Southern Michigan BANCORP, INC.
Continuous Banking Since 1872

SECOND **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,493,000, or $0.63 per share, for the second quarter ended June 30, 2017. Our results for the period are contrasted with net income of $1,398,000, or $0.58 per share, for the second quarter of 2016. For the first six months of 2017, Southern earned $2,939,000, or $1.22 per share, compared with $2,772,000, or $1.15 per share, for the same six-month period a year ago. Comparing results for the periods, our 2017 earnings increased 6.8 percent and 6.0 percent, respectively, for the same three and six-month periods, in 2016. Commercial loan growth and strong asset quality both positively contributed to the increase in earnings for the first half of this year.

Southern's annualized return on average assets for the six-month periods ending June 30, 2017 and 2016 was 0.90 percent and 0.93 percent, respectively. The annualized return on average equity was 8.28 percent for the first six months of 2017 compared to 7.99 percent for the same period of 2016. Our tax equivalent net interest margin for the six-month periods ended June 30, 2017 and 2016 was 3.80 percent and 3.83 percent, respectively.

Total assets as of June 30, 2017 increased to $664.9 million compared to $641.5 million at December 31, 2016. Loan totals at June 30, 2017 increased to $488.8 million as compared to $449.8 million at December 31, 2016.

Asset quality metrics remained strong as delinquent loan totals decreased to 0.35 percent of total loans as of June 30, 2017, down from .73 percent as of June 30, 2016. The bank realized net loan loss recoveries for the quarter ended June 30, 2017 totaling $112,000. For the six-month period ending June 30, 2017 net recoveries totaled $55,000 compared to net loan losses of $457,000 for the same period in 2016. Non-performing asset totals as of June 30, 2017 were $2.6 million, a decrease of $800,000 from $3.4 million as of June 30, 2016. Southern provided $0 for loan losses during the second quarter of 2017 and the allowance for loan losses at June 30, 2017 totaled $4.9 million, or 1.0 percent of total loans.

Don Labrecque has announced his retirement from the board, effective in July, to pursue travel and other interests. He joined the bank in December 2004 and served for over 12 ½ years. The board and management would like to recognize Don for his dedication and service.

We welcomed our newest director, Patrick Flannery, in July. A licensed CPA, Patrick is vice president for finance and treasurer at Hillsdale College. He brings extensive business experience, strong leadership skills and a commitment to community that reflects the values of Southern.

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

	June 30, 2017 (Unaudited)	December 31, 2016 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 23,451	$ 16,320
Federal funds sold	202	18,486
Securities available for sale	104,185	109,963
Loans held for sale	880	84
Gross loans	488,799	449,815
Less: Allowance for loan loss	(4,897)	(4,842)
Net loans	483,902	444,973
Premises and equipment, net	13,525	12,798
Net cash surrender value of life insurance	14.610	14,422
Goodwill	13,422	13,422
Other assets	10,686	11,064
Total assets	$ 664,863	$ 641,532
LIABILITIES		
Deposits	$ 541,272	$ 535,845
Securities sold under agreements to repurchase and overnight borrowings	11,414	13,311
Accrued expenses and other liabilities	7,897	6,890
Other borrowings	30,200	10,200
Subordinated debentures	5,155	5,155
Total liabilities	595,938	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 – 2,317,574 shares in 2017 (2,406,538 shares in 2016)	5,792	6,011
Additional paid-in capital	15,060	19,246
Retained earnings	48,238	46,282
Accumulated other comprehensive income/(loss), net	187	(1,004)
Unearned employee stock ownership plan shares	(352)	(404)
Total shareholders' equity	68,925	70,131
Total liabilities and shareholders' equity	$ 664,863	$ 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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In thousands, except per share data)			
INTEREST INCOME	$ 6,114	$ 5,406	$ 11,934	$ 10,901
INTEREST EXPENSE	535	434	1,034	861
Net Interest Income	5,579	4,972	10,900	10,040
Provision for loan losses	-	-	-	100
Net interest income after provision for loan losses	5,579	4,972	10,900	9,940
NON-INTEREST INCOME				
Service charges on deposit accounts	398	371	793	751
Trust fees	396	335	763	848
ATM and debit card fee income	351	353	686	686
Other	372	566	847	1,088
Total non-interest income	1,517	1,625	3,089	3,373
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,055	2,636	5,944	5,252
Occupancy, net	350	321	705	664
Equipment	236	217	482	426
Professional and outside services	359	337	661	752
Software maintenance	298	228	591	461
Other	819	968	1,702	1,955
Total non-interest expense	5,117	4,707	10,085	9,510
Income before income taxes	1,979	1,890	3,904	3,803
Federal income tax provision	486	492	965	1,031
NET INCOME	$ 1,493	$ 1,398	$ 2,939	$ 2,772
Basic Earnings Per Common Share	$ 0.63	$ 0.58	$ 1.22	$ 1.15
Diluted Earnings Per Common Share	0.63	0.58	1.22	1.15
Dividends Declared Per Common Share	0.21	0.18	0.41	0.36

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

Petrea Schumacher
Vice President /
Compliance Officer

Robin O'Brien
BSA 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

Joseph Duke
Network Administrator

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

eSERVICES

Laurel Walkup
Assistant Vice President /
Business eServices Manager

OPERATIONS

Angie Smith
Vice President /
Head of Operations

Becky Omo
Assistant Vice President /
Deposit Operations Manager

Vikki Kline
Project / Research Officer

MARKETING

Quinn White
Marketing Coordinator

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