FIRST Quarter

Corporate Highlights

Southern Michigan Bancorp, Inc.

To Our Shareholders:

I am pleased to announce Southern Michigan Bancorp, Inc. reported net income of $1,102,000, or $0.46 per share, for the first quarter of 2014. Our results for the period represent an increase of 4.5 percent over net income of $1,055,000, or $0.44 per share, for the first quarter of 2013.

Our annualized return on average assets for the three-month period ended March 31, 2014 was 0.80 percent, compared with 0.79 percent for the first quarter of 2013. The annualized return on average equity was 7.65 percent for the first quarter of this year compared with 7.62 percent for the first quarter of 2013. Southern's net interest margin was 3.78 percent for the period compared with 3.67 percent for the same period last year.

Southern's financial performance is reflective of many strategies including a relentless focus on balance sheet management and strength, prudent underwriting of new loans and customer service excellence. Total consolidated assets at March 31, 2014 were $583.3 million compared to $539.5 million at December 31, 2013. The increase in assets is in part due to $31.3 million deposited at the end of the quarter resulting in a temporary increase in cash and non-interest bearing deposits. This deposit is short term in nature and expected to move out of the bank by the end of May. At the end of the first quarter of this year, total shareholders' equity was $57.6 million compared to $55.3 million as of March 31, 2013.

Gains on the sale of loans originated and sold to Freddie Mac, an important component of our non-interest income revenue, has been impacted by the dramatic slowdown in mortgage originations that is being experienced industry wide. Through the first quarter of 2014, gain revenue totaled $196,000, a $327,000 reduction from the $523,000 generated in the first quarter of 2013.

During the first quarter of 2014, no provision for loan losses was required. Our allowance for loan losses at March 31, 2014 totaled $5.1 million, or 1.34 percent of loans. Net charge-offs decreased 68.8 percent totaling $140,000 for the first quarter of 2014, compared to $448,000 during the first quarter of 2013. Total delinquent loans through the first three months of 2014 declined to 1.00 percent of total loans, a substantial reduction from 1.74 percent as of March 31, 2013. Delinquency in the commercial loan portfolio was only 0.58 percent as of March 31, 2014.

At our annual shareholders' meeting held in early May, I announced that the board of directors approved an increase to the quarterly cash dividend from $0.13 per share to $0.15 per share payable in July 2014. The new annualized cash dividend of $0.60 per share represents a 3.33 percent dividend yield based on the current market price of $18.00 per share. The dividend increase was a direct result of continued improvement and consistency in Southern's profitability and credit quality. The entire annual meeting 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 click News and Market Data and then presentations.

Other significant 2013 achievements discussed at the meeting included the attainment of record net earnings of $4.5 million, balance sheet growth to a record total asset size of $539.5 million and growth in loan totals to a record $386.0 million. The strength and consistency of Southern's performance is especially noteworthy given the present day challenges of a sluggish economy, regulatory burdens and increasing costs to do business. 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 supported is appreciated.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (Unaudited)	December 31, 2013 (A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 66,178	$ 32,366
Federal funds sold	392	148
Securities available for sale	93,222	76,005
Loans held for sale	690	115
Loans, net of allowance for loan losses of $5,098-2014 ($5,238 -2013)	374,087	380,773
Premises and equipment, net	12,257	12,366
Accrued interest receivable	2,552	2,351
Net cash surrender value of life insurance	11,061	10,979
Goodwill	13,422	13,422
Other intangible assets, net	974	1,045
Other assets	8,495	9,889
TOTAL ASSETS	$ 583,330	$ 539,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 121,734	$ 85,670
Interest bearing	377,658	364,730
TOTAL DEPOSITS	499,392	450,400
Securities sold under agreements to repurchase and overnight borrowings	13,941	18,479
Accrued expenses and other liabilities	5,116	6,351
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 123,564 in 2014 (126,931 shares in 2013)	2,164	2,247
TOTAL LIABILITIES	525,768	482,632
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,406,519 shares in 2014 (2,392,630 shares in 2013)		
Outstanding (other than ESOP shares) - 2,282,955 shares in 2014 (2,265,699 shares in 2013)	5,702	5,665
Additional paid-in capital	17,519	17,533
Retained earnings	35,133	34,346
Accumulated other comprehensive income, net	(792)	(717)
Total shareholders' equity	57,562	56,827
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 583,330	$ 539,459

(A) The balance sheet at December 31, 2013 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, 2014	Three Months Ended March 31, 2013
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 4,588	$ 4,498
Securities:		
Taxable	193	122
Tax exempt	196	225
Other	20	25
Total interest income	4,997	4,870
Interest expense:		
Deposits	389	505
Other	74	78
Total interest expense	463	583
Net interest income	4,534	4,287
Provision for loan losses	-	225
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,534	4,062
Non-interest income:		
Service charges on deposit accounts	486	397
Trust fees	290	280
Net security gains	33	-
Net gains on loan sales	196	523
Earnings on life insurance assets	82	84
ATM and debit card fee income	290	279
Other	201	160
TOTAL NON-INTEREST INCOME	1,578	1,723
Non-interest expense:		
Salaries and employee benefits	2,364	2,535
Occupancy, net	367	292
Equipment	173	208
Printing, postage and supplies	105	109
Telecommunication expenses	73	69
Professional and outside services	344	310
Software maintenance	198	272
FDIC assessments	88	88
Loan related expenses	341	59
Amortization of other intangibles	71	74
Other	477	387
Total non-interest expense	4,601	4,403
INCOME BEFORE INCOME TAXES	1,511	1,382
Federal income tax provision	409	327
NET INCOME	$ 1,102	$ 1,055
Basic Earnings Per Common Share	$ 0.46	$ 0.44
Diluted Earnings Per Common Share	$ 0.46	$ 0.44
Dividends Declared Per Common Share	$ 0.13	$ 0.12

Market Information

Inquiries regarding stock certificate administration, address changes, transfers, and other related services should be directed to:
IST Shareholder Services
Website:www.istshareholderservices.com
Phone: (630) 480-0393
Toll free: (800) 757-5755
Fax: (630) 480-0641
Address: 433 South Carlton Ave.,
Wheaton, IL 60187-4872

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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Chief Deposit Officer

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Lisa Walker
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Assistant Vice President / Branch
Manager / Retail Loan Officer

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Southern Michigan
BANCORP, INC.
Continuous Banking Since 1872
www.smb-t.com

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

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Chief Financial Officer