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 $2,540,000, or $1.10 per share, for the third quarter ended September 30, 2019. Our results for the period represent an increase of $257,000, or 11.26 percent, over net income of $2,283,000 or $0.98 per share, reported for the third quarter of 2018. Through the first nine months of 2019, Southern earned $6,786,000, or $2.94 per share, an increase of $485,000 or 7.70 percent, as compared with $6,301,000, or $2.72 per share, for the nine-month period ended September 30, 2018. The primary drivers for the increase in net income include continued balance sheet growth and sustained asset quality.

Southern's annualized return on average assets for the nine-month periods ended September 30, 2019 and 2018 were both 1.16 percent. The annualized return on average equity was 11.43 percent for the first nine months of 2019 compared to 11.72 percent for the same period of 2018. Our tax equivalent net interest margin for the nine-month periods ended September 30, 2019 and 2018 were 3.70 percent and 3.79 percent, respectively.

Total assets for the first nine months of the year increased significantly to a record $811.5 million compared with $738.8 million at December 31, 2018. This represents the first time in the history of the bank asset footings exceeded $800 million. Loan totals grew modestly from December 31, 2018 levels of $532.0 million to $547.6 million at quarter end. Significant commercial loan opportunities have been approved and we expect many to be funded in the first quarter and throughout 2020. Deposits increased to $659.6 million, an increase of $53.7 million or 8.9 percent, from $605.9 million at year end 2018.

Delinquent loan totals at quarter end were 0.88 percent of total loans, or $4.8 million, as compared to 0.33 percent, or $1.7 million, as of September 30, 2018. Loans past due 30-89 days were only $394,000, or 0.07 percent of total loans at quarter-end, with no loans more than 90 days past due. Non-performing asset totals as of September 30, 2019 were $5.4 million and net loan losses for the nine-month period ended September 30, 2019 totaled $146,000, or annualized 0.04 percent of loans. Southern provided $0 for loan losses during the third quarter of 2019 and the allowance for loan losses totaled $5,121,000 or 0.94 percent of total loans as of September 30, 2019.

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, 2019 (Unaudited) | December 31, 2018 (A) |
|---|---|---|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | $ 82,945 | $ 54,741 |
| Federal funds sold | 284 | 1,065 |
| Securities available for sale | 126,499 | 101,439 |
| Loans held for sale | 497 | - |
| Gross loans | 547,613 | 531,974 |
| Less: Allowance for loan loss | (5,121) | (5,117) |
| Net loans | 542,492 | 526,857 |
| Premises and equipment, net | 14,560 | 14,296 |
| Net cash surrender value of life insurance | 15,536 | 15,685 |
| Goodwill | 13,422 | 13,422 |
| Other assets | 15,245 | 11,326 |
| Total assets | $ 811,480 | $ 738,831 |
| LIABILITIES | | |
| Deposits | $ 659,592 | $ 605,893 |
| Securities sold under agreements to repurchase and overnight borrowings | 14,064 | 15,342 |
| Accrued expenses and other liabilities | 12,376 | 8,414 |
| Other borrowings | 37,750 | 28,500 |
| Subordinated debentures | 5,155 | 5,155 |
| Total liabilities | 728,937 | 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 – 2,315,143 shares in 2019 (2,315,505 shares in 2018) | 5,782 | 5,783 |
| Additional paid-in capital | 15,307 | 15,246 |
| Retained earnings | 61,181 | 55,972 |
| Accumulated other comprehensive income/(loss), net | 744 | (1,301) |
| Unearned employee stock ownership plan shares | (471) | (173) |
| Total shareholders' equity | 82,543 | 75,527 |
| Total liabilities and shareholders' equity | $ 811,480 | $ 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 September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| INTEREST INCOME | $ 8,276 | $ 7,657 | $ 24,303 | $ 21,968 |
| INTEREST EXPENSE | 1,691 | 1,255 | 4,760 | 3,178 |
| Net interest income | 6,585 | 6,402 | 19,543 | 18,790 |
| Provision for loan losses | - | - | 150 | - |
| Net interest income after provision for loan losses | 6,585 | 6,402 | 19,393 | 18,790 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposit accounts | 526 | 442 | 1,509 | 1,209 |
| Trust fees | 525 | 522 | 1,541 | 1,479 |
| ATM and debit card fee income | 387 | 357 | 1,067 | 1,061 |
| Other | 743 | 372 | 1,632 | 1,009 |
| Total non-interest income | 2,181 | 1,693 | 5,749 | 4,758 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 3,410 | 3,261 | 10,239 | 9,617 |
| Occupancy, net | 339 | 326 | 1,053 | 1,082 |
| Equipment | 339 | 247 | 870 | 805 |
| Professional and outside services | 387 | 297 | 1,077 | 1,032 |
| Software maintenance | 427 | 356 | 1,227 | 1,091 |
| Other | 853 | 863 | 2,583 | 2,546 |
| Total non-interest expense | 5,755 | 5,350 | 17,049 | 16,173 |
| Income before income taxes | 3,011 | 2,745 | 8,093 | 7,375 |
| Federal income tax provision | 471 | 462 | 1,307 | 1,074 |
| NET INCOME | $ 2,540 | $ 2,283 | $ 6,786 | $ 6,301 |
| Basic Earnings Per Common Share | $ 1.10 | $ 0.99 | $ 2.95 | $ 2.73 |
| Diluted Earnings Per Common Share | 1.10 | 0.98 | 2.94 | 2.72 |
| Dividends Declared Per Common Share | 0.23 | 0.22 | 0.68 | 0.65 |

## 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

**Samantha Gripman**
Credit Manager

## 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

**Diane Krimmel**
Assistant Vice President /
Consumer Loan Specialist

**Stephanie Best**
Mortgage Loan Officer

**Stephanie Minniear**
Mortgage Loan Officer

**Kascee Wyatt**
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 BRANCH
**Jennifer Crist**
Assistant Vice President /
Branch Manager

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

TEKONSHA BRANCH
**Dawn Copas**
Branch Manager

CENTREVILLE & CONSTANTINE BRANCHES
**Gabriel Alvez**
Vice President /
Business Development Officer

**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

**M. Travis Grimwood**
Kalamazoo Regional
President

**Tim Kilmartin**
First Vice President /
Commercial Loan Officer

**Tom Schlueter**
Vice President /
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 / Finance

## INFORMATION TECHNOLOGY

**Greg Sopcak**
First Vice President /
Head of Information
Technology

**Joseph Duke**
Network Administrator

## MARKETING

**Quinn White**
Vice President /
Head of Marketing

## OPERATIONS

**Angie Smith**
First Vice President /
Head of Operations

**Maggie Usher**
Assistant Vice President /
Operations Manager

**Becky Omo**
Assistant Vice President /
Deposit Operations Manager

**Vikki Kline**
Core System Administrator

## RISK MANAGEMENT

**Scott McQueen**
Vice President /
Risk Management Officer

## WEALTH MANAGEMENT

**Matt Moses**
Senior Vice President /
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