interest rate loans	$48,425	$10,987	$7,568	$7,708	$11,383	$17,972	$104
Average interest rate	5.89%	5.56%	5.60%	5.22%	5.01%	5.09%	
Fixed interest rate securities	$15,148	$2,784	$15,593	$4,906	$5,064	$11,104	$54
Average interest rate	3.35%	5.17%	4.24%	4.53%	6.97%	5.46%	
Variable Interest rate securities					$2,000	$6,104	$8
Average interest rate					2.42%	5.69%	
FHLB Stock	$822						
Average interest rate	6.00%						
Other interest bearing assets	$10,300						$10
Average interest rate	1.62%						
Rate Sensitive Liabilities:							
Interest-bearing checking	$51,194						$51
Average interest rate	0.95%						
Savings	$91,972						$91
Average interest rate	2.37%						
Time	$58,246	$19,462	$11,982	$1,431	$16,579	$128	$107
Average interest rate	2.77%	3.23%	4.53%	4.83%	4.67%	3.03%	
Short term borrowings	$1,500						$1
Average interest rate	1.21%						
FHLB advances	$16	$17	$18	$20	$21	$1,032	$1
Average interest rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%	

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 its interest rate sensitive assets and interest rate sensitive liabilities, and is referred to as GAP .

Table 14 sets forth the distribution of re-pricing of the Corporation s earning assets and interest bearing liabilities as of December 31, 2002, the interest rate sensitivity GAP, as defined above, the cumulative interest rate sensitivity GAP, the interest rate sensitivity GAP ratio (i.e. interest rate sensitive assets divided by interest rate sensitive liabilities) and the cumulative sensitivity GAP ratio. The table also sets forth the time periods in which earning assets and liabilities will mature or may re-price in accordance with their contractual terms.

TABLE 14 **Gap Analysis**
December 31, 2002

(000's Omitted)	Within Three Months	Three Months- One Year	One to Five Years	After Five Years
Interest Bearing Bank Deposits	$0	$0	$0	$0
Federal Funds Sold	10,300	0	0	0
Securities	4,124	13,245	30,347	14,987
Loans	111,430	14,513	78,759	19,519
Loans Held for Sale	5,509	0	0	0
FHLB Stock	822	0	0	0
Total Earning Assets	$132,185	$27,758	$109,106	$34,506
Interest Bearing Liabilities:				
Interest Bearing Demand Deposits	$51,194	$0	$0	$0
Savings Deposits	91,972	0	0	0
Time Deposits Less than $100,000	11,126	26,777	36,257	128
Time Deposits Greater than $100,000	9,701	10,642	13,197	0
Short-term Borrowings	1,500	0	0	0
FHLB Advances	0	16	776	1,032
Total Interest Bearing Liabilities	$165,493	$37,435	$49,530	$1,160
Interest Rate Sensitivity GAP	($33,308)	($9,677)	$59,576	$33,346
Cumulative Interest Rate Sensitivity GAP	($33,308)	($42,985)	$16,591	$49,937
Interest Rate Sensitivity GAP	-0.80	-0.74	2.20	29.75
Cumulative Interest Rate Sensitivity GAP Ratio	-0.80	-0.79	-1.07	1.20

As indicated in Table 14, the short-term (one year and less) cumulative interest rate sensitivity gap is negative. Accordingly, if market interest rates increase, this negative gap position could have a short- term negative impact on interest margin. Conversely, if market interest rates decrease, this negative gap position could have a short-term positive impact on interest margin. 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 indices. The limitations of gap described above impacted financial performance in 2002. The Corporation s gap position was negative and there was a decline in market interest rates; yet net interest income or margin dollars dropped. This occurred because assets, both variable and fixed through maturity and refinance, re-priced more dramatically than liabilities. The liabilities, largely deposits, either lagged market re-pricing due to the maturity dates on time deposits or were not re-priced by the same amount as assets due to competitive pressures. Interest bearing checking and savings deposits are generally lower cost of funds products compared to time deposits. This lower level of interest rates creates a smaller opportunity for re-pricing. For example certain asset products re-priced downward 4.25% with the downward movement of national prime rates throughout 2002 while most of interest bearing checking and savings were at rates lower than 1.00% at the start of the year and accordingly, had a much lesser level of re-pricing opportunity. The Corporation has implemented a more sophisticated model in 2002 to assist in monitoring and measuring interest rate sensitivity to changing interest rate environments. The Corporation will continue to make strides in managing interest rate sensitivity.

ACCOUNTING AND REPORTING DEVELOPMENTS

New accounting standards on asset retirement obligations, restructuring activities and exit costs, operating leases, and early extinguishment of debt were issued in 2002. Management determined that when the new accounting standards are adopted in 2003 they will not have a material impact on the Company s financial condition or results of operations.

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FORWARD LOOKING STATEMENTS

This discussion and analysis of financial condition and results of operations, and other sections of the Consolidated Financial Statements, contain forward looking statements that 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, proje 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, change in prices, the impact of technological advances, government and regulatory policy changes, the outcome of pending and future litigation and contingencies, trends in customer behavior as well as their ability to repay loans, and the local economy.

FENTURA FINANCIAL, INC. COMMON STOCK

Table 15 sets forth the high and low market information for each quarter of 2000 through 2002. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not represent actual transactions. As of March 1, 2003, there were 739 shareholders of record, not including participants in the Corporation s employee stock option program.

TABLE 15
Common Stock Data

Year	Quarter	Market Information High	Low	Dividends Paid Per Share
	First Quarter	$40.83	$29.27	$0.210
2000	Second Quarter	37.00	24.99	0.210
	Third Quarter	30.00	24.63	0.210
	Fourth Quarter	26.50	22.00	0.340
				$0.970
	First Quarter	$27.38	$25.13	$0.220
2001	Second Quarter	29.13	26.25	0.220

	Third Quarter	27.90	25.00	0.220
	Fourth Quarter	27.00	25.00	0.350
				$1.010
	First Quarter	$28.75	$25.50	$0.000
2002	Second Quarter	34.00	27.00	0.230
	Third Quarter	32.45	29.50	0.230
	Fourth Quarter	34.75	31.25	0.550
				$1.010

Note: Dividend per share figures have been adjusted to reflect a 20% stock dividend distributed on May 26, 2000.