

LETTER TO SHAREHOLDERS

FIRST COMMUNITY
FINANCIAL CORPORATION

MARCH 2024

Dear Shareholder,

Overall, 2023 has been a volatile year in the economy, and more specifically within the banking industry. While State and Local economies have remained relatively robust, the national economy has seen significant inflationary pressures, which caused the Federal Reserve to increase interest rates at a pace not seen since the early 1980s. Pennian Bank is not immune to these economic pressures and like many other banks throughout the country, has experienced significant net interest margin (NIM) pressures. Net interest income is by far the largest source of earnings for any community bank. The NIM, as a result of the aforementioned rate increases, fell from 3.14% for fiscal 2022 to 2.55% for fiscal 2023. Pennian Bank's cost of funds, which is largely made up of customer deposits and borrowings from sources such as the Federal Home Loan Bank and Federal Reserve, rose at a much faster pace than the loan portfolio, resulting in this NIM pressure. While this can and should improve over time, particularly as the loan portfolio reprices into these higher market rates, the impacts of the Federal Reserve's recent monetary cycle economy are ongoing and we too are disappointed in our current operating performance.

In addition to the above items, the provision for credit losses totaled \$1,645,000 for the year ended December 31, 2023, compared to \$550,000 for the year ended December 31, 2022. This adversely affected the Bank's operating performance in fiscal 2023. The historically high provision for credit losses was due in part to one significant commercial loan charge off in the fourth quarter of 2023. The Board of Directors and Management believe this one isolated fourth quarter charge off is not indicative of the overall quality of the loan portfolio, which remains strong as indicated by historically low delinquency levels. Pennian Bank continues to stay well capitalized with a Total Capital Ratio of 14.68%, remaining among the strongest of our local region's community bank peer group. Although the Bank may experience the continued pressure given the current economy, we remain confident that Pennian Bank's credit and lending processes are strong.

Based on operating performance in late 2023 and thus far in 2024, the Board of Directors of the First Community Financial Corporation has concluded that in order to preserve capital, it would not approve and would temporarily suspend, any cash dividend payments for the first quarter of 2024. We are aware that many of our shareholders rely on this income; however, regulatory guidance has led the Board of Directors to this difficult decision. While many banks throughout the country are making the same decision, Pennian Bank prides itself on being a leader in the local banking industry and I can assure you that both the Board and Management team are working hard to improve overall performance. The Board of Directors will continue to evaluate future dividend payments on a quarterly basis and make the appropriate decision at that time.

We can assure you that we remain safe and sound and will continue our commitment to the local community. We are working diligently to implement additional solutions to mitigate current and future challenges. The Board of Directors and Management team are committed to providing long-term shareholder value and returns. We thank you for your continued support in First Community Financial Corporation and Pennian Bank.

Sincerely,



Scott E. Fritz
President & Chief Executive Officer