FIRST 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 $1,374,000, or $0.57 per share, for the quarter ended March 31, 2016. Our results for the period represent an increase of 13.6 percent over net income of $1,209,000, or $0.50 per share, for the first quarter of 2015.

Southern's annualized return on average assets for the three-month period ending March 31, 2016 was 0.93 percent, compared with 0.87 percent for the first quarter of 2015. Our annualized return on average equity was 7.96 percent for the first quarter of 2016 compared to 7.56 percent for the first quarter of 2015. Our tax equivalent net interest margin was 3.90 percent compared to 3.93 percent for the same period last year.

Total consolidated assets at March 31, 2016 were $598.9 million compared to $582.8 million at December 31, 2015. Total shareholders' equity was a record $69.0 million as of March 31, 2016. Our new Portage office continues to provide opportunities for us as we meet our customers' needs for commercial loans and cash management services. These opportunities, as well as others throughout our market area, necessitate maintaining strong levels of capital, both to support growth of the loan portfolio and the balance sheet.

Asset quality metrics, which were already good, continue to improve as delinquent loan totals decreased to 0.60 percent of total loans as of March 31, 2016, down from 1.13 percent as of December 31, 2015. Non-performing asset totals as of March 31, 2016 were $4.3 million, a decrease of 23 percent, or $1.3 million from $5.6 million as of December 31, 2015. Net charge-offs totaled $191,000 for the first quarter of 2016, compared to $108,000 in the first quarter of 2015. Southern provided $100,000 for loan losses during the first quarter of 2016 and the allowance for loan losses at March 31, 2016 totaled $5.2 million, or 1.23 percent of loans.

Southern's board of directors approved an increase in the quarterly cash dividend from $0.16 per share to $0.18 per share that was paid beginning in April 2016. The new annualized rate of $0.72 per share represents a dividend yield of 2.88 percent based on the market price at the time of the announcement of $25.00 per share. We continue to work to strike a balance between cash dividend payments and the necessity to retain earnings to support growth of the bank.

My presentation at the annual shareholders' meeting on May 5, 2016 is available on our website at www.smb-t.com under the Investor Relations link. Proceed to the left hand side of the page and click News and Market Data and then Presentations. Noteworthy accomplishments highlighted for 2015 included record net income of $5.806 million, balance sheet growth to a year-end record total asset size of $582.8 million, and growth in loan totals to a record $422.0 million.

Please 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,

JH Castle

John H. Castle
Chairman & Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
	(Unaudited)	(A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 15,024	$ 13,487
Federal funds sold	25,174	6,941
Securities available for sale	90,847	97,150
Loans held for sale	106	328
Loans, net of allowance for loan losses of $5,182-2016 ($5,273-2015)	416,842	416,716
Premises and equipment, net	13,014	12,685
Accrued interest receivable	2,681	2,517
Net cash surrender value of life insurance	14,093	11,939
Goodwill	13,422	13,422
Other intangible assets, net	424	489
Other assets	7,293	7,097
TOTAL ASSETS	$ 598,920	$ 582,771
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 105,493	$ 101,186
Interest bearing	391,800	376,299
TOTAL DEPOSITS	497,293	477,485
Securities sold under agreements to repurchase and overnight borrowings	11,353	15,943
Accrued expenses and other liabilities	6,152	6,419
Other borrowings	10,000	10,000
Subordinated debentures	5,155	5,155
TOTAL LIABILITIES	529,953	515,002
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued and outstanding—2,417,561 shares in 2016 (2,406,508 shares in 2015)	6,039	6,011
Additional paid-in capital	19,416	19,572
Retained earnings	42,965	42,029
Accumulated other comprehensive income, net	804	414
Unearned Employee Stock Ownership Plan shares	(257)	(257)
TOTAL SHAREHOLDERS' EQUITY	68,967	67,769
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 598,920	$ 582,771

(A) The balance sheet at December 31, 2015 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, 2016	2015
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 5,040	$ 4,741
Securities:		
Taxable	196	179
Tax exempt	230	198
Other	29	7
TOTAL INTEREST INCOME	5,495	5,125
Interest expense:		
Deposits	300	299
Other	127	81
TOTAL INTEREST EXPENSE	427	380
Net interest income	5,068	4,745
Provision for loan losses	100	75
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,968	4,670
Non-interest income:		
Service charges on deposit accounts	380	416
Trust fees	513	322
Net security gains	42	24
Net gains on loan sales	218	228
Earnings on life insurance assets	48	83
ATM and debit card fee income	333	310
Other	214	227
TOTAL NON-INTEREST INCOME	1,748	1,610
Non-interest expense:		
Salaries and employee benefits	2,616	2,591
Occupancy, net	343	293
Equipment	209	162
Printing, postage and supplies	128	119
Telecommunication expenses	76	60
Professional and outside services	415	267
Software maintenance	233	208
ATM expenses	150	124
FDIC assessments	74	87
Loan related expenses	94	121
Loss on sale or write down of other real estate owned	51	146
Amortization of other intangibles	65	70
Other	349	365
TOTAL NON-INTEREST EXPENSE	4,803	4,613
INCOME BEFORE INCOME TAXES	1,913	1,667
Federal income tax provision	539	458
NET INCOME	$ 1,374	$ 1,209
Basic Earnings Per Common Share	$ 0.57	$ 0.50
Diluted Earnings Per Common Share	$ 0.57	$ 0.50
Dividends Declared Per Common Share	$ 0.18	$ 0.15

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

Doug Kiessling
Regional Vice President /
Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

Deborah Davis
Vice President

Rachel Doty
Vice President

Sarah Headley
Vice President

Greg Miller
Vice President

James Sobeske
Vice President

Steve Todd
Vice President

Adam Losinski
Assistant Vice President

Corey Donner
Commercial Loan Officer

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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
Loan Operations Specialist

Connie Caudill
Assistant Vice President /
Senior Collections Manager

Lynn Roper
Secondary Market /
Loan Servicing Officer

ANGOLA, IN
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Assistant Vice President

RISK MANAGEMENT

Trisha Pawloski
Vice President /
Risk Management Officer

TRUST DEPARTMENT

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Senior Vice President /
Senior Trust Officer

Matt Moses
First Vice President /
Head of Wealth Management

R. David Rumsey
Vice President /
Senior Investment Officer

Susan White
Vice President /
Trust Officer

INVESTMENTS

Melissa Barlow
Vice President /
Senior Investment Officer

RETAIL BANKING SERVICES

Eric Anglin
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

CENTREVILLE & CONSTANTINE
BRANCHES
Tina Cronkhite
Assistant Vice President /
Regional Branch Manager

MENDON BRANCH
Doreen Tobin
Assistant Vice President /
Branch Manager

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

PORTAGE BRANCH
Cammy Fleckenstein
Branch Manager

FINANCE

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
Assistant Vice President /
eServices Officer

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Continuous Banking Since 1872
www.smb-t.com

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

Nicholas M. Grabowski
Executive Vice President /
Head of Lending

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer