

LETTER TO SHAREHOLDERS

To Our Shareholders:

Following this letter you will find a detailed narrative discussion of our 2008 financial performance results along with our audited financial statements. Clearly, 2008 was the most difficult year faced by the banking industry since the era of The Great Depression, and the impact was heavy on Fentura Financial, Inc.

The following three overriding themes dominate the story behind our performance for the year:

- Bank performance and a general deterioration of the value of financial investments triggered an accounting requirement to reevaluate the “goodwill” created in connection with the 2004 acquisition of West Michigan Community Bank. An in-depth analysis resulted in a decision to take a non-cash goodwill impairment charge of nearly \$8 million in the fourth quarter of 2008. Accounting standards required that this unprecedented one time charge be applied to the income statement at year end.
- Further deterioration of the Michigan economy, additional stress in the housing industry and rapidly declining real property values resulted in a \$1.0 million increase in loan loss provision expense over 2007.
- Core earnings (setting aside the extraordinary provision for loan loss expense and goodwill expense) remained positive at all subsidiary banks.
- Capital levels remained strong and meet or exceed regulatory well capitalized requirements at all subsidiary banks.

While the 2008 results were extremely disappointing to all of us, our banks continue to withstand the most severe economic conditions we have experienced in many decades. Your board of directors and management team embarked on a strategic planning process during 2008 to look at all the alternatives available to strengthen our company and approve our financial performance in light of the difficulties we are facing.

Accordingly, following the “Financial Performance Narrative” you will find a page entitled “2009 Strategic Initiatives” which details the following major capital, structural and organizational changes to be implemented during the coming year:

- The sale of Davison State Bank to private non affiliated investors.
- Commencement of plans to raise new capital through a private placement of preferred or common stock to existing major Fentura shareholders.
- Internal reorganization involving the consolidation of the Fentura and State Bank Boards of Directors, and realignment of the senior management team allowing senior officers to focus their primary attention on individual areas of expertise.

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(Letter to Shareholders continued)

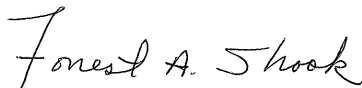
- Immediate implementation of cost cutting measures, reducing overhead expenses by \$2 million annually to include across-the-board salary and wage reductions, the indefinite suspension of retirement contributions, position eliminations, reduction in work hours, and a dramatic cutback in controllable operating expenses.

While these initiatives will clearly strengthen the core company, the board and management team continue to evaluate other capital raising or expense reduction measures such as branch closures, asset sales, the sale and leaseback of facilities etc.

Further information regarding the strategic planning process and the strategic initiatives summarized later in this report will be available at the Annual Shareholders Meeting to be held at 7:00 p.m. April 28, 2009 at the Genesys Conference and Banquet Center, 805 Health Park Boulevard, in Grand Blanc, Michigan. For those of you who will not be able to attend the Annual Meeting, the shareholder meeting presentations will be available for review on the Fentura website following the meeting at www.fentura.com. You can also obtain a printed copy by contacting Board Secretary Doug Kelley at (810) 714-3925 or by mail at P.O. Box 725, Fenton, Michigan 48430.

As always, we appreciate your support of Fentura Financial, Inc. and we trust that you recognize that we are doing all that we can to stabilize our company and return it to profitability during these difficult times.

Sincerely,



Forrest A. Shook
Chairman



Donald L. Grill
President & CEO

FINANCIAL PERFORMANCE SUMMARY

Fentura posted a \$12.2 million loss in 2008 compared to a loss of \$0.5 million in 2007. A goodwill impairment charge of \$8.0 million, write downs of equity investments of \$2.6 million, a reduction in net interest income of \$2.5 million, an increase in loan losses and associated collection expenses of \$1.2 million, all contributed to the loss in 2008. Salary and benefit reductions of \$1.1 million provided a partial offset.

The \$8.0 million goodwill charge was a one-time, non-cash event and represents a complete write off of the goodwill recorded as part of the WMCB acquisition in 2004. The equity investment write downs were due to the collapse of Main Street Bank (MSB), \$9 million and larger than anticipated losses at Valley Capital Bank (VCB) in Arizona, \$1.7 million.

Net interest income declined \$2.5 million due to a reduction in interest income of \$6.1 million, partially offset by a reduction of \$3.6 million in interest expense. Interest income declined primarily due to a 1.10% drop in the average rate earned on commercial loans. This drop was due to declining interest rates charged on loans and an increase in nonperforming loans versus 2007.

The provision for loan losses and expenses incurred collecting problem loans increased \$1.2 million in 2008 to \$9.4 million. The increase of the 2008 provision for loan loss was to provide specific reserves for non-performing construction and land development loans, increased charge-offs and continuing decline in the Michigan economy. Management believes the allowance for loan losses at December 31, 2008 of \$11.8 million was sufficient to cover all known losses in the loan portfolio at this time. The provision for loan losses and collection expenses were \$8.2 million and \$1.4 million in 2007 and 2006, respectively.

Salary and benefit expenses were down \$1.1 million versus 2007 due to compensation and personnel reductions. It is anticipated that salaries and benefits will continue to decline in 2009.

The economy had a major impact on the balance sheet of the company during 2008. Total assets declined \$49.4 million or 7.9%, loans declined \$12.1 million and deposits declined \$33.8 million. Total stockholders equity declined 27%, primarily due to the goodwill charge and operating losses mentioned above. However, the risk based capital ratios all remain in line with prior years and exceed regulatory requirements.



FORWARD LOOKING STATEMENTS

The discussion of 2009 Strategic Initiatives on the following page contains forward looking statements that are based on current expectations, management estimates and projections about the financial services industry, the economy, and about the Corporation itself. Words such as “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “intends,” “is likely,” “plans,” “projects,” variations of such words and similar expressions are intended to identify such forward looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (“Future Factors”), which are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecast in such forward looking statements. The Corporation undertakes no obligation to update, amend or clarify forward looking statements as a result of new information, future events, or otherwise.

Future factors that could cause a difference between an ultimate actual outcome and a preceding forward looking statement include, but are not limited to, changes in interest rate and interest rate relationships, demands for products and services, the degree of competition by traditional and non-traditional competitors, changes in banking laws or regulations, changes in tax laws, change in prices, the impact of technological advances, government and regulatory policy changes, the outcome of pending and future litigation and contingencies, trends in customer behavior as well as their ability to repay loans, and the local and national economy.

2009 STRATEGIC INITIATIVES

During the second quarter of 2008, the Fentura Board of Directors and Senior Management Team embarked upon a strategic planning process designed to explore the various alternatives available to strengthen the performance and financial condition of the company. This intensive year long planning process has been completed and the following Strategic Initiatives will be implemented during 2009.

1. The sale of Davison State Bank – The Board of Directors of Fentura Financial, Inc. has entered into an agreement for the sale of Davison State Bank to a private, non-affiliated, investor group. The transaction which is expected to close during the third quarter of 2009 will allow Fentura to recapture the capital investment made when Davison State Bank was formed by Fentura in 2000. The capital will be redeployed to strengthen the remaining subsidiary banks and utilized for general corporate purposes.
2. Raising additional capital – The company has received an expression of interest from current and former directors and major shareholders to participate in a private placement of common or preferred stock. While not committed at this time, we are contemplating a placement of new equity in the form of newly issued common or preferred stock.
3. Company reorganization – Plans are under way for a company reorganization designed to stream line operations, improve communication and flatten the organizational structure. A first step in the process involved the consolidation of the Boards of Directors of Fentura Financial, Inc. and The State Bank. Additionally, the roles and responsibilities of virtually all Senior Officers have been realigned to mirror a more traditional “single-bank like” organizational structure. This will allow Senior Officers the opportunity to focus the majority of their effort and energy in areas of individual expertise.
4. Cost control and expense reduction – Management recently proposed and the Board approved a major cost cutting and expense reduction initiative for 2009. The initiative will involve position eliminations and work responsibility changes for dozens of positions. All remaining employees will subject to across-the-board salary and wage reductions in addition to an indefinite suspension of all retirement benefit contributions including the company 401K match. Expense cuts will also be imposed in various other operating expense categories and the total impact of the saving is projected to exceed \$2 million annually. These reductions are in addition to the \$1 million savings achieved during 2008.

The strategic planning process identified several other strategic alternatives which remain under investigation or consideration. These alternatives will be evaluated on a case-by-case basis for possible future implementation by the Board and/or management team. In all cases, such additional initiatives will only be considered and/or implemented if they are deemed to be in the best interest of the shareholders in strengthening the financial condition and financial performance of the company.

BALANCE SHEET

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

DECEMBER 31	2008	2007	2006	2005	2004
ASSETS					
Cash and Due From Banks	\$20,953	\$22,734	\$19,946	\$21,327	\$22,705
Federal Funds Sold and Other Short Term Investments	0	7,300	9,500	9,750	4,550
Securities	60,677	80,477	103,003	113,959	129,176
Loans	459,999	473,058	453,219	440,398	395,017
Less Allowance for Loan Losses	(11,773)	(8,554)	(6,692)	(6,301)	(5,501)
Other Assets	48,748	53,004	43,322	39,956	38,943
Total Assets	\$578,604	\$628,019	\$622,298	\$619,089	\$584,890
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	\$509,728	\$543,503	\$528,555	\$528,054	\$491,065
Short Term Borrowings	1,500	649	1,500	1,537	5,200
Other Borrowings	14,707	11,030	11,052	14,228	19,402
Repurchase Agreements	0	5,000	10,000	10,000	10,000
Subordinated Debt	14,000	14,000	14,000	14,000	12,000
Other Liabilities	2,545	4,341	5,873	4,375	4,254
Total Stockholders' Equity	36,124	49,496	51,318	46,895	42,969
Total Liabilities and Stockholders' Equity	\$578,604	\$628,019	\$622,298	\$619,089	\$584,890
RISK BASED CAPITAL RATIOS					
Tier 1 Capital to Risk Weighted Assets	10.20%	10.40%	11.30%	10.60%	10.20%
Total Capital to Risk Weighed Assets	11.43%	11.60%	12.50%	11.90%	11.40%
Tier 1 Capital to Average Assets	8.84%	9.00%	8.60%	8.90%	8.70%

STATEMENT OF INCOME

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

YEAR ENDED DECEMBER 31,	2008	2007	2006	2005	2004
SUMMARY OF INCOME					
Interest Income	\$33,143	\$39,214	\$39,916	\$33,878	\$26,094
Interest Expense	15,028	18,621	16,908	11,298	8,263
Net Interest Income	18,115	20,593	23,008	22,580	17,831
Provision for Loan Losses	8,402	7,466	1,120	1,389	1,389
Net Interest Income after Provision for Loan Losses	9,713	13,127	21,888	21,191	16,442
Total Other Operating Income	5,087	7,579	7,643	6,882	7,292
Total Other Operating Expense	29,554	21,834	21,986	20,779	18,176
Income (Loss) Before Income Taxes	(14,754)	(1,128)	7,545	7,274	5,558
Provision for Income Taxes	(2,589)	(661)	2,237	2,220	1,524
Net Income	(\$12,165)	(\$467)	\$5,308	\$5,054	\$4,034
PER SHARE AMOUNTS*					
Net Income Per Share-Basic	(\$5.60)	(\$0.22)	\$2.48	\$2.41	\$1.95
Net Income Per Share-Diluted	(\$5.60)	(\$0.22)	\$2.47	\$2.40	\$1.94
Cash Dividends Paid	\$0.00	\$1.00	\$0.94	\$0.88	\$0.84
Average Number of Common Shares Outstanding	2,174,226	2,159,586	2,141,388	2,096,002	2,072,741
Book Value Per Share	\$16.53	\$22.88	\$24.08	\$22.07	\$20.67
Period End Market Price	\$6.75	\$22.00	\$32.55	\$29.77	\$33.41
PERFORMANCE RATIOS					
Return on Average Assets	-2.03%	-0.08%	0.85%	0.85%	0.74%
Return on Average Stockholders' Equity	-25.20%	-0.89%	10.82%	11.09%	9.72%
Net Interest Margin	3.40%	3.72%	4.11%	4.23%	3.70%

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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



We have audited, in accordance with the standards of the Public Accounting Oversight Board (United States), the consolidated balance sheets of Fentura Financial, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008, and appearing in the Annual Report Supplement to the proxy statement for the annual meeting of the stockholders, not appearing herein. In our report dated March 13, 2009, also appearing in the Annual Report Supplement to the proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying 2008, 2007 and 2006 condensed consolidated financial statements is fairly stated in all material respects, in relation to the consolidated financial statements from which it has been derived.

Grand Rapids, Michigan
March 17, 2009

Crowe Horwath LLP
Crowe Horwath, LLP

MANAGEMENT REPORT

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

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

Donald L. Grill

Donald L. Grill

President and CEO

Douglas J. Kelley

Douglas J. Kelley

Senior Vice President and CFO

CORPORATE INFORMATION

Fentura Financial, Inc.

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

ph 810.750.8725

fentura.com

Independent Auditors

Crowe Horwath LLP
Grand Rapids, MI

General Counsel

Howard and Howard
Kalamazoo, MI

Transfer Agent

Illinois Stock Transfer Company
Chicago, IL **ph** 800.757.5755

Stock Information

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

Market Makers

Ferris, Baker, Watts, Inc.

655 Metro Place South, Dublin, Ohio 43017 **ph** 614.718.2224 (Thomas Dooley)

Hill, Thompson, Magid L.P.

15 Exchange Place, Suite 800, Jersey City, New Jersey 07302 **ph** 800.631.3083

Howe Barnes Investments Inc.

135 South LaSalle Street, Chicago, Illinois 60603 **ph** 800.800.4693 (Nick Bach)

Hudson Securities, Inc.

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

Knight Equity Markets, L.P.

545 Washington Boulevard, Jersey City, New Jersey 07310 **ph** 800.762.0271

Monroe Securities, Inc.

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

Pershing LLC

One Pershing Plaza, Jersey City, New Jersey 07399 **ph** 201.413.2700

Stifel, Nicolaus & Company, Inc.

2100 Raybrook Street, Suite 200, Grand Rapids, Michigan 49546 **ph** 877.619.1412 (Brandon Kanitz)

BANK OFFICES



DavisonStateBank.com

Main Office 810.658.2265
625 S. State Road, Davison, MI 48423

VG's Food Center 810.658.6472
8503 E. Davison Road, Davison, MI 48423



LivingstonCommunityBank.com

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



TheStateBank.com

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

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

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

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

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

Linden Office 810.750.8794
107 Main Street, Linden, MI 48451

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

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

VG's Food Center 810.750.8781
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81 E 8th Street, Holland, MI 49423

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North Holland Office 616.786.9730
3493 West Shore Drive, Holland, MI 49424

Jenison Office 616.457.8700
437 Baldwin Street, Jenison, MI 49428
