

SECOND QUARTER

CORPORATE HIGHLIGHTS

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of \$2,696,000, or \$0.59 per share, for the second quarter ended June 30, 2023, compared with \$3,361,000, or \$0.74 per share, for the second quarter of 2022. For the first six months of 2023, Southern earned \$5,701,000 or \$1.25 per share, compared with \$6,294,000, or \$1.39 per share, for the same six-month period one year ago. Earnings were impacted by continued loan growth, particularly in the Jackson market, that required additional provision expense for the quarter.

Southern's annualized return on average assets for the six-month periods ended June 30, 2023 and 2022 was 0.86 percent and 1.04 percent, respectively. The annualized return on average equity was 12.63 percent for the first six months of 2023 compared to 14.03 percent for the same period in 2022. Southern's return on average tangible equity, which is total shareholders' equity less goodwill and other intangibles, was 14.90 percent. Our tax equivalent net interest margin for the six-month periods ended June 30, 2023 and 2022 was 3.25 percent and 3.13 percent, respectively.

Total assets as of June 30, 2023 increased to \$1.418 billion from \$1.277 billion at December 31, 2022. Loan totals as of June 30, 2023 increased by 12.8 percent to \$999.7 million from \$886.6 million at December 31, 2022. Deposits totaled \$1.180 billion at quarter end, an increase of \$89.2 million as compared to \$1.091 billion at year-end 2022.

Southern's asset quality metrics remained strong at June 30, 2023 as delinquent loan totals decreased year over year to 0.12 percent of total loans, or \$1.176 million, down from 0.17 percent, or \$1.341 million, at June 30, 2022. The bank realized \$3,000 in net loan loss recoveries for the six-month period ending June 30, 2023. \$925,000 of provision for credit loss expense was recorded during the first six months of 2023, primarily the result of loan growth. This contrasts with no provision for credit loss during the first six months of 2022. The allowance for credit loss at June 30, 2023 totaled \$11.616 million, or 1.16 percent of total loans, as compared to December 31, 2022 levels of \$9.588 million or 1.08 percent of total loans.

We recently opened a loan production office on North Jackson Street in the Post Office building in downtown Jackson, and on August 10 we will celebrate the grand opening of our newest full-service branch office in the 200 Building on West Michigan Avenue. Along with an experienced staff providing residential and commercial loans, and retail and business banking services, the office is equipped with an outside Personal Teller Machine, allowing customers to speak with a representative and conduct same day business transactions until 7:00 pm Monday through Friday, as well as providing traditional ATM services. A third location including a drive thru facility on the corner of Weatherwax Drive and Horton Road is in the planning stages as well. We are pleased with the results of our business development efforts thus far, and remain confident of our continued growth throughout this important market.

Please contact me, members of our management team or any of our directors should you have any questions or comments. Your continued support is appreciated.

Sincerely,



John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2023 (Unaudited)	December 31, 2022 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 102,311	\$ 77,255
Federal funds sold	350	253
Investment securities	244,748	247,815
Loans held for sale	130	-
Gross loans	999,698	886,626
Less: Allowance for credit losses	(11,616)	(9,588)
Net loans	988,082	877,038
 Premises and equipment, net	22,708	16,545
Net cash surrender value of life insurance	22,154	18,124
Goodwill	13,422	13,422
Other assets	24,581	26,071
Total assets	<u>\$ 1,418,486</u>	<u>\$ 1,276,523</u>
LIABILITIES		
Deposits	\$ 1,180,236	\$ 1,091,051
Securities sold under agreements to repurchase and overnight borrowings	970	11,179
Accrued expenses and other liabilities	13,424	13,545
Other borrowings	96,900	40,000
Subordinated debentures	34,618	34,584
Total liabilities	<u>1,326,148</u>	<u>1,190,359</u>
SHAREHOLDERS' EQUITY		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, \$2.50 par value		
Authorized - 10,000,000 shares		
Issued and outstanding – 4,571,652 shares in 2023		
(4,519,179 shares in 2022)	11,425	11,294
Additional paid-in capital	14,396	14,066
Retained earnings	85,856	82,705
Accumulated other comprehensive loss, net	(19,339)	(21,901)
Total shareholders' equity	92,338	86,164
Total liabilities and shareholders' equity	<u>\$ 1,418,486</u>	<u>\$ 1,276,523</u>

(A) The balance sheet at December 31, 2022 has been derived from the audited consolidated financial statements at that date.

SOUTHERN MICHIGAN BANCORP, INC. BOARD OF DIRECTORS

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SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
(In thousands, except per share data)				
INTEREST INCOME	\$ 15,991	\$ 10,164	\$ 30,324	\$ 19,377
INTEREST EXPENSE	6,130	1,044	10,609	1,993
Net interest income	9,861	9,120	19,715	17,384
Provision for credit losses	650	-	925	-
Net interest income after provision for credit losses	9,211	9,120	18,790	17,384
NON-INTEREST INCOME				
Service charges on deposit accounts	433	350	826	712
Trust fees	591	556	1,158	1,133
Net gains on loan sales	55	231	115	495
ATM and debit card fee income	473	449	887	865
Other	379	301	746	578
Total non-interest income	1,931	1,887	3,732	3,783
NON-INTEREST EXPENSE				
Salaries and employee benefits	4,685	4,299	9,395	8,291
Occupancy, net	481	395	968	834
Equipment	337	333	659	616
Professional and outside services	557	383	1,030	773
Software maintenance	552	485	1,071	950
Other	1,298	1,074	2,464	2,130
Total non-interest expense	7,910	6,969	15,587	13,594
Income before income taxes	3,232	4,038	6,935	7,573
Federal income tax provision	536	677	1,234	1,279
NET INCOME	\$ 2,696	\$ 3,361	\$ 5,701	\$ 6,294
Basic Earnings Per Common Share	\$ 0.59	\$ 0.74	\$ 1.25	\$ 1.39
Diluted Earnings Per Common Share	0.59	0.74	1.25	1.39
Dividends Declared Per Common Share	0.14	0.13	0.28	0.26

MARKET INFORMATION

Inquiries regarding stock certificate administration, address changes, transfers, and other related services should be directed to:

American Stock Transfer and Trust Company, LLC
Website: www.astfinancial.com
Phone: (718) 921-8124
Toll Free: (800) 937-5449
Email: info@amstock.com
Address: 6201 15th Avenue
Brooklyn, NY 11219

The following brokerage firm makes a market for Southern Michigan Bancorp, Inc. stock:

D.A. Davidson & Co.
Dublin, Ohio
(800) 394-9230

For further information on Southern Michigan Bancorp, Inc. please see the 'Investor Relations' tab on our website: www.smb-t.com

OFFICER LISTING

Executive Officers

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Chief Executive Officer

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President

Nicholas M. Grabowski
Executive Vice President /
Head of Lending

Eric M. Anglin
Executive Vice President /
Chief Strategy Officer /
Head of Business Development

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John R. Waldron
Jackson Market President

Commercial Loans

Aaron Lewis
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Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

Sarah Headley
First Vice President /
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Gabriel Alvez
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Rachel Doty
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Vice President /
Commercial Loan Officer

Jim Sobeske
Vice President /
Commercial Loan Officer

Samantha Gripman
Vice President /
Credit Manager

Jackson Market Area

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Senior Vice President /
Commercial Loan Officer

Mike Jors
Vice President /
Commercial Loan Officer

Matthew Miller
Vice President /
Commercial Loan Officer

David Kreger
Vice President /
Commercial Loan Officer

Portage Trade Centre

Justin Horn
Vice President /
Commercial Loan Officer

Retail

Derek Naylor
First Vice President /
Head of Retail /
Chief Deposit Officer

Retail Loans

DeAnne Hawley
Vice President /
Retail Loan Sales Manager

Brandy Titus
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Connie Caudill
Vice President /
Collections Manager

Jodie Johnson
Vice President /
Mortgage Loan Officer

Shari Kline
Vice President /
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Diane Krimmel
Assistant Vice President /
Consumer Loan Specialist

Kristen Niedzwiecki
Assistant Vice President /
Mortgage Loan Officer

LeAndra Otis
Assistant Vice President /
Mortgage Loan Officer

Retail Loan Operations

Tina Mack
Vice President /
Retail Loan Operations Manager

Phyllis Wingate
Vice President /
Retail Lending Functions and
Systems

Retail Banking

Lori Neill
Vice President / Retail Branch
Administrator

STURGIS BRANCH
Tina Cronkhite
Vice President /
Regional Business Development
Manager /
Branch Manager

BATTLE CREEK BRANCH
Lisa Ridgeway
Vice President /
Branch Manager

CENTREVILLE BRANCH
Jenny Haydon
Branch Manager

COLDWATER MAIN & EAST
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CONSTANTINE BRANCH
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Melissa Easter
Treasury Sales Officer

Karen Fleisher
Treasury Sales Officer

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Controller

Information Technology

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First Vice President /
Head of Information
Technology

Joseph Duke
Vice President /
Information Technology

Cody Smoker
Systems Administrator Officer

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Vice President /
Head of Marketing

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Head of Operations

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Deposit Operations Manager

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Operations Support Manager

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Core System Administrator

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Risk Management Officer

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Information Security Officer

Stacy Pelikan
Audit and Insurance Officer /
Bank Security Officer

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Head of Wealth Management

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Sherrie Cochran
Vice President /
Wealth Management Officer

Buzz Leach
Vice President /
Wealth Management Officer

Shaun Fedder
Vice President /
Wealth Management Officer