



FIRST Quarter

Corporate Highlights

To Our Shareholders:

Southern Michigan Bancorp, Inc. incurred a net loss of \$271,000, or 12¢ per diluted share, for the first quarter of 2009. Our earnings for the quarter were primarily affected by an increase in loan loss provision expense, totaling \$1.1 million, when compared to the first quarter of 2008. The financial results for the quarter compared with the same period last year are included with this letter for your review.

By now you have no doubt been overwhelmed by media reports regarding the economic challenges for our region and the country as a whole, and their impact on the banking industry. Some of the information has been accurate and much has been either incomplete or inaccurate. I would like to use the opportunity of this letter to update you on what we see from our vantage point at Southern with regard to economic conditions in our market area, the impact on Southern's future financial performance, and our actions to return to Southern's historic levels of profitability.

Michigan's economy continues to struggle and recently included the government takeover of Chrysler and General Motors. Very simply, thousands of jobs have been eliminated and are unlikely to be replaced for several years, if at all. Michigan and our market area will likely experience nominal growth at best for the foreseeable future.

Southern's directors and management team have already begun to implement strategies to improve the Company's financial performance. During the first quarter, we consolidated the charters of our two affiliate banks into a single charter and single name: Southern Michigan Bank & Trust. This alone will generate operating expense savings of more than \$400,000 per year when fully phased in. Our balance sheet management strategies have enabled us to reduce the Company's exposure to higher cost, non-core funding sources. This will improve our net interest margin, which still remains over 4% and ranks us among the upper end of our peers.

Southern continues to be well capitalized as measured by applicable regulatory standards. The reduction of our quarterly dividend to five cents per share, although a very difficult decision, will increase capital by more than \$1.4 million per year. Our capital strength enabled us to avoid participating in the federal government's TARP Capital Purchase Program. After thoroughly analyzing all aspects of the program, our board determined that it would not enhance creation of long-term shareholder value and it would permit the government to dictate business decisions that may not be in the best interests of shareholders.

The turmoil within the banking industry is likely to transform the competitive landscape in ways we cannot predict. However, it is our belief that companies like Southern, with exceptional capital strength, strong core earnings and disciplined decision-making, will emerge as industry leaders. We have already begun to experience growth in high quality business loan and deposit relationships, and in consumer banking services as customers in both sectors seek out strong banking partners. In addition, we believe that our fundamental strengths will allow us to take advantage of geographic expansion opportunities as the pace of consolidation within the banking industry accelerates.

I appreciate your encouragement and support through these challenging times. Despite the preponderance of disappointing news, we are optimistic about the future for both our region and our company. Please feel free to contact me, members of our management team or any of our directors should you have questions or comments.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

SOUTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	\$ 12,898	\$ 27,989
Federal funds sold	2,020	3,320
Securities available for sale	65,535	65,718
Loans held for sale, net of valuation of - 0 - in 2009 and 2008	1,412	121
Loans, net of allowance for loan losses of \$6,890 - 2009 (\$7,104 - 2008))	325,344	328,206
Premises and equipment, net	13,026	13,286
Accrued interest receivable	2,347	2,614
Net cash surrender value of life insurance	9,607	9,523
Goodwill	13,422	13,422
Other intangible assets	2,627	2,717
Other assets	9,174	8,080
TOTAL ASSETS	\$ 457,412	\$ 474,996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	\$ 53,933	\$ 57,216
Interest bearing	323,387	336,827
TOTAL DEPOSITS	377,320	394,043
Securities sold under agreements to repurchase and overnight borrowings	14,305	13,890
Accrued expenses and other liabilities	4,435	4,272
Other borrowings	11,314	12,492
Subordinated debentures	5,155	5,155
TOTAL LIABILITIES	412,529	429,852
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, 101,415 shares outstanding in 2009 (100,392 in 2008)	700	728
Shareholders' equity:		
Preferred stock, 100,000 shares authorized; none issued or outstanding	-	-
Common stock, \$2.50 par value:		
Authorized—4,000,000 shares		
Issued—2,323,970 shares in 2009 (2,311,740 shares in 2008)		
Outstanding (other than ESOP shares) - 2,222,555 shares in 2009 (2,211,348 shares in 2008)	5,556	5,528
Additional paid-in capital	18,700	18,588
Retained earnings	20,204	20,593
Accumulated other comprehensive income, net	481	413
Unearned Employee Stock Ownership Plan shares	(563)	(591)
Unearned restricted stock compensation	(195)	(115)
Total shareholders' equity	44,183	44,416
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 457,412	\$ 474,996

Southern Michigan Bancorp, Inc. Board of Directors

MARCIA S. ALBRIGHT Cequent Electrical Products, Inc.	ROBERT L. HANCE Midwest Energy	DONALD J. LABRECQUE Labrecque Management
DEAN CALHOUN Coldwater Veneer, Inc.	GARY H. HART Infinisource, Inc.	BRIAN P. MCCONNELL Burr Oak Tool, Inc.
JOHN S. CARTON Retired Business Executive	NOLAN E. (RICK) HOOKER Hooker Oil/Best American Car Washes	THOMAS D. MEYER Meyer Ventures, LLC
JOHN H. CASTLE Chairman & CEO of SMB, Inc. and SMB&T	GREGORY J. HULL Farmer	KURT G. MILLER President of SMB, Inc. and SMB&T
H. KENNETH COLE Hillsdale College	THOMAS E. KOLASSA HUB International, Inc.	FREEMAN E. RIDDLE Spoor-Parlin, Inc.

Honorary Directors

WILLIAM (BUZZ) GALLIERS
JAMES T. GROHALSKI
JANE L. RANDALL
RAYMOND W. SMITH

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

	Three Months Ended March 31,	
	2009	2008
	(In thousands, except per share data)	
Interest income:		
Loans, including fees	\$ 4,944	\$ 6,144
Federal funds sold	9	127
Securities:		
Taxable	389	638
Tax exempt	230	243
Total interest income	5,572	7,152
Interest expense:		
Deposits	1,288	2,152
Other	195	298
Total interest expense	1,483	2,450
Net interest income	4,089	4,702
Provision for loan losses	1,450	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,639	4,352
Non-interest income:		
Service charges on deposit accounts	568	659
Trust fees	251	288
Net gains on security calls and sales	-	13
Net gains on loan sales	193	119
Earnings on life insurance assets	84	88
Gain on life insurance proceeds	-	371
Income and fees from automated teller machines	157	148
Other	235	264
TOTAL NON-INTEREST INCOME	1,488	1,950
Non-interest expense:		
Salaries and employee benefits	2,510	2,687
Occupancy, net	397	387
Equipment	224	298
Printing, postage and supplies	153	151
Telecommunication expenses	91	108
Professional and outside services	385	275
Software maintenance	72	134
FDIC assessments	112	26
Amortization of other intangibles	90	93
Other	713	736
Total non-interest expense	4,747	4,895
INCOME (LOSS) BEFORE INCOME TAXES	(620)	1,407
Federal income tax provision (credit)	(349)	206
NET INCOME (LOSS)	(271)	\$ 1,201
Basic Earnings (Loss) Per Common Share	(0.12)	\$ 0.52
Diluted Earnings (Loss) Per Common Share	(0.12)	\$ 0.52
Dividends Declared Per Common Share	0.05	\$ 0.20

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:

RBC Capital Markets
Dublin, Ohio
(614) 718-2224
(866) 313-4803

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 Bancorp, Inc.

John H. Castle
Chairman & Chief Executive Officer

Kurt G. Miller
President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Loren V. Happel
Senior Vice President

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
Senior Vice President /

OPERATIONS

Kelli Talbot
1st Vice President Operations

Sara Herrmann
Vice President / Finance

Christine Hagaman
Vice President /
Compliance Officer

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

Vikki Kline
Information Systems Officer

Jamie Tobalske
Electronic Services Officer

INFORMATION SYSTEMS

Jeff Kiersey
First Vice President /
Network and Systems Manager

Matt Siefken
Network and Systems Officer

MARKETING

Patty Parker
Vice President

LOAN REVIEW

Trisha Pawloski
Assistant Vice President /
Loan Review Officer

COMMERCIAL LOANS

David Clow
Senior Vice President /
Head of Commercial Lending

Brandon Cropsey
Vice President

Nick Grabowski
Vice President

Sarah Headley
Vice President

Robert Hungerford
Vice President

Doug Kiessling
Vice President

Joan Trenary
Vice President

Tom Swoish
Vice President

Marcia McClellan
Administration Officer

HUMAN RESOURCES

Cheryl Moeslein
Human Resources Director

TRUST DEPARTMENT

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Senior Vice President /
Senior Trust Officer

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

Jared Hoffmaster
Investment Sales Officer

RETAIL LENDING

Rick Feller
Senior Vice President /
Retail Lending

Phyllis Wingate
Vice President /
Head of Retail Loan Operations

DeAnne Hawley
Assistant Vice President /
Retail Loan Officer

Judie Ratering
Mortgage Officer

Desiree Kauffman
Mortgage Originator*

Connie Swain
Collections Manager*

Debbie Leer
Collections Officer

BRANCHES

Sally Cotton
1st Vice President /
Senior Branch Administration
Officer

ATHENS BRANCH

Marcia Carman
Branch Manager

BATTLE CREEK BRANCH

Claudia Murch
Assistant Vice President /
Branch Manager

Deborah Davis
Vice President /
Loan Officer

CAMDEN BRANCH

Lori Neill
Branch Supervisor*

COLDWATER MAIN & EAST CHICAGO BRANCHES

Veronica Hannah
Assistant Vice President /
Branch Manager

CASSOPOLIS BRANCH

Janet Nosich
Branch Manager

CENTREVILLE BRANCH

Phyllis Nusbaum
Branch Manager

CONSTANTINE BRANCH

Lorraine Fifer
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
Assistant Vice President /
Community Bank Officer

Diane Krimmel
Retail Loan Officer

MENDON BRANCH

Doreen Tobin
Assistant Vice President /
Regional Branch Manager

NORTH ADAMS BRANCH

Leonce Towers
Branch Supervisor*

TEKONSHA BRANCH

Dawn Copas
Branch Manager

THREE RIVERS MAIN BRANCH

Sharon Bachinski
Assistant Vice President /
Regional Branch Manager

**THREE RIVERS WESTLAND
BRANCH**

Lynette Lorenz
Branch Manager

UNION CITY BRANCH

Ken Brooks
Vice President /
Regional Branch Manager

*Non Officer Position



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