2 0 1 1 QUARTERLY REPORT

SECOND Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. earned $762,000, or $.33 per share, for the second quarter ended June 30, 2011. This represents an increase of 1.9 percent over first quarter 2011 net income of $748,000, and a decline from the $803,000 of net income earned during the second quarter of 2010. For the first six months of 2011, net income rose to $1,510,000, or $.65 per share, from $1,505,000, or $.65 per share, earned during the first six months of 2010.

Southern's financial results are noteworthy in light of high unemployment, limited lending opportunities, regulatory conditions and persistent overall economic instability. Our results were attained through deliberate focus on lending discipline, controlling expenses and remaining attentive to our customers' needs.

Total assets, for the first six months of 2011, declined to $481.3 from $493.9 million as of December 31, 2010. This was largely impacted by a reduction in rate sensitive deposits totaling $12.8 million. However, core transaction deposits, including business and personal checking relationships, rose by more than $1 million through the first six months of 2011 to more than $60 million.

Total loans as of June 30, 2011 stood at $305.6 million, a slight reduction from the year-end 2010 total of $309.5 million. Loan delinquencies, however, declined to 2.41 percent of total loans from 3.39 percent for the same date last year. Non-performing loans, including non-accrual loans and loans past due 90 days, also declined by more than $1.8 million from a year ago. Net charge-offs for the second quarter of 2011 totaled $549,000, and for the first six months of 2011 were $792,000, as compared with $368,000 and $699,000, respectively, for the same periods last year. Our second quarter provision expense of $375,000 enabled Southern to maintain a reserve for loan losses of more than $5.4 million, or 1.77 percent of total loans. The steady improvement in loan portfolio metrics positions us to emerge from this challenging economic period as a stronger, more profitable organization.

Several months ago, in anticipation of today's challenging business climate, Southern began implementing several expense reduction initiatives to align future operating costs with revenue projections. The impact of those strategies resulted in an eight percent reduction in non-interest expenses for the second quarter of 2011 compared with the total for the same period of 2010. Non-interest income declined slightly year-over-year, due in part to the impact of new banking regulations affecting charges for overdrafts on checking accounts and other fees. However, the declines were offset by a 15 percent growth in trust revenues, which totaled more than $568,000 for the first six months of 2011.

For the first six months of 2011, Southern's annualized return on average assets totaled .61 percent and the annualized return on average equity was 6.17 percent. With total shareholders' equity of $49.7 million as of June 30, 2011, our Tier 1 and Total Risk-Based capital ratios of 12.8 and 14.0 percent, respectively, are strong.

Looking ahead to the remaining six months of 2011 and into 2012, we expect more changes in the banking industry that are likely to have a profound impact on all financial institutions. We believe that "sticking to the basics" will enable us to take advantage of opportunities to enhance shareholder value that may come our way in the future. Thank you for your continued support.

Sincerely,

JH Castle

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011	December 31, 2010
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 44,935	$ 78,833
Federal funds sold	312	275
Securities available for sale	88,015	59,228
Loans held for sale	608	2,637
Loans, net of allowance for loan losses of $5,402 - 2011 ($5,694 - 2010)	300,219	303,830
Premises and equipment, net	12,397	12,599
Accrued interest receivable	2,053	2,107
Net cash surrender value of life insurance	10,129	9,965
Goodwill	13,422	13,422
Other intangible assets, net	1,836	2,005
Other assets	7,394	8,979
TOTAL ASSETS	$ 481,320	$ 493,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 60,911	$ 59,942
Interest bearing	336,204	349,959
TOTAL DEPOSITS	397,115	409,901
Securities sold under agreements to repurchase and overnight borrowings	15,171	15,027
Accrued expenses and other liabilities	4,077	4,476
Other borrowings	8,676	10,079
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 110,506 in 2011 (107,627 shares in 2010)	1,381	1,399
TOTAL LIABILITIES	431,575	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—2,358,599 shares in 2011 (2,340,717 shares in 2010)		
Outstanding (other than ESOP shares) - 2,248,093 shares in 2011 (2,233,090 shares in 2010)	5,620	5,583
Additional paid-in capital	18,084	18,033
Retained earnings	25,967	24,692
Accumulated other comprehensive income (loss)	339	(168)
Unearned Employee Stock Ownership Plan shares	(265)	(297)
Total shareholders' equity	49,745	47,843
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 481,320	$ 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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,386	$ 4,748	$ 8,847	$ 9,549
Federal funds sold and balances with banks	47	34	98	57
Securities:				
Taxable	171	142	309	323
Tax-exempt	218	198	434	402
Total interest income	4,822	5,122	9,688	10,331
Interest expense:				
Deposits	803	934	1,647	1,935
Other	148	175	307	343
Total interest expense	951	1,109	1,954	2,278
Net interest income	3,871	4,013	7,734	8,053
Provision for loan losses	375	150	500	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,496	3,863	7,234	7,703
Non-interest income:				
Service charges on deposit accounts	568	612	1,079	1,182
Trust fees	293	243	568	496
Net gains on security calls and sales	-	207	2	207
Net gains on loan sales	205	161	522	281
Earnings on life insurance assets	84	76	164	150
Gain on life insurance proceeds	-	-	-	156
Income from loan servicing	128	85	225	163
ATM and debit card fee income	257	218	492	425
Other	119	112	257	278
TOTAL NON-INTEREST INCOME	1,654	1,714	3,309	3,338
Non-interest expense:				
Salaries and employee benefits	2,346	2,437	4,884	4,938
Occupancy, net	336	363	709	744
Equipment	204	233	407	454
Printing, postage and supplies	102	146	243	291
Telecommunication expenses	98	96	197	174
Professional and outside services	199	232	420	525
FDIC assessments	110	147	275	316
Software maintenance	110	97	215	208
Amortization of other intangibles	84	88	169	175
Expenses relating to OREO property	86	154	131	352
ATM expenses	92	83	174	164
Other	421	481	820	906
Total non-interest expense	4,188	4,557	8,644	9,247
INCOME BEFORE INCOME TAXES	962	1,020	1,899	1,794
Federal income tax provision	200	217	389	289
NET INCOME	$ 762	$ 803	$ 1,510	$ 1,505
Basic Earnings Per Common Share	$ 0.33	$ 0.35	$ 0.65	$ 0.65
Diluted Earnings Per Common Share	0.33	0.35	0.65	0.65
Dividends Declared Per Common Share	0.05	0.05	0.10	0.10

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

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 & MARSHALL
BRANCHES
Claudia Murch
Assistant Vice President /
Regional Branch 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

Executive Officers of Southern Michigan Bank & Trust and Southern Michigan Bancorp, Inc.

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Southern Michigan
BANCORP, INC.
Continuous Banking Since 1872
www.smb-t.com