SECOND 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 $1,880,000, or $.79 per share, for the second quarter of 2015. Our results for the period represent an increase of 64.0 percent over net income of $1,146,000, or $.48 per share, reported for the second quarter of 2014. Through the first six months of 2015, Southern earned $3,089,000, or $1.29 per share, an increase of 37.4 percent as compared with $2,248,000, or $.93 per share, for the same six month period one year ago.

During the second quarter of 2015 Southern recorded $555,000 of tax free income from death benefits on bank owned life insurance policies. Excluding the life insurance proceeds, net income for the three and six month periods ended June 30, 2015 totaled $1,325,000 and $2,534,000, respectively, an increase of 15.6 percent and 12.7 percent over the respective three and six month periods in 2014.

Southern's annualized return on average assets for the six month periods ended June 30, 2015 and 2014 was 1.11 percent and 0.81 percent, respectively. The annualized return on average equity was 10.03 percent for the first six months of 2015 compared to 7.74 percent for the same period of 2014. Our tax equivalent net interest margin for the six month periods ended June 30, 2015 and 2014 was 3.92 percent and 3.79 percent, respectively.

During the second quarter of 2015 the Board of Directors authorized the termination of the previously frozen defined benefit pension plan. Southern recorded $625,000 of pension expense through June 30, 2015 to ensure the plan is fully funded as of the anticipated termination date of September 1, 2015. Terminating the plan will eliminate approximately $125,000 in annual pension expense and $25,000 a year or more in actuarial and other costs necessary to maintain the plan.

Asset quality measures remained strong as delinquencies at quarter-end were 1.21 percent of total loans as compared to 1.42 percent as of June 30, 2014. Net charge-offs for the second quarter of 2015 were $23,000. For the six month period ended June 30, 2015 net charge-offs totaled $131,000 or annualized .06 percent of total loans, compared to $227,000 for the same six month period of 2014. Provision expense for the second quarter totaled $75,000 and for the six month period ended June 30, 2015 was $150,000. The allowance for loan losses as of June 30, 2015 was $5.196 million, or 1.26 percent of total loans.

We broke ground for our new Portage Branch on June 10, 2015. The office is located at the corner of Westnedge and Kilgore Roads adjacent to the new Earth Fare organic food supermarket and we plan to open in November of this year. The market has been receptive to our arrival and we continue to enjoy success from both a commercial loan and deposit standpoint.

On a personal note, former Director Raymond Smith passed away June 24, 2015 in Northbrook, Illinois. Ray was a director of the company from December, 1973 through December, 1996. Ray was respected by his peers on the Board, the employees of Southern, and was held in high esteem by community members in Bronson and across Branch County. We offer our heartfelt condolences to his family members.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
	(Unaudited)	(A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 17,434	$ 15,374
Federal funds sold	257	247
Securities available for sale	83,908	72,880
Loans held for sale	878	483
Loans, net of allowance for loan losses of $5,196 - 2015 ($5,177 - 2014)	406,598	404,935
Premises and equipment, net	11,967	11,898
Accrued interest receivable	2,376	2,378
Net cash surrender value of life insurance	11,762	11,299
Goodwill	13,422	13,422
Other intangible assets, net	625	761
Other assets	7,809	9,668
TOTAL ASSETS	$ 557,036	$ 543,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 96,641	$ 90,191
Interest bearing	359,553	354,079
TOTAL DEPOSITS	456,194	444,270
Securities sold under agreements to repurchase and overnight borrowings	13,490	14,644
Accrued expenses and other liabilities	7,140	6,116
Other borrowings	10,000	10,000
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 130,435 in 2015 (133,227 shares in 2014)	3,000	2,804
TOTAL LIABILITIES	494,979	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—2,404,344 shares in 2015 (2,404,469 shares in 2014)		
Outstanding (other than ESOP shares) - 2,273,909 shares in 2015 (2,271,242 shares in 2014)	5,680	5,678
Additional paid-in capital	16,638	17,145
Retained earnings	40,082	37,741
Accumulated other comprehensive income, net	(55)	(208)
Unearned Employee Stock Ownership Plan shares	(288)	-
Total shareholders' equity	62,057	60,356
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 557,036	$ 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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,845	$ 4,611	$ 9,586	$ 9,199
Federal funds sold and balances with banks	14	20	21	40
Securities:				
Taxable	175	230	354	423
Tax-exempt	215	199	413	395
Total interest income	5,249	5,060	10,374	10,057
Interest expense:				
Deposits	318	325	617	714
Other	82	71	163	145
Total interest expense	400	396	780	859
Net interest income	4,849	4,664	9,594	9,198
Provision for loan losses	75	225	150	225
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,774	4,439	9,444	8,973
Non-interest income:				
Service charges on deposit accounts	449	515	865	1,001
Trust fees	343	279	665	569
Net gains on security calls and sales	-	4	24	37
Net gains on loan sales	319	209	547	405
Earnings on life insurance assets	631	77	714	159
ATM and debit card fee income	345	325	655	615
Other	239	227	466	428
TOTAL NON-INTEREST INCOME	2,326	1,636	3,936	3,214
Non-interest expense:				
Salaries and employee benefits	2,859	2,414	5,450	4,778
Occupancy, net	269	309	562	676
Equipment	203	158	365	331
Printing, postage and supplies	107	120	226	225
Telecommunication expenses	65	85	125	158
Professional and outside services	279	246	546	590
FDIC assessments	78	92	165	180
Software maintenance	210	235	418	433
Amortization of other intangibles	66	71	136	142
Loan related expenses	70	51	191	392
ATM expenses	130	125	254	241
Other	379	597	890	958
Total non-interest expense	4,715	4,503	9,328	9,104
INCOME BEFORE INCOME TAXES	2,385	1,572	4,052	3.083
Federal income tax provision	505	426	963	835
NET INCOME	$ 1,880	$ 1,146	$ 3,089	$ 2,248
Basic Earnings Per Common Share	$ 0.79	$ 0.48	$ 1.29	$ 0.94
Diluted Earnings Per Common Share	0.79	0.48	1.29	0.93
Dividends Declared Per Common Share	0.16	0.15	0.31	0.28

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
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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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Senior Trust Officer

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Loan Officer / Branch Manager

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Manager / Retail Loan Officer

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Dawn Copas
Branch Manager

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THREE RIVERS WEST BRANCHES
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Kevin Vaughn
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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

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

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www.smb-t.com