THIRD Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,154,000, or $.49 per fully diluted share, for the third quarter of 2012. Our results for the period represent an increase of 30 percent over net income of $887,000, or $0.38 per fully diluted share, reported for the third quarter of 2011. Through the first nine months of 2012, Southern's net income was $3,183,000, or $1.34 per fully diluted share, compared with $2,397,000, or $1.03 per fully diluted share, for the same nine month period a year ago.

Southern's earnings growth reflects across-the-board improvements in most key financial performance metrics. In addition, our emphasis on broadening relationships with small and mid-sized businesses produced positive results. Total loans grew by nearly $18 million through the first nine months of this year. Checking and other noninterest bearing deposits increased by about $9 million during the same nine-month period. As of September 30, 2012, total assets were $515.6 million compared with $509.2 million at December 31, 2011.

Net interest income for the third quarter of 2012 increased 11 percent to $4.384 million compared with the third quarter of last year. Residential mortgage refinancing activity boosted net gains from loan sales to $519,000, an increase of 68 percent from the same quarterly period of 2011. Southern's annualized return on average assets through the first three quarters of 2012 was 0.82 percent compared with 0.64 percent for the same period of 2011. The annualized return on average equity was 7.94 percent for the first nine months of 2012 compared with 6.46 percent for the corresponding period of 2011.

Asset quality continued to improve as loan delinquencies further decreased by 21 basis points to 2.06 percent of loans at September 30, 2012, as compared to 2.27 percent at September 30, 2011. Net loan charge-offs for the quarter declined by more than 50 percent to $155,000 compared to $379,000 for the same quarter last year. For the nine-month period ended September 30, 2012, net charge-offs totaled $1.1 million compared with $1.171 million through the first three quarters of 2011. Our provision expense of $350,000 for the third quarter of 2012 enabled Southern to maintain its allowance for loan losses at $5,362,000 or 1.53 percent of total loans.

The Board of Directors and management are pleased with Southern's performance through the first nine months of 2012, and we remain cautiously optimistic that our positive trends can be sustained through the remainder of this year and into 2013. Our loan pipeline is growing as businesses and individuals throughout our four county region recognize the value of a relationship with a financially strong and locally committed community bank. However, sluggish economic growth regionally and nationally, a dramatic rise in costly bank regulations and uncertainties in governmental fiscal policies are obstacles that we continue to face. We have overcome many of these types of challenges in the past and expect to do so into the future.

The Jumpstart our Business Startups Act or JOBS Act signed into law April 5, 2012 allows community bank holding companies to suspend reporting obligations with the Securities and Exchange Commission if they have fewer than 1,200 registered shareholders, compared to 300 shareholders before the law was passed. After careful consideration and analysis, the Board of Directors has determined that it is in the best interest of our shareholders for Southern to suspend its reporting obligations under the Securities Exchange Act of 1934 and discontinue reporting to the SEC. We anticipate expense savings from eliminated costs associated with SEC filings, professional fees, etc. to be $150,000 or more annually. The process of suspending reporting obligations is relatively straightforward, and we anticipate that we will suspend our reporting obligations effective on or about January 1, 2013. We will still be required to file our Annual Report on Form 10-K for the year ended December 31, 2012.

Please feel free to 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,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012	December 31, 2011
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 44,085	$ 42,185
Federal funds sold	255	287
Securities available for sale	75,594	90,344
Loans held for sale	2,412	1,088
Loans, net of allowance for loan losses of $5,362 - 2012 ($5,412 - 2011)	345,126	327,392
Premises and equipment, net	12,328	12,546
Accrued interest receivable	2,527	2,148
Net cash surrender value of life insurance	10,562	10,312
Goodwill	13,422	13,422
Other intangible assets, net	1,422	1,666
Other assets	7,828	7,830
TOTAL ASSETS	$ 515,561	$ 509,220
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 70,853	$ 61,930
Interest bearing	360,132	358,581
TOTAL DEPOSITS	430,985	420,511
Securities sold under agreements to repurchase and overnight borrowings	16,331	18,074
Accrued expenses and other liabilities	4,803	4,568
Other borrowings	2,294	7,751
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 121,181 in 2012 (115,170 shares in 2011)	1,666	1,296
TOTAL LIABILITIES	461,234	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—2,375,642 shares in 2012 (2,358,599 shares in 2011)		
Outstanding (other than ESOP shares) - 2,254,461 shares in 2012 (2,243,429 shares in 2011)	5,636	5,609
Additional paid-in capital	18,021	18,278
Retained earnings	30,164	27,576
Accumulated other comprehensive income, net	575	571
Unearned Employee Stock Ownership Plan shares	(69)	(169)
Total shareholders' equity	54,327	51,865
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 515,561	$ 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. 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 / Chief Credit Officer of SMB, Inc. and SMB&T

FREEMAN E. RIDDLE
Spoor-Parlin, Inc.

Honorary Directors

JAMES T. GROHALSKI

JANE L. RANDALL

RAYMOND W. SMITH

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,679	$ 4,444	$ 13,819	$ 13,148
Securities:				
Taxable	120	164	339	473
Tax-exempt	238	237	726	671
Other	20	31	77	129
Total interest income	5,057	4,876	14,961	14,421
Interest expense:				
Deposits	554	771	1,802	2,418
Other	119	146	381	453
Total interest expense	673	917	2,183	2,871
Net interest income	4,384	3,959	12,778	11,550
Provision for loan losses	350	375	1,050	875
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,034	3,584	11,728	10,675
Non-interest income:				
Service charges on deposit accounts	449	489	1,256	1,568
Trust fees	276	284	837	852
Net gains on security calls and sales	-	2	3	4
Net gains on loan sales	519	309	1,397	831
Earnings on life insurance assets	82	87	250	251
Brokerage income	53	76	156	170
ATM and debit card fee income	289	263	853	755
Other	137	134	418	371
TOTAL NON-INTEREST INCOME	1,805	1,644	5,170	4,802
Non-interest expense:				
Salaries and employee benefits	2,492	2,310	7,180	7,051
Occupancy, net	237	230	797	939
Equipment	197	158	606	565
Printing, postage and supplies	104	139	348	382
Telecommunication expenses	55	74	212	271
Professional and outside services	309	253	845	673
FDIC assessments	94	101	294	376
Software maintenance	125	110	356	325
Amortization of other intangibles	82	85	244	254
Expenses relating to OREO property	74	72	276	203
ATM expenses	108	93	318	267
Other	440	468	1,265	1,137
Total non-interest expense	4,317	4,093	12,741	12,443
INCOME BEFORE INCOME TAXES	1,522	1,135	4,157	3,034
Federal income tax provision	368	248	974	637
NET INCOME	$ 1,154	$ 887	$ 3,183	$ 2,397
Basic Earnings Per Common Share	$ 0.49	$ 0.38	$ 1.35	$ 1.03
Diluted Earnings Per Common Share	0.49	0.38	1.34	1.03
Dividends Declared Per Common Share	0.09	0.05	0.25	0.15

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, 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

Officers of Southern Michigan Bank & Trust

COMMERCIAL LOANS

Nick Grabowski
First Vice President /
Head of Commercial Lending

Deborah Davis
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

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 BRANCH
Lisa Walker
Branch Manager /
Teller Training Supervisor*

MARSHALL BRANCH
Claudia Murch
Assistant Vice President /
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

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

Vikki Kline
Project / Research Officer

MARKETING

Patty Parker
Vice President

*Non Officer Position

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

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President / Chief Credit Officer

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Southern Michigan BANCORP, INC.

Continuous Banking Since 1872

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