



WESTERN
RESERVE
BANCORP, INC.

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May 24, 2011

Dear Fellow Shareholder:

NOW, THIS WAS A MUCH EASIER LETTER TO WRITE!

Let me explain:

- We rode out the storm, supporting our customers, and now there just may be a rainbow ahead.
- Our first quarter pre-tax earnings were \$516,000, the best first quarter that we've ever had.
- The above quarterly earnings total was an improvement of \$876,000 over last year's first quarter pre-tax results.
- Classified loans (troubled loans) are down \$2.174 million in just one quarter.
- Although the CPP funds (TARP) were controversial with some shareholders, they provided essential capital in this economic mess as regulators were in search of capital in every bank they visited, and any bank not heavily capitalized was inevitably in for an unpleasant examination.
- Due to our deliberate actions during a historically low interest period, our margin has improved to 3.99% from 3.52% when comparing the first quarter of 2010 to the first quarter of 2011. That ain't easy, folks. This is a key ingredient in our continued profitability.

All of the above were the result of your directors and your management team pouring extraordinary effort into successfully moving through this storm.

Sincerely,

Ed McKeon
President/CEO

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

	Three months ended March 31,	
	2011	2010
Interest Income		
Loans, including fees	\$ 2,053,553	\$ 2,131,924
Securities, Taxable	69,060	58,028
Securities, Tax exempt	44,591	44,383
Federal funds sold and other short-term funds	4,973	9,359
Dividends on restricted stock	12,317	10,354
	<u>2,184,494</u>	<u>2,254,048</u>
Interest Expense		
Deposits	413,635	555,610
Borrowings	16,571	30,869
	<u>430,206</u>	<u>586,479</u>
Net interest income	1,754,288	1,667,569 *
Provision for Loan Losses	8,135	785,830 *
Net interest income after provision for loan losses	1,746,153	881,739 *
Noninterest Income		
Service charges on deposit accounts	43,013	51,064
Net gains on sales of loans	6,606	14,305
Other	73,110	80,169
	<u>122,728</u>	<u>145,538</u>
Noninterest Expense		
Salaries and employee benefits	594,880	634,946
Occupancy and equipment	224,946	215,472
Federal deposit insurance	95,125	71,845
Data processing	90,887	93,654
Professional fees	55,944	67,249
Taxes other than income and payroll	54,013	50,165
Directors' fees	27,400	69,135
Collection and other real estate owned	107,279	81,315
Marketing and community relations	34,154	39,188
Other	68,004	65,240
	<u>1,352,632</u>	<u>1,388,209 *</u>
Income (loss) before income taxes	<u>516,249</u>	<u>(360,932)</u>
Income tax expense (benefit)	153,481	(144,497)
Net income (loss)	<u>\$ 362,768</u>	<u>\$ (216,435)</u>
Preferred stock dividends and amortization, net	<u>77,700</u>	<u>77,700</u>
Net income (loss) available to common shareholders	<u>\$ 285,068</u>	<u>\$ (294,135) *</u>
Earnings (loss) per common share:		
Basic	<u>\$ 0.49</u>	<u>\$ (0.50) *</u>
Diluted	<u>\$ 0.49</u>	<u>\$ (0.50)</u>
Average shares outstanding (basic)	<u>586,088</u>	<u>584,731</u>
Average shares outstanding (diluted)	<u>586,088</u>	<u>584,731</u>

WESTERN RESERVE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2011	December 31, 2010
ASSETS		
Cash and due from financial institutions	\$ 2,786,740	\$ 2,343,069
Interest-bearing deposits in other financial institutions	10,822,645	11,923,425
Federal funds sold and other short-term funds	305,000	230,000
Cash and cash equivalents	13,914,385	14,496,494
Securities available for sale	12,334,103	12,993,197
Restricted stock	966,100	966,100
Loan held for sale	-	236,000
Loans	156,207,441	159,504,794
Allowance for loan losses	(4,506,818)	(4,544,316)
Loans, net	151,700,623	154,960,478
Premises and equipment, net	991,242	1,029,685
Bank owned life insurance	2,459,343	2,434,183
Other real estate owned	1,072,386	991,450
Prepaid Federal Deposit Insurance Corporation premiums	529,643	618,005
Accrued interest receivable and other assets	2,859,089	2,838,804
Total Assets	\$ 186,826,914	\$ 191,564,396
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 20,740,361	\$ 22,934,531
Interest-bearing	145,251,324	148,704,510
Total deposits	165,991,685	171,639,041
Federal Home Loan Bank advances	2,500,000	1,900,000
Accrued interest payable and other liabilities	690,848	688,299
Total Liabilities	169,182,533	174,227,340
Shareholders' Equity		
Cumulative preferred stock, no par value, \$1,000 per share liquidation value:		
Series A, fixed rate, 4,700 shares authorized and issued at March 31, 2011 and December 31, 2010	4,700,000	4,700,000
Discount on Series A preferred stock	(189,242)	(204,381)
Series B, fixed rate, 235 shares authorized and issued at March 31, 2011 and December 31, 2010	235,000	235,000
Premium on Series B preferred stock	18,464	19,941
Common stock, no par value, \$1 stated value:		
1,500,000 shares authorized; 586,414 and 586,084 shares issued and outstanding at March 31, 2011 and December 31, 2010	586,414	586,084
Additional paid-in capital	9,984,734	9,981,912
Retained earnings	2,094,686	1,809,618
Accumulated other comprehensive income	214,325	208,882
Total Shareholders' Equity	17,644,381	17,337,056
	\$ 186,826,914	\$ 191,564,396