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 $1,523,000, or $.64 per share, for the third quarter of 2015. Our results for the period represent an increase of 17.9 percent over net income of $1,292,000, or $.54 per share, reported for the third quarter of 2014. Through the first nine months of 2015, Southern earned $4,612,000, or $1.92 per share, an increase of 30.3 percent as compared with $3,540,000, or $1.47 per share, for the same nine month period a year ago.

Southern's annualized return on average assets for the nine month periods ending September 30, 2015 and 2014 was 1.09 percent and 0.85 percent, respectively. The annualized return on average equity was 9.89 percent for the first nine months of 2015 compared to 7.92 percent for the same period of 2014. Our tax equivalent net interest margin for the nine month periods ending September 30, 2015 and 2014 was 3.91 percent and 3.84 percent, respectively.

Total assets for the first nine months of this year increased significantly to $583.4 million at September 30, 2015, compared with $543.3 million at December 31, 2014. Other noteworthy changes in the balance sheet include deposit growth of $32.8 million, an increase in the securities portfolio of more than $19 million, and loan totals remained flat at $410.4 million. We are optimistic that given our commercial loan pipeline and discussions with prospective borrowers, we will experience loan growth in the first half of 2016.

Asset quality momentum remained strong as delinquencies at quarter-end were 1.09 percent of total loans as compared to 1.34 percent as of September 30, 2014. Net charge-offs for the third quarter of 2015 were $39,000. For the nine month period ending September 30, 2015 net charge-offs totaled $171,000, or annualized .06 percent of total loans, compared to $309,000 for the same nine month period of 2014. Provision expense for the third quarter totaled $50,000 and for the nine month period ending September 30, 2015 was $200,000. The allowance for loan losses as of September 30, 2015 was $5.206 million, or 1.27 percent of total loans and from a coverage perspective remained at more than 2.3 times the dollar amount of non-accrual loans.

Southern's stock continues to perform well principally driven by consistency in profitability and credit quality. The market price at September 30, 2015 was $24.10 per share, an increase of $3.05 per share, or 14.5 percent from December 31, 2014 levels of $21.05 per share. The dividend yield is 2.66 percent. Year-to-date through September 30, 2015 the total return in the stock, considering both appreciation in market value and cash dividends, is 16.7 percent. For more information regarding our stock visit our website at www.smb-t.com and click on the Investor Relations link at the top of the page.

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

	September 30, 2015	December 31, 2014
	(Unaudited)	(A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 36,888	$ 15,374
Federal funds sold	263	247
Securities available for sale	92,009	72,880
Loans held for sale	745	483
Loans, net of allowance for loan losses of $5,206 - 2015 ($5,177 - 2014)	405,163	404,935
Premises and equipment, net	12,441	11,898
Accrued interest receivable	2,832	2,378
Net cash surrender value of life insurance	11,854	11,299
Goodwill	13,422	13,422
Other intangible assets, net	557	761
Other assets	7,207	9,668
TOTAL ASSETS	$ 583,381	$ 543,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 90,203	$ 90,191
Interest bearing	386,878	354,079
TOTAL DEPOSITS	477,081	444,270
Securities sold under agreements to repurchase and overnight borrowings	17,276	14,644
Accrued expenses and other liabilities	7,106	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)	3,143	2,804
TOTAL LIABILITIES	519,761	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—2,404,474 shares in 2015 (2,404,469 shares in 2014)		
Outstanding (other than ESOP shares) - 2,274,039 shares in 2015 (2,271,242 shares in 2014)	5,680	5,678
Additional paid-in capital	16,610	17,145
Retained earnings	41,221	37,741
Accumulated other comprehensive income/(loss), net	397	(208)
Unearned Employee Stock Ownership Plan shares	(288)	-
Total shareholders' equity	63,620	60,356
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 583,381	$ 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 September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,973	$ 4,667	$ 14,559	$ 13,866
Federal funds sold and balances with banks	15	8	36	48
Securities:				
Taxable	184	224	538	647
Tax-exempt	219	204	632	599
Total interest income	5,391	5,103	15,765	15,160
Interest expense:				
Deposits	304	314	921	1,028
Other	121	74	284	219
Total interest expense	425	388	1,205	1,247
Net interest income	4,966	4,715	14,560	13,913
Provision for loan losses	50	100	200	325
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,916	4,615	14,360	13,588
Non-interest income:				
Service charges on deposit accounts	478	521	1,343	1,522
Trust fees	310	297	975	866
Net gains on security calls and sales	-	44	24	81
Net gains on loan sales	294	223	841	628
Earnings on life insurance assets	59	78	773	237
ATM and debit card fee income	348	339	1,003	954
Other	219	229	685	657
TOTAL NON-INTEREST INCOME	1,708	1,731	5,644	4,945
Non-interest expense:				
Salaries and employee benefits	2,630	2,629	8,080	7,407
Occupancy, net	259	306	821	982
Equipment	177	148	542	479
Printing, postage and supplies	104	121	330	346
Telecommunication expenses	60	69	185	227
Professional and outside services	341	335	887	925
FDIC assessments	82	93	247	273
Software maintenance	208	179	626	612
Amortization of other intangibles	68	71	204	213
Loan related expenses	45	150	236	542
ATM expenses	138	125	392	366
Other	389	331	1,279	1,289
Total non-interest expense	4,501	4,557	13,829	13,661
INCOME BEFORE INCOME TAXES	2,123	1,789	6,175	4,872
Federal income tax provision	600	497	1,563	1,332
NET INCOME	$ 1,523	$ 1,292	$ 4,612	$ 3,540
Basic Earnings Per Common Share	$ 0.64	$ 0.54	$ 1.93	$ 1.47
Diluted Earnings Per Common Share	0.64	0.54	1.92	1.47
Dividends Declared Per Common Share	0.16	0.15	0.47	0.43

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.

Officers of Southern Michigan Bank & Trust

COMMERCIAL LOANS

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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

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Sarah Headley
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Assistant Vice President

Corey Donner
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Senior Collections Administrator

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Vice President / Head of Retail
Loan Operations

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Assistant Vice President

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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

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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
Assistant Vice President /
Branch Manager

MARSHALL BRANCH
Kara Mead
Vice President / Commercial
Loan Officer / Branch Manager

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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BRANCHES
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Assistant Vice President /
Regional Branch Manager

MENDON BRANCH
Doreen Tobin
Assistant Vice President /
Branch Manager

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THREE RIVERS WEST BRANCHES
Sharon Bachinski
Assistant Vice President /
Branch Manager

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Kevin Vaughn
Vice President of 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

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

Continuous Banking Since 1872
www.smb-t.com