2 0 1 0 QUARTERLY REPORT

FIRST Quarter

Corporate Highlights

To Our Shareholders:

I am pleased to announce that Southern Michigan reported net income of $702,000, or $.30 per share, for the first quarter of 2010. Our results mark the fourth consecutive quarterly profit following the first quarter of 2009 when Southern incurred a net loss of $271,000, or $.12 per share.

Although we are pleased with our continued trend of stronger and more stable core earnings, the uncertain economic environment, both regionally and nationally, warrants caution even though signs of improvement are beginning to appear. Southern's financial performance is especially noteworthy when compared with our peers in Michigan and throughout the Midwest, but still not to the level we desire and are working to attain.

Southern's financial and overall earnings strengths are attributable to a number of factors encompassing disciplined credit underwriting and risk management practices, effective management of the balance sheet, and a continued focus on capital preservation.

Non-performing loans totaled $6.4 million at March 31, 2010, representing a decrease of $1.2 million, or 16 percent, from $7.6 million at year-end 2009. Improvements in overall asset quality enabled us to reduce our provision for loan losses to $200,000 for the first quarter of 2010 compared to $1.45 million for the same period last year. Our allowance for loan losses at March 31, 2010 totaled $5.94 million, or 1.83 percent of loans, compared with an allowance level of 2.07 percent of loans at the end of the first quarter of 2009. Loan charge-offs for the first quarter this year declined by 80 percent to $331,000 as compared to last year's first quarter total of $1.66 million.

Our balance sheet management strategies contributed to a first quarter 2010 net interest margin of 4.07 percent, a slight increase over last year's first quarter margin of 4.04 percent. Southern's net interest margin still ranks highly among our Michigan peers and among community banks throughout the region. The improvement in our margin is noteworthy during this period of historically low interest rates and high levels of non-performing assets. Our disciplined loan underwriting and prudent deposit pricing strategies are major components of margin improvement. In addition, we continue to take advantage of balance sheet restructuring opportunities and have proactively worked with borrowers to mitigate potential problems that could add to non-performing loans and eventually Other Real Estate (ORE) totals.

Capital strength remains a vital gauge of financial performance and viability, especially when applied to the community banking industry. As of March 31, 2010, total shareholders' equity exceeded $46 million. For Southern Michigan Bank, Tier 1 capital was 11.51 percent of risk weighted assets at quarter-end while the total risk-based capital ratio was 12.77 percent. Both ratios are comfortably above regulatory minimums. Southern's quarterly dividend rate of $.05 per share remains intact, which sharply contrasts with continued reductions in, or the elimination altogether of, dividends among many of our peers. As our financial performance improves and greater certainty emerges within regulatory and economic environments, we will continue to evaluate alternative dividend payment options and strategies.

Finally, I would like to briefly comment about several topical issues pertaining to proposed regulatory changes that will affect all banks. Most unfortunate is that community banks, like Southern, are being lumped together with large Wall Street firms as perpetrators of many of the current economic hardships with which we are all dealing. Our management team and directors are proud of the role Southern plays in sustaining and improving the financial health of all the communities it serves. The strength, stability and sustainability of Southern and other community banks relies on commitment and loyalty of local communities and customers. That commitment and loyalty is returned in kind which enables us to be the kind of financial institution you expect us to be.

Your continued support is appreciated.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN
MICHIGAN
BANCORP, INC.

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 39,438	$ 24,814
Federal funds sold	2,504	2,540
Securities available for sale	52,309	56,948
Loans held for sale	865	605
Loans, net of allowance for loan losses of $5,944 in 2010 (2009-$6,075)	318,862	327,004
Premises and equipment, net	12,921	12,914
Accrued interest receivable	2,286	2,054
Net cash surrender value of life insurance	9,690	9,881
Goodwill	13,422	13,422
Other intangible assets, net	2,268	2,355
Other assets	9,675	9,872
TOTAL ASSETS	$ 464,240	$ 462,409
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 54,991	$ 55,250
Interest bearing	322,807	325,655
TOTAL DEPOSITS	377,798	380,905
Securities sold under agreements to repurchase	13,813	14,799
Accrued expenses and other liabilities	4,460	4,039
Other borrowings	15,663	10,832
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 103,858 in 2010 (101,999 shares in 2009)	1,142	945
TOTAL LIABILITIES	418,031	416,675
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,340,717 shares in 2010 (2,323,410 shares in 2009)		
Outstanding (other than ESOP shares) - 2,236,859 shares in 2010 (2,221,411 shares in 2009)	5,592	5,553
Additional paid-in capital	18,162	18,363
Retained earnings	22,648	22,062
Accumulated other comprehensive income, net	215	193
Unearned Employee Stock Ownership Plan shares	(408)	(437)
Total shareholders' equity	46,209	45,734
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 464,240	$ 462,409

(A) The balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date.

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31, 2010	2009
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 4,801	$ 4,944
Securities:		
Taxable	181	389
Tax exempt	204	230
Other	23	9
Total interest income	5,209	5,572
Interest expense:		
Deposits	1,001	1,288
Other	168	195
Total interest expense	1,169	1,483
Net interest income	4,040	4,089
Provision for loan losses	200	1,450
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,840	2,639
Non-interest income:		
Service charges on deposit accounts	570	568
Trust fees	253	251
Net gains on loan sales	120	193
Earnings on life insurance assets	74	84
Gain on life insurance proceeds	156	-
Income from automated teller machines	207	157
Other	244	235
TOTAL NON-INTEREST INCOME	1,624	1,488
Non-interest expense:		
Salaries and employee benefits	2,501	2,510
Occupancy, net	381	397
Equipment	221	224
Printing, postage and supplies	145	153
Telecommunication expenses	78	91
Professional and outside services	293	385
Software maintenance	111	72
FDIC assessments	169	112
Amortization of other intangibles	87	90
Other	704	713
Total non-interest expense	4,690	4,747
INCOME (LOSS) BEFORE INCOME TAXES	774	(620)
Federal income tax provision (credit)	72	(349)
NET INCOME (LOSS)	702	$ (271)
Basic Earnings (Loss) Per Common Share	0.30	$ (0.12)
Diluted Earnings (Loss) Per Common Share	0.30	$ (0.12)
Dividends Declared Per Common Share	$ 0.05	$ 0.05

Market Information

The Trust Department of Southern Michigan Bank & Trust acts as the transfer agent for the Company's stock. For information concerning the transfer of the Company's stock, or to participate in the dividend reinvestment program, please contact the Trust Department at (517) 279-5503 or (800) 379-7628.

The following brokerage firms make a market for Southern Michigan Bancorp, Inc. stock:

Boenning & Scattergood
Powell, Ohio
(866) 326-8113

Howe Barnes Investments, Inc.
Chicago, Illinois
(312) 655-2954 or
(800) 800-4693

Stifel, Nicolaus & Company, Inc.
Grand Rapids, Michigan
(800) 676-0477

Hilliard Lyons, Inc.
Coldwater, Michigan
(517) 278-4333 or
(800) 211-5257

Robert Baird & Company
Grand Rapids, Michigan
(616) 459-4491 or
(800) 888-6200

Officers of Southern Michigan Bank & Trust

COMMERCIAL LOANS

David Clow
Senior Vice President /
Head of Commercial Lending

Eric Anglin
Vice President

Ric Baker
Vice President

Deborah Davis
Vice President

Nick Grabowski
Vice President

Sarah Headley
Vice President

Robert Hungerford
Vice President

Doug Kiessling
Vice President

Joan Trenary
Vice President

Tom Swoish
Vice President

Jason Williams
Vice President

Cindy Woolner
Assistant Vice President /
Special Assets Manager

Marcia McClellan
Administration Officer

RESIDENTIAL & CONSUMER LOANS

Jamie Smoker
Senior Vice President /
Head of Residential
& Consumer Lending

Rick Feller
Vice President /
Lending and Sr. Collection Administrator

Phyllis Wingate
Vice President / Head of Retail
Loan Operations

Tina Mack
Assistant Vice President /
Loan Operations

Jeremiah Ervans
Assistant Vice President /
Retail Loan Officer

DeAnne Hawley
Assistant Vice President /
Retail Loan Officer

Shari Kline
Assistant Vice President /
Retail Loan Officer

Diane Krimmel
Assistant Vice President /
Retail Loan Officer

Lori Lemmon
Assistant Vice President /
Retail Loan Officer

Tammy Malatok
Assistant Vice President /
Retail Loan Officer

Desiree Kauffman
Retail Loan Officer

Judie Ratering
Retail Loan Officer

Connie Swain-Caudill
Assistant Vice President /
Senior Collections Manager

Debbie Leer
Collections Officer

LOAN REVIEW

Trisha Pawloski
Assistant Vice President/
Loan Review Officer

TRUST DEPARTMENT

Mary Guthrie
Senior Vice President /
Senior Trust Officer

David Rumsey
Vice President /
Senior Investment Officer

Jean Winans
Vice President /
Senior Trust Officer

Susan White
Vice President /
Trust Officer

INVESTMENTS

Melissa Barlow
Vice President/
Senior Investment Officer

RETAIL BANKING SERVICES

Sally Cotton
First Vice President /
Senior Branch Administration Officer

ATHENS BRANCH

Marcia Carman
Branch Manager

BATTLE CREEK BRANCH

Claudia Murch
Assistant Vice President /
Branch Manager

CAMDEN BRANCH

Lori Neill
Branch Supervisor*

COLDWATER MAIN &
EAST CHICAGO BRANCHES

Veronica Hannah
Assistant Vice President /
Branch Manager

CASSOPOLIS BRANCH

Janet Nosich
Branch Manager

CENTREVILLE BRANCH

Paul Harker
Branch Manager

CONSTANTINE BRANCH

Lorraine Fifer
Branch Manager

HILLSDALE BRANCH

Ann Marie Bentley
Assistant Vice President /
Regional Branch Manager

MARSHALL BRANCH

Annette Campau
Assistant Vice President /
Community Bank Officer

MENDON BRANCH

Doreen Tobin
Assistant Vice President /
Regional Branch Manager

NORTH ADAMS BRANCH

Leonce Towers
Branch Supervisor*

TEKONSHA BRANCH

Dawn Copas
Branch Manager

THREE RIVERS MAIN BRANCH

Sharon Bachinski
Assistant Vice President /
Regional Branch Manager

THREE RIVERS WESTLAND BRANCH

Lynette Lorenz
Branch Manager

UNION CITY BRANCH

Ken Brooks
Vice President /
Regional Branch Manager

ACCOUNTING

Sara Herrmann
Vice President / Finance

INFORMATION SYSTEMS

Jeff Kiersey
Senior Vice President /
Chief Information Officer

Kelli Talbot
Vice President /
Banking Applications Analyst

Paul Mahle
Assistant Vice President /
Senior Data Processing Officer

Vikki Kline
Project / Research Officer

Matt Siefken
Network and Systems Officer

COMPLIANCE

Christine Hagaman
Vice President /
Compliance Officer

e-SERVICES

Jamie Tobalske
Assistant Vice President /
e-Services Officer

MARKETING

Patty Parker
Vice President

*Non Officer Position

Officers of Southern Michigan Bancorp, Inc.

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Executive Officers of Southern Michigan Bank & Trust

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

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Cover Photo: Langley Covered Bridge in Centreville, Michigan