

2018 ANNUAL REPORT
A STATE OF GROWTH



PRESIDENT AND CEO REPORT

I am excited to report that 2018 was another year of strong growth and record earnings for Fentura Financial.

We grew net income for the year to \$10.1 million, up from the \$8.7 in 2017. This 16.6% improvement was achieved through a \$3.5 million increase in net interest income, which was driven by above market growth in loans and deposits. Loans increased 14.8% for the year, ending at \$772.2 million. This growth was achieved as a direct result of the team's efforts to grow both business and residential mortgage loans in the markets we serve. Deposits increased \$89.6 million throughout the year, ending at \$763.1 million. Deposit growth was the direct result of an initiative to enhance our municipal deposits in local markets. This strategy, along with several other deposit growth initiatives, are expected to continue to help provide organic funding to meet future loan demand.

During the year, we enhanced our capital position through record earnings and a private placement stock offering. On November 26, 2018, we released the closing of our efforts to raise capital, announcing the issuance of 980,828 shares of common stock at \$22.00 per share for a total of \$21.6 million, net proceeds were \$20.5 million. We used the proceeds from this offering to invest in The State Bank to allow for continued organic growth, opportunistic strategic growth, and to enhance our overall capital position.

The growth and performance highlighted above supported the strengthening of the Company's stock price as well. Fentura stock closed the year at \$21.00 per share, up \$2.12 over the close at the end of 2017. Along with dividends, this is a 12.5% total return.

I am proud that the team at Fentura continues to work together to achieve outstanding returns through growth of relationships and partnerships in the communities we serve."

I am pleased to report that our outstanding 2018 performance earned the Company recognition in the industry as well. Fentura was named to the OTCQX Best 50, a ranking of top performing companies traded on the OTCQX market for the year. We were ranked 13th overall for U.S. and international companies traded on this market. Additionally, The State Bank was ranked 4th for overall financial performance for Michigan based banks for the year, as ranked by Financial Management Consulting Group. This type of recognition confirms that our operating results are outperforming most others in the industry.

Recognizing the importance of technology to our future success, we have continued to grow the services delivered online, and protections we offer to secure technology-based transactions. During the year we launched online account opening, eliminating the need to visit a branch to begin or expand deposit relationships with the Bank. We expanded our network of Interactive Teller Machines (ITMs) to increase the hours each day that our clients can receive personal service. Additionally, we enhanced our capacity to monitor, flag, and proactively research potential fraudulent transactions initiated online, including bill payments.

I am proud that the team at Fentura continues to work together to achieve outstanding returns through growth of relationships and partnerships in the communities we serve. Our growth, financial position, and reputation position us for a bright future. Once again, we hope you are pleased with our results and we are thankful for your continued support.

Ronald L. Justice, President and CEO



GROWING OUR NEIGHBORHOODS

THE NEIGHBORHOOD IMPACT PROGRAM

The Neighborhood Impact Program (NIP) through FHLBank Indianapolis (FHLBI) assists homeowners with repairs including new windows, furnaces, roofs, siding, and other deferred maintenance types of repairs with grants of up to \$7,500. NIP assists existing homeowners with incomes at or below 80% of area median income to rehabilitate their homes. FHLBI works with eligible homeowners directly or through one or more community housing organizations. NIP is a good way to help preserve property values in local communities.

Recently, The State Bank partnered with the Habitat for Humanity of Genesee County through the NIP to make some needed repairs and updates to the home of Edna Sabucco of Flint, Michigan. Improvements included a new roof, a handicap ramp in the front of her home, as well as handicap accessibility to her bathroom. "I had wanted to make these improvements for quite some time but didn't have the means to do it," said Sabucco. "The State Bank and Habitat for Humanity made my dreams a reality."



"The State Bank and Habitat for Humanity made my dreams a reality."
Edna Sabucco

GROWTH IN NUMBERS

GROWING CORE DEPOSITS

3,714

Retail Accounts Opened in 2018

\$14.3
MILLION

in Kasasa Accounts



GROWING INNOVATION

11,000

Average Monthly ITM Transactions

New Retail Technologies:

Online Account Opening

Notifi Alert System

Instant Issue Debit Cards

Additional ITMs in the
Great Lakes Bay Region



GROWING HOMEOWNERSHIP

919

New Mortgage Loans for

\$235
MILLION

GROWING COMMUNITY

\$33,000

donated to

12 LOCAL SCHOOL
DISTRICTS



to support the needs of low to moderate income children and families from the staff-directed fundraising effort through the Change for Kids Program.

\$37,842

donated to the Food Bank of Eastern Michigan through their 2018 holiday fundraising efforts. This is the 17th year of partnership with Food Bank of Eastern Michigan.



GROWING LOCAL BUSINESS

\$18.3
MILLION

Small Business Administration (SBA) and US Department of Agriculture Loans

\$132
MILLION

Commercial Loans

Feelin' On Top

The State Bank was ranked 14/160 in units closed and 15/160 in loan amount in the Detroit Region by the SBA.



GROWING WEALTH



11.8%
INCREASE

in Wealth Management and Trust Combined Revenue

16.8%
INCREASE

in Annuity Asset Totals

\$9.2
MILLION
INCREASE

in Trust Assets Under Management

GROWING PUBLIC FUNDS

\$62 Million

added in funds from municipalities from the efforts of our new Public Funds Management Program added in 2018.

GROWING AS A FINANCIAL PARTNER

COMMERCIAL LOAN | **Grand Ridge Galleria**



"When my loan came up for renewal at my previous bank, John Daig, my accountant, said I should check with Andy Gavulic at The State Bank. I've dealt with The State Bank for 40 years as a real estate attorney, but never for my Grand Ridge Complex. I was AMAZED how simple and fast the entire refinancing process took. The terms and conditions were better than the other two banks competing for my business. I definitely recommend Andy Gavulic and The State Bank to anyone in need of business and real estate financing, no matter how large the project."

RONALD W. SABO, ESQ.

SBA LOAN | **Cross Veterinary Clinic**

"I recently acquired an SBA loan from The State Bank. I was amazed at how easy and seamless the process was. Their staff was very helpful and informative requiring very little work on my end. This loan allowed me to accomplish one of my long term goals."

DR. FLEMING, Cross Veterinary Clinic



SBA LOAN | **Family Physical Therapy**



"We purchased a new building for our physical therapy clinic last fall with the help of The State Bank. They were very easy to work with and did everything they could to make things more convenient for us. The staff is very friendly and knowledgeable. Because of our experience with The State Bank, we also used them when purchasing our new home last year. We couldn't be happier with our decision to use them for our banking needs! "

EARL AND AMBER MAYHEW, Earl Mayhew Real Estate, LLC DBA Family Physical Therapy

COMMERCIAL LOAN | **Alex's Market**

"The State Bank financed our loan for Alex's market in Clarkston. We wanted to go with a bank that we worked with daily. Stephanie Claborn has been awesome to work with. She always keeps us updated and is very accommodating to the daily challenges of everyday business and construction. It is a testimony to how a local business and bank can and should work together."

STEVE NANNOSHI, Owner



SBA LOAN | **Rejuv Ave. Skin Spa**

"The State Bank has been extremely helpful in educating us on our options! They helped us get a loan that best fit our business, and helped us save - making the process easy and helping every step of the way!"

TRACY AUBUCHON, Owner

COMMERCIAL LOAN | **Morley Companies, Inc**

"This was Morley's first experience with The State Bank. Morley was looking for funding for some furniture additions and The State Bank offered a very competitive loan package. With Morley's past experience with Kevin Neumeyer, it made sense to get into this relationship. Kevin and his team were great to work with; things were seamless from the start of the process until funding was received. Morley looks forward to using The State Bank for our next funding need."

JEFF BERTULEIT, Morley Companies, Inc.



COMMERCIAL LOAN | **Woodhaven Senior Community**

"The State Bank in Fenton has exceeded all of our business banking needs. Specifically, their team has a very good understanding of our long-term business goals. They help us achieve very efficient banking practices, whether it be with our new construction or simply our daily transactions."

DAVID DIXNER, Woodhaven Senior Community

SBA LOAN | **Main Street Redevelopment**



"Living in Brighton, we have always wanted to build or remodel downtown for our development company. We came across this wonderful downtown building site with the existing 1930 circa building and additional property. The two-story buildings would include offices and two high-end apartments on the second floors and possible restaurants with courtyards on the main levels.

Once the concepts hit the paper, it seemed to be another common building site – so we added a pedestrian walkway between the buildings from the public parking lot to Main Street. Our vision is turning out wonderfully.

Looking for a strong local bank to work with – we approached The State Bank. After seeing our vision, they knew this site was going to be the focal point of Brighton and wanted to be the bank to see our vision through. They handled everything. It was very easy working with every aspect of the bank, especially Stephanie Claborn. She was very professional and walked us through the entire project with ease.

Thank you again for all of your help. The City of Brighton and surrounding communities will do nothing but gain from this project."

DAN & DONNA CHERESKO, Cheresko Development

COMMERCIAL LOAN | **The Naples Group**

"We have been very pleased with The State Bank for the past 15 years, especially the personal attention they have extended to our banking needs. Corey Ruthig has guided us through many of our complex transactions, including re-mortgaging a million dollar loan when the economy was in distress, and an SBA loan. Corey and The State Bank staff are a valuable asset to our family and we are grateful for the service and professionalism that has been extended to us."

DON LEWIS, The Naples Group



GROWTH & PERFORMANCE RECOGNIZED

OTCQX BEST 50

Fentura Financial, Inc. was named to the OTCQX Best 50 in their annual ranking of the top 50 U.S. and international companies traded on the OTCQX market. The ranking is calculated based on an equal weighting of one-year total return and average daily dollar volume growth in the previous calendar year.



"We are proud that our strong financial performance and the value that we have generated for our shareholders, helped achieve this recognition as an OTCQX Best 50. It is an honor to be named to this elite group of top performing national and international companies. This type of recognition confirms the continued need and demand for community banking in the markets we serve and similar markets across the nation."

Ron Justice, CEO

RANKED #4 BY FMC

The State Bank was ranked 4th overall in community banks out of 91 in Michigan by the Financial Management Consulting Group (FMC). The performance report considers many key factors such as bank size, margin, fee income, efficiency, asset quality, and earnings.



RAISED CAPITAL

On November 26, 2018, Fentura Financial, Inc. announced the final closing of the issuance of 980,828 shares at \$22.00 per share for a total of \$21.6 million to accredited investors private placement.

980,828 shares
at \$22/SHARE
\$21.6
MILLION
= TO ACCREDITED INVESTORS

2018 GROWTH HIGHLIGHTS

Dollars in Thousands Except Per Share Amounts

BALANCE SHEET AND ASSET QUALITY RATIOS

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Net Loan to Total Deposits	100.60%	99.32%	85.01%	99.98%	95.83%
ALLL to Gross Loans	0.58%	0.54%	0.56%	0.92%	1.38%
Net Loans Charge off to Gross Loans	0.02%	(0.02)%	(0.05)%	(0.03)%	0.01%
Nonperforming Loans to Gross Loans	0.17%	0.09%	0.39%	0.09%	0.06%

PER SHARE DATA

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Earnings per Share	\$2.65	\$2.39	\$1.70	\$1.87	\$1.35
Book Value per Share	\$19.31	\$16.37	\$14.00	\$12.90	\$11.24
Tangible Book Value per Share	\$18.32	\$14.95	\$12.41	\$12.90	\$11.24
Market Price per Share	\$21.00	\$18.88	\$16.00	\$13.86	\$9.90
Dividends per Share	\$0.24	\$0.20	\$0.40	\$0.12	\$0.09
Total 1 Year Return to Shareholders (%)	12.50%	19.25%	18.33%	41.21%	43.33%
Common Shares Outstanding	4,636,455	3,631,933	3,619,282	2,517,748	2,502,731
Average Common Shares Outstanding	3,812,433	3,625,568	2,608,903	2,508,556	2,495,156

PERFORMANCE RATIOS

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Return on Average Assets	1.20%	1.19%	0.93%	1.12%	0.94%
Return on Average Shareholders' Equity	15.05%	15.38%	9.99%	15.48%	13.03%
Net Interest Margin Yield (FTE)	3.86%	4.08%	3.81%	3.90%	4.04%
Efficiency Ratio	65.23%	66.20%	74.56%	71.06%	75.15%

CAPITAL RATIOS

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Total Capital to Risk Weighted Assets*	12.76%	10.46%	11.24%	11.91%	13.05%
Tier 1 Capital to Risk Weighted Assets*	12.15%	9.91%	10.72%	11.00%	11.80%
CET1 Capital to Risk Weighted Assets*	12.15%	9.91%	10.72%	11.00%	11.80%
Tier 1 Capital to Average Assets*	9.91%	8.57%	11.69%	9.90%	9.83%

*Indicates ratios attributable to The State Bank

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Cash and Cash Equivalents	\$23,412	\$15,928	\$78,313	\$19,425	\$19,522
Total Securities	94,721	55,323	72,458	25,708	33,008
Loans held for Sale	903	2,067	3,869	2,176	1,320
Gross Loans	772,227	672,530	515,775	379,384	318,654
Less Allowance for Loan Losses	4,488	3,603	2,851	3,505	4,406
Net Loans	767,739	668,927	512,924	375,879	314,248
All Other Assets	39,675	39,198	35,786	23,214	25,484
Total Assets	\$926,450	\$781,443	\$703,350	\$446,402	\$393,582

LIABILITIES AND SHAREHOLDERS' EQUITY

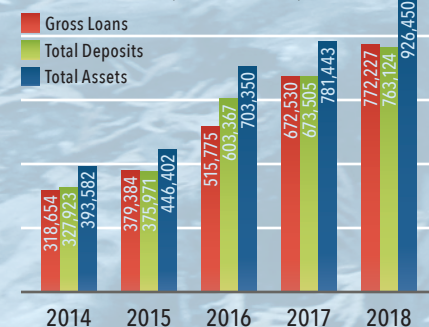
	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Total Deposits	\$763,124	\$673,505	\$603,367	\$375,971	\$327,923
Total Borrowed Funds	69,000	46,000	45,000	34,775	34,817
Accrued Interest and Other Liabilities	4,810	2,491	4,323	3,182	2,700
Total Liabilities	836,934	721,996	652,690	413,928	365,440
Total Shareholders' Equity	89,516	59,447	50,660	32,474	28,142
Total Liabilities and Shareholders' Equity	\$926,450	\$781,443	\$703,350	\$446,402	\$393,582

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED

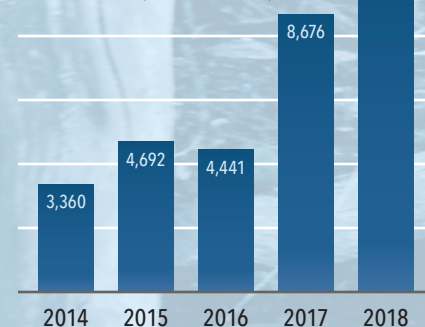
INTEREST & DIVIDEND INCOME

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Loans, Including Fees	\$34,371	\$28,765	\$18,119	\$15,983	\$13,848
Investments	1,979	1,346	526	670	807
Total Interest and Dividend Income	36,350	30,111	18,645	16,653	14,655
Total Interest Expense	5,827	3,120	2,372	2,153	1,713
Net Interest Income	30,523	26,991	16,273	14,500	12,942
Provision for Loan Losses	1,057	609	(900)	(1,000)	(450)
Net Interest Income, After Provision for Loan Losses	29,466	26,382	17,173	15,500	13,392
Total Non-Interest Income	8,277	8,988	6,658	6,575	5,725
Total Non-Interest Expenses	25,310	23,818	17,097	14,976	14,029
Income Before Federal Income Taxes	12,433	11,552	6,734	7,099	5,088
Federal Income Taxes	2,319	2,876	2,293	2,407	1,728
Net Income	\$10,114	\$8,676	\$4,441	\$4,692	\$3,360

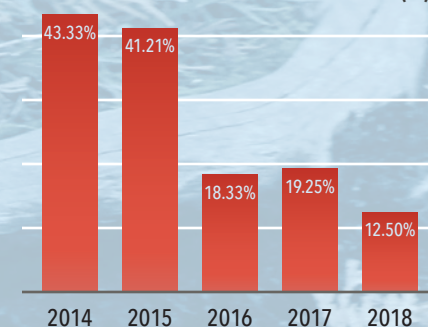
Balance Sheet (Dollars in Thousands)



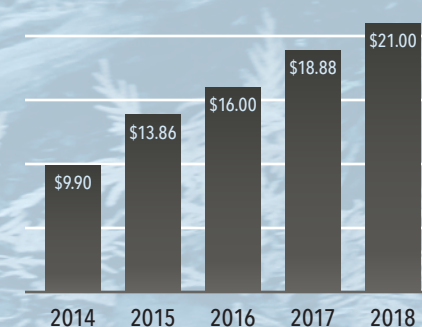
Net Income (Dollars in Thousands)



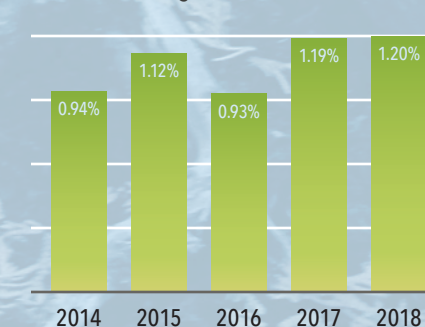
Total One Year Return to Shareholders (%)



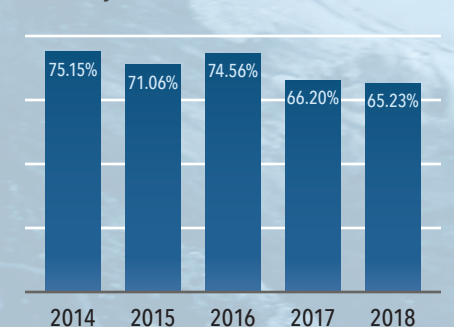
Market Price Per Share



Return on Average Assets



Efficiency Ratio



LOCATIONS

BRANCHES

Main Branch

175 N. Leroy Street
Fenton, MI 48430
(810) 629-2263

Silver Parkway Branch

15095 Silver Parkway
Fenton, MI 48430
(810) 750-5605

Vg's Food Center Branch

18005 Silver Parkway
Fenton, MI 48430
(810) 750-8781

Linden Branch

107 Main Street
Linden, MI 48451
(810) 750-8794

Holly Branch

4043 Grange Hall Road
Holly, MI 48442
(810) 750-8701

Grand Blanc South Branch

7606 S. Saginaw Street
Grand Blanc, MI 48439
(810) 695-9601

Grand Blanc North Branch

1401 E. Hill Road
Grand Blanc, MI 48439
(810) 603-9500

Brighton Branch

134 N. First Street
Brighton, MI 48116
(810) 534-0800

New Lothrop Branch

9380 Genesee Street
New Lothrop, MI 48460
(810) 638-3003

Montrose Branch

200 W. State Street
Montrose, MI 48457
(810) 639-6101

Birch Run Branch

8412 Main Street
Birch Run, MI 48415
(989) 624-6280

Burt Branch

10811 Albee Road
Burt, MI 48417
(989) 770-4050

Chesaning Branch

12771 Brady Road
Chesaning, MI 48616
(989) 845-7070

St. Charles Branch

207 S. Saginaw Street
St. Charles, MI 48655
(989) 865-9434

Thomas Township Branch

7590 Gratiot Road
Saginaw, MI 48609
(989) 781-2350

ATM ONLY LOCATIONS

Thompson Road

3237 W. Thompson Road
Fenton, MI 48430

Alpine Food Plaza

606 W. Broad Street
Linden, MI 48451

Chesaning

148 Chapman Street
Chesaning, MI 48616

LOAN PRODUCTION OFFICES

Saginaw Loan Center

301 E. Genesee Avenue, Suite 01
Saginaw, MI 48607

Flint Loan Center

Flint Ferris Wheel Building
615 S. Saginaw St, 7TH Floor
Flint, MI 48502

(800) 535-0517

www.fentura.com

www.thestatebank.com

