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 $1,802,000 for the quarter ended March 31, 2018, an increase of 24.6 percent as compared to net income of $1,446,000 for the first quarter of 2017. First quarter 2018 earnings per share increased 32.2 percent to $0.78 per share, compared to $0.59 per share for the first quarter of 2017. Net income grew 10.5 percent year over year excluding the benefit of tax reform. Strong core earnings were fueled by year-over-year loan growth of $83.1 million and continued solid asset quality.

Southern's annualized return on average assets for the three-month period ending March 31, 2018 was 1.01 percent, compared with 0.89 percent for the first quarter of 2017. Our annualized return on average equity was 10.26 percent for the first quarter of 2018, compared to 8.11 percent for the first quarter of 2017. Our tax equivalent net interest margin was 3.79 percent compared to 3.75 percent for the same period last year.

Total consolidated assets at March 31, 2018 were $719.2 million compared to $712.3 million at December 31, 2017. Total shareholders' equity was $70.1 million as of March 31, 2018.

Asset quality metrics continued to improve as delinquent loan totals decreased to 0.25 percent of total loans as of March 31, 2018, down from 0.38 percent as of March 31, 2017. Non-performing asset totals as of March 31, 2018 were $2.174 million, a decrease of 20.2 percent, or $549,000 from $2.723 million as of March 31, 2017. Net charge-offs totaled $16,000 for the first quarter of 2018, compared to $57,000 in the first quarter of 2017. No provision for loan losses was required during the first quarter of 2018 and the allowance for loan losses at March 31, 2018 totaled $5.0 million, or .93 percent of loans.

Southern's board of directors approved an increase in the quarterly cash dividend from $0.21 per share to $0.22 per share beginning with the July 2018 dividend payment. The new annualized rate of $0.88 per share represents a dividend yield of 2.32 percent based on the market price at the time of the announcement of $38.00 per share.

My presentation at the annual shareholders' meeting on May 10, 2018 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 2017 included balance sheet growth to a year-end record total asset size of $712.3 million, growth in loan totals to a record $523.4 million, and deposit growth to a record $577.1 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, 2018 (Unaudited)	December 31, 2017 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 29,636	$ 17,421
Federal funds sold	1,669	18,492
Securities available for sale	102,062	105,184
Loans held for sale	564	515
Gross loans	536,618	523,447
Less: Allowance for loan loss	(4,993)	(5,009)
Net loans	531,625	518,438
Premises and equipment, net	14,291	14,265
Net cash surrender value of life insurance	15,391	14,796
Goodwill	13,422	13,422
Other assets	10,567	9,812
Total assets	$ 719,227	$ 712,345
LIABILITIES		
Deposits	$ 595,185	$ 577,144
Securities sold under agreements to repurchase and overnight borrowings	12,629	13,950
Accrued expenses and other liabilities	6,953	6,559
Other borrowings	29,250	39,500
Subordinated debentures	5,155	5,155
Total liabilities	649,172	642,308
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 – 2,320,737 shares in 2018 (2,316,779 shares in 2017)	5,796	5,787
Additional paid-in capital	14,841	15,415
Retained earnings	51,059	49,747
Accumulated other comprehensive loss, net	(1,362)	(613)
Unearned employee stock ownership plan shares	(279)	(299)
Total shareholders' equity	70,055	70,037
Total liabilities and shareholders' equity	$ 719,227	$ 712,345

(A) The balance sheet at December 31, 2017 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, 2018	Three Months Ended March 31, 2017
	(In thousands, except per share data)	
INTEREST INCOME	$ 6,983	$ 5,820
INTEREST EXPENSE	902	499
Net Interest Income	6,081	5,321
Provision for loan losses	-	-
Net interest income after provision for loan losses	6,081	5,321
NON-INTEREST INCOME		
Service charges on deposit accounts	382	395
Trust fees	484	367
ATM and debit card fee income	339	335
Other	241	475
Total non-interest income	1,446	1,572
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,157	2,889
Occupancy, net	397	355
Equipment	272	246
Professional and outside services	322	302
Software maintenance	367	293
Other	885	883
Total non-interest expense	5,400	4,968
Income before income taxes	2,127	1,925
Federal income tax provision	325	479
NET INCOME	$ 1,802	$ 1,446
Basic Earnings Per Common Share	$ 0.78	$ 0.59
Diluted Earnings Per Common Share	0.78	0.59
Dividends Declared Per Common Share	0.21	0.20

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

D.A. Davidson & Co.
Dublin, Ohio
(800) 394-9230

For further information on Southern Michigan Bancorp, Inc., please see the 'Investor Relations' tab on our website: www.smb-t.com

SMB&T OFFICERS

COMMERCIAL LOANS

Sarah Headley
Regional Vice President /
Commercial Loan Manager

Douglas W. Kiessling
Regional Vice President /
Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

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Vice President

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Rachel Doty
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Adam Losinski
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Vice President

Jim Sobeske
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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

RETAIL BANKING

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

Lori Neill
Assistant Vice President
Retail Banking
Operations Manager

COLDWATER MAIN &
EAST CHICAGO BRANCHES
Deb Larr
Branch Manager

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Lisa Walker
Assistant Vice President /
Branch Manager

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Kara Mead
Vice President /
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CAMDEN BRANCHES
Jennifer Crist
Regional Branch Manager

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

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

MENDON BRANCH
Doreen Tobin
Assistant Vice President /
Branch Manager

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Sharon Bachinski
Assistant Vice President /
Branch Manager

PORTAGE BRANCH
Cammy Fleckenstein
Branch Manager

PORTAGE TRADE CENTRE
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Kalamazoo Regional President

Thomas Schlueter
Vice President of Market
Development

Mary Marshall
Vice President /
Wealth Management Officer

Joseph Spoerl
Vice President /
Wealth Management Officer

eSERVICES

Laurel Walkup
Vice President /
Business eServices Manager

FINANCE

Kevin Vaughn
First Vice President of Finance

INFORMATION TECHNOLOGY

Joseph Duke
Network Administrator

MARKETING

Quinn White
Vice President /
Head of Marketing

OPERATIONS

Angie Smith
First Vice President /
Head of Operations

Becky Omo
Assistant Vice President /
Deposit Operations Manager

Vikki Kline
Core System Administrator
Officer

RISK MANAGEMENT

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Robyn Tate
BSA Officer

WEALTH MANAGEMENT

Mary Guthrie
Senior Vice President /
Senior Trust Officer

Matt Moses
First Vice President /
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Melissa Barlow
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Senior Investment Officer

R. David Rumsey
Vice President /
Senior Investment Officer

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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

Southern Michigan Bancorp, Inc.
51 W Pearl Street | Coldwater, MI 49036
800.379.7628 | www.smb-t.com