

Fentura Financial, Inc.

Years Ended
December 31,
2015 and 2014

Consolidated
Financial
Statements

FENTURA FINANCIAL, INC.

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INDEPENDENT AUDITORS' REPORT

March 11, 2016

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

We have audited the accompanying consolidated financial statements of *Fentura Financial, Inc.* (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Fentura Financial, Inc.* as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



FENTURA FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

ASSETS	December 31	
	2015	2014
Cash and cash equivalents	\$ 19,425	\$ 19,522
Securities, available for sale (AFS)	23,532	30,312
Securities, held to maturity (HTM)	2,176	1,655
Total securities	25,708	31,967
Loans held for sale	2,905	1,320
Loans	378,655	318,649
Less allowance for loan losses	3,505	4,406
Net loans	375,150	314,243
Bank owned life insurance	6,568	6,322
Premises and equipment, net	9,720	9,810
Federal Home Loan Bank ("FHLB") stock	981	1,041
Accrued interest receivable	1,133	1,061
Other real estate owned	397	2,488
Other assets	3,054	2,386
Deferred tax asset, net	1,361	3,422
Total assets	\$ 446,402	\$ 393,582
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 108,102	\$ 91,738
Interest-bearing	267,869	236,185
Total deposits	375,971	327,923
FHLB advances	20,775	20,817
Subordinated debentures	14,000	14,000
Accrued interest payable and other liabilities	3,182	2,700
Total liabilities	413,928	365,440
Shareholders' equity		
Common stock, no par value: 5,000,000 shares authorized, 2,517,748 (2,502,731 in 2014) shares issued and outstanding	43,873	43,685
Accumulated deficit	(11,277)	(15,668)
Accumulated other comprehensive (loss) income	(122)	125
Total shareholders' equity	32,474	28,142
Total liabilities and shareholders' equity	\$ 446,402	\$ 393,582

The accompanying notes are an integral part of these consolidated financial statements.

FENTURA FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31	
	2015	2014
Interest and dividend income		
Loans, including fees	\$ 15,983	\$ 13,848
Investments		
Taxable	616	719
Tax-exempt	50	85
Federal funds sold	4	3
Total interest and dividend income	16,653	14,655
Interest expense		
Deposits	1,331	1,022
Borrowings	822	691
Total interest expense	2,153	1,713
Net interest income	14,500	12,942
Provision for loan losses	(1,000)	(450)
Net interest income, after loan losses	15,500	13,392
Noninterest income		
Service charges on deposit accounts	806	882
Net gain on sales of mortgage loans	1,156	667
Trust and investment services	1,255	1,228
Net gain on sales of securities	461	390
Other income and fees	2,897	2,558
Total noninterest income	6,575	5,725
Noninterest expenses		
Salaries and employee benefits	8,826	7,906
Occupancy	1,119	1,045
Furniture and equipment	1,143	1,136
Loan and collection	565	652
Advertising and promotional	413	382
Telephone and communication services	146	144
Other professional services	1,130	1,040
Other general and administrative	1,634	1,724
Total noninterest expenses	14,976	14,029
Income before federal income taxes	7,099	5,088
Federal income tax expense	2,407	1,728
Net income	\$ 4,692	\$ 3,360
Net income per share	\$ 1.87	\$ 1.35

The accompanying notes are an integral part of these consolidated financial statements.

FENTURA FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31	
	2015	2014
Net income	\$ 4,692	\$ 3,360
Other comprehensive (loss) income		
Unrealized (losses) gains on investment securities available for sale		
Net unrealized holding gains arising during the period	294	731
Less: Reclassification adjustment for net securities gains included in net income	(461)	(390)
Change in net unrealized (losses) gains before income taxes	(167)	341
Net losses on cash flow hedge		
Net unrealized cash flow hedge losses arising during the period	(207)	(248)
Unrealized losses on cash flow hedge before income taxes	(207)	(248)
Total other comprehensive (loss) income before income taxes	(374)	93
Income tax (benefit) expense related to other comprehensive (loss) income	(127)	32
Total other comprehensive (loss) income, net of tax	(247)	61
Comprehensive income	\$ 4,445	\$ 3,421

The accompanying notes are an integral part of these consolidated financial statements.

FENTURA FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balances, January 1, 2014	\$ 43,502	\$ (18,804)	\$ 64	\$ 24,762
Issuance of common shares under stock purchase and dividend reinvestment plans (20,300 shares)	183	-	-	183
Cash dividends paid	-	(224)	-	(224)
Comprehensive income	-	3,360	61	3,421
Balances, December 31, 2014	43,685	(15,668)	125	28,142
Issuance of common shares under stock purchase and dividend reinvestment plans (15,017 shares)	188	-	-	188
Cash dividends paid	-	(301)	-	(301)
Comprehensive income	-	4,692	(247)	4,445
Balances, December 31, 2015	<u>\$ 43,873</u>	<u>\$ (11,277)</u>	<u>\$ (122)</u>	<u>\$ 32,474</u>

The accompanying notes are an integral part of these consolidated financial statements.

FENTURA FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31	
	2015	2014
Cash flows from operating activities		
Net income	\$ 4,692	\$ 3,360
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	720	753
Amortization and accretion on securities, net	(185)	(222)
Provision for loan losses	(1,000)	(450)
Mortgage loans originated for sale	(86,492)	(56,842)
Proceeds from sale of mortgage loans	86,062	57,193
Net gain on sales of mortgage loans	(1,156)	(667)
Net gain on sales of securities	(461)	(390)
Net (gain) loss on sale of other real estate owned	(79)	9
Provision for other real estate owned losses	-	149
Deferred income tax expense	2,186	1,453
Net earnings from bank owned life insurance	(246)	(124)
Net increase in interest receivable and other assets	(944)	(700)
Net increase in interest payable and other liabilities	482	433
Net cash provided by operating activities	3,579	3,955
Cash flows from investing activities		
Proceeds from maturities of securities - HTM	391	528
Proceeds from maturities of securities - AFS	7,163	4,888
Proceeds from calls of securities - HTM	402	437
Proceeds from calls and sales of securities - AFS	1,551	1,485
Purchases of securities - AFS	(1,455)	(2,439)
Purchase of securities - HTM	(1,314)	-
Origination of loans, net of principal payments	(59,907)	(56,629)
Proceeds from redemption of FHLB stock	60	-
Purchase of FHLB stock	-	(380)
Proceeds from sale of other real estate owned	2,170	858
Purchase of premises and equipment	(630)	(540)
Net cash used in investing activities	(51,569)	(51,792)
Cash flows from financing activities		
Net increase in deposits	48,048	44,582
Cash dividends paid	(301)	(224)
Net (repayments) advances from FHLB	(42)	9,962
Net proceeds from common stock issuance	188	183
Net cash provided by financing activities	47,893	54,503
Net (decrease) increase in cash and cash equivalents	(97)	6,666
Cash and cash equivalents, beginning of year	19,522	12,856
Cash and cash equivalents, end of year	\$ 19,425	\$ 19,522
Supplemental cash flows information		
Cash paid for interest	\$ 2,139	\$ 1,683
Cash paid for income taxes	\$ -	\$ -
Transfers from loans to other real estate	\$ -	\$ 1,200
Loans provided for sales of other real estate owned	\$ 705	\$ 290

The accompanying notes are an integral part of these consolidated financial statements.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND 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 Fentura Holdings LLC ("FHLLC") and The State Bank ("the Bank") in Fenton, Michigan. 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 eight 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. Commercial real estate loans were 47.3% and 49.3% of gross loans, and other commercial loans were 14.5% and 15.7% of gross loans at December 31, 2015 and 2014, respectively. 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. The Corporation's exposure to credit risk is substantially affected by the economy in the Corporation's market area and by changes in commercial real estate values. While the loan portfolio is substantially commercial based, the Corporation is not dependent on any single borrower. Other financial instruments which potentially represent concentrations of credit risk in the normal course of business include deposit accounts in other financial institutions and federal funds sold.

The Bank's primary sources of liquidity are time deposits and non-maturity deposits. At December 31, 2015, retail time deposits equal 22.6% of total deposits. This is compared to December 31, 2014, when retail time deposits consisted of 24.9% of total deposits. Details regarding deposits are further described in Note 7 of the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, the fair values of securities and derivatives, and other financial instruments, other-than-temporary impairment of securities, the carrying value of other real estate owned and deferred taxes are particularly subject to change.

Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents, includes cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities, where prepayments are anticipated. Premiums are amortized to call date whereby discounts are amortized to maturity. Gains and losses on sales are based on the amortized cost of the security sold.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or it is more likely than not it will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Corporation intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If the Corporation intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Corporation does not intend to sell the security and it is not more likely than not that the Corporation will not be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff 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 fair value 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. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. 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.

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All interest accrued in the current year but not received for loans placed on nonaccrual are reversed against current interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 uncollectability of a loan balance is confirmed. Consumer loans are typically charged off no later than 120 days past due.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segments and is based on the actual weighted average loss history experienced by the Corporation over a range of the most recent 4 quarters to the most recent 20 quarters. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: commercial, commercial real estate, residential real estate, installment loans and home equity loans.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported 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. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled Debt Restructurings

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings and modifications. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the

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borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and are measured for impairment.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held-for-sale, as described above, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, the Bank has no substantive continuing involvement related to these loans. The Bank sold residential mortgage loans to an unrelated third party with proceeds of \$86,063 and \$57,193 during the years ended December 31, 2015 and 2014, respectively, which resulted in a net gain of \$1,156 and \$667 for 2015 and 2014, respectively. Servicing fee income earned on such loans was \$222 and \$47 for 2015 and 2014, respectively, and is included in other noninterest income on the consolidated statements of income.

Derivative Instruments and Hedging Activities

Derivative instruments are carried at fair value on the consolidated balance sheets and are recorded in either other assets or accrued interest payable and other liabilities. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship, and, further, by the type of hedging relationship. For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e. the ineffective portion), if any, is recognized in earnings during the period of change.

For cash flow hedging relationships, the Corporation assesses prospective and retrospective effectiveness as well as measurement based upon the cumulative hypothetical derivative method. Under the hypothetical derivative method, the cumulative change in the fair value of the derivative instrument is compared to the cumulative change in the fair value of a hypothetical derivative. The Corporation uses the cumulative dollar-offset ratio resulting from the application of the hypothetical derivative method to assess effectiveness. In addition, the Corporation assesses whether the hedged forecasted transactions are still probable of occurring, and monitors the creditworthiness of the Counterparty to determine whether the risk of default continues to be remote.

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Further information on the Corporation's derivative instrument and hedging activities is included in Note 8.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan category, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. The recorded value of mortgage servicing rights was \$1,465 and \$646 as of December 31, 2015 and 2014, respectively. Loans serviced as of December 31, 2015 and 2014, approximated \$128,745 and \$54,720, respectively; such loans are not included in the accompanying consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recognized as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

Other Real Estate Owned and Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed, as incurred.

Bank Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 15 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years. Premises and equipment and other assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted

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cash flows. If impaired, the assets are recorded at fair value, if lower than the carrying amount.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance

The Corporation holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Corporation, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in noninterest income.

Stock Based Compensation

Compensation cost is recognized for stock options, restricted stock awards issued to employees, and stock appreciation rights based on the fair value of these awards at the date of grant. A valuation model is utilized to estimate the fair value of stock options and stock appreciation rights. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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. If determined necessary, a valuation allowance reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination including the appeals process. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. Such interest or penalties recorded in 2015 or 2014 were not significant.

Loan Commitments and 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

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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 calculated as net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan (ESOP) shares are considered outstanding for this calculation unless unearned.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and cash flow hedges, which are also recognized as separate components of equity.

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.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 12. 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.

Reclassifications

Certain items in the prior year consolidated financial statements were reclassified to conform to the current year presentation.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2015, the most recent balance sheet presented herein, through March 11, 2016, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. EARNINGS PER SHARE

The components in the earnings per share computation follow:

(000s omitted except share and per share data)	2015	2014
Basic		
Net income	\$ 4,692	\$ 3,360
Weighted average common shares outstanding	2,511,817	2,495,156
Basic income per common share	\$ 1.87	\$ 1.35

There were no options outstanding at December 31, 2015, or December 31, 2014.

3. INVESTMENT SECURITIES

Year-end securities were as follows:

2015 (000s omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. government and federal agency	\$ 2,995	\$ -	\$ (12)	\$ 2,983
State and municipal	5,736	13	(66)	5,683
Mortgage backed residential	7,775	129	(10)	7,894
Collateralized mortgage obligations - agencies	5,534	38	(9)	5,563
Equity	1,256	156	(3)	1,409
	\$ 23,296	\$ 336	\$ (100)	\$ 23,532
Held to Maturity				
State and municipal	\$ 2,176	\$ 6	\$ -	\$ 2,182

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2014 (000s omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. government and federal agency	\$ 2,994	\$ -	\$ (31)	\$ 2,963
State and municipal	6,199	2	(68)	6,133
Mortgage backed residential	9,281	189	(12)	9,458
Collateralized mortgage obligations - agencies	9,165	120	(2)	9,283
Equity	2,270	208	(3)	2,475
	<u>\$ 29,909</u>	<u>\$ 519</u>	<u>\$ (116)</u>	<u>\$ 30,312</u>
Held to Maturity				
State and municipal	<u>\$ 1,655</u>	<u>\$ 11</u>	<u>\$ (9)</u>	<u>\$ 1,657</u>

Contractual maturities of securities at December 31, 2015, were as follows. Securities not due at a single maturity date, collateralized mortgage obligations and equity securities are shown separately.

(000s omitted)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. government and federal agency				
Due from five to ten years	\$ 2,995	\$ 2,983	\$ -	\$ -
State and Municipal				
Due in one year or less	270	271	335	337
Due from one to five years	5,131	5,111	1,441	1,445
Due from five to ten years	282	253	400	400
Due after ten years	53	48	-	-
Mortgage backed residential	7,775	7,894	-	-
Collateralized mortgage obligations - agencies	5,534	5,563	-	-
Equity	1,256	1,409	-	-
	<u>\$ 23,296</u>	<u>\$ 23,532</u>	<u>\$ 2,176</u>	<u>\$ 2,182</u>

Securities pledged at December 31, 2015 and 2014 had a carrying amount of \$13,232 and \$18,095, respectively, and were pledged to secure public deposits and borrowings.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities with unrealized losses at December 31, 2015 and 2014, including both available for sale and held to maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

2015 (000s omitted)	Less Than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
U.S. government and federal agency	\$ 2,983	\$ (12)	\$ -	\$ -	\$ 2,983	\$ (12)
State and municipal	2,871	(54)	738	(12)	3,609	(66)
Mortgage backed residential	-	-	2,490	(10)	2,490	(10)
Collateralized mortgage obligations - agencies	1,103	(9)	-	-	1,103	(9)
Equity	-	-	3	(3)	3	(3)
Total	\$ 6,957	\$ (75)	\$ 3,231	\$ (25)	\$ 10,188	\$ (100)

2014 (000s omitted)	Less Than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
U.S. government and federal agency	\$ -	\$ -	\$ 2,963	\$ (31)	\$ 2,963	\$ (31)
State and municipal	2,518	(12)	3,429	(65)	5,947	(77)
Mortgage backed residential	2,598	(12)	-	-	2,598	(12)
Collateralized mortgage obligations - agencies	1,672	(2)	-	-	1,672	(2)
Equity securities	-	-	2	(3)	2	(3)
Total	\$ 6,788	\$ (26)	\$ 6,394	\$ (99)	\$ 13,182	\$ (125)

As of December 31, 2015, the Corporation's security portfolio consisted of 72 securities, 22 of which were in an unrealized loss position.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In evaluating OTTI, management additionally considers the factors presented in Note 1. No OTTI was indicated following analysis in 2015 and 2014.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank originates primarily residential and commercial real estate loans, commercial, and installment loans. The Corporation estimates that the majority of their loan portfolio is based in Genesee, Oakland, 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 these areas.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Activity in the allowance for loan losses, by loan portfolio segment, for the year ended December 31, 2015, is as follows:

(000s omitted)	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Home Equity	Unallocated	Total
Balance, January 1, 2015	\$ 356	\$ 2,762	\$ 636	\$ 45	\$ 152	\$ 455	\$ 4,406
Provision for loan losses	(217)	(943)	(13)	18	(82)	237	(1,000)
Loans charged off	-	(146)	(33)	(27)	-	-	(206)
Loan recoveries	90	170	-	5	40	-	305
Balance, December 31, 2015	\$ 229	\$ 1,843	\$ 590	\$ 41	\$ 110	\$ 692	\$ 3,505

Activity in the allowance for loan losses, by loan portfolio segment, for the year ended December 31, 2014, is as follows:

(000s omitted)	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Home Equity	Unallocated	Total
Balance, January 1, 2014	\$ 607	\$ 3,147	\$ 683	\$ 56	\$ 232	\$ 175	\$ 4,900
Provision for loan losses	(304)	(358)	(37)	30	(61)	280	(450)
Loans charged off	(14)	(296)	(12)	(53)	(39)	-	(414)
Loan recoveries	67	269	2	12	20	-	370
Balance, December 31, 2014	\$ 356	\$ 2,762	\$ 636	\$ 45	\$ 152	\$ 455	\$ 4,406

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by loan portfolio segment, and impairment evaluation method at December 31, 2015:

(000s omitted)	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Home Equity	Unallocated	Total
Ending allowance balance attributable to loans							
Individually evaluated for impairment	\$ 27	\$ 116	\$ 64	\$ -	\$ 6	\$ -	\$ 213
Collectively evaluated for impairment	202	1,727	526	41	104	692	3,292
Total ending allowance balance	\$ 229	\$ 1,843	\$ 590	\$ 41	\$ 110	\$ 692	\$ 3,505

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted)	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Home Equity	Unallocated	Total
Loans							
Loans individually evaluated for impairment	\$ 81	\$ 3,773	\$ 345	\$ -	\$ 27		\$ 4,226
Loans collectively evaluated for impairment	<u>54,859</u>	<u>175,140</u>	<u>115,443</u>	<u>2,298</u>	<u>26,689</u>		<u>374,429</u>
Total ending loan balance	54,940	178,913	115,788	2,298	26,716		378,655
Accrued interest receivable	<u>162</u>	<u>439</u>	<u>313</u>	<u>7</u>	<u>97</u>		<u>1,018</u>
Total recorded investment in loans	<u>\$ 55,102</u>	<u>\$ 179,352</u>	<u>\$ 116,101</u>	<u>\$ 2,305</u>	<u>\$ 26,813</u>		<u>\$ 379,673</u>

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by loan portfolio segment and based on impairment method at December 31, 2014:

(000s omitted)	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Home Equity	Unallocated	Total
Ending allowance balance attributable to loans							
Individually evaluated for impairment	\$ 46	\$ 500	\$ 90	\$ -	\$ 7	\$ -	\$ 643
Collectively evaluated for impairment	<u>310</u>	<u>2,262</u>	<u>546</u>	<u>45</u>	<u>145</u>	<u>455</u>	<u>3,763</u>
Total ending allowance balance	<u>\$ 356</u>	<u>\$ 2,762</u>	<u>\$ 636</u>	<u>\$ 45</u>	<u>\$ 152</u>	<u>\$ 455</u>	<u>\$ 4,406</u>
Loans							
Loans individually evaluated for impairment	\$ 135	\$ 5,160	\$ 493	\$ -	\$ 137		\$ 5,925
Loans collectively evaluated for impairment	<u>49,810</u>	<u>151,813</u>	<u>84,128</u>	<u>3,181</u>	<u>23,792</u>		<u>312,724</u>
Total ending loan balance	49,945	156,973	84,621	3,181	23,929		318,649
Accrued interest receivable	<u>129</u>	<u>385</u>	<u>223</u>	<u>10</u>	<u>84</u>		<u>831</u>
Total recorded investment in loans	<u>\$ 50,074</u>	<u>\$ 157,358</u>	<u>\$ 84,844</u>	<u>\$ 3,191</u>	<u>\$ 24,013</u>		<u>\$ 319,480</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents loans individually evaluated for impairment by portfolio class of loans as of December 31, 2015:

(000s omitted)	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowances recorded					
Commercial	\$ 102	\$ -	\$ -	\$ 9	\$ 7
Commercial real estate	2,346	1,600	-	1,220	139
Residential real estate	33	-	-	28	6
Consumer					
Installment loans	-	-	-	-	-
Home equity	-	-	-	41	1
With an allowance recorded					
Commercial	93	81	27	99	2
Commercial real estate	2,072	2,072	116	3,625	108
Residential real estate	345	345	64	403	15
Consumer					
Installment loans	-	-	-	-	-
Home equity	27	27	6	28	2
Total	\$ 5,018	\$ 4,125	\$ 213	\$ 5,453	\$ 280

The following table presents loans individually evaluated for impairment by portfolio class of loans as of December 31, 2014:

(000s omitted)	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowances recorded					
Commercial	\$ 113	\$ -	\$ -	\$ 57	\$ 10
Commercial real estate	1,645	982	-	1,791	71
Residential real estate	255	1	-	44	10
Consumer					
Installment loans	-	-	-	1	1
Home equity	130	75	-	157	8
With an allowance recorded					
Commercial	145	135	46	230	2
Commercial real estate	4,276	4,189	500	4,652	192
Residential real estate	493	495	90	535	20
Consumer					
Installment loans	-	-	-	-	-
Home equity	62	62	7	43	4
Total	\$ 7,119	\$ 5,939	\$ 643	\$ 7,510	\$ 318

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the recorded investment in nonaccrual loans by class of loans as of December 31, 2015:

(000s omitted)	Nonaccrual
Commercial	\$ 25
Commercial real estate	201
Home equity	-
Installment loans	-
Residential real estate	-
Total	<u>\$ 226</u>

The following table presents the recorded investment in nonaccrual loans by class of loans as of December 31, 2014:

(000s omitted)	Nonaccrual
Commercial	\$ 46
Commercial real estate	141
Home equity	-
Installment loans	-
Residential real estate	-
Total	<u>\$ 187</u>

There were no past due loans over 90 days still accruing interest as of December 31, 2015 or 2014.

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2015:

(000s omitted)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due
Commercial	\$ -	\$ -	\$ 25	\$ 25
Commercial real estate	-	-	201	201
Installment loans	-	-	-	-
Residential real estate	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226</u>	<u>\$ 226</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2014:

(000s omitted)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due
Commercial	\$ -	\$ -	\$ 46	\$ 46
Commercial real estate	-	-	-	-
Installment loans	-	25	-	25
Residential real estate	-	-	-	-
Total	\$ -	\$ 25	\$ 46	\$ 71

Modifications

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Corporation offers various types of concessions when modifying a loan or lease, however, forgiveness of principal is rarely granted. Commercial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial real estate loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Residential real estate loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs through a reduction of interest rate and/or extension of the maturity date. Installment loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term.

Loans modified in a TDR are typically already on nonaccrual status and partial charge-offs have in some cases been taken against the outstanding loan balance. As a result, loans modified in a TDR for the Corporation may have the financial effect of increasing the specific allowance associated with the loan.

The Corporation allocated \$201 and \$642 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2015 and 2014, respectively. The Corporation does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual as of December 31, 2015.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were no loans modified in a TDR during the year ended December 31, 2015. The following presents by class, information related to loans modified in a TDR during the year ended December 31, 2014:

(000s omitted)	Loans Modified as TDR for the Year Ended December 31, 2014		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Residential real estate	<u>1</u>	<u>\$ 135</u>	<u>\$ 135</u>

There were no TDRs that defaulted in 2015. The following presents information on TDRs for which there was a payment default, (i.e. 30 days or more past due following a modification) that had been modified during the 12-month period prior to the default during the year ended December 31, 2014:

(000s omitted)	Loans with Payment Defaults December 31, 2014	
	Number of Contracts	Recorded Investment (as of Period End) ⁽¹⁾
Residential real estate	<u>1</u>	<u>\$ 135</u>

⁽¹⁾ The period-end balances are inclusive of all partial paydowns and charge-offs since the modifications date, if any. Loans modified in a TDR that were fully paid down, charged off, or foreclosed upon by period end are not reported.

Based on the Corporation's historical loss experience, losses associated with TDRs are not significantly different than other impaired loans within the same loan segment. As such, TDRs are analyzed in the same manner as other impaired loans within their respective loan segment.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents by portfolio loan class, the type of modification made in a TDR during the year ended December 31, 2014:

(000s omitted)	Loans Modified Through Reduction of Interest Rate or Payment		Loans Modified Through Extension of Term	
	Number of Loans	Recorded Investment (as of Period End) (1)	Number of Loans	Recorded Investment (as of Period End) (1)
Residential real estate	<u>1</u>	<u>\$ 135</u>	<u>-</u>	<u>\$ -</u>

(1) The period end balances are inclusive of all partial paydowns and charge-offs since the modification date, if any. Loans modified in a TDR that were fully paid down, charged-off, or foreclosed upon by period end are not reported.

Credit Quality Indicators

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for classified risk ratings:

Prime. Loans classified as prime are well seasoned borrowers displaying strong financial condition, consistently superior earnings performance, and access to a range of financing alternatives. The borrower's trends and outlook, as well as those of its industry, are positive.

Pass. Loans classified as pass have a moderate to average risk to established borrowers that display sound financial condition and operating results. The capacity to service debt is stable and demonstrated at a level consistent with or above the industry norms. Borrower and industry trends and outlook are considered good.

Watch. Loans classified as watch have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Corporation does not typically classify loans as doubtful. Loans that approach this status are charged-off.

Based on the most recent analysis performed, the recorded investment by risk category of loans by portfolio class is as follows at December 31:

2015 (000s omitted)	Prime	Pass	Watch	Substandard	Total
Commercial	\$ 54,554	\$ 403	\$ 103	\$ 42	\$ 55,102
Commercial real estate	<u>171,314</u>	<u>6,190</u>	<u>1,542</u>	<u>306</u>	<u>179,352</u>
Total	<u>\$ 225,868</u>	<u>\$ 6,593</u>	<u>\$ 1,645</u>	<u>\$ 348</u>	<u>\$ 234,454</u>

2014 (000s omitted)	Prime	Pass	Watch	Substandard	Total
Commercial	\$ 3,924	\$ 45,368	\$ 712	\$ 70	\$ 50,074
Commercial real estate	<u>12,266</u>	<u>137,908</u>	<u>6,708</u>	<u>476</u>	<u>157,358</u>
Total	<u>\$ 16,190</u>	<u>\$ 183,276</u>	<u>\$ 7,420</u>	<u>\$ 546</u>	<u>\$ 207,432</u>

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2015 and 2014:

2015 (000s omitted)	Home Equity	Installment	Residential Real Estate	Total
Performing	\$ 26,813	\$ 2,305	\$ 116,101	\$ 145,219
Non-performing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,813</u>	<u>\$ 2,305</u>	<u>\$ 116,101</u>	<u>\$ 145,219</u>

2014 (000s omitted)	Home Equity	Installment	Residential Real Estate	Total
Performing	\$ 23,875	\$ 3,191	\$ 84,349	\$ 111,415
Non-performing	<u>138</u>	<u>-</u>	<u>495</u>	<u>633</u>
Total	<u>\$ 24,013</u>	<u>\$ 3,191</u>	<u>\$ 84,844</u>	<u>\$ 112,048</u>

Loans to principal officers, directors, and affiliates at December 31, 2015 and 2014 were \$5,372 and \$4,962, respectively.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER REAL ESTATE OWNED

Activity in other real estate owned for the years ended December 31 was:

(000s omitted)	2015	2014
Beginning balance, January 1	\$ 2,488	\$ 2,594
Transfers into other real estate	-	1,200
Sales of other real estate owned	(2,091)	(1,157)
Provision for other real estate owned losses	-	(149)
Ending balance	<u>\$ 397</u>	<u>\$ 2,488</u>

At December 31, 2015, the balance of real estate owned consists entirely of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2015, there is no recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process.

Net gains (losses) on sales of other real estate owned were \$79 in 2015 and (\$9) in 2014. Carrying costs associated with other real estate owned totaled \$124 in 2015 and \$148 in 2014.

6. PREMISES AND EQUIPMENT, NET

Bank premises and equipment, net, is comprised of the following at December 31:

(000s omitted)	2015	2014
Land and land improvements	\$ 2,493	\$ 2,468
Building and building improvements	11,299	11,206
Furniture and equipment	4,846	4,671
Construction in progress	<u>380</u>	<u>137</u>
	19,018	18,482
Less accumulated depreciation	<u>9,298</u>	<u>8,672</u>
Ending balance	<u>\$ 9,720</u>	<u>\$ 9,810</u>

Depreciation expense was \$720 and \$753 for 2015 and 2014, respectively.

The Corporation leases property for certain branches and ATM locations. Rent expense was approximately \$60 for both 2015 and 2014. Rent commitments under non-cancelable operating leases were as follows, before considering renewal options that generally are present at December 31, 2015 (000s omitted):

2016	\$ 38
2017	<u>12</u>
	<u>\$ 50</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEPOSITS

The following is a summary of deposits at December 31:

(000s omitted)	2015	2014
Non-interest bearing		
Demand	\$ 108,102	\$ 91,738
Interest-bearing		
Savings	102,718	89,390
Money market demand	67,614	52,076
Time, \$100,000 and over	38,563	33,265
Time, \$100,000 and under	<u>58,974</u>	<u>61,454</u>
Total interest bearing	<u>267,869</u>	<u>236,185</u>
Total deposits	<u>\$ 375,971</u>	<u>\$ 327,923</u>

Scheduled maturities of time deposits for years succeeding December 31, 2015, were as follows:

(000s omitted)	Amount
2016	\$ 32,075
2017	27,337
2018	17,896
2019	14,071
2020	5,482
Thereafter	<u>676</u>
	<u>\$ 97,537</u>

The Corporation held \$10,109 in brokered deposits at December 31, 2015 and 2014.

Deposits from principal officers, directors, and affiliates at December 31, 2015 and 2014 were \$5,658 and \$4,991, respectively.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. BORROWINGS

Federal Home Loan Bank Advance

At year-end, advances from the FHLB were as follows:

Principal Term (000s omitted)	Advance Amount	Maturity Date
<u>December 31, 2015</u>		
Fixed rate advance	\$ 775	May 2016
With rate of 7.34%		
Fixed rate advance	5,000	October 2017
With rate of 1.19%		
Fixed rate advance	10,000	November 2018
With rate of 1.66%		
Fixed rate advance	<u>5,000</u>	October 2019
With rate of 1.84%		
	<u>\$ 20,775</u>	
<u>December 31, 2014</u>		
Fixed rate advance	\$ 817	May 2016
With rate of 7.34%		
Fixed rate advance	5,000	October 2017
With rate of 1.19%		
Fixed rate advance	10,000	November 2018
With rate of 1.66%		
Fixed rate advance	<u>5,000</u>	October 2019
With rate of 1.84%		
	<u>\$ 20,817</u>	

The advances are payable at their maturity date; a prepayment penalty is assessed with early payoffs of advances. The advances are collateralized by securities totaling \$13,232 and loans totaling \$72,960 at December 31, 2015 and securities totaling \$18,095 and loans totaling \$80,455 at December 31, 2014.

Maturities over each of the next five years are (000s omitted):

2016	\$ 775
2017	5,000
2018	10,000
2019	<u>5,000</u>
	<u>\$ 20,775</u>

Subordinated Debentures and Trust Preferred Securities

A trust formed by the Corporation issued \$12,000 of trust preferred securities in 2003 as part of a pooled offering of such securities. The interest rate is a floating rate (3 month LIBOR plus 3.00%), and the current rate at December 31, 2015 is 3.51%. The Corporation issued subordinated debentures at the same terms as the trust preferred securities to the trust in exchange for the proceeds of the offering; the debentures and related debt issuance costs represent the sole assets of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2008 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2033.

A trust formed by the Corporation issued \$2,000 of trust preferred securities in 2005 as part of a pooled offering of such securities. The interest rate is a floating rate (3 month LIBOR plus 1.60%), and the current rate at December 31, 2015 is 1.98%. The Corporation issued subordinated debentures at the same terms as the trust preferred securities to the trust in exchange for the proceeds of the offering; the debentures and related debt issuance costs represent the sole assets of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2010 at a price of 100% of face value. The subordinated debentures must be redeemed no later than 2035.

The Corporation is not considered the primary beneficiary of these trusts, therefore the trusts are not consolidated in the Corporations' financial statements but rather the subordinated debentures are shown as a liability.

In the normal course of the interest rate risk management processes, management identified a possible risk to its interest rate risk profile that exposed the Corporation to a possible rise in funding costs. Specifically, during management's review of its Trust Preferred ("Trups") facilities referred to above, it noted that the interest rate currently maintains a floating rate based upon LIBOR. Management determined that the continuation of the Trups facilities at a floating rate may adversely affect the Corporation's net interest margin in a possible rising rate environment, exposing the Corporation to increased interest rate costs.

In the second quarter of 2013, the Corporation entered into an interest rate cap with Wells Fargo. An interest-rate cap is an over-the-counter derivative that protects the holder from rises in interest rates by making a payment to the holder when an underlying interest rate (the "index" interest rate) exceeds a specified strike rate (the "cap rate"). The interest rate cap is intended to effectively fix the maximum interest rate paid on the Corporation's trust preferred securities.

The interest rate cap has a notional amount of \$12,000 and expires on June 15, 2020. During the term of the interest rate cap the Corporation will receive quarterly payments from Wells Fargo, calculated as the excess (if any) of LIBOR over the strike rate (2.00%). As of December 31, 2015 and 2014, respectively, the fair value of the interest rate cap was \$191 and \$398 which is included in other assets on the consolidated balance sheets.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAXES

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

(000s omitted)	2015	2014
Current expense	\$ 221	\$ 275
Deferred expense	<u>2,186</u>	<u>1,453</u>
Income tax expense	<u>\$ 2,407</u>	<u>\$ 1,728</u>

Income tax expense for continuing operations 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:

(000s omitted)	2015	2014
Income tax at statutory rate	\$ 2,414	\$ 1,730
Tax exempt status	(59)	(73)
Other	<u>52</u>	<u>71</u>
Income tax expense	<u>\$ 2,407</u>	<u>\$ 1,728</u>

The net deferred tax asset recorded includes the following amounts of deferred tax assets and liabilities:

(000s omitted)	2015	2014
Deferred tax assets		
Allowance for loan losses	\$ 1,192	\$ 1,498
Alternative minimum tax credit	532	401
Compensation	254	255
Net operating loss carryforwards	311	1,764
Non-accrual interest	20	20
ORE write downs	2	185
Other comprehensive income tax adjustments	71	-
Other	<u>226</u>	<u>310</u>
Total deferred tax assets	<u>2,608</u>	<u>4,433</u>
Deferred tax liabilities		
Depreciation	\$ (714)	\$ (700)
Mortgage servicing rights	(498)	(220)
Other comprehensive income tax adjustments	-	(54)
Other	<u>(35)</u>	<u>(37)</u>
Total deferred tax liabilities	<u>(1,247)</u>	<u>(1,011)</u>
Net deferred taxes	<u>\$ 1,361</u>	<u>\$ 3,422</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The federal net operating loss carryforwards of approximately \$915 will expire beginning in 2031 if not previously utilized.

The deferred tax assets will continue to be analyzed at each reporting period for changes affecting realizability and the valuation allowance may be adjusted in future periods accordingly. The ultimate realization of these deferred tax assets is primarily dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Changes in existing tax laws could also affect actual tax results and the valuation of deferred tax assets over time. The accounting for deferred taxes is based on an estimate of future results. Differences between anticipated and actual outcomes of these future tax consequences could have an impact on the Corporation's consolidated statement of income and balance sheet.

The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for the years 2012 through 2015, the years which remain subject to examination by major tax jurisdictions as of December 31, 2015. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months.

10. BENEFIT PLANS

The Corporation has a noncontributory discretionary employee stock ownership plan covering substantially all of its employees. It is a requirement of the plan to invest principally in the Corporation's common stock. No contributions were made to the Plan in 2015 and 2014.

The Corporation has also established a 401(k) Plan in which 100% of the employees' contribution can be matched up to 3% of their gross pay and 50% can be matched on the next 2% of their gross pay with a discretionary contribution by the Corporation. Contributions to the plan were \$195 and \$170 in 2015 and 2014, respectively. The balances in these plans are included in other liabilities on the consolidated balance sheets.

The Corporation entered into Supplemental Executive Retirement Agreements ("SERP Agreements") with certain executives. The SERP Agreements are designed to encourage executives to remain long term employees of the Corporation, and to provide specified benefits to certain key executives who contribute materially to the continued growth, development and future business success of the Corporation. The retirement benefits are an unsecured obligation of the Corporation. At year end 2015 and 2014, the accumulated liability for these plans totaled \$745 and \$749, respectively, and are included in other liabilities on the accompanying consolidated balance sheets.

The Corporation has also established other Non-Qualified Deferred Compensation arrangements for employees not covered under the SERP. The arrangements are designed to encourage certain officers to remain long-term employees of the Corporation and the Bank, and to provide the officers with supplemental retirement income. The Corporation made no contributions under these arrangements in 2015 or 2014.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. COMMON STOCK PURCHASE AND OPTION PLANS

Director and Employee Plans

The Stock Purchase Plan permits directors and employees of the Corporation to purchase shares of common stock made available for purchase under the plan at the average fair market value of the shares over the most recent five days prior to the issuance date. The total number of shares issuable under this plan is limited to 330,000 shares.

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 and the numbers of shares issued are at the sole discretion of the Board of Directors. No shares were granted under this plan during 2015 and 2014.

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 from 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.

The following summarizes shares issued under the various plans:

	2015	2014
Automatic dividend reinvestment plan	6,211	5,366
Director stock purchase and retainer stock	8,075	14,005
Other issuance of stock	<u>731</u>	<u>929</u>
	<u>15,017</u>	<u>20,300</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plans

The Nonemployee Director Stock Option Plan provides for granting options to nonemployee directors to purchase the Corporation's common stock. The purchase price of the shares is the estimated fair 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 8,131 shares of stock may be granted under the plan in any calendar year and options to acquire not more than 73,967 shares in the aggregate may be outstanding at any one time. No options were granted in 2015 and 2014.

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 86,936 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. No options were granted in 2015 and 2014.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Corporation's common stock. The Corporation uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Shares that are issued upon option exercise come from authorized but unissued shares.

There was no stock option activity in 2015. The following table summarizes stock option activity in 2014:

(000s omitted)	Number of Options	Weighted Average Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at January 1, 2014	3,355	\$ 35.45		
Options forfeited during 2014	<u>3,355</u>	<u>35.45</u>		
Options outstanding and exercisable at December 31, 2014	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>

No options were exercised during 2015 or 2014. As of December 31, 2015 and 2014, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Corporation has issued a total of 35,000 stock appreciation rights ("SARs") to the executive management team, using a price of \$2.00 per share. The terms of the SARs provide that any appreciation in stock price will be paid in cash on two fixed dates which were subject to certain performance conditions, which management determined were met during 2013. SAR payment dates vary by individual agreement and range from February 2014 through May 2017. Expense of \$204 and \$85 was recorded in 2015 and 2014, respectively, resulting in a total liability of \$252 and \$205 at December 31, 2015, and December 31, 2014, respectively. These balances are reflective of vesting through the years then ended and are recorded in accrued interest payable and other liabilities on the consolidated balance sheets. The liability will continue to be re-measured each reporting period with changes recorded on a prospective ratable basis in salaries and employee benefits expense as further vesting transpires over the remaining SAR terms. The SAR's vest immediately upon a change in ownership control.

12. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

Securities Available for Sale

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The remaining fair values of securities (Level 3 inputs) are based on the reporting entity's own assumptions and basic knowledge of market conditions and individual investment performance. The Corporation reviews the performance of the securities that comprise level 3 on a quarterly basis.

Interest Rate Cap

Substantially all of the derivative instruments held by the Corporation for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Corporation measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. As such, the Corporation classifies those derivative instruments as Level 2.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired Loans

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available, which results in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

2015 (000s omitted)	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. government and federal agency	\$ 2,983	\$ -	\$ 2,983	\$ -
State and municipal	5,683	-	5,683	-
Mortgage backed residential	7,894	-	7,894	-
Collateralized mortgage obligations - agencies	5,563	-	5,563	-
Equity securities	1,409	-	1,018	391
	<u>\$ 23,532</u>	<u>\$ -</u>	<u>\$ 23,141</u>	<u>\$ 391</u>
Interest rate cap	<u>\$ 191</u>	<u>\$ -</u>	<u>\$ 191</u>	<u>\$ -</u>

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014 (000s omitted)	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Available-for-sale securities

U.S. government and federal agency	\$ 2,963	\$ -	\$ 2,963	\$ -
State and municipal	6,133	-	6,133	-
Mortgage backed residential	9,458	-	9,458	-
Collateralized mortgage obligations - agencies	9,283	-	9,283	-
Equity securities	<u>2,475</u>	<u>-</u>	<u>2,088</u>	<u>387</u>
	<u>\$ 30,312</u>	<u>\$ -</u>	<u>\$ 29,925</u>	<u>\$ 387</u>

Interest rate cap	<u>\$ 398</u>	<u>\$ -</u>	<u>\$ 398</u>	<u>\$ -</u>
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The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

(000s omitted)	Equity Securities	
	2015	2014
Beginning balance, January 1	\$ 387	\$ 1,102
Included in net income	-	(390)
Included in other comprehensive income	4	120
Exchanges of assets	<u>-</u>	<u>(445)</u>
Ending balance, December 31	<u>\$ 391</u>	<u>\$ 387</u>

During 2014, a single investment in equity securities with a carrying value of \$445 was exchanged for \$935 in another equity security resulting in the recognition of a \$390 gain which is recorded in net gain on the sales of securities in the accompanying consolidated statements of income.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

2015 (000s omitted)	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Impaired loans

Commercial	\$ 16	\$ -	\$ -	\$ 16
Commercial real estate	1,736	-	-	1,736
Residential real estate	281	-	-	281
Installment	-	-	-	-
Home equity	21	-	-	21

Total impaired loans	\$ 2,054	\$ -	\$ -	\$ 2,054
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Other real estate owned

Commercial real estate	\$ -	\$ -	\$ -	\$ -
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2014 (000s omitted)	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Impaired loans

Commercial	\$ 30	\$ -	\$ -	\$ 30
Commercial real estate	3,683	-	-	3,683
Residential real estate	403	-	-	403
Installment	-	-	-	-
Home equity	55	-	-	55

Total impaired loans	\$ 4,171	\$ -	\$ -	\$ 4,171
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Other real estate owned

Commercial real estate	\$ 641	\$ -	\$ -	\$ 641
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FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following represent impairment charges recognized during the year:

Impaired loans that are measured for impairment using the fair value of the collateral had a carrying amount of \$2,251, with a valuation allowance of \$197 at December 31, 2015. Impaired loans that are measured for impairment using the fair value of the collateral had a carrying amount of \$4,808, with a valuation allowance of \$637 at December 31, 2014.

Other real estate owned which is measured at the lower of carrying value or fair value less costs to sell, had a net carrying amount of \$397, none of which was at fair value at December 31, 2015, as no write-downs were taken during 2015. Other real estate owned which is measured at the lower of carrying value or fair value less costs to sell, had a net carrying amount of \$2,488, of which \$641 was at fair value at December 31, 2014, which resulted from write-downs totaling \$105 during 2014.

Qualitative information about level 3 fair value instruments is as follows as of December 31:

2015 (000s omitted)	Level 3 Instruments			
	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Equity Securities	\$ 391	Market Comparable	Price to book ratio	77.0%
Impaired Loans	\$ 2,054	Appraisal value - Real Estate	Discount applied to appraisal	10.3%

2014 (000s omitted)	Level 3 Instruments			
	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Equity Securities	\$ 387	Market Comparable	Price to book ratio	77.4%
Impaired Loans	\$ 4,171	Appraisal value - Real Estate	Discount applied to appraisal	8.2%
Other Real Estate	\$ 641	Appraisal value	Discount applied to appraisal	0%

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Carrying amount and estimated fair value of financial instruments, not previously presented, at year end were as follows:

(000s omitted)	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	\$ 19,425	\$ 19,425	\$ 19,522	\$ 19,522
Securities held to maturity	2,176	2,182	1,655	1,657
Loans held for sale	2,905	2,905	1,320	1,320
Net loans (including impaired loans)	375,150	370,863	314,243	314,056
FHLB stock	981	981	1,041	1,041
Accrued interest receivable	1,133	1,133	1,061	1,061
Liabilities				
Deposits	\$ 375,971	\$ 375,871	\$ 327,923	\$ 327,926
FHLB advances	20,775	20,785	20,817	20,827
Subordinated debentures	14,000	13,980	14,000	13,982
Accrued interest payable	139	139	126	126

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 consolidated balance sheets for cash and short-term instruments approximate their fair values.

Securities Held to Maturity

Fair values for securities held to maturity are based on similar information previously presented for securities available for sale.

Loans Held for Sale

The fair values of these loans are determined in the aggregate on the basis of existing forward commitments or fair values attributable to similar loans.

FHLB Stock

It was not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

For variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated using discounted cash flow analysis.

Accrued Interest

The carrying amount of accrued interest approximates its fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Off-Balance-Sheet Instruments

The fair value of off-balance sheet items is not considered material.

Deposits

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 a discounted cash flow calculation that applies interest rates currently being offered on similar certificates.

FHLB Advances

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

Subordinated Debentures

The estimated fair value of the existing subordinated debentures is calculated by comparing a current market rate for the instrument compared to the book rate. The difference between these rates computes the fair value.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market data 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.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents a reconciliation of the changes in the components of accumulated other comprehensive income and details the components of other comprehensive (loss) income for the years ended December 31, 2015 and 2014, including the amount of income tax (benefit) expense allocated to each component of other comprehensive (loss) income:

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31	2015
Accumulated net unrealized gains on investment securities available-for-sale	
Balance at beginning of period, net of tax	\$ 289
Net unrealized holding gains arising during the period	294
Income taxes	(100)
Net unrealized holding gains arising during the period, net of tax	194
Less: Realized gains included in net income	(461)
Income taxes	157
Reclassification adjustment for net securities gains included in net income, net of tax	(304)
Change in net unrealized gains on investment securities available-for-sale, net of tax	(110)
Balance at end of period, net of tax	179
Accumulated net losses on cash flow hedge:	
Balance at beginning of period, net of tax	(164)
Net cash flow hedge losses arising during the period	(207)
Income taxes	70
Net cash flow hedge losses arising during the period, net of tax	(137)
Balance at end of period, net of tax	(301)
Total accumulated other comprehensive income end of period, net of tax	\$ (122)

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31	2014
Accumulated net unrealized gains on investment securities available-for-sale	
Balance at beginning of period, net of tax	\$ 64
Net unrealized holding gains arising during the period	731
Income taxes	(249)
Net unrealized holding gains arising during the period, net of tax	482
Less: Realized gains included in net income	(390)
Income taxes	133
Reclassification adjustment for net securities gains included in net income, net of tax	(257)
Change in net unrealized gains on investment securities available-for-sale, net of tax	225
Balance at end of period, net of tax	289
Accumulated net losses on cash flow hedge:	
Balance at beginning of period, net of tax	-
Net cash flow hedge losses arising during the period	(248)
Income taxes	84
Net cash flow hedge losses arising during the period, net of tax	(164)
Total accumulated other comprehensive income end of period, net of tax	\$ 125

14. REGULATORY MATTERS

The Corporation (on a consolidated basis) and its Bank subsidiary 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 discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation and the Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items that 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.

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014, are calculated using Basel I rules.

Quantitative measures established by regulation to ensure capital adequacy require the Bank 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). As of December 31, 2015 and 2014, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes, as of December 31, 2015 and 2014, that the Company and the Bank met all capital adequacy requirements to which they are subject.

The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies.

The tables below illustrate the regulatory capital amounts and ratios as of December 31, 2015 and 2014:

2015 (000s omitted)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighed Assets)						
The State Bank	\$ 46,185	11.9%	\$ 31,023	8.0%	\$ 38,779	10.0%
Tier 1 (Core) Capital (to Risk Weighed Assets)						
The State Bank	42,673	11.0%	23,267	6.0%	31,023	8.0%
Common Tier 1 (CET1)						
The State Bank	42,673	11.0%	15,512	4.5%	19,390	6.5%
Tier 1 (Core) Capital (to Average Assets)						
The State Bank	42,673	9.9%	17,235	4.0%	21,544	5.0%

FENTURA FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014 (000s omitted)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighed Assets)						
The State Bank	\$ 41,266	12.9%	\$ 25,591	8.0%	\$ 31,989	10.0%
Tier 1 Capital (to Risk Weighed Assets)						
The State Bank	37,259	11.7%	12,738	4.0%	19,107	6.0%
Tier 1 Capital (to Average Assets)						
The State Bank	37,259	9.7%	15,365	4.0%	19,206	5.0%

15. LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

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:

(000s omitted)	2015	2014
Commitments to make loans (at market rate)	\$ 43,655	\$ 46,067
Unused lines of credit and letters of credit	53,503	42,447

Commitments to make loans are generally made for periods of 90 days or less.

16. CONTINGENCIES

Litigation

The Corporation is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

FENTURA FINANCIAL, INC.

■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Environmental Issues

As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2015.

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