



**WESTERN  
RESERVE  
BANCORP, INC.**

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June 16, 2009

Dear Fellow Shareholder:

We expected 2009 to be a challenging year and the first quarter has definitely reflected that expectation.

Although our profitability is off from our 2008 level, it is above our budget. We anticipated the overall economic situation which has affected our bank. Nevertheless, we must be prepared to endure this storm for at least the rest of the year. As discussed in the annual report and at the shareholders' meeting, there are a number of issues which we have expected to stunt our profitability and many of them are indeed becoming factors.

- FDIC insurance is \$32,000 higher in the 2009 first quarter than it was in 2008, and we expect that the FDIC "Special Assessment" will cost us an additional \$91,000 in the second quarter, which was not in our 2009 budget and will be difficult to absorb.
- Our first quarter 2009 net interest income is \$97,000 below 2008. A major factor relating to this situation is the Federal Reserve's radical decrease of the Federal funds target rate, which significantly affected our margin.
- The loan loss reserve expense is \$40,000 higher than in 2008. This reflects the local and national economic situation. Much of this expense is formula driven.

Nevertheless, our quarterly profit was above our projections when considering all factors.

Now, the good news is that our loan growth and deposit growth are both considerably above our plan so far. While this situation does not benefit us in the short run, it bodes well for our potential future income.

We certainly want to thank our shareholders for supporting our acquiring \$4.7mm in CPP funds from the U.S. Treasury to bolster our capital position which will support our future growth. While this was a controversial move, we believe that it is the right move and appreciate your trust in the validity of our position.

As always, and especially in these times, I am available to sit down and discuss any aspect of our bank. Call me at 330-721-8081 if you'd like to chat.

Sincerely,

Ed McKeon  
President & CEO  
Western Reserve Bank

**WESTERN RESERVE BANCORP, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	(unaudited) March 31, 2009	December 31, 2008
<b>Assets</b>		
Cash and due from financial institutions	\$ 2,808,162	\$ 2,302,786
Interest-bearing deposits in other financial institutions	15,489,487	18,908,677
Federal funds sold and other short-term funds	180,000	91,000
Cash and cash equivalents	18,477,649	21,302,463
Interest-bearing deposits in other banks	3,000,000	-
Securities available for sale	10,059,423	10,214,322
Restricted stock	781,900	728,400
Loans	150,945,083	143,625,431
Allowance for loan losses	(1,824,551)	(1,743,470)
Loans, net	149,120,532	141,881,961
Premises and equipment, net	1,016,244	1,006,081
Bank owned life insurance	2,257,646	2,231,665
Foreclosed assets	290,000	290,000
Accrued interest receivable and other assets	1,607,617	1,457,347
<b>Total Assets</b>	<b>\$ 183,611,011</b>	<b>\$ 179,112,239</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 19,167,645	\$ 16,942,194
Interest-bearing	145,050,969	139,775,662
Total deposits	164,218,614	156,717,856
Other borrowings	500,000	500,000
Federal Home Loan Bank advances	3,400,000	6,500,000
Accrued interest payable and other liabilities	690,139	683,663
<b>Total Liabilities</b>	<b>168,808,753</b>	<b>164,401,519</b>
<b>Shareholders' Equity</b>		
Common stock, without par value, \$1 stated value:		
1,500,000 shares authorized; 583,947 and		
583,330 shares issued and outstanding at		
March 31, 2009 and December 31, 2008	583,947	583,330
Additional paid-in capital	9,921,531	9,912,293
Retained earnings	4,071,878	4,041,215
Accumulated other comprehensive income (loss)	224,902	173,882
Total Shareholders' Equity	14,802,258	14,710,720
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 183,611,011</b>	<b>\$ 179,112,239</b>

**WESTERN RESERVE BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	(unaudited)	
	Three Months Ended March 31,	
	2009	2008
<b>Interest Income</b>		
Loans, including fees	\$ 1,941,754	\$ 2,279,083
Securities, Taxable	70,737	80,511
Securities, Tax exempt	41,545	43,450
Federal funds sold and other short-term funds	19,311	135,289
Dividends on restricted stock	9,127	7,997
	2,082,474	2,546,330
<b>Interest Expense</b>		
Deposits	718,159	1,106,768
Borrowings	55,167	32,703
	773,326	1,139,471
<b>Net interest income</b>	<b>1,309,148</b>	<b>1,406,859</b>
Provision (Credit) for Loan Losses	138,000	97,900
<b>Net interest income after provision (credit) for loan losses</b>	<b>1,171,148</b>	<b>1,308,959</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	49,081	40,111
Net gains on sales of loans	9,043	-
Other	58,326	39,030
	116,450	79,141
<b>Noninterest Expense</b>		
Salaries and employee benefits	616,671	610,998
Premises and equipment, net	224,464	232,320
Data processing	93,907	92,573
Professional fees	56,656	55,841
Taxes other than income and payroll	48,494	39,204
Directors' fees	33,800	37,475
FDIC insurance	58,934	26,886
Marketing and advertising	27,637	23,099
Community and shareholder relations and contributions	12,538	24,178
Supplies, printing and postage	20,970	18,455
Other	78,506	72,251
	1,272,577	1,233,280
<b>Income before income taxes</b>	<b>15,021</b>	<b>154,820</b>
Income tax expense (benefit)	(15,642)	37,258
<b>Net income</b>	<b>\$ 30,663</b>	<b>\$ 117,562</b>
<b>Average shares outstanding (basic)</b>	<b>583,337</b>	<b>580,892</b>
<b>Average shares outstanding (diluted)</b>	<b>583,337</b>	<b>597,859</b>
<b>Basic earnings per share</b>	<b>\$0.05</b>	<b>\$0.20</b>
<b>Diluted earnings per share</b>	<b>\$0.05</b>	<b>\$0.20</b>