## Officers of Southern Michigan Bank & Trust

COMMERCIAL LOANS

**David Clow**
Senior Vice President /
Head of Commercial Lending

**Deborah Davis**
Vice President

**Nick Grabowski**
Vice President

**Sarah Headley**
Vice President

**Robert Hungerford**
Vice President

**Doug Kiessling**
Vice President

**James Sobeske**
Vice President

**Tom Swoish**
Vice President

**Joan Trenary**
Vice President

**Jason Williams**
Vice President

**Aaron Hollister**
Assistant Vice President

RESIDENTIAL & CONSUMER LOANS

**Jamie Smoker**
Senior Vice President /
Head of Residential
& Consumer Lending

**Rick Feller**
Vice President /
Lending and Sr. Collection Administrator

**Phyllis Wingate**
Vice President / Head of Retail
Loan Operations

**Jeremiah Ervans**
Assistant Vice President /
Retail Loan Officer

**Tim Fox**
Assistant Vice President /
Retail Loan Officer

**DeAnne Hawley**
Assistant Vice President /
Retail Loan Officer

**Shari Kline**
Assistant Vice President /
Retail Loan Officer

**Diane Krimmel**
Assistant Vice President /
Retail Loan Officer

**Lori Lemmon**
Assistant Vice President /
Retail Loan Officer

**Tammy Malatok**
Assistant Vice President /
Retail Loan Officer

**Gregory Mallar**
Assistant Vice President /
Retail Loan Officer

**Cassidy Munn**
Assistant Vice President /
Retail Loan Officer

**Desiree Kauffman**
Retail Loan Officer

**Connie Swain-Caudill**
Assistant Vice President /
Senior Collections Manager

RISK MANAGEMENT

**Trisha Pawloski**
Vice President /
Risk Management Officer

TRUST DEPARTMENT

**Mary Guthrie**
Senior Vice President /
Senior Trust Officer

**R. David Rumsey**
Vice President /
Senior Investment Officer

**Jean Winans**
Vice President /
Senior Trust Officer

**Susan White**
Vice President /
Trust Officer

INVESTMENTS

**Melissa Barlow**
Vice President/
Senior Investment Officer

RETAIL BANKING SERVICES

**Eric Anglin**
First Vice President /
Retail Banking Services /
Chief Deposit Officer

COLDWATER MAIN &
EAST CHICAGO BRANCHES
**Abby Austin**
Assistant Vice President /
Branch Manager

BATTLE CREEK & MARSHALL
BRANCHES
**Claudia Murch**
Assistant Vice President /
Regional Branch Manager

HILLSDALE & CAMDEN BRANCHES
**Lori Neill**
Regional Branch Manager

UNION CITY BRANCH
**Ken Brooks**
Vice President /
Branch Manager

TEKONSHA BRANCH
**Dawn Copas**
Branch Manager

CONSTANTINE BRANCH
**Sally Cotton**
Vice President /
Branch Manager

MENDON BRANCH
**Doreen Tobin**
Assistant Vice President /
Branch Manager

CENTREVILLE BRANCH
**Paul Harker**
Branch Manager

THREE RIVERS MAIN BRANCH
**Sharon Bachinski**
Assistant Vice President /
Branch Manager

THREE RIVERS WESTLAND BRANCH
**Lynette Lorenz**
Assistant Vice President /
Branch Manager

ACCOUNTING

**Sara Herrmann**
Vice President / Finance

OPERATIONS / INFORMATION SYSTEMS

**Dave McKinley**
First Vice President /
Head of Operations

**Paul Mahle**
Assistant Vice President /
Senior Data Processing Officer

**Becky Omo**
Assistant Vice President /
Operations Representative

**Angie Smith**
Assistant Vice President /
Operations Manager

**Jamie Tobalske**
Assistant Vice President /
e-Services Officer

**Jeff Kiersey**
Systems Solutions Officer

**Vikki Kline**
Project / Research Officer

MARKETING

**Patty Parker**
Vice President

Southern Michigan Bancorp, Inc.
Continuous Banking Since 1872
www.smb-t.com

## Executive Officers of Southern Michigan Bank & Trust and Southern Michigan Bancorp, Inc.

**John H. Castle**
Chairman & Chief Executive Officer

**Kurt G. Miller**
President

**Danice L. Chartrand**
Senior Vice President /
Chief Financial Officer

2012 QUARTERLY REPORT

# FIRST Quarter

*Corporate Highlights*

Southern Michigan Bancorp, Inc.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,002,000, or $.43 per share, for the first quarter of 2012. Compared with the first quarter of 2011, net income increased by more than 33 percent, from $748,000, or $.32 per share.

Southern's financial performance during the first quarter of 2012 is reflective of the many strategies and initiatives implemented by our management team and Board since the onset of the economic downturn four years ago. During this timeframe, we maintained a relentless focus on asset quality, service excellence, growing core profits and building capital.

Delinquent loans, as a percentage of total loans, declined substantially to 2.24 percent as of March 31, 2012 from 2.93 percent as of March 31, 2011. Other real estate owned improved from $1.53 million as of year-end 2011 to $870,000 as of March 31, 2012. During the first quarter of 2012, we incurred provision for loan loss expense of $225,000, in part to allocate an additional $159,000 to specific reserves for impaired loans. Our allowance for loan losses at March 31, 2012 totaled $5.525 million, or 1.66 percent of loans.

Southern continues to strengthen its capital position in anticipation of higher regulatory capital requirements and to accommodate expected loan portfolio growth. As of March 31, 2012, total shareholders' equity was $52.5 million, an increase of 7.7 percent from $48.8 million at March 31, 2011. During this same period, tangible book value per share grew by nearly 14 percent from $14.37 to $16.34.

The cumulative efforts and hard work of our officers and staff contributed to growth in Southern's balance sheet and profitability metrics. Total assets increased 3.6 percent to $520.4 million as of March 31, 2012, from $502.4 million one year ago. Our marketing to underserved small businesses and consumers throughout our geographic footprint resulted in an increase of 8.9 percent in total loans to $332.9 million as of March 31, 2012 from $305.8 million as of the same date last year. Deposits as of March 31, 2012 grew to $434.5 million, an increase of 4.1 percent from March 31, 2011. The company's annualized return on average assets for the three-month period ended March 31, 2012 was 0.77 percent compared with 0.60 percent for the first quarter of 2011. The annualized return on average equity was 7.63 percent for the first quarter of 2012 compared with 6.19 percent for the first quarter of 2011.

My presentation at the annual shareholders' meeting on May 10, 2012 highlighted details regarding the financial accomplishments of 2011, along with priority objectives for 2012 and beyond. The presentation also provided comparisons of Southern's financial performance with many of its Michigan peers. Southern compares favorably on key measures of financial performance and strength. If you would like to review the entire presentation, visit our website at www.smb-t.com and click on the Investor Relations link. Proceed to the left hand side of the page under Corporate Information to News & Market Data and then finally to Presentations.

While first quarter results may not be predictive for the remainder of 2012, we are optimistic that many of our financial and other business objectives are attainable. We have a strong pipeline of prospective new commercial loan clients. Each day our customer service staff responds to requests for information regarding many of our deposit and investment products and trust services.

Your continued support of our mission to make Southern a premier provider of financial services in Southern Michigan is appreciated.

Sincerely,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

## SOUTHERN MICHIGAN BANCORP, INC.
## CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2012 (Unaudited) | December 31, 2011 (A) |
|---|---|---|
| | (In thousands, except share and per share data) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 58,037 | $ 42,185 |
| Federal funds sold | 261 | 287 |
| Securities available for sale | 84,801 | 90,344 |
| Loans held for sale | 2,650 | 1,088 |
| Loans, net of allowance for loan losses of $5,525 - 2012 ($5,412 - 2011) | 327,344 | 327,392 |
| Premises and equipment, net | 12,451 | 12,546 |
| Accrued interest receivable | 2,067 | 2,148 |
| Net cash surrender value of life insurance | 10,400 | 10,312 |
| Goodwill | 13,422 | 13,422 |
| Other intangible assets, net | 1,585 | 1,666 |
| Other assets | 7,415 | 7,830 |
| **TOTAL ASSETS** | $ 520,433 | $ 509,220 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | $ 69,572 | $ 61,930 |
| Interest bearing | 364,965 | 358,581 |
| **TOTAL DEPOSITS** | 434,537 | 420,511 |
| Securities sold under agreements to repurchase and overnight borrowings | 14,932 | 18,074 |
| Accrued expenses and other liabilities | 4,234 | 4,568 |
| Other borrowings | 7,600 | 7,751 |
| Subordinated debentures | 5,155 | 5,155 |
| Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 116,711 in 2012 (115,170 shares in 2011) | 1,476 | 1,296 |
| **TOTAL LIABILITIES** | 467,934 | 457,355 |
| Shareholders' equity: | | |
| Preferred stock, 100,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $2.50 par value: | | |
| Authorized—4,000,000 shares | | |
| Issued—2,376,724 shares in 2012 (2,358,599 shares in 2011) | | |
| Outstanding (other than ESOP shares) - 2,260,013 shares in 2012 (2,243,429 shares in 2011) | 5,650 | 5,609 |
| Additional paid-in capital | 18,104 | 18,278 |
| Retained earnings | 28,410 | 27,576 |
| Accumulated other comprehensive income, net | 472 | 571 |
| Unearned Employee Stock Ownership Plan shares | (137) | (169) |
| **Total shareholders' equity** | 52,499 | 51,865 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 520,433 | $ 509,220 |

(A) The balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date.

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

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| | (In thousands, except per share data) | |
| **Interest income:** | | |
| Loans, including fees | $ 4,511 | $ 4,370 |
| Securities: | | |
| Taxable | 156 | 138 |
| Tax exempt | 242 | 216 |
| Other | 26 | 51 |
| **Total interest income** | 4,935 | 4,775 |
| **Interest expense:** | | |
| Deposits | 661 | 844 |
| Other | 133 | 159 |
| **Total interest expense** | 794 | 1,003 |
| Net interest income | 4,141 | 3,772 |
| **Provision for loan losses** | 225 | 125 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | 3,916 | 3,647 |
| **Non-interest income:** | | |
| Service charges on deposit accounts | 394 | 511 |
| Trust fees | 298 | 275 |
| Net gains on security calls | 3 | 2 |
| Net gains on loan sales | 402 | 317 |
| Earnings on life insurance assets | 88 | 80 |
| ATM and debit card fee income | 272 | 235 |
| Other | 208 | 235 |
| **TOTAL NON-INTEREST INCOME** | 1,665 | 1,655 |
| **Non-interest expense:** | | |
| Salaries and employee benefits | 2,421 | 2,447 |
| Occupancy, net | 283 | 373 |
| Equipment | 192 | 203 |
| Printing, postage and supplies | 139 | 141 |
| Telecommunication expenses | 96 | 99 |
| Professional and outside services | 256 | 221 |
| Software maintenance | 111 | 105 |
| FDIC assessments | 100 | 165 |
| Amortization of other intangibles | 81 | 85 |
| Other | 603 | 526 |
| **Total non-interest expense** | 4,282 | 4,365 |
| **INCOME BEFORE INCOME TAXES** | 1,299 | 937 |
| **Federal income tax provision** | 297 | 189 |
| **NET INCOME** | $ 1,002 | $ 748 |
| **Basic Earnings Per Common Share** | $ 0.43 | $ 0.32 |
| **Diluted Earnings Per Common Share** | $ 0.42 | $ 0.32 |
| **Dividends Declared Per Common Share** | $ 0.07 | $ 0.05 |

## Southern Michigan Bancorp, Inc. Board of Directors

DEAN CALHOUN
Coldwater Veneer, Inc.

JOHN S. CARTON
Retired Business Executive

JOHN H. CASTLE
Chairman & CEO of SMB, Inc. and SMB&T

H. KENNETH COLE
Hillsdale College

GARY H. HART
Infinisource, Inc.

NOLAN E. (RICK) HOOKER
Hooker Oil/Best American Car Washes

GREGORY J. HULL
Farmer

THOMAS E. KOLASSA
HUB International, Inc.

DONALD J. LABRECQUE
Labrecque Management

BRIAN P. MCCONNELL
Burr Oak Tool, Inc.

THOMAS D. MEYER
Meyer Ventures, LLC

KURT G. MILLER
President of SMB, Inc. and SMB&T

FREEMAN E. RIDDLE
Spoor-Parlin, Inc.

## Honorary Directors

JAMES T. GROHALSKI
JANE L. RANDALL
RAYMOND W. SMITH

## Market Information

The Trust Department of Southern Michigan Bank & Trust acts as the transfer agent for the Company's stock. For information concerning the transfer of the Company's stock, or to participate in the dividend reinvestment program, please contact the Trust Department at (517) 279-5503 or (800) 379-7628.

The following brokerage firms make a market for Southern Michigan Bancorp, Inc. stock:

Boenning & Scattergood
Powell, Ohio
(866) 326-8113

Howe Barnes Investments, Inc.
Chicago, Illinois
(312) 655-2954 or
(800) 800-4693

Stifel, Nicolaus & Company, Inc.
Grand Rapids, Michigan
(800) 676-0477

Hilliard Lyons, Inc.
Coldwater, Michigan
(517) 278-4333 or
(800) 211-5257

Robert Baird & Company
Grand Rapids, Michigan
(616) 459-4491 or
(800) 888-6200