SOUTHERN MICHIGAN
BANCORP, INC.

THIRD **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of $2,018,000, or $0.88 per share, for the third quarter ended September 30, 2020, compared to net income of $2,540,000, or $1.10 per share, reported for the third quarter of 2019. Through the first nine months of 2020, Southern earned $5,362,000, or $2.33 per share, compared with $6,786,000, or $2.94 per share, for the same nine-month period one year ago.

We continue to be faced with a great deal of uncertainty as it relates to the economy, including how the coronavirus pandemic will play out, the status of future stimulus payments for millions of Americans, and the ensuing changes that will follow the elections. As a result, we provided an additional $500,000 to the allowance for loan losses in the third quarter, bringing the year-to-date total to $2,250,000.

Asset quality remains strong with delinquent loan totals at quarter end 0.63 percent of total loans, or $3.9 million, as compared to 0.88 percent, or $4.8 million, as of September 30, 2019. Loans past due 30-89 days were just $97,000, or 0.20 percent of total loans at quarter end, with only $160,000 in loans more than 90 days past due. Non-performing asset totals as of September 30, 2020 were $4.241 million and net loan losses for the nine-month period ended September 30, 2020 totaled $10,000. The allowance for loan losses totaled $7.424 million, or 1.35 percent of total loans, as of September 30, 2020, excluding SBA guaranteed Paycheck Protection Program (PPP) loans.

Southern's annualized return on average assets for the nine-month periods ended September 30, 2020 and 2019 were 0.81 percent and 1.16 percent, respectively. The annualized return on average equity was 8.20 percent for the first nine months of 2020 compared to 11.43 percent for the same period of 2019. Our tax equivalent net interest margin for the nine-month periods ended September 30, 2020 and 2019 was 3.26 percent and 3.70 percent, respectively.

Total assets as of September 30, 2020 increased significantly to $934.6 million from $809.7 million as of December 31, 2019. Loan totals increased to $625.0 million from $562.9 million as of December 31, 2019, primarily as a result of PPP loans. Deposits increased to $779.8 million, an increase of $124.0 million or 18.9 percent, from $655.8 million at year end 2019.

We remain focused on taking the appropriate actions for our customers, employees and shareholders during this unprecedented time. 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 SHEET

	September 30, 2020 (Unaudited)	December 31, 2019 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 76,478	$ 68,723
Federal funds sold	257	265
Securities available for sale	177,793	123,436
Loans held for sale	1,778	1,171
Gross loans	625,000	562,864
Less: Allowance for loan loss	(7,424)	(5,184)
Net loans	617,576	557,680
Premises and equipment, net	13,851	14,515
Net cash surrender value of life insurance	15,918	15,633
Goodwill	13,422	13,422
Other assets	17,520	14,871
Total assets	$ 934,593	$ 809,716
LIABILITIES		
Deposits	$ 779,795	$ 655,762
Securities sold under agreements to repurchase and overnight borrowings	19,047	15,401
Accrued expenses and other liabilities	13,221	12,553
Other borrowings	26,750	37,500
Subordinated debentures	5,155	5,155
Total liabilities	843,968	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	15,491	15,521
Retained earnings	66,248	62,484
Accumulated other comprehensive income/(loss), net	3,453	(52)
Unearned employee stock ownership plan shares	(340)	(389)
Total shareholders' equity	90,625	83,345
Total liabilities and shareholders' equity	$ 934,593	$ 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 September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands, except per share data)			
INTEREST INCOME	$ 7,753	$ 8,276	$ 23,755	$ 24,303
INTEREST EXPENSE	1,185	1,691	4,095	4,760
Net interest income	6,568	6,585	19,660	19,543
Provision for loan losses	500	-	2,250	150
Net interest income after provision for loan losses	6,068	6,858	17,410	19,393
NON-INTEREST INCOME				
Service charges on deposit accounts	322	526	1,039	1,509
Trust fees	514	525	1,535	1,541
Net gains on loan sales	966	257	1,753	437
ATM and debit card fee income	421	387	1,149	1,067
Other	238	486	691	1,195
Total non-interest income	2,461	2,181	6,167	5,749
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,856	3,410	10,423	10,239
Occupancy, net	395	339	1,167	1,053
Equipment	290	339	880	870
Professional and outside services	373	387	1,109	1,077
Software maintenance	384	427	1,152	1,227
Other	863	853	2,495	2,583
Total non-interest expense	6,161	5,755	17,226	17,049
Income before income taxes	2,368	3,011	6,351	8,093
Federal income tax provision	350	471	989	1,307
NET INCOME	$ 2,018	$ 2,540	$ 5,362	$ 6,786
Basic Earnings Per Common Share	$ 0.88	$ 1.10	$ 2.33	$ 2.95
Diluted Earnings Per Common Share	0.88	1.10	2.33	2.94
Dividends Declared Per Common Share	0.23	0.23	0.69	0.68

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

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Head of Retail Lending

Phyllis Wingate
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Head of Retail Loan Operations

Connie Caudill
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Senior Collections Manager

DeAnne Hawley
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Mortgage Loan Officer

Jodie Johnson
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Mortgage Loan Officer

Shari Kline
Vice President /
Mortgage Loan Officer

Tina Mack
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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

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Retail Banking Services /
Chief Deposit Officer

Lori Neill
Vice President / Retail Banking
Operations Manager

Gabriel Alvez
Vice President /
Business Development Officer

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Felicia Landis
Branch Manager

BATTLE CREEK BRANCH
Lisa Walker
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Branch Manager

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

HILLSDALE BRANCH
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Assistant Vice President /
Branch Manager

UNION CITY BRANCH
Tim Fox
Assistant Vice President /
Branch Manager

TEKONSHA BRANCH
Dawn Copas
Branch Manager

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CONSTANTINE BRANCHES
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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
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Wealth Management Officer

Joseph Spoerl
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Operations Manager

Becky Omo
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Deposit Operations Manager

Vikki Kline
Core System Administrator

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Risk Management Officer

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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