2019 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 $1,920,000 for the quarter ended March 31, 2019, an increase of 6.5 percent as compared to net income of $1,802,000 for the first quarter of 2018. First quarter 2019 earnings per share increased 6.4 percent to $0.83 per share, compared to $0.78 per share for the first quarter of 2018. Strong core earnings were fueled by year-over-year balance sheet and loan growth, and continued strong asset quality.

Southern's annualized return on average assets for the three-month period ending March 31, 2019 was 1.01 percent, matching the first quarter of 2018 results. Our annualized return on average equity was 10.03 percent for the first quarter of 2019, compared to 10.26 percent for the first quarter of 2018. Our tax equivalent net interest margin was 3.72 percent compared to 3.79 percent for the same period last year.

Total consolidated assets were $785.8 million at March 31, 2019 compared to $738.8 million at December 31, 2018. Deposits increased $46.1 million to $652.0 million as of March 31, 2019, from $605.9 million at year end 2018. Total loans grew $16.5 million during the first quarter from $532.0 million at year end 2018 to $548.5 million as of March 31, 2019. Total shareholders' equity was $77.3 million as of March 31, 2019.

Delinquent loan totals increased year over year to 0.97 percent of total loans as of March 31, 2019, up from 0.25 percent as of March 31, 2018. Loans past due 30-89 days were modest totaling $701,000, or 0.13 percent of total loans at quarter end, and loans more than 90 days past due were $95,000. Net charge-offs totaled $3,000 for the first quarter of 2019, compared to $16,000 in the first quarter of 2018. Southern provided $150,000 for loan losses during the first quarter of 2019, primarily as a result of growth in the loan portfolio, and the allowance for loan losses at March 31, 2019 totaled $5.264 million, or 0.96 percent of loans.

Southern's board of directors approved an increase in the quarterly cash dividend from $0.22 per share to $0.23 per share beginning with the July 2019 dividend payment. The new annualized rate of $0.92 per share represents a dividend yield of 2.43 percent based on the market price at the time of the announcement of $37.80 per share.

My presentation at the annual shareholders' meeting on May 9, 2019 is available on our website at www.smb-t.com under the Investor Relations link. Open the tab News & Market Data and then Presentations. Noteworthy accomplishments highlighted for 2018 included balance sheet growth to a year-end record total asset size of $738.8 million, and year-end record loan and deposit totals of $532.0 million and $605.9 million, respectively.

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 SHEETS

	March 31, 2019 (Unaudited)	December 31, 2018 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 87,083	$ 54,741
Federal funds sold	172	1,065
Securities available for sale	98,637	101,439
Loans held for sale	1,001	-
Gross loans	548,466	531,974
Less: Allowance for loan loss	(5,264)	(5,117)
Net loans	543,202	526,857
Premises and equipment, net	14,198	14,296
Net cash surrender value of life insurance	15,782	15,685
Goodwill	13,422	13,422
Other assets	12,343	11,326
Total assets	$ 785,840	$ 738,831
LIABILITIES		
Deposits	$ 652,023	$ 605,893
Securities sold under agreements to repurchase and overnight borrowings	13,681	15,342
Accrued expenses and other liabilities	9,441	8,414
Other borrowings	28,250	28,500
Subordinated debentures	5,155	5,155
Total liabilities	708,550	663,304
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 – 2,321,678 shares in 2019 (2,315,505 shares in 2018)	5,798	5,783
Additional paid-in capital	15,135	15,246
Retained earnings	57,378	55,972
Accumulated other comprehensive income/(loss), net	(467)	(1,301)
Unearned employee stock ownership plan shares	(554)	(173)
Total shareholders' equity	77,290	75,527
Total liabilities and shareholders' equity	$ 785,840	$ 738,831

(A) The balance sheet at December 31, 2018 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, 2019	Three Months Ended March 31, 2018
	(In thousands, except per share data)	
INTEREST INCOME	$ 7,836	$ 6,983
INTEREST EXPENSE	1,456	902
Net interest income	6,380	6,081
Provision for loan losses	150	-
Net interest income after provision for loan losses	6,230	6,081
NON-INTEREST INCOME		
Service charges on deposit accounts	486	382
Trust fees	503	484
ATM and debit card fee income	319	339
Other	372	241
Total non-interest income	1,680	1,446
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,397	3,157
Occupancy, net	389	397
Equipment	265	272
Professional and outside services	316	322
Software maintenance	403	367
Other	881	885
Total non-interest expense	5,651	5,400
Income before income taxes	2,259	2,127
Federal income tax provision	339	325
NET INCOME	$ 1,920	$ 1,802
Basic Earnings Per Common Share	$ 0.83	$ 0.78
Diluted Earnings Per Common Share	0.83	0.78
Dividends Declared Per Common Share	0.22	0.21

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 AND SMB&T EXECUTIVE STAFF

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

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

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

Derek Naylor
First Vice President /
Head of Retail Lending

Phyllis Wingate
Vice President /
Head of Retail Loan Operations

Connie Caudill
Assistant Vice President /
Senior Collections Manager

DeAnne Hawley
Vice President /
Mortgage Loan Officer

Shari Kline
Vice President /
Mortgage Loan Officer

Tina Mack
Assistant Vice President / Retail
Loan Operations Manager

Stephanie Best
Mortgage Loan Officer

Stephanie Minniear
Mortgage Loan Officer

RETAIL BANKING

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

Lori Neill
Vice President / Retail Banking
Operations Manager

COLDWATER MAIN & EAST CHICAGO BRANCHES
Felicia Landis
Branch Manager

BATTLE CREEK BRANCH
Lisa Walker
Vice President /
Branch Manager

MARSHALL BRANCH
Kara Mead
Vice President /
Commercial Loan Officer /
Branch Manager

HILLSDALE & CAMDEN BRANCHES
Jennifer Crist
Assistant Vice President /
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
Tina Cronkhite
Vice President /
Regional Branch Manager

MENDON BRANCH
Doreen Tobin
Assistant Vice President /
Branch Manager

THREE RIVERS BRANCH
Kelsey McClish
Branch Manager

PORTAGE BRANCH
Cammy Fleckenstein
Branch Manager

PORTAGE TRADE CENTRE

Tim Kilmartin
Kalamazoo Regional
President

Mary Marshall
Vice President /
Wealth Management Officer

Tom Schlueter
Vice President /
Market Development

Joseph Spoerl
Vice President /
Wealth Management Officer

eSERVICES

Laurel Walkup
Vice President /
Business eServices Manager

FINANCE

Kevin Vaughn
First Vice President / Finance

INFORMATION TECHNOLOGY

Greg Sopcak
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Head of Information
Technology

Joseph Duke
Network Administrator

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Becky Omo
Assistant Vice President /
Deposit Operations Manager

Vikki Kline
Core System Administrator

RISK MANAGEMENT

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Vice President /
Risk Management Officer

WEALTH MANAGEMENT

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Head of Wealth Management

Melissa Barlow
Vice President /
Senior Investment Officer

R. David Rumsey
Vice President /
Senior Investment Officer

Josh Will
Vice President /
Wealth Management Officer

Michael Depew
Wealth Management
Operations Manager