



**WESTERN  
RESERVE  
BANCORP, INC.**

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December 11, 2009

Dear Fellow Shareholder:

In the third quarter of 2009, your Bank bounced back to a net profit of \$146,436, from a loss of \$120,102 in the second quarter. This results in a year-to-date net income for Western Reserve Bancorp of \$56,997.

In last quarter's letter, I indicated that three major issues contributed to the loss position. This quarter, circumstances have improved related to these issues.

- **Interest Rates** – We have been diligently taking actions to improve our net interest margin since the Fed precipitously depressed the prime rate in late 2008. These steps have resulted in our margin increasing from 3.11% in the second quarter to 3.39% in the third. This seemingly small improvement meant our net interest income increased by \$152,000 in the third quarter compared to the second quarter. On an annualized basis, that change alone would mean an improvement of \$608,000 in net interest income.
- **Allowance for Loan Losses** – We did not have to set aside as large a reserve as was necessary in the prior quarter. This resulted in a decrease in provision expense of \$157,000 from quarter to quarter.
- **FDIC Charges** – We were not burdened by another FDIC special assessment of \$90,000 like the one that occurred in the second quarter.

We are pleased with the direction of our quarterly profit picture and appreciate your continued support.

Sincerely,

Ed McKeon  
President & CEO

WESTERN RESERVE BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS

WESTERN RESERVE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	(unaudited) September 30, 2009	December 31, 2008	(unaudited) September 30, 2009	September 30, 2008
<b>Assets</b>				
Cash and due from financial institutions	\$ 2,553,051	\$ 2,302,786		
Interest-bearing deposits in other financial institutions	7,794,801	18,908,677		
Federal funds sold and other short-term funds	104,000	91,000		
Cash and cash equivalents	10,451,852	21,302,463		
Time deposits in other banks	2,000,000	-		
Securities available for sale	11,000,968	10,214,322		
Restricted stock	781,900	728,400		
Loans	161,080,458	143,625,431		
Allowance for loan losses	(2,250,259)	(1,743,470)		
Loans, net	158,830,199	141,881,961		
Premises and equipment, net	960,846	1,006,081		
Bank owned life insurance	2,308,001	2,231,665		
Foreclosed assets	701,334	290,000		
Accrued interest receivable and other assets	1,798,419	1,457,347		
<b>Total Assets</b>	<b>\$ 188,833,519</b>	<b>\$ 179,112,239</b>		
<b>Liabilities and Shareholders' Equity</b>				
Deposits				
Noninterest-bearing	\$ 18,685,671	\$ 16,942,194		
Interest-bearing	146,175,962	139,775,662		
Total deposits	164,861,633	156,717,856		
Other borrowings	3,400,000	500,000		
Federal Home Loan Bank advances	1,069,994	6,500,000		
Accrued interest payable and other liabilities	169,331,627	683,663		
<b>Total Liabilities</b>	<b>169,331,627</b>	<b>164,401,519</b>		
<b>Shareholders' Equity</b>				
Preferred stock, Series A, no par value, 4,700 and -0- shares authorized and issued at September 30, 2009 and December 31, 2008	4,700,000	-		
Discount on Series A preferred stock	(280,078)	-		
Preferred stock, Series B, no par value, 235 and -0- shares authorized and issued at September 30, 2009 and December 31, 2008	235,000	-		
Premium on Series B preferred stock	27,327	-		
Common stock, without par value, \$1 stated value:				
1,500,000 shares authorized; 584,502 and 583,330 shares issued and outstanding at September 30, 2009 and December 31, 2008	584,502	583,330		
Additional paid-in capital	9,930,340	9,912,293		
Retained earnings	3,981,663	4,041,215		
Accumulated other comprehensive income	323,138	173,882		
<b>Total Shareholders' Equity</b>	<b>19,501,892</b>	<b>14,710,720</b>		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 188,833,519</b>	<b>\$ 179,112,239</b>		
Interest Income				
Loans, including fees	\$ 6,037,808	\$ 6,659,567		
Securities, Taxable	212,172	250,848		
Securities, Tax exempt	127,541	130,390		
Federal funds sold and other short-term funds	28,908	25,152		
Dividends on restricted stock	47,355	241,155		
	6,453,784	7,307,092		
Interest Expense				
Deposits	2,039,118	2,737,384		
Borrowings	120,935	145,038		
	2,160,053	2,882,422		
Net interest income	4,293,731	4,424,670		
Provision for Loan Losses	668,700	398,800		
Net interest income after provision for loan losses	3,625,031	4,025,870		
Noninterest Income				
Service charges on deposit accounts	149,998	132,894		
Net gains on sales of loans	19,542	1,446		
Other	191,487	152,692		
	361,027	287,032		
Noninterest Expense				
Salaries and employee benefits	1,900,677	1,734,526		
Premises and equipment, net	680,397	695,494		
FDIC insurance	287,095	81,302		
Data processing	279,487	278,007		
Professional fees	147,899	161,181		
Taxes other than income and payroll	142,147	112,706		
Directors' fees	107,850	109,800		
Marketing and advertising	58,551	64,776		
Community and shareholder relations				
and contributions	54,442	70,092		
Other	335,944	356,474		
	3,994,489	3,664,358		
	(8,431)	648,544		
Income (loss) before income taxes	(65,428)	162,318		
Income tax expense (benefit)				
Net income	\$ 56,997	\$ 486,226		
Dividends and amortization on preferred stock	116,549	-		
Net income (loss) available to common shareholders	\$ (59,552)	\$ 486,226		
Average shares outstanding (basic)	583,852	581,986		
Average shares outstanding (diluted)	583,852	593,669		
Basic earnings (loss) per common share	(\$0.10)	\$0.84		
Diluted earnings (loss) per common share	(\$0.10)	\$0.82		