



January 15, 2021

United Bancorp of Princeton, Inc. Shareholders

RE: 4th Quarter 2020 Distributions and Other Updates

Dear Shareholders:

While it is hard to believe another year is in the books, I think we can all agree that 2020 was unlike any year we have seen before. I have never seen a year in which the phrase ‘that is what we believe to be true as of this point’ has been used more often. Looking back to the late 1st quarter and most of the 2nd quarter of 2020, whatever the answer had been when using that phrase seemed to change almost daily, and sometimes hourly. Our longer term goals starting the year were initially consumed by the day-to-day challenges of how to staff our facilities safely and how to best be able to serve our customers given the circumstances surrounding the pandemic. The relative good news however, is our 2020 financial results did line up reasonably well with those original goals, despite an ever-changing roadmap along the way.

On February 20, 2020, I wrote the following in a cover letter that was presented along with our 2019 Audit: *“Market indications for interest rates currently suggest a flat to modestly lower level of interest rates. Our expectation for loan growth for 2020 is closer to the flat results we experienced in 2018. Those two factors, along with some expenses related to longer-term strategic planning, have us expecting a step-back in our earnings trend for the 2020 fiscal year. We are therefore viewing 2020 as more of a transitional year, with the primary focus being directed toward enhancing our longer-term earnings potential.”*

Consistent with those comments, our original 2020 budget projected annual earnings (at the bank level) of \$2,223,865 for 2020, which was less than what our 2019 actual earnings (again, at the bank level) of \$2,319,944 had been. Actual 2020 bank-level earnings finished just above that budgeted number at \$2,233,936. As already referenced, the roadmap used to get there

changed quite a bit during the year, due in large part to the impact of the never-before-seen but now overly familiar acronyms COVID-19 and PPP.

While we were already feeling the impact of tighter interest margins during the latter part of 2019 and into early 2020, the pandemic only enhanced that challenge. If not for earnings from the Payment Protection Program (“PPP”) loans that we were proud to assist our small business clients with, our net interest income would have been approximately \$177,000 less than our 2020 budget and \$165,000 less than our 2019 number. But instead, with roughly \$220,000 in PPP earnings realized in 2020, our net interest income instead finished \$42,700 ahead of budget and \$54,759 more than in 2019.

To further emphasize how much the pandemic impacted our year, our original 2020 budget called for total assets to finish 2020 at \$142.5 million, and with total deposits of \$112.8 million and total loans of \$107.2 million. Instead, total assets finished at \$170.8 million, with total deposits of \$142.3 million and total loans of \$110.5 million. That abundance in excess deposits (liquidity) goes a long way in explaining how our balance sheet could be so much larger than projected, while our earnings remained essentially in line with our original plan. It is also the biggest variable we are planning around as we head into 2021.

Given some of the uncertainty around future economic conditions, we did push some of our potential earnings into our loan loss reserve. Those reserve balances stood at \$1.68 million at year-end, up from \$1.59 million as of 12/31/2019. This was largely precautionary, as our overall credit quality trends remain rather consistent with past time frames, so it was more of a further cushion against what we do not know as compared to what we do know. That last sentence in a nutshell describes much of what the day-to-day feel of 2020 was like.

All that stated, the good news is the following. Our Board of Directors has declared a 4th quarter distribution equal to \$15.39 per share. Those funds are being processed and should be received in close proximity to the date of this letter. That per share amount compares favorably to the \$15.26 per share distribution we paid relative to the 4th quarter of 2019. Including the three earlier quarter distributions already paid, total distributions for 2020 totaled \$25.38. That was down slightly from the overall \$25.66 per share paid in 2019.

Please note that all the financial reporting in this letter is specific to Farmers Bank and Trust Company. Your financial audit of United Bancorp of Princeton, Inc. is expected to be available by mid-February; and your respective 2020 K-1s for tax preparation purposes should be mailed by the end of February.

In closing, I again want to thank our team members for their dedicated efforts this past year. 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 our safety protocols related to COVID-19. Everyone has done their part!

Best wishes, and please be safe!!!

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

Jeff R. McDaniels
President/CEO