January 13, 2025

United Bancorp of Princeton, Inc. Shareholders

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

Dear Shareholders:

At our recent December Board of Directors meeting, a 4th quarter distribution of $8.96 per share was approved. Combined with the first three quarters of the year, that would bring total distributions for 2024 to $18.95 per share. That compares to 4th quarter distributions of $9.75 per share and total distributions of $19.75 per share in 2023. While the 2024 amount is somewhat less than the 2023 numbers, that was not because of any concerns with bank earnings.

For instance, at the bank-level, 2024 earnings totaled $2,282,487, a result that compares quite favorably to the $1,884,130 in bank-level earnings from 2023. The reason for the reduction in per share annual distributions was both administrative and strategic. Strategically, our Board has targeted that any earnings over $1.7 million be retained as capital at the bank level to support our growing balance sheet.

To better explain the administrative side, in last year's 4th Quarter Distribution letter it was noted that the bank had elected to take advantage of a 2023 change in Kentucky income tax options that allowed our holding company to directly pay state-level income taxes instead of those being paid at the shareholder level. Those taxes were evident in last year's 2023 United Bancorp Audit on page 4 in the amount of $76,246. Frankly, to better honor our commitment to retain all earnings above $1.7 million, we should have deducted the $76,246 from last year's 4th Quarter distributions. We did not, which meant total distributions to shareholders and for taxes were closer to $1,775,000 than our targeted $1,700,000.

To remedy that, for 2024 we are deducting an estimated amount of $80,000 from 4th quarter distributions for specific Kentucky income tax purposes. By doing that, bank-level retained earnings will increase by the difference in our earlier mentioned earnings of $2,282,487 and the aforementioned $1,700,000, so approximately $580,000. This change did impact your 2024 distributions per share as compared to 2023, but when comparing 2024 to 2022, please recall the shareholder is no longer paying Kentucky-level income taxes on behalf of our holding company as part of your 2024 tax preparation.

Speaking of balance sheet growth, bank assets grew from $206,206,039 to $218,633,220 over the course of 2024. We had an impressive year from a loan growth standpoint, as loans grew from $132,968,548 to $158,974,099. Of that loan growth, $16 million or so was attributable to our existing team, a growth rate in the 12% range. We also added a new agriculture lender, Miranda Robertson, to our lending team the 2nd half of the year, and her new customer acquisition accounted for the remaining $10 million or so of that growth.

We were able to fund roughly half of the loan growth through balance sheet reallocations, a trend we hope to continue into 2025. The remainder of our net balance sheet growth was funded mostly through borrowed funds (up roughly $9.4 million), though our total deposits did grow $2.4 million to $193,941,000. The loan growth trends have proven beneficial to our profit margin, as our last quarter's earnings made up nearly a third of our annual income. We expect this trend to continue into 2025, a year we are budgeting for income to be closer to the $2.4 million range.

I want to again emphasize the importance of retaining earnings as we move into the future. Our ability to grow in the future is now tied closely to our need to retain earnings and grow our capital position. If we were to retain a projected $700,000 of our budgeted 2025 income ($2.4 million in budgeted earnings minus $1.7 million in targeted distributions), that by itself would allow for us to grow total assets in 2025 by an estimated $7,000,000. So, 2025 loan growth could only exceed $7,000,000 by whatever non-loan assets (like our investment portfolio) we could convert into loans. It is that balancing act that we must now monitor closely as we move into the future, so it is important to note future distributions will now be contingent on both our annual earnings and our ongoing balance sheet growth rate.

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