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 $1,055,000, or $0.44 per share, for the first quarter of 2013. Our results for the period represent an increase of 5.3 percent over the net income of $1,002,000, or $0.43 per share, for the first quarter of 2012.

Our annualized return on average assets for the three-month period ended March 31, 2013 was 0.79 percent, compared with 0.77 percent for the first quarter of 2012. The annualized return on average equity was 7.62 percent for the first quarter of this year compared with 7.63 percent for the first quarter of 2012. Southern's net interest margin was 3.67 percent for the period compared with 3.68 percent for the same period last year.

Southern's first quarter dividend of $0.12 per share represented an increase of 71 percent over the $0.07 per share dividend paid for the first quarter of 2012. The annual cash dividend of $0.48 per share represents a dividend yield of 2.71 percent based on the current market value of $17.70 per share. Over the 2009-2012 time frame, Southern's dividends paid to shareholders have grown at a compounded annual rate of 22.8 percent.

Our strong financial performance through the first quarter of this year reflects management's continued emphasis on balance sheet strength, prudent underwriting of new loans, improving operating efficiencies and maximizing service levels to our customers. Southern's total consolidated assets as of March 31, 2013 grew to $537.6 million from $528.9 million at year-end 2012. At the end of the first quarter of this year, total shareholders' equity was a record $55.3 million.

During the first quarter of 2013, we incurred provision for loan loss expense of $225,000. Our allowance for loan losses at March 31, 2013 totaled $5.2 million, or 1.46 percent of total loans. Total delinquent loans through the first three months of 2013 declined to 1.74 percent of total loans, a substantial reduction from 2.24 percent as of March 31, 2012.

At our annual shareholders' meeting held in early May, I announced that Southern was investing more than $700,000 in a new data processing system. The conversion to the new system is projected to be completed by the end of the third quarter of this year. During the first quarter of 2013, we incurred $223,000 of non-reoccurring expenses related to the conversion. Once fully implemented, monthly data processing costs are expected to decline, enabling us to recoup our investment within a relatively short period. Equally important, our customer servicing capabilities will be greatly enhanced.

Throughout 2013, we will be enhancing state-of-the-art electronic delivery channels already in place by adding additional features such as remote deposit by capturing check images with a mobile device, utilizing electronic signatures for transactions, and offering online chat capabilities for our Internet banking customers. Our customer preferences for using electronic delivery channels have grown exponentially over a relatively short period. Today, more than 70 percent of all routine banking transactions processed by us were initiated by our customers electronically rather than through a branch or by mail.

The banking industry, as we have all come to know it, is changing at a rapid pace. With such change come new opportunities as well as greater challenges. Southern's management team and directors will continue to be mindful of shareholders' expectations as new strategies for creating value are assessed. My presentation at the annual shareholders' meeting provides additional details about Southern's financial performance along with priorities for 2013 and beyond. The presentation is available on our website at www.smb-t.com under the Investor Relations link. Proceed to the left hand side of the page under Corporate Information to News and Market Data and then to Presentations.

Your continued support is appreciated.

Sincerely,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 49,083	$ 50,334
Federal funds sold	787	276
Securities available for sale	84,687	64,525
Loans held for sale	2,090	1,776
Loans, net of allowance for loan losses of $5,232-2013 ($5,455 -2012)	353,028	364,150
Premises and equipment, net	12,464	12,419
Accrued interest receivable	2,236	2,059
Net cash surrender value of life insurance	10,729	10,644
Goodwill	13,422	13,422
Other intangible assets, net	1,267	1,341
Other assets	7,809	7,914
TOTAL ASSETS	$ 537,602	$ 528,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 84,615	$ 87,013
Interest bearing	370,078	357,157
TOTAL DEPOSITS	454,693	444,170
Securities sold under agreements to repurchase and overnight borrowings	15,237	16,134
Accrued expenses and other liabilities	4,898	5,662
Other borrowings	39	1,039
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 126,760 in 2013 (125,125 shares in 2012)	2,275	2,065
TOTAL LIABILITIES	482,297	474,225
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,394,443 shares in 2013 (2,375,975 shares in 2012)		
Outstanding (other than ESOP shares) - 2,267,683 shares in 2013 (2,250,850 shares in 2012)	5,670	5,627
Additional paid-in capital	17,477	17,700
Retained earnings	31,812	31,046
Accumulated other comprehensive income, net	346	297
Unearned Employee Stock Ownership Plan shares	-	(35)
Total shareholders' equity	55,305	54,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 537,602	$ 528,860

(A) The balance sheet at December 31, 2012 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, 2013	Three Months Ended March 31, 2012
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 4,498	$ 4,511
Securities:		
Taxable	122	156
Tax exempt	225	242
Other	25	26
Total interest income	4,870	4,935
Interest expense:		
Deposits	505	661
Other	78	133
Total interest expense	583	794
Net interest income	4,287	4,141
Provision for loan losses	225	225
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,062	3,916
Non-interest income:		
Service charges on deposit accounts	397	394
Trust fees	280	298
Net gains on security calls	-	3
Net gains on loan sales	523	402
Earnings on life insurance assets	84	88
ATM and debit card fee income	279	272
Other	160	208
TOTAL NON-INTEREST INCOME	1,723	1,665
Non-interest expense:		
Salaries and employee benefits	2,535	2,421
Occupancy, net	292	283
Equipment	208	192
Printing, postage and supplies	109	139
Telecommunication expenses	69	96
Professional and outside services	310	256
Software maintenance	272	111
FDIC assessments	88	100
Amortization of other intangibles	74	81
Other	446	603
Total non-interest expense	4,403	4,282
INCOME BEFORE INCOME TAXES	1,382	1,299
Federal income tax provision	327	297
NET INCOME	$ 1,055	$ 1,002
Basic Earnings Per Common Share	$ 0.44	$ 0.43
Diluted Earnings Per Common Share	$ 0.44	$ 0.42
Dividends Declared Per Common Share	$ 0.12	$ 0.07

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

Raymond James Financial Associates
Chicago, Illinois
(312) 655-2961 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

Royal Securities Company
Grand Rapids, Michigan
(616) 459-2844 or (888) 804-8891

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Head of Commercial Lending

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Commercial Loan Manager

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Senior Trust Officer

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Vice President /
Senior Investment Officer

Jean Winans
Vice President /
Senior Trust Officer

Susan White
Vice President /
Trust Officer

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First Vice President /
Retail Banking Services /
Chief Deposit Officer

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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
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Assistant Vice President /
Regional Branch Manager

UNION CITY BRANCH
Tim Fox
Assistant Vice President / Branch
Manager / Retail Loan Officer

TEKONSHA BRANCH
Dawn Copas
Branch Manager

CENTREVILLE BRANCH
Tina Cronkhite
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Sally Cotton
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Branch Manager

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Continuous Banking Since 1872
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