



SECOND Quarter

Corporate Highlights

To Our Shareholders:

I am pleased to report that Southern Michigan earned net income of \$751,000, or \$.33 per diluted share during the second quarter of 2009. Our results for the quarter are a dramatic improvement compared with the first quarter, when Southern incurred a net loss of \$271,000, or \$.12 per diluted share. The second quarter totals also exceeded those for the same period last year when Southern earned net income of \$349,000, or \$.16 per diluted share.

Through the first six months of 2009, Southern earned net income of \$480,000, or \$.21 per diluted share, compared with \$1.55 million, or \$.68 per diluted share for the first six months of 2008. Our return on average assets for the first six months of 2009 was 0.21% and our return on average equity was 2.13%.

Our earnings for the quarter were favorable considering provision expense for loan losses of \$500,000 and a FDIC special assessment of \$217,000. All federally-insured depositories, including healthy banks like Southern, were assessed a special deposit insurance premium to help restore the federal Deposit Insurance Fund to statutory minimums. Southern, through the first six months of 2009, has incurred a total of \$519,000 in FDIC insurance premiums compared with only \$39,000 through June 30 of last year. We were able, however, to offset these substantially higher expenses by generating improvements in non-interest income during the second quarter of this year.

Continued uncertainty and volatility in the Michigan economy make it difficult to forecast future earnings. However, we are encouraged by improvements in our loan portfolio for the second quarter. We charged off \$765,862 during the second quarter of 2009, a sharp decline from more than \$1.7 million in charge-offs during the first quarter of this year. Non-performing loan totals improved by \$1,961,000, or 21% from \$9,318,000, or 2.77% of gross loans at June 30, 2008, to \$7,357,000, or 2.21% of gross loans at June 30, 2009. Even with these improvements, we continue to maintain a reserve for loan losses of \$6.6 million, or nearly 2% of total loans, which provides added strength to the balance sheet.

Southern remains well capitalized as measured by applicable regulatory guidelines. Our equity capital to average total assets at quarter-end was 7.74% and our risk-based capital to risk-weighted assets was 11.49%. Both ratios were substantially above regulatory minimums of 5% and 10%, respectively.

Core operating earnings continued to be strong. Our net interest margin of 4.11% ranked us favorably among our peers. Non interest income, including trust revenues, fees from loan sales and sales of specialized financial services also remained strong. In addition, we are finalizing the conversion of all data processing applications to a single system that will enable us to more effectively control overhead expenses.

While our financial condition and overall strength continues to improve, the weaknesses of the Michigan economy will continue to present severe challenges to our management team and directors. Our bank staff, officers and directors are working hard each day to ensure that Southern remains among the leaders in the industry on the basis of financial strength and profitability.

I appreciate your encouragement and support. Please continue to forward your questions, comments or suggestions for improving Southern's service to our clients throughout our tri-state market.

Sincerely,

John H. Castle
Chairman and Chief Executive Officer

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

	June 30, 2009	December 31, 2008
	(Unaudited)	(A)
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	\$ 17,917	\$ 27,989
Federal funds sold	2,614	3,320
Securities available for sale	60,382	65,718
Loans held for sale, net of valuation of - 0 - in 2009 and 2008	562	121
Loans, net of allowance for loan losses of \$6,624 - 2009 (\$7,104 - 2008)	325,830	328,206
Premises and equipment, net	13,040	13,286
Accrued interest receivable	1,998	2,614
Net cash surrender value of life insurance	9,690	9,523
Goodwill	13,422	13,422
Other intangible assets	2,536	2,717
Other assets	8,505	8,080
TOTAL ASSETS	\$ 456,496	\$ 474,996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	\$ 55,555	\$ 57,216
Interest bearing	320,326	336,827
TOTAL DEPOSITS	375,881	394,043
Securities sold under agreements to repurchase and overnight borrowings	14,641	13,890
Accrued expenses and other liabilities	4,371	4,272
Other borrowings	11,134	12,492
Subordinated debentures	5,155	5,155
TOTAL LIABILITIES	411,182	429,852
Common stock subject to repurchase obligation in Employee Stock Ownership Plan, 99,586 shares outstanding in 2009 (100,392 in 2008)	677	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—2,323,410 shares in 2009 (2,311,740 shares in 2008)		
Outstanding (other than ESOP shares) - 2,223,824 shares in 2009 (2,211,348 shares in 2008)	5,560	5,528
Additional paid-in capital	18,560	18,473
Retained earnings	20,839	20,593
Accumulated other comprehensive income, net	213	413
Unearned Employee Stock Ownership Plan shares	(535)	(591)
Total shareholders' equity	44,637	44,416
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 456,496	\$ 474,996

(A) The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date.

Southern Michigan Bancorp, Inc. Board of Directors

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

	Three Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Interest income:				
Loans, including fees	\$ 4,971	\$ 5,570	\$ 9,915	\$ 11,714
Federal funds sold and balances with banks	11	96	20	223
Securities:				
Taxable	278	497	667	1,135
Tax exempt	223	240	453	483
Total interest income	5,483	6,403	11,055	13,555
Interest expense:				
Deposits	1,145	1,686	2,433	3,838
Other	207	358	402	656
Total interest expense	1,352	2,044	2,835	4,494
Net interest income	4,131	4,359	8,220	9,061
Provision for loan losses	500	800	1,950	1,150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,631	3,559	6,270	7,911
Non-interest income:				
Service charges on deposit accounts	738	691	1,305	1,350
Trust fees	228	260	479	548
Net gains on security calls and sales	407	2	407	15
Net gains on loan sales	236	96	430	215
Earnings on life insurance assets	84	83	168	171
Gain on life insurance proceeds	-	19	-	390
Income and fees from automated teller machines	176	161	333	309
Other	269	204	504	468
TOTAL NON-INTEREST INCOME	2,138	1,516	3,626	3,466
Non-interest expense:				
Salaries and employee benefits	2,432	2,575	4,942	5,262
Occupancy, net	325	388	722	775
Equipment	231	322	455	620
Printing, postage and supplies	159	169	312	320
Telecommunication expenses	84	88	175	196
Professional and outside services	274	453	660	772
FDIC assessments	407	13	519	39
Software maintenance	143	88	214	222
Amortization of other intangibles	91	94	181	187
Other	728	585	1,441	1,277
Total non-interest expense	4,874	4,775	9,621	9,670
INCOME BEFORE INCOME TAXES	895	300	275	1,707
Federal income tax provision (credit)	144	(49)	(205)	157
NET INCOME	751	349	480	1,550
Basic Earnings Per Common Share	\$ 0.33	\$ 0.16	\$ 0.21	\$ 0.68
Diluted Earnings Per Common Share	\$ 0.33	\$ 0.16	\$ 0.21	\$ 0.68
Dividends Declared Per Common Share	\$ 0.05	\$ 0.20	\$ 0.10	\$ 0.40

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 Bank & Trust

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Head of Commercial Lending

Brandon Cropsy
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Vice President

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Assistant Vice President /
Special Assets Manager

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LOAN REVIEW

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Assistant Vice President /
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David Rumsey
Vice President /
Senior Investment Officer

Jean Winans
Vice President /
Senior Trust Officer

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Vice President /
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Senior Investment Officer

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Senior Vice President /
Retail Lending

Sally Cotton
First Vice President /
Senior Branch Administration Officer

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

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First Vice President /
Network and Systems Manager

Matt Siefken
Network and Systems Officer

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First Vice President Operations

Christine Hagaman
Vice President /
Compliance Officer

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Senior Data Processing Officer

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Information Systems Officer

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Vice President /
Loan Officer

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Branch Supervisor*

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Assistant Vice President /
Branch Manager

CASSOPOLIS BRANCH

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Branch Manager

CENTREVILLE BRANCH

Phyllis Nusbaum
Branch Manager

CONSTANTINE BRANCH

Lorraine Fifer
Branch Manager

HILLSDALE BRANCH

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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

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Assistant Vice President /
Regional Branch Manager

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Leonce Towers
Branch Supervisor*

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Branch Manager

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Regional Branch Manager

THREE RIVERS WESTLAND BRANCH

Lynette Lorenz
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

Kurt G. Miller
President

Danice L. Chartrand
Senior Vice President /
Chief Financial Officer

Loren V. Happel
Senior Vice President

Executive Officers of Southern Michigan Bank & Trust

John H. Castle
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Senior Vice President /
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Loren V. Happel
Senior Vice President



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