Southern Michigan BANCORP, INC.
Continuous Banking Since 1872

FIRST **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of $1,513,000, or $0.66 per share, for the first quarter of 2020. Our results for the period represent a decrease of approximately 21 percent, compared to net income of $1,920,000, or $0.83 per share, reported for the first quarter of 2019. First quarter earnings were primarily impacted by providing $1,000,000 for provision expense during the first quarter.

Southern's asset quality metrics remained strong at March 31, 2020, however, the overall impact of COVID-19 on the economy and our customers is unknown. Given this uncertainty, we believed it prudent to increase our provision for loan losses during the quarter.

Southern's annualized return on average assets for the three-month period ending March 31, 2020 was 0.73 percent, down from first quarter of 2019 results of 1.01 percent. Our annualized return on average equity was 7.06 percent for the first quarter of 2020, compared to 10.03 percent for the first quarter of 2019. The tax equivalent net interest margin was 3.49 percent compared to 3.72 percent for the same period last year. We are anticipating ongoing improvement in our net interest margin throughout this year as higher cost funding sources either reprice downward or are paid off and not renewed at maturity.

Delinquent loan totals decreased year over year to 0.79 percent of total loans as of March 31, 2020, down from 0.97 percent as of March 31, 2019. Loans past due 30-89 days were modest, totaling $725,000, or 0.13 percent of total loans at quarter end, and no loans were more than 90 days past due. Net loan losses for the quarter totaled only $7,000. The allowance for loan losses at March 31, 2020 was $6.18 million, or 1.10 percent of total loans as compared to $5.18 million, or 0.92 percent of total loans as of December 31, 2019.

Once it became apparent that Michigan was going to be hit hard by COVID-19, we took steps to plan and coordinate what measures needed to be taken to provide critical services while keeping employees and customers safe. In a matter of days, branch offices transitioned to drive-thru services and social distancing was implemented. Through extraordinary collaboration across our departments, regions and individual employees, we were able to assist numerous customers with mortgage loan payment questions and deferments, process government stimulus deposits, actively support the SBA Paycheck Protection Program by submitting applications on behalf of more than 500 customers at the time of this writing, all while handling twice our normal call volumes through our call center.

We are working on rescheduling our 2020 annual shareholders' meeting this summer and will communicate with you once arrangements have been finalized.

I want to recognize our employees who continue to remain focused on meeting our customers' needs and are here for our neighbors, businesses and communities during this unprecedented time. I am proud of their efforts and all they have accomplished.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2020 (Unaudited)	December 31, 2019 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 73,132	$ 68,723
Federal funds sold	572	265
Securities available for sale	140,097	123,436
Loans held for sale	987	1,171
Gross loans	560,439	562,864
Less: Allowance for loan loss	(6,177)	(5,184)
Net loans	554,262	557,680
Premises and equipment, net	14,310	14,515
Net cash surrender value of life insurance	15,727	15,633
Goodwill	13,422	13,422
Other assets	15,797	14,871
Total assets	$ 828,306	$ 809,716
LIABILITIES		
Deposits	$ 677,413	$ 655,762
Securities sold under agreements to repurchase and overnight borrowings	12,145	15,401
Accrued expenses and other liabilities	12,672	12,553
Other borrowings	37,250	37,500
Subordinated debentures	5,155	5,155
Total liabilities	744,635	726,371
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 – 2,311,307 shares in 2020 (2,314,878 shares in 2019)	5,773	5,781
Additional paid-in capital	15,062	15,521
Retained earnings	63,462	62,484
Accumulated other comprehensive income/(loss), net	(237)	(52)
Unearned employee stock ownership plan shares	(389)	(389)
Total shareholders' equity	83,671	83,345
Total liabilities and shareholders' equity	$ 828,306	$ 809,716

(A) The balance sheet at December 31, 2019 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, 2020	Three Months Ended March 31, 2019
	(In thousands, except per share data)	
INTEREST INCOME	$ 7,977	$ 7,836
INTEREST EXPENSE	1,576	1,456
Net interest income	6,401	6,380
Provision for loan losses	1,000	150
Net interest income after provision for loan losses	5,401	6,230
NON-INTEREST INCOME		
Service charges on deposit accounts	463	486
Trust fees	517	503
ATM and debit card fee income	348	319
Other	493	372
Total non-interest income	1,821	1,680
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,258	3,397
Occupancy, net	397	389
Equipment	313	265
Professional and outside services	337	316
Software maintenance	380	403
Other	762	881
Total non-interest expense	5,447	5,651
Income before income taxes	1,775	2,259
Federal income tax provision	262	339
NET INCOME	$ 1,513	$ 1,920
Basic Earnings Per Common Share	$ 0.66	$ 0.83
Diluted Earnings Per Common Share	0.66	0.83
Dividends Declared Per Common Share	0.23	0.22

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

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

SMB&T OFFICERS

EXECUTIVE OFFICERS

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
First 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

Jodie Johnson
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

Gabriel Alvez
Vice President /
Business Development Officer

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 /
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

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
Assistant Vice President /
Network Administrator

MARKETING

Quinn White
Vice President /
Head of Marketing

OPERATIONS

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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

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Senior Vice President /
Head of Wealth Management

Melissa Natzke-Barlow
Vice President /
Senior Investment Officer

Josh Will
Vice President /
Wealth Management Officer

Michael Depew
Wealth Management
Operations Manager