FENTURA BANCORP INC
Form DEFR14A
March 25, 2002

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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

The Fentura Bancorp, Inc. 2002 Annual Shareholders Meeting will be held at the St. John Activity Center, 610 N. Adelaide Street, Fenton, Michigan, Wednesday, April 24, 2002, at 7:00 p.m. for the following purposes:

1. To elect two directors; and
2. To consider and vote upon a proposal to amend the Corporation's Articles of Incorporation to change the Corporation's name to Fentura Financial, Inc.
3. 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 15, 2002, 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 25, 2002

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 BANCORP, 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 Bancorp, 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 24, 2002, 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 25, 2002.

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 and for the proposed change in the Corporation's name. 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 BANCORP, INC. BOARD OF DIRECTORS	**THE STATE BANK BOARD OF DIRECTORS**	**DAVISON STATE BANK BOARD OF DIRECTORS**
David A. Duthie *Chief Executive Officer MDI International*	Richard A. Bagnall *Retired, Former Executive Vice President, The State Bank*	Darrell H. Cooper *Chairman, Fernco, Inc.*
Donald L. Grill	Jon S. Gerych	Thomas G. Donaldson

President & CEO *Fentura & The State Bank*	*President, Gerych* *Greenhouse, Inc.*	*Senior Vice President &* *CFO, McLaren Health* *Care Corporation*
Peggy L. Haw Jury *CPA, Dupuis & Ryden, P.C.*	Donald L. Grill *President & CEO* *Fentura & The State Bank*	John A. Emmendorfer, Jr. *President & CEO* *Davison State Bank*
J. David Karr *Attorney*	Philip J. Lasco *Owner & President* *Lasco Ford*	David H. Fulcher *President, The Fulcher* *Companies, Inc.*
Thomas P. McKenney *Attorney*	Thomas P. McKenney *Attorney*	Donald L. Grill *President & CEO* *Fentura & The State Bank*
Forrest A. Shook *President, NLB Corporation*	Brian P. Petty *Owner & President* *Fenton Glass Service, Inc*	Kevin M. Hammer *Senior Vice President* *Davison State Bank*
Russell H. Van Gilder, Jr. *Chairman, VG's Food* *Center, Inc.*	Glen J. Pieczynski *Owner and President,* *Linden True Value* *Hardware, Inc.*	Peggy L. Haw Jury *CPA, Dupuis & Ryden, P.C.*
		J. David Karr *Attorney*
	Janis L. Rizzo *Controller, McLaren* *Health Care Corporation*	Craig L. Stefanko *DCC Development/Minto* *Brothers Construction*

2002 ELECTION OF DIRECTORS

The first 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 II Directors") are Peggy L. Haw Jury and Russell H. Van Gilder, Jr. The Board has nominated these same individuals for reelection as Class II Directors. If elected, the terms of these directors will expire at the 2005 annual meeting of shareholders.

Except for those individuals nominated by the Board of Directors, no persons may be nominated for election at the 2002 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

PROPOSAL TO CHANGE THE NAME OF THE CORPORATION
TO FENTURA FINANCIAL, INC.

The Corporation's Board of Directors has approved an amendment to Article I of the Corporation's Articles of Incorporation changing the Corporation's name from Fentura Bancorp, Inc. to Fentura Financial, Inc.

During 2000, the Corporation elected to become a financial holding company. The Gramm-Leach-Bliley Act, enacted into law on November 12, 1999, and regulations promulgated under that Act, expanded the authority of bank holding companies allowing them to enter into business combinations with other financial institutions, including securities and insurance firms, and other financial activities to offer customers a more complete array of financial products and services. While the Corporation has no immediate plans to engage in any of these combinations or other financial activities, the Board of Directors believes that the change in the Corporation's name will align its name more closely with its relatively new status and permitted business activities.

Required Vote for Approval. The affirmative vote of a majority of the Corporation's Common Stock outstanding is required to approve the amendment. Shares not voted at the meeting, whether by abstention, broker nonvote, or otherwise, will be treated as votes cast against the amendment. Unless otherwise directed by marking the accompanying proxy, the proxy holder named therein will vote for the approval of the amendment.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE PROPOSED AMENDMENT TO CHANGE THE CORPORATION S NAME.

STOCK OWNERSHIP INFORMATION

Stock Ownership Of Directors, Executive Officers And Certain Major Shareholders

At the close of business on March 15, 2002, the record date for determination of the shareholders entitled to vote at the annual meeting, the Corporation had issued and outstanding 1,735,496 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 15, 2002.

Name of Beneficial Owner	Shares Beneficially Owned[1]	Percent Of Outstanding[2]
David A. Duthie (Director)..	175[3]	*
Donald L. Grill (Director, Executive Officer)...	5,051[3]	*
Peggy L. Haw Jury (Director)..	865[3]	*
Ronald L. Justice (Executive Officer)...	576[3]	*
J. David Karr (Director)..	1,005[3]	*
Thomas P. McKenney (Director)...	4,050[3][4]	*
Robert E. Sewick (Executive Officer)..	900	*
Forrest A. Shook (Director)..	17,069[3][4]	*
Russell H. Van Gilder, Jr. (Director)..	32,328[4]	1.86%
Donald E. Johnson, Jr.[5]..	180,099	10.38%
Linda J. Lemieux[5]..	95,569	5.51%
Mary Alice Heaton[5]..	94,626	5.45%
Directors and Executive Officers as a group (9 persons)...	62,019	3.57%

(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 1,054 shares through his business NLB Corporation.

(4) Includes 1,472 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

THE CORPORATION S BOARD OF DIRECTORS

The Board of Directors of the Corporation held twelve (12) regularly scheduled meetings and no special meetings during 2001. 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 in 2005

Peggy L. Haw Jury, age 50, 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 68, 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 1998 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. Mr. Van Gilder is also a Director of Spartan Stores, Inc., a regional food retailer and distributor based in Grand Rapids, Michigan.

Directors with Terms Expiring in 2004

David A. Duthie, age 55, was appointed a Class I Director of the Corporation effective January 2001. Mr. Duthie joined MDI International in September of 2001 as its Chief Executive Officer. MDI is a manufacturer of point of purchase display fixtures, promotional signage and traffic control signage. For more than five years prior to joining MDI, Mr. Duthie served as the President of Creative Foam Corporation, a Fenton based company that designs, fabricates and forms cellular and noncellular plastics for automotive, material handling, medical and sports and leisure applications.

J. David Karr, age 63, 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 49, 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.

Directors with Terms Expiring 2003

Forrest A. Shook, age 59, has been a director and vice chairman of the Board of Directors of the Corporation since 1997. He served as a director of The State Bank from 1996 through December of 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 54, 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.

DIRECTOR COMPENSATION

The Corporation and the 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 2001. 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.

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 five (5) times in 2001, 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 2001, all Committee deliberations were considered by the full Board at regular Board meetings.

Audit Committee

Ms. Haw Jury and Messrs. Duthie 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 Audit Committee is guided by an Audit Committee Charter which was adopted by the Board of Directors during 2001. A copy of the Audit Committee Charter was attached to the Proxy Statement relating to the 2001 Annual Meeting of Shareholders. All of the members of the Audit Committee are independent, as defined in Rule 4200(a) of the NASD Listing Standards. During 2001, the Audit Committee held two (2) meetings. On February 21, 2002, 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, 2001.

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, 2001.

Management is responsible for the Corporation's financial reporting process including its systems of internal control, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The Corporation's independent auditors are responsible for auditing those financial statements. Our responsibility is to monitor and review these processes. It is not our duty or our responsibility to conduct auditing or accounting reviews or procedures. We are not employees of the Corporation and some of us are not, and may not represent ourselves to be or to serve as, accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, we have relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Corporation's financial statements. Our oversight does not provide us with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, our considerations and discussions with management and the

---

independent auditors do not assure that the Corporation's financial statements are presented in accordance with generally accepted accounting principles, that the audit of our Corporation's financial statements has been carried out in accordance with generally accepted auditing standards or that our Corporation's independent accountants are in fact "independent."

Respectfully submitted,

Peggy L. Haw Jury
David L. Duthie
J. David Karr

Compensation/ESOP Committee

The members of the Compensation/ESOP Committee are Ms. Haw Jury and Messrs. Van Gilder and Duthie. This Committee oversees the administration of the Corporation's compensation and benefit programs. All Compensation/ESOP Committee items during 2002, including the performance of the CEO, were considered by the full Board at regular Board meetings.

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 2001 Compensation/ESOP
Committee

Peggy L. Haw Jury
David L. Duthie
Russell H. Van Gilder, Jr.

-9-

EXECUTIVE COMPENSATION

During 2001, 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 2001.

Summary Compensation Table

		Annual Compensation			
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation[1]	All Other Compensation[2]
Donald L. Grill	2001	$192,610	$46,979	$ 9,550	$11,168
President	2000	187,000	54,098	10,250	9,245
Chief Executive Officer of the Corporation and The State Bank	1999	179,760	90,892[3]	10,250	10,412
Ronald L. Justice	2001	$ 95,400	$17,545	-	$ 7,137
Chief Financial Officer	2000	90,000	19,373	-	6,796
of the Corporation and The State Bank	1999	82,175	24,717	-	6,530
Robert E. Sewick[4]	2001	$123,600	$25,451	-	$ 8,462
Senior Vice President	2000	120,000	27,413	-	1,274
and Senior Loan Officer of The State Bank	1999	64,135	49,066	-	-

(1) Includes fees paid to Mr. Grill for his service as a director.

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

(3) In 1999, Mr. Grill received an extra bonus incentive in the amount of $10,000 for his personal performance in directing The State Bank in its achievement of one hundred percent of its objectives.

(4) Mr. Sewick joined The State Bank in June of 1999, at an annual salary of $115,000, plus an initial hiring bonus of $25,000. The table discloses his compensation earned from the time he was hired through December 31, 2001.

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 2001 to and retained by the named executives of the Corporation at December 31, 2001. None of the named executives exercised any stock options during the year 2001.

-10-

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	1,077	35.4%	$25.13	2011	$17,017	$43,134
Ronald L. Justice	386	12.7%	25.13	2011	6,099	15,459
Robert E. Sewick	546	17.9%	25.13	2011	8,627	21,867

YEAR END OPTION VALUES

Number of Shares Underlying Value of Unexercised

	Unexercised Options at Year End[1] Exercisable/Unexercisable	In-the-Money Options at Year End Exercisable/Unexercisable
Donald L. Grill	0/1,765	0/$398
Ronald L. Justice	0/596	0/$143
Robert E. Sewick	0/991	0/$202

(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 2001, the SERP accrued $20,054 on behalf of Donald L. Grill and $8,562 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 2001, $17,082 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, 2001, 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, 2001, 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: $60,000.

Financial Information System Design and Implementation Fees

No professional services were rendered by Crowe Chizek and Company LLP for the year ended December 31, 2001, 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 $14,725.

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, 2001, 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 1996. 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, 1996 and the reinvestment of all dividends through the period ending December 31, 2001.

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

	1996	1997	1998	1999	2000	2001
Fentura Bancorp	100	128.32	250.79	226.91	160.07	168.83
Midwest Bank Index	100	126.66	155.51	134.48	110.84	102.23
NASDAQ Market Index	100	122.48	172.68	320.89	193.01	153.15

*Source: SNL Financial L.C.

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, 2001, 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.

OTHER INFORMATION

Annual Report on Form 10K

The Corporation will provide a copy of its 2001 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 2001, 2000, and 1999. 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, 2001, 2000, and 1999 amounted to $1,532,000, $1,134,000 and $909,000, respectively. During 2001, $203,000 of new loans were made and repayments totaled $601,000. At December 31, 2001, these loans aggregated 3.99% 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 2003 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 22, 2002.

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 25, 2002

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

Fentura Bancorp, 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 Bancorp, Inc. held of record by the undersigned on March 15, 2002, at the annual meeting of shareholders to be held April 24, 2002, and at any adjournment thereof.

1. In the election of two directors, each to be elected for a term expiring in 2005

[ ] **FOR** the nominees listed below

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

Peggy L. Haw Jury - Russell H. Van Gilder, Jr.

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

2. Proposal to amend the Corporation's Articles of Incorporation to change the Corporation's name to Fentura Financial, Inc.

[ ] **FOR** [ ] **AGAINST** [ ] **ABSTAIN**

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 and FOR the Proposal listed in No. 2.**

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: ________________, 2002

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

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FENTURA BANCORP, INC.

DECEMBER 31, 2001, 2000 AND 1999

and

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

CONTENTS

	PAGE
Reports of Independent Certified Public Accountants..	3
FINANCIAL STATEMENTS	
Consolidated Balance Sheet..	5
Consolidated Statements of Income..	6
Consolidated Statements of Comprehensive Income...	7
Consolidated Statements of Stockholders' Equity...	8
Consolidated Statements of Cash Flows..	9
Notes to Consolidated Financial Statements...	10-32
Management's Discussion and Analysis of Financial Conditions and Results of Operations...	33-51

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet of Fentura Bancorp, Inc. as of December 31, 2001 and the related consolidated statements of income, statements of comprehensive income, changes in stockholders' equity and cash flows for the year 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 financial statements of the Corporation as of and for each of the two years in 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 2001 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fentura Bancorp, Inc. as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe, Chizek and Company LLP

Grand Rapids, Michigan
January 25, 2002

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Fentura Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Fentura Bancorp, Inc. and subsidiaries as of December 31, 2000 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2000. 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.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fentura Bancorp, Inc. and subsidiaries as of December 31, 2000 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Southfield, Michigan
January 26, 2002

4.

FENTURA BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000
(000's omitted except per share data)

CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000
(000's omitted except per share data)

	2001	2000
ASSETS		
Cash and due from banks	$ 19,038	$ 13,459
Federal funds sold	22,800	7,250
Total cash and cash equivalents	41,838	20,709
Securities available for sale, at market	25,792	52,599
Securities held to maturity (fair value of $13,508 at December 31, 2001 and $13,419 at December 31, 2000)	13,375	13,283
Loans held for sale	1,710	187
Loans, net of allowance for loan losses of $3,125 and $2,932, respectively	211,005	192,176
Bank premises and equipment	8,532	6,547
Accrued interest receivable	1,445	1,924
Federal Home Loan Bank stock	822	822
Other assets	4,571	4,643
	$ 309,090	$ 292,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing deposits	$ 42,524	$ 34,762
Interest-bearing deposits	222,746	213,894
Total deposits	265,270	248,656

Short-term borrowings	2,100	4,680
Federal Home Loan Bank Advances	1,138	1,151
Accrued taxes, interest and other liabilities	2,149	2,649
Total liabilities	270,657	257,136
Stockholders' equity		
Common stock - $2.50 par value 1,735,496 shares issued (1,722,308 in 2000)	4,338	4,305
Surplus	26,326	26,016
Retained earnings	7,677	5,648
Accumulated other comprehensive income (loss)	92	(215
	38,433	35,754
	$ 309,090	$ 292,890

See accompanying notes to consolidated financial statements.

5.

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2001, 2000 and 1999
(000's omitted except per share data)

	2001	2000	1999
Interest income			
Loans, including fees	$ 17,555	$ 18,710	$ 16,8
Securities:			
Taxable	2,426	3,350	3,1
Tax-exempt	660	624	5
Short-term investments	926	643	5
Total interest income	21,567	23,327	21,2
Interest expense			
Deposits	8,958	9,266	7,8
Short-term borrowings	47	86	
Federal Home Loan Bank Advances	86	538	
Total interest expense	9,091	9,890	8,0
Net interest income	12,476	13,437	13,2
Provision for loan losses	751	584	5
Net interest income after provision for loan losses	11,725	12,853	12,6
Noninterest income			
Service charges on deposit accounts	2,286	1,915	1,9

Gain on sale of mortgages	659	179	1
Mortgage servicing		631	1
Trust income	566	695	5
Gain on sale of securities	674		
Other income and fees	1,178	1,108	1,4
Total noninterest income	5,363	4,528	4,2
Noninterest expense			
Salaries and employee benefits	5,988	5,801	5,5
Occupancy	886	784	7
Furniture and equipment	1,411	1,552	1,4
Office supplies	300	311	2
Loan and collection	178	289	3
Advertising and promotional	320	263	2
Other professional services	1,144	1,000	8
Other general and administrative	1,473	1,436	1,6
Total noninterest expense	11,700	11,436	11,1
Net income before taxes	5,388	5,945	5,7
Applicable income taxes	1,611	1,729	1,7
Net income	$ 3,777	$ 4,216	$ 4,0
Per share:			
Earnings - basic	$ 2.18	$ 2.46	$ 2.
Earnings - diluted	2.18	2.45	2.
Average number of common shares outstanding	1,728,983	1,712,971	1,698,5

See accompanying notes to consolidated financial statements.

6.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2001, 2000 and 1999
(000's omitted except per share data)

	2001	2000	
Net income	$ 3,777	$ 4,216	$
Other comprehensive income (loss):			
Unrealized holding gains (losses) on available for sale securities	1,139	1,318	
Less: reclassification adjustment for gains and losses later recognized in income	674		
Net unrealized gains (losses)	465	1,318	
Tax effect on unrealized holding gains (losses)	(158)	(448)	

Other comprehensive income (loss), net of tax	307	870	
Comprehensive income	$ 4,084	$ 5,086	$

See accompanying notes to consolidated financial statements.

7.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2001, 2000 and 1999
(000's omitted except per share data)

	Common Stock	Capital Surplus	Retained Earnings	C
Balance, January 1, 1999	$ 3,521	$ 17,644	$ 8,664	
Net Income			4,000	
Cash Dividends ($.93 per share)			(1,586)	
Issuance of shares under stock purchase plans	34	673		
Other comprehensive income (net of tax)				
Balance, December 31, 1999	3,555	18,317	11,078	
Net Income				
Cash Dividends ($.97 per share)				
Issuance of shares under stock purchase plans	38	432		
Stock repurchase	(1)		(7)	
Stock dividend	713	7,267	(7,980)	
Other comprehensive income (net of tax)				
Balance, December 31, 2000	4,305	26,016	5,648	
Net Income			3,777	
Cash Dividends ($1.01 per share)			(1,748)	
Issuance of shares under stock purchase plans	33	310		
Other comprehensive income (net of tax)				

Balance, December 31, 2001	$ 4,338	$ 26,326	$ 7,677

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000 and 1999
(000's omitted except per share data)

	2001	2000	1
Cash flows from operating activities			
Net income	$ 3,777	$ 4,216	$ 4
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	968	941	
Deferred income taxes (benefit)	(170)	(100)	
Provision for loan losses	751	584	
Gain on sale of mortgage servicing rights		(467)	
Gain on sale of loans	(659)	(179)	
Loans originated for sale	(48,585)	(9,494)	(7
Proceeds from the sale of loans	47,721	9,501	7
Gain on sales of securities - AFS	(674)		
Net change in accrued interest receivable	440	(237)	
Net change in accrued interest payable and other liabilities	(377)	915	(3
Net cash from operating activities	3,192	5,680	2
Cash flows from investing activities			
Proceeds from maturities of securities - HTM	4,054		
Proceeds from maturities of securities - AFS	8,620	6,539	56
Proceeds from calls of securities - AFS	20,596		
Proceeds from sales of securities - AFS	27,274		12
Purchases of securities - HTM	(4,235)		
Purchases of securities - AFS	(28,487)	(3,995)	(60
Originations of loans, net of principal repayments	(19,580)	(4,390)	(19
Proceeds from sale of mortgage servicing rights		887	
Acquisition of premises and equipment	(2,921)	(1,336)	(2
Net cash from investing activities	5,321	(2,295)	(13
Cash flows from financing activities			
Net change in deposits	16,614	1,605	5
Net change in short-term borrowings	(2,580)	3,315	1
Repayments on advances from Federal Home Loan Bank	(13)	(13)	
Cash dividends paid	(1,748)	(1,659)	(1
Net proceeds from stock issuance and purchases	343	462	
Net cash from financing activities	12,616	3,710	6

Net increase in cash and cash equivalents	21,129	7,095	(4
Cash and cash equivalents at beginning of year	20,709	13,614	18
Cash and cash equivalents at end of year	$ 41,838	$ 20,709	$ 13
Supplemental disclosure of cash flow information			
Cash paid during the year for			
Interest $	8,861	$ 9,652	$ 8
Income taxes	1,710	1,627	2

See accompanying notes to consolidated financial statements.

9.

FENTURA BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001 and 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Davison State Bank was formed March 13, 2000 as a de novo bank resulting from the spin-off of two existing branches of The State Bank. This transaction was accounted for at historical cost and therefore did not have any effect on the consolidated financial statements.

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 eastern 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 discounted amounts.

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.

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.

New Accounting Pronouncements: A new accounting standard requires all business combinations to be recorded using the purchase method of accounting for any transaction initiated after June 30, 2001. Under the purchase method, all identifiable tangible and intangible assets and liabilities of the acquired company must be recorded at fair value at date of acquisition, and the excess of cost over fair value of net assets acquired is recorded as goodwill. Identifiable intangible assets must be separated from goodwill. Identifiable intangible assets with finite useful lives will be amortized under the new standard, whereas goodwill, both amounts previously recorded and future amounts purchased, will cease being amortized starting in 2002. Annual impairment testing will be required for goodwill with impairment being recorded if the carrying amount of goodwill exceeds its implied fair value. Adoption of this standard on January 1, 2002 did not have a material effect on the Corporation s financial statements.

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 $5,324,000 and $3,123,000 was required to meet regulatory reserve and clearing requirements at year end 2001 and 2000. 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, the identifiable segments are not material and 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.