SOUTHERN MICHIGAN
BANCORP, INC.

SECOND **QUARTER**

CORPORATE HIGHLIGHTS

To Our Shareholders:

Southern Michigan Bancorp, Inc. reported net income of $3,009,000, or $0.66 per share, for the second quarter ended June 30, 2021, compared with $1,831,000, or $0.40 per share, for the second quarter of 2020. For the first six months of 2021, Southern earned $6,097,000, or $1.33 per share, compared with $3,344,000, or $0.73 per share, for the same six-month period one year ago. In considering results for the periods, our 2021 earnings increased 64.3 percent and 82.3 percent, respectively, for the same three and six-month periods in 2020.

Southern's annualized return on average assets for the six-month periods ended June 30, 2021 and 2020 was 1.13 percent and 0.78 percent, respectively. The annualized return on average equity was 13.12 percent for the first six months of 2021 compared to 7.80 percent for the same period in 2020. Southern's return on average tangible equity, which is total shareholders' equity less goodwill and other intangibles, was 15.42 percent. Our tax equivalent net interest margin for the six-month periods ended June 30, 2021 and 2020 was 3.16 percent and 3.31 percent, respectively.

Total assets as of June 30, 2021 increased to $1.124 billion from $997.6 million at December 31, 2020. Loan totals as of June 30, 2021 increased to $701.1 million from $635.9 million at December 31, 2020. Total deposits also increased from $838.3 million at December 31, 2020 to $944.8 million at quarter's end. Our Portage Branch Office reached a significant milestone with loan totals exceeding $250 million at quarter end.

Southern's asset quality metrics remained strong at June 30, 2021 as delinquent loan totals decreased year over year to 0.21 percent of total loans, or $1.469 million, down from 0.64 percent, or $4.039 million, at June 30, 2020. No accruing loans were past due 30-89 days or more than 90 days at quarter's end. The bank realized net loan loss recoveries for the six-month period ended June 30, 2021 totaling $40,000 compared to net loan loss recoveries of $2,000 for the same period in 2020. Southern provided $400,000 for loan losses during the second quarter of 2021 to support loan growth. The allowance for loan losses at June 30, 2021 totaled $8.229 million, or 1.17 percent of total loans as compared to $7.789 million, or 1.22 percent of total loans as of December 31, 2020. Excluding SBA guaranteed Paycheck Protection Program (PPP) loans from the calculation, the allowance at June 30, 2021 was 1.27 percent of gross loans.

In April, Southern completed a private placement of $30 million in 10-year subordinated notes due April 16, 2031. The tax-deductible nature of this instrument combined with the low interest rate of 3.75 percent makes the overall cost of capital very attractive. The proceeds will allow us to retire existing debt and provide the capital necessary for continued growth.

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,

J H Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2021 (Unaudited)	December 31, 2020 (A)
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 106,781	$ 99,610
Federal funds sold	245	231
Securities available for sale	258,848	208,380
Loans held for sale	1,287	1,691
Gross loans	701,161	635,870
Less: Allowance for loan loss	(8,229)	(7,789)
Net loans	692,932	628,081
Premises and equipment, net	13,280	13,698
Net cash surrender value of life insurance	19,236	16,016
Goodwill	13,422	13,422
Other assets	17,845	16,445
Total assets	$1,123,876	$ 997,574
LIABILITIES		
Deposits	$ 944,805	$ 838,298
Securities sold under agreements to repurchase and overnight borrowings	15,977	20,083
Accrued expenses and other liabilities	13,087	14,561
Other borrowings	20,000	26,500
Subordinated debentures	34,480	5,155
Total liabilities	1,028,349	904,597
SHAREHOLDERS' EQUITY		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value		
Authorized - 10,000,000 shares		
Issued and outstanding – 4,571,691 shares in 2021 (2,301,269 shares in 2020)	11,425	5,748
Additional paid-in capital	14,628	15,416
Retained earnings	67,003	67,741
Accumulated other comprehensive income/(loss), net	2,711	4,362
Unearned employee stock ownership plan shares	(240)	(290)
Total shareholders' equity	95,527	92,977
Total liabilities and shareholders' equity	$1,123,876	$ 997,574

(A) The balance sheet at December 31, 2020 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, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	(In thousands, except per share data)			
INTEREST INCOME	$ 8,849	$ 8,025	$ 17,650	$ 16,002
INTEREST EXPENSE	1,001	1,334	1,909	2,910
Net interest income	7,848	6,691	15,741	13,092
Provision for loan losses	400	750	400	1,750
Net interest income after provision for loan losses	7,448	5,941	15,341	11,342
NON-INTEREST INCOME				
Service charges on deposit accounts	276	255	569	718
Trust fees	545	504	1,094	1,021
Net gains on loan sales	698	538	1,442	787
ATM and debit card fee income	479	380	889	728
Other	439	208	685	452
Total non-interest income	2,437	1,885	4,679	3,706
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,834	3,309	7,833	6,567
Occupancy, net	400	375	809	772
Equipment	283	277	587	590
Professional and outside services	440	400	777	737
Software maintenance	394	388	794	768
Other	943	870	1,873	1,632
Total non-interest expense	6,294	5,619	12,673	11,066
Income before income taxes	3,591	2,207	7,347	3,982
Federal income tax provision	582	376	1,250	638
NET INCOME	$ 3,009	$ 1,831	$ 6,097	$ 3,344
Basic Earnings Per Common Share	$ 0.66	$ 0.40	$ 1.33	$ 0.73
Diluted Earnings Per Common Share	0.66	0.40	1.33	0.73
Dividends Declared Per Common Share	0.12	0.12	0.24	0.23

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

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

OFFICER **LISTING**

SMB AND SMB&T 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 /
Commercial Loan Officer

Corey Donner
Vice President /
Commercial Loan Officer

Rachel Doty
Vice President /
Commercial Loan Officer

Adam Losinski
Vice President /
Commercial Loan Officer

Greg Miller
Vice President /
Commercial Loan Officer

Jim Sobeske
Vice President /
Commercial Loan Officer

Samantha Gripman
Credit Manager

RETAIL LOANS

Derek Naylor
First Vice President /
Head of Retail Lending

Phyllis Wingate
Vice President /
Head of Retail Loan Operations

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

Connie Caudill
Assistant Vice President /
Senior Collections Manager

Diane Krimmel
Assistant Vice President /
Consumer Loan Specialist

Stephanie Minniear
Assistant Vice President /
Mortgage Loan Officer

Stephanie Best
Mortgage Loan Officer

LeAndra Otis
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

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

Justin Horn
Vice President /
Commercial Loan Officer

Trent Pierre
Vice President /
Commercial Loan Officer

Tom Schlueter
Vice President /
Market Development

Joseph Spoerl
Vice President /
Wealth Management Officer

eSERVICES

Laurel Walkup
Vice President /
Business eServices Manager

Deanna Manville
Assistant Vice President /
Business eServices Officer

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
Vice President / Treasury and eService Operations Manager

Becky Omo
Assistant Vice President /
Deposit Operations Manager

Lani Smith
Assistant Vice President /
Operations Support 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

Sherrie Cochran
Vice President /
Wealth Management Officer

Buzz Leach
Vice President /
Wealth Management Officer

Michael Depew
Wealth Management Operations Manager