



July 16, 2020

United Bancorp of Princeton, Inc. Shareholders

RE: 2nd Quarter 2020 Distributions and Other Updates

Dear Shareholders:

I started this letter last quarter with a statement that March of 2020 had been unlike anything we had seen during our lifetimes. We sit here some 90 days later and that statement likely remains the same relative to the entire 2nd quarter of 2020. From an operational standpoint, we continue to operate our bank under Disaster Recovery/Pandemic Guidelines. Our employees wear masks anytime they are away from their private work space, and we ask our customers upon entering our buildings (either by appointment or by notifying us via text or a phone call to special lines we have assigned our Main Office in Princeton and our Eddyville Office) to do the same.

Before I get to our financial performance year-to-date, I am proud to communicate that our Board voted at our June Meeting to pay the same per share distribution amount of \$3.33 that was paid in the 1Q of 2020. All shareholders of record should be receiving that distribution around the date of this letter.

The bank's balance sheet showed meaningful change during the 2Q. Assets grew from \$138.9 million at the end of March to \$152.2 million as per June 30, 2020. A good portion of that growth was attributed to our loans growing from \$99.6 million to \$107.7 million during the quarter. The main factor behind that loan growth related to the Paycheck Protection Program ("PPP") to assist small businesses during the pandemic. We are proud to have assisted our local small businesses with PPP loans exceeding \$7 million. We also saw similar growth with our deposits, which grew from \$110.7 million to \$123.2 million. Much of that is also attributable to governmental support relating to the COVID-19 pandemic.

The 2Q of 2020 is also when the banking industry started to feel the full impact of that current low rate environment, which was compounded in March when short-term rates fell by 150 basis points

in less than 2 weeks. We have not been immune to that impact, as interest rate margin compression influenced our net interest income during the quarter to decline from \$1.34 million during the 2Q of 2019 to \$1.27 million during the 2Q of 2020. That decline of \$69,314 averages out to approximately \$23,100 per month, a trend we expect to continue over the next several months.

Due in part to the decline in net interest income, YTD net profit through June finished at \$1,132,754. That marks a decline from \$1,176,879 for the same 6 months of 2019. Most of that decline was experienced during the 2Q, as 1Q earnings for 2020 only trailed the year before by less than \$3,300. For the remainder of 2020, we do expect earnings from the origination of the aforementioned PPP loans to help offset some of the declines in net interest income. However, we have also boosted YTD earnings this year by slowing our loan loss allocation by \$35,000 during the first 6 months of the year. While no official decision has been made at this point, we do anticipate an increase in our loan loss allocation for the remainder of the year given the uncertainty related to the impacts of the COVID-19 pandemic on our local economy.

At this point, our loan quality indicators remain very solid. Delinquency as of the end of the quarter stood at only 0.49% as compared to 1.24% this time last year. However, what is not captured in that number are the loan modifications we have performed for certain loan customers to help them through the current times. A typical modification would be allowing a customer to move to 90-days interest only in lieu of making regular loan payments. We are nearing the end of the initial phase of those relaxed terms, and should have a better grasp of the impact on our customers as we head into the 2nd half of 2020.

In closing, I again want to thank our team members for their dedicated efforts during this time. I also want to thank our Board of Directors for their support during these unusual times, as well as our customers for their patience and willingness to adapt to this new way of banking. I have been impressed on all such fronts.

Best wishes, and please be safe!!!

A handwritten signature in blue ink, appearing to read "Jeff R. McDaniels". The signature is fluid and cursive, with a large initial "J" and "M".

Jeff R. McDaniels
President/CEO

