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 $2,326,000, or $1.01 per share, for the second quarter ended June 30, 2019. Our results for the period are contrasted with net income of $2,216,000, or $0.96 per share, for the second quarter of 2018. For the first six months of 2019, Southern earned $4,246,000 or $1.84 per share, compared with $4,018,000, or $1.74 per share, for the same six-month period one year ago. Comparing results for the periods, our 2019 earnings increased 5.0 percent and 5.7 percent, respectively, for the same three and six-month periods in 2018.

Southern's annualized return on average assets for the six-month periods ended June 30, 2019 and 2018 was 1.10 percent and 1.12 percent, respectively. The annualized return on average equity was 10.94 percent for the first six months of 2019 compared to 11.36 percent for the same period in 2018. Southern's return on average tangible equity, which is total shareholders' equity less goodwill and other intangibles, was 13.34 percent. Our tax equivalent net interest margin for the six-month periods ended June 30, 2019 and 2018 was 3.73 percent and 3.83 percent, respectively.

Total assets as of June 30, 2019 increased to $779.0 million from $738.8 million at December 31, 2018. Loan totals as of June 30, 2019 increased to $543.2 million from $532.0 million at December 31, 2018.

Delinquent loan totals increased year over year to 0.91 percent of total loans, or $5.0 million, as of June 30, 2019, up from 0.27 percent, or $1.5 million, at June 30, 2018. Loans past due 30-89 days remained modest, totaling $497,000, or 0.09 percent of total loans at quarter-end, and loans more than 90 days past due were $92,000. Net loan losses totaled $107,000 for the second quarter of 2019, compared to $6,000 for the second quarter of 2018. For the six-month period ended June 30, 2019, net loan losses totaled $110,000 compared to $22,000 for the same period in 2018. Southern provided $0 for loan losses during the second quarter of 2019 and the allowance for loan losses totaled $5.157 million or 0.95 percent of total loans as of June 30, 2019.

Southern is again pleased to have been identified by the American Banker magazine in their list of the "Top 200 Community Banks" with less than $2 billion in assets, as measured by our three-year return on average equity as of December 31, 2018. Of the 601 financial institutions who qualified, Southern's average return of 9.20 percent was considerably higher than the average of 7.44 percent.

On a personal note, it is with great sadness that I share with you that Director Gary Hart passed away on June 13, 2019. Gary joined the board of Southern in December 2004. He was respected by his peers on the board, the employees of Southern, and was held in high esteem by community members. He will be missed.

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,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2019 (Unaudited)	December 31, 2018 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 72,358	$ 54,741
Federal funds sold	264	1,065
Securities available for sale	111,307	101,439
Loans held for sale	154	-
Gross loans	543,198	531,974
Less: Allowance for loan loss	(5,157)	(5,117)
Net loans	538,041	526,857
Premises and equipment, net	14,284	14,296
Net cash surrender value of life insurance	15,880	15,685
Goodwill	13,422	13,422
Other assets	13,260	11,326
Total assets	$ 778,970	$ 738,831
LIABILITIES		
Deposits	$ 633,160	$ 605,893
Securities sold under agreements to repurchase and overnight borrowings	11,477	15,342
Accrued expenses and other liabilities	11,044	8,414
Other borrowings	38,000	28,500
Subordinated debentures	5,155	5,155
Total liabilities	698,836	663,304
SHAREHOLDERS' EQUITY		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value		
Authorized - 5,000,000 shares		
Issued and outstanding – 2,315,043 shares in 2019 (2,315,505 shares in 2018)	5,782	5,783
Additional paid-in capital	15,099	15,246
Retained earnings	59,173	55,972
Accumulated other comprehensive income/(loss), net	551	(1,301)
Unearned employee stock ownership plan shares	(471)	(173)
Total shareholders' equity	80,134	75,527
Total liabilities and shareholders' equity	$ 778,970	$ 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		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(In thousands, except per share data)			
INTEREST INCOME	$ 8,192	$ 7,328	$ 16,028	$ 14,311
INTEREST EXPENSE	1,613	1,021	3,069	1,923
Net interest income	6,579	6,307	12,959	12,388
Provision for loan losses	-	-	150	-
Net interest income after provision for loan losses	6,579	6,307	12,809	12,388
NON-INTEREST INCOME				
Service charges on deposit accounts	496	385	982	767
Trust fees	514	473	1,017	957
ATM and debit card fee income	361	365	680	704
Other	516	396	889	637
Total non-interest income	1,887	1,619	3,568	3,065
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,433	3,199	6,830	6,356
Occupancy, net	325	359	714	756
Equipment	266	286	530	558
Professional and outside services	374	413	690	735
Software maintenance	397	368	801	735
Other	848	798	1,730	1,683
Total non-interest expense	5,643	5,423	11,295	10,823
Income before income taxes	2,823	2,503	5,082	4,630
Federal income tax provision	497	287	836	612
NET INCOME	$ 2,326	$ 2,216	$ 4,246	$ 4,018
Basic Earnings Per Common Share	$ 1.01	$ 0.96	$ 1.84	$ 1.74
Diluted Earnings Per Common Share	1.01	0.96	1.84	1.74
Dividends Declared Per Common Share	0.23	0.22	0.45	0.43

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

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

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

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

Kascee Wyatt
Mortgage Loan Officer

RETAIL BANKING

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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

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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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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

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Kalamazoo Regional
President

Mary Marshall
Vice President /
Wealth Management Officer

Tom Schlueter
Vice President /
Market Development

Joseph Spoerl
Vice President /
Wealth Management Officer

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Becky Omo
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Vikki Kline
Core System Administrator

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Risk Management Officer

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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
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Michael Depew
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Operations Manager