2018 QUARTERLY REPORT

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 $2,283,000, or $0.98 per share, for the third quarter ended September 30, 2018. Our results for the period represent an increase of $540,000, or 31 percent, over net income of $1,743,000, or $0.75 per share, reported for the third quarter of 2017. Through the first nine months of 2018, Southern earned $6,301,000, or $2.72 per share, an increase of $1,619,000 or 35 percent, as compared with $4,682,000, or $1.97 per share, for the nine-month period ended September 30, 2017. 2018 results represent monthly earnings records for July, August and September, overall the best quarter results in the history of the bank, and year-to-date results that surpassed our highest annual earnings benchmark in 2016 of $6,097,000. The primary drivers for the increase in net income include balance sheet growth, continued strength in asset quality, corporate tax reform and rising interest rates.

Southern's annualized return on average assets for the nine-month periods ended September 30, 2018 and 2017 was 1.16 percent and 0.94 percent, respectively. The annualized return on average equity was 11.72 percent for the first nine months of 2018 compared to 8.82 percent for the same period of 2017. Our tax equivalent net interest margin for the nine-month periods ended September 30, 2018 and 2017 were both 3.79 percent.

Total assets for the first nine months of the year increased significantly to a record $767.0 million compared with $712.3 million at December 31, 2017. Loan totals grew modestly from December 31, 2017 levels of $523.4 million to $533.3 million. Significant commercial loan opportunities have been approved, however, many of which are construction related. These are expected to be funded in the fourth quarter of 2018 and into 2019. Deposits increased to $636.8 million, an increase of $59.7 million or 10.3 percent, from $577.1 million at year end 2017.

Asset quality momentum remained strong, resulting in no provision expense through September 30, 2018. Delinquencies at quarter end were 0.33 percent of total loans as compared to 0.38 percent as of September 30, 2017. Non-performing asset totals as of September 30, 2018 were only $2.3 million, and net loan losses for the nine-month period ended September 30, 2018 totaled $98,000, or annualized 0.02 percent of loans.

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, 2018 (Unaudited)	December 31, 2017 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 80,815	$ 17,421
Federal funds sold	285	18,492
Securities available for sale	101,723	105,184
Loans held for sale	1,134	515
Gross loans	533,288	523,447
Less: Allowance for loan loss	(4,911)	(5,009)
Net loans	528,377	518,438
Premises and equipment, net	14,163	14,265
Net cash surrender value of life insurance	15,588	14,796
Goodwill	13,422	13,422
Other assets	11,493	9,812
Total assets	$ 767,000	$ 712,345
LIABILITIES		
Deposits	$ 636,758	$ 577,144
Securities sold under agreements to repurchase and overnight borrowings	14,904	13,950
Accrued expenses and other liabilities	7,942	6,559
Other borrowings	28,750	39,500
Subordinated debentures	5,155	5,155
Total liabilities	693,509	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 – 2,320,635 shares in 2018 (2,316,779 shares in 2017)	5,796	5,787
Additional paid-in capital	15,251	15,415
Retained earnings	54,657	49,747
Accumulated other comprehensive income/(loss), net	(1,987)	(613)
Unearned employee stock ownership plan shares	(226)	(299)
Total shareholders' equity	73,491	70,037
Total liabilities and shareholders' equity	$ 767,000	$ 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 September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In thousands, except per share data)			
INTEREST INCOME	$ 7,657	$ 6,587	$ 21,968	$ 18,521
INTEREST EXPENSE	1,255	834	3,178	1,868
Net interest income	6,402	5,753	18,790	16,653
Provision for loan losses	-	175	-	175
Net interest income after provision for loan losses	6,402	5,578	18,790	16,478
NON-INTEREST INCOME				
Service charges on deposit accounts	442	423	1,209	1,216
Trust fees	522	433	1,479	1,196
ATM and debit card fee income	357	348	1,061	1,034
Other	372	466	1,009	1,313
Total non-interest income	1,693	1,670	4,758	4,759
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,261	2,902	9,617	8,846
Occupancy, net	326	314	1,082	1,019
Equipment	247	212	805	694
Professional and outside services	297	322	1,032	982
Software maintenance	356	305	1,091	896
Other	863	849	2,546	2,552
Total non-interest expense	5,350	4,904	16,173	14,989
Income before income taxes	2,745	2,344	7,375	6,248
Federal income tax provision	462	601	1,074	1,566
NET INCOME	$ 2,283	$ 1,743	$ 6,301	$ 4,682
Basic Earnings Per Common Share	$ 0.99	$ 0.76	$ 2.73	$ 1.97
Diluted Earnings Per Common Share	0.98	0.75	2.72	1.97
Dividends Declared Per Common Share	0.22	0.21	0.65	0.62

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:

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

Stifel, Nicolaus & Company, Inc.
Grand Rapids, Michigan
(800) 676-0477

Boenning & Scattergood
Powell, Ohio
(866) 326-8113

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

SMB&T OFFICERS

COMMERCIAL LOANS

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Commercial Loan Manager

Douglas W. Kiessling
Regional Vice President /
Commercial Loan Manager

Tom Swoish
Regional Vice President /
Commercial Loan Manager

Deb Davis
Vice President

Corey Donner
Vice President

Rachel Doty
Vice President

Adam Losinski
Vice President

Greg Miller
Vice President

Jim Sobeske
Vice President

RETAIL LOANS

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First Vice President /
Head of Retail Lending

Phyllis Wingate
Vice President /
Head of Retail Loan
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Assistant Vice President

Shari Kline
Assistant Vice President

Diane Krimmel
Assistant Vice President

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Loan Operations Specialist

RETAIL BANKING

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Chief Deposit Officer

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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

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Regional Branch Manager

UNION CITY BRANCH

Tim Fox
Assistant Vice President /
Retail Loan Officer /
Branch Manager

TEKONSHA BRANCH

Dawn Copas
Branch Manager

CENTREVILLE & CONSTANTINE BRANCHES

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Assistant Vice President /
Regional Branch Manager

MENDON BRANCH

Doreen Tobin
Assistant Vice President /
Branch Manager

THREE RIVERS BRANCH

Sharon Bachinski
Assistant Vice President /
Branch Manager

PORTAGE BRANCH

Cammy Fleckenstein
Branch Manager

PORTAGE TRADE CENTRE

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Kalamazoo Regional President

Mary Marshall
Vice President /
Wealth Management Officer

Tom Schlueter
Vice President of Market
Development

Joseph Spoerl
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Business eServices Manager

FINANCE

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INFORMATION TECHNOLOGY

Greg Sopcak
First Vice President /
Head of Information
Technology

Joseph Duke
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Vikki Kline
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Head of Wealth Management

Melissa Barlow
Vice President /
Senior Investment Officer

R. David Rumsey
Vice President /
Senior Investment Officer

SMB and SMB&T EXECUTIVE OFFICERS

John H. Castle
Chairman /
Chief Executive Officer

Kurt G. Miller
President /
Chief Credit Officer

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Head of Lending

Danice L. Chartrand
Senior Vice President /
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