

# *LETTER TO SHAREHOLDERS*

To our Shareholders:

While Fentura reported an operating loss again for 2010, it does appear that 2010 will be remembered as the year that we “turned the corner” on the great recession. In addition to the improved operating performance for the full year, the company recorded an operating profit during the fourth quarter and importantly, negotiated and/or completed divestitures designed to strengthen the company’s capital structure.

Following this letter, you will find a detailed discussion of our 2010 financial performance results along with our audited financial statements. The following themes summarize our performance for the year.

- For the full year, Fentura recorded an operating loss of \$5,385,000 or \$2.37 per diluted share; a substantial improvement when compared to the \$16,980,000 or \$7.70 per diluted share operating loss reported for 2009.
- For the year, the net interest margin improved 22 basis points from 3.50% in 2009 to 3.72% in 2010. Aggressive relationship management pricing by our lenders and retail bankers was the primary cause for the improvement.
- Core earnings (setting aside extra ordinary provision for loan losses and loan collection expense) remained positive at both subsidiary banks.
- Capital levels continued to meet regulatory adequately capitalized requirements at both subsidiary banks.

Strategic objectives achieved during 2010 include:

- The divestiture of Davison State Bank which was completed on April 28, 2010.
- The subsidiary banks exceeded Board established goals to reduce problem loan levels and reduce loan concentrations in high risk categories.
- The pace and the price of reselling real estate acquired in connection with troubled loans improved from 2009.
- The banks reduced the reliance on brokered or time based Certificates of Deposit yet maintained adequate funding levels.
- Negotiations were completed regarding the sale of West Michigan Community Bank. (The formal closing was completed on January 31, 2011.)

(continued on next page)

(Letter to Shareholders continued)

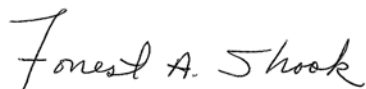
The strategic initiatives accomplished above have had, and will continue to have, a very positive impact on the capital position and financial performance of the company. Following the sale of the banks, the Tier 1 Capital Leverage Ratio at Fentura improved 36% to approximately 6.7% on an unaudited basis at January 31, 2011. The sale resulted in an approximate \$700,000 gain on sale which will be accounted for in the first quarter 2011 results. Additionally, it is expected that during the first quarter of 2011 Fentura will be able to downstream proceeds connected with the sale to further strengthen the capital position of The State Bank.

During the year, JoAnne Shaw, founder and President of the Coffee Beanery, Ltd.; and Ron Rybar, the founder and President of the Rybar Group joined the Board of Directors of both Fentura Financial, Inc. and The State Bank. Ron Justice, a former President of both Davison State Bank and West Michigan Community Bank, returned to Fenton as President and COO of The State Bank and State Bank Senior Lender Daniel Wollschlager was named Executive Vice President. Both Ron and Dan serve as Directors of the Bank.

As always, we will be happy to respond to any questions you may have regarding your investment in Fentura Financial, Inc. or the performance of the company. In that regard, we have included a special questionnaire in your Proxy mailing package for the 2011 Annual Meeting. The meeting will be held at 10:00 A.M. on Wednesday, April 27, 2011 **at the Fenton Community and Cultural Center, located at 150 S. Leroy Street, Fenton**, one block south of the Main Office of The State Bank.

We appreciate your continued support as we work diligently to improve the value of your investment in our company.

Sincerely,



Forrest A. Shook  
Chairman



Donald L. Grill  
President & CEO

# *FINANCIAL PERFORMANCE SUMMARY*

Fentura Financial, Inc. reported a \$5.4 million operating loss in 2010 compared to an operating loss of \$17.0 million in 2009. A reduction in the loan loss provision of \$4.1 million, reduction in the losses on discontinued operations of \$4.2 million, reduction in non interest expenses of \$0.8 million, and reduced write downs of equity investments of \$1.4 million, all contributed to the improved performance in 2010. Salary and benefit expenses were also reduced by 4.0% from year to year.

Net interest income declined slightly \$0.4 million due to a reduction in interest income of \$2.8 million, partially offset by a reduction of \$2.4 million in interest expense. Interest income declined primarily due to the shrinking of the loan portfolio and a continued high level of non performing assets. Interest expense declined primarily due to managed rate reductions on deposit accounts.

The provision for loan losses and expenses incurred collecting problem loans decreased \$5.4 million in 2010 to \$8.2 million. An improvement in economic conditions and a stabilization of real estate values lead to the reduction in the loan loss provision in 2010. Management believes the allowance for loan losses at December 31, 2010 of \$10.0 million was sufficient to cover all known losses in the loan portfolio.

Total Non-Interest Income of \$4.8 million reflected a \$1.4 million improvement over 2009. Fentura did not take a write down on equity securities in 2010, but incurred a write down in 2009 of \$1.4 million. Non-Interest Expenses of \$13.0 million declined \$1.6 million in 2010. Almost all expense categories decreased from 2009 to 2010.

Total assets declined \$97.9 million or 18.7% in 2010 as loans declined \$34.1 million and deposits declined \$35.6 million. Total stockholders equity declined 22%, primarily due to the operating losses mentioned above. However, both subsidiary banks remain adequately capitalized in accordance with regulatory standards.

# BALANCE SHEET

*Fentura Financial, Inc.-Condensed Consolidated Balance Sheets (\$ in thousands)*

DECEMBER 31	2010	2009	2008	2007	2006
<b>ASSETS</b>					
<b>Cash and Due From Banks</b>	\$ 11,592	\$ 15,490	\$ 11,244	\$ 14,835	\$ 13,980
Federal Funds Sold and Other Short Term Investments	21,900	16,150	0	7,300	7,200
<b>Securities</b>	46,225	39,394	44,999	59,682	75,860
Loans	208,825	242,279	291,581	298,725	287,528
<b>Less Allowance for Loan Losses</b>	(10,027)	(8,589)	(7,328)	(4,882)	(4,088)
Other Assets	22,745	32,082	29,594	26,955	20,475
<b>Assets of discontinued operations</b>	122,968	185,273	208,737	225,404	221,343
<b>Total Assets</b>	<b>\$424,228</b>	<b>\$522,079</b>	<b>\$578,827</b>	<b>\$628,019</b>	<b>\$622,298</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Deposits</b>	\$ 275,977	\$ 311,551	\$ 331,992	\$ 354,303	\$ 345,576
Short Term Borrowings	879	164	1,500	649	1,500
<b>Other Borrowings</b>	954	981	2,007	1,031	1,052
Repurchase Agreements	0	0	0	5,000	10,000
<b>Subordinated Debt</b>	14,000	14,000	14,000	14,000	14,000
Liabilities of discontinued operations	113,321	172,077	191,115	199,757	194,321
<b>Other Liabilities</b>	3,042	2,774	2,089	3,784	4,531
Total Stockholders' Equity	16,055	20,532	36,124	49,496	51,318
Total Liabilities and Stockholders' Equity	\$424,228	\$522,079	\$578,827	\$628,019	\$622,298
<b>RISK BASED CAPITAL RATIOS</b>					
<b>Tier 1 Capital to Risk Weighted Assets</b>	6.50%	6.50%	10.40%	11.30%	10.60%
Total Capital to Risk Weighed Assets	7.80%	7.80%	11.60%	12.50%	11.90%
<b>Tier 1 Capital to Average Assets</b>	4.90%	5.00%	9.00%	8.60%	8.90%

# STATEMENT OF INCOME

*Fentura Financial, Inc.-Condensed Consolidated Statements of Income (\$ in thousands, except per share data)*

YEAR ENDED DECEMBER 31,	2010	2009	2008	2007	2006
<b>SUMMARY OF INCOME</b>					
<b>Interest Income</b>	\$ 15,077	\$ 17,889	\$ 20,627	\$ 24,716	\$ 24,712
Interest Expense	4,552	6,925	9,307	11,382	10,274
<b>Net Interest Income</b>	10,525	10,964	11,320	13,334	14,438
Provision for Loan Losses	6,934	11,040	5,610	5,395	720
<b>Net Interest Income after Provision for Loan Losses</b>	3,591	(76)	5,710	7,939	13,718
Total Other Operating Income	4,773	3,390	3,060	5,308	5,482
<b>Total Other Operating Expense</b>	13,087	14,711	14,455	13,854	14,622
Income (Loss) Before Income Taxes	(4,723)	(11,397)	(5,685)	(607)	4,578
<b>Income Tax Expense (Benefit)</b>	(202)	2,283	(2,149)	(435)	1,427
Discontinued operations, net of tax	(864)	(3,300)	(8,629)	(295)	2,157
<b>Net Income (Loss)</b>	(\$ 5,385)	(\$ 16,980)	(\$ 12,165)	(\$ 467)	\$ 5,308
<b>PER SHARE AMOUNTS*</b>					
Net Income (Loss) Per Share-Basic	(\$2.37)	(\$7.70)	(\$5.60)	(\$0.22)	\$2.48
<b>Net Income (Loss) Per Share-Diluted</b>	(\$2.37)	(\$7.70)	(\$5.60)	(\$0.22)	\$2.47
Cash Dividends Paid	\$0.00	\$0.00	\$0.00	\$1.00	\$0.94
<b>Average Number of Common Shares Outstanding</b>	2,272,065	2,205,419	2,174,226	2,159,586	2,141,388
Book Value Per Share	\$6.95	\$9.13	\$16.53	\$22.88	\$24.08
<b>Period End Market Price</b>	\$1.75	\$1.36	\$6.75	\$22.00	\$32.55
<b>PERFORMANCE RATIOS</b>					
Return on Average Assets	-1.15%	-3.02%	-2.03%	-0.08%	0.85%
<b>Return on Average Stockholders' Equity</b>	-28.52%	-61.18%	-25.13%	-0.89%	10.82%
Net Interest Margin	3.72%	3.50%	3.33%	3.66%	4.11%

# REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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



We have audited, in accordance with the standards of the Public Accounting Oversight Board (United States), the consolidated balance sheets of Fentura Financial, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2010, and appearing in the Annual Report Supplement to the proxy statement for the annual meeting of the stockholders, not appearing herein. In our report dated March 9, 2011, also appearing in the Annual Report Supplement to the proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying 2010 and 2009 condensed consolidated financial statements is fairly stated in all material respects, in relation to the consolidated financial statements from which it has been derived. We expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph referencing disclosures regarding the Corporation's bank subsidiary non-compliance with a formal regulatory agreement.

Grand Rapids, Michigan  
March 9, 2011

A handwritten signature in black ink that reads "Crowe Horwath LLP".

## MANAGEMENT REPORT

Management prepared and is responsible for the consolidated financial statements, as well as the integrity and consistency of other related data contained in the Annual Report of Fentura Financial, Inc. and its wholly owned subsidiaries, The State Bank, and West Michigan Community Bank. In the opinion of management, the statements have been prepared in accordance with generally accepted accounting principles to reflect, in all material respects, the financial events and transactions that occurred during the respective periods.

The Corporation maintains an internal control structure that is designed to provide reasonable assurance as to the integrity of financial records and the protection of assets. The internal control structure includes written policies and procedures, proper delegation of authority, organizational division of responsibilities, and careful selection and training of qualified personnel. The effectiveness of, and compliance with, established control procedures is monitored through a continuous program of internal audit and credit risk evaluation.

A handwritten signature in black ink that reads "Donald L. Grill".

Donald L. Grill  
President and CEO

A handwritten signature in black ink that reads "Douglas J. Kelley".

Douglas J. Kelley  
Senior Vice President and CFO

# CORPORATE INFORMATION

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## **Fentura Financial, Inc.**

175 North Leroy Street, PO Box 725, Fenton, Michigan 48430

**ph** 810.750.8725

fentura.com

## **Independent Auditors**

Crowe Horwath LLP  
Grand Rapids, MI

Rehmann Robson, P. C.  
Saginaw, MI

## **General Counsel**

Howard and Howard  
Royal Oak, MI and Chicago, IL

## **Transfer Agent**

IST Shareholder Services formerly known as Illinois Stock Transfer Company

Chicago, IL **ph** 800.757.5755

## **Stock Information**

Fentura Financial, Inc., shares are listed as Over the Counter Bulletin Board stock under the symbol FETM.OB

## **Market Makers**

Ferris, Baker, Watts, Inc.

655 Metro Place South, Dublin, Ohio 43017 **ph** 614.718.2224

Boenning and Scattergood

9916 Brewster Lane, Powell, Ohio 43065 **ph** 866.326.8113

Howe Barnes Investments Inc.

222 South Riverside Plaza, 7th Floor, Chicago, Illinois 60606 **ph** 312.655.3000

Hudson Securities, Inc.

111 Town Square Plaza, Suite 1500A, Jersey City, New Jersey 07310 **ph** 800.624.0050

Knight Equity Markets, L.P.

545 Washington Boulevard, Jersey City, New Jersey 07310 **ph** 800.544.7508

Monroe Securities, Inc.

100 North Riverside Plaza, Suite 1620, Chicago, Illinois 60606 **ph** 312.327.2530

Pershing LLC

One Pershing Plaza, Jersey City, New Jersey 07399 **ph** 201.413.2000

Stifel, Nicolaus & Company, Inc.

5181 Cascade Road S.E., Grand Rapids, Michigan 49546 **ph** 800.676.0477

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# BANK OFFICES

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[LivingstonCommunityBank.com](http://LivingstonCommunityBank.com)

*Main Office* 810.534.0800  
134 N. First Street, Brighton, MI 48116



[TheStateBank.com](http://TheStateBank.com)

*Grand Blanc-North* 810.603.9500  
1401 E Hill Road, Grand Blanc, MI

*Grand Blanc-South* 810.695.9601  
7606 S Saginaw Street, Grand Blanc, MI 48439

*The Loan Store* 810.714.3945  
101 N Leroy Street, Fenton, MI 48430

*Holly Office* 810.750.8701  
4043 Grange Hall Road, Holly, MI 48442

*Main Office* 810.629.2263  
175 N Leroy Street, PO Box 725 Fenton, MI 48430

*Linden Office* 810.750.8794  
107 Main Street, Linden, MI 48451

*Silver Parkway Office* 810.750.5605  
15095 Silver Parkway, Fenton, MI 48430

*Owen Road Operations Center* 810.714.3920  
3202 Owen Road, Fenton, MI 48430

*VG's Food Center* 810.750.8781  
18005 Silver Parkway, Fenton MI 48430

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