



FIRST Quarter

Corporate Highlights

Dear Shareholders:

I am pleased to announce that Southern Michigan Bancorp, Inc. earned \$926,000 for the first quarter of 2006. The total represents a six percent increase over first quarter 2005 results.

Return on average assets on an annualized basis for the quarter was 1.16 percent. Return on average equity for the period was 13.85 percent. Among our peers in the community banking industry, our results for the first quarter and over the past several years are approaching high performance levels. Equally important is the consistent pattern of solid core earnings. Southern Michigan has had quarterly earnings of more than \$800,000, maintained a return on average assets of greater than one percent and a return on average equity greater than 12 percent for 13 consecutive quarters.

Our earnings achievements were accompanied by strong balance sheet growth in key segments. Total deposits for the first quarter of 2006 rose by \$17.7 million, or seven percent over comparable totals for the first quarter of 2005. Commercial loans to local businesses, a priority market segment, presently total about \$160 million, the highest level in Southern Michigan's history.

Net interest income, before provision expense, increased by \$410,000. This total more than offset a slight decline in non-interest income for the period. Trust revenues, another strategic priority, increased to \$170,000 for the quarter from \$161,000 during the same period last year.

Earnings per share for the period ending March 31, 2006 were \$.52 compared with \$.48 a year ago, an increase of more than eight percent. Dividends per share, adjusted for the five percent stock dividend declared in February 2006, were \$.18 per share for the first quarter of 2006 compared with \$.16 for the first quarter of 2005. This is a 12.5 percent increase in the quarterly dividend on a year-over-year basis.

Over the next several months you will be hearing and reading more about a number of important initiatives we have planned. We are about to break ground for a new branch in Marshall, scheduled to open by late 2006 or early 2007. The Marshall office will be Southern Michigan's ninth full-service facility serving our three-county primary service region. Our management team will continue to evaluate new products and services for strategically vital market segments of small business, trust and wealth management, along with internet banking clients.

We appreciate your support and commitment to Southern Michigan Bank & Trust. Please feel free to contact members of our management team, board of directors, or me with any comments or suggestions.

Respectfully,

John H. Castle
Chairman and Chief Executive Officer

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
SOUTHERN MICHIGAN BANCORP, INC.

	March 31, 2006	December 31, 2005
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	\$ 9,502	\$ 10,498
Securities available for sale	11,031	7,436
Federal funds sold	38,175	37,165
Loans held for sale, net of valuation allowance of \$0 in 2006 and 2005	491	435
Loans, net of allowance for loan losses of \$3,164 (2005 - \$3,167)	239,530	239,547
Premises and equipment, net	7,258	7,195
Accrued interest receivable	2,064	2,111
Net cash surrender value of life insurance	7,594	7,540
Goodwill	620	620
Other intangible assets	16	22
Other assets	5,085	5,383
TOTAL ASSETS	<u>\$321,366</u>	<u>\$317,952</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 42,765	\$ 44,196
Interest bearing	228,593	223,882
TOTAL DEPOSITS	<u>271,358</u>	<u>268,078</u>
Accrued expenses and other liabilities	5,176	4,534
Other borrowings	11,071	12,164
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding— 85,669 in 2006 (79,575 in 2005)	1,970	1,911
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding		
Common stock, \$2.50 par value:		
Authorized—4,000,000 shares		
Issued—1,773,717 shares (2005 - 1,689,362)		
Outstanding—1,688,048 shares (2005 - 1,609,787)		
	4,220	4,025
Additional paid-in capital	5,769	3,974
Retained earnings	16,973	18,419
Accumulated other comprehensive income, net	(142)	(124)
Unearned Employee Stock Ownership Plan shares	(184)	(184)
Total shareholders' equity	<u>26,636</u>	<u>26,110</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$321,366</u>	<u>\$317,952</u>

(A) The balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date.

Board of Directors

MARCIA S. ALBRIGHT
Cequent Electrical Products, Inc.

JOHN H. CASTLE
Chairman & CEO of SMB, Inc.
and SMB&T

H. KENNETH COLE
Hillsdale College

WILLIAM (BUZZ) GALLIERS
G&W Display Fixtures

NOLAN E. (RICK) HOOKER
Hooker Oil
Best American Car Washes

GARY H. HART
Infinisource, Inc.

GREGORY J. HULL
Farmer

THOMAS E. KOLASSA
HUB International, Inc.

DONALD J. LABRECQUE
Labrecque Management

KURT G. MILLER
President of SMB, Inc. and SMB&T

FREEMAN E. RIDDLE
Spoor-Parlin, Inc.

Honorary Directors

James P. Briskey
James T. Grohalski
Harvey Randall
Jane L. Randall
Raymond W. Smith
Jerry L. Towns

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

	Three Months Ended March 31,	
	2006	2005
	(In thousands, except per share amounts)	
Interest income:		
Loans, including fees	\$ 4,590	\$ 3,938
Securites:		
Taxable	345	267
Tax exempt	143	126
Total interest income	5,078	4,331
Interest expense:		
Deposits	1,306	824
Other	212	357
Total interest expense	1,518	1,181
Net interest income	3,560	3,150
Provision for loan losses	-	50
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	
	3,560	3,100
Non-interest income:		
Service charges on deposit accounts	412	447
Trust fees	170	161
Net securities gains	-	4
Net gains on loan sales	138	163
Earnings on life insurance assets	54	54
Other	113	99
	TOTAL NON-INTEREST INCOME	
	887	928
Non-interest expense:		
Salaries and employee benefits	1,638	1,694
Occupancy, net	205	215
Equipment	169	185
Printing, postage and supplies	90	84
Professional and outside services	346	137
Telecommunication expenses	45	61
Other	692	457
Total non-interest expense	3,185	2,833
	INCOME BEFORE INCOME TAXES	
	1,262	1,195
	Federal income taxes	
	336	322
	NET INCOME	
	\$ 926	\$ 873
Basic and Diluted Earnings Per Common Share*	\$ 0.52	\$ 0.48
Dividends Declared Per Common Share*	\$ 0.18	\$ 0.16

*Restated to reflect the 5% stock dividend of February 2006

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, call the Trust Department at (517) 279-5503, or call (800) 379-7628

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

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

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

Stifel, Nicolaus & Company, Inc.
Grand Rapids, Michigan
(877) 676-0477

**Officers of
Southern Michigan
Bancorp, Inc.**

John H. Castle
Chairman & Chief Executive Officer
jcastle@smb-t.com

Kurt G. Miller
President
kgmiller@smb-t.com

Jaylen T. Johnson
*Executive Vice President /
Chief Operations Officer*
jay@smb-t.com

Danice L. Chartrand
*Senior Vice President /
Chief Financial Officer*
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**Officers of
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EXECUTIVE

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

Jaylen T. Johnson
*Executive Vice President /
Chief Operations Officer*

Danice L. Chartrand
*Senior Vice President /
Chief Financial Officer*

Loren V. Happel
*First Vice President /
Controller*

OPERATIONS

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Vice President

Christine Hagaman
Compliance Officer

Paul Mahle
*Assistant Vice President/
Senior Data Processing Officer*

INFORMATION SYSTEMS

Jeff Kiersey
*Vice President /
Network and Systems Manager*

Connie Faber
*Assistant Vice President /
Network Administrator*

MARKETING

Patty Parker
Vice President

COMMERCIAL LOANS

David Clow
*First Vice President /
Head of Commercial Lending*

Joan Trenary
Vice President

Tom Swoish
Vice President

Doug Kiessling
Vice President

Nick Grabowski
Assistant Vice President

Heidi O'Dell
Assistant Vice President

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Andrew Karr
Vice President

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*First Vice President /
Senior Trust Officer*

Jay Carlson
*Vice President /
Trust Investment Officer*

Susan White
*Vice President /
Trust Officer*

RETAIL BANKING SERVICE

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First Vice President

Jodie Johnson
*Vice President/
Retail Loan Officer*

Deanne Hawley
*Assistant Vice President/
Retail Loan Officer*

Dave Pierce
*Assistant Vice President/
Retail Loan Officer*

Phyllis Wingate
*Assistant Vice President/
Retail Loan Officer*

BATTLE CREEK REGION

Tim Creech
*President /
Battle Creek Region*

Claudia Murch
*Assistant Vice President/
Branch Manager*

ATHENS BRANCH

Marcia Carman
Branch Manager

CAMDEN BRANCH

Jody Pope
*Branch Supervisor**

**COLDWATER MAIN &
EAST CHICAGO BRANCHES**

Veronica Hannah
*Assistant Vice President /
Branch Manager*

HILLSDALE BRANCH

Jason Williams
*Vice President/
Commercial Lender*

Ann-Marie Bentley
*Assistant Vice President /
Regional Branch Manager*

NORTH ADAMS BRANCH

Leonce Towers
*Branch Supervisor**

MARSHALL BRANCH

Annette Campau
Community Bank Officer

Catherine Yates
*Assistant Vice President/
Commercial Lender*

TEKONSHA BRANCH

Dawn Copas
Branch Manager

UNION CITY BRANCH

Ken Brooks
*Vice President /
Regional Branch Manager*

*Non Officer Position



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