2011 QUARTERLY REPORT

FIRST Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $748,000, or $.32 per share, for the first quarter of 2011. Our results for the period represent an increase of 6.6 percent over the net income of $702,000, or $.30 per share, reported for the first quarter of 2010.

Southern's quarterly net income marked the eighth consecutive profitable quarter for the Company. This is especially noteworthy in light of the negative impact the economic downturn has had on balance sheets and earnings of financial institutions throughout Michigan and the country over the past several years.

For the quarter, our balance sheet grew from $493.9 million in total assets as of year-end 2010 to $502.4 million as of March 31, 2011, a modest increase of $8.5 million and the highest level of total assets in the Company's history. Total deposits increased $7.7 million during the first quarter to $417.6 million. Total loans decreased by $3.7 million during the quarter to $305.8 million.

Our earnings are being driven by continued improvements in asset quality, maintaining our historically solid net interest margin, managing expenses and focusing on fee generation opportunities. Our annualized return on average assets for both three-month periods ending March 31, 2011 and 2010 was .60 percent. The annualized return on average equity was 6.19 percent for the first quarter of 2011, compared with 6.08 percent for the first quarter of 2010.

For the first quarter of 2011, our provision for loan losses totaled $125,000, a reduction from $200,000 incurred during the same period last year. Even with the provision expense reduction, our reserve for loan losses exceeds $5.5 million, or 1.82 percent of total loans, which is comparable to March 31, 2010 reserve levels of 1.83 percent of total loans. Net charge-offs for the first quarter of this year totaled $243,000, a reduction from the $331,000 in net charge-offs for the first quarter of 2010.

Southern's historically strong net interest margin declined to 3.57 percent from 4.07 percent for the same period last year, principally due to overall reductions in loan balances and deposit growth resulting in higher cash balances on our balance sheet. However, we are beginning to see signs of emerging quality loan demand that ultimately may have a positive impact on our net interest margin. Non interest income grew during the quarter, led by net gains on loan sales of $317,000 compared with $120,000 a year ago. Revenues from ATM's, interchange transactions, trust and service charges also contributed to improvements in non interest income totals.

One of management's key challenges throughout the remainder of 2011 and beyond will be offsetting the significant impact of new regulations that are likely to reduce sources of non interest income while increasing compliance costs. As a result, we will continue to explore initiatives that will enable us to remain as efficient as possible without sacrificing commitments to high levels of customer service. For example, we are evaluating enhancements to our on-line banking services, utilizing social media to expand potential points of contact with businesses and retail banking clients and employing technology to speed up opening new accounts, evaluating loan requests and serving branch customers.

Your continued support is appreciated.

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2011	December 31, 2010
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 71,941	$ 78,833
Federal funds sold	249	275
Securities available for sale	81,070	59,228
Loans held for sale	267	2,637
Loans, net of allowance for loan losses of $5,576 - 2011 (2010 - $5,694)	300,218	303,830
Premises and equipment, net	12,599	12,599
Accrued interest receivable	2,227	2,107
Net cash surrender value of life insurance	10,045	9,965
Goodwill	13,422	13,422
Other intangible assets, net	1,920	2,005
Other assets	8,452	8,979
TOTAL ASSETS	$ 502,410	$ 493,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 63,291	$ 59,942
Interest bearing	354,304	349,959
TOTAL DEPOSITS	417,595	409,901
Securities sold under agreements to repurchase and overnight borrowings	16,621	15,027
Accrued expenses and other liabilities	4,114	4,476
Other borrowings	8,854	10,079
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 108,831 in 2011 (107,627 shares in 2010)	1,306	1,399
TOTAL LIABILITIES	453,645	446,037
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, $2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,340,339 shares in 2011 (2,340,717 shares in 2010)		
Outstanding (other than ESOP shares) - 2,231,508 shares in 2011 (2,233,090 shares in 2010)	5,579	5,583
Additional paid-in capital	18,165	18,033
Retained earnings	25,323	24,692
Accumulated other comprehensive loss, net	(37)	(168)
Unearned Employee Stock Ownership Plan shares	(265)	(297)
Total shareholders' equity	48,765	47,843
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 502,410	$ 493,880

(A) The balance sheet at December 31, 2010 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, 2011	Three Months Ended March 31, 2010
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	$ 4,461	$ 4,801
Securities:		
Taxable	138	181
Tax exempt	216	204
Other	51	23
Total interest income	4,866	5,209
Interest expense:		
Deposits	844	1,001
Other	159	168
Total interest expense	1,003	1,169
Net interest income	3,863	4,040
Provision for loan losses	125	200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,738	3,840
Non-interest income:		
Service charges on deposit accounts	511	570
Trust fees	275	253
Net gains on security calls	2	-
Net gains on loan sales	317	120
Earnings on life insurance assets	80	74
Gain on life insurance proceeds	-	156
Income from automated teller machines	235	207
Other	235	244
TOTAL NON-INTEREST INCOME	1,655	1,624
Non-interest expense:		
Salaries and employee benefits	2,538	2,501
Occupancy, net	373	381
Equipment	203	221
Printing, postage and supplies	141	145
Telecommunication expenses	99	78
Professional and outside services	221	293
Software maintenance	105	111
FDIC assessments	165	169
Amortization of other intangibles	85	87
Other	526	704
Total non-interest expense	4,456	4,690
INCOME BEFORE INCOME TAXES	937	774
Federal income tax provision	189	72
NET INCOME	$ 748	$ 702
Basic Earnings Per Common Share	$ 0.32	$ 0.30
Diluted Earnings Per Common Share	$ 0.32	$ 0.30
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

Deborah Davis
Vice President

Nick Grabowski
Vice President

Sarah Headley
Vice President

Robert Hungerford
Vice President

Doug Kiessling
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

Tim 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

LOAN REVIEW

Trisha Pawloski
Assistant Vice President/
Loan Review Officer

TRUST DEPARTMENT

Mary Guthrie
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

RETAIL BANKING SERVICES

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

COLDWATER MAIN &
EAST CHICAGO BRANCHES
Abby Austin
Branch Manager

BATTLE CREEK BRANCH
Claudia Murch
Assistant Vice President /
Regional Branch Manager

MARSHALL BRANCH
Annette Campau
Assistant Vice President /
Regional Sales Manager

HILLSDALE BRANCH
Lori Neill
Assistant Vice President /
Regional Branch Manager

CAMDEN BRANCH
Martha Zilch
Teller Supervisor*

UNION CITY BRANCH
Ken Brooks
Vice President /
Regional 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

CONSTANTINE BRANCH
Ashley Rice
Branch Manager*

THREE RIVERS MAIN BRANCH
Sharon Bachinski
Assistant Vice President /
Regional Branch Manager

THREE RIVERS WESTLAND BRANCH
Lynette Lorenz
Branch Manager

ACCOUNTING

Sara Herrmann
Vice President / Finance

INFORMATION SYSTEMS

Jeff Kiersey
Senior Vice President /
Chief Information Officer

Paul Mahle
Assistant Vice President /
Senior Data Processing Officer

OPERATIONS

Dave McKinley
First Vice President /
Head of Operations

Jamie Tobalske
Assistant Vice President /
e-Services Officer

Vikki Kline
Project /
Research Officer

Becky Omo
Assistant Vice President /
Manager of Customer Records

COMPLIANCE

Christine Hagaman
Vice President /
Compliance 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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