

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K/A**

**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 1, 2007**

**SOUTHERN MICHIGAN BANCORP, INC.**

(Exact Name of Registrant as  
Specified in Charter)

**Michigan**  
(State or Other Jurisdiction  
of Incorporation)

**000-49772**  
(Commission  
File Number)

**38-2407501**  
(IRS Employer  
Identification No.)

**51 West Pearl Street**  
**Coldwater, Michigan**  
(Address of Principal Executive Offices)

**49036**  
(Zip Code)

Registrant's telephone number,  
including area code: **(517) 279-5500**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425).
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)).
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).
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**Explanatory note:** On December 6, 2007, Southern Michigan Bancorp, Inc. (“*Southern*”) filed a current report on Form 8-K, dated December 1, 2007, to report the completion of its acquisition of FNB Financial Corporation. Southern is filing this amendment to provide the financial statement information required by Item 9.01 (a) and (b), which it previously omitted as permitted by Item 9.01.

**Item 9.01. Financial Statements and Exhibits.**

The following financial statements, pro forma financial information and exhibits are filed as part of this report.

(a) Financial Statements of Businesses Acquired

The following financial statements of FNB Financial Corporation, as required by Item 9.01(a) of Form 8-K, are filed with this report:

Audited financial statements of FNB Financial Corporation as of and for the fiscal years ended December 31, 2006 and December 31, 2005. Previously filed with the Commission on September 28, 2007 in Southern Michigan Bancorp Inc.’s Amendment No. 2 to Form S-4 Registration Statement, pages 160-184. Here incorporated by reference.

Unaudited financial statements of FNB Financial Corporation as of and for the three and nine month periods ended September 30, 2007 are filed with this report as Exhibit 99.2 and are here incorporated by reference.

(b) Pro Forma Financial Information

The following pro forma financial information for Southern Michigan Bancorp, Inc. and FNB Financial Corporation is filed with this report:

Unaudited pro forma combined condensed consolidated balance sheet as of September 30, 2007 and unaudited pro forma combined condensed consolidated statements of income for the nine months ended September 30, 2007 and for the twelve months ended December 31, 2006 are filed with this report as Exhibit 99.3 and are here incorporated by reference.

(d) Exhibits:

23 Consent of BKD LLP – Former Independent Accounting Firm for FNB Financial Corporation.

- 99.1 Audited financial statements of FNB Financial Corporation as of and for the fiscal years ended December 31, 2006 and December 31, 2005. Previously filed with the Commission on September 28, 2007 in Southern Michigan Bancorp Inc.'s Amendment No. 2 to Form S-4 Registration Statement, pages 160-184. Here incorporated by reference.
- 99.2 Unaudited financial statements of FNB Financial Corporation as of September 30, 2007 and December 31, 2006 and for the three and nine month periods ended September 30, 2007 and 2006.
- 99.3 Unaudited pro forma combined condensed consolidated balance sheet as of September 30, 2007 and unaudited pro forma combined condensed consolidated statements of income for the nine months ended September 30, 2007 and for the twelve months ended December 31, 2006.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 8, 2008

SOUTHERN MICHIGAN BANCORP, INC.

By /S/ Danice L. Chartrand  
Danice L. Chartrand  
Senior Vice President, Chief Financial Officer,  
Secretary, and Treasurer

## **EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Document</u>
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99.2	Unaudited financial statements of FNB Financial Corporation as of September 30, 2007 and December 31, 2006, and for the three and nine month periods ended September 30, 2007 and 2006.
99.3	Unaudited pro forma combined condensed consolidated balance sheet as of September 30, 2007 and unaudited pro forma combined condensed consolidated statements of income for the nine months ended September 30, 2007 and for the twelve months ended December 31, 2006.

## EXHIBIT 23

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this amendment to current report on Form 8-K, dated December 1, 2007, of our report dated February 17, 2007, except for Note 19 as to which the date is August 23, 2007, on our audits of the consolidated financial statements of FNB Financial Corporation as of and for the years ended December 31, 2006 and 2005.

/s/ **BKD, LLP**  
**BKD, LLP**

Fort Wayne, Indiana  
February 6, 2008

#1506135

**EXHIBIT 99.2**

**FNB Financial Corporation**

Consolidated Financial Statements

**FNB Financial Corporation**  
**September 30, 2007 and December 31, 2006**

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**FNB Financial Corporation**  
**Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**  
(Unaudited)

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Cash and due from banks	\$ 4,124,367	\$ 4,355,333
Interest-bearing demand deposits	127,332	102,468
Federal funds sold	7,256,079	5,597,663
Cash and cash equivalents	11,507,778	10,055,464
Available-for-sale securities	40,020,885	40,084,583
Loans held for sale	359,736	686,288
Loans, net of allowance for loan losses of \$1,537,437 and \$1,266,134 at September 30, 2007 and December 31, 2006	80,918,422	91,821,242
Premises and equipment	2,711,305	2,928,507
Federal Reserve and Federal Home Loan Bank stock	923,100	923,100
Life insurance contracts	2,280,441	2,217,483
Interest receivable	906,012	1,000,412
Other assets	1,227,045	1,454,797
Total assets	\$ 140,854,724	\$ 151,171,876
 <b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand	\$ 15,797,438	\$ 18,059,000
Savings, NOW and money market	58,837,894	59,219,328
Time	47,814,246	52,208,093
Total deposits	122,449,578	129,486,421
Short-term borrowings	150,000	—
Long-term borrowings	3,000,000	8,000,000
Interest payable	303,901	306,325
Shares subject to mandatory redemption	—	48,975
Other liabilities	2,334,402	951,565
Total liabilities	128,237,881	138,793,286
 <b>Stockholders' Equity</b>		
Preferred stock, no par value, authorized 100,000 shares; none issued and outstanding		
Common stock, \$1 par value; authorized 1,000,000 shares; issued and outstanding September 30, 2007 – 573,339 shares, December 31, 2006 – 574,839	573,339	574,839
Additional paid-in capital	468,000	468,000
Retained earnings	11,591,501	11,508,379
Shares subject to mandatory redemption	—	(48,975)
Accumulated other comprehensive loss	(15,997)	(123,653)
Total stockholders' equity	12,616,843	12,378,590
Total liabilities and stockholders' equity	\$ 140,854,724	\$ 151,171,876

**FNB Financial Corporation**  
**Consolidated Statements of Income**  
**Three and Nine Months Ended September 30, 2007 and 2006**  
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
<b>Interest and Dividend Income</b>				
Loans	\$ 1,587,252	\$ 1,836,814	\$ 4,937,007	\$ 5,556,741
Securities				
Taxable	360,878	198,699	1,083,725	556,150
Tax-exempt	94,947	100,289	285,972	276,838
Federal funds sold	74,459	53,934	207,468	107,532
Dividends on Federal Home Loan and Federal Reserve Bank stock	10,519	11,619	31,439	41,534
Deposits with financial institutions	718	858	2,514	2,329
Total interest and dividend income	<u>2,128,773</u>	<u>2,202,213</u>	<u>6,548,125</u>	<u>6,541,124</u>
<b>Interest Expense</b>				
Deposits	819,530	759,216	2,497,111	2,096,939
Short-term borrowings	2,875	---	10,063	1,716
Long-term borrowings	98,698	98,237	279,499	294,735
Total interest expense	<u>921,103</u>	<u>857,453</u>	<u>2,786,673</u>	<u>2,393,390</u>
<b>Net Interest Income</b>	1,207,670	1,344,760	3,761,452	4,147,734
<b>Provision for Loan Losses</b>	<u>620,000</u>	<u>120,000</u>	<u>890,000</u>	<u>360,000</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>587,670</u>	<u>1,224,760</u>	<u>2,871,452</u>	<u>3,787,734</u>
<b>Noninterest Income</b>				
Fiduciary activities	102,896	95,332	322,673	302,930
Service charges on deposit accounts	272,703	273,253	783,318	802,109
Other customer fees	86,878	82,640	257,233	244,397
Net gains on loan sales	26,275	29,227	76,431	189,371
Other	50,108	146,674	377,247	402,138
Total noninterest income	<u>538,860</u>	<u>627,126</u>	<u>1,816,902</u>	<u>1,940,945</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	699,522	677,786	2,149,013	2,061,054
Net occupancy expense	101,322	113,203	323,994	349,265
Equipment expense	114,919	126,704	359,121	374,929
Professional fees	150,591	85,332	392,786	198,890
Other	510,761	510,946	1,499,332	1,459,941
Total noninterest expense	<u>1,577,115</u>	<u>1,513,971</u>	<u>4,724,246</u>	<u>4,444,079</u>
<b>Income (loss) Before Income Tax</b>	(450,585)	337,915	(35,892)	1,284,600
<b>Provision (credit) for Income Taxes</b>	<u>(196,337)</u>	<u>63,133</u>	<u>(166,489)</u>	<u>308,429</u>
<b>Net Income (loss)</b>	<u>\$ (254,248)</u>	<u>\$ 274,782</u>	<u>\$ 130,597</u>	<u>\$ 976,171</u>
<b>Basic Earnings (loss) Per Share</b>	<u>\$ (.44)</u>	<u>\$ .48</u>	<u>\$ .23</u>	<u>\$ 1.69</u>
<b>Weighted-Average Shares Outstanding</b>	<u>573,339</u>	<u>576,626</u>	<u>573,339</u>	<u>576,626</u>

**FNB Financial Corporation**  
**Consolidated Statements of Stockholders' Equity**  
**Year Ended December 31, 2006 and Nine Months Ended September 30, 2007**  
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Compre- hensive Income</u>	<u>Shares Subject to Mandatory Redemption</u>	<u>Retained Earnings</u>	<u>Accumulated Other Compre- hensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>						
<b>Balance, January 1, 2006</b>	581,843	\$ 581,843	\$ 468,000		\$ (104,520)	\$11,467,522	\$ (313,108)	\$12,099,737
Comprehensive income								
Net income				\$ 774,180		774,180		774,180
Other comprehensive income, net of tax, unrealized gain on available-for-sale securities, net of reclassification adjustment				<u>189,455</u>			189,455	189,455
Total comprehensive income				<u>\$ 963,635</u>				
Change in shares subject to mandatory redemption					(146,925)			(146,925)
Redemption of stock	(7,004)	(7,004)			202,470	(227,133)		(31,667)
Cash dividends (\$.88 per share)						(506,190)		(506,190)
<b>Balance, December 31, 2006</b>	574,839	\$ 574,839	\$ 468,000		\$ (48,975)	\$11,508,379	\$ (123,653)	\$12,378,590
Comprehensive income								
Net income				\$ 130,597		130,597		130,597
Other comprehensive gain, net of tax, unrealized gain on available-for-sale securities, net of reclassification adjustment				<u>107,656</u>			107,656	107,656
Total comprehensive income				<u>\$ 238,253</u>				
Redemption of stock	(1,500)	(1,500)			48,975	(47,475)		
<b>Balance, September 30, 2007</b>	<u>573,339</u>	<u>\$ 573,339</u>	<u>\$ 468,000</u>		<u>\$ 0</u>	<u>\$11,591,501</u>	<u>\$ (15,997)</u>	<u>\$12,616,843</u>

**FNB Financial Corporation**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2007 and 2006**  
(Unaudited)

	<u>2007</u>	<u>2006</u>
<b>Operating Activities</b>		
Net income	\$ 130,597	\$ 976,171
Items not requiring (providing) cash		
Depreciation and amortization	289,137	312,772
Provision for loan losses	890,000	360,000
Amortization of premiums on securities, net	16,428	83,691
Loan fees and costs amortization, net	(42,316)	(53,066)
Amortization of mortgage servicing rights	48,179	69,949
Increase in cash value of life insurance contracts	(62,958)	(63,653)
Loss on abandonment of premises and equipment	439	4,771
Proceeds from sale of loans held for sale	3,128,305	7,507,719
Originations of loans held for sale	(2,751,231)	(7,293,459)
Gain from sale of loans	(50,522)	(127,876)
Changes in		
Interest receivable	94,400	(202,022)
Other assets	627,538	95,964
Interest payable	(2,424)	84,039
Other liabilities	1,382,837	240,928
Net cash provided by operating activities	<u>3,698,409</u>	<u>1,995,928</u>
<b>Investing Activities</b>		
Purchases of available-for-sale securities	(8,681,099)	(7,871,191)
Proceeds from maturities and calls of available-for-sale securities	8,891,508	4,359,526
Net change in loans	9,551,688	4,416,318
Purchase of premises and equipment	(72,374)	(224,775)
Proceeds from sale of FHLB stock	—	149,100
Net cash provided by investing activities	<u>9,689,723</u>	<u>828,978</u>
<b>Financing Activities</b>		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	(2,642,996)	(2,079,562)
Net increase (decrease) in certificates of deposit	(4,393,847)	4,003,110
Net increase (decrease) in short-term borrowings	150,000	(2,366,994)
Repayment of long-term borrowings	(5,000,000)	(1,000,000)
Redemption of stock	(48,975)	(185,162)
Dividends paid	—	(380,386)
Net cash used in financing activities	<u>(11,935,818)</u>	<u>(2,008,994)</u>
<b>Increase in Cash and Cash Equivalents</b>	1,452,314	815,912
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>10,055,464</u>	<u>5,057,833</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 11,507,778</u>	<u>\$ 5,873,745</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 2,789,097	\$ 2,309,351
Income taxes paid	171,208	38,605
Noncash investing activity, transfer of loans to foreclosed assets held for sale	503,448	330,851

# FNB Financial Corporation

## Notes to Consolidated Financial Statements

### Basis of Presentation

The financial statements of FNB Financial Corporation (Corporation) include the consolidation of its wholly owned subsidiary The First National Bank of Three Rivers. These interim financial statements are unaudited and do not include all disclosures normally provided with annual financial statements. These interim statements should be read in conjunction with the Corporation's annual financial statements and footnotes for the year ended December 31, 2006.

In the opinion of management, these statements reflect all adjustments (consisting of normal recurring adjustments) which are necessary for a fair presentation for the interim periods. The annualized results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results expected for the full year ending December 31, 2007.

### Securities

The amortized cost and approximate fair values of securities are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
<b>Available-for-Sale Securities</b>				
September 30, 2007				
U.S. government agencies	\$ 12,673	\$ 58	\$ 30	\$ 12,701
Mortgage-backed securities	8,866	50	123	8,793
Collateralized mortgage obligations	6,393	17	9	6,401
State and political subdivisions	12,113	99	86	12,126
	<u>\$ 40,045</u>	<u>\$ 224</u>	<u>\$ 248</u>	<u>\$ 40,021</u>
December 31, 2006				
U.S. government agencies	\$ 11,172	\$ 24	\$ 100	\$ 11,096
Mortgage-backed securities	9,150	14	142	9,022
Collateralized mortgage obligations	6,915	17	1	6,931
State and political subdivisions	13,035	126	125	13,036
	<u>\$ 40,272</u>	<u>\$ 181</u>	<u>\$ 368</u>	<u>\$ 40,085</u>

## Loans and Allowance for Loan Losses

Categories of loans at September 30, 2007 and December 31, 2006 include:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Commercial and industrial loans	\$ 16,430	\$ 18,023
Real estate loans (includes \$878 and \$3,876 secured by farmland)	56,905	65,638
Construction loans	3,239	3,446
Agricultural production financing and other loans to farmers	1,425	1,457
Individuals' loans for household and other personal expenditures	2,767	2,796
Tax-exempt loans	1,684	1,717
Other	<u>6</u>	<u>10</u>
 Total loans	 82,456	 93,087
 Less		
Allowance for loan losses	<u>(1,537)</u>	<u>(1,266)</u>
 Net loans	 <u>\$ 80,919</u>	 <u>\$ 91,821</u>

Activity in the allowance for loan losses was as follows:

	<b>September 30, 2007</b>	<b>September 30, 2006</b>
Balance, beginning of year	\$ 1,266	\$ 1,217
Provision charged to expense	890	360
Recoveries of loans	41	43
Loans charged off	<u>(660)</u>	<u>(220)</u>
 Balance, end of year	 <u>\$ 1,537</u>	 <u>\$ 1,400</u>

## Sale of Corporation

On December 1, 2007, the Corporation was merged with and into Southern Michigan Bancorp, Inc. (Southern). Each outstanding share of FNB common stock was converted into the right to receive, at the holder's election, either \$45.35 in cash or 1.87 shares of Southern common stock (plus cash in lieu of any fractional share), or a combination of both. All elections were subject to an allocation adjustment, whereby 50% of the outstanding shares of FNB common stock were converted into the right to receive cash and 50% of the outstanding shares of FNB common stock were converted into the right to receive Southern common stock.

## EXHIBIT 99.3

**SOUTHERN MICHIGAN BANCORP, INC. AND FNB FINANCIAL CORPORATION**  
**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2007**  
**(Dollars in thousands, except per share data)**

	<b>Southern</b>	<b>FNB</b>	<b>Pro Forma Adjustments(1)</b>	<b>Pro Forma Combined</b>
<b>ASSETS</b>				
Cash and due from banks	\$ 9,343	\$ 4,252	\$ (5,498)	\$ 8,097
Federal funds sold	7,248	7,256	-	14,504
Securities available for sale(2)	57,516	40,944	(139)	98,321
Loans held for sale	776	360	-	1,136
Loans held in portfolio	252,921	82,456	(223)	335,154
Allowance for loan losses	(3,394)	(1,537)	-	(4,931)
Loans, net	249,527	80,919	(223)	330,223
Premises and equipment, net	10,347	2,711	261	13,319
Cash surrender value of life insurance policies	7,636	2,280	-	9,916
Goodwill	620	-	12,035	12,655
Other intangible assets	-	10	3,112	3,122
Other assets	7,896	2,123	-	10,019
	<b>\$ 350,909</b>	<b>\$ 140,855</b>	<b>\$ 9,548</b>	<b>\$ 501,312</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Deposits</b>				
Non-interest bearing	\$ 40,640	\$ 15,798	\$ -	\$ 56,438
Interest bearing	253,156	106,652	(252)	360,060
	<b>293,796</b>	<b>122,450</b>	<b>(252)</b>	<b>416,498</b>
Federal funds borrowed	8,409	-	-	8,409
Other borrowings	5,795	3,150	7,982	16,927
Subordinated debentures	5,155	-	-	5,155
Accrued expenses and other liabilities	4,849	2,638	1,217	8,704
	<b>318,004</b>	<b>128,238</b>	<b>9,451</b>	<b>455,693</b>
Common stock subject to repurchase obligation in ESOP	2,215	-	-	2,215
<b>Shareholders' equity</b>				
Preferred stock	-	-	-	-
Common stock and additional paid-in capital	9,703	1,041	11,673	22,417
Retained earnings	21,087	11,592	(11,592)	21,087
Unearned ESOP plan shares	(103)	-	-	(103)
Unearned restricted stock compensation	(58)	-	-	(58)
Accumulated other comprehensive (loss) income	61	(16)	16	61
	<b>30,690</b>	<b>12,617</b>	<b>97</b>	<b>43,404</b>
	<b>\$ 350,909</b>	<b>\$ 140,855</b>	<b>\$ 9,548</b>	<b>\$ 501,312</b>

(1) See Note D for description of adjustments.

(2) Includes Federal Home Loan Bank stock of \$1,162,000 for Southern and Federal Reserve Bank stock of \$39,000 and Federal Home Loan Bank stock of \$884,000 for FNB.

**SOUTHERN MICHIGAN BANCORP, INC. AND FNB FINANCIAL CORPORATION**  
**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**For the Nine Months Ended September 30, 2007**  
**(Dollars in thousands, except per share data)**

	<u>Southern</u>	<u>FNB</u>	<u>Pro Forma Adjustments(1)</u>	<u>Pro Forma Combined</u>
<b>Interest income</b>				
Loans, including fees	\$ 15,157	\$ 4,937	\$ 102	\$ 20,196
Securities				
Taxable	1,569	1,084	-	2,653
Tax-exempt	461	286	-	747
Other	<u>-</u>	<u>241</u>	<u>-</u>	<u>241</u>
<b>Total interest income</b>	<b><u>17,187</u></b>	<b><u>6,548</u></b>	<b><u>102</u></b>	<b><u>23,837</u></b>
<b>Interest expense</b>				
Deposits	5,726	2,497	(119)	8,104
Federal Home Loan Bank advances	-	280	9	289
Other	<u>559</u>	<u>10</u>	<u>392</u>	<u>961</u>
<b>Total interest expense</b>	<b><u>6,285</u></b>	<b><u>2,787</u></b>	<b><u>282</u></b>	<b><u>9,354</u></b>
<b>Net interest income</b>	<b>10,902</b>	<b>3,761</b>	<b>(180)</b>	<b>14,483</b>
Provision for loan losses	<u>345</u>	<u>890</u>	<u>-</u>	<u>1,235</u>
<b>Net interest income after provision for loan losses</b>	<b><u>10,557</u></b>	<b><u>2,871</u></b>	<b><u>(180)</u></b>	<b><u>13,248</u></b>
<b>Non-interest income</b>				
Service charges on deposit accounts	1,406	783	-	2,189
Trust fees	556	323	-	879
Net gains on sales of loans	317	76	-	393
Income earned on life insurance policies	201	69	-	270
Other income	<u>549</u>	<u>566</u>	<u>-</u>	<u>1,115</u>
<b>Total non-interest income</b>	<b><u>3,029</u></b>	<b><u>1,817</u></b>	<b><u>-</u></b>	<b><u>4,846</u></b>
<b>Non-interest expense</b>				
Salaries and employee benefits	5,624	2,149	-	7,773
Occupancy, net	699	324	5	1,028
Equipment	567	359	-	926
Professional and outside services	506	393	-	899
Printing, postage and supplies	262	127	-	389
Advertising and marketing	-	57	-	57
Amortization of other intangibles	-	3	281	284
Other	<u>1,658</u>	<u>1,312</u>	<u>-</u>	<u>2,970</u>
<b>Total non-interest expense</b>	<b><u>9,316</u></b>	<b><u>4,724</u></b>	<b><u>286</u></b>	<b><u>14,326</u></b>
<b>Income (loss) before federal income taxes</b>	<b>4,270</b>	<b>(36)</b>	<b>(466)</b>	<b>3,768</b>
Federal income taxes	<u>1,141</u>	<u>(167)</u>	<u>(158)</u>	<u>816</u>
<b>Net income</b>	<b><u>\$ 3,129</u></b>	<b><u>\$ 131</u></b>	<b><u>\$ (308)</u></b>	<b><u>\$ 2,952</u></b>

(1) See Note E for description of adjustments.

	<u>Southern</u>	<u>FNB</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
<b>Earnings per share</b>				
Basic	\$ 1.77	0.23	-	\$ 1.28
Diluted	\$ 1.77	0.23	-	\$ 1.28
<b>Average shares outstanding</b>				
Basic	1,766,294	573,339	536,073	2,302,367
Diluted	1,772,303	573,339	536,073	2,308,376

**SOUTHERN MICHIGAN BANCORP, INC. AND FNB FINANCIAL CORPORATION**  
**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**For the Twelve Months Ended December 31, 2006**  
**(Dollars in thousands, except per share data)**

	<u>Southern</u>	<u>FNB</u>	<u>Pro Forma Adjustments(1)</u>	<u>Pro Forma Combined</u>
<b>Interest income</b>				
Loans, including fees	\$ 19,475	\$ 7,350	\$ 130	\$ 26,955
Securities				
Taxable	1,018	767	-	1,785
Tax-exempt	555	434	-	989
Other	406	211	-	617
<b>Total interest income</b>	<b><u>21,454</u></b>	<b><u>8,762</u></b>	<b><u>130</u></b>	<b><u>30,346</u></b>
<b>Interest expense</b>				
Deposits	6,083	2,909	(159)	8,833
Federal Home Loan Bank advances	346	392	12	750
Other	530	1	522	1,053
<b>Total interest expense</b>	<b><u>6,959</u></b>	<b><u>3,302</u></b>	<b><u>375</u></b>	<b><u>10,636</u></b>
<b>Net interest income</b>	<b><u>14,495</u></b>	<b><u>5,460</u></b>	<b><u>(245)</u></b>	<b><u>19,710</u></b>
Provision for loan losses	500	1,195	-	1,695
<b>Net interest income after provision for loan losses</b>	<b><u>13,995</u></b>	<b><u>4,265</u></b>	<b><u>(245)</u></b>	<b><u>18,015</u></b>
<b>Non-interest income</b>				
Customer service charges	1,838	1,057	-	2,895
Trust fees	709	385	-	1,094
Net gains on sales of loans	627	262	-	889
Net securities gains	1	6	-	7
Income earned on life insurance policies	272	92	-	364
Other income	658	750	-	1,408
<b>Total non-interest income</b>	<b><u>4,105</u></b>	<b><u>2,552</u></b>	<b><u>-</u></b>	<b><u>6,657</u></b>
<b>Non-interest expense</b>				
Salaries and employee benefits	7,041	2,794	-	9,835
Occupancy	766	462	7	1,235
Equipment	756	493	-	1,249
Professional and outside services	951	306	-	1,257
Printing, postage and supplies	373	181	-	554
Advertising and marketing	284	98	-	382
Amortization of other intangibles	22	4	374	400
Other	2,407	1,570	-	3,977
<b>Total non-interest expense</b>	<b><u>12,600</u></b>	<b><u>5,908</u></b>	<b><u>381</u></b>	<b><u>18,889</u></b>
<b>Income before federal income taxes</b>	<b><u>5,500</u></b>	<b><u>909</u></b>	<b><u>(626)</u></b>	<b><u>5,783</u></b>
Federal income taxes	1,491	135	(213)	1,413
<b>Net income</b>	<b><u>\$ 4,009</u></b>	<b><u>\$ 774</u></b>	<b><u>\$ (413)</u></b>	<b><u>\$ 4,370</u></b>

(1) See Note E for description of adjustments.

	<u>Southern</u>	<u>FNB</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
<b>Earnings per share</b>				
Basic	\$ 2.27	\$ 1.35	-	\$ 1.90
Diluted	\$ 2.26	\$ 1.35	-	\$ 1.89
<b>Average shares outstanding</b>				
Basic	1,764,532	575,440	536,073	2,300,605
Diluted	1,770,835	575,440	536,073	2,306,908

**NOTES TO UNAUDITED PRO FORMA  
COMBINED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A - BASIS OF PRESENTATION**

The unaudited pro forma combined condensed consolidated financial statements have been prepared assuming that the merger will be accounted for under the purchase method of accounting. The unaudited pro forma combined condensed consolidated statements of income for the year ended December 31, 2006 and the nine months ended September 30, 2007 are presented as if the merger occurred at the beginning of the period. The unaudited pro forma combined condensed consolidated balance sheet as of September 30, 2007 is presented as if the merger occurred as of that date. This information is not intended to reflect the actual results that would have been achieved had the merger actually occurred on those dates. Southern is in the process of completing its review of FNB's accounting policies. After this review is completed, Southern might determine that it is necessary to restate certain amounts in the financial statements of FNB to conform to Southern's accounting policies.

**NOTE B - SOURCES OF FUNDS AND PURCHASE PRICE**

Under the terms of the plan of merger, each outstanding share of FNB common stock was converted into the right to receive, at the holder's election, either \$45.35 in cash or 1.87 shares of Southern common stock (plus cash in lieu of any fractional share), or a combination of both. All elections were subject to an allocation adjustment, whereby 50% of the outstanding shares of FNB common stock were converted into the right to receive cash and 50% of the outstanding shares of FNB common stock were converted into the right to receive Southern common stock. Southern funded the cash portion of the merger consideration with a combination of a cash dividend from Southern Michigan Bank & Trust and loan proceeds of approximately \$8,000,000. Southern Michigan Bank & Trust funded the cash dividend from existing cash reserves and cash equivalent investments.

**NOTE C - ALLOCATION OF PURCHASE PRICE OF FNB**

Under purchase accounting, FNB's assets and liabilities and any identifiable intangible assets are required to be adjusted to their estimated fair values. The estimated fair values have been determined by Southern based upon available information from FNB. Southern cannot be sure that such estimated values represent the fair value that will ultimately be determined as of the merger date. The following are the pro forma adjustments made to record the transaction and to adjust FNB's assets and liabilities to their estimated fair values at September 30, 2007.

Purchase Price of FNB:

(Dollars in thousands)

Market value (assuming market value per share of \$23.95) of Southern common stock to be issued	\$ 12,839
Cash to holders of FNB common stock	13,000
Offering costs	(125)
Merger costs	498
Total purchase price	<u>\$ 26,212</u>
Historical net assets of FNB as of September 30, 2007	\$ 12,617
Adjustments:	
Accrual of remaining professional fees	(259)
Accrual of severance and health care plan benefits	(15)
Write-off FNB's intangible	(10)
Tax benefit of above adjustments (excluding non-deductible professional fees)	5
Adjusted net assets of FNB	<u>12,338</u>
Fair market value adjustments as of September 30, 2007:	
Loans held in portfolio	(223)
Securities	(139)
Premises and equipment, net	261
Goodwill	12,035
Core deposit intangible	3,122
Fixed rate certificates of deposit	(252)
Advances from the Federal Home Loan Bank	18
Deferred taxes on purchase accounting adjustments	(948)
	<u>\$ 26,212</u>

All of the other asset and liability categories are either variable rate or short-term in nature and fair market adjustments were considered to be immaterial to the financial presentation. The purchase price adjustments are subject to further refinement, including the determination of a core deposit intangible and its life for amortization purposes. In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite lives are not amortized for acquisitions initiated after June 30, 2001; therefore, no goodwill amortization is presented in the pro forma financial statements. However, the core deposit intangible will be amortized over its estimated life of 10 years and recorded as a charge to operations.

Southern's cost estimates are forward-looking. While the costs represent Southern's current estimate of merger costs associated with the merger that will be incurred, the ultimate level and timing of recognition of these costs will be based on the final integration in connection with completion of the merger. Readers are cautioned that the completion of this integration and other actions that may be taken in connection with the merger will impact these estimates. The type and amount of actual costs incurred could vary materially from these estimates if future developments differ from the underlying assumptions used by management in determining the current estimate of these costs.

#### **NOTE D - PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEET ADJUSTMENTS**

For purposes of determining the pro forma effect of the merger on the balance sheet, the following pro forma adjustments have been made as if the acquisition occurred as of September 30, 2007:

(Dollars in thousands)

Cash received from line of credit	\$ 8,000
Cash disbursed for Purchase Price	(13,000)
Cash disbursed for Merger costs	(498)
Fair market value adjustment for loans held in portfolio	(223)
Fair market value adjustment for securities	(139)
Fair market value adjustment for premises and equipment, net	261
Write-off of FNB's intangible	(10)
Recognition of goodwill caused by Merger	12,035
Recognition of core deposit intangible	3,122
	<u>\$ 9,548</u>
Fair market value adjustment of fixed rate certificates of deposit	\$ 252
Fair market value adjustment of advances from the Federal Home Loan Bank	(18)
Line of credit funding	8,000
Accrual of remaining professional fees, severance and benefits	274
Deferred tax effect of Merger costs	(5)
Deferred tax effect of fair market value adjustments	948
Market value of Southern common stock to be issued	12,714
Elimination of FNB common stock and paid-in capital balance	(1,041)
Elimination of remaining FNB retained earnings balance	(11,592)
Elimination of FNB accumulated other comprehensive (loss) income balance	16
	<u>\$ 9,548</u>

**NOTE E - PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF INCOME ADJUSTMENTS**

For purposes of determining the pro forma effect of the merger on the statement of income, the following pro forma adjustments have been made as if the acquisition occurred as of January 1, 2007 and 2006, respectively:

	<u>Nine Months Ended</u> <u>September 30, 2007</u>	<u>Year Ended</u> <u>December 31, 2006</u>
	(Dollars in thousands)	
Yield adjustment for fair market value adjustment of loans held in portfolio	\$ 102	\$ 130
Cost adjustment for fair market value adjustment of fixed rate time deposits	119	159
Cost adjustment for fair market value adjustment of Federal Home Loan Bank advances	(9)	(12)
Interest expense increase due to line of credit	(392)	(522)
Amortization of fair market adjustment of bank premises and equipment	(5)	(7)
Amortization of core deposit intangible	(281)	(374)
	<u>(466)</u>	<u>(626)</u>
Tax effect of pro forma adjustments	158	213
Total pro-forma effect on net income	<u>\$ (308)</u>	<u>\$ (413)</u>

Taxes were adjusted for pro forma purposes at a 34% rate for all income statement adjustments.

Basic and diluted average shares outstanding were calculated by adding the shares assumed to be issued by Southern in the merger (536,073 shares) to the historical average Southern shares outstanding for the nine months ended September 30, 2007 and for the year ended December 31, 2006.

The following assumptions were used for purposes of determining the pro forma effect of the merger on the statement of income. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill will not be amortized, but will be reviewed for impairment at least annually.

	<u>Weighted Average</u> <u>Remaining Term/</u> <u>Useful Life in Years</u>	<u>Method of Amortization</u> <u>or Accretion</u>
Loans held in portfolio	1	Accelerated(1)
Premises and equipment, net	40	Straight line
Core deposit intangible assets	10	Accelerated(1)
Interest-bearing deposits	1	Accelerated(1)
Advances from the Federal Home Loan Bank	4	Accelerated(1)

(1) Amortization or accretion will be based on the estimated life of the asset or liability category.

**NOTE F - PRO FORMA FINANCIAL PRESENTATION AND POTENTIAL FINANCIAL BENEFITS**

Southern and FNB anticipate that the merger will provide the combined organization with financial benefits that could include reduced operating expenses and enhanced opportunities to earn more revenue. Due to the uncertainty of the realization of the benefits, their effect has not been included in the pro forma financial statements.