



FIRST Quarter

Corporate Highlights

To Our Shareholders:

The first four months of this year were among the most eventful in the history of the company. For the quarter, net income rose to \$978,000, or \$.55 per share, an increase of 5.6 percent compared with \$926,000 or \$.52 per share for the same period last year. Return on average assets was 1.18 percent while return on average equity was 13.38 percent, compared to first quarter 2006 results of 1.16 percent and 13.85 percent, respectively.

Total assets as of March 31, 2007 were a record \$340.5 million compared with \$329.9 million at year-end 2006. Balance sheet growth was buoyed by an increase in our loan portfolio to \$253 million, from \$243 million at the comparable period last year. Loans to small business clients were the principal driver of our growth. Commercial loans grew to \$174 million compared with \$154.4 million a year ago. Although the market for deposits remains inordinately competitive, total deposits for the quarter grew to \$292.9 million from \$271.4 million at the end of the first quarter last year. Much of our deposit growth was generated through public funds relationships established in many of the local communities we serve throughout our primary service area.

Financial results for the first quarter reflect our emphasis on providing consistent earnings improvement while maintaining the overall financial strength and stability of the company. Quarterly dividends of \$.20 per share and total shareholders' equity of \$29.1 million as of the end of the first quarter of 2007 were historic highs for the company.

As many of you are aware, we announced at our annual meeting an agreement with FNB Financial Corporation to merge with and into Southern Michigan Bancorp. FNB is the parent company of First National Bank of Three Rivers. Upon gaining shareholder and regulatory approvals, our combined companies will approach half a billion dollars in total assets serving a five-county market throughout the southern tier of Michigan. First National will continue to operate as a separately chartered commercial bank with its current management team and directors.

Both of our companies share a long history in community banking. First National, which was organized in 1864, is among the oldest and longest operating financial institutions in Michigan. More importantly, we share similar visions encompassing commitments to our customers, employees, and especially to our many local communities that will be served by our combined eighteen offices. When approved, our two-bank holding company will be positioned to enhance our client servicing capabilities. We will be able to serve a wider range of small businesses with higher lending limits, specialized cash management services and customized investment services through the combined resources of our companies.

Our new Marshall office had its grand opening in March. We were pleased by the warm response of local residents and business leaders who attended the celebration. Even more exciting has been the better-than-anticipated new deposit and loan relationships from both retail banking and small business customers. The Marshall Office staff are to be congratulated for their successful efforts.

We also announced during the first quarter of 2007 the appointment of Brian McConnell to Southern's board of directors. Brian is President and Chief Operating Officer of Burr Oak Tool and Gauge Company, headquartered in Sturgis. The locally-owned company provides machinery used in the manufacturing of heat exchangers for the world's heating, refrigeration and air conditioning industry. It operates a manufacturing facility in China and serves clients in 60 countries throughout the world.

Brian has been extensively involved in local civic and charitable endeavors in Sturgis and in St. Joseph County, including the Sturgis Economic Development Corporation and the Glenn Oaks Foundation. A member and past president of Sturgis Rotary, he is also a past president of the Sturgis Chamber of Commerce and a past board member of the Sturgis Neighborhood Program. With our pending expansion into St. Joseph County via the merger with FNB, Brian's knowledge of and involvement in the area will be especially vital to planning for our organization's future in that market.

This past March we were saddened by the news of Harvey Randall's passing. He was a director of the company for more than a quarter of a century, having retired from the Southern board in 1996. Even after his retirement, Harvey was a tremendous source of advice and encouragement for me during my first five years as CEO of the company. He will be truly missed by all of us in the Southern family.

Solid earnings, an historic merger, our newest branch and addition of an outstanding new director made for an eventful first quarter. The challenges for the remaining quarters of 2007 and beyond have just begun. We will continue to keep you apprised of our progress. And, as always, our directors and I encourage you to provide us with comments, suggestions or ideas that might assist us with improving Southern's operation and performance.

Your loyalty and support are greatly appreciated.

Sincerely,

John H. Castle,
Chairman and Chief Executive Officer

**SOUTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2007	December 31, 2006
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	\$ 9,587	\$ 9,369
Federal funds sold	20,665	10,429
Securities available for sale	35,133	36,796
Loans held for sale, net of valuation allowance of \$0 in 2007 and 2006	694	-
Loans, net of allowance for loan losses of \$3,409 (2006 - \$3,302)	249,927	249,523
Premises and equipment, net	9,467	8,665
Accrued interest receivable	2,270	2,506
Net cash surrender value of life insurance	7,564	7,502
Goodwill	620	620
Other assets	4,548	4,481
TOTAL ASSETS	\$340,475	\$329,891
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 41,257	\$ 42,281
Interest bearing	251,666	240,228
TOTAL DEPOSITS	292,923	282,509
Accrued expenses and other liabilities	4,942	4,440
Other borrowings	6,144	7,157
Subordinated debentures	5,155	5,155
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding— 89,322 in 2007 (89,122 in 2006)	2,166	2,148
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding		
Common stock, \$2.50 par value:		
Authorized—4,000,000 shares		
Issued—1,771,988 shares (2006 - 1,769,248)		
Outstanding—1,682,666 shares (2006 - 1,680,126)	4,207	4,200
Additional paid-in capital	5,488	5,446
Retained earnings	19,645	19,021
Accumulated other comprehensive income, net	15	(42)
Unearned Employee Stock Ownership Plan shares	(143)	(143)
Unearned compensation	(67)	-
Total shareholders' equity	29,145	28,482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$340,475	\$ 329,891

(A) The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date.

Board of Directors

MARCIA S. ALBRIGHT
Cequent Electrical Products, Inc.

DEAN CALHOUN
Coldwater Veneer, Inc.

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

H. KENNETH COLE
Hillsdale College

GARY H. HART
Infinisource, Inc.

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

GREGORY J. HULL
Farmer

THOMAS E. KOLASSA
HUB International, Inc.

DONALD J. LABRECQUE
Labrecque Management

BRIAN P. McCONNELL
Burr Oak Tool & Gauge Company, Inc.

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

FREEMAN E. RIDDLE
Spoor-Parlin, Inc.

Honorary Directors

WILLIAM (BUZZ) GALLIERS

JAMES T. GROHALSKI

JANE L. RANDALL

RAYMOND W. SMITH

JERRY L. TOWNS

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

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share amounts)	
Interest income:		
Loans, including fees	\$ 5,001	\$ 4,590
Securities:		
Taxable	417	345
Tax exempt	152	143
Total interest income	5,570	5,078
Interest expense:		
Deposits	1,817	1,306
Other	183	212
Total interest expense	2,000	1,518
Net interest income	3,570	3,560
Provision for loan losses	200	-
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	
	3,370	3,560
Non-interest income:		
Service charges on deposit accounts	430	412
Trust fees	175	170
Net gains on loan sales	105	138
Earnings on life insurance assets	68	54
Other	176	113
	TOTAL NON-INTEREST INCOME	
	954	887
Non-interest expense:		
Salaries and employee benefits	1,876	1,638
Occupancy, net	208	205
Equipment	181	169
Printing, postage and supplies	87	90
Professional and outside services	135	346
Telecommunication expenses	54	45
Other	455	692
Total non-interest expense	2,996	3,185
	INCOME BEFORE INCOME TAXES	
	1,328	1,262
	Federal income taxes	
	350	336
	NET INCOME	
	\$ 978	\$ 926
Basic and Diluted Earnings Per Common Share	\$ 0.55	\$ 0.52
Dividends Declared Per Common Share	\$ 0.20	\$ 0.18

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:

Ferris, Baker Watts, Inc.
Dublin, Ohio
(614) 718-2224
(866) 313-4803

Hilliard Lyons, Inc.
Coldwater, Michigan
(517) 278-4333 or
(800) 211-5257

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

Robert Baird & Company
Grand Rapids, Michigan
(616) 459-4491 or
(800) 888-6200

Stifel, Nicolaus & Company, Inc.
Grand Rapids, Michigan
(800) 676-0477

**Officers of
Southern Michigan
Bank & Trust**

EXECUTIVE

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

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

Loren V. Happel
*First Vice President /
Controllor*

OPERATIONS

Kelli Talbot
Vice President

Christine Hagaman
*Assistant Vice President/
Compliance Officer*

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

INFORMATION SYSTEMS

Jeff Kiersey
*Vice President /
Network and Systems Manager*

Matt Siefken
Network and Systems Officer

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

Marcia McClellan
Administration Officer

HUMAN RESOURCES

Andrew Karr
Vice President

TRUST DEPARTMENT

Mary Guthrie
*First Vice President /
Senior Trust Officer*

Susan White
*Vice President /
Trust Officer*

RETAIL BANKING SERVICES

Rick Feller
First Vice President

Jodie Johnson
*Vice President/
Retail Loan Officer*

Deanne Hawley
*Assistant Vice President/
Retail Loan Officer*

Phyllis Wingate
*Assistant Vice President/
Head of Retail Loan Operations*

ATHENS BRANCH

Marcia Carman
Branch Manager

BATTLE CREEK BRANCH

Claudia Murch
*Assistant Vice President/
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*

Shari Kline
*Assistant Vice President /
Retail Loan Officer*

MARSHALL BRANCH

Annette Campau
Community Bank Officer

Catherine Yates
*Vice President/
Commercial Lender*

Diane Davis
Retail Loan Officer

NORTH ADAMS BRANCH

Leonce Towers
*Branch Supervisor**

TEKONSHA BRANCH

Dawn Copas
Branch Manager

UNION CITY BRANCH

Ken Brooks
*Vice President /
Regional Branch Manager*

*Non Officer Position

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

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

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Danice L. Chartrand
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Chief Financial Officer*
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