

November 20, 2006

Dear Fellow Shareholder;

The third quarter was basically a continuation of the positive earnings story playing out this year at your bank. Here are some highlights:

- Net income is up 33.4% for the first nine months of 2006 compared to the same period last year.
- Net interest income is up 15.3% comparing the same nine month periods of 2005 and 2006.
- Net interest margin is up from 4.17% year-to-date 2005 to 4.37% in 2006. This is truly a rare situation since most banks are struggling with compressed margins right now.
- The bank has grown 9.2% so far this year, mostly driven by deposit growth.

As you know, on September 5, 2006 we declared a stock split and then waited for the market's reaction, which was not forthcoming since none of our shareholders sold any stock. However, we are confident that the market will look kindly on both our performance this year and also on the stock split. Time will tell.

Sincerely,

Edward J. McKeon  
President & CEO

WESTERN RESERVE BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS

	(unaudited) September 30, 2006	December 31, 2005
<b>Assets</b>		
Cash and due from financial institutions	\$ 2,624,990	\$ 2,228,258
Federal funds sold and other short-term funds	15,800,380	5,114,748
Cash and cash equivalents	18,425,370	7,343,006
Securities available for sale	5,021,177	7,301,377
Loans	113,340,320	111,189,355
Allowance for loan losses	(1,505,288)	(1,541,654)
Loans, net	111,835,032	109,647,701
Restricted stock	564,000	537,200
Premises and equipment, net	1,190,631	1,303,921
Accrued interest receivable and other assets	2,515,280	1,650,798
Total Assets	<u>\$ 139,551,490</u>	<u>\$ 127,784,003</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 13,502,617	\$ 12,899,265
Interest-bearing	109,582,380	99,388,145
Total deposits	123,084,997	112,287,410
Federal Home Loan Bank advances	3,500,000	3,500,000
Accrued interest payable and other liabilities	376,110	398,254
Total Liabilities	126,961,107	116,185,664
<b>Shareholders' Equity</b>		
Common stock, without par value, \$1 stated value: 750,000 shares authorized; 572,147 and 571,523 shares issued and outstanding at September 30, 2006 and December 31, 2005*	572,147	457,331
Additional paid-in capital	9,542,389	9,528,376
Retained earnings	2,465,326	1,639,369
Accumulated other comprehensive income (loss)	10,521	(26,737)
Total Shareholders' Equity	<u>12,590,383</u>	<u>11,598,339</u>
Total Liabilities and Shareholders' Equity	<u>\$ 139,551,490</u>	<u>\$ 127,784,003</u>

\*Adjusted for the five-for-four stock split in September 2006

WESTERN RESERVE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

	Nine months ended 2006	September 30, 2005
<b>Interest Income</b>		
Loans, including fees	\$ 6,703,311	\$ 5,531,135
Securities	199,700	41,637
Dividends on restricted stock	23,583	19,232
Federal funds sold and other short-term funds	335,036	114,917
	<u>7,261,630</u>	<u>5,706,921</u>
<b>Interest Expense</b>		
Deposits	2,972,429	1,990,482
Borrowings	94,952	79,677
	<u>3,067,381</u>	<u>2,070,159</u>
Net interest income	4,194,249	3,636,762
Provision (Credit) for Loan Losses	(112,080)	11,000
Net interest income after provision (credit) for loan losses	4,306,329	3,625,762
<b>Noninterest Income</b>		
Service charges on deposit accounts	133,540	100,169
Net gains on sales of loans	7,451	151,346
Gain on sale of credit card portfolio	28,500	-
Other	133,816	115,592
	<u>303,307</u>	<u>367,107</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,616,781	1,395,676
Premises and equipment, net	613,765	593,214
Data processing	246,353	223,240
Professional fees	212,147	275,026
Taxes other than income and payroll	90,529	75,342
Community and shareholder relations and contributions	71,031	53,979
Supplies, printing and postage	57,125	58,716
Other	293,467	256,211
	<u>3,201,198</u>	<u>2,931,404</u>
Income before income taxes	1,408,438	1,061,465
Income tax expense	468,079	356,276
Net income	<u>\$ 940,359</u>	<u>\$ 705,189</u>
Average shares outstanding (basic)*	571,734	570,561
Average shares outstanding (diluted)*	595,336	589,551
Basic earnings per share*	\$1.64	\$1.24
Diluted earnings per share*	\$1.58	\$1.20