2011 QUARTERLY REPORT

THIRD Quarter

Corporate Highlights

Southern Michigan BANCORP, INC.

To Our Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. reported net income of $887,000, or $0.38 per share, for the third quarter of 2011. Our results for the period represent an increase of 2 percent over the net income of $870,000, or $0.38 per share, reported for the third quarter of 2010. Through the first nine months of 2011, Southern earned $2,397,000, or $1.03 per share, resulting in an annualized return on average assets of 0.64 percent and a return on average equity of 6.46 percent.

Improvements in asset quality enabled us to reduce our provision for loan losses to $375,000 for the third quarter of 2011, compared with $425,000 in provision expense for the same period one year ago. Net loan charge-offs totaled $379,000 during the third quarter compared with $423,000 for the third quarter 2010. With a reserve for loan losses as of September 30, 2011 of $5,398,000, or 1.72 percent of gross loans, we are well positioned to respond to changes in local business and economic conditions. Equally important, loan delinquencies as a percentage of total loans at September 30, 2011 declined by 26 basis points to 2.27 percent compared with 2.53 percent a year ago.

Although unemployment remains at unacceptably high levels in all of our markets, growth in our commercial and retail banking lines of business may be signs of modest improvement in local economic conditions. Commercial loan totals during the third quarter of 2011 increased by $8 million. Gross loans exceeded $313 million as of September 30, 2011. In addition, growth in residential mortgage lending resulted in an increase in fees generated through loan sales to $831,000 from $684,000 for the same period a year ago.

Total deposits grew substantially during the third quarter of 2011 to $429.3 million, an increase of more than 8 percent over second quarter levels of $397.1 million. Total assets as of September 30, 2011 stood at $515.4 million, a year-to-date increase of 4.4 percent over December 31, 2010 levels of $493.9 million.

Our relentless focus on becoming more efficient without sacrificing customer service enabled us to reduce operating expenses for the first three quarters of 2011 by $190,000 as compared to the same period in 2010. The improvements in both asset quality and operating efficiencies offset declines in net interest income and non-interest income compared with third quarter 2010 results.

The uncertainties created by a sluggish economy and a burdensome regulatory environment make planning for the Bank all the more challenging. However, our directors and management team remain committed to the core strategies that have served Southern well since the onset of the economic crisis more than three years ago. They include:

- Personalizing our service as much as possible to differentiate Southern from its much larger regional bank competitors;
- Serving business and individual borrowers in our communities while maintaining prudent underwriting and competitive pricing standards; and
- Providing solid operating results on a relative basis while preserving our financial strength and stability.

Southern is prepared to meet future financial and non-financial challenges that will affect our products, services and competition. We are well positioned to grow within our existing markets, and to take advantage of growth opportunities in new markets as they present themselves. Your continued support is appreciated.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011	December 31, 2010
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	$ 72,224	$ 78,833
Federal funds sold	265	275
Securities available for sale	85,890	59,228
Loans held for sale	930	2,637
Loans, net of allowance for loan losses of $5,398 - 2011 ($5,694 - 2010)	308,228	303,830
Premises and equipment, net	12,498	12,599
Accrued interest receivable	2,416	2,107
Net cash surrender value of life insurance	10,216	9,965
Goodwill	13,422	13,422
Other intangible assets, net	1,751	2,005
Other assets	7,521	8,979
TOTAL ASSETS	$ 515,361	$ 493,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 61,468	$ 59,942
Interest bearing	367,793	349,959
TOTAL DEPOSITS	429,261	409,901
Securities sold under agreements to repurchase and overnight borrowings	16,166	15,027
Accrued expenses and other liabilities	3,956	4,476
Other borrowings	8,495	10,079
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding - 112,002 in 2011 (107,627 shares in 2010)	1,344	1,399
TOTAL LIABILITIES	464,377	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) - 2,246,597 shares in 2011 (2,233,090 shares in 2010)	5,616	5,583
Additional paid-in capital	18,173	18,033
Retained earnings	26,736	24,692
Accumulated other comprehensive income (loss)	661	(168)
Unearned Employee Stock Ownership Plan shares	(202)	(297)
Total shareholders' equity	50,984	47,843
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 515,361	$ 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 September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	$ 4,512	$ 4,878	$ 13,359	$ 14,427
Securities:				
Taxable	164	151	473	474
Tax-exempt	237	178	671	580
Other	31	42	129	99
Total interest income	4,944	5,249	14,632	15,580
Interest expense:				
Deposits	771	928	2,418	2,863
Other	146	172	453	515
Total interest expense	917	1,100	2,871	3,378
Net interest income	4,027	4,149	11,761	12,202
Provision for loan losses	375	425	875	775
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,652	3,724	10,886	11,427
Non-interest income:				
Service charges on deposit accounts	489	652	1,568	1,834
Trust fees	284	244	852	740
Net gains on security calls and sales	2	-	4	207
Net gains on loan sales	309	403	831	684
Earnings on life insurance assets	87	93	251	243
Gain on life insurance proceeds	-	-	-	156
Income from loan servicing	98	79	323	242
Brokerage Income	76	49	170	168
ATM and debit card fee income	263	235	755	660
Other	113	83	276	242
TOTAL NON-INTEREST INCOME	1,721	1,838	5,030	5,176
Non-interest expense:				
Salaries and employee benefits	2,378	2,529	7,262	7,467
Occupancy, net	230	324	939	1,068
Equipment	158	229	565	683
Printing, postage and supplies	139	146	382	437
Telecommunication expenses	74	107	271	281
Professional and outside services	253	160	673	685
FDIC assessments	101	157	376	473
Software maintenance	110	94	325	302
Amortization of other intangibles	85	87	254	262
Expenses relating to OREO property	72	32	203	384
ATM expenses	93	81	267	246
Other	545	482	1,365	1,387
Total non-interest expense	4,238	4,428	12,882	13,675
INCOME BEFORE INCOME TAXES	1,135	1,134	3,034	2,928
Federal income tax provision	248	264	637	553
NET INCOME	$ 887	$ 870	$ 2,397	$ 2,375
Basic Earnings Per Common Share	$ 0.38	$ 0.38	$ 1.03	$ 1.03
Diluted Earnings Per Common Share	$ 0.38	$ 0.38	$ 1.03	$ 1.03
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

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 AND CAMDEN
BRANCHES
Lori Neill
Assistant Vice President /
Regional Branch Manager

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

OPERATIONS / INFORMATION SYSTEMS

Dave McKinley
First Vice President /
Head of Operations

Jeff Kiersey
Systems Solutions Officer

Paul Mahle
Assistant Vice President /
Senior Data Processing Officer

Jamie Tobalske
Assistant Vice President /
e-Services Officer

Becky Omo
Assistant Vice President /
Manager of Customer Records

Angie Smith
Assistant Vice President /
Operations Manager

Vikki Kline
Project /
Research Officer

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
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