THIRD Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.
Continuous Banking Since 1872

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,292,000, or $.54 per share, for the third quarter of 2014. Our results for the period represent an increase of seven percent over net income of $1,207,000, or $.50 per share, reported for the third quarter of 2013. Through the first nine months of 2014, Southern earned $3,540,000, or $1.47 per share, compared with $3,341,000, or $1.40 per share, for the same nine month period a year ago.

Gains from mortgage loans originated and sold in the secondary market decreased for the quarter ended September 30, 2014 by $166,000 to $223,000 as compared to the same period in 2013. For the first nine months of 2014, secondary market gains totaled $628,000 as compared to $1.365 million for the same nine month period one year ago. The well publicized slowdown in mortgage originations continues to be felt across our region and the country. Non-interest income decreased by $159,000 or 8.4 percent, to $1.73 million for the quarter ended September 30, 2014, compared with $1.89 million for the third quarter of 2013. For the nine month period ending September 30, 2014, non-interest income decreased by $455,000 or 8.4 percent, to $4.95 million as compared to $5.4 million for the same nine month period one year ago.

Southern's annualized return on average assets for the first nine months of 2014 was .85 percent and the annualized return on average equity was 7.92 percent. Our tax equivalent net interest margin for the nine month period ending September 30, 2014 remained steady at 3.84 percent.

Asset quality measures continue to improve as delinquencies at quarter-end were 1.34 percent of total loans as compared to 1.96 percent as of September 30, 2013. Net charge-offs for the nine month period ending September 30, 2014 totaled $309,000, or annualized .10 percent of total loans. Net commercial loan charge-offs for the first nine months of 2014 was a nominal $9,000. The allowance for loan losses as of September 30, 2014 was $5.3 million, or 1.32 percent of total loans. From a coverage perspective, the allowance was more than two times the dollar amount of non-accrual loans as of September 30, 2014. Provision expense for the third quarter totaled $100,000 and for the nine month period ending September 30, 2014 was $325,000.

Total assets as of September 30, 2014 increased modestly to $543.8 million from $539.5 million at year end 2013. Gross loans increased by $11.6 million to $397.6 million as of September 30, 2014 as compared with $386.0 million as of December 31, 2013. Commercial loan totals grew year over year to $311.1 million from $285.7 as of September 30, 2013. We are continuing to anticipate loan growth in the fourth quarter and into 2015 as our commercial loan opportunities remain strong. The ongoing growth of our loan portfolio will contribute to higher net interest income, and we are fortunate to fund these loans with low cost core deposit growth and lower yielding investment securities.

Southern remains well positioned to take advantage of growth opportunities within our existing markets as well as new markets. 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, 2014	December 31, 2013
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 15,830	$ 32,366
Federal funds sold	248	148
Securities available for sale	85,091	76,005
Loans held for sale	732	115
Loans, net of allowance for loan losses of $5,254-2014 ($5,238 -2013)	392,313	380,773
Premises and equipment, net	11,898	12,366
Accrued interest receivable	2,799	2,351
Net cash surrender value of life insurance	11,216	10,979
Goodwill	13,422	13,422
Other intangible assets, net	832	1,045
Other assets	9,527	9,889
TOTAL ASSETS	$ 543,908	$ 539,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 88,641	$ 85,670
Interest bearing	369,801	364,730
TOTAL DEPOSITS	458,442	450,400
Securities sold under agreements to repurchase and overnight borrowings	12,515	18,479
Accrued expenses and other liabilities	5,798	6,351
Other borrowings	-	-
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 130,115 in 2014 (126,931 shares in 2013)	2,602	2,247
TOTAL LIABILITIES	484,512	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—2,405,669 shares in 2014 (2,392,630 shares in 2013)		
Outstanding (other than ESOP shares) - 2,275,554 shares in 2014 (2,265,699 shares in 2013)	5,683	5,665
Additional paid-in capital	17,201	17,533
Retained earnings	36,850	34,346
Accumulated other comprehensive income, net	(338)	(717)
Total shareholders' equity	59,396	56,827
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 543,908	$ 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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,667	$ 4,647	$ 13,866	$ 13,682
Federal funds sold and balances with banks	8	18	48	69
Securities:				
Taxable	224	170	647	458
Tax-exempt	204	215	599	662
Total interest income	5,103	5,050	15,160	14,871
Interest expense:				
Deposits	314	451	1,028	1,421
Other	74	69	219	217
Total interest expense	388	520	1,247	1,638
Net interest income	4,715	4,530	13,913	13,233
Provision for loan losses	100	250	325	650
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,615	4,280	13,588	12,583
Non-interest income:				
Service charges on deposit accounts	521	594	1,522	1,469
Trust fees	297	304	866	849
Net gains on security calls and sales	44	12	81	12
Net gains on loan sales	223	389	628	1,365
Earnings on life insurance assets	78	79	237	249
ATM and debit card fee income	339	311	954	903
Other	229	201	657	553
TOTAL NON-INTEREST INCOME	1,731	1,890	4,945	5,400
Non-interest expense:				
Salaries and employee benefits	2,629	2,708	7,407	7,633
Occupancy, net	306	222	982	789
Equipment	148	105	479	540
Printing, postage and supplies	121	133	346	366
Telecommunication expenses	69	67	227	204
Professional and outside services	335	292	925	971
FDIC assessments	93	88	273	270
Software maintenance	179	328	612	860
Amortization of other intangibles	71	74	213	222
Loan related expenses	150	43	542	159
ATM expenses	125	126	366	342
Other	331	325	1,289	1,068
Total non-interest expense	4,557	4,511	13,661	13,424
INCOME BEFORE INCOME TAXES	1,789	1,659	4,872	4,559
Federal income tax provision	497	452	1,332	1,218
NET INCOME	$ 1,292	$ 1,207	$ 3,540	$ 3,341
Basic Earnings Per Common Share	$ 0.54	$ 0.50	$ 1.47	$ 1.40
Diluted Earnings Per Common Share	0.54	0.50	1.47	1.40
Dividends Declared Per Common Share	0.15	0.13	0.43	0.37

Market Information

Inquiries regarding stock certificate administration, address changes, transfers, and other related services should be directed to:

American Stock Transfer and
Trust Company, LLC
Website: www.amstock.com
Phone: (718) 921-8124
Toll free: (888) 509-4619
eMail: info@amstock.com
Address: 6201 15th Avenue
Brooklyn, NY 11219

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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Senior Vice President /
Head of Commercial Lending

Doug Kiessling
Regional Vice President /
Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

Deborah Davis
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Rachel Doty
Vice President

Sarah Headley
Vice President

Greg Miller
Vice President

Jasson Moffett
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James Sobeske
Vice President

Steve Todd
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Vice President

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Head of Residential
& Retail Lending

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Vice President / Retail Loan Officer /
Senior Collections Administrator

Phyllis Wingate
Vice President / Head of Retail
Loan Operations

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Assistant Vice President

Shari Kline
Assistant Vice President

Diane Krimmel
Assistant Vice President

Lori Lemmon
Assistant Vice President

Gregory Mallar
Assistant Vice President

Cassidy Munn
Assistant Vice President

Desiree Kauffman
Retail Loan Officer

Connie Caudill
Assistant Vice President /
Senior Collections Manager

Lynn Roper
Secondary Market /
Loan Servicing Officer

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Assistant Vice President

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Vice President /
Risk Management Officer

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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

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First Vice President /
Retail Banking Services /
Chief Deposit Officer

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EAST CHICAGO BRANCHES
Tina Mack
Assistant Vice President /
Branch Manager

BATTLE CREEK BRANCH
Lisa Walker
Branch Manager

MARSHALL BRANCH

HILLSDALE & CAMDEN BRANCHES
Lori Neill
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

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CONSTANTINE BRANCHES
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Assistant Vice President /
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MENDON BRANCH
Doreen Tobin
Assistant Vice President /
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THREE RIVERS MAIN
& WESTLAND BRANCHES
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Branch Manager

ACCOUNTING

Sara Herrmann
Vice President / Finance

OPERATIONS / INFORMATION SYSTEMS

Dave McKinley
First Vice President /
Head of Operations

Angie Smith
Assistant Vice President /
Operations Manager

Becky Omo
Assistant Vice President /
Operations Representative

Jamie Tobalske
Assistant Vice President /
e-Services Officer

Vikki Kline
Project / Research Officer

Laurel Walkup
e-Services Specialist*

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
www.smb-t.com