

Dear Fellow Shareholders

As we entered 2009, we were in the midst of a recession that has proven to be longer and deeper than any other we have experienced since the 1930s. The financial market disruptions that escalated to crisis levels in the second half of 2008 began to subside in the early months of 2009, but the economic meltdown continued throughout most of the year. The Federal Reserve declared the recession technically over in the third quarter of 2009, but the lingering impact of declining property values and high unemployment will be with us for some time.

While we are continually adjusting our business plan to the realities of the recession, I am reminded that Provident Community Bank was founded in 1934 during the depths of the Great Depression. Our founders had experienced an extended period of economic hardship, but they were committed to helping people and businesses in their community. Seventy-five years later, the directors, officers and staff of Provident are again experiencing financial challenges, but we are still committed to helping the people and businesses in all the communities we now serve.

It has been said that a community bank is a reflection of the market it serves. Unemployment in South Carolina is among the highest in the nation and the unemployment rate in several of our markets is among the highest in the state. As a result, the impact on our customers and Bank has been profound. While we are guarded in our planning and budget projections, we see indications that the credit cycle has bottomed and the economy has begun to stabilize. As we move through this difficult economic cycle, we are focused on returning to profitability and restoring shareholder value.

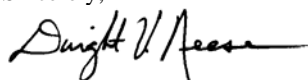
The deterioration of asset quality is our primary concern as we combat the impact of the recession on our customers and Bank. The credit issues facing our borrowers continued to escalate throughout 2009 and our loan delinquencies and nonperforming assets increased. In response to the deterioration in the credit quality of our loan portfolio and the negative impact of the economy in general, we reserved \$8.7 million for loan losses in 2009, compared to \$4.2 million in 2008 and \$1.0 million in 2007.

While the deteriorating credit quality of our loan portfolio was the primary cause for our loss for the year, we also experienced margin compression and higher than expected operating expenses caused by an increase in FDIC premiums and goodwill impairment charges. In response to the current economic, regulatory and political environment, our Board of Directors and senior leadership team have adjusted our strategic business plan to be more conscious of the risks we take and the impact on profitability and sustained shareholder value.

- **Credit Quality:** In the early stages of the recession we added a very seasoned Special Assets Manager to oversee problem loan administration. In conjunction with the Special Assets Manager, we also created a Special Assets Committee composed of myself and the senior credit officers who meet weekly to monitor the resolution of problem loans. In addition, we increased our external loan review to a quarterly cycle in 2009.
- **Liquidity:** While most banks keep approximately 15% of their assets in investment securities, we held 33% in investment securities in 2009. As a result, we maintain a very high liquidity position and have virtually no reliance on short-term funding sources, such as brokered deposits.
- **Earnings:** In 2009 we experienced several large non-recurring expenses that had a significant impact on our earnings. We are continually reevaluating ways to improve earnings by enhancing revenue and reducing expenses.
- **Capital:** Provident has always been classified as well capitalized, but the goal is to be aggressive in bolstering capital ratios in response to the credit issues caused by the recession. A comprehensive capital plan was developed in 2009 that will bolster all regulatory capital ratios in 2010.
- **Enterprise Risk Management:** A recently retired bank examiner was added in late 2009 to oversee enterprise risk management. As the Bank's first Chief Risk Officer, this person will advise our Board of Directors and senior leadership team on a broad spectrum of enterprise risk-related matters.

In difficult times like these, it could be easy to lose our way, to forget our mission, or to stray from the tenets of our core values. But at Provident Community Bank, we celebrated our 75th anniversary in 2009 and have a strong heritage and deep resilience to draw upon. We deeply appreciate your investment in our company and thank you for your continued support during these trying times. I hope you will be able to join us for our annual shareholders meeting on April 21 on the campus of Winthrop University.

Sincerely,



Dwight V. Neese
President and Chief Executive Officer