FIRST Quarter
Corporate Highlights

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,209,000, or $0.50 per share, for the quarter ended March 31, 2015. Our results for the period represent an increase of 9.7 percent over net income of $1,102,000, or $0.46 per share, for the first quarter of 2014.

The annualized return on average assets for the three-month period ending March 31, 2015 was 0.87 percent, compared with 0.80 percent for the first quarter of 2014. Our annualized return on average equity was 7.91 percent for the first quarter of 2015 compared to 7.65 percent for the first quarter of 2014. The return on average tangible equity was 10.69 percent. Southern's net interest margin was 3.93 percent compared to 3.78 percent for the same period last year.

Southern's positive financial performance reflects management's continued focus on balance sheet management and strength, prudent underwriting practices, and customer service excellence. Total consolidated assets at March 31, 2015 were $553.2 million compared to $543.3 million at December 31, 2014. Total shareholders' equity was a record $60.9 million compared to $57.6 million as of March 31, 2014. Enhanced capital levels support growth of our loan portfolio and balance sheet.

During the first quarter of 2015, Southern incurred provision for loan loss expense of $75,000, essentially matching unallocated losses. Our allowance for loan losses at March 31, 2015 totaled $5.1 million, or 1.26 percent of loans. Net charge-offs decreased 22.9 percent totaling $108,000 for the first quarter of 2015, compared to $140,000 during the first quarter of 2014. Total delinquent loans through the first three months of 2015 decreased to 0.69 percent of total loans, down from 1.00 percent as of March 31, 2014.

At our annual shareholders' meeting held May 7th I announced that the board of directors approved an increase in the quarterly cash dividend from $0.15 per share to $0.16 per share payable in July 2015. The new annualized cash dividend of $0.64 per share represents a 2.78 percent dividend yield based on the current market price of $23.00 per share. 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 2014 noteworthy accomplishments discussed at the meeting included achieving record net income levels of $4.792 million, balance sheet growth to a year-end record total asset size of $543.3 million and growth in loan totals to $410.1 million. We continue to embrace both the challenges and opportunities that are prevalent within our industry. 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 support is appreciated.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
	(Unaudited)	(A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 23,628	$ 15,374
Federal funds sold	124	247
Securities available for sale	77,942	72,880
Loans held for sale	627	483
Loans, net of allowance for loan losses of $5,144-2015 ($5,177-2014)	402,233	404,935
Premises and equipment, net	11,819	11,898
Accrued interest receivable	2,529	2,378
Net cash surrender value of life insurance	11,383	11,299
Goodwill	13,422	13,422
Other intangible assets, net	693	761
Other assets	8,825	9,668
TOTAL ASSETS	$ 553,225	$ 543,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 91,397	$ 90,191
Interest bearing	362,076	354,079
TOTAL DEPOSITS	453,473	444,270
Securities sold under agreements to repurchase and overnight borrowings	14,389	14,644
Accrued expenses and other liabilities	6,140	6,116
Other borrowings	10,319	10,000
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 130,217 in 2015 (133,227 shares in 2014)	2,865	2,804
TOTAL LIABILITIES	492,341	482,989
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,405,334 shares in 2015 (2,404,469 shares in 2014)		
Outstanding (other than ESOP shares) - 2,275,117 shares in 2015 (2,271,242 shares in 2014)	5,682	5,678
Additional paid-in capital	16,721	17,145
Retained earnings	38,587	37,741
Accumulated other comprehensive income, net	213	(208)
Unearned Employee Stock Ownership Plan shares	(319)	-
Total shareholders' equity	60,884	60,356
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 553,225	$ 543,345

(A) The balance sheet at December 31, 2014 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, 2015	Three Months Ended March 31, 2014
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 4,741	$ 4,588
Securities:		
Taxable	179	193
Tax exempt	198	196
Other	7	20
Total interest income	5,125	4,997
Interest expense:		
Deposits	299	389
Other	81	74
Total interest expense	380	463
Net interest income	4,745	4,534
Provision for loan losses	75	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,670	4,534
Non-interest income:		
Service charges on deposit accounts	416	486
Trust fees	322	290
Net security gains	24	33
Net gains on loan sales	228	196
Earnings on life insurance assets	83	82
ATM and debit card fee income	310	290
Other	227	201
TOTAL NON-INTEREST INCOME	1,610	1,578
Non-interest expense:		
Salaries and employee benefits	2,591	2,364
Occupancy, net	293	367
Equipment	162	173
Printing, postage and supplies	119	105
Telecommunication expenses	60	73
Professional and outside services	267	344
Software maintenance	208	198
ATM Expenses	124	116
FDIC assessments	87	88
Loan related expenses	121	341
Loss on sale or write down of other real estate owned	146	24
Amortization of other intangibles	70	71
Other	365	337
Total non-interest expense	4,613	4,601
INCOME BEFORE INCOME TAXES	1,667	1,511
Federal income tax provision	458	409
NET INCOME	$ 1,209	$ 1,102
Basic Earnings Per Common Share	$ 0.50	$ 0.46
Diluted Earnings Per Common Share	$ 0.50	$ 0.46
Dividends Declared Per Common Share	$ 0.15	$ 0.13

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

For further information on Southern Michigan Bancorp, Inc., please see the 'Investor Relations' tab on our website: smb-t.com.

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Branch Manager

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Angie Smith
Assistant Vice President /
Operations Manager

Becky Omo
Assistant Vice President /
Operations Representative

Vikki Kline
Project / Research Officer

Laurel Walkup
e-Services Specialist*

* Non-officer position

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Kurt G. Miller
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Danice L. Chartrand
Senior Vice President /
Chief Financial Officer