



# THIRD Quarter

## *Corporate Highlights*

### To Our Shareholders:

Southern Michigan Bancorp, Inc. earned \$1.082 million during the third quarter of 2007, an increase of more than five percent over \$1.029 million for the third quarter of 2006. Through the first nine months of 2007, net income rose to \$3.129 million, an increase of 5.3 percent over last year's nine-month result of \$2.972 million. Both totals were records for their corresponding quarterly and nine-month periods. Earnings per share for the quarter and first nine months totaled \$.61 and \$1.77, respectively.

Total assets as of September 30, 2007 exceeded \$350 million, an increase of more than seven percent from the same period one year ago. Year-over-year deposit totals grew by \$18 million to \$293.8 million, an increase of more than six percent compared with same quarter-end results for 2006. Commercial loans grew modestly to \$175.4 million, while total loans declined by about \$1.4 million to \$252.9 million compared with same period totals in 2006. Despite one of the most challenging economic environments Michigan has experienced in recent memory, loan charge-off's year-to-date totaled \$252,830. We increased our provision for loan losses to \$345,000 compared with \$250,000 for the same period last year. Our allowance for loan and lease losses, at 1.34 percent of total loans, reflects our conservative approach toward managing risk within the loan portfolio.

Year-to-date, Return on Average Assets was 1.24 percent while Return on Average Equity was 13.97 percent. Both results place us at a high performance level based on peer group comparisons. Our quarterly shareholder dividend of \$.20 and total shareholders' equity of \$30.7 million are also historic highs for the company.

Last quarter, we announced that Southern Michigan Bancorp, Inc. has been ranked among the top 200 banking organizations in the United States, according to SNL Financial data cited in the June 2007 edition of US Banker Magazine. US Banker, a leading financial trade publication, ranked community banks with under \$1 billion in total assets by their three-year average return on equity. Southern Michigan's average return of 14.23 percent over the 2004-2006 period ranked 114th out of approximately 9,500 community banks nationwide. In addition, Southern was the highest ranked Michigan-based financial institution among all those recognized for their superior financial performance.

The Federal Reserve Board approved our proposed merger with First National Bank of Three Rivers on September 13, 2007. The SEC ordered our registration statement effective October 11, 2007, which covers shares of Southern common stock that will be issued to FNB shareholders if the merger is completed. The merger is subject to approval by FNB shareholders and the satisfaction of other closing conditions. We expect the merger to be completed during the fourth quarter of 2007.

Despite the sluggish regional economy, we remain optimistic about the opportunities that will continue to emerge for successful and stable banking organizations like Southern, and for many of our clients throughout our tri-state market. Your support for and confidence in Southern are greatly appreciated. Feel free to contact me, members of our management team or any of our directors should you have comments or suggestions.

Sincerely,

John H. Castle,  
Chairman and Chief Executive Officer

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

	September 30, 2007	December 31, 2006
	(Unaudited)	(Audited)
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and due from banks . . . . .	\$ 9,343	\$ 9,369
Federal funds sold . . . . .	7,248	10,429
Securities available for sale . . . . .	57,516	36,796
Loans held for sale, net of valuation allowance of \$0 in 2007 . . . . .	776	-
Loans, net of allowance for loan losses of \$3,394 (2006-\$3,302) . . . . .	249,527	249,523
Premises and equipment, net . . . . .	10,347	8,665
Accrued interest receivable . . . . .	2,711	2,506
Net cash surrender value of life insurance . . . . .	7,636	7,502
Goodwill . . . . .	620	620
Other assets . . . . .	5,185	4,481
<b>TOTAL ASSETS</b>	<b>\$350,909</b>	<b>\$329,891</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing . . . . .	\$ 40,640	\$ 42,281
Interest bearing . . . . .	253,156	240,228
<b>TOTAL DEPOSITS</b>	<b>293,796</b>	<b>282,509</b>
Accrued expenses and other liabilities . . . . .	4,849	4,440
Securities sold under agreements to repurchase . . . . .	8,409	-
Other borrowings . . . . .	5,795	7,157
Subordinated debentures . . . . .	5,155	5,155
<b>TOTAL LIABILITIES</b>	<b>318,004</b>	<b>299,261</b>
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, shares outstanding— 92,274 in 2007 (89,122 in 2006) . . . . .	2,215	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—1,679,714 shares (2006 - 1,680,126) . . . . .	4,199	4,200
Additional paid-in capital . . . . .	5,504	5,446
Retained earnings . . . . .	21,087	19,021
Accumulated other comprehensive income, net . . . . .	61	(42)
Unearned Employee Stock Ownership Plan shares . . . . .	(103)	(143)
Unearned compensation . . . . .	(58)	-
Total shareholders' equity . . . . .	30,690	28,482
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$350,909</b>	<b>\$ 329,891</b>

**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 September 30, 2007		Nine Months Ended September 30, 2006	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	\$ 5,105	\$ 5,039	\$ 15,157	\$ 14,419
Securities:				
Taxable	635	391	1,569	1,052
Tax exempt	155	133	461	415
Total interest income	5,895	5,563	17,187	15,886
Interest expense:				
Deposits	2,022	1,637	5,726	4,352
Other	190	230	559	665
Total interest expense	2,212	1,867	6,285	5,017
Net interest income	3,683	3,696	10,902	10,869
Provision for loan losses	145	200	345	250
	<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>			
	3,538	3,496	10,557	10,619
Non-interest income:				
Service charges on deposit accounts	512	506	1,406	1,371
Trust fees	197	173	556	521
Net gains on loan sales	96	154	317	459
Earnings on life insurance assets	64	63	201	177
Income and fees from automated teller machines	86	70	245	186
Other	125	84	304	200
	<b>TOTAL NON-INTEREST INCOME</b>			
	1,080	1,050	3,029	2,914
Non-interest expense:				
Salaries and employee benefits	1,884	1,760	5,624	5,076
Occupancy, net	251	217	699	611
Equipment	193	173	567	547
Printing, postage and supplies	81	90	262	287
Professional and outside services	201	120	506	781
Other	540	763	1,658	2,147
Total non-interest expense	3,150	3,123	9,316	9,449
	<b>INCOME BEFORE INCOME TAXES</b>			
	1,468	1,423	4,270	4,084
	<b>Federal income taxes</b>			
	386	394	1,141	1,112
	<b>NET INCOME</b>			
	\$ 1,082	\$ 1,029	\$ 3,129	\$ 2,972
	<b>Basic Earnings Per Common Share</b>			
	\$ 0.61	\$ 0.58	\$ 1.77	\$ 1.68
	<b>Diluted Earnings Per Common Share</b>			
	\$ 0.61	\$ 0.58	\$ 1.77	\$ 1.68
	<b>Dividends Declared Per Common Share</b>			
	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.58

## 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 Hoefler & Arnett, 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*

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

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

Kurt G. Miller  
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kgmiller@smb-t.com

Danice L. Chartrand  
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Chief Financial Officer*  
dchartrand@smb-t.com

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\*Non Officer Position