THIRD Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of $1,207,000, or $.50 per share, for the third quarter 2013 compared to net income of $1,154,000, or $.49 per share, for the third quarter of 2012. Southern's net income for the nine month period ended September 30, 2013 was $3,341,000, or $1.40 per share, compared to net income of $3,183,000, or $1.34 per share, for the same nine month period a year ago. Both third quarter and nine month period results for 2013 exceeded those for the comparable periods of 2012 by nearly 5 percent.

Total assets for the first nine months of this year increased to $535.5 million compared with $528.9 million at December 31, 2012. Deposits through September 30, 2013 grew by $3.8 million while loans grew by $1.1 million through the first nine months of this year. Over the same time frame, we increased our securities portfolio by more than $10 million. Our balance sheet strategy was largely influenced by sluggish economic conditions that slowed business and personal borrowing. However, we are optimistic that improving business conditions and renewed loan demand from credit-worthy borrowers will lead to accelerated loan growth in the fourth quarter of 2013 and continue into the first quarter of next year.

Net charge-offs totaled $708,000, or annualized .26 percent of loans, for the nine month period ending September 30, 2013, compared to $1,101,000, or annualized .42 percent of loans, for the same nine month period of 2012. The allowance for loan losses totaled $5,397,000, or 1.46 percent of loans at September 30, 2013.

Non-interest income through the first nine months of 2013 grew by $230,000 compared with the first nine months of 2012, as both businesses and individuals increased usage of our service offerings. Although non-interest expenses rose by $680,000 for the first nine months of 2013 compared with the first nine months of 2012, $538,000 of the increase was non-reoccurring expense related to the conversion of our core operating system. Now that the system is fully implemented, we expect to see ongoing improvements in both operating efficiencies and customer service.

Southern's annualized return on average assets through the first three quarters of 2013 was 0.84 percent and the annualized return on average equity was 7.97 percent. Our tax equivalent net interest margin for both nine month periods ending September 30, 2013 and 2012 of 3.81 percent has remained steady despite an uncharacteristically prolonged low interest rate environment and cautious borrowing trends among our customers.

The Board of Directors approved an increase in Southern's quarterly dividend to $0.13 per share which was reflected in your October 18, 2013 dividend payment. The new annualized dividend rate of $0.52 per share represents an 8.3 percent increase over the prior annual rate of $0.48 per share, and a dividend yield of 3.12 percent based on the current market price of $16.65 per share.

Southern's financial performance is indicative of an operating strategy implemented by our Board of Directors and management team several years ago. Among our principal goals is to produce a stable and consistent level of core earnings regardless of shifts in market conditions. Like all financial institutions, Southern will confront challenges posed by the uncertainty of Federal Reserve interest rate policies, changes in bank regulations affecting capital, liquidity and residential mortgage lending, and implications of the Affordable Care Act, among many others. However, the strength and consistency of Southern's earnings, capital and financial condition will enable Southern to take full advantage of opportunities that are likely to emerge in a restructuring banking industry.

It is with great sadness that I share with you that Jamie Smoker, Senior Vice President and Head of Residential and Retail Lending, recently passed away. Jamie joined Southern in February of 2010 and was a thoughtful and caring mentor, highly regarded among bankers throughout the region. Jamie represented Southern well, serving on numerous boards and volunteering in the community. He will be missed.

Sincerely,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013	December 31, 2012
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 46,227	$ 50,334
Federal funds sold	250	276
Securities available for sale	74,756	64,525
Loans held for sale	1,050	1,776
Loans, net of allowance for loan losses of $5,397 - 2013 ($5,455 - 2012)	365,297	364,150
Premises and equipment, net	12,105	12,419
Accrued interest receivable	2,666	2,059
Net cash surrender value of life insurance	10,893	10,644
Goodwill	13,422	13,422
Other intangible assets, net	1,119	1,341
Other assets	7,680	7,914
TOTAL ASSETS	$ 535,465	$ 528,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 81,401	$ 87,013
Interest bearing	366,557	357,157
TOTAL DEPOSITS	447,958	444,170
Securities sold under agreements to repurchase and overnight borrowings	18,532	16,134
Accrued expenses and other liabilities	5,634	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 - 126,425 in 2013 (125,125 shares in 2012)	2,110	2,065
TOTAL LIABILITIES	479,428	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—2,393,087 shares in 2013 (2,375,975 shares in 2012)		
Outstanding (other than ESOP shares) - 2,266,662 shares in 2013 (2,250,850 shares in 2012)	5,666	5,627
Additional paid-in capital	17,638	17,700
Retained earnings	33,499	31,046
Accumulated other comprehensive income, net	(766)	297
Unearned Employee Stock Ownership Plan shares	-	(35)
Total shareholders' equity	56,037	54,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 535,465	$ 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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,647	$ 4,679	$ 13,682	$ 13,819
Federal funds sold and balances with banks	18	20	69	77
Securities:				
Taxable	170	120	458	339
Tax-exempt	215	238	662	726
Total interest income	5,050	5,057	14,871	14,961
Interest expense:				
Deposits	451	554	1,421	1,802
Other	69	119	217	381
Total interest expense	520	673	1,638	2,183
Net interest income	4,530	4,384	13,233	12,778
Provision for loan losses	250	350	650	1,050
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,280	4,034	12,583	11,728
Non-interest income:				
Service charges on deposit accounts	594	449	1,469	1,256
Trust fees	304	276	849	837
Net gains on security calls and sales	12	-	12	3
Net gains on loan sales	389	519	1,365	1,397
Earnings on life insurance assets	79	82	249	250
ATM and debit card fee income	311	289	903	853
Other	201	190	553	574
TOTAL NON-INTEREST INCOME	1,890	1,805	5,400	5,170
Non-interest expense:				
Salaries and employee benefits	2,708	2,492	7,633	7,180
Occupancy, net	222	237	789	797
Equipment	105	197	540	606
Printing, postage and supplies	133	104	366	348
Telecommunication expenses	67	55	204	212
Professional and outside services	292	309	971	845
FDIC assessments	88	94	270	294
Software maintenance	328	125	860	356
Amortization of other intangibles	74	82	222	244
Expenses relating to OREO property	40	74	52	276
ATM expenses	126	108	342	318
Other	328	440	1,175	1,265
Total non-interest expense	4,511	4,317	13,424	12,741
INCOME BEFORE INCOME TAXES	1,659	1,522	4,559	4,157
Federal income tax provision	452	368	1,218	974
NET INCOME	$ 1,207	$ 1,154	$ 3,341	$ 3,183
Basic Earnings Per Common Share	$ 0.50	$ 0.49	$ 1.40	$ 1.35
Diluted Earnings Per Common Share	0.50	0.49	1.40	1.34
Dividends Declared Per Common Share	0.13	0.09	0.37	0.25

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

Doug Kiessling
Regional Vice President /
Commercial Loan Manager

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Commercial Loan Manager

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Head of Residential & Retail Lending

Rick Feller
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Senior Collections Administrator

Phyllis Wingate
Vice President / Head of Retail Loan Operations

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Assistant Vice President

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Retail Loan Officer

Connie Caudill
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Senior Collections Manager

Lynn Roper
Secondary Market /
Loan Servicing Officer

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Senior Trust Officer

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INVESTMENTS

Melissa Barlow
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HILLSDALE & CAMDEN BRANCHES
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Assistant Vice President /
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UNION CITY BRANCH
Tim Fox
Assistant Vice President / Branch Manager / Retail Loan Officer

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Dawn Copas
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CENTREVILLE BRANCH
Tina Cronkhite
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Doreen Tobin
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President / Chief Credit Officer

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