2 0 1 0 QUARTERLY REPORT

THIRD Quarter

Corporate Highlights

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. continued its momentum by earning net income of $870,000, or $0.38 per fully diluted common share, during the third quarter of 2010. This represents a thirteen percent increase over last year's third quarter net income of $771,000. Through the first nine months of 2010, net income totaled $2.375 million, or $1.03 per share, representing a ninety percent increase over net income of $1.251 million for the same period last year. Through the nine months ended September 30, 2010, Southern's return on average assets rose to 0.67 percent and return on average equity totaled 6.76%.

Southern's total deposits grew by $21 million to $402 million through the first nine months of 2010. Over the same period, the loan portfolio declined by $13 million to $320 million. The migration in our balance sheet to lower yielding, temporary investments resulted in further reduction of our net interest margin to 4.02 percent. Despite historically low interest rates and weak loan demand affecting most banks, Southern's net interest margin continues to rank highly among its Michigan community bank peers.

Asset quality, as measured by non-accrual loans, continued to show improvement. For the twelve month period ended September 30, 2010, non-accrual commercial loans declined twenty percent from $5.61 million to $4.47 million, non-accrual mortgage loans declined from $2.45 million to $2.28 million, or seven percent, and total non-performing assets declined from $9.67 million to $7.93 million, or eighteen percent. Our provision for loan losses for the third quarter of 2010 totaled $425,000, nearly matching our charge-offs of $423,251 for the quarter. Our allowance for loan losses at September 30, 2010 amounted to $5.7 million, or 1.79% of loans.

The current economic environment has required us to sharpen our focus on ways to improve operating efficiencies. Our management team's expense control initiatives resulted in a reduction of non-interest expenses for the third quarter of 2010 totaling $133,000 compared with the third quarter of 2009. Through the first nine months of 2010 compared with the same period last year, non-interest expenses were reduced by $507,000, or four percent. We continue to carefully evaluate how to effectively and efficiently meet our customers' banking needs. Use of electronic banking delivery alternatives continues to become more popular, as internet banking continues to expand. Recently, we announced the closure of our North Adams branch, which will become effective December 3, 2010. We believe this action, although difficult, will enable us to cushion the impact of additional regulatory compliance costs and other operating expenses projected to increase through the remainder of this year and into 2011.

Throughout these challenging economic times there have been many changes occurring within the banking industry. New banking laws, improper mortgage foreclosures, and small business stimulus programs, among others, have been major topics of discussion in the media. Several observations are worth noting:

- The recently passed Dodd-Frank Wall Street Reform and Consumer Protection Act will likely drive up the cost of doing business for all banks, including Southern, while making traditional banking services more costly for both borrowers and deposit customers;
- Mortgage foreclosure problems appear to be confined to large, nationally-based mortgage providers; we have not identified any improperly documented mortgage foreclosures; and
- Southern continues to actively pursue credit-worthy borrowers and make new loans every day. Stronger loan demand, despite the federal government's best efforts, is unlikely to emerge until job creation and business expansion trends reverse themselves.

Our cautious and prudent approach to managing the bank has enabled Southern to remain categorized as "well-capitalized" and we believe sufficiently strong to withstand future economic disruptions. As of September 30, 2010, total shareholders' equity amounted to $47.75 million. Our Tier 1 Leverage Ratio of 8.5 percent and Total Risk-Based Capital Ratio of 13.07 percent enabled Southern to exceed regulatory minimums for "well-capitalized" financial institutions. In addition, we believe Southern's management team and directors have positioned the bank to take advantage of growth and other expansion opportunities that may be presented to us in the future as a result of the current economic cycle.

Your continued support is appreciated.

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN
MICHIGAN
BANCORP, INC.

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010	December 31, 2009
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 64,411	$ 24,814
Federal funds sold	221	2,540
Securities available for sale	58,057	56,948
Loans held for sale	1,115	605
Loans, net of allowance for loan losses of $5,728 - 2010 ($6,075 - 2009)	314,542	327,004
Premises and equipment, net	12,712	12,914
Accrued interest receivable	2,366	2,054
Net cash surrender value of life insurance	9,859	9,881
Goodwill	13,422	13,422
Other intangible assets, net	2,093	2,355
Other assets	8,700	9,872
TOTAL ASSETS	$ 487,498	$ 462,409
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 56,501	$ 55,250
Interest bearing	345,487	325,655
TOTAL DEPOSITS	401,988	380,905
Securities sold under agreements to repurchase and overnight borrowings	16,876	14,799
Accrued expenses and other liabilities	4,183	4,039
Other borrowings	10,318	10,832
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 104,514 in 2010 (101,999 shares in 2009)	1,233	945
TOTAL LIABILITIES	439,753	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) - 2,236,203 shares in 2010 (2,221,411 shares in 2009)	5,591	5,553
Additional paid-in capital	18,152	18,363
Retained earnings	24,086	22,062
Accumulated other comprehensive income, net	243	193
Unearned Employee Stock Ownership Plan shares	(327)	(437)
Total shareholders' equity	47,745	45,734
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 487,498	$ 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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,878	$ 4,966	$ 14,427	$ 14,881
Federal funds sold and balances with banks	42	22	99	42
Securities:				
Taxable	151	228	474	895
Tax exempt	178	231	580	684
Total interest income	5,249	5,447	15,580	16,502
Interest expense:				
Deposits	928	1,128	2,863	3,561
Other	172	142	515	544
Total interest expense	1,100	1,270	3,378	4,105
Net interest income	4,149	4,177	12,202	12,397
Provision for loan losses	425	350	775	2,300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,724	3,827	11,427	10,097
Non-interest income:				
Service charges on deposit accounts	652	786	1,834	2,091
Trust fees	244	237	740	716
Net gains on security calls and sales	-	-	207	407
Net gains on loan sales	403	173	684	603
Earnings on life insurance assets	93	83	243	251
Gain on life insurance proceeds	-	-	156	-
Income and fees from automated teller machines	235	181	660	514
Other	211	214	652	718
TOTAL NON-INTEREST INCOME	1,838	1,674	5,176	5,300
Non-interest expense:				
Salaries and employee benefits	2,529	2,413	7,467	7,355
Occupancy, net	324	325	1,068	1,047
Equipment	229	217	683	672
Printing, postage and supplies	146	158	437	470
Telecommunication expenses	107	88	281	263
Professional and outside services	160	339	685	999
FDIC assessments	157	157	473	676
Software maintenance	94	101	302	315
Amortization of other intangibles	87	91	262	272
Other	595	672	2,017	2,113
Total non-interest expense	4,428	4,561	13,675	14,182
INCOME BEFORE INCOME TAXES	1,134	940	2,928	1,215
Federal income tax provision (credit)	264	169	553	(36)
NET INCOME	870	771	2,375	1,251
Basic Earnings Per Common Share	$ 0.38	$ 0.34	$ 1.03	$ 0.55
Diluted Earnings Per Common Share	$ 0.38	$ 0.34	$ 1.03	$ 0.55
Dividends Declared Per Common Share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

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

Ric Baker
Vice President

Deborah Davis
Vice President

Nick Grabowski
Vice President

Sarah Headley
Vice President

Robert Hungerford
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Vice President

James Sobeske
Vice President

Tom Swoish
Vice President

Joan Trenary
Vice President

Jason Williams
Vice President

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

Timothy Fox
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

Gregory Mallar
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

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Senior Vice President /
Senior Trust Officer

R. 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

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Eric Anglin
First Vice President /
Retail Banking Services /
Chief Deposit Officer

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EAST CHICAGO BRANCHES
Abby Austin
Branch Manager

BATTLE CREEK BRANCH
Claudia Murch
Assistant Vice President /
Branch Manager

MARSHALL BRANCH
Annette Campau
Assistant Vice President /
Community Banking Officer

HILLSDALE BRANCH
Lori Neill
Assistant Vice President /
Regional Branch Manager

CAMDEN BRANCH
Martha Zilch
Teller Supervisor*

NORTH ADAMS BRANCH
Leonce Towers
Branch Supervisor*

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Ken Brooks
Vice President /
Regional Branch Manager

ATHENS BRANCH
Marcia Carman
Branch Manager

TEKONSHA BRANCH
Dawn Copas
Branch Manager

WESTERN REGION
Sally Cotton
First Vice President /
Regional Manager

MENDON BRANCH
Doreen Tobin
Assistant Vice President /
Regional Branch Manager

CENTREVILLE BRANCH
Paul Harker
Branch Manager

CASSOPOLIS
Janet Nosich
Branch Manager

CONSTANTINE BRANCH
Ashley Rice
Branch Manager*

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Sharon Bachinski
Assistant Vice President /
Regional Branch Manager

THREE RIVERS WESTLAND BRANCH
Lynette Lorenz
Branch Manager

ACCOUNTING

Sara Herrmann
Vice President / Finance

INFORMATION SYSTEMS

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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

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President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Southern Michigan
BANCORP, INC.

51 W. Pearl St.
Coldwater, MI 49036
(517) 279-5500
www.smb-t.com

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