SOUTHERN MICHIGAN
BANCORP, INC.

2024

Annual Report


SOUTHERN MICHIGAN
BANK & TRUST

Maddie Yuhas, Universal Banker, assists a customer at the Sturgis Downtown Branch - Photo courtesy of Intersect Studio

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Jackson Summit Branch

Message to our Shareholders

It is my pleasure to share our 2024 financial results for Southern Michigan Bancorp, Inc. 2024 was a year focused on expanding our branch network, hiring experienced and talented officers and employees, and positioning Southern for future growth and profitability.

Consolidated net income for 2024 was $10,402,000, or $2.28 per share compared to $10,905,000, or $2.40 per share in 2023. The decrease in earnings was primarily due to the challenging interest rate environment, including higher deposit costs, coupled with increased non-interest expenses, as Southern continued to expand our geographic footprint. Southern's return on average assets and return on average equity were 0.71 percent and 10.07 percent, respectively in 2024 compared to 0.80 percent and 11.94 percent in 2023.

Southern ended 2024 with record year-end total assets of $1.5 billion, which was $81.8 million, or 5.80 percent higher than $1.41 billion on December 31, 2023.

Loan totals also reached a new historic high of $1.12 billion, increasing $80 million, or 7.70 percent from $1.04 billion as of December 31, 2023. Deposits finished the year strong as well at $1.25 billion as of December 31, 2024, compared to $1.16 billion as of December 31, 2023.

Our steadfast commitment to a disciplined credit culture has once again led to strong asset quality, reinforcing our financial stability and resilience. Net loan charge-offs amounted to only $27,000 for 2024. Non-performing loans as a percentage of total loans were 0.08 percent on December 31, 2024 and December 31, 2023.

These results are a reflection of the dedication of our employees, the trust of our customers, and the support of our partners and investors. We thank them for their continued support.

During the year, we added seasoned staff and opened two new branch offices. These strategic endeavors further expanded our geographic footprint and we expect solid balance sheet growth in 2025.

Our 2024 Annual Report highlights banking relationships with three different Southern clients: Parrish Excavating, a family-owned company and trusted name in commercial and residential projects for over 50 years; Willis Law, one of the fastest-growing law firms in West Michigan dedicated to their mission of building a legacy by transforming the practice of law; and Partners Bulk Logistics, a leader in the transportation industry known for its reliability, innovation, and strong customer relationships.

Like so many of Southern's customers, these companies put customer service first and are deeply committed to their employees and communities. We are proud to celebrate their success and stand alongside them.

As we move into 2025, we remain committed to delivering shareholder value and taking advantage of new opportunities. Thank you for your continued confidence in Southern.

John R. Waldron
President and Chief Executive Officer

Parrish Excavating

Brad Parrish
President

For over 50 years, Parrish Excavating has stood as a pillar of strength and reliability in the excavation industry. Founded in 1972 and headquartered in Quincy, Michigan, the company has built a reputation for quality workmanship, integrity, and a steadfast commitment to its customers. Today, under the leadership of President Brad Parrish and Vice President Mark Diamond, the company continues to uphold its core values while growing and evolving to meet the demands of an ever-changing industry.

Parrish Excavating's legacy runs deep. With a history spanning four generations, the company takes great pride in its origins. Brad Parrish reflects on the foundation built by his great-grandfather, Leon M., his grandfather, Merle, and his father and predecessor, Leon F., emphasizing how each generation has contributed to the company's growth. "We are nothing but a whole bunch of iron and steel that would just sit and rust if it weren't for the men and women who execute the projects," Brad says. "It sounds like a cliché, but we are truly a team."

That team includes experienced professionals, many of whom have been with the company for decades. Shawn Horton serves as Lead Estimator, and John Buck is the Equipment Manager. Derek Parker serves as Aggregate Manager, and April Fickle serves as Office Manager. “Typically, our crews are led by men and women with 25+ years of experience,” Brad explains. “They bring an incredible depth of knowledge, and their crews often add another 15 to 30 years of combined experience.” The company attributes its success to this wealth of knowledge and the ability to work together toward common goals.

Brad graduated from Michigan State University, where he majored in Business and Communication, receiving his B.A. in 1990. After graduation, he worked with AIS Construction Equipment Company before joining the family business in 1992. In addition to Parrish Excavating, Brad has served as pastor of the Union Church of Quincy since 2014. He earned a Master of Divinity degree from Western Theological Seminary in 2016 and was ordained by the American Baptist Church that same year.

Brad humbly approaches each day with gratitude, sharing appreciation for his predecessors and the idea that the “family” business supersedes bloodline.

“It's a blessing," Brad says. "Knowing that we are part of a long line of perseverance encourages us when times are tough.”

One of Parrish Excavating’s greatest challenges is navigating unpredictable weather conditions. “We don’t complain about the weather, we simply have to deal with what nature gives us.”

Pictured above: Parrish truck parked at a worksite

Pictured top left: Drone footage of a pair of bulldozers

Pictured below (from left to right): Leon Parrish and Brad Parrish

Pictured above (from left to right): John Waldron and Brad Parrish

Pictured below: Parrish excavator loading a truck on a worksite

Beyond the technical aspects of the business, Brad finds joy in problem-solving. “We get to build things. We get to solve problems. And we get to do this together,” he says. “The best part is putting our heads together, coming up with a plan, and seeing it come to life.”

Parrish Excavating’s journey has been strengthened by its partnership with Southern Michigan Bank & Trust (SMBT). The relationship began out of a need for a banking institution that understood the demands of the excavation industry and could provide tailored financial solutions.

“We needed a bank that would walk alongside us,” Brad says. "Southern has stepped up, continues to step up, and has become a vital part of our team.”

SMBT’s personalized approach to banking has made a significant impact on Parrish Excavating’s operations. The company relies on services such as Cash Management, ACH Origination, and Remote Deposit Anywhere to streamline financial processes. “We’ve become dependent on electronic access and the ability to manage our finances efficiently,” Brad notes.

Beyond banking solutions, SMBT’s team has earned high praise for their responsiveness and financial expertise. “They ask intelligent questions, offer wise counsel, and allow us to focus on what we do best—digging holes,” Brad explains. The bank’s involvement has extended beyond operational banking services, as Parrish Excavating has also benefited from SMBT’s Wealth Management department, which has provided invaluable financial guidance.

“Parrish Excavating is a highly respected company built on the core principle of the Golden Rule, always doing the right thing,” said Jim Sobeske, SMBT Vice President, Commercial Loan Officer.

“With a loyal team, a growing customer base, and a forward-thinking approach, they stay ahead in a dynamic industry. Beyond business, their community contributions such as sponsoring the 'Good News of the Day' radio spot, highlight their positive impact, and we are fortunate to partner with them on their journey.”

As the company continues to grow, Parrish Excavating remains dedicated to its core mission: providing top-quality service to its community. “The vision for our company has always been to provide the best possible service at an affordable price,” Brad says. “We take pride in doing what we say we are going to do."

Sobeske reaffirms, “The average person would be surprised by the size, scope, and sophistication of Parrish Excavating, an approved contractor for numerous businesses, municipalities, and colleges across Michigan, northern Indiana, and Ohio.”

The company’s leadership is also preparing the next generation to carry the legacy forward. Andy Parrish (Brad’s son) and Zach Brockway (Brad’s nephew) have joined the team, working diligently to uphold the company’s strong reputation. “We are only as strong as our people,” Brad acknowledges.

With a strong foundation, Parrish Excavating is poised for continued success. And with the unwavering support of Southern Michigan Bank & Trust, the company is well-equipped to tackle the challenges of tomorrow. “We have come to recognize that we cannot do anything alone,” Brad concludes. “Whatever we do takes a team, and Southern has become part of our team. We thank God for that.”

Pictured above (from left to right): John Waldron, President and CEO; Brad Parrish, Parrish President; Nick Grabowski, EVP Chief Lending Officer; Mark Diamond, Parrish General Manager; Zach Brockway, Parrish Project Manager/Estimator; Eric Anglin, EVP Chief Operating Officer, Chief Strategy Officer; Andy Parrish, Parrish Project Manager/Estimator; and Jim Sobeske, VP Commercial Loan Officer

Partners Bulk Logistics

Chris Johnson
Co-owner

Jake Conrad
Co-owner

Matt Schwartz
Co-owner

Jake Hull
General Manager

For nearly a century, Partners Bulk Logistics (PBL) has been a leader in the transportation industry, known for reliability, efficiency, and strong customer relationships. Owned and operated by Chris Johnson, Jake Conrad, and Matt Schwartz, PBL has built a reputation for delivering high-quality bulk transportation services with integrity.

Founded in 1929, the company evolved through multiple generations before Chris, Jake, and Matt gained control of operations in 2012. Headquartered in Cement City, Michigan, with a terminal in Cleveland, Ohio, PBL initially served Michigan, Ohio, and Indiana. Over the years, its operations expanded to Illinois, Wisconsin, Kentucky, Pennsylvania, and New York.

PBL specializes in hauling dry bulk materials such as cement powder, slag, fly ash, and foundry sand. Their mission is simple: to provide professional, honest, and dependable transportation solutions. By partnering with other carriers, they expand their operational capacity while maintaining a manageable fleet size and personal relationships with drivers. Today, PBL dispatches 65 trucks daily—40 company-owned and 25 operated by exclusive partner carriers—offering seamless service through a single point of contact.

Each owner plays a vital role in PBL's success:

• Chris Johnson oversees accounting, maintenance, safety, and general operations. Using a hands-on approach, he engages directly with vendors and drivers while maintaining his Commercial Driver's License.

• Jake Conrad leads dispatch and sales, ensuring smooth logistics and fostering strong customer relationships. His industry expertise supports PBL's regional expansion.

• Matt Schwartz manages billing, HR, payroll, and regulatory compliance, ensuring operational efficiency.

Before acquiring PBL, Chris and Jake worked for a concrete company, giving them firsthand insight into customer needs. Matt's background in business and education adds a well-rounded perspective to the management structure.

In 2018, Jake Hull joined as a dispatcher, helping to centralize communications. His success led to a promotion to General Manager. Dispatch is now handled by Jon Rosenau, who brings additional industry experience from a local concrete company.

PBL's office staff, including accounting, data entry, and payroll personnel, work collaboratively to ensure efficiency. Their team also includes skilled mechanics dedicated to maintaining the fleet for their team of drivers.

"All of the roles are important, but without the drivers, we have nothing. They are the direct contact with our customers and vendors—it all starts with them," said Jake Conrad.

Pictured top left (from left to right): John Waldron, President and CEO; Craig Talbert, VP Mortgage Loan Officer; Sara Walz, Jackson Branch Manager; Chris Johnson, PBL Co-owner; Jake Conrad, PBL Co-owner; Bobby Wrozek, Jackson Market President; and Bill Jors, SVP Commercial Loan Officer

Pictured below (from left to right): Chris Johnson, Bobby Wrozek, Bill Jors, and Jake Conrad

Pictured above: PBL trucks staged at a soil stabilization project in Columbus, Ohio

Pictured above (from left to right): Chris Johnson and Jake Conrad

Pictured below: Railcar transloading into a PBL set of doubles in St. Clair, Michigan

Like any thriving business, PBL has faced challenges such as driver recruitment, retention, and economic fluctuations. Through strong company culture, personal engagement, and strategic planning, they've built a loyal workforce while maintaining exceptional service standards.

In line with their company culture, PBL partners with Southern Michigan Bank & Trust (SMBT) for banking services.

"The relationships are genuine and focused. From the pleasant tellers when we walk into a branch to our commercial loan officer offering guidance, or the bank president checking in and taking the time with us—we feel like a valued and important customer," said Chris Johnson.

PBL utilizes a full suite of financial tools. "SMBT's Treasury Management platform offers a user-friendly website and mobile app, allowing seamless access to multiple accounts from a single dashboard," said Chris. "ACH Origination features a simple approval process with two-step authentication, enabling convenient transaction approvals from anywhere. While in-person branch visits are enjoyable, the Remote Deposit Capture check scanner has significantly saved time and money with flawless performance."

Bill Jors, Senior Vice President and Commercial Loan Officer for SMBT, expands on the relationship: "PBL is a well-managed company operating in a strong niche market. As one of the few providers of its services in Michigan, it is steadily expanding into neighboring states, positioning itself for a bright future. The owners are deeply committed to maintaining the highest level of performance for years to come and place great value on strong relationships across all business sectors, including banking. We remain dedicated to providing the best possible banking services to support their continued success."

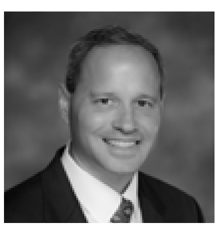
Looking ahead, PBL remains focused on maintaining excellence, embracing technological advancements, and fostering lasting relationships with customers, vendors, and drivers. With a strong foundation and dedicated team, PBL is well-positioned to navigate the evolving transportation industry while staying true to its core values of honesty, efficiency, and reliability.

Pictured below: PBL truck offloads at Willbee Transit Mix in Jackson, Michigan

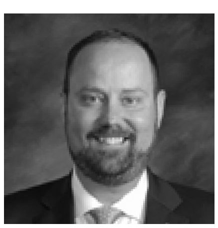
Pictured above (from left to right): Bobby Wrozek, Chris Johnson, Bill Jors, Jake Conrad, Sara Walz, and John Waldron

Pictured below: PBL truck offloads at a portable plant in Cleveland, Ohio

Willis Law



Michael J. Willis
Director and Co-founder



Shaun P. Willis
Director and Co-founder

Willis Law co-founders and brothers Michael J. Willis, J.D., C.P.A., and Shaun P. Willis, J.D., always knew they would run a business together. Growing up in Paw Paw, Michigan, where their father, Frank D. Willis, J.D., served as Chief Judge of the Van Buren County Probate Court, a future in practicing law seemed inevitable. However, Willis Law was not their first entrepreneurial endeavor. During college, they launched Willy's WaveRunners, a business renting out personal watercrafts, and an early glimpse of their entrepreneurial spirit.

Michael and Shaun took different academic paths before reuniting in business. Michael received a B.A. from the University of Notre Dame, followed by a J.D. from the University of Michigan Law School. Shaun earned a B.A. in aviation flight science with a minor in business studies from Western Michigan University before obtaining his J.D. from Western Michigan University's Thomas M. Cooley Law School.

While Michael and Shaun pursued their education, their brother, Cpl. Christopher Kelly Willis, was serving on the front lines of the Iraq War during Operation Iraqi Freedom (2002–2003). As a member of a nine-man reconnaissance team for the 6th Engineer Support Battalion (based out of Battle Creek), Chris scouted forward areas and set locations for bridge crossings. For his service, he earned the Navy and Marine Corps Achievement Medal.

Tragically, shortly after returning home from war, Chris was killed in a car accident. His passing was a defining moment for Michael and Shaun. At the time, Shaun had recently graduated from law school and was running The Law Firm of Shaun Patrick Willis, focusing on general litigation and defense work in Kalamazoo. Meanwhile, Michael had just returned from Detroit, where he practiced estate and corporate law at Kerr, Russell & Weber, before joining the estates and corporate division at Varnum LLP in Kalamazoo.

Chris' sudden passing reinforced their desire to go into business together. On March 2, 2004—Chris' birthday—Willis & Willis, PLC was founded. They set up their practice in the fifth oldest house in Kalamazoo on Park Street.

"Our initial vision was to provide the very best in client service, but starting as only two lawyers, there was a limit to how much we could offer," said Michael.

Pictured top left: Willis Law office location in Kalamazoo, Michigan

Pictured left: Cpl. Christopher Kelly Willis

Pictured below: Willis Law team

Pictured above (from left to right): Willis Law Partners - Samuel R. Gilbertson, Managing Partner; Michael J. Willis, Co-Founder; Shaun P. Willis, Co-Founder; and Donald H. Smith, Attorney/Partner

Pictured left: A restored fire engine featuring the Willis Law logo is a well-known fixture at local events and holiday parades

Demand for their services quickly outpaced their capacity, leading to the addition of several attorneys and multiple office expansions. Today, Willis Law has 15 lawyers and 35 employees—and they anticipate doubling in size once again.

“Now, as a full-service business law firm, we’re equipped to handle a broad spectrum of complex legal matters,” said Michael.

Michael and Shaun are supported in managing the firm by longtime partner Donald H. Smith, J.D., and Samuel R. Gilbertson, J.D., who was recently named Managing Partner. Their father, Honorable Frank D. Willis, joined the firm in 2015 as chief senior counsel after nearly 40 years of public service. In 2018, their sister, Mariko Willis J.D., also joined the firm and continues to serve as an of counsel attorney. In December 2024, Davis C. Martin, J.D., became the newest partner.

Justin Horn, Vice President, Commercial Loan Officer for Southern, was a lender for Willis Law before joining the bank in 2021.

“Our relationship with Justin was a key factor in transitioning our banking services to Southern,” said Michael. “He has been with us from the beginning and remains an honest, upright man of action and results.”

At the time of the transition, Tom Schleuter, former Vice President of Market Development, was also with Southern. "Tom has always been a great friend and a trusted banker, which gave us peace of mind during the transition," Michael added.

"The switch was seamless. There were no details left out, and we knew from the very outset that they had us covered from all angles, whether it was our loan positions, day-to-day banking, treasury management, or online banking, we were covered," said Michael.

Horn affirmed, "Working with Michael, Shaun, and their team for over ten years has been a privilege. Willis Law genuinely cares for its clients, and its attorneys are dedicated to delivering the highest level of service—just as Southern prides itself on doing. They fully utilize the bank's resources, and we look forward to our continued partnership."

Michael is listed in Best Lawyers in America, has received multiple "Lawyer of the Year" awards, holds an AV Preeminent Rating (the highest possible peer-reviewed rating) from Martindale-Hubbell, and is recognized by Super Lawyers and Leaders in the Law. He resides in Kalamazoo with his wife, Susan, and their six children.

Shaun is also listed in Best Lawyers in America. He has been recognized by the National Trial Lawyers Top 100, and is consistently named to the Super Lawyers list for construction, real estate, and business litigation, in addition to being a member of the Million Dollar Advocates Forum. Shaun resides in Vicksburg with his wife, Corrina, and their seven children.

Pictured left: Willis Law office location in Grand Rapids, Michigan

Financial Summary

For the Year	2024	2023
Net interest income	$41,087,000	$39,980,000
Provision for credit losses	1,014,000	950,000
Non-interest income	8,491,000	7,738,000
Non-interest expense	36,425,000	33,420,000
Net income	10,402,000	10,905,000

Per Share		
Basic earnings	$2.28	$2.40
Diluted earnings	2.28	2.40
Cash dividends declared	0.60	0.56

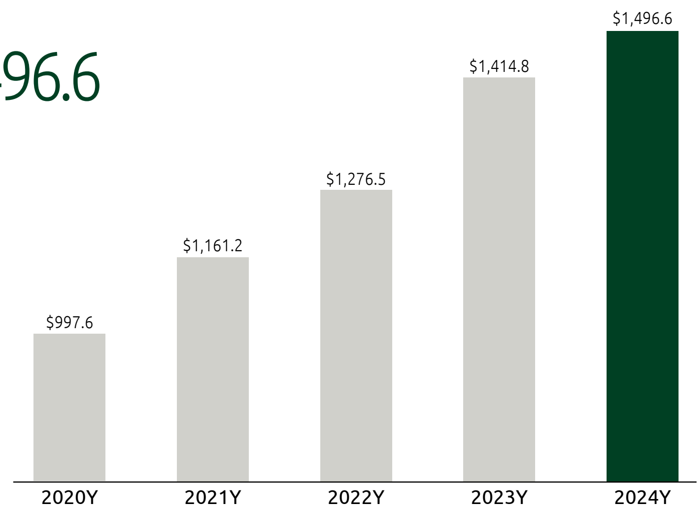
At Year End		
Assets	$1,496,555,000	$1,414,795,000
Total loans	1,116,434,000	1,036,417,000
Allowance for credit losses	12,782,000	11,697,000
Deposits	1,251,795,000	1,157,971,000
Shareholders' equity	107,223,000	97,830,000

Ratios		
Return on average assets	0.71%	0.80%
Return on average equity	10.07%	11.94%
Total risk-based capital ratio	12.61%	12.42%
ACL as percentage of loans	1.14%	1.13%

Southern Michigan Bancorp, Inc. is a bank holding company. The Company's wholly-owned subsidiary, Southern Michigan Bank and Trust (SMBT) offers individuals, businesses, institutions and governmental agencies a full range of commercial banking services primarily in the southern Michigan communities in which they are located and in areas immediately surrounding these communities.

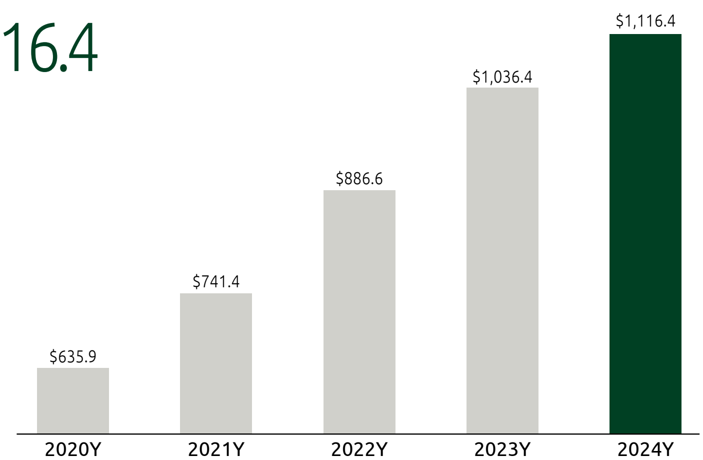
Record Assets
Data in $ millions

$1,496.6



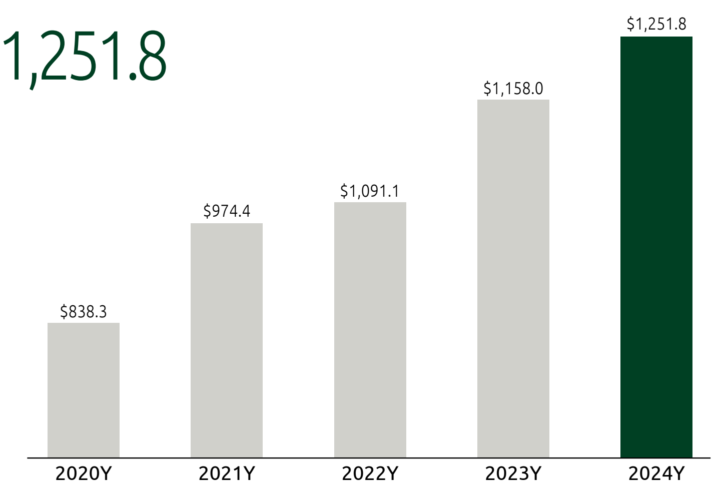
Record Loans
Data in $ millions

$1,116.4



Record Deposits
Data in $ millions

$1,251.8



Board of Directors and Officer Listing

SMB & SMBT Board of Directors

John H. Castle
Chairman

Kurt G. Miller
Vice Chairman

John R. Waldron
President and
Chief Executive Officer

Melissa J. Bauer
B&M Crop Consulting

Charles James Scott Clark
Clark Logic

Patrick H. Flannery
Hillsdale College

Stacey Hamlin
Jeffrey N. Hamlin DMD, PC

Travis L. Hampton
Value Max Products

Nolan E. (Rick) Hooker
Best American Car Washes

Brian P. McConnell
Burr Oak Tool, Inc.

Andrew R. Mercer
R.W. Mercer Co.

Directors Emeritus

Dean Calhoun

John S. Carton

H. Kenneth Cole

James T. Grohalski

Gregory J. Hull

Thomas E. Kolassa

Thomas D. Meyer

SMB & SMBT Executive Officers

John R. Waldron
President and
Chief Executive Officer

Eric M. Anglin
EVP, Chief Operating Officer,
Chief Strategy Officer

Nicholas M. Grabowski
EVP, Chief Lending Officer

Aaron L. Lewis
EVP, Chief Credit Officer

Kevin A. Twardy
SVP, Chief Financial Officer

Commercial Loans

Douglas W. Kiessling
Regional VP,
Commercial Loan Manager

Sarah Headley
1st VP, Commercial Loan Officer

Tom Swoish
1st VP, Commercial Loan Officer

Gabriel Alvez
VP, Commercial Loan Officer

Deb Davis
VP, Commercial Loan Officer

Corey Donner
VP, Commercial Loan Officer

Justin Horn
VP, Commercial Loan Officer

Adam Losinski
VP, Commercial Loan Officer

Greg Miller
VP, Commercial Loan Officer

Jim Sobeske
VP, Commercial Loan Officer

Samantha Gripman
VP, Credit Manager

Jackson Market Area

Bobby Wrozek
Jackson Market President

Bill Jors
SVP, Commercial Loan Officer

Mike Jors
VP, Commercial Loan Officer

Matthew Miller
VP, Commercial Loan Officer

Retail Loans

Brandy Titus
1st VP, Head of Mortgage Lending

DeAnne Hawley
VP, Retail Loan Sales Manager

Connie Caudill
VP, Collections Manager

Stacey Donner
VP, Mortgage Loan Officer

Jodie Johnson
VP, Mortgage Loan Officer

Karla Mullaly
VP, Mortgage Loan Officer

Craig Talbert
VP, Mortgage Loan Officer

Diane Krimmel
AVP, Consumer Loan Specialist

LeAndra Otis
AVP, Mortgage Loan Officer

Retail Loan Operations

Tina Mack
VP, Retail Loan Operations Manager

Phyllis Wingate
VP, Retail Lending Functions
and Systems

Retail Banking

Derek Naylor
1st VP, Head of Retail
Banking Services,
Chief Deposit Officer

Lori Neill
VP, Retail Branch Administrator

BATTLE CREEK BRANCH
Lisa Ridgeway
VP, Branch Manager

CENTREVILLE BRANCH
Jenny Haydon
Branch Manager

COLDWATER BRANCHES
Felicia Landis
AVP, Branch Manager

CONSTANTINE BRANCH
Veronica Featherstone
Branch Manager

HILLSDALE BRANCH
Jennifer Crist
VP, Branch Manager

JACKSON BRANCHES
Sara Walz
Branch Manager

MARSHALL BRANCH
Kara Mead
VP, Commercial Loan Officer, Branch Manager

MENDON BRANCH
Doreen Tobin
AVP, Branch Manager

PORTAGE BRANCH
Shannon Warsop
AVP, Branch Manager

STURGIS BRANCHES
Scott Reed
AVP, Branch Manager

THREE RIVERS BRANCH
Kelsey McClish
Branch Manager

UNION CITY/TEKONSHA BRANCHES
Elizabeth DiDonato
Branch Manager

Treasury Management

Deanna Manville
AVP, Treasury Sales Officer

Beth Rowley
AVP, Treasury Sales Officer

Melissa Easter
Treasury Sales Officer

Municipal Banking

Aimee Kornowicz
VP of Municipal Banking

Finance

Danice Chartrand
SVP, Accounting Director

Kim Hudelson
VP, Controller

Human Resources

Angie Tesman
1st VP, Head of Human Resources

Information Technology

Greg Sopcak
1st VP, Head of Information Technology

Joseph Duke
VP, Information Technology

Cody Smoker
Systems Administrator

Marketing

Quinn White
VP, Head of Marketing

Operations

Angie Smith
1st VP, Head of Operations

Maggie Usher
VP, Treasury and eService Operations Manager

Lani Smith
AVP, Operations Support Manager

Vikki Kline
Core System Administrator

Risk Management

Scott McQueen
1st VP, Risk Management Officer

Jennifer Pope
VP, Information Security Officer

Stacy Pelikan
Audit and Insurance Officer, Bank Security Officer

Wealth Management

Matt Moses
SVP, Head of Wealth Management

Melissa Natzke-Barlow
VP, Wealth Management Operations Officer

Sherrie Cochran
VP, Wealth Management Officer

Buzz Leach
VP, Wealth Management Officer

Shaun Fedder
VP, Wealth Management Officer

Chad Perrine
VP, Wealth Management Officer

Victoria Duda
Wealth Management Officer

Southern employees attending a professional development seminar at Sturges-Young Center for the Arts in Sturgis, Michigan

Shareholder Information

Annual Meeting

The annual meeting of shareholders for Southern Michigan Bancorp, Inc. will be held in-person on Thursday, May 8, 2025 at 4:00 p.m. local time, at the Dearth Community Center, located at 262 S. Sprague St., Coldwater, Michigan.

Market Information

Inquiries regarding stock certificate administration, address changes, transfers, and other related services should be directed to:

Equiniti Trust Company
Website: www.equiniti.com
Phone: (718) 921-8124
Toll Free: (800) 937-5449
Email: helpast@equiniti.com

Market Makers

D.A. Davidson & Co.
Dublin, Ohio
(800) 394-9230

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

Sturgis Downtown Branch
- Photo courtesy of Intersect Studio

SOUTHERN MICHIGAN
BANCORP, INC.

Forward-looking Statements

This Southern Michigan Bancorp, Inc. Annual Report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and Southern Michigan Bancorp, Inc. Forward-looking statements are identifiable by words or phrases such as "anticipates," "believes," "expects," "forecasts," "intends," "is likely," "may," "plans," or "projects," and variations of such words and similar expressions. Management's determination of the provision and allowance for credit losses, the appropriate carrying value of intangible assets (including goodwill and mortgage servicing rights), deferred tax assets and other real estate owned, and the fair value of investment securities involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk factors may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement. Southern Michigan Bancorp, Inc. undertakes no obligation to update, clarify or revise forward-looking statements whether as a result of new information, future events, or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides a review of the consolidated financial condition and results of operations of Southern Michigan Bancorp, Inc. (Southern) and its subsidiaries for the periods indicated. This discussion should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements.

Overview

Southern is a Michigan corporation and registered financial holding company. Southern wholly owns Southern Michigan Bank & Trust (the Bank), Southern Michigan Bancorp Capital Trust I (a Delaware statutory trust), SMB Risk Management, Inc. (a Nevada captive insurance company), and 27 Marshall Street, LLC. The Bank wholly owns SMB Financial Services, Inc., a Michigan corporation and SMBT Investments, Inc. an investment subsidiary incorporated in Nevada which was formed on October 1, 2024. In December 2024, SMB Risk Management, Inc. was dissolved.

Southern's business, primarily conducted through the Bank, is concentrated in a single industry segment – commercial banking. The Bank offers a variety of deposit, payment, credit, and other financial services to all types of customers. These services include time, savings, and demand deposits; safe deposit box services; and automated teller machine services. Loans, including both commercial and consumer, are extended primarily on a secured basis to corporations, partnerships, and individuals. Commercial lending covers such categories as business, industrial, agricultural, construction, inventory, and real estate. Consumer lending covers direct and indirect loans to purchasers of residential real property and consumer goods. Trust and investment services are offered, including investment management, trustee services, IRA rollovers and retirement plans, institutional and personal custody, estate settlement, wealth management, estate planning assistance, wealth transfer planning assistance, charitable gift planning assistance, and cash management custody. The Bank operates 17 banking offices located in Battle Creek, Centreville, Coldwater, Constantine, Hillsdale, Jackson, Marshall, Mendon, Portage, Sturgis, Tekonsha, Three Rivers, and Union City, Michigan, and a loan production office in Jackson, Michigan.

As of December 31, 2024, on a consolidated basis, Southern had assets of $1.50 billion, deposits of $1.25 billion, a loan portfolio of $1.12 billion, trust assets under management totaling $360.1 million, and shareholders' equity of $107.2 million.

Results of Operations

Southern's net income for 2024 was $10,402,000, compared to $10,905,000 in 2023, a decrease of $503,000, or 4.61%. Net interest income for 2024 was $41,087,000, compared to $39,980,000 in 2023, an increase of $1,107,000, or 2.77%. Provision for credit losses of $1,014,000 was expensed in 2024, up from $950,000 in 2023. Non-interest income increased 9.73%, or $753,000, to $8,491,000 in 2024. Non-interest expense increased 8.99%, or $3,005,000, to $36,425,000 in 2024. The following is a summary of percentage changes from the prior year for various financial statement elements:

	Percent Change from Prior Year			Percent Change from Prior Year	
	2024	**2023**		**2024**	**2023**
Net interest income	2.77%	4.93%	Total assets	5.78%	10.83%
Provision for credit losses	6.74%	245.45%	Securities (1)	-5.00%	-6.65%
Non-interest income	9.73%	4.85%	Gross loans (2)	7.80%	16.91%
Non-interest expense	8.99%	14.71%	Allowance for credit losses	9.28%	22.00%
Federal income tax	-28.90%	-5.38%	Deposits	8.10%	6.13%
Net income	-4.61%	-19.17%	Shareholders' equity	9.60%	13.54%

(1) Includes available-for-sale and held-to-maturity securities
(2) Includes loans held for sale

Results of operations can be measured by various ratio analyses. Two widely recognized performance indicators are return on average equity and return on average assets. Southern's return on average equity was 10.07% in 2024, 11.94% in 2023, and 15.68% in 2022. The return on average assets was 0.71% in 2024, 0.80% in 2023, and 1.10% in 2022.

Net Interest Income

Interest income is the total amount earned on funds invested in loans, securities, interest-bearing correspondent bank balances, and federal funds sold. Interest expense is the amount of interest paid on interest-bearing checking and savings accounts, time deposits, short-term advances, subordinated debentures, and other long-term borrowings. Net interest income, on a fully taxable equivalent (FTE) basis, is the difference between interest income and interest expense, adjusted for the tax benefit received on tax-exempt loans and securities. Net interest margin is calculated by dividing net interest income (FTE) by average interest-earning assets. Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Because noninterest-bearing sources of funds also support earning assets, the net interest margin exceeds the net interest spread.

The presentation of net interest income on an FTE basis is not in accordance with Generally Accepted Accounting Principles (GAAP) but is customary in the banking industry. This non-GAAP measure ensures comparability of net interest income arising from both taxable and tax-exempt loans and securities. The adjustments to determine tax equivalent net interest income are itemized in Table 1 on the following page.

Net interest income is the most important source of Southern's earnings. Changes in Southern's net interest income are influenced by several factors, including changes in the level of interest-earning assets, changes in the mix of interest-earning assets and interest-bearing liabilities, the level and direction of market interest rates, and the steepness of the yield curve.

For 2024, Southern's net interest margin (FTE) was 2.98%, compared to 3.16% for 2023. Southern's interest rate spread was 2.43%, compared to 2.66% in 2023. The decrease in both ratios was due to funding costs increasing more than the earning asset yield. Higher market interest rates resulted in disintermediation from lower interest rate non-maturity deposits to time deposits. Despite the lower interest spread, total net interest income (FTE) increased by $894,000 primarily due to the 7.80% growth in loan balances during the year.

For 2023, Southern's net interest margin (FTE) was 3.16%, compared to 3.36% for 2022. Southern's interest rate spread was 2.66%, compared to 3.18% in 2022. The decrease in the interest spread was due to funding costs increasing more than the earning asset yields. The significant rise in market interest rates during that period resulted in disintermediation from lower interest rate non-maturity deposits to time deposits. Despite the lower interest spread, total net interest income (FTE) increased by $1,728,000 primarily due to the 16.91% growth in loan balances year over year.

The following table presents a summary of net interest income (FTE) for 2024, 2023, and 2022.

Table 1: Average Balances and Tax Equivalent Interest Rates

	2024			2023			2022		
(Dollars in Thousands)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
ASSETS									
Interest-earning assets:									
Loans(1)(2)(3)	$ 1,071,552	$ 64,396	6.01%	$ 975,302	$ 54,911	5.63%	$ 785,344	$ 36,609	4.66%
Taxable securities(4)	168,469	5,889	3.50	179,548	6,291	3.50	205,025	4,948	2.41
Tax-exempt securities(1)	54,997	1,339	2.43	59,759	1,380	2.31	65,201	1,714	2.63
Federal funds sold and other(5)	87,931	4,629	5.26	61,838	3,125	5.05	92,322	1,249	1.35
Total interest-earning assets	1,382,949	76,253	5.51	1,276,447	65,707	5.15	1,147,892	44,520	3.88
Noninterest-earning assets:									
Cash and due from banks	14,966			17,962			18,634		
Other assets(6)	87,870			80,289			65,315		
Less allowance for credit losses	(11,921)			(11,232)			(9,318)		
Total assets	$ 1,473,864			$ 1,363,466			$ 1,222,523		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Demand deposits	$ 536,159	$ 13,142	2.45%	$ 541,653	$ 11,358	2.10%	$ 545,052	$ 2,861	0.52%
Savings deposits	98,974	145	0.15	108,487	130	0.12	119,004	46	0.04
Time deposits	365,502	15,726	4.30	253,040	9,105	3.60	115,136	1,211	1.05
Securities sold under agreements to repurchase and overnight borrowings	1,418	30	2.12	4,325	36	0.83	11,465	27	0.24
Other borrowings	99,985	4,378	4.38	75,124	3,145	4.19	15,321	336	2.19
Subordinated debentures	34,685	1,608	4.64	34,616	1,603	4.63	34,547	1,437	4.16
Total interest-bearing liabilities(7)	1,136,723	35,029	3.08	1,017,245	25,377	2.49	840,525	5,918	0.70
Noninterest-bearing liabilities:									
Demand deposits	218,235			241,681			283,996		
Other	15,607			13,225			11,978		
Shareholders' equity	103,299			91,315			86,024		
Total liabilities and shareholders' equity	$ 1,473,864			$ 1,363,466			$ 1,222,523		
Net interest income		$ 41,224			$ 40,330			$ 38,602	
Interest rate spread			2.43%			2.66%			3.18%
Net margin on interest-earning assets			2.98%			3.16%			3.36%

(1) Includes tax equivalent adjustment of interest (assuming a 21% tax rate) for securities and loans of $117,000 and $20,000, respectively, for 2024; $115,000 and $24,000, respectively, for 2023; and $360,000 and $26,000, respectively, for 2022.
(2) Average balance includes average non-accrual loan balances of $825,000 in 2024, $970,000 in 2023, and $1,213,000 in 2022.
(3) Interest income includes loan fees of $990,000 in 2024, $1,169,000 in 2023, and $1,389,000 in 2022.
(4) Average balance includes average unrealized loss of $13,933,000 in 2024, $18,753,000 in 2023, and $15,112,000 in 2022.
(5) Includes average federal reserve deposit account balances of $82,534,000 in 2024, $57,955,000 in 2023, and $88,939,000 in 2022.
(6) Includes $13,552,000 in 2024, $13,588,000 in 2023, and $13,624,000 in 2022 relating to goodwill and other intangible assets.
(7) Interest expense on deferred compensation balances totaling $211,000 and $114,000 for 2023 and 2022, respectively, is excluded from interest expense.

The next table sets forth, for the periods indicated, a summary of changes in interest income and interest expense. The changes are based upon a tax equivalent basis resulting from changes in volume and changes in rates:

- Volume Variance – change in volume multiplied by the previous year's rate.
- Rate Variance – change in rate multiplied by the previous year's volume.
- Rate/Volume Variance – change in volume multiplied by the change in rate. This variance was allocated to volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Table 2: Changes in Tax Equivalent Net Interest Income

(Dollars in Thousands)	**2024 Compared to 2023 Increase (Decrease) Due To:**			**2023 Compared to 2022 Increase (Decrease) Due To:**		
Interest income on:	**Rate**	**Volume**	**Combined**	**Rate**	**Volume**	**Combined**
Loans	$ 3,849	$ 5,636	$ 9,485	$ 8,457	$ 9,845	$ 18,302
Taxable securities	(15)	(387)	(402)	2,018	(675)	1,343
Tax-exempt securities	73	(114)	(41)	(198)	(136)	(334)
Federal funds sold and other	135	1,369	1,504	2,410	(534)	1,876
Total interest-earning assets	$ 4,042	$ 6,504	$ 10,546	$ 12,687	$ 8,500	$ 21,187
Interest expense on:						
Demand deposits	$ 1,900	$ (116)	$ 1,784	$ 8,515	$ (18)	$ 8,497
Savings deposits	27	(12)	15	88	(4)	84
Time deposits	2,024	4,597	6,621	5,281	2,613	7,894
Securities sold under agreements to repurchase and overnight borrowings	30	(36)	(6)	34	(25)	9
Other borrowings	150	1,083	1,233	531	2,278	2,809
Subordinated debentures	2	3	5	163	3	166
Total interest-bearing liabilities	$ 4,133	$ 5,519	$ 9,652	$ 14,612	$ 4,847	$ 19,459
Net interest income	$ (91)	$ 985	$ 894	$ (1,925)	$ 3,653	$ 1,728

Provision for Credit Losses

The provision for credit losses is based on an analysis of the required additions to the allowance for credit losses. The provision is charged to income to bring the allowance for credit losses to a level believed adequate by management to absorb expected credit losses. Some factors considered by management in determining the level at which the allowance is maintained include the following: specific credit reviews; historical loan loss experiences; current economic conditions and trends; results of examinations by regulatory agencies; and the volume, growth, and composition of the loan portfolio. The provision is adjusted quarterly to reflect changes in the factors above, as well as actual charge-off experience and any known losses. For further information, see "Allowance for Credit Losses."

The provision for credit losses was $1,014,000 in 2024, compared to $950,000 in 2023, and $275,000 in 2022. The provision recorded in 2024 was higher than in 2023 due to loan growth as well as changes to environmental factors. The provision recorded in 2023 was higher than in 2022 due to loan growth, partially offset by an improvement in the economic forecast. Southern adopted ASU 2016-13 as of January 1, 2023. The 2022 amounts presented were calculated under the prior accounting method. The provision taken in 2022 was lower, as the qualitative increase made for COVID-19 related economic uncertainty was adjusted down to reflect the current portfolio strength.

Net loan charge-offs totaled $27,000 in 2024, compared to $15,000 in 2023 and $7,000 in 2022.

Non-Interest Income

Total non-interest income increased $753,000, or 9.7%, when comparing 2024 to 2023. The increase is attributed to increases in net gains on loan sales, trust fees, and earnings on life insurance assets. Net gains on loan sales increased $367,000, or 120.3%. Trust fees increased $325,000, or 13.4%, due to higher trust assets under management. Earnings on life insurance assets increased $50,000, or 8.1%, due to additional policy purchases in 2023 that had a full year impact in 2024.

Total non-interest income increased $358,000, or 4.9%, when comparing 2023 to 2022. The increase is attributed to increases in trust fees, earnings on life insurance assets, and service charges on deposit accounts. Trust fees increased $155,000, or 6.8%, due to higher trust assets under management. Earnings on life insurance assets increased $145,000, or 30.7%, due to additional policy purchases in 2023. Service charges on deposit accounts increased $154,000, or 10.2%. The increases offset a decline in loan sale gains of $301,000, or 49.7%.

Total non-interest income decreased $1,629,000, or 18.1%, when comparing 2022 to 2021. The decrease is a result of increased mortgage rates which reduced the number of mortgage loans sold to the secondary market. Loan sale gains decreased $1,687,000, or 73.6%, in 2022 as compared to 2021. Life insurance policies paying out death benefits in excess of recorded cash values increased income by $516,000. Service charges on deposit accounts increased $230,000, or 17.9%.

To reduce the risk associated with changing interest rates, Southern regularly sells fixed-rate real estate mortgage loans to the secondary market. Southern recognizes a gain at the time of the sale to the extent proceeds exceed the basis of the loan, excluding any value assigned to capitalized servicing rights. Southern originated real estate mortgage loans for sale in the secondary market of $18,279,000 in 2024, compared to $9,227,000 in 2023 and $14,405,000 in 2022. Net gains on loan sales increased $367,000 when comparing 2024 to 2023 and decreased $301,000 when comparing 2023 to 2022.

Security losses of $2,000 were recorded in 2024. There were no securities gains or losses recognized in 2023. Security losses of $666,000 were recorded in 2022 as Southern sold $19.8 million of securities to provide liquidity for loan growth and improve future earnings.

Non-Interest Expense

Non-interest expense increased $3,005,000, or 9.0%, when comparing 2024 to 2023. Salary and benefit costs increased $1,802,000, or 8.8%. Full-time equivalent employees grew across departments to support growth and health costs increased $813,000. Occupancy and equipment expenses increased $450,000, or 13.8%, primarily due to the expansion into the Sturgis and Jackson markets. Software maintenance increased $205,000, or 9.1%, primarily due to growth.

Non-interest expense increased $4,286,000, or 14.7%, when comparing 2023 to 2022. Salary and employee benefit costs increased $2,452,000, or 13.5%. Full-time equivalent employees grew across departments to support growth, as well as from expansion into the Sturgis and Jackson markets. Occupancy and equipment expenses increased $293,000, or 9.9%, primarily due to expansion into the Sturgis and Jackson markets. Software maintenance increased $336,000, or 17.6%, as a result of growth and new product offerings. Professional and outside services increased $501,000, or 28.8%, due to various non-recurring items. FDIC insurance expense increased $407,000, or 120.1%, due to growth and an increase in the initial base deposit insurance assessment rate by two basis points beginning in the first quarterly assessment period of 2023.

Non-interest expense increased $2,426,000, or 9.1%, when comparing 2022 to 2021. Salary and employee benefit costs increased $1,642,000, or 10.0%. Full-time equivalent employees grew across departments to support growth and market expansion into the Sturgis and Jackson markets. Occupancy and equipment expenses increased $110,000, or 7.0%, with the opening of the Sturgis office and movement into the Jackson market. Software maintenance increased $234,000, or 14.0%, also as a result of growth and new product offerings. In 2022, advertising and marketing costs increased to more normalized levels after decreasing in 2021 and 2020 due to COVID.

Income Taxes

Income tax provision was $1,737,000 in 2024, $2,443,000 in 2023, and $2,582,000 in 2022. Tax-exempt income continues to have an impact on Southern's income tax provision. The decrease in the effective tax rate in 2024 was primarily attributed to lower income before taxes and a gain on purchase of energy tax credits. Additional income tax information is reported in Note K of the consolidated financial statements.

Financial Condition

Total assets were $1,496,555,000 as of December 31, 2024, an increase of $81,760,000, or 5.8%, compared to December 31, 2023. Gross loans increased $80,843,000, or 7.8%, in 2024 with the growth occurring primarily in commercial loans. The securities portfolio decreased $11,566,000, or 5.0%, in 2024. Deposit balances increased $93,824,000, or 8.1%, during 2024. The deposit growth occurred primarily from time deposits which increased $83,553,000, or 26.5%. Other borrowings decreased $24,000,000 in 2024 due to the repayment of the Bank Term Funding Program (BTFP) with the Federal Reserve, partially offset by an increase in FHLB borrowings.

Federal Funds Sold

Federal funds sold totaled $259,000 as of December 31, 2024, compared to $1,468,000 as of December 31, 2023. The Bank sells excess overnight funds to its primary correspondent in lieu of maintaining the balances in interest-bearing deposit accounts when higher interest rates are being paid by correspondents. Southern continues to hold excess funds in interest-bearing deposit accounts due to the rate being paid.

Securities

Securities are classified as available-for-sale or held-to-maturity based upon management's intent. In 2024, the available-for-sale portfolio decreased $10,420,000, or 6.1%, primarily attributable to maturities and paydowns of mortgage-collateralized and asset-backed securities. The held-to-maturity portfolio decreased $1,146,000, or 1.9%, due to maturities.

The available-for-sale securities portfolio had a net unrealized loss of $13,672,000 at December 31, 2024, and a net unrealized loss of $14,589,000 at December 31, 2023. At December 31, 2024, Southern had no securities of issuers outside of the United States.

Loans

Substantially all loans are granted to customers located in Southern's service area, which is primarily south-west and south-central Michigan. Gross loans increased $80,843,000, or 7.8%, in 2024. Gross loans increased $149,960,000, or 16.9%, in 2023.

Loan commitments consisting of unused credit card and home equity lines, available amounts on revolving lines of credit, and other approved loans that have not been funded, were $183,608,000 and $194,492,000 as of December 31, 2024, and 2023, respectively. The 2024 commitments consist of $65,532,000 in fixed-rate commitments and $118,076,000 in variable rate commitments.

Nonperforming Assets

Nonperforming assets include non-accrual loans, accruing loans past due 90 days or more, and other real estate owned, which includes real estate acquired through foreclosures and deeds in lieu of foreclosure.

A loan generally is classified as non-accrual when full collectability of principal or interest is doubtful, or a loan becomes 90 days past due as to principal or interest, unless management determines that the estimated net realizable value of the collateral is sufficient to cover the principal balance and accrued interest. When interest accruals are discontinued, unpaid interest is reversed. Nonperforming loans are returned to performing status when the loan is brought current and has performed in accordance with contract terms for a period of time.

In the course of working with borrowers, Southern may choose to restructure the contractual terms of certain loans. In certain circumstances, Southern attempts to work out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Terms may be modified to fit the ability of the borrower to repay in line with their current financial status; the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

The following table sets forth the aggregate amount of nonperforming assets in each of the following categories:

	December 31, 2024	2023	2022
	(Dollars in thousands)		
Non-accrual loans:			
Commercial, commercial real estate, and agriculture	$ 689	$ 833	$ 961
Real estate mortgage	34	56	82
Consumer	-	-	-
	723	889	1,043
Loans contractually past due 90 days or more and still on accrual:			
Commercial, commercial real estate, and agriculture	69	-	-
Real estate mortgage	122	-	-
Consumer	-	-	-
	191	-	-
Accruing loans modified under troubled debt restructurings:			
Commercial, commercial real estate, and agriculture	-	-	86
Real estate mortgage	-	-	-
Consumer	-	-	-
	-	-	86
Total nonperforming loans	914	889	1,129
Other real estate owned	-	-	-
Total nonperforming assets	$ 914	$ 889	$ 1,129
Nonperforming loans to year-end loans	0.08%	0.08%	0.13%
Nonperforming assets to total assets	0.06%	0.06%	0.09%

The balance of non-accrual restructured loans, which is included in non-accrual loans, was $0 as of December 31, 2024, and December 31, 2023.

Nonperforming loans are subject to continuous monitoring by management and estimated losses are specifically allocated in the allowance for credit losses, where appropriate. Nonperforming loans increased slightly from December 31, 2023, to December 31, 2024.

Southern held no other real estate owned assets as of December 31, 2024, or December 31, 2023. During 2024, no loans were transferred to other real estate owned. During 2023, $17,000 of loans were transferred to other real estate owned and subsequently sold.

In management's evaluation of the loan portfolio risks, any significant future increases in nonperforming loans are dependent largely on the economic environment. In a deteriorating or uncertain economy, management applies assumptions that are more conservative when assessing the future prospects of borrowers and when estimating collateral values. This may result in a higher number of loans being classified as nonperforming.

Allowance for Credit Losses

On January 1, 2023, Southern adopted ASU 2016-13 *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASC 326), as amended, which replaces the incurred loss methodology with an expected loss methodology commonly referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures.

Southern adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC

326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 resulted in Southern recording an increase of $1,100,000 to the allowance for credit losses and the establishment of a $500,000 reserve for unfunded commitments. A one-time, cumulative effect adjustment to capital for these amounts, net of tax, of $1,264,000 was recognized as of January 1, 2023.

The allowance for credit losses was $12,782,000, or 1.14%, of total loans as of December 31, 2024, as compared to $11,697,000, or 1.13%, of total loans as of December 31, 2023.

Deposits

Deposits have traditionally represented Southern's principal funding source. Total deposits increased 8.1%, or $93,824,000, in 2024 compared to 2023, and increased 6.1%, or $66,920,000, in 2023 compared to 2022. The majority of deposits are derived from core client sources, relating to long-term relationships with local individuals, businesses, and public clients. Brokered deposits totaled $95,513,000 as of December 31, 2024, and $76,534,000 as of December 31, 2023. Attracting and keeping traditional deposit relationships will continue to be a focus of Southern.

Other Borrowings

As another funding source, Southern obtains advances from the Federal Home Loan Bank (FHLB). The advances are secured by a blanket collateral agreement with the FHLB, giving them an unperfected security interest in select 1-4 family mortgage and commercial real estate loans. FHLB advances are used as an alternative funding source to paying a premium for long-term deposits. As of December 31, 2024, Southern had $82,900,000 in FHLB advances with interest rates between 3.61% and 4.75%, and a weighted average rate of 4.29%.

Subordinated Debentures

On April 16, 2021, Southern completed a private placement of $30 million in aggregate principal amount of 3.75% Fixed-to-Floating Rate Subordinated Notes due April 16, 2031 (the "Notes"). The Notes initially bear interest at a fixed rate of 3.75% through April 16, 2026, after which time, until maturity, the interest rate will reset quarterly to an annual floating rate equal to the then-current 3-month SOFR, plus 302 basis points. The Notes are redeemable by Southern at its option, in whole or in part, on or after April 16, 2026. The Notes are not subject to redemption at the option of the holders.

In March 2004, Southern Michigan Bancorp Capital Trust I, a trust formed by Southern, closed a pooled private offering of 5,000 trust preferred securities with a liquidation amount of $1,000 per security. Southern issued $5,155,000 of subordinated debentures to the trust in exchange for ownership of all common securities of the trust and the proceeds of the preferred securities sold by the trust. Southern is not considered the primary beneficiary of this trust, therefore the trust is not consolidated in Southern's financial statements. Rather, the subordinated debentures are shown as a liability. Southern may redeem the subordinated debentures, subject to the receipt by Southern of the proper approval of the Federal Reserve, if such approval is required under applicable capital guidelines or policies of the Federal Reserve. The subordinated debentures may be redeemed on January 7, April 7, July 7, and October 7 of each year and may occur either in whole or in integrals of $1,000 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on April 6, 2034. The subordinated debentures are also redeemable in whole, but not in part, from time to time upon the occurrence of specific events defined within the trust indenture. Southern has the option to defer interest payments on the subordinated debentures from time to time for a period, not to exceed 20 consecutive quarterly periods. Southern's investment in the common stock of the trust is $155,000 and is included in other assets.

The $5,000,000 in trust preferred securities is included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a variable rate of interest equal to the three-month CME Term SOFR plus a spread adjustment of 0.26161% and a margin adjustment of 2.75%, as defined. The aggregate borrowing rate on December 31, 2024, was 7.67%.

Capital Resources

Southern obtains funds for operating expenses and dividends to shareholders through dividends from the Bank. In general, the Bank pays only those amounts required to meet the liquidity requirements of Southern, while maintaining appropriate capital levels at the Bank. Capital is maintained at the Bank to support its current operations and projected future growth. See additional discussion under the section titled “Liquidity”.

Shareholders’ equity increased $9,393,000, or 9.6%, from December 31, 2023, to December 31, 2024, and increased $11,666,000, or 13.5%, from December 31, 2022, to December 31, 2023. The increase in 2024 was primarily attributable to net income in excess of dividends declared in 2024 and an improvement in the accumulated other comprehensive loss of $1,319,000 related to the securities portfolio. During 2023, the increase was primarily attributable to net income in excess of dividends declared in 2023 and an improvement in the accumulated other comprehensive loss of $5,467,000 related to the securities portfolio.

The Federal Reserve Board uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other items, be denied approval to acquire or establish additional banks or non-bank businesses.

The FDIC Improvement Act of 1991 established a system of prompt corrective actions to resolve the problems of undercapitalized banks. Under this system, federal banking regulators have established five capital categories in which all institutions are placed: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The FDIC has also specified by regulation the relevant capital levels for each of the categories.

The FDIC is required to take specified mandatory supervisory actions and is authorized to take other discretionary actions with respect to banks in the three undercapitalized categories. The severity of the action depends upon the capital category in which a bank is placed. Subject to a narrow exception, the FDIC must generally appoint a receiver or conservator for a bank that is critically undercapitalized. A bank in any of the under-capitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized bank is also generally prohibited from paying any dividends, increasing its average total assets, making acquisitions, establishing any branches, or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. In addition, such a bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless the bank could demonstrate a reasonable plan to meet the capital requirement within a reasonable time period.

With the implementation of BASEL III in 2015, regulatory agencies granted banks a one-time election to determine whether the capital component created by the net unrealized gain or loss on available-for-sale securities is included in Tier 1 capital. Southern elected not to include the net unrealized gain or loss on available-for-sale investments in Tier 1 capital. Therefore, the net unrealized gain or loss is not included in the capital ratios listed in Note U to the consolidated financial statements.

As of December 31, 2024, the capital ratios of the Bank exceeded the minimum thresholds to be categorized as “well capitalized” under applicable regulations. Note U of the consolidated financial statements provides additional information regarding capital ratios.

Liquidity

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. Southern maintains certain levels of liquid assets (the most liquid of which are cash and cash equivalents, federal funds sold, and securities) in order to meet these demands. Cash and equivalents, maturing loans, and securities are the principal sources of asset liquidity. Liquidity is monitored and closely managed by the Asset/Liability Committee (ALCO), whose members are comprised of senior management.

Southern maintains correspondent accounts with regional and national banks for various purposes. Historically, cash sufficient to meet the operating needs of the Bank’s branches is maintained at its lowest practical level.

From time to time, Southern is a participant in the federal funds market. Federal funds are generally borrowed or sold for one-day periods. The average balance of federal funds sold was $264,000 in 2024 and $265,000 in 2023. During 2024 and 2023, Southern averaged $82,534,000 and $57,955,000, respectively, on deposit at the Federal Reserve**.**

In the past, Southern has used overnight federal funds lines of credit with correspondent banks as a short-term source of liquidity. As of December 31, 2024, Southern had $118 million in line-of-credit availability with four correspondent banks, including $83 million in overnight federal funds lines, $25 million in a line of credit with the Federal Home Loan Bank, and $10 million in a line of credit at the holding company from United Bankers Bank. Southern also has the ability to borrow $95.6 million from the Federal Home Loan Bank based on collateral pledged.

Southern's principal source of funds to pay cash dividends comes from dividends paid by the Bank from its earnings. Dividend amounts are restricted under current banking laws and regulations. Capital guidelines adopted by federal and state regulatory agencies, as well as restrictions imposed by law, limit the amount of cash dividends the Bank can pay to Southern. As of December 31, 2024, using the most restrictive of these conditions, the aggregate cash dividends the Bank could pay Southern without prior regulatory approval was $30.7 million.

Impact of Inflation and Changing Prices

The majority of assets and liabilities of a financial institution are monetary in nature and differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher-than-normal rates in order to maintain an appropriate equity-to-assets ratio. Other expenses are also significantly affected by inflation, tending to rise during periods of general inflation.

Commitments and Off-Balance Sheet Risk

Southern maintains off-balance sheet financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, letters of credit, and standby letters of credit. Loan commitments to extend credit are agreements to lend to customers at any time, as the customers' needs vary, as long as there is no violation of any condition established in the contract. Letters of credit are used to facilitate customers' trade transactions. Under standby letters of credit agreements, Southern agrees to honor certain commitments in the event that its customers are unable to do so. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2024, Southern had loan commitments of $183,608,000; $1,834,000 in standby letters of credit; and no commitments under commercial letters of credit outstanding.

These arrangements have credit risk similar to that involved in extending loans to customers and are subject to Southern's normal credit policies. Collateral generally consists of receivables, inventory, and equipment and is obtained based on management's credit assessment of the customer. These financial instruments are recorded when they are funded.

Interest Rate Sensitivity

Net interest income is the largest component of Southern's earnings. Net interest income is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. Management of interest rate sensitivity seeks to avoid fluctuating net interest margins and enhance consistent growth of net interest income through periods of changing interest rates.

Interest rate risk arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities. Accepting this risk can be an important source of profitability and shareholder value. However, excessive levels of interest rate risk could pose a significant threat to Southern's earnings and capital base. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to Southern's safety and soundness.

A number of tools are used to monitor and manage interest rate risk, including income simulation and market value of equity analyses. The income simulation model is used to estimate the effect that specific interest rate changes would have on net interest income. The changes include ramped and shocked increases and decreases of 1%, 2%, 3%, and 4% to interest rates on both a static and dynamic balance sheet over 12- and 24-month timeframes. Assumptions in the simulation are based on management's estimates and are inherently uncertain. As a result, the models cannot precisely predict the impact of higher or lower interest rates on net interest income.

The simulation's effect on net interest income is shown in the table below:

Ramp Change/ Dynamic	**12 Month % Change**	**24 Month % Change**	**Ramp Change/ Static**	**12 Month % Change**	**24 Month % Change**
+400	4.07%	5.92%	+400	3.64%	4.32%
+300	3.18%	4.63%	+300	2.86%	3.45%
+200	2.25%	3.28%	+200	2.03%	2.52%
+100	1.24%	1.81%	+100	1.14%	1.44%
-100	-1.10%	-2.48%	-100	-0.93%	-1.90%
-200	-2.68%	-5.95%	-200	-2.33%	-4.91%
-300	-4.48%	-9.67%	-300	-3.97%	-8.17%
-400	-6.48%	-13.66%	-400	-5.81%	-11.72%

Shock Change/ Dynamic	**12 Month % Change**	**24 Month % Change**	**Shock Change/ Static**	**12 Month % Change**	**24 Month % Change**
+400	7.19%	5.83%	+400	6.87%	4.93%
+300	5.63%	4.56%	+300	5.40%	3.91%
+200	4.01%	3.23%	+200	3.86%	2.82%
+100	2.20%	1.78%	+100	2.13%	1.58%
-100	-2.54%	-2.31%	-100	-2.48%	-2.18%
-200	-6.06%	-5.76%	-200	-5.98%	-5.62%
-300	-9.71%	-9.49%	-300	-9.61%	-9.36%
-400	-13.32%	-13.66%	-400	-13.20%	-13.60%

The market value of equity analysis estimates the change in the market value of equity using interest rate change scenarios from +4% to -4% in 1% increments. The following table illustrates the percent change in equity based on changes in market interest rates:

	Change in market value of equity
4% increase in market rates	-7.93%
3% increase in market rates	-5.74%
2% increase in market rates	-3.59%
1% increase in market rates	-1.50%
No change	0.00%
1% decrease in market rates	0.42%
2% decrease in market rates	-0.38%
3% decrease in market rates	-1.28%
4% decrease in market rates	-3.82%

Management continues to monitor the ratios and report the results to the Board of Directors on a quarterly basis.

Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based upon Southern's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires Southern to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially could result in materially different results under different assumptions and conditions. A summary of significant accounting policies of Southern are detailed in Note A to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses on loans and leases ("ACL") replaces the allowance for loan and lease losses as a credit accounting estimate, as of January 1, 2023, with the adoption of ASU 2016–13, *Financial Instruments–Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASC 326). The ACL represents management's best estimate of current expected credit losses over the life of the portfolio of loans and leases. Estimating credit losses requires judgment in determining loan-specific attributes impacting the borrower's ability to repay contractual obligations. Other factors such as economic forecasts used to determine a reasonable and supportable forecast, prepayment assumptions, the value of underlying collateral, and changes in size composition and risks within the portfolio are also considered. The ACL is assessed quarterly, and adjustments are recorded in the provision for credit losses. The allowance is estimated based on loan level characteristics using historical loss rates, and a reasonable and supportable economic forecast. Loan losses are estimated using the fair value of collateral for collateral-dependent loans, or when the borrower is experiencing financial difficulty such that repayment of the loan is expected to be made through the operation or sale of the collateral. Loan balances considered uncollectible are charged-off against the ACL. Management believes that the ACL is adequate to absorb the expected life-of-loan credit losses on the portfolio of loans and leases as of the balance sheet date. Actual losses incurred may differ materially from such estimates.

Allowance for Credit Losses on Off–Balance Sheet Credit Exposures

Southern estimates expected credit losses over the contractual period in which Southern is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by Southern. Southern determines the estimated amount of expected credit extensions based on historical usage to calculate the amount of exposure for a loss estimate and has recorded an allowance.

Allowance for Credit Losses on Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position, Southern first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, Southern evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recorded in other comprehensive income. Changes in the ACL are recorded as provision for or reversal of credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses on Held-to-Maturity Securities

For held-to-maturity securities, Southern conducts an assessment of its held-to-maturity securities at the time of purchase and on at least an annual basis to ensure such securities remain within appropriate levels of risk and continue to perform satisfactorily in fulfilling its obligations. Southern considers, among other factors, the nature of the securities and credit ratings or financial condition of the issuer. If available, Southern obtains a credit rating for issuers from the Nationally Recognized Statistical Rating Organization ("NRSRO") for consideration.

If this assessment indicates that a material credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an ACL is recorded for the credit loss.

Fair Value Measurements

Southern uses fair value measurements to record certain financial instruments and to determine fair value disclosures. Available-for-sale securities are financial instruments recorded at fair value on a recurring basis. Additionally, Southern may be required to record at fair value other financial assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve write-downs of, or specific reserves against, individual assets. ASC 820-10-55 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect management's estimates about market data.

The degree of management's judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market data. For financial instruments that trade actively and have quoted market prices or observable market data, there is minimal subjectivity involved in measuring fair value. When observable market prices and data are not fully available, management's judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, management uses valuation techniques that require more judgment to estimate the appropriate fair value measurement. Fair value is discussed further in Note A under the heading "Fair Values of Financial Instruments" and in Note T, "Fair Value Measurements", of the notes to the consolidated financial statements.

Mortgage Servicing Rights

Mortgage servicing rights represent the allocated value of servicing loans that are sold with servicing retained by Southern. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Management's accounting treatment of loan servicing rights is estimated utilizing a discounted cash flow model to determine the value of its servicing rights. The valuation model utilizes mortgage prepayment speeds, the remaining life of the mortgage pool, delinquency rates, cost to service loans, and other factors to determine the cash flow to be received from servicing each grouping of loans. These cash flows are then discounted based on current interest rate assumptions to arrive at the fair value for the right to service those loans.

Acquisition Intangibles

Generally accepted accounting principles require a determination of the fair value of all assets and liabilities of an acquired entity, and a recording of their fair value on the date of acquisition. A variety of means are employed in determination of fair value, including the use of discounted cash flow analyses, market comparisons, and projected future revenue streams. Once valuations have been adjusted, the net difference between the price paid for the acquired company and the value of its balance sheet is recorded as goodwill. Goodwill is subject to an impairment analysis, performed at least annually. Southern has elected to perform its annual goodwill impairment test as of November 30 each year. No material issues were noted during December 2024 that would have impacted the analysis within the goodwill impairment test.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Southern has prepared and is responsible for the accompanying consolidated financial statements and for their integrity and objectivity. In the opinion of management, the financial statements, which necessarily include amounts based on management's estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States of America on a consistent basis. Management also prepared the other information in the Annual Report and is responsible for its accuracy and consistency with the financial statements.

Southern maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with Southern's authorizations and policies. Further, such a system provides reasonable assurances as to the integrity and reliability of the financial statements which fairly present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Internal accounting controls are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for division of responsibility and authority.

Management monitors the effectiveness of and compliance with established control systems through a continuous program of internal audit and credit examinations and recommends possible improvements thereto. Management believes that, as of December 31, 2024, Southern's system of internal controls has prevented or detected on a timely basis any occurrences that could be material to the financial statements and that timely corrective actions have been initiated when appropriate.

The Board of Directors exercises its responsibility for the financial statements and related information through the Audit Committee, which is composed entirely of outside directors. The Audit Committee meets regularly with management and CliftonLarsonAllen LLP. CliftonLarsonAllen LLP has direct and confidential access to the Audit Committee to discuss the results of their audit.

The 2024 consolidated financial statements have been audited by the independent accounting firm of CliftonLarsonAllen LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors, and committees of the Board. Management believes all representations made to the independent auditors during their audit were valid and appropriate. CliftonLarsonAllen LLP's Auditor's Report is presented on the following page.

John R. Waldron
President and Chief Executive Officer

Kevin A. Twardy
Chief Financial Officer

March 6, 2025

A group of Southern employees visits
Parrish Excavating headquarters in Quincy, Michigan

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
Southern Michigan Bancorp, Inc.
Coldwater, Michigan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Southern Michigan Bancorp, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income/(loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2024, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Michigan Bancorp, Inc. and its subsidiaries as of December 31, 2024 and 2023, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2024, in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, Southern Michigan Bancorp, Inc. and its subsidiaries' internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions) and the Board of Governors of the Federal Reserve System Instructions for Preparation of Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP instructions) as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2025, expressed an unqualified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Southern Michigan Bancorp, Inc. and its subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Michigan Bancorp, Inc. and its subsidiaries' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Michigan Bancorp, Inc. and its subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Southern Michigan Bancorp, Inc.'s Annual Report

Management is responsible for the other information included in Southern Michigan Bancorp, Inc.'s Annual Report. The other information comprises the message to shareholders, client profiles, financial summary, SMB&T officers & board of directors, shareholder information, management's discussion and analysis, selected financial data, and common stock market prices and dividends but it does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Maumee, Ohio
March 6, 2025

SOUTHERN MICHIGAN BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash	$ 8,497	$ 7,164
Due from banks	60,742	64,456
Cash and cash equivalents	69,239	71,620
Federal funds sold	259	1,468
Certificates of deposit in other banks	4,498	-
Securities available-for-sale, at fair value	159,320	169,740
Securities held-to-maturity, at amortized cost	60,454	61,600
Loans held-for-sale	995	169
Loans, net of allowance for credit losses of $12,782 – 2024 ($11,697 – 2023)	1,103,652	1,024,720
Premises and equipment, net	25,600	23,114
Cash surrender value of life insurance	23,139	22,472
Goodwill	13,422	13,422
Other intangible assets, net	111	147
Other assets	35,866	26,323
Total Assets	$ 1,496,555	$ 1,414,795
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits		
Noninterest-bearing	$ 223,583	$ 226,178
Interest bearing	1,028,212	931,793
Total deposits	1,251,795	1,157,971
Securities sold under agreements to repurchase and overnight borrowings	1,560	1,738
Accrued expenses and other liabilities	18,355	15,703
Other borrowings	82,900	106,900
Subordinated debentures, net	34,722	34,653
Total Liabilities	1,389,332	1,316,965
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 – 4,577,107 shares in 2024 (4,533,637 shares in 2023)	11,438	11,330
Additional paid-in capital	13,438	13,126
Retained earnings	97,462	89,808
Accumulated other comprehensive loss	(15,115)	(16,434)
Total Shareholders' Equity	107,223	97,830
Total Liabilities and Shareholders' Equity	$ 1,496,555	$ 1,414,795

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Year Ended December 31,		
	2024	2023	2022
Interest income:			
Loans, including fees	$ 64,376	$ 54,887	$ 36,583
Securities:			
Taxable	5,889	6,291	4,948
Tax-exempt	1,222	1,265	1,354
Other	4,629	3,125	1,249
Total interest income	76,116	65,568	44,134
Interest expense:			
Deposits	29,013	20,593	4,118
Other	6,016	4,995	1,914
Total interest expense	35,029	25,588	6,032
Net Interest Income	41,087	39,980	38,102
Provision for credit losses	1,014	950	275
Net Interest Income After Provision for Credit Losses	40,073	39,030	37,827
Non-interest income:			
Service charges on deposit accounts	1,692	1,670	1,516
Trust fees	2,744	2,419	2,264
Net securities losses	(2)	-	(666)
Net gains on loan sales	672	305	606
Earnings on life insurance assets	667	617	472
Gain from life insurance	-	-	747
ATM and debit card fees	1,818	1,786	1,749
Other	900	941	692
Total non-interest income	8,491	7,738	7,380
Non-interest expense:			
Salaries and employee benefits	22,388	20,586	18,134
Occupancy, net	2,054	1,813	1,675
Equipment	1,658	1,449	1,294
Printing, postage, and supplies	510	437	413
Telecommunication	313	376	303
Professional and outside services	2,156	2,243	1,742
Software maintenance	2,452	2,247	1,911
Amortization of other intangibles	36	36	36
ATM expenses	841	803	755
Advertising and marketing	694	670	583
FDIC Insurance	730	746	339
Other	2,593	2,014	1,949
Total non-interest expense	36,425	33,420	29,134
Income before income taxes	12,139	13,348	16,073
Income tax provision	1,737	2,443	2,582
Net Income	$ 10,402	$ 10,905	$ 13,491
Basic Earnings Per Common Share	$ 2.28	$ 2.40	$ 2.98
Diluted Earnings Per Common Share	$ 2.28	$ 2.40	$ 2.97

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands)

	Year Ended December 31, 2024	2023	2022
Net Income	$ 10,402	$ 10,905	$ 13,491
Other Comprehensive Income (Loss):			
Change in unrealized gain (loss) on available-for-sale securities	915	6,067	(30,166)
Reclassification adjustments for net realized securities losses included in net income	2	-	666
Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	-	-	7,761
	917	6,067	(21,739)
Income tax effect	(193)	(1,274)	4,565
Unrealized gain (loss) on available-for-sale Securities, net of tax	724	4,793	(17,174)
Reclassification of unrealized loss upon transfer of available-for-sale securities to held-to-maturity	-	-	(7,761)
Less accretion of net unrealized loss on securities transferred from available-for-sale to held-to-maturity	753	853	694
	753	853	(7,067)
Income tax effect	(158)	(179)	1,484
Unrealized gain (loss) on securities transferred from available-for-sale to held-to-maturity, net of tax	595	674	(5,583)
Other comprehensive income (loss)	1,319	5,467	(22,757)
Total Comprehensive Income (Loss)	$ 11,721	$ 16,372	$ (9,266)

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except number of shares and per share data)

Years Ended December 31, 2024, 2023, and 2022:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Unearned ESOP Shares	Total
Balance at January 1, 2022	$ 11,287	$ 14,235	$ 71,581	$ 856	$ (210)	$ 97,749
Net income for 2022			13,491			13,491
Other comprehensive loss				(22,757)		(22,757)
Cash dividends declared – $0.52 per share			(2,367)			(2,367)
Issuance of restricted stock (45,719 shares of common stock at weighted average $17.23 per share)	114	(114)				-
Vesting of restricted stock		643				643
Restricted stock forfeiture (2,455 shares)	(6)	6				-
Stock options exercised (2,200 shares)	6	28				34
Repurchase of common stock (42,662 shares)	(107)	(817)				(924)
Net decrease in ESOP obligation					210	210
Stock option expense		85				85
Balance at December 31, 2022	11,294	14,066	82,705	(21,901)	-	86,164
Adoption of ASC 326, net of tax			(1,264)			(1,264)
Net income for 2023			10,905			10,905
Other comprehensive income				5,467		5,467
Cash dividends declared – $0.56 per share			(2,538)			(2,538)
Issuance of restricted stock (113,780 shares of common stock at weighted average $17.82 per share)	284	(284)				-
Vesting of restricted stock		1,085				1,085
Restricted stock forfeiture (4,534 shares)	(11)	11				-
Stock options exercised (3,000 shares)	7	37				44
Repurchase of common stock (97,788 shares)	(244)	(1,986)				(2,230)
Stock option expense		197				197
Balance at December 31, 2023	11,330	13,126	89,808	(16,434)	-	97,830
Net income for 2024			10,402			10,402
Other comprehensive income				1,319		1,319
Cash dividends declared – $0.60 per share			(2,748)			(2,748)
Issuance of restricted stock (75,600 shares of common stock at weighted average $17.60 per share)	189	(189)				-
Vesting of restricted stock		851				851
Restricted stock forfeiture (1,645 shares)	(4)	4				-
Stock options exercised (500 shares)	1	4				5
Repurchase of common stock (30,985 shares)	(78)	(521)				(599)
Stock option expense		163				163
Balance at December 31, 2024	$ 11,438	$ 13,438	$ 97,462	$ (15,115)	$ -	$ 107,223

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31, 2024	2023	2022
Operating Activities			
Net income	$ 10,402	$ 10,905	$ 13,491
Adjustments to reconcile net income to net cash from operating activities:			
Provision for credit losses	1,014	950	275
Depreciation of premises and equipment	1,772	1,486	1,367
Deferred income taxes	(298)	87	(64)
Amortization of other intangible assets	36	36	36
Amortization of subordinated debt issuance costs	69	69	70
Net amortization of securities	1,121	1,190	561
Stock option and restricted stock grant compensation expense	1,014	1,282	728
Net security losses	2	-	666
Loans originated for sale	(18,279)	(9,227)	(14,405)
Proceeds from loans sold	18,125	9,363	15,922
Net gains on loan sales	(672)	(305)	(606)
Gain from life insurance	-	-	(747)
Net gain from sale or write down of other real estate owned	-	(22)	(2)
Net gain on disposal of premises and equipment	(24)	(45)	(14)
Net change in ESOP obligation	-	-	210
Earnings on life insurance assets	(667)	(617)	(472)
Net change in other assets	(8,490)	(744)	(2,580)
Net change in accrued expenses and other liabilities	2,711	1,830	269
Net cash from operating activities	7,836	16,238	14,705
Investing Activities			
Activity in available-for-sale securities:			
Proceeds from securities sold	700	-	19,807
Proceeds from maturities and calls	16,777	16,744	17,151
Purchases	(7,199)	(3,368)	(67,344)
Activity in held-to-maturity securities:			
Proceeds from maturities and calls	12,535	15,509	8,732
Purchases	(10,700)	(6,680)	(10,348)
Net change in federal funds sold	1,209	(1,215)	18
Purchase of certificates of deposits in other banks	(4,498)	-	-
Loan originations and payments, net	(80,044)	(149,823)	(145,225)
Proceeds from sale of other real estate owned	-	39	2
Purchase of life insurance	-	(3,731)	-
Purchase of Federal Home Loan Bank Stock	(1,125)	(1,031)	(855)
Redemption of Federal Home Loan Bank Stock	-	-	180
Proceeds from life insurance	-	-	1,765
Proceeds from sale of premises and equipment	-	325	48
Proceeds from Michigan Community Revitalization Program grant	750	-	-
Additions to premises and equipment	(4,984)	(8,335)	(4,831)
Net cash from investing activities	(76,579)	(141,566)	(180,900)
Financing Activities			
Net change in deposits	93,824	66,920	116,699
Net change in securities sold under agreements to repurchase and overnight borrowings	(178)	(9,441)	(9,430)
Proceeds from other borrowings	45,000	86,900	84,000
Repayments of other borrowings	(69,000)	(20,000)	(64,000)
Stock options exercised	5	44	34
Cash dividends paid	(2,690)	(2,500)	(2,318)
Repurchase of common stock	(599)	(2,230)	(924)
Net cash from financing activities	66,362	119,693	124,061
Net Change in Cash and Cash Equivalents	(2,381)	(5,635)	(42,134)
Beginning cash and cash equivalents	71,620	77,255	119,389
Ending Cash and Cash Equivalents	$ 69,239	$ 71,620	$ 77,255

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Industry Segments: Southern Michigan Bancorp, Inc. (the Company) is a Michigan corporation and registered financial holding company. The Company's principal activity is the ownership and management of its wholly-owned subsidiary bank, Southern Michigan Bank & Trust (the Bank). The Bank offers individuals, businesses, institutions, and government agencies a full range of commercial banking services. The customer base is located primarily in the south-west and south-central Michigan communities in which the Bank has branches and in areas immediately surrounding these communities. The Bank makes commercial and consumer loans to customers. The majority of loans are secured by business assets, commercial and residential real estate, and consumer assets. There are no foreign loans.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: SMB Risk Management, Inc.; 27 Marshall Street, LLC; the Bank; and its wholly-owned subsidiary SMBT Investments, Inc. On November 18, 2015, 27 Marshall Street, LLC was formed as a wholly-owned subsidiary of the Company which owns and operates a multi-family property. On May 31, 2016, SMB Risk Management, Inc., a captive insurance company incorporated in Nevada, was formed as a wholly-owned subsidiary of the Company. During 2004, the Company formed a special purpose trust, Southern Michigan Bancorp Capital Trust I, for the sole purpose of issuing trust preferred securities. On October 1, 2024, SMBT Investments Inc., an investment subsidiary incorporated in Nevada was formed to hold certain investment securities and is a wholly-owned subsidiary of the Bank. During December 2024, SMBT Risk Management, Inc. was dissolved. Under generally accepted accounting principles, the trust is not consolidated into the financial statements of the Company. All inter-company transactions and balances are eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are more susceptible to change in the near term include the allowance for credit losses and fair values of securities.

Securities: If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at the amortized historical cost. Securities to be held for an undeterminable period of time are classified as available-for-sale and carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss, net of tax. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, prepayment risk, and other factors. Management determines the appropriate classification of securities at the time of purchase but may reassess the classification. Effective April 1, 2022, the Bank transferred certain debt securities from the available-for-sale category to the held-to-maturity category, as more fully described in Note C, with the related unrealized losses at the date of transfer continuing to be reported as a separate component of other comprehensive income (loss) in shareholders' equity. Such unrealized losses are being accreted over the remaining life of the individual securities.

Premiums and discounts on securities are recognized in interest income using the level yield method over the estimated life of the security. Premiums are amortized to the earliest call date. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

Effective January 1, 2023, with the adoption of Accounting Standards Update (ASU) 2016–13, *Financial Instruments–Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASC 326), for available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through income. If neither criterion is met, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, which is limited

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income (loss). Changes in the allowance for credit losses are recorded as a provision (credit) for credit loss.

Effective January 1, 2023, with the adoption of ASC 326, management measures expected credit losses for held-to-maturity debt securities on a collective basis by major security type.

Prior to the adoption of ASC 326, the Company used an other than temporary impairment model. As of December 31, 2024, no allowance for credit losses was required for securities.

Loans Held for Sale: Loans held for sale are reported at the lower of cost or market value in the aggregate. Net unrealized losses are recorded in a valuation allowance by charges to income.

Loans: Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for credit losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days, unless the loan is both well secured and in the process of collection. Past due status is based on the contractual terms of the loan. All interest accrued, but not received, for these loans is reversed against interest income. Payments received on such loans are reported as principal reductions until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses on Loans: With the adoption of ASC 326, the allowance for credit losses on loans and leases ("ACL") replaces the allowance for loan and lease losses as a credit accounting estimate. The ACL on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The ACL on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the ACL on loans when the Company determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the ACL on loans.

The Company utilizes the Discounted Cash Flow (DCF) method in determining expected future credit losses for each of the loan categories except for auto loans and overdraft loans. The DCF method discounts expected cash flows at the effective interest rate of the loan. The allowance for credit losses reflects the difference between the amortized cost basis and the present value of the expected cash flows. The Company segments the loan portfolio into pools based on call report code. The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. However, the Company's historical credit loss experience is currently not sufficient to calculate the expected loss estimate for its loan portfolio. As a result, the Company is utilizing external models or data with a look-back period that generally includes January 2004 through December 2024, excluding certain periods during the pandemic.

The weighted average remaining maturity (WARM) method is used for the auto and overdraft loans. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, including concentration management, along with other credit related analytics, as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The current expected credit loss (CECL) methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) change in lending policies and procedures including underwriting standards;

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) change in national, regional, and local economic conditions; (iii) change in nature and volume of the portfolio and terms of loans; (iv) change in experience, depth, and ability of lending management; (v) change in volume and severity of past due loans and other similar conditions; (vi) change in quality of the loan review system; (vii) change in value of underlying collateral value for collateral dependent loans; (viii) existence and impact of any concentrations of credit and changes in levels of concentrations; and (ix) effect of other external factors on the level of estimated credit losses.

The allowance for credit losses on loans estimate incorporates a reasonable and supportable economic forecast through externally developed macroeconomic scenarios applied in the model. The model includes both current and forecasted U.S. gross domestic product and U.S. unemployment rates. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Company uses a two-year reasonable and supportable forecast period in estimating the allowance for credit losses on loans. After the reasonable and supportable forecast period, the models effectively revert to historical averages.

Collateral Dependent Loans:
A loan is considered collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied, are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes, and additional selling expenses to arrive at an estimated net realizable value.

Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

Allowance for Credit Losses – Unfunded Commitments:
In addition to ACL - loans, the Company has established an ACL - unfunded commitments, classified in other liabilities on the consolidated balance sheets. Unfunded commitments include commercial and residential real estate loans that have been approved but not yet closed, commercial letters of credit, and unfunded commercial and residential lines of credit. This reserve is maintained at a level management believes is sufficient to absorb losses arising from unfunded loan commitments.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed principally, using straight-line or accelerated methods over their estimated useful lives. The estimated useful lives are 10 to 40 years for buildings and improvements and 3 to 10 years for furniture and equipment. These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur. Major improvements are capitalized. Land is carried at cost.

Mortgage Servicing Rights: Mortgage servicing rights, included in other assets, represent the allocated fair value of mortgage servicing rights retained on loans sold. Mortgage servicing rights are amortized to expense in proportion to, and over the period of, estimated net servicing revenues.

Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in a financial asset must have all of the following characteristics: (1) from the date of transfer, it must represent a proportionate ownership interest in the financial asset; (2) from the date of transfer, all cash flows received, except cash flows allocated as compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share of ownership; (3) the rights of each participating interest holder must have the same priority; and (4) no party has the right to pledge or change the entire financial asset unless all participating interest holders agree to do so.

Cash Surrender Value of Life Insurance: The Bank has purchased life insurance policies on certain directors, key executives, and other members of management. Bank-owned life insurance is recorded at its net cash surrender value, or the amount that can be realized.

Goodwill and Other Intangible Assets: Goodwill resulting from acquisitions is not amortized but is tested for impairment annually. As part of its testing, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines the fair value of a reporting unit is less than its carrying amount using these qualitative factors, the Company compares the fair value of the goodwill with its carrying amount, and then measures impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill.

Significant judgment is applied when goodwill is assessed for impairment. If qualitative factors indicate the potential for impairment, then further analysis includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparisons, incorporating general economic and market conditions, and selecting an appropriate control premium. At December 31, 2024, the Company believes the Bank does not have any indicators of potential impairment.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet. Other intangible assets consist of acquired customer relationships which are amortized on an accelerated method over their estimated useful lives of 10 years.

Other Real Estate Owned: Other real estate owned is comprised of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are initially recorded at fair value, less estimated cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management; other real estate owned is carried at the lower of the carrying amount or fair value, less the estimated cost to sell. Expenses, gains and losses on disposition, and reductions in carrying value are reported as non-interest expense. There was no other real estate owned as of December 31, 2024, or 2023.

At December 31, 2024, and 2023, there were no consumer mortgage loans in the process of foreclosure.

Stock-Based Compensation: The Company follows the requirements of "share-based payment transactions" using the modified prospective transition method. Under this method, the Company recognizes compensation cost for stock-based compensation for all new or modified grants.

See Note M regarding the various assumptions used in computing the compensation expense.

Advertising Costs: Advertising costs are expensed as incurred.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods the Company is reasonably certain to renew. The lease term is also used to calculate straight line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line-basis. Rent expense and variable lease expense are included in occupancy and equipment expense of the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions.

Income Taxes: The income tax provision is the total of the current year's income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Benefits from tax positions taken, or expected to be taken, in a tax return are not recognized if the likelihood that the tax positions would be sustained upon examination by a taxing authority is considered to be 50% or less. Any interest and penalties resulting from filing income tax returns are included in the provision for income taxes.

Cash Flow Definition: For purposes of the consolidated statements of cash flows, the Company considers cash and due from banks as cash and cash equivalents. The Company reports net cash flows for customer loan transactions, deposit transactions, and short-term borrowings with a maturity of one year or less.

Earnings and Dividends Per Common Share: Basic earnings per common share is based on net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan shares are considered outstanding for this calculation, unless unearned. Diluted earnings per common share reflects the dilutive effect of any additional, potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes the net change in unrealized gains and losses on securities available-for-sale and the accretion of the net unrealized loss on securities transferred from available-for-sale to held-to-maturity.

Employee Stock Ownership Plan (ESOP): Compensation expense is based on the market price of shares as they are committed to be released to participants' accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note S. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or market conditions could significantly affect such estimates.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk: The Company grants commercial, real estate, and installment loans to customers mainly in south-west and south-central Michigan. Commercial loans include loans collateralized by commercial real estate, business assets, and agricultural loans collateralized by crops and farm equipment. Commercial loans made up approximately 93% of the loan portfolio at December 31, 2024, and December 31, 2023; repayment is expected with cash flow from operations of businesses. Residential mortgage loans made up approximately 7% of the loan portfolio at December 31, 2024, and December 31, 2023, and are collateralized by mortgages on residential real estate. Consumer loans made up less than 1% of the loan portfolio at December 31, 2024, and 2023, and are primarily collateralized by consumer assets.

Operating Segments: While the chief decision makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one, as operating results for all segments are similar. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment: commercial banking.

Restrictions on Cash: The Bank is party to an offsetting interest rate swap with a notional amount totaling $9,603,000 as of December 31, 2024, and $9,938,000 as of December 31, 2023. This swap between the Bank, commercial borrower, and financial intermediary (counterparty) provides for the Bank to receive interest on the underlying commercial loan at a variable rate of interest and for the commercial borrower to receive a fixed rate of interest during the term of the loan. The Bank is required to post collateral with the counterparty to cover any financial exposure of the commercial borrower to the counterparty if the commercial borrower terminates the swap before the stated maturity of the underlying loan. No cash collateral was required as of December 31, 2024, and 2023. See Note Y for further information.

Financial Instruments with Off-Balance-Sheet Risk: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Commitments may include interest rates determined prior to funding the loan (rate lock commitments). Rate lock commitments on loans intended to be sold are considered derivatives. Such commitments were not material at December 31, 2024, and 2023.

Cash Balances: The Company maintains deposits with other correspondent banks. These deposits may exceed FDIC insured limits.

Certificates of Deposit in Other Banks: Certificates of deposit in other banks are stated at cost. The certificates of deposit all mature within two years.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters outstanding as of December 31, 2024, that will have a material future adverse effect on the consolidated financial statements.

Subsequent Events: Management evaluated subsequent events through March 6, 2025, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2024, but prior to when the consolidated financial statements were available to be issued, that provided additional evidence about conditions that existed at December 31, 2024, have been recognized in the consolidated financial statements for the year ended December 31, 2024. Events or transactions that provided evidence about conditions that did not exist at December 31, 2024, but arose before the consolidated financial statements were available to be issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2024.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards:
On January 1, 2023, the Company adopted ASC 326, as amended, which replaces the incurred loss methodology with an expected loss methodology referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, the Accounting Standards Codification (ASC) made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale securities management does not intend to sell or believes it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 resulted in the Company recording an increase of $1,100,000 to the allowance for credit losses and the establishment of a $500,000 reserve for unfunded commitments. A one-time, cumulative effect adjustment to capital for these amounts, net of tax, of $1,264,000 was recognized as of January 1, 2023.

On March 31, 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the troubled debt restructuring ("TDR") accounting model for creditors that have adopted Topic 326, *Financial Instruments – Credit Losses*. In addition, on a prospective basis, entities are subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications made on or after January 1, 2023, to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segments in the allowance for credit losses on loans. The adoption of ASU 2022-02 effective January 1, 2023, did not have a material effect on the Company's operating results or financial condition.

In 2024, the Company adopted ASU 2023-02, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* This guidance removed the specialized guidance for low-income-housing tax credit structures and instead permits entities the option to elect to account for tax equity investments, regardless of the tax credit program form which the income tax credits are received, using the proportional amortization method if certain conditions are met. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE B – BASIC AND DILUTED EARNINGS PER COMMON SHARE

A reconciliation of the numerators and denominators of basic and diluted earnings per common share for the years ended December 31, 2024, 2023, and 2022 is presented below:

	2024	2023	2022
Basic Earnings Per Common Share			
Net income (in thousands)	$ 10,402	$ 10,905	$ 13,491
Weighted average common shares outstanding	4,555,597	4,537,786	4,538,493
Less: Weighted average unallocated ESOP shares	-	-	(9,102)
Weighted average common shares outstanding for basic earnings per common share	4,555,597	4,537,786	4,529,391
Basic Earnings Per Common Share	$ 2.28	$ 2.40	$ 2.98
Diluted Earnings Per Common Share			
Net income (in thousands)	$ 10,402	$ 10,905	$ 13,491
Weighted average common shares outstanding for basic earnings per common share	4,555,597	4,537,786	4,529,391
Add: Dilutive effects of assumed exercises of stock options	2,844	3,407	15,605
Average shares and dilutive potential of common shares outstanding	4,558,441	4,541,193	4,544,996
Diluted Earnings Per Common Share	$ 2.28	$ 2.40	$ 2.97

In 2024, 2023, and 2022, stock options totaling 191,000, 180,600, and 5,800, respectively, were not considered in computing diluted earnings per share because they were anti-dilutive.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE C – SECURITIES

On April 1, 2022, the Company reassessed and transferred, at fair value, $66,387,000 of securities classified as available-for-sale to the held-to-maturity classification. As a result, the unrealized after-tax loss of the securities of $6,131,000 as of the transfer date will remain in equity as accumulated other comprehensive loss and will be accreted over the remaining life of the individual securities. No gain or loss was recorded as a result of the transfer.

Year-end securities were as follows (in thousands):

Available-for-sale, December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Government	$ 20,747	$ -	$ (267)	$ 20,480
State and political subdivisions	90,853	-	(10,309)	80,544
Mortgage-backed securities	43,684	1	(2,784)	40,901
Asset-backed securities	15,658	48	(96)	15,610
Corporate securities	2,050	-	(265)	1,785
Total available-for-sale	$ 172,992	$ 49	$ (13,721)	$ 159,320
Held-to-maturity, December 31, 2024				
State and political subdivisions	$ 60,454	$ 218	$ (6,050)	$ 54,622
Total held-to-maturity	$ 60,454	$ 218	$ (6,050)	$ 54,622

Available-for-sale, December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Government	$ 21,506	$ -	$ (857)	$ 20,649
State and political subdivisions	91,657	30	(9,826)	81,861
Mortgage-backed securities	55,330	-	(3,486)	51,844
Asset-backed securities	13,786	21	(189)	13,618
Corporate securities	2,050	-	(282)	1,768
Total available-for-sale	$ 184,329	$ 51	$ (14,640)	$ 169,740
Held-to-maturity, December 31, 2023				
State and political subdivisions	$ 61,600	$ 404	$ (5,410)	$ 56,594
Total held-to-maturity	$ 61,600	$ 404	$ (5,410)	$ 56,594

The Company has elected to exclude accrued interest receivable from the amortized cost basis of available-for-sale and held-to-maturity securities. Accrued interest receivable on securities amounted to $1,497,000 and $1,535,000 at December 31, 2024, and 2023, respectively, and is included in other assets in the accompanying consolidated balance sheets.

The following table summarizes securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2024, and 2023, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

December 31, 2024	Less than 12 Months		12 Months or More		Total	
Description of securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Government	$ -	$ -	$ 19,632	$ (267)	$ 19,632	$ (267)
State and political subdivisions	1,874	(36)	78,670	(10,273)	80,544	(10,309)
Mortgage-backed securities	-	-	39,176	(2,784)	39,176	(2,784)
Asset-backed securities	5,393	(21)	5,696	(75)	11,089	(96)
Corporate securities	-	-	1,785	(265)	1,785	(265)
Total available-for-sale	$ 7,267	$ (57)	$ 144,959	$ (13,664)	$ 152,226	$ (13,721)

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE C – SECURITIES (CONTINUED)

December 31, 2023	**Less than 12 Months**		**12 Months or More**		**Total**	
Description of securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
US Government	$ -	$ -	$ 20,649	$ (857)	$ 20,649	$ (857)
State and political subdivisions	-	-	79,899	(9,826)	79,899	(9,826)
Mortgage-backed securities	-	-	51,844	(3,486)	51,844	(3,486)
Asset-backed securities	2,556	(5)	7,735	(184)	10,291	(189)
Corporate securities	-	-	1,768	(282)	1,768	(282)
Total available-for-sale	$ 2,556	$ (5)	$ 161,895	$ (14,635)	$ 164,451	$ (14,640)

As of December 31, 2024, the Company's available-for-sale securities portfolio consisted of 105 securities, 98 of which were in an unrealized loss position. The majority of the unrealized losses are related to the Company's state and political subdivisions and mortgage-backed securities, as discussed below:

State and Political Subdivision Securities
The Company monitors the credit quality of state and political subdivision securities classified as available-for-sale through the use of a credit rating. The Company monitors the credit rating monthly to determine if a credit loss exists. As of December 31, 2024, the Company believes that no allowance for credit losses is required.

Mortgage-backed Securities
At December 31, 2024, approximately 93.5% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, which are directly guaranteed. The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of $2,668,000 which had unrealized losses of $18,000 at December 31, 2024. These non-agency mortgage-backed securities were not rated at purchase. The Company does not have the intent to sell these mortgage-backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuer continues to make timely principal and interest payments. The Company evaluates if a credit loss exists by monitoring to ensure it has adequate credit support. As of December 31, 2024, the Company believes no allowance for credit losses is required.

The following tables summarize securities held-to-maturity in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2024, and 2023, aggregated by major security type and length of time in a continuous loss position.

December 31, 2024	**Less than 12 Months**		**12 Months or More**		**Total**	
Description of securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
State and political subdivisions	$ 4,424	$ (48)	$ 43,286	$ (6,002)	$ 47,710	$ (6,050)
Total held-to-maturity	$ 4,424	$ (48)	$ 43,286	$ (6,002)	$ 47,710	$ (6,050)

December 31, 2023	**Less than 12 Months**		**12 Months or More**		**Total**	
Description of securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
State and political subdivisions	$ 4,411	$ (73)	$ 43,758	$ (5,337)	$ 48,169	$ (5,410)
Total held-to-maturity	$ 4,411	$ (73)	$ 43,758	$ (5,537)	$ 48,169	$ (5,410)

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE C – SECURITIES (CONTINUED)

The Company monitors the credit quality of debt securities held-to-maturity. The frequency of monitoring depends on whether the debt security has a CUSIP number. The amortized cost of held-to-maturity debt securities with a CUSIP number totaled $40,144,000 at December 31, 2024. These are monitored on a monthly basis through the use of credit ratings. The amortized cost of held-to-maturity debt securities without a CUSIP number totaled $20,310,000 at December 31, 2024. These represent state and political subdivisions in the Bank's market area which are monitored on an annual basis. As of December 31, 2024, no allowance for credit losses was required for held-to-maturity securities.

The proceeds from sale/call of securities and the associated losses are listed below (in thousands):

	2024	2023	2022
Proceeds	$ 700	$ -	$ 19,807
Gross losses	2	-	666

The tax benefit related to net realized losses was $140,000 for 2022.

The amortized cost and fair value of the available-for-sale securities portfolio are shown by contractual maturity. Contractual maturities of debt securities at year-end 2024 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 20,747	$ 20,480
Due from one to five years	12,252	11,478
Due from five to ten years	34,288	29,647
Due after ten years	46,363	41,204
Mortgage-backed securities	43,684	40,901
Asset-backed securities	15,658	15,610
Total	$ 172,992	$ 159,320

The amortized cost and fair value of the held-to-maturity securities portfolio are shown by contractual maturity. Contractual maturities of debt securities at year-end 2024 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 7,142	$ 7,132
Due from one to five years	8,140	8,059
Due from five to ten years	22,877	20,319
Due after ten years	22,295	19,112
Total	$ 60,454	$ 54,622

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities with a market value of $33,595,000 and $94,449,000, respectively, were pledged as collateral at the Federal Reserve and for other purposes on December 31, 2024, and 2023.

At December 31, 2024, and 2023, the fair value of securities issued by the State of Michigan and all its political subdivisions totaled $47,441,000 and $49,590,000, respectively. No other securities of any single issuer were greater than 10% of shareholders' equity.

Investments in the Federal Home Loan Bank of Indianapolis stock totaled $4,856,000 at December 31, 2024, and $3,731,000 at December 31, 2023, and are included in other assets because such investments are considered restricted. Such investments are recorded at cost and evaluated for impairment. Cash dividends received are recorded in taxable securities interest income.

The Company had no investment in securities of issuers outside of the United States as of December 31, 2024, or 2023.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans at year end were as follows (in thousands):

	2024	2023
Commercial real estate	$ 718,815	$ 666,559
Commercial	127,204	126,686
Agriculture	81,625	75,629
Real estate mortgage	183,678	162,867
Consumer	5,112	4,676
	1,116,434	1,036,417
Less allowance for credit losses	(12,782)	(11,697)
Loans, net	$ 1,103,652	$ 1,024,720

The Company has elected to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans amounted to $6,021,000 and $5,129,000 at December 31, 2024, and 2023, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Credit Risk Elements – Commercial Real Estate, Commercial, and Agriculture:
Loans to commercial real estate, commercial, and agricultural borrowers are underwritten based on the Bank's examination of current and projected cash flows to determine the ability of each borrower to repay obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, the underlying collateral when applicable, and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans may fluctuate in value after the initial evaluation.

Commercial real estate loans are also subject to underwriting standards unique to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan-to-value is generally 75% of the lower of the cost or appraised value of the assets. Appraisals on properties securing these loans are generally performed by fee appraisers approved by the Commercial Loan Committee. Because payments on commercial real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial real estate loans based on collateral and risk rating criteria. The Bank typically requires personal guarantees on these loans. The Bank's commercial real estate loans are secured largely by properties located in its primary market area.

Commercial operating loans are underwritten with an emphasis on cash flow analysis and are generally secured by a first-priority lien on the general assets of the business. Loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral, as well as the financial strength of the borrower. Commercial loans are generally guaranteed by the principal(s). The Bank's commercial lending is principally done in its primary market area.

Agricultural loans are primarily made for real estate or operating purposes. Agricultural real estate loans are evaluated based upon cash flow first, then as loans secured by real estate. Loan-to-value is generally 75% of the lower of the cost or appraised value of the assets. Appraisals on properties securing these loans are generally performed by fee appraisers. Agricultural operating loans are underwritten with reliance upon current and projected cash flows. Security for the operating loans is generally provided through first-priority liens on agricultural assets. Guaranty of the principal(s) is required for most agricultural borrowers. The Bank's agricultural lending is done primarily in its operating area.

Construction loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption, vacancy and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with completion of the project. Construction loans are included in commercial real estate and real estate mortgage categories. Construction loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions, and the availability of long-term financing. The

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Bank typically requires personal guarantees on these loans. The Bank's construction loans are secured predominantly by properties located in its primary market area.

Credit Risk Elements – Real Estate Mortgage and Consumer:
The Bank originates 1-4 family real estate and consumer loans utilizing credit reports to supplement the underwriting process. The Bank's manual underwriting standards for 1-4 family loans are generally in accordance with Federal Home Loan Mortgage Corporation and loan policy manual underwriting guidelines. Properties securing 1-4 family real estate loans are appraised by fee appraisers, which are independent of the loan origination function and have been approved by management. The loan-to-value ratios normally do not exceed 80% without credit enhancements, such as mortgage insurance. The Bank will lend up to 100% of the lesser of the appraised value or purchase price for conventional 1-4 family real estate loans, provided private mortgage insurance is obtained. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed and modified by management, as needed. This activity, coupled with smaller loan amounts spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Bank's 1-4 family real estate loans are secured predominantly by properties located in its primary market area.

The Bank's internal credit analysis staff reviews and validates credit risk on a periodic basis. In addition, an independent loan review is performed annually. Credit analysts' results are presented to management. The independent loan review is presented to management and the Audit Committee. The credit analysts' results and loan review processes complement and reinforce the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

At December 31, 2024, 2023, and 2022, certain directors and executive officers of the Company, including their associates and companies in which they are principal owners, were indebted to the Bank. The table below summarizes the aggregate loan activity (in thousands) for these individuals and their associates. All of these loans were made in the ordinary course of business, were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable loans with persons not related to the Company, and did not involve more than the normal risk of collectability or present other unfavorable features. None of these loans were in default at December 31, 2024. Other changes include adjustments for loans applicable to one reporting period that are excludable from the other reporting period, including changes in the directorate.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	2024	2023	2022
Balance at January 1	$ 38,181	$ 27,803	$ 21,689
New loans, including renewals	13,991	18,331	12,278
Repayments	(6,643)	(7,953)	(6,513)
Other changes	-	-	349
Balance at December 31	$ 45,529	$ 38,181	$ 27,803

The unpaid principal balance of mortgage loans serviced for others, which are not included on the consolidated balance sheet, was $169,218,000 and $169,882,000 at December 31, 2024, and 2023, respectively. Custodial escrow balances maintained in connection with serviced loans were $977,000 and $996,000 at December 31, 2024, and 2023, respectively.

Activity for capitalized mortgage servicing rights, included in other assets, was as follows (in thousands):

	2024	2023	2022
Balance at January 1	$ 1,140	$ 1,368	$ 1,534
Additions	222	106	235
Amortization	(296)	(334)	(401)
Balance at December 31	$ 1,066	$ 1,140	$ 1,368

The fair value of servicing rights was $2,070,000 and $2,135,000 at December 31, 2024, and 2023, respectively. Fair value at December 31, 2024, was determined using a discount rate of 10.5%; prepayment speeds ranging from 6.51% to 7.83%, depending on the stratification of the specific right; and a weighted average default rate of zero. Fair value at December 31, 2023, was determined using a discount rate of 11.0%; prepayment speeds ranging from 6.33% to 6.85%, depending on the stratification of the specific right; and a weighted average default rate of zero. No valuation allowance for capitalized mortgage servicing rights was considered necessary at December 31, 2024, or 2023, because the estimated fair value of such rights exceeded the carrying value.

Provision for Credit Losses: The provision for credit losses is determined by the Company as the amount to be added to the ACL for various types of financial instruments including loans, unfunded commitment credit exposures, and securities after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. See Note A Nature of Operations and Significant Accounting Policies for additional information regarding the ACL related to securities. The following table presents the components of the provision for credit losses (in thousands):

	2024	2023	2022
Provision (credit) for credit losses(1) on:			
Loans	$ 1,112	$ 1,024	$ 275
Unfunded commitments	(98)	(74)	-
Securities	-	-	-
Total	$ 1,014	$ 950	$ 275

(1) The Company adopted ASC 326 as of January 1, 2023. The 2022 amounts presented were calculated under the prior accounting method.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A summary of the activity for the years ended December 31, 2024, 2023, and 2022 in the allowance for credit losses – loans follows (in thousands):

December 31, 2024	**Commercial Real Estate**	**Commercial**	**Agriculture**	**Real Estate Mortgage**	**Consumer**	**Total**
Balance at January 1	$ 7,749	$ 1,713	$ 148	$ 1,985	$ 102	$ 11,697
Provision (credit) for credit losses	1,825	(564)	(68)	(105)	24	1,112
Loans charged off	-	-	-	-	(124)	(124)
Recoveries	-	-	-	24	73	97
Balance at December 31	$ 9,574	$ 1,149	$ 80	$ 1,904	$ 75	$ 12,782
December 31, 2023						
Balance at January 1	$ 6,710	$ 1,259	$ 632	$ 928	$ 59	$ 9,588
Adoption of ASC 326	(138)	759	(494)	948	25	1,100
Provision (credit) for loan losses(1)	1,177	(305)	10	63	79	1,024
Loans charged off	-	-	-	-	(106)	(106)
Recoveries	-	-	-	46	45	91
Balance at December 31	$ 7,749	$ 1,713	$ 148	$ 1,985	$ 102	$ 11,697
December 31, 2022						
Balance at January 1	$ 6,321	$ 1,271	$ 698	$ 971	$ 59	$ 9,320
Provision (credit) for loan losses	389	(12)	(66)	(99)	63	275
Loans charged off	-	-	-	-	(110)	(110)
Recoveries	-	-	-	56	47	103
Balance at December 31	$ 6,710	$ 1,259	$ 632	$ 928	$ 59	$ 9,588
Ending balance individually evaluated for impairment	$ 3	$ 272	$ -	$ 19	$ -	$ 294
Ending balance collectively evaluated for impairment	6,707	987	632	909	59	9,294
Total	$ 6,710	$ 1,259	$ 632	$ 928	$ 59	$ 9,588

(1) The Company adopted ASC 326 as of January 1, 2023. The 2022 amounts presented were calculated under the prior accounting method.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

In 2024, 2023, and 2022, consumer loans also included overdraft charge-offs and recoveries. These amounted to $120,000 and $65,000, respectively, for the year ended December 31, 2024; $106,000 and $45,000, respectively, for the year ended December 31, 2023; and $109,000 and $45,000, respectively, for the year ended December 31, 2022.

The following is a summary of the allowance for credit losses and the recorded investment for collateral dependent loans as of December 31, 2024, and 2023 (in thousands):

December 31, 2024	Commercial Real Estate	Commercial	Agriculture	Real Estate Mortgage	Consumer	Total
Allowance related to collateral dependent loans	$ -	$ 197	$ -	$ -	$ -	$ 197
Collateral dependent loans	$ 560	$ 197	$ -	$ 34	$ -	$ 791
December 31, 2023						
Allowance related to collateral dependent loans	$ -	$ 231	$ -	$ -	$ -	$ 231
Collateral dependent loans	$ 8,852	$ 231	$ -	$ 56	$ -	$ 9,139

Information regarding impaired loans for the year ended December 31, 2022 (in thousands):

Average balance of impaired loans	$ 1,988
Cash basis interest income recognized	$ 129
Interest income recognized	$ 128

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. There were no modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2024.

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023 (in thousands):

	Type of Concession				
December 31, 2023	Payment Delay	Interest Rate Reduction	Term Extension	Total	% of Total Segment of Loans
Commercial Real Estate	$ 8,182	$ -	$ -	$ 8,182	1.3%
Commercial	-	-	-	-	-
Agriculture	-	-	-	-	-
Real Estate Mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 8,182	$ -	$ -	$ 8,182	1.3%

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

For the year ended December 31, 2023, payment delays included six-month interest only payments for these commercial real estate borrowers. Loans modified in 2023 performed according to contractual terms in 2024.

There were no TDR loans added during 2022.

The following table presents the aging of the recorded investment in past due and nonaccrual loans, as of December 31, 2024, and 2023. It is shown by class of loans (in thousands):

	Loans Past Due Accruing Interest						
December 31, 2024	30-59 Days	60-89 Days	Over 90 Days	Subtotal	Loans on Non-Accrual	Loans Not Past Due or Non-Accrual	Total
Commercial Real Estate	$ 4,989	$ -	$ 69	$ 5,058	$ 492	$ 713,265	$ 718,815
Commercial	-	-	-	-	197	127,007	127,204
Agriculture	-	-	-	-	-	81,625	81,625
Real Estate Mortgage	154	-	122	276	34	183,368	183,678
Consumer	-	-	-		-	5,112	5,112
Total	$ 5,143	$ -	$ 191	$ 5,334	$ 723	$ 1,110,377	$ 1,116,434

	Loans Past Due Accruing Interest						
December 31, 2023	30-59 Days	60-89 Days	Over 90 Days	Subtotal	Loans on Non-Accrual	Loans Not Past Due or Non-Accrual	Total
Commercial Real Estate	$ -	$ -	$ -	$ -	$ 602	$ 665,957	$ 666,559
Commercial	-	-	-	-	231	126,455	126,686
Agriculture	-	-	-	-	-	75,629	75,629
Real Estate Mortgage	166	-	-	166	56	162,645	162,867
Consumer	-	-	-	-	-	4,676	4,676
Total	$ 166	$ -	$ -	$ 166	$ 889	$ 1,035,362	$ 1,036,417

The amortized cost basis for loans on nonaccrual status for which there is no related allowance for credit losses was $526,000 and $658,000 for the years ended December 31, 2024, and 2023, respectively.

Credit Quality Indicators:
The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them based upon each loan's credit risk. This analysis includes all loans originated by the commercial loan department and is performed at least annually. A small number of loans listed as commercial loans in the Call Report were originated by the retail loan department and were not assigned a loan grade.

The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass have no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make the full collection or liquidation highly questionable and improbable, based on the currently existing facts, conditions, and values.

The following table presents loans by risk category and origination year at December 31, 2024 (in thousands):

December 31, 2024	2024	2023	2022	2021	Prior	Revolving	Total
Commercial Real Estate							
Pass	$ 78,081	$ 123,379	$ 165,025	$ 129,196	$ 182,596	$ 7,761	$ 686,038
Special Mention	-	-	2,195	14,654	7,038	396	24,283
Substandard	-	-	-	-	8,494	-	8,494
Doubtful	-	-	-	-	-	-	-
Total commercial real estate	$ 78,081	$ 123,379	$ 167,220	$ 143,850	$ 198,128	$ 8,157	$ 718,815
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial							
Pass	$ 21,178	$ 13,305	$ 8,360	$ 6,547	$ 13,164	$ 52,061	$ 114,615
Special Mention	-	71	191	32	483	11,615	12,392
Substandard	-	-	-	197	-	-	197
Doubtful	-	-	-	-	-	-	-
Total commercial	$ 21,178	$ 13,376	$ 8,551	$ 6,776	$ 13,647	$ 63,676	$ 127,204
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture							
Pass	$ 12,387	$ 9,039	$ 7,116	$ 7,531	$ 18,948	$ 12,737	$ 67,758
Special Mention	188	7,310	665	1,379	3,173	1,137	13,852
Substandard	-	-	-	-	15	-	15
Doubtful	-	-	-	-	-	-	-
Total agriculture	$ 12,575	$ 16,349	$ 7,781	$ 8,910	$ 22,136	$ 13,874	$ 81,625
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate Mortgage							
Pass or not rated	$ 34,925	$ 24,371	$ 49,898	$ 26,217	$ 32,396	$ 15,010	$ 182,817
Special Mention	265	-	17	430	115	-	827
Substandard	-	-	-	-	34	-	34
Doubtful	-	-	-	-	-	-	-
Total real estate mortgage	$ 35,190	$ 24,371	$ 49,915	$ 26,647	$ 32,545	$ 15,010	$ 183,678
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer							
Performing	$ 1,815	$ 1,765	$ 600	$ 273	$ 238	$ 421	$ 5,112
Non-performing	-	-	-	-	-	-	-
Total consumer	$ 1,815	$ 1,765	$ 600	$ 273	$ 238	$ 421	$ 5,112
Current period gross charge-offs	$ -	$ -	$ 3	$ -	$ 1	$ 120	$ 124

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents loans by risk category and origination year at December 31, 2023 (in thousands):

December 31, 2023	2023	2022	2021	Prior	Revolving	Total
Commercial Real Estate						
Pass	$ 127,047	$ 152,461	$ 161,106	$ 213,805	$ 1,661	$ 656,080
Special Mention	-	457	67	1,103	-	1,627
Substandard	-	-	-	8,852	-	8,852
Doubtful	-	-	-	-	-	-
Total commercial real estate	$ 127,047	$ 152,918	$ 161,173	$ 223,760	$ 1,661	$ 666,559
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial						
Pass	$ 15,570	$ 38,128	$ 8,093	$ 19,297	$ 43,608	$ 124,696
Special Mention	20	210	44	1,485	-	1,759
Substandard	-	-	231	-	-	231
Doubtful	-	-	-	-	-	-
Total commercial	$ 15,590	$ 38,338	$ 8,368	$ 20,782	$ 43,608	$ 126,686
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture						
Pass	$ 19,240	$ 8,624	$ 9,566	$ 23,649	$ 12,913	$ 73,992
Special Mention	-	-	474	1,107	-	1,581
Substandard	-	-	-	56	-	56
Doubtful	-	-	-	-	-	-
Total agriculture	$ 19,240	$ 8,624	$ 10,040	$ 24,812	$ 12,913	$ 75,629
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate Mortgage						
Pass or not rated	$ 27,098	$ 55,348	$ 28,791	$ 38,192	$ 12,729	$ 162,158
Special Mention	-	95	448	133	-	676
Substandard	-	-	-	33	-	33
Doubtful	-	-	-	-	-	-
Total real estate mortgage	$ 27,098	$ 55,443	$ 29,239	$ 38,358	$ 12,729	$ 162,867
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Consumer						
Performing	$ 2,622	$ 910	$ 381	$ 430	$ 333	$ 4,676
Non-performing	-	-	-	-	-	-
Total consumer	$ 2,622	$ 910	$ 381	$ 430	$ 333	$ 4,676
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ 106	$ 106

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE E – PREMISES AND EQUIPMENT, NET

Premises and equipment, net at December 31, consisted of (in thousands):

	2024	2023
Land	$ 2,964	$ 2,964
Buildings and improvements	31,926	28,892
Furniture and equipment	12,249	11,144
	47,139	43,000
Less accumulated depreciation	(21,539)	(19,886)
Totals	$ 25,600	$ 23,114

NOTE F – OTHER INTANGIBLE ASSETS

Acquired intangible assets as of December 31 were as follows (in thousands):

	2024		2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Other acquired relationship intangibles	$ 360	$ 249	$ 360	$ 213

Amortization expense for each of the years ended December 31, 2024, 2023, and 2022, was $36,000.

Amortization expense for the years subsequent to December 31, 2024, is $36,000 for 2025 through 2027 and $3,000 for 2028.

NOTE G – DEPOSITS

The carrying amount of domestic deposits at year end follows (in thousands):

	2024	2023
Noninterest-bearing checking	$ 223,583	$ 226,178
Interest-bearing checking	360,238	359,328
Savings	98,668	99,708
Money market accounts	169,981	156,985
Time deposits	399,325	315,772
Totals	$ 1,251,795	$ 1,157,971

The carrying amount of time deposits over $250,000 at December 31, 2024, and 2023, was $146,756,000 and $119,737,000, respectively. Interest expense on these deposits was $5,835,000, $3,720,000, and $657,000 for the years ended December 31, 2024, 2023, and 2022, respectively.

At December 31, 2024, scheduled maturities of time deposits were as follows for the years ending December 31 (in thousands):

2025	$ 195,487
2026	143,489
2027	16,788
2028	37,999
2029	4,142
Thereafter	1,420
Total	$ 399,325

Related party deposits were $16,170,000 and $15,226,000 at December 31, 2024, and 2023, respectively.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE H – OTHER BORROWINGS

Other borrowings at December 31, 2024, and 2023, include borrowings from the Federal Home Loan Bank (FHLB) of Indianapolis and the Federal Reserve. FHLB borrowings at December 31, 2024, and 2023, consisted of $82,900,000 and $47,900,000, respectively, in advances. Principal is due at maturity unless callable by the issuer. Advances outstanding at December 31, 2024, have fixed interest rates ranging from 3.61% to 4.75%, with a weighted average rate of 4.29%. Advances from the FHLB are secured by a blanket collateral agreement, which gives the FHLB an unperfected security interest in certain 1-4 family mortgage, home equity, and commercial real estate loans. Eligible FHLB loan collateral at December 31, 2024, and 2023, was approximately $331,814,000 and $324,038,000, respectively.

In March 2023, the Federal Reserve established the Bank Term Funding Program ("BTFP") to make available funding to eligible depository institutions to help assure they had the ability to meet the needs of their depositors following then recent events in the banking industry. The program allowed for advances for up to one year secured by eligible high-quality securities at par value extending at the one-year overnight index swap ("OIS") rate plus 10 basis points, as of the day the advance is made. The interest rate was fixed for the term of the advance and there were no prepayment penalties. BTFP borrowings at December 31, 2023, amounted to $59,000,000 which were repaid in 2024.

At December 31, 2024, scheduled principal reductions on FHLB borrowings were as follows (in thousands):

2026	$ 10,000
2027	22,000
2028	5,900
2029	35,000
2030	10,000
Total	$ 82,900

NOTE I – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OVERNIGHT BORROWINGS

Securities sold under agreements to repurchase (repurchase agreements) are direct obligations secured by securities held in safekeeping at a correspondent bank. Repurchase agreements are offered primarily to certain large deposit customers as deposit equivalent investments. Information relating to securities sold under agreements to repurchase is as follows (in thousands):

	2024	**2023**
At December 31:		
Outstanding balance	$ 1,560	$ 1,738
Average interest rate	1.87%	1.71%
Daily average for the year:		
Outstanding balance	$ 1,421	$ 4,349
Average interest rate	2.11%	0.83%
Maximum outstanding at any month end	$ 2,069	$ 10,659

At December 31, 2024, and 2023, the Bank has $83,000,000 in line-of-credit arrangements available to purchase federal funds, with no outstanding borrowings.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE J – SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

In March 2004, Southern Michigan Bancorp Capital Trust I, a trust formed by the Company, closed a pooled, private offering of 5,000 trust-preferred securities with a liquidation amount of $1,000 per security. The Company issued $5,155,000 of subordinated debentures to the trust in exchange for ownership of all the common securities of the trust and the proceeds of the preferred securities sold by the trust. The Company is not considered the primary beneficiary of this trust, therefore the trust is not consolidated in the Company's financial statements. Rather the subordinated debentures are shown as a liability. The Company may redeem the subordinated debentures, subject to the receipt by the Company of the proper approval of the Federal Reserve, if such approval is required under applicable capital guidelines or policies of the Federal Reserve. The subordinated debentures may be redeemed on January 7, April 7, July 7, and October 7 of each year, either in whole or in integrals of $1,000 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on April 6, 2034. The subordinated debentures are also redeemable in whole, but not in part, from time to time upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed 20 consecutive quarters.

The $5,000,000 in trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a variable rate of interest. Prior to July 3, 2023, the rate of interest was equal to the three-month London Interbank Offered Rate (LIBOR), plus 2.75%. After July 3, 2023, the rate of interest converted to the three-month CME Term SOFR plus a spread adjustment of 0.26161% and a margin adjustment of 2.75%, as defined. The aggregate borrowing rate was 7.67% on December 31, 2024, and 8.41% on December 31, 2023. Interest expense related to the subordinated debentures amounted to $413,000 in 2024, $409,000 in 2023, and $243,000 in 2022. The Company's investment in the common stock of the trust is $155,000 and is included in other assets.

On April 16, 2021, the Company completed a private placement of $30,000,000 in aggregate principal amount of 3.75% Fixed-to-Floating Rate Subordinated Notes due April 16, 2031 (the "Notes"). The Notes initially bear interest at a fixed rate of 3.75% through April 16, 2026, after which time, until maturity, the rate will reset quarterly to an annual floating rate equal to the then-current 3-month SOFR plus 302 basis points. The Notes are redeemable by the Company at its option, in whole or in part, on or after April 16, 2026. The Notes are not subject to redemption at the option of the holders. The balance of the Notes, net of unamortized issuance costs of $433,000, amounted to $29,567,000 at December 31, 2024. The balance of the Notes amounted to $29,498,000 at December 31, 2023, net of unamortized issuance costs of $502,000. Amortization of debt issuance costs, which is included in interest expense, will be $69,000 for each of the five years subsequent to December 31, 2024.

NOTE K – INCOME TAXES

Income tax provision consists of the following (in thousands):

	2024	2023	2022
Current	$ 2,035	$ 2,356	$ 2,646
Deferred	(298)	87	(64)
Total income tax provision	$ 1,737	$ 2,443	$ 2,582

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INCOME TAXES (CONTINUED)

Income tax provision calculated at the statutory federal income tax rate of 21% differs from the actual income tax provision as follows (in thousands):

	2024	2023	2022
Income tax at statutory rate	$ 2,549	$ 2,803	$ 3,375
Tax-exempt interest income, net	(108)	(110)	(302)
Earnings on life insurance assets	(140)	(130)	(256)
Low-income housing partnership tax credits	(97)	(97)	(97)
Purchased energy credit gain	(425)	-	-
Captive insurance	(154)	(109)	(166)
Stock-based compensation	25	5	(37)
Other items, net	87	81	65
Totals	$ 1,737	$ 2,443	$ 2,582

Deferred tax assets and liabilities consist of the following at December 31 (in thousands):

	2024	2023
Deferred tax assets:		
Allowance for credit losses - loans	$ 2,684	$ 2,456
Allowance for credit losses - unfunded commitments	69	89
Deferred compensation and supplemental retirement liability	1,314	1,286
Nonaccrual loan interest	87	72
Stock-based compensation	310	304
Lease liability	682	672
Deferred loan fees	555	577
Accrued expense	225	240
Net unrealized loss on available-for-sale securities	2,871	3,064
Net unrealized loss on held-to-maturity securities	1,147	1,305
Other	29	36
Total deferred tax assets	9,973	10,101
Deferred tax liabilities:		
Mortgage servicing rights	(224)	(239)
Goodwill	(130)	(130)
Purchase accounting adjustments	(9)	(12)
Depreciation	(792)	(711)
Prepaid expenses	(126)	(312)
Right-of-use asset	(637)	(635)
Other	(202)	(156)
Total deferred tax liabilities	(2,120)	(2,195)
Net deferred tax assets included in other assets	$ 7,853	$ 7,906

The Company and its subsidiaries file U.S. federal and certain state tax returns. In general, tax returns are no longer subject to tax examinations by tax authorities for years before 2021.

SMB Risk Management, Inc., which was dissolved in December 2024, elected under IRC Section 831(b) to be taxed only on its investment income, which excludes the premium payments received under its insurance contracts from taxable income.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INCOME TAXES (CONTINUED)

During 2024, the Company purchased $5.3 million of renewable energy credits at a discount. The credits were subsequently deployed through the 2023 consolidated federal income tax return, as well as the filing of an application for tentative refund resulting in a carryback of the credits to the tax years of 2020, 2021 and 2022. As a result, the Company recognized a credit for income taxes of $425,000 during 2024 relating to the purchase discount. The Company had consolidated refundable federal income taxes of $5,109,000 at December 31, 2024, primarily related to the deployment of the renewable energy credits, and such amount is included in other assets in the accompanying December 31, 2024, consolidated balance sheet.

The Company believes that it had no significant uncertain tax positions as of December 31, 2024, and 2023.

NOTE L – BENEFIT PLANS

Employee Stock Ownership Plan/401(k) Plan: The Company has an employee stock ownership plan (ESOP) for substantially all full-time employees. The ESOP includes a 401(k) provision that allows employee contributions which are matched equal to 100% of the first 3% and 50% of the next 2% of the compensation contributed. Prior to 2023, the Company's matching contribution was provided in Company stock. Effective January 1, 2023, the Company's matching contribution is made in cash. The Board of Directors determines the Company's contribution level annually. Expense charged to operations for contributions to the ESOP totaled $601,000, $606,000, and $440,000 in 2024, 2023, and 2022, respectively.

Allocated shares held by the ESOP at December 31, 2024, and 2023, totaled 160,206 and 176,510, respectively.

The fair value of allocated shares held by the ESOP was $3,084,000 and $2,807,000 at December 31, 2024, and 2023, respectively. Upon distribution of shares to a participant, the participant has the right to require the Company to purchase shares at fair value, in accordance with the terms and conditions of the plan.

Deferred Compensation Plan: Directors and certain officers of the Bank may defer a portion of their director fees or compensation in a non-qualified deferred compensation plan. An account is established for each participant in the plan and credited with the participant's annual deferred compensation, plus interest, based on the stated rate determined annually. Upon retirement, participants receive the balance in their account over 15 years. Participants also continue to earn interest during retirement based on their remaining account balance. Participants are immediately vested in their account balances. The plan is intended to be funded by certain bank-owned life insurance contracts. The interest rate paid on deferred compensation balances was 5.19% in 2024, 5.35% in 2023, and 3.13% in 2022. Deferred compensation expense was $350,000, $424,000, and $387,000 in 2024, 2023, and 2022, respectively. The liability for deferred compensation benefits was $4,294,000 and $4,082,000 at December 31, 2024, and 2023, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Supplemental Retirement Plans: In December 2011, the Board of Directors approved the Defined Contribution Supplemental Executive Retirement Plan (2011 SERP), which is intended to provide select executive officers with a retirement benefit that is competitive with industry practices for bank executives when combined with the executive's other employer-funded retirement benefits. The 2011 SERP is a defined contribution arrangement which gives the Bank the discretion to make a specific annual, nonqualified, deferred compensation contribution to the account of participating executives. Whether an annual deferred compensation contribution will be made to the account balance of a participating executive, as well as the amount of the contribution, is at the discretion of the Bank's Board of Directors. The contribution that will be made by the Bank to the account of each executive is determined based on a percentage of base salary. Participants are generally entitled to receive payment of the benefit in their account in 120 equal monthly installments, commencing at age 65. Expense associated with the 2011 SERP amounted to $165,000 in 2024, $162,000 in 2023, and $113,000 in 2022. Liabilities associated with the 2011 SERP totaled $1,964,000 and $2,040,000 at December 31, 2024, and 2023, respectively, and are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE M – STOCK-BASED COMPENSATION

The Company has stock-based compensation plans as described below. Total compensation cost charged against income for those plans, was $1,014,000, $1,282,000, and $728,000 in 2024, 2023, and 2022, respectively.

The Southern Michigan Bancorp, Inc. Stock Incentive Plan of 2014 was created to advance the interest of the Company and its shareholders by affording to directors, officers, and other employees of the Company an opportunity for increased stock ownership. The plan permitted the grant and award of stock options, stock appreciation rights, restricted stock, and stock awards. A maximum of 800,000 shares of common stock were available under the plan as a result of the May 2021 100% stock dividend. The plan was terminated on May 11, 2023, when shareholders approved the Southern Michigan Bancorp, Inc. Stock Incentive Plan of 2023. The 2023 plan allows for up to 800,000 shares of common stock, with 601,967 available at December 31, 2024.

The fair value of each option award is estimated on the date of grant, based on a Black-Scholes option valuation model that uses the weighted average assumptions noted in the following table. The expected volatility and life assumptions are based on historical experience. The interest rate is based on the U.S. Treasury yield curve and the dividend yield assumption is based on the Company's history and expected dividend payouts. Forfeitures are recognized as they occur. The vesting period of stock options is at the discretion of the Compensation Committee, but is typically 2 years.

	2024	2023	2022
Risk-free interest rate	4.62%	4.37%	1.01%
Expected option life	8 years	8 years	8 years
Expected stock price volatility	18.68%	19.06%	18.88%
Dividend yield	2.77%	2.74%	2.67%
Weighted-average fair value of options granted during year	$ 3.80	$ 3.92	$ 2.72

A summary of the activity in the stock-based compensation plans for 2024 follows:

Stock Options

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	239,200	$ 18.50		
Granted	57,300	17.66		
Exercised	(500)	(10.16)		
Forfeited	(400)	(19.73)		
Outstanding at end of year	295,600	$ 18.34	6.51	$ 319,000
Exercisable at year end	173,900	$ 18.57	4.91	$ 171,000

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE M – STOCK-BASED COMPENSATION (CONTINUED)

	2024	2023	2022
Intrinsic value of options exercised	$ 4,000	$ 12,000	$ 13,000
Cash received from options exercised	5,000	44,000	34,000
Tax benefit/(expense) realized from options exercised	(25,000)	(5,000)	37,000

As of December 31, 2024, there was $182,000 of total, unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted-average period of seventeen months.

<u>Restricted Stock</u> – Restricted shares may be issued under the 2023 plan described above. Compensation expense is recognized over the vesting period of the shares, based on the market value of the shares on the issue date. The vesting period of restricted stock is at the discretion of the Compensation Committee, but is typically 5 years. The total fair value of shares vested during the years ended December 31, 2024, 2023, and 2022 was $861,000, $888,000, and $1,036,000, respectively. As of December 31, 2024, there was $2,710,000 of total unrecognized compensation cost related to unvested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 3.4 years.

A summary of activity for restricted stock for 2024 follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2024	164,240	$ 18.21
Granted	75,600	17.60
Vested	(52,931)	(18.29)
Forfeited	(1,645)	(19.00)
Non-vested at December 31, 2024	185,264	$ 17.93

NOTE N – COMMITMENTS

Various commitments arise in the normal course of business, such as commitments under commercial letters of credit, standby letters of credit, and commitments to extend credit. These arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Bank's normal credit policies. Collateral generally consists of receivables, inventory, and equipment and is obtained based on management's credit assessment of the customer.

Under standby letter of credit agreements, the Company agrees to honor certain commitments in the event that its customers are unable to do so. At December 31, 2024, and 2023, commitments under standby outstanding letters of credit were $1,834,000 and $7,933,000, respectively.

Loan commitments outstanding to extend credit are detailed below (in thousands):

	2024	2023
Fixed rate	$ 65,532	$ 58,571
Variable rate	118,076	135,921
Totals	$ 183,608	$ 194,492

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE N – COMMITMENTS (CONTINUED)

The fixed rate commitments have stated interest rates ranging from 2.00% to 15.00%. The terms of the above commitments range from 1 to 372 months.

Management does not anticipate any losses due to these transactions; however, the above amounts represent the maximum exposure to credit loss for loan commitments, as well as commercial and standby letters of credit.

Certain executives of the Bank have employment contracts containing change of control clauses. The employment contracts provide for the payment of up to 2.99 times the officers' base salaries and bonuses, should the officers be terminated in the event of a change of control.

NOTE O – RESTRICTIONS ON TRANSFERS FROM SUBSIDIARIES

Capital guidelines adopted by federal and state regulatory agencies and restrictions imposed by law, limit the amount of cash dividends the Bank can pay to the Company. At December 31, 2024, using the most restrictive of these conditions, the aggregate cash dividends the Bank could pay the Company without prior regulatory approval was approximately $30.7 million.

NOTE P – ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss amounted to $15,115,000 at December 31, 2024, and $16,434,000 at December 31, 2023, consisting of the following (in thousands):

	2024	2023
Unrealized loss on available-for-sale securities, net of income tax benefit of $2,871 in 2024, and $3,064 in 2023	$ 10,801	$ 11,525
Unrealized loss on held-to-maturity securities, net of income tax benefit of $1,147 in 2024, and $1,305 in 2023	$ 4,314	$ 4,909

NOTE Q – SOUTHERN MICHIGAN BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Condensed financial statements of Southern Michigan Bancorp, Inc. follow (in thousands):

Balance Sheets	**December 31, 2024**	**December 31, 2023**
Assets		
Cash and cash equivalents	$ 4,962	$ 4,348
Investment in subsidiary bank	133,706	123,357
Investment in non-bank subsidiaries	2,219	4,003
Premises and equipment, net	492	505
Other assets	1,390	1,007
Total Assets	$ 142,769	$ 133,220
Liabilities and Shareholders' Equity		
Dividends payable	$ 687	$ 629
Other liabilities	137	108
Subordinated debentures	34,722	34,653
Shareholders' equity	107,223	97,830
Total Liabilities and Shareholders' Equity	$ 142,769	$ 133,220

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – SOUTHERN MICHIGAN BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (CONTINUED)

Statements of Income	**Year ended December 31,**		
	2024	**2023**	**2022**
Dividends from subsidiary bank	$ 2,745	$ 1,910	$ 3,962
Dividends from non-bank subsidiaries	-	735	765
Interest income	-	-	5
Interest expense	(1,608)	(1,604)	(1,438)
Rental income from subsidiary bank	137	137	137
Other expenses	(1,283)	(1,473)	(972)
	(9)	(295)	2,459
Federal income tax benefit	(579)	(618)	(477)
	570	323	2,936
Equity in net income, less dividends received from:			
Subsidiary bank	9,030	10,768	10,508
Non-bank subsidiaries	802	(186)	47
Net Income	$ 10,402	$ 10,905	$ 13,491

Statements of Cash Flows	**Year ended December 31,**		
	2024	**2023**	**2022**
Operating Activities			
Net income	$ 10,402	$ 10,905	$ 13,491
Adjustments to reconcile net income to net cash from operating activities:			
Equity in net income, less dividends received from:			
Subsidiary bank	(9,030)	(10,768)	(10,508)
Non-bank subsidiaries	(802)	186	(47)
Stock option and restricted stock grant compensation expense	1,014	1,282	728
Depreciation of premises and equipment	13	13	16
Amortization of subordinated debt issuance costs	69	69	70
Decrease in ESOP obligation	-	-	210
Other, net	(354)	76	37
Net cash from operating activities	1,312	1,763	3,997
Investing Activities			
Additions to premises and equipment	-	(2)	(755)
Proceeds from sale of premises to non-bank subsidiary	-	755	-
Return of capital from non-bank subsidiary	2,586	-	-
Capital contribution to non-bank subsidiary	-	(2,000)	-
Net cash from investing activities	2,586	(1,247)	(755)
Financing Activities			
Cash dividends paid	(2,690)	(2,500)	(2,318)
Stock options exercised	5	44	34
Repurchase of common stock	(599)	(2,230)	(924)
Net cash from financing activities	(3,284)	(4,686)	(3,208)
Net change in cash and cash equivalents	614	(4,170)	34
Beginning cash and cash equivalents	4,348	8,518	8,484
Ending cash and cash equivalents	$ 4,962	$ 4,348	$ 8,518

During 2023, the Company contributed land of $72,000 to a non-bank subsidiary.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE R – SUPPLEMENTAL CASH FLOW DISCLOSURES

The following supplemental cash flow disclosures are provided for the years ended December 31, 2024, 2023, and 2022 (in thousands):

	2024	2023	2022
Cash paid during the year for:			
Interest	$ 35,810	$ 23,926	$ 5,731
Income taxes	1,150	2,650	2,470
Supplemental non-cash disclosures:			
Change in deferred income taxes on net unrealized gain (loss) on available-for-sale securities	193	1,274	(4,565)
Change in deferred income taxes on net unrealized gain (loss) on held-to-maturity securities	158	179	(1,484)
Increase in ACL – loans ($1,100) and unfunded commitments ($500), net of deferred income taxes ($336) as a result of adoption of ASC 326.	-	1,264	-
Dividends declared not yet paid	687	629	591
Lease liabilities arising from obtaining right-of-use assets	167	207	773
Trade in value of vehicle	54	-	-
Derecognition of lease liability and right-of-use asset from purchase of leased premises	-	(322)	-
Change in unrealized gain (loss) on available-for-sale securities	917	6,067	(29,500)
Accretion of unrealized loss on held-to-maturity securities	(753)	(853)	(694)
Transfers from loans to other real estate owned	-	17	-
Transfers of securities from available-for-sale to held-to-maturity	-	-	66,387

NOTE S – FAIR VALUE INFORMATION

The following methods and assumptions were used by the Company in estimating fair values for financial instruments, as well as for gaining an indication of where the instruments fall within the fair value hierarchy. This is described in greater detail in Note T.

Cash and cash equivalents: The carrying amount reported in the balance sheet approximates fair value and results in a Level 1 classification.

Securities available-for-sale and held-to-maturity: Fair values for securities are based on quoted market prices, where available. For all other securities, the Company obtains a current price from a broker trade desk. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions, among other things. Securities are classified as either Level 1, 2, or 3. See Note T for the hierarchy level breakdown for available-for-sale securities.

Loans, net: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values and result in a Level 3 classification. The fair values for other loans are estimated using discounted cash flows analyses and interest rates currently offered for loans with similar terms to borrowers of similar credit quality. Such loans result in a Level 3 classification.

Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors and results in a Level 2 classification.

Accrued interest receivable: The carrying amount reported in the balance sheet approximates fair value.

Off-balance-sheet financial instruments: The estimated fair value of off-balance-sheet financial instruments is based on current fees or costs that would be charged to enter or terminate the arrangements. The estimated fair value is not considered significant for this presentation.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE S – FAIR VALUE INFORMATION (CONTINUED)

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) and result in a Level 2 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates based on the FHLB yield curve, resulting in a Level 2 classification.

Securities sold under agreements to repurchase, overnight borrowings, and federal funds sold: The carrying amount reported in the balance sheet approximates fair value and results in a Level 2 classification.

Other borrowings: The fair value of other borrowings is estimated using discounted cash flows analyses using the FHLB yield curve. This results in a Level 2 classification.

Subordinated debentures: The carrying amount reported in the balance sheet approximates fair value of the variable-rate subordinated debentures. The fair value for the fixed rate subordinated debentures is estimated using discounted cash flow analyses. Such analyses are based on the current borrowing rates for similar types of borrowing arrangements. This results in a Level 3 classification.

Accrued interest payable: The carrying amount reported in the balance sheet approximates fair value.

While these estimates of fair value are based on management's judgment of appropriate factors, there is no assurance that if the Company had disposed of such items at December 31, 2024, and 2023, the estimated fair values would have been achieved. Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2024, and 2023, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities not defined as financial instruments are not included in the following disclosures, such as property and equipment. Furthermore, non-financial instruments typically not recognized in financial statements may have value but are not included in the following disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

The estimated fair values of the Company's financial instruments at year end are as follows (in thousands):

	Fair Value Hierarchy	2024 Carrying Amount	2024 Fair Value	2023 Carrying Amount	2023 Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$ 69,239	$ 69,239	$ 71,620	$ 71,620
Federal funds sold	Level 2	259	259	1,468	1,468
Securities available-for-sale	See Note T	159,320	159,320	169,740	169,740
Securities held-to-maturity	Level 2 or 3	60,454	54,622	61,600	56,594
Loans held for sale	Level 2	995	995	169	169
Loans, net of allowance for credit losses	Level 3	1,103,652	1,056,460	1,024,720	971,786
Accrued interest receivable	Level 1	7,670	7,670	6,664	6,664
Financial liabilities:					
Deposits	Level 2	$ (1,251,795)	$ (1,210,262)	$ (1,157,971)	$ (1,039,268)
Securities sold under agreements to repurchase and overnight borrowings	Level 2	(1,560)	(1,560)	(1,738)	(1,738)
Other borrowings	Level 2	(82,900)	(82,732)	(106,900)	(106,832)
Subordinated debentures	Level 3	(34,722)	(31,684)	(34,653)	(30,470)
Accrued interest payable	Level 1	(1,067)	(1,067)	(1,917)	(1,917)

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE S – FAIR VALUE INFORMATION (CONTINUED)

The preceding table does not include certificates of deposits in other banks, net cash surrender value of life insurance, interest rate swaps, and dividends payable, which are also considered financial instruments. The estimated fair value of such items is considered their carrying amount.

NOTE T – FAIR VALUE MEASUREMENTS

The Company also has unrecognized financial instruments related to commitments to extend credit and standby letters of credit, as described in Note N. The contract amount of such instruments is considered the fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. In the absence of a principal market, the most advantageous market for the asset or liability is used. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Fair value must be determined using valuation techniques consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be either: (i) observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from independent sources; or (ii) unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. A fair value hierarchy for valuation inputs has been established that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

> *Level 1 Inputs* – Unadjusted, quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> *Level 2 Inputs* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for assets or liabilities which are identical or similar in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.); or 4) inputs derived principally from, or corroborated by, market data by correlation or other means.
>
> *Level 3 Inputs* – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments, pursuant to the valuation hierarchy, follows. These valuation methodologies were applied to all the Company's financial and non-financial assets and liabilities carried at fair value.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use observable market-based parameters as inputs. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE T – FAIR VALUE MEASUREMENTS (CONTINUED)

adjustments may include amounts to reflect counterparty credit quality, the company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: Securities classified as available-for-sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. Unadjusted, quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date for Level 1 securities. For all other securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions, among other things. When there are unobservable inputs, such securities are classified as Level 3.

Collateral Dependent Loans: From time to time, certain collateral dependent loans will have an ACL established. When the fair value of the collateral is based on an appraised value or when an appraised value is not available, the collateral dependent loans are recorded as nonrecurring Level 3.

Other Real Estate Owned (OREO): The Company values OREO at the fair value of the underlying collateral, less expected selling costs. Collateral values are estimated primarily using discounted appraisals and reflect a market value approach. These discounts generally range from 25% to 55%. Due to the significance of unobservable inputs used in estimating fair value, OREO has been classified as Level 3. The Company held no OREO at December 31, 2024, and 2023.

Interest Rate Swaps: Interest rate swap valuations are determined using proprietary pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The valuations utilize certain Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. These credit valuation adjustments do not significantly impact the overall valuation of swap positions and the swap valuations are classified as Level 2 in the fair value hierarchy.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE T – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial and non-financial assets, as well as non-financial liabilities, measured at fair value as of December 31, 2024, and 2023. Information is segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

2024	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring:				
Assets				
Securities available-for-sale:				
US Government	$ 20,480	$ -	$ -	$ 20,480
Mortgage-backed securities	-	40,901	-	40,901
States and political subdivisions	-	80,544	-	80,544
Corporate securities	-	1,785	-	1,785
Asset-backed securities	-	15,610	-	15,610
Total available-for-sale	$ 20,480	$ 138,840	$ -	$ 159,320
Interest rate swaps	$ -	$ 363	$ -	$ 363
Liabilities				
Interest rate swaps	$ -	$ 363	$ -	$ 363
Nonrecurring assets:				
Collateral dependent loans	$ -	$ -	$ -	$ -

2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring:				
Assets				
Securities available-for-sale:				
US Government	$ 20,649	$ -	$ -	$ 20,649
Mortgage-backed securities	-	51,844	-	51,844
States and political subdivisions	-	81,861	-	81,861
Corporate securities	-	1,768	-	1,768
Asset-backed securities	-	13,618	-	13,618
Total available-for-sale	$ 20,649	$ 149,091	$ -	$ 169,740
Interest rate swaps	$ -	$ 333	$ -	$ 333
Liabilities				
Interest rate swaps	$ -	$ 333	$ -	$ 333
Nonrecurring assets:				
Collateral dependent loans	$ -	$ -	$ -	$ -

Collateral dependent loans measured at fair value are reported net of an allowance for credit losses of $197,000 at December 31, 2024, and $231,000 at December 31, 2023.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE U – REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action that could have a direct, material adverse effect on the consolidated financial statements. Prompt corrective action provisions are not applicable to bank holding companies.

The prompt corrective action regulations provide five capital categories, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized or worse, regulatory approval is required to, among other things, accept brokered deposits. If undercapitalized, capital distributions and asset growth are limited while plans for capital restoration are required.

Under the amended Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) (the "Policy Statement") the Company qualifies for treatment as a small bank holding company and is no longer subject to consolidated capital rules.

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE U – REGULATORY MATTERS (CONTINUED)

At year end, actual capital levels and minimum required levels were as follows (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2024						
Total Capital to risk-weighted assets:						
Consolidated	$ 157,070	13.3%	N/A	N/A	N/A	N/A
Bank	148,399	12.6	$ 94,183	8.0%	$ 117,729	10.0%
Tier 1 (Core) Capital to risk-weighted assets:						
Consolidated	113,960	9.7	N/A	N/A	N/A	N/A
Bank	135,289	11.5	70,638	6.0	94,183	8.0
Common Tier 1 Capital to risk-weighted assets (CET1):						
Consolidated	113,960	9.7	N/A	N/A	N/A	N/A
Bank	135,289	11.5	52,978	4.5	76,524	6.5
Tier 1 (Core) Capital to average assets:						
Consolidated	113,960	7.8	N/A	N/A	N/A	N/A
Bank	135,289	9.1	59,300	4.0	74,125	5.0
2023						
Total Capital to risk-weighted assets:						
Consolidated	$ 147,973	13.3%	N/A	N/A	N/A	N/A
Bank	138,347	12.4	$ 89,116	8.0%	$ 111,395	10.0%
Tier 1 (Core) Capital to risk-weighted assets:						
Consolidated	105,850	9.5	N/A	N/A	N/A	N/A
Bank	126,224	11.3	66,837	6.0	89,116	8.0
Common Tier 1 Capital to risk-weighted assets (CET1):						
Consolidated	105,850	9.5	N/A	N/A	N/A	N/A
Bank	126,224	11.3	50,128	4.5	72,407	6.5
Tier 1 (Core) Capital to average assets:						
Consolidated	105,850	7.6	N/A	N/A	N/A	N/A
Bank	126,224	9.0	56,137	4.0	70,171	5.0

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE V – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified investment housing projects. At December 31, 2024, and 2023, the balance of the investment for qualified affordable housing projects was $4,295,000 and $401,000, respectively. These balances are reflected in other assets in the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $3,607,000 and $27,000 at December 31, 2024, and 2023. The Company expects to fulfill these commitments by the year ending 2039.

During the years ended December 31, 2024, 2023, and 2022, the Company recognized amortization expense of $106,000, $93,000, and $84,000, respectively, which was included in the income tax provision in the consolidated statements of income.

Additionally, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $97,000 in 2024, 2023, and 2022.

NOTE W – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's primary sources of revenue include net interest income, service charges and fees, trust fees, gains on the sale of loans, earnings on life insurance assets, and ATM and debit card fee income. Net interest income, gains on the sale of loans, securities and other assets, as well as earnings on life insurance assets are outside of the scope of ASC 606, *Revenue from Contracts with Customers*. Other sources of revenue fall within the scope of ASC 606 and are primarily recognized within "Non-interest income" in the consolidated statements of income.

The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of a contract are satisfied. Some obligations are satisfied at a point in time, while others are satisfied over a period of time. Revenue is recognized as the amount of consideration expected to be received in exchange for transferring goods or services to a customer; it is segregated based on the nature of products and services offered as part of contractual arrangements. Generally, these sources of revenue are earned at the time the service is delivered or over the course of a monthly period; they do not result in any contract asset or liability balance at any given period end. As a result, there were no contract assets or liabilities recorded. Revenue within the scope of ASC 606 is discussed in the following paragraphs.

Service charges on deposit accounts include fees and other charges the Company receives to provide various services. The charges include, but are not limited to, monthly service fees, account analysis fees, overdraft fees, and stop-payment fees. The consideration includes both fixed (e.g., monthly service fees) and transaction fees (e.g., stop-payment fees). Fixed fees are recognized over the period of time the service is provided while transaction fees are recognized when a specific service is rendered to the customer.

Trust fees include fee income generated from investment management services. Services are rendered over a period of time, over which revenue is recognized.

ATM and debit card fees primarily include debit card interchange and network revenues. Debit card interchange and network revenues are earned on debit card transactions conducted through payment networks such as MasterCard and Pulse. Interchange income is recognized concurrently with the delivery of services on a daily basis. Interchange and network revenues are presented gross of interchange expenses, which are presented separately as a component of non-interest expense.

Other non-interest income includes check orders, wire transfer fees, check cashing fees, cash management fees, and other service charges totaling $543,000, $644,000, and $625,000 during 2024, 2023, and 2022, respectively. The Company's performance obligation for cash management fees is generally satisfied, and therefore, revenue is recognized over the period in which the service is provided. Check orders, wire transfer fees, check cashing fees, and other deposit account related fees are largely transaction based. Therefore, the performance obligation is satisfied and related revenue is recognized at a point in time. These fees are included in the Other category of "Non-interest income".

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE W - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Contract Balances
A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest income streams are largely based on transactional activity or standard month-end revenue accruals, such as asset management fees based on month-end market values. Consideration is most often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter long-term revenue contracts with customers; therefore, it does not experience significant contract balances. As of December 31, 2024, and 2023, the Company did not have a material amount of contract balances.

NOTE X – LEASES

The Company enters into leases in the normal course of business, primarily for business development offices and bank branches. The Company's leases have remaining terms ranging from 6 to 19 years, some of which include renewal options to extend the lease for up to 10 years. The weighted average remaining lease term at December 31, 2024, was 15.4 years.

The Company includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option.

Lease expense for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term. Lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the prime rate. The weighted average discount rate was 4.61% and 4.59% at December 31, 2024, and December 31, 2023, respectively.

Right-of-use assets are included in other assets and lease liabilities are included in accrued expenses and other liabilities in the consolidated balance sheets. At December 31, 2024, and 2023, right-of-use assets totaled $3,035,000 and $3,023,000, respectively, and lease liabilities totaled $3,289,000 and $3,250,000, respectively.

Rent expense under operating leases amounted to $284,000, $293,000, and $221,000 in 2024, 2023, and 2022, respectively. Amortization of right-of-use assets totaled $154,000, $167,000, and $117,000 in 2024, 2023, and 2022, respectively.

Lease commitments under non-cancelable operating leases at December 31, 2024, were as follows (in thousands):

2025	$ 302
2026	305
2027	309
2028	315
2029	321
Thereafter	3,066
Total future minimum lease payments	4,618
Amounts representing interest	(1,329)
Total lease liabilities	$ 3,289

SOUTHERN MICHIGAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE Y – DERIVATIVE FINANCIAL INSTRUMENTS

The Bank has entered into an interest rate swap agreement with a commercial customer to accommodate their borrowing needs. To offset exposure and manage its own interest rate risk, the Bank simultaneously entered into an interest rate swap agreement with a correspondent bank counterparty with offsetting terms. By definition, these agreements are considered to be derivative instruments but are not designated as accounting hedges. As a result, any changes in the net fair value of the instruments are recognized in non-interest income or expense. Due to the nature of the offset in value between the agreements with the customer and the counterparty, the Bank does not expect to have any interest rate risk relating to these agreements and no amount was recognized as non-interest income or expense in 2024 or 2023. The fair value of the instruments, amounting to $363,000 and $333,000 are included in other assets and accrued expense and other liabilities in the December 31, 2024, and 2023, consolidated balance sheets.

The following tables present the derivative financial instruments as of December 31, 2024, and December 31, 2023, (Notional Amount and Fair Value in thousands):

December 31, 2024	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Customer interest rate swap Receive fixed/pay floating	$ 9,603	4.5%	1 Month SOFR + 1.70%	3.2 yrs.	$ (363)
Correspondent interest rate swap Pay fixed/receive floating	9,603	4.5%	1 Month SOFR + 1.70%	3.2 yrs.	363

December 31, 2023	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Customer interest rate swap Receive fixed/pay floating	$ 9,938	4.5%	1 Month SOFR + 1.70%	4.2 yrs.	$ (333)
Correspondent interest rate swap Pay fixed/receive floating	9,938	4.5%	1 Month SOFR + 1.70%	4.2 yrs.	333

NOTE Z – QUARTERLY FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

	Interest Income	Net Interest Income	Provision for Credit Losses	Net Income	Earnings Per Share Basic	Earnings Per Share Fully Diluted
2024						
First Quarter	$ 18,507	$ 10,061	$ -	$ 2,678	$ 0.59	$ 0.59
Second Quarter	18,757	9,985	236	2,488	0.55	0.55
Third Quarter	19,531	10,393	425	2,586	0.57	0.57
Fourth Quarter	19,321	10,648	353	2,650	0.57	0.57
2023						
First Quarter	$ 14,333	$ 9,854	$ 275	$ 3,005	$ 0.66	$ 0.66
Second Quarter	15,991	9,861	650	2,696	0.59	0.59
Third Quarter	17,231	9,935	25	2,767	0.61	0.61
Fourth Quarter	18,013	10,330	-	2,437	0.54	0.54

SOUTHERN MICHIGAN BANCORP, INC.

SELECTED FINANCIAL DATA

(in thousands, except per share data)

	Year Ended December 31				
	2024	2023	2022	2021	2020
Total interest income	$ 76,116	$ 65,568	$ 44,134	$ 37,140	$ 31,818
Net interest income	41,087	39,980	38,102	33,319	26,677
Provision for credit losses	1,014	950	275	1,500	2,600
Net income	10,402	10,905	13,491	11,757	7,386
Per share data (1):					
Basic earnings per share	2.28	2.40	2.98	2.59	1.61
Cash dividends declared	0.60	0.56	0.52	0.48	0.46
Balance sheet data:					
Gross loans	1,116,434	1,036,417	886,626	741,408	635,870
Deposits	1,251,795	1,157,971	1,091,051	974,352	838,298
Subordinated debentures	34,722	34,653	34,584	34,514	5,155
Other borrowings	82,900	106,900	40,000	20,000	26,500
Equity	107,223	97,830	86,164	97,749	92,977
Total assets	1,496,555	1,414,795	1,276,523	1,161,154	997,574
Return on average assets	0.71%	0.80%	1.10%	1.06%	0.82%
Return on average equity (2)	10.07	11.94	15.68	12.32	8.36
Dividend payout ratio (3)	26.42	23.27	17.55	18.60	28.82
Average equity to average assets (2)	7.01	6.70	7.04	8.62	9.80

(1) Per share data for 2020 has been restated for the 2021 100% stock dividend.
(2) Average equity in the above table includes common shares subject to a repurchase obligation held in the Company's ESOP plan and includes average, unrealized appreciation, or depreciation on securities available-for-sale and held-to-maturity.
(3) Dividends declared, divided by net income.

COMMON STOCK MARKET PRICES AND DIVIDENDS

The Company's common stock is regularly quoted on the OTC Pink under the symbol SOMC. The sale prices described below are quotations reflecting inter-dealer prices without retail markups, markdowns, or commissions; they may not necessarily represent actual transactions. As of March 10, 2025, there were 4,572,949 shares of Southern common stock, issued and outstanding, held by 267 holders of record.

The following table sets forth the range of high and low closing sales prices and dividends declared on the Company's common stock for the two most recent fiscal years:

	2024			2023		
	Closing Price		Cash Dividends	Closing Price		Cash Dividends
Quarter Ended	High	Low	Declared	High	Low	Declared
March 31	$ 18.19	$ 15.60	$ 0.15	$ 22.00	$ 18.20	$ 0.14
June 30	17.99	15.95	0.15	20.50	15.55	0.14
September 30	18.32	15.60	0.15	18.70	16.50	0.14
December 31	19.50	17.15	0.15	17.48	15.15	0.14

There are restrictions that currently limit the Company's ability to pay cash dividends. Information regarding dividend payment restrictions is described in Note O to the consolidated financial statements.

Electric Vehicle Charging Station at
Jackson Summit Branch

Our Locations

BATTLE CREEK BRANCH
5350 E BECKLEY RD
BATTLE CREEK, MI 49015

CENTREVILLE BRANCH
235 E MAIN ST
CENTREVILLE, MI 49032

COLDWATER MAIN OFFICE
51 W PEARL ST
COLDWATER, MI 49036

COLDWATER WEST CHICAGO
2 W CHICAGO ST
COLDWATER, MI 49036

COLDWATER EAST CHICAGO
*DRIVE THRU LOCATION ONLY
441 E CHICAGO ST
COLDWATER, MI 49036

CONSTANTINE BRANCH
345 N WASHINGTON ST
CONSTANTINE, MI 49042

HILLSDALE BRANCH
10 E CARLETON RD
HILLSDALE, MI 49242

JACKSON DOWNTOWN BRANCH
200 N JACKSON ST
JACKSON, MI 49201

JACKSON SUMMIT BRANCH
3970 WEATHERWAX DR
JACKSON, MI 49201

JACKSON LOAN PRODUCTION OFFICE
113 W MICHIGAN AVE
JACKSON, MI 49201

MARSHALL BRANCH
1110 W MICHIGAN AVE
MARSHALL, MI 49068

MENDON BRANCH
136 N NOTTAWA ST
MENDON, MI 49072

PORTAGE BRANCH
531 W KILGORE RD
PORTAGE, MI 49024

PORTAGE TRADE CENTRE
650 TRADE CENTRE WAY, STE 120
PORTAGE, MI 49002

STURGIS DOWNTOWN BRANCH
200 JOHN ST
STURGIS, MI 49091

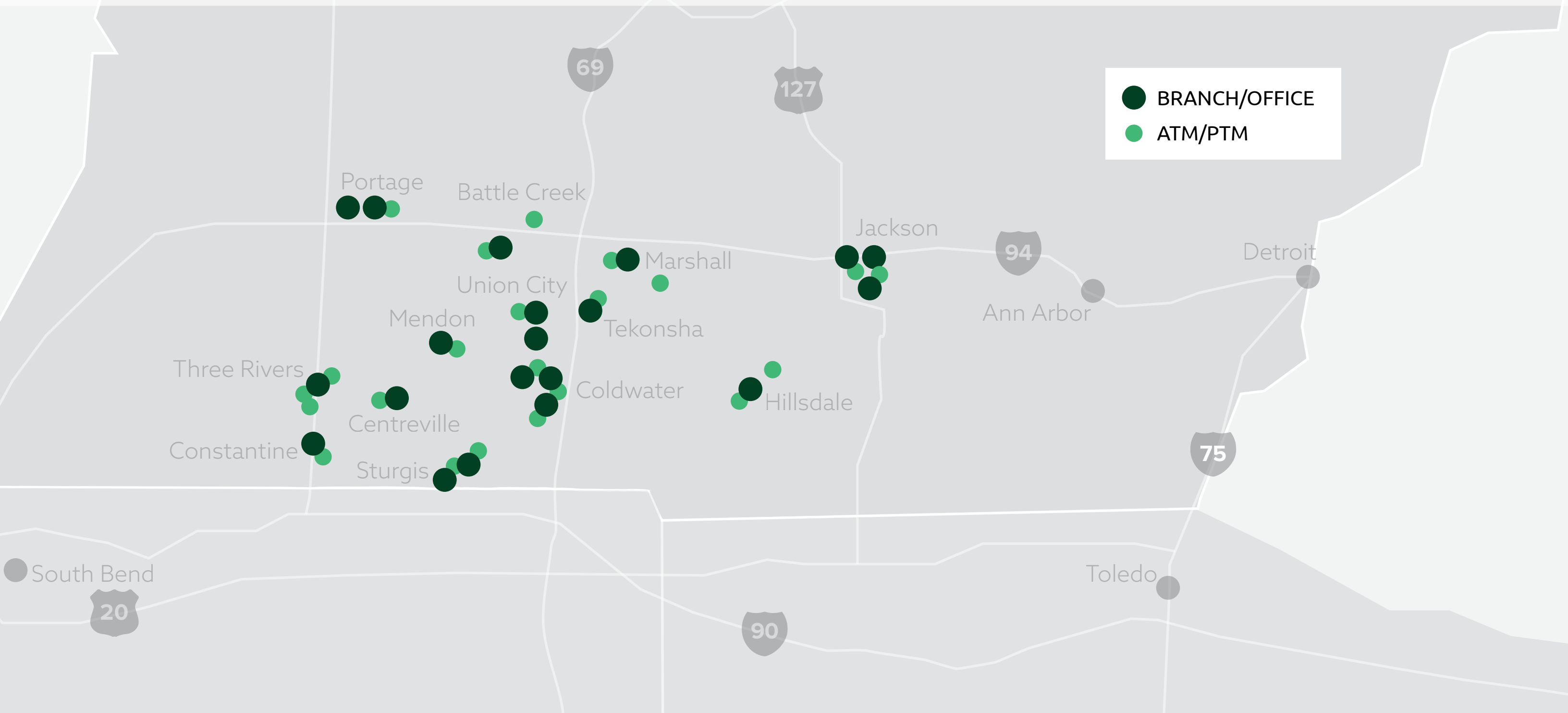
STURGIS SOUTH BRANCH
711 S CENTREVILLE RD
STURGIS, MI 49091

TEKONSHA BRANCH
202 N MAIN ST
TEKONSHA, MI 49092

THREE RIVERS BRANCH
225 US 131
THREE RIVERS, MI 49093

UNION CITY BRANCH
225 N BROADWAY ST
UNION CITY, MI 49094

Scan the QR Code to find a location near you



SOUTHERN MICHIGAN
BANCORP, INC.

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