2016 QUARTERLY REPORT

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 $1,398,000, or $0.58 per share, for the second quarter ended June 30, 2016. Our results for the period are contrasted with net income of $1,880,000, or $0.79 per share, for the second quarter of 2015. For the first six months of 2016, Southern earned $2,772,000, or $1.15 per share, compared with $3,089,000, or $1.29 per share, for the same six-month period a year ago.

You may recall in 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. Comparing results for the periods without the life insurance proceeds, our 2016 earnings increased 5.51 percent and 9.39 percent, respectively, over results for the same three and six-month periods in 2015.

Southern's annualized return on average assets for the six-month periods ending June 30, 2016 and 2015 was 0.93 percent and 1.11 percent, respectively. The annualized return on average equity was 7.99 percent for the first six months of 2016 compared to 10.03 percent for the same period of 2015. Our tax equivalent net interest margin for the six-month periods ended June 30, 2016 and 2015 was 3.83 percent and 3.92 percent, respectively.

Total assets as of June 30, 2016 increased to $598.9 million compared to $582.8 million at December 31, 2015. Loan totals at June 30, 2016 were down to $417.6 million as compared to $422.0 million as of March 31, 2016. However, we continue to work on significant commercial loan and deposit relationship opportunities that are at various stages of funding. Many of these loans are construction related and will fund in the fourth quarter of 2016 and into 2017.

Asset quality metrics remained strong as delinquent loan totals decreased to 0.73 percent of total loans as of June 30, 2016, down from 1.21 percent as of June 30, 2015. Net loan losses for the quarter ended June 30, 2016 totaled $266,000; unallocated losses, or those losses without specific reserves, totaled only $16,000. For the six-month period ending June 30, 2016 net loan losses totaled $457,000 or annualized .22 percent of gross loans, and unallocated losses for the period totaled $207,000 or annualized 0.10 percent of total loans. Non-performing asset totals as of June 30, 2016 were $3.4 million, a decrease of $3.1 million, or 48 percent, from $6.5 million as of June 30, 2015. Southern provided $0 for loan losses during the second quarter of 2016 and the allowance for loan losses at June 30, 2016 totaled $4.9 million, or 1.18 percent of total loans.

In late March 2016, Southern formed a new subsidiary, SMB Risk Management, Inc. to insure and thereby protect from loss a wide variety of risks not typically insured through traditional commercial insurance policies. The insurance premiums paid by Southern and wholly owned subsidiaries to SMB Risk Management, Inc. facilitate self-insuring for potential losses. SMB Risk Management, Inc. also insures for catastrophic losses, partnering with other similar financial institutions through the use of a loss-sharing arrangement. The premiums paid by the company are tax deductible and create the opportunity to reduce federal income taxes for 2016 and beyond.

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

	June 30, 2016	December 31, 2015
	(Unaudited)	(A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 14,358	$ 13,487
Federal funds sold	18,645	6,941
Securities available for sale	101,979	97,150
Loans held for sale	366	328
Loans, net of allowance for loan losses of $4,916 - 2016 ($5,273 - 2015)	412,696	416,716
Premises and equipment, net	13,027	12,685
Accrued interest receivable	2,364	2,517
Net cash surrender value of life insurance	14,202	11,939
Goodwill	13,422	13,422
Other intangible assets, net	359	489
Other assets	7,467	7,097
TOTAL ASSETS	$ 598,885	$ 582,771
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 106,112	$ 101,186
Interest bearing	388,959	376,299
TOTAL DEPOSITS	495,071	477,485
Securities sold under agreements to repurchase and overnight borrowings	11,658	15,943
Accrued expenses and other liabilities	7,183	6,419
Other borrowings	10,000	10,000
Subordinated debentures	5,155	5,155
TOTAL LIABILITIES	529,067	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—2,405,412 shares in 2016 (2,406,508 shares in 2015)	6,014	6,011
Additional paid-in capital	19,043	19,572
Retained earnings	43,930	42,029
Accumulated other comprehensive income, net	1,057	414
Unearned Employee Stock Ownership Plan shares	(226)	(257)
TOTAL SHAREHOLDERS' EQUITY	69,818	67,769
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 598,885	$ 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. Board of Directors

DEAN CALHOUN
Coldwater Veneer, Inc.

JOHN H. CASTLE
Chairman & CEO of SMB, Inc. and SMB&T

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Clark Logic

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Farmer

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Labrecque Management

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Burr Oak Tool, Inc.

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Retired Executive

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THOMAS D. MEYER
JANE L. RANDALL

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,916	$ 4,845	$ 9,956	$ 9,586
Federal funds sold and balances with banks	40	14	69	21
Securities:				
Taxable	238	175	434	354
Tax-exempt	212	215	442	413
TOTAL INTEREST INCOME	5,406	5,249	10,901	10,374
Interest expense:				
Deposits	305	318	605	617
Other	129	82	256	163
TOTAL INTEREST EXPENSE	434	400	861	780
Net interest income	4,972	4,849	10,040	9,594
Provision for loan losses	-	75	100	150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,972	4,774	9,940	9,444
Non-interest income:				
Service charges on deposit accounts	371	449	751	865
Trust fees	335	343	848	665
Net gains on security calls and sales	-	-	42	24
Net gains on loan sales	253	319	471	547
Earnings on life insurance assets	109	631	157	714
ATM and debit card fee income	353	345	686	655
Other	204	239	418	466
TOTAL NON-INTEREST INCOME	1,625	2,326	3,373	3,936
Non-interest expense:				
Salaries and employee benefits	2,636	2,859	5,252	5,450
Occupancy, net	321	269	664	562
Equipment	217	203	426	365
Printing, postage and supplies	106	107	234	226
Telecommunication expenses	69	65	145	125
Professional and outside services	337	279	752	546
FDIC assessments	69	78	143	165
Software maintenance	228	210	461	418
Amortization of other intangibles	65	66	130	136
Loan related expenses	37	70	131	191
ATM expenses	226	130	376	254
Other	396	379	796	890
TOTAL NON-INCOME EXPENSE	4,707	4,715	9,510	9,328
INCOME BEFORE INCOME TAXES	1,890	2,385	3,803	4,052
Federal income tax provision	492	505	1,031	963
NET INCOME	$ 1,398	$ 1,880	$ 2,772	$ 3,089
Basic Earnings Per Common Share	$ 0.58	$ 0.79	$ 1.15	$ 1.29
Diluted Earnings Per Common Share	0.58	0.79	1.15	1.29
Dividends Declared Per Common Share	0.18	0.16	0.36	0.31

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: www.smb-t.com.

Officers of Southern Michigan Bank & Trust

COMMERCIAL LOANS

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Regional Vice President /
Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

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Loan Operations

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Loan Operations Specialist

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Senior Collections Manager

Lynn Roper
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Loan Servicing Officer

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Trisha Clark
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Risk Management Officer

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Senior Trust Officer

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Head of Wealth Management

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Senior Investment Officer

Susan White
Vice President /
Trust Officer

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Retail Banking Services /
Chief Deposit Officer

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Branch Manager

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Loan Officer / Branch Manager

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Regional Branch Manager

UNION CITY BRANCH
Tim Fox
Assistant Vice President / Branch
Manager / Retail Loan Officer

TEKONSHA BRANCH
Dawn Copas
Branch Manager

CENTREVILLE & CONSTANTINE
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Regional Branch Manager

MENDON BRANCH
Doreen Tobin
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THREE RIVERS WEST BRANCHES
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Assistant Vice President /
Branch Manager

PORTAGE BRANCH
Cammy Fleckenstein
Branch Manager

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Vice President of Finance

OPERATIONS / INFORMATION SYSTEMS

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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

Executive Officers of Southern Michigan Bank & Trust and Southern Michigan Bancorp, Inc.

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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

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