Southern Michigan BANCORP, INC.
Continuous Banking Since 1872

THIRD **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $1,743,000, or $0.75 per share, for the third quarter of 2017, representing historic record high third-quarter earnings. Our results for the period represent an increase of 5.1 percent over net income of $1,658,000, or $0.69 per share, reported for the third quarter of 2016. Through the first nine months of 2017, Southern earned $4,682,000, or $1.97 per share, an increase of $252,000 or 5.7 percent, as compared with $4,430,000, or $1.84 per share, for the nine-month period ending September 30, 2016. Commercial loan growth and continued strength in asset quality are primarily responsible for the increase in earnings.

Southern's annualized return on average assets for the nine-month periods ending September 30, 2017 and 2016 was 0.94 percent and 0.98 percent, respectively. The annualized return on average equity was 8.82 percent for the first nine months of 2017 compared to 8.45 percent for the same period of 2016. Our tax equivalent net interest margin for the nine-month periods ending September 30, 2017 and 2016 was 3.79 percent and 3.80 percent, respectively.

Total assets for the first nine months of the year increased significantly to a record $712.3 million compared with $641.5 million at December 31, 2016. Other noteworthy changes in the balance sheet include loan growth to $500.8 million, an increase of $51 million or 11.3 percent, from year-end 2016 levels of $449.8 million, and deposits increased $40.2 million to $576 million from $535.8 million at December 31, 2016. Both loan and deposit totals represent new milestones for the bank.

Asset quality momentum remained strong as delinquencies at quarter-end were 0.38 percent of total loans as compared to 0.66 percent as of September 30, 2016. Net loan losses for the nine-month period ending September 30, 2017 totaled only $4,000 as compared to $484,000 for the same period in 2016. Non-performing asset totals as of September 30, 2017 were $2.5 million, a decrease of $0.5 million from $3.0 million as of September 30, 2016. Provision expense of $175,000 was recognized in the third quarter of 2017 and added to the allowance for loan losses primarily due to loan growth.

We are pleased with the growth of our balance sheet, including loans and deposits. Our expansion last year into the Portage/ Kalamazoo market has led to the evaluation of additional branch locations. As always, our focus is on providing the best customer service while enhancing shareholder value.

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 SHEET

	September 30, 2017 (Unaudited)	December 31, 2016 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 58,947	$ 16,320
Federal funds sold	254	18,486
Securities available for sale	102,103	109,963
Loans held for sale	815	84
Gross loans	500,807	449,815
Less: Allowance for loan loss	(5,013)	(4,842)
Net loans	495,794	444,973
Premises and equipment, net	14,227	12,798
Net cash surrender value of life insurance	14,703	14,422
Goodwill	13,422	13,422
Other assets	12,060	11,064
Total assets	$ 712,325	$ 641,532
LIABILITIES		
Deposits	$ 576,036	$ 535,845
Securities sold under agreements to repurchase and overnight borrowings	13,019	13,311
Accrued expenses and other liabilities	8,059	6,890
Other borrowings	39,750	10,200
Subordinated debentures	5,155	5,155
Total liabilities	642,019	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	15,237	19,246
Retained earnings	49,495	46,282
Accumulated other comprehensive income/(loss), net	114	(1,004)
Unearned employee stock ownership plan shares	(332)	(404)
Total shareholders' equity	70,306	70,131
Total liabilities and shareholders' equity	$ 712,325	$ 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		Nine Months Ended	
	Sept. 30, 2017	Sept. 30, 2016	Sept. 30, 2017	Sept. 30, 2016
	(In thousands, except per share data)			
INTEREST INCOME	$ 6,587	$ 5,461	$ 18,521	$ 16,362
INTEREST EXPENSE	834	459	1,868	1,320
Net interest income	5,753	5,002	16,653	15,042
Provision for loan losses	175	-	175	100
Net interest income after provision for loan losses	5,578	5,002	16,478	14,942
NON-INTEREST INCOME				
Service charges on deposit accounts	423	420	1,216	1,171
Trust fees	433	354	1,196	1,202
ATM and debit card fee income	348	352	1,034	1,038
Other	466	602	1,313	1,690
Total non-interest income	1,670	1,728	4,759	5,101
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,902	2,559	8,846	7,811
Occupancy, net	314	368	1,019	1,032
Equipment	212	199	694	625
Professional and outside services	322	207	982	959
Software maintenance	305	260	896	721
Other	849	910	2,552	2,865
Total non-interest expense	4,904	4,503	14,989	14,013
Income before income taxes	2,344	2,227	6,248	6,030
Federal income tax provision	601	569	1,566	1,600
NET INCOME	$ 1,743	$ 1,658	$ 4,682	$ 4,430
Basic Earnings Per Common Share	$ 0.76	$ 0.69	$ 1.97	$ 1.85
Diluted Earnings Per Common Share	0.75	0.69	1.97	1.84
Dividends Declared Per Common Share	0.21	0.20	0.62	0.56

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

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Assistant Vice President

Shari Kline
Assistant Vice President

Diane Krimmel
Assistant Vice President

Lori Lemmon
Assistant Vice President

Cassidy Munn
Assistant Vice President

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Loan Operations Specialist

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ANGOLA, IN LENDING OFFICE
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Robin Tate
BSA Officer

WEALTH MANAGEMENT

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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

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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