SOUTHERN MICHIGAN
BANCORP, INC.

SECOND **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of $1.831 million, or $0.79 per share, for the second quarter ended June 30, 2020. Our results for the period are in contrast with net income of $2.326 million, or $1.01 per share, for the second quarter of 2019. For the first six months of 2020, Southern earned $3.344 million, or $1.45 per share, compared with $4.246 million, or $1.84 per share, for the same six-month period one year ago. Comparing results for the periods, our 2020 earnings decreased 21.3 percent and 21.2 percent, respectively, for the same three and six-month periods in 2019.

Southern's asset quality metrics remained strong at June 30, 2020, and despite some recent positive economic data and government fiscal intervention, we are still unsure as to the longer term outlook for the economy. As a result, we prudently increased the allowance for loan losses in the second quarter by contributing an additional $750,000.

Delinquent loan totals decreased year over year to 0.64 percent of total loans, or $4.039 million, as of June 30, 2020, down from 0.91 percent, or $4.968 million, at June 30, 2019. Loans past due 30-89 days remained modest, with only four loans totaling $328,000, or 0.05 percent of total loans at quarter's end. No loans were more than 90 days past due. The bank realized net loan loss recoveries for the quarter ended June 30, 2020 totaling $9,000, compared to net loan losses of $107,000 for the second quarter of 2019. For the six-month period ended June 30, 2020, net recoveries totaled $2,000 compared to net loan losses of $110,000 for the same period in 2019. Southern provided $750,000 for loan losses during the second quarter of 2020 in addition to $1 million provided in the first quarter. The allowance for loan losses at June 30, 2020 totaled $6.936 million, or 1.09 percent of total loans as compared to $5.184 million, or 0.91 percent of total loans as of December 31, 2019. Excluding SBA guaranteed Paycheck Protection Program (PPP) loans from the calculation, the allowance at June 30 was 1.24 percent of gross loans.

Southern's annualized return on average assets for the six-month periods ended June 30, 2020 and 2019 was 0.78 percent and 1.10 percent, respectively. The annualized return on average equity was 7.80 percent for the first six months of 2020 compared to 10.94 percent for the same period in 2019. Southern's return on average tangible equity, which is total shareholders' equity less goodwill and other intangibles, was 9.33 percent. Our tax equivalent net interest margin for the six-month periods ended June 30, 2020 and 2019 was 3.31 percent and 3.73 percent, respectively.

Total assets as of June 30, 2020 increased to $914.9 million from $809.7 million at December 31, 2019. Loan totals as of June 30, 2020 increased to $633.7 million from $562.9 million at December 31, 2019, primarily a result of PPP loans. Total deposits also increased from $655.8 million at December 31, 2019 to $766.5 million at quarter's end.

We immediately recognized that the ability for our customers to retain jobs was vital to the sustainability of those businesses, as well as for the employees and their families. Our team worked around the clock at times to process more than 660 PPP loans during the last four months, approaching $80 million in total. In addition, we provided temporary relief to commercial and retail customers by modifying over 350 loans since the start of the pandemic. Southern continues to look for ways to support our customers and communities during this unprecedented time.

The 2020 annual meeting of shareholders has been rescheduled for August 27, 2020, at 4:00 p.m. in a virtual-only format. In response to continued public health concerns, you will not be able to attend the meeting in person. You should have received a revised proxy form by now with details as to the purpose of the meeting and other pertinent information. Please vote your shares at your earliest convenience. If you have additional questions or concerns please contact Danice Chartrand at dchartrand@smb-t.com or me at jcastle@smb-t.com.

I again want to recognize our employees for their exceptional work over the past several months under the most difficult of circumstances.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2020 (Unaudited)	December 31, 2019 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 77,496	$ 68,723
Federal funds sold	263	265
Securities available for sale	146,101	123,436
Loans held for sale	2,108	1,171
Gross loans	633,685	562,864
Less: Allowance for loan loss	(6,936)	(5,184)
Net loans	626,749	557,680
Premises and equipment, net	14,067	14,515
Net cash surrender value of life insurance	15,822	15,633
Goodwill	13,422	13,422
Other assets	18,835	14,871
Total assets	$ 914,863	$ 809,716
LIABILITIES		
Deposits	$ 766,485	$ 655,762
Securities sold under agreements to repurchase and overnight borrowings	14,815	15,401
Accrued expenses and other liabilities	13,317	12,553
Other borrowings	27,000	37,500
Subordinated debentures	5,155	5,155
Total liabilities	826,772	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	15,277	15,521
Retained earnings	64,761	62,484
Accumulated other comprehensive income/(loss), net	2,620	(52)
Unearned employee stock ownership plan shares	(340)	(389)
Total shareholders' equity	88,091	83,345
Total liabilities and shareholders' equity	$ 914,863	$ 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 June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(In thousands, except per share data)			
INTEREST INCOME	$ 8,025	$ 8,192	$ 16,002	$ 16,028
INTEREST EXPENSE	1,334	1,613	2,910	3,069
Net interest income	6,691	6,579	13,092	12,959
Provision for loan losses	750	-	1,750	150
Net interest income after provision for loan losses	5,941	6,579	11,342	12,809
NON-INTEREST INCOME				
Service charges on deposit accounts	255	496	718	982
Trust fees	504	514	1,021	1,017
ATM and debit card fee income	380	361	728	680
Other	746	516	1,239	889
Total non-interest income	1,885	1,887	3,706	3,568
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,309	3,433	6,567	6,830
Occupancy, net	375	325	772	714
Equipment	277	266	590	530
Professional and outside services	400	374	737	690
Software maintenance	388	397	768	801
Other	870	848	1,632	1,730
Total non-interest expense	5,619	5,643	11,066	11,295
Income before income taxes	2,207	2,823	3,982	5,082
Federal income tax provision	376	497	638	836
NET INCOME	$ 1,831	$ 2,326	$ 3,344	$ 4,246
Basic Earnings Per Common Share	$ 0.79	$ 1.01	$ 1.45	$ 1.84
Diluted Earnings Per Common Share	0.79	1.01	1.45	1.84
Dividends Declared Per Common Share	0.23	0.23	0.46	0.45

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 Analyst 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
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

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 Natzke-Barlow
Vice President /
Senior Investment Officer

Josh Will
Vice President /
Wealth Management Officer

Buzz Leach
Wealth Management Officer

Michael Depew
Wealth Management
Operations Manager