SECOND Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,079,000, or $0.45 per share, for the second quarter ended June 30, 2013. This represents an increase of 5.1 percent over the second quarter 2012 results of $1,027,000, or $0.43 per share. For the first six months of 2013, net income totaled $2,134,000, or $0.89 per share, compared with $2,029,000, or $0.86 per share, for the same six-month period a year ago.

Our annualized return on average assets for the first six months of 2013 was .80 percent. The annualized return on average equity for the same period was 7.65 percent. The second quarter shareholder dividend of $0.12 per share represents a 33 percent increase over the quarterly dividend of $0.09 per share for the comparable quarter of 2012. Through the first six months of 2013, Southern's cumulative dividend rate was $0.24 per share compared with $0.16 per share paid through the first six months of 2012.

Total consolidated assets as of June 30, 2013 grew to $522.3 million from $503.9 million as of June 30, 2012. Gross loans grew by more than $17 million to $366.8 million, a 5 percent increase, compared with $349.2 million for the same period last year. Commercial loan totals grew year over year to $282.6 million from $261.3 million as of June 30, 2012. The growth is attributed to the ongoing success we experienced marketing to small businesses throughout our primary service area.

The quality of our loan portfolio remains strong. Delinquencies at quarter-end were 1.79 percent of total loans. Annualized net charge-offs declined substantially to .14 percent of total loans as of June 30, 2013 from .54 percent as of June 30, 2012. The allowance for loan losses as of June 30, 2013 was $5.6 million, or 1.52 percent of total loans, after recording provision expense for the second quarter of $175,000.

Net interest income after provision for loan losses through the first six months of 2013 increased by $609,000, or 7.9 percent compared with the first six months of 2012. Our net interest margin at June 30, 2013 improved to 3.76 percent compared with 3.67 percent at March 31, 2013. Non-interest expenses increased by $489,000 throughout the first six months of this year compared with results for the first six months of 2012. Of the total increase, $462,000 is non-reoccurring conversion expense attributable to the new core operating system. Converting to the new system will improve overall client servicing capabilities, lower costs, and is projected to be fully implemented by the end of the third quarter of this year.

Our strategic focus on maintaining credit and service quality, and improving operating efficiencies, has enabled Southern to produce consistent strong core earnings each quarter. We remain optimistic that in spite of an ongoing sluggish economy, rising regulatory compliance costs and intense competition, Southern is well positioned to take advantage of opportunities that lie ahead.

Thank you for your continued support.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013	December 31, 2012
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 33,273	$ 50,334
Federal funds sold	253	276
Securities available for sale	79,145	64,525
Loans held for sale	1,294	1,776
Loans, net of allowance for loan losses of $5,594 - 2013 ($5,455 - 2012)	361,228	364,150
Premises and equipment, net	12,484	12,419
Accrued interest receivable	1,882	2,059
Net cash surrender value of life insurance	10,814	10,644
Goodwill	13,422	13,422
Other intangible assets, net	1,193	1,341
Other assets	7,360	7,914
TOTAL ASSETS	$ 522,348	$ 528,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 86,460	$ 87,013
Interest bearing	353,946	357,157
TOTAL DEPOSITS	440,406	444,170
Securities sold under agreements to repurchase and overnight borrowings	14,394	16,134
Accrued expenses and other liabilities	4,823	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 - 123,652 in 2013 (125,125 shares in 2012)	2,171	2,065
TOTAL LIABILITIES	466,988	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—2,392,907 shares in 2013 (2,375,975 shares in 2012)		
Outstanding (other than ESOP shares) - 2,269,255 shares in 2013 (2,250,850 shares in 2012)	5,674	5,627
Additional paid-in capital	17,528	17,700
Retained earnings	32,604	31,046
Accumulated other comprehensive income, net	(446)	297
Unearned Employee Stock Ownership Plan shares	-	(35)
Total shareholders' equity	55,360	54,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 522,348	$ 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,537	$ 4,629	$ 9,035	$ 9,140
Federal funds sold and balances with banks	26	31	51	57
Securities:				
Taxable	166	63	288	219
Tax-exempt	222	246	447	488
Total interest income	4,951	4,969	9,821	9,904
Interest expense:				
Deposits	465	587	970	1,248
Other	70	129	148	262
Total interest expense	535	716	1,118	1,510
Net interest income	4,416	4,253	8,703	8,394
Provision for loan losses	175	475	400	700
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,241	3,778	8,303	7,694
Non-interest income:				
Service charges on deposit accounts	478	413	875	807
Trust fees	265	263	545	561
Net gains on security calls and sales	-	-	-	3
Net gains on loan sales	453	476	976	878
Earnings on life insurance assets	86	80	170	168
ATM and debit card fee income	313	292	592	564
Other	192	176	352	384
TOTAL NON-INTEREST INCOME	1,787	1,700	3,510	3,365
Non-interest expense:				
Salaries and employee benefits	2,390	2,267	4,925	4,688
Occupancy, net	275	277	567	560
Equipment	227	217	435	409
Printing, postage and supplies	124	105	233	244
Telecommunication expenses	68	61	137	157
Professional and outside services	369	280	679	536
FDIC assessments	94	100	182	200
Software maintenance	260	120	532	231
Amortization of other intangibles	74	81	148	162
Expenses relating to OREO property	72	74	12	202
ATM expenses	112	109	216	210
Other	445	451	847	825
Total non-interest expense	4,510	4,142	8,913	8,424
INCOME BEFORE INCOME TAXES	1,518	1,336	2,900	2,635
Federal income tax provision	439	309	766	606
NET INCOME	$ 1,079	$ 1,027	$ 2,134	$ 2,029
Basic Earnings Per Common Share	$ 0.45	$ 0.43	$ 0.89	$ 0.86
Diluted Earnings Per Common Share	0.45	0.43	0.89	0.86
Dividends Declared Per Common Share	0.12	0.09	0.24	0.16

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

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

Officers of Southern Michigan Bank & Trust

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Head of Commercial Lending

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Regional Vice President /
Commercial Loan Manager

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Senior Collections Administrator

Phyllis Wingate
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Connie Caudill
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Lynn Roper
Secondary Market /
Loan Servicing Officer

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Risk Management Officer

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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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Vice President/
Senior Investment Officer

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First Vice President /
Retail Banking Services /
Chief Deposit Officer

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EAST CHICAGO BRANCHES
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Assistant Vice President /
Branch Manager

BATTLE CREEK BRANCH
Lisa Walker
Branch Manager /
Teller Training Supervisor

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Claudia Murch
Assistant Vice President /
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Regional Branch Manager

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Tim Fox
Assistant Vice President / Branch
Manager / Retail Loan Officer

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Dawn Copas
Branch Manager

CENTREVILLE BRANCH
Tina Cronkhite
Branch Manager

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Assistant Vice President /
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Sharon Bachinski
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Branch Manager

THREE RIVERS WESTLAND BRANCH
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Assistant Vice President /
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Assistant Vice President /
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Operations Representative

Angie Smith
Assistant Vice President /
Operations Manager

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e-Services Officer

Vikki Kline
Project / Research Officer

MARKETING

Patty Parker
Vice President

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Continuous Banking Since 1872
www.smb-t.com

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

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Chairman & Chief Executive Officer

Kurt G. Miller
President / Chief Credit Officer

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer