2017 QUARTERLY REPORT

Southern Michigan BANCORP, INC.

Continuous Banking Since 1872

FIRST **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,446,000, or $0.59 per share, for the quarter ended March 31, 2017. Our results for the period represent an increase of 5.2 percent over net income of $1,374,000 or $0.57 per share, for the first quarter of 2016.

Southern's annualized return on average assets for the three-month period ending March 31, 2017 was 0.89 percent, compared with 0.93 percent for the first quarter of 2016. Our annualized return on average equity was 8.11 percent for the first quarter of 2017 compared to 7.96 percent for the first quarter of 2016. Our tax equivalent net interest margin was 3.75 percent compared to 3.90 percent for the same period last year.

Total consolidated assets at March 31, 2017 were $649.7 million compared to $641.5 million at December 31, 2016. Total shareholders' equity was $71.6 million as of March 31, 2017.

Asset quality metrics continued to improve as delinquent loan totals decreased to 0.38 percent of total loans as of March 31, 2017, down from 0.60 percent as of March 31, 2016. Non-performing asset totals as of March 31, 2017 were $2.7 million, a decrease of 37 percent, or $1.6 million from $4.3 million as of March 31, 2016. Net charge-offs totaled $57,000 for the first quarter of 2017, compared to $191,000 in the first quarter of 2016. No provision for loan losses was required during the first quarter of 2017 and the allowance for loan losses at March 31, 2017 totaled $4.8 million, or 1.06 percent of loans.

Southern's board of directors approved an increase in the quarterly cash dividend from $0.20 per share to $0.21 per share beginning with the July 2017 dividend payment. The new annualized rate of $0.84 per share represents a dividend yield of 2.40 percent based on the market price at the time of the announcement of $35.00 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 11, 2017 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 2016 included record net income of $6.097 million, balance sheet growth to a year-end record total asset size of $641.5 million, and growth in loan totals to a record $449.8 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,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 2017 (Unaudited)	December 31, 2016 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 16,631	$ 16,320
Federal funds sold	23,726	18,486
Securities available for sale	107,852	109,963
Loans held for sale	641	84
Gross loans	453,499	449,815
Less: Allowance for loan loss	(4,785)	(4,842)
Net loans	448,714	444,973
Premises and equipment, net	13,302	12,798
Net cash surrender value of life insurance	14,518	14,422
Goodwill	13,422	13,422
Other assets	10,942	11,064
Total assets	$ 649,748	$ 641,532
LIABILITIES		
Deposits	$ 542,317	$ 535,845
Securities sold under agreements to repurchase and overnight borrowings	12,821	13,311
Accrued expenses and other liabilities	7,690	6,890
Other borrowings	10,200	10,200
Subordinated debentures	5,155	5,155
Total liabilities	578,183	571,401
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 – 2,469,263 shares in 2017 (2,406,538 shares in 2016)	6,168	6,011
Additional paid-in capital	19,107	19,246
Retained earnings	47,233	46,282
Accumulated other comprehensive loss, net	(559)	(1,004)
Unearned employee stock ownership plan shares	(384)	(404)
Total shareholders' equity	71,565	70,131
Total liabilities and shareholders' equity	$ 649,748	$ 641,532

(A) The balance sheet at December 31, 2016 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, 2017	Three Months Ended March 31, 2016
	(In thousands, except per share data)	
INTEREST INCOME	$ 5,820	$ 5,495
INTEREST EXPENSE	499	427
Net Interest Income	5,321	5,068
Provision for loan losses	-	100
Net interest income after provision for loan losses	5,321	4,968
NON-INTEREST INCOME		
Service charges on deposit accounts	395	380
Trust fees	367	513
ATM and debit card fee income	335	333
Other	475	522
Total non-interest income	1,572	1,748
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,889	2,616
Occupancy, net	355	343
Equipment	246	209
Professional and outside services	302	415
Software maintenance	293	233
Other	883	987
Total non-interest expense	4,968	4,803
Income before income taxes	1,925	1,913
Federal income tax provision	479	539
NET INCOME	$ 1,446	$ 1,374
Basic Earnings Per Common Share	$ 0.59	$ 0.57
Diluted Earnings Per Common Share	0.59	0.57
Dividends Declared Per Common Share	0.20	0.18

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.astfinancial.com
Phone: (718) 921-8124
Toll Free: (800) 937-5449
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

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

Sarah Headley
Regional Vice President / Commercial Loan Manager

Doug Kiessling
Regional Vice President / Commercial Loan Manager

Tom Swoish
Regional Vice President / Commercial Loan Manager

Deborah Davis
Vice President

Rachel Doty
Vice President

Greg Miller
Vice President

James Sobeske
Vice President

Adam Losinski
Vice President

Corey Donner
Assistant Vice President

RETAIL LOANS

Phyllis Wingate
Vice President / Head of Retail Loan Operations

DeAnne Hawley
Assistant Vice President

Shari Kline
Assistant Vice President

Diane Krimmel
Assistant Vice President

Lori Lemmon
Assistant Vice President

Cassidy Munn
Assistant Vice President

Tina Mack
Assistant Vice President / Retail Loan Operations Manager

Desiree Kauffman
Loan Operations Specialist

Connie Caudill
Assistant Vice President / Senior Collections Manager

Lynn Roper
Secondary Market / Loan Servicing Officer

ANGOLA, IN LENDING OFFICE
Kristie Prater
Assistant Vice President

RISK MANAGEMENT

Trisha Clark
Vice President / Risk Management Officer

WEALTH MANAGEMENT

Mary Guthrie
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

Melissa Barlow
Vice President / Senior Investment Officer

INFORMATION TECHNOLOGY

Kevin Luckert
First Vice President / Head of Information Technology

RETAIL BANKING SERVICES

Eric Anglin
First Vice President / Retail Banking Services / Chief Deposit Officer

COLDWATER MAIN & EAST CHICAGO BRANCHES
Deb Larr
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
Jennifer Crist
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
Timothy Kilmartin
Kalamazoo Regional President

Thomas Schlueter
Vice President of Market Development

Cammy Fleckenstein
Branch Manager

FINANCE

Kevin Vaughn
Vice President of Finance

OPERATIONS

Angie Smith
Vice President / Head of Operations

Becky Omo
Assistant Vice President / Deposit Operations Manager

Vikki Kline
Project / Research Officer

Laurel Walkup
Assistant Vice President / eServices Officer

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