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Q U A R T E R L Y R E P O R T



SECOND Quarter

Corporate Highlights

To Our Shareholders:

Southern Michigan Bancorp, Inc. earned \$1.069 million during the second quarter of 2007. Through the first six months of 2007, net income rose to \$2.047 million. Both totals were records for their corresponding quarterly and six-month periods. Earnings per share for the quarter and first six months totaled \$.60 and \$1.15, respectively.

Our results were due in part to solid year-over-year growth in our commercial loan portfolio. Over the corresponding year-over-year period, loans to small businesses increased by more than \$10 million, to \$170 million. Although the local and regional business climates are increasingly challenging, loan quality continues to strengthen. We increased our provision for loan losses year to date by \$200,000 while net charge-offs were a relatively modest \$107,000.

As of June 30, 2007, total deposits had increased by more than \$12 million over the comparable period last year. Total assets for the same period increased by more than \$8 million, to \$331 million. Year-to-date, Return on Average Assets was 1.23 percent while Return on Average Equity was 13.84 percent. Both results place us in a high performance level based on peer group comparisons. Our quarterly shareholder dividend of \$.20 and total shareholders' equity of \$32 million also are historic highs for the company.

Our proposed acquisition of FNB Financial Corporation is on track for consummation during the fourth quarter of this year pending FNB shareholder and regulatory approvals. We have filed the requisite applications and documents with appropriate regulatory agencies and are awaiting comment. The proposed combination of our two outstanding companies will enable us to increase our range of products and services while positioning us to take advantage of future geographic expansion opportunities.

We are pleased with the growth of our Marshall office, which opened in March. Retail deposit activity and small business lending have been especially strong. Our Marshall office staff have immersed themselves in a wide variety of local civic and charitable endeavors.

As Michigan and our tri-state market face this most challenging economic period, we at SMB&T will continue to utilize our knowledge and experience to achieve the high standards of excellence you have come to expect. Please feel free to contact me, members of our management team or any of our directors should you have questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "John H. Castle".

John H. Castle,
Chairman and Chief Executive Officer

SOUTHERN
MICHIGAN
BANCORP, INC.

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

	June 30, 2007	December 31, 2006
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	\$ 8,817	\$ 9,369
Federal funds sold	-	10,429
Securities available for sale	52,022	36,796
Loans held for sale, net of valuation allowance of \$0 in 2007 and 2006	575	-
Loans, net of allowance for loan losses of \$3,395 in 2007 (2006-\$3,302)	245,496	249,523
Premises and equipment, net	9,450	8,665
Accrued interest receivable	2,227	2,506
Net cash surrender value of life insurance	7,572	7,502
Goodwill	620	620
Other assets	4,489	4,481
TOTAL ASSETS	<u>\$331,268</u>	<u>\$329,891</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 41,073	\$ 42,281
Interest bearing	241,094	240,228
TOTAL DEPOSITS	<u>282,167</u>	<u>282,509</u>
Accrued expenses and other liabilities	4,510	4,440
Federal funds purchased	1,200	-
Other borrowings	6,281	7,157
Subordinated debentures	5,155	5,155
TOTAL LIABILITIES	<u>299,313</u>	<u>299,261</u>
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding— 89,685 in 2007 (89,122 in 2006)	2,063	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 in 2007 (2006 - 1,769,248)		
Outstanding—1,682,303 shares in 2007 (2006 - 1,680,126)	4,206	4,200
Additional paid-in capital	5,623	5,446
Retained earnings	20,359	19,021
Accumulated other comprehensive income, net	(91)	(42)
Unearned Employee Stock Ownership Plan shares	(143)	(143)
Unearned compensation	(62)	-
Total shareholders' equity	<u>29,892</u>	<u>28,482</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$331,268</u>	<u>\$ 329,891</u>

(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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	\$ 5,051	\$ 4,790	\$ 10,052	\$ 9,380
Securities:				
Taxable	517	316	934	661
Tax exempt	154	139	306	282
Total interest income	5,722	5,245	11,292	10,323
Interest expense:				
Deposits	1,887	1,409	3,704	2,715
Other	186	223	369	435
Total interest expense	2,073	1,632	4,073	3,150
Net interest income	3,649	3,613	7,219	7,173
Provision for loan losses	-	50	200	50
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES			
	3,649	3,563	7,019	7,123
Non-interest income:				
Service charges on deposit accounts	464	453	894	865
Trust fees	184	178	359	348
Net gains on loan sales	116	167	221	305
Earnings on life insurance assets	69	60	137	114
Income and fees from automated teller machines	84	54	159	116
Other	78	65	179	116
	TOTAL NON-INTEREST INCOME			
	995	977	1,949	1,864
Non-interest expense:				
Salaries and employee benefits	1,864	1,678	3,740	3,316
Occupancy, net	240	189	448	394
Equipment	193	205	374	374
Printing, postage and supplies	94	107	181	197
Professional and outside services	170	315	305	661
Other	609	647	1,118	1,384
Total non-interest expense	3,170	3,141	6,166	6,326
	INCOME BEFORE INCOME TAXES			
	1,474	1,399	2,802	2,661
	Federal income taxes			
	405	382	755	718
	NET INCOME			
	\$ 1,069	\$ 1,017	\$ 2,047	\$ 1,943
	Basic Earnings Per Common Share			
	\$ 0.61	\$ 0.58	\$ 1.16	\$ 1.10
	Diluted Earnings Per Common Share			
	\$ 0.60	\$ 0.57	\$ 1.15	\$ 1.10
	Dividends Declared Per Common Share			
	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.38

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 /
Controller*

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*

Deborah Davis
*Vice President/
Loan Officer*

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

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

Danice L. Chartrand
*Senior Vice President /
Chief Financial Officer*
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Loren V. Happel
*First Vice President/
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