

January 16, 2024

United Bancorp of Princeton, Inc. Shareholders

RE: 4th Quarter Distributions and 2024 Financial Results (Bank-Level)

Dear Shareholders:

I am pleased to share our Board of Directors in December approved 4th Quarter distributions equal to an amount that total 2023 distributions will match the \$1,700,000 in total distributions paid to eligible shareholders in 2022. For both years, 1st, 2nd, and 3rd Quarter distributions of \$3.33 per share were paid, for a combined three-quarter total of \$9.99 per share. Last year's 4th Quarter distribution was \$9.38 per share, bringing total 2022 distributions to \$19.37 per share. This year's 4th Quarter distribution will be \$9.75 per share, bringing the 2023 total to \$19.74 per share. That modest increase in the per share value is the result of a lower total number of shares outstanding of 86,153 as of 12/31/23 as compared to 86,631 as of 12/31/22.

Bank-level earnings for 2023 finished at \$1,884,130. In December we strategically elected to sell a small portion of our security portfolio at a loss of -\$76,373. The reason for that was to lock in some of today's higher yields to enhance future earnings, as the analytics of this transaction projects an approximate 24-month recapture of those one-time losses. On the downside, this transaction lowered 2023 total earnings below 2023 budget expectations of \$1,965,000. Prior to taking those recognized losses, 2023 total earnings would have been \$1,960,503, very close to 2023 expectations. On the upside, this transaction lowers your relative taxable income from our company, meaning less of what you will have received in 2023 distributions will be needed for your 2023 taxes.

Though not visible at the bank level, our Board also elected to take advantage of a change in Kentucky income tax option that allows United Bancorp of Princeton, Inc. (as an S Corporation) to pay Kentucky state-level income taxes at the holding company level. You will notice this adjustment too when you receive United Bancorp's 2023 financial audit. Since United Bancorp will be paying these taxes on your behalf, that will further increase the portion of your 2023 distributions that will not be needed for tax purposes. (Out-of-state shareholders will be receiving a second letter with additional information in this regard.)

Looking back a year ago, 2022 earnings at the bank level totaled just above \$2,400,000. We budgeted 2023 earnings down approximately -\$435,000 based on three primary variables. The first was related to the benefit our 2022 earnings received from the aggressive interest rates increases that year, as the asset side of our balance typically reprices faster than the liability side. We anticipated the funding (interest expense) side of our business model--also known as our deposit base--would catch-up to the asset side increases in 2023. We have elected to take a longer picture view of that by remaining relatively aggressive in our deposit pricing in order to hold onto the deposit growth we have seen in recent years. We were successful in that regard, as our deposit base grew in 2023 from just under \$179.0 million to closer to \$191.5 million. We feel the short-term cost of maintaining those relationships will prove accretive to our earnings as we move into 2024 and beyond.

The second of those three variables in our lower 2023 budget related to a continued investment in our mortgage operations that was initiated during 2021. While the significant increase in rates experienced since early 2022 have negatively impacted the mortgage industry in a meaningful way, it remains our intent that our mortgage

division be well-positioned for future growth as the interest rate environment normalizes. That said, we too have taken certain downsizing measures to also enhance our earnings in the upcoming year.

The third of those three variables has been our planned transition from a trust-only service option level to a more flexible wealth management division that allows us to offer non-traditional banking investment options to a broader portion of our markets. As we enter 2024, we are in the final stages of finalizing a third-party arrangement that will continue to offer trust options to interested trust clients, and we have already begun to offer full-service wealth management services during the latter half of 2023.

At the core bank level, in addition to the positive results relative to our deposit relationships, our lending team had a very productive year. Total loans grew from \$120.8 million at the end of 2022 to just under \$133.0 million twelve months later. As important, even with this continued growth in loans, our current credit quality factors remain as strong as we have seen at any point in our history.

Looking ahead to 2024, we anticipate and are budgeting results closer to our 2022 results. We feel that is reasonable based on our continued ability at the core bank level to leverage our well-maintained deposit base by making good loans; and combining that with the growth opportunities within our two newer divisions. Beyond 2024, we feel this more diversified opportunity for revenue growth will serve both the company and its shareholders well.

If you have any questions, please do not hesitate to reach me at either 270-365-5526 or by email at jeff.mcdaniels@farmersbk.com. Most importantly, thank you for your continued support of our company!

Sincerely,

Jeff R. McDaniels
CEO