

**Innovation. Technology.  
Personal. Experience.  
Community.**



# 2017

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## **Delivering the ultimate banking experience**

When we unite our strengths under a shared mission to serve, we can accomplish just about anything.

Last year we continued to demonstrate to our customers and communities that First United is committed to delivering the ultimate banking experience. We're a transformation in progress, innovating, drawing from the best that technology has to offer, and always staying true to our values in providing highly sophisticated and extremely personalized solutions.

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# Shareholder Letter



## **Dear Shareholders, Associates, Customers and Community,**

Innovation spurred by technology and mixed with personal service leads to the ultimate banking experience for customers of all ages, demographics and differing levels of technical expertise. In 2017, we continued our transformation by updating our community office network, hiring associates who emulate our values and incorporating our brand into every customer experience.

Technology is top of mind for both our community oriented business owners and consumer customers as they are anxious to adopt new and innovative methods of banking like mobile deposit capture, person-to-person payments, and internet banking. We are dedicated to providing the necessary safeguards to protect their financial information and to educate them on how they can minimize and avoid risk. Our associates now have the ability to assist with new product set-up, maintenance and technical questions; within our community offices, at our customers' locations or by phone. Additionally, our state-of-the-art, highly trained Customer Care Center provides extended weekday and weekend assistance when needed.

Customer service extends beyond our Customer Care Center and is the heart of what we do. Daily, we challenge our associates to provide an uncommon commitment to service and solutions. This is our vision, and it can only be accomplished through personal interaction with our customers and communities, as well as personal attention to our processes and every touch point, including both the physical and virtual banking venues. We understand that the perfect blend of personal service and technology differs by customer and that it is our responsibility to ask questions, review customer relationships and provide the level of service needed to culminate in an exceptional customer banking experience — every time we interact with our customer.

From the shareholder perspective, creating the exceptional banking experience is expected to result in increased earnings and increased shareholder return. Our net income available to common shareholders in 2017 was \$4.1 million or \$.58 per common share, compared to \$5.3 million or \$.84 per common share for 2016. 2017 earnings were negatively impacted by a one-time tax expense of \$3.2 million, or approximately \$.49 per share, due to the reduction in the valuation of our deferred tax assets. This reduction was due to the new Tax Cuts and Jobs Act, which was signed into law by the President of the United States on December 22, 2017. For businesses, the Act reduces the corporate tax rate from a maximum of 35% to a flat 21% rate effective on January 1, 2018. Going forward, the Corporation will benefit from the new reduced corporate income tax rate. Absent this one-time expense, 2017 core earnings showed continued improvement over 2016.

To provide the ultimate community office environment, banking technology and skilled personal attention to our customers, we must continue to provide high value that allows us to price accordingly. This results in a higher level of core earnings. 2017 core earnings continued to increase, driven by our loan and deposit production, an increase in wealth management and other fee income as well as our ability to control expenses. 2017 provision expense and charge-off activity was higher than anticipated driven by one deteriorating loan relationship. However, overall asset quality has improved significantly as we are focused on providing loans to our local communities and continuing to exit the out of market participation relationships. Our ability to reduce our overall cost of funds, rising interest rates and a higher yield on our loan portfolio offset flat loan growth.

The most meaningful and satisfying change in our balance sheet was our ability to redeem \$10.8 million of Trust Preferred debentures and to redeem the final \$20.0 million of Series A preferred stock. This was possible due to our successful \$9.2 million common stock rights offering during the first quarter of 2017 and our strong capital position. The rights offering was three times oversubscribed and gave our existing shareholders the opportunity to experience an immediate return on their investment as they exercised their rights at a discount to market. Even better, the offering was accretive to earnings as we used the proceeds for the redemptions of the higher cost debentures and preferred stock, resulting in a more cost-effective capital mix for our Company. Our capital levels remain strong and provide us with a solid foundation for future growth and adequately cover the risks inherent in our balance sheet.

The innovative blend of technology and personal service that we have incorporated into delivering our service and solutions has allowed us to continue to grow our customer base and net profits resulting in an increasing shareholder return. Our stock price improved from \$15.95 at December 31, 2016 to \$17.40 at December 29, 2017, a 9% increase.

Daily, we challenge our associates to provide an uncommon commitment to service and solutions.

On March 7, 2018,  
your Company  
declared the  
payment of \$.09  
per common  
share payable on  
May 2, 2018.

However, the most exciting news for me to share with you, our shareholders, is the recent announcement of the upcoming payment of a common stock dividend. On March 7, 2018, your Company declared the payment of \$.09 per common share payable on May 2, 2018. I know that it has been a long wait and I personally thank you for your patience and confidence in First United Corporation over the past several years as we improved asset quality and core earnings, changed our capital composition and positioned our company to once again provide an additional return on your investment through the payment of a dividend. As your recent shareholder letter indicated, provided that our financial performance continues to support the payment, it is our intention to continue this dividend, at this level, for the foreseeable future.

As we look to the future, our 2018 strategic focus will be to assess and increase the contribution of profits we receive from each of our six market regions. Our teams of retail, mortgage, commercial and wealth management specialists will work together to profitably deepen customer relationships, seek new relationships and to build our net interest income and fee income. Increasing the penetration and customer use of our technology and implementing operational efficiencies into our processes will also be a focus as we seek to deliver on our promise of delivering an uncommon, hassle-free banking experience. We are challenging our associates to look for new and different ways to satisfy our customers' financial needs and to provide innovative solutions. After all, as I stated earlier, innovation spurred by technology and mixed with personal service will lead to the ultimate banking experience.

We will continue to create value for our customers and for you, our shareholders, as we strive to be a high-performing community bank. Our point of difference is and will continue to be our people, our associates. They do make the difference and I thank each one for their dedication, passion and uncommon commitment to provide customized financial solutions that will result in every customer saying, "This is my bank – my helpful, trusted partner for life."

Thank you for your confidence in First United Corporation!



**Carissa L. Rodeheaver**  
Chairman of the Board, President &  
Chief Executive Officer

# Summary of Selected Financial Data

(Dollars in thousands, except per share data)

	2017	2016	% Change
<b>Results of Operations:</b>			
Tax-equivalent interest income	\$ 47,586	\$ 46,418	2.52 %
Interest expense	7,371	8,223	- 10.36 %
Tax-equivalent net interest income	40,215	38,195	5.29 %
Tax-equivalent adjustment	637	555	14.77 %
Provision for loan losses	2,534	3,122	- 18.83 %
Net interest income after provision for loan losses	37,044	34,518	7.32 %
Non-interest income	14,288	14,653	- 2.49 %
Operating non-interest income	14,259	14,127	0.93 %
Non-operating non-interest income:			
Net gains-other	\$ 29	\$ 526	- 94.49 %
Non-interest expenses	\$ 39,118	39,107	0.03 %
Income before income taxes	12,214	10,064	21.36 %
Income tax expense (includes \$3,226 from tax reform impact)	6,945	2,783	149.55 %
Net Income	5,269	7,281	- 27.63 %
Preferred stock dividends	(1,215)	(2,025)	- 40.00 %
Net Income Available to Common Shareholders	4,054	5,256	- 22.87 %
<b>Per Share Data:</b>			
Basic and diluted net income per common share	\$ 0.58	\$ 0.84	- 29.76 %
Book value (at year end)	15.34	14.95	2.61 %
Tangible book value (at year end)	14.34	13.76	4.22 %
<b>Financial Condition (at year end):</b>			
Assets	\$ 1,340,839	\$ 1,318,190	1.72 %
Deposits	1,039,390	1,014,229	2.48 %
Net loans	882,546	882,008	0.06 %
Investment Securities	240,102	237,169	1.24 %
Shareholders' equity	108,390	113,698	- 4.67 %
<b>Performance Ratios (for the year):</b>			
Return on average equity	4.52 %	6.86 %	
Return on average assets	0.40	0.55	
Net interest margin	3.37	3.19	
<b>Capital and Credit Quality Ratios:</b>			
Average equity to average assets	8.82 %	8.62 %	
Total risk-based capital ratio	15.98	16.71	
Tier 1 to Risk Weighted Assets	14.97	14.77	
Tier 1 to Average Assets (leverage)	11.00	10.95	
Common Equity Tier 1 to Risk Weighted Assets	12.54	10.75	
Allowance for loan losses to gross loans	1.12	1.11	
Nonperforming loans			
and 90 days past due loans to total assets	0.58	1.09	
Net charge-offs to average loans	0.28	0.57	



# Innovation

We continued to take our customers on a journey to better banking in 2017, proving there is always space for a newer and more innovative way to get down to business. Welcome to the beginnings of a revolutionized branch design and the launch of universal banker. Our inventive spirit and ambitious nature mean we always have our eye on the future, anticipating the evolving needs of our customers and leading this community forward.





Scan to take a 3D tour of our newly renovated home office.



## Technology

Using the very best in technology to make banking faster, easier, safer and more convenient has become a major focus for First United. Last year was especially notable as we began our efforts to craft a welcoming, engaging and technologically advanced environment in each of our branch locations. In addition, our highly trained Customer Care Center has become unstoppable in its ability to support our customers' technology needs and they are only a phone call away!



Here's to 2017. At a glance, we are optimistic, with a focus on innovative conveniences, inspiring spaces and brand clarity.

## Personal

As bankers, we're in a unique position to partner with our customers during some of the most important financial decisions they'll ever make. That level of responsibility is humbling. It shapes how and why we serve. In 2017, we built upon our commitment to provide customized products and services — and to be there when needed. We made new connections, volunteered in our communities, inspired people, guided business owners, forged relationships built on trust, and consistently demonstrated our passion for helping people.

# Experience

When we blend high-tech with high-touch, our customers get a banking experience like no other. Last year, we embraced new advances in our ongoing mission to stay one step ahead of our customers' needs. We're maximizing technology to be as accessible as possible. We're continuing to go the extra mile and lead with compassion, because our customers expect it and deserve it. While our branch transforms, our customers are seeing firsthand how we strive to fulfill our purpose of delivering the ultimate banking experience.





## Community

At First United, we are passionate about helping our communities. We strongly support the local businesses and non-profits that make our communities better every day. As a result, in some of our renovated spaces, we have created dedicated community rooms with modern technology that allows them to conduct meetings and do business in ways they may not otherwise be able to, at no cost to them. We think of it not just as an investment into our facilities but an investment into the community.



Scan to take a 3D tour of our Community Room.

# Directors and Officers

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## Board of Directors

**John F. Barr**

Owner, Ellsworth Electric, Inc.

**Brian R. Boal**

Principal, Boal & Associates, PC

**M. Kathryn Burkey**

Certified Public Accountant,  
Owner, M. Kathryn Burkey, CPA

**Robert W. Kurtz**

Retired, Former President, Chief Risk Officer,  
Secretary and Treasurer of First United Corporation  
and First United Bank & Trust

**John W. McCullough**

Certified Public Accountant, Retired as Partner of  
Ernst & Young, LLP

**Elaine L. McDonald**

Owner, Elaine L. McDonald, PC

**Carissa L. Rodeheaver**

Chairman of the Board, President &  
Chief Executive Officer of First United  
Corporation and First United Bank & Trust

**Gary R. Ruddell**

President, Total Biz Fulfillment, Inc.

**I. Robert Rudy**

President, I.R. Rudy's, Inc.

**Marisa A. Shockley**

Owner, Shockley, Inc.

**Robert G. Stuck**

Realtor, Taylor-Made; Retired,  
Former Vice President, Oakview Motors, Inc.

**H. Andrew Walls, III**

President, Morgantown Printing & Binding;  
Member, MEGBA, LLC

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## Officers

**Carissa L. Rodeheaver**

Chairman of the Board, President &  
Chief Executive Officer

**R.L. Fisher**

Senior Vice President & Chief Lending Officer

**Robin E. Murray**

Senior Vice President & Director of Retail Banking

**Jason B. Rush**

Senior Vice President & Chief Operating Officer

**Keith R. Sanders**

Senior Vice President & Senior Trust Officer

**Beverly A. Sines**

Senior Vice President & Chief Credit Officer

**Tonya K. Sturm**

Senior Vice President & Chief Financial Officer,  
Corporate Secretary & Treasurer

**Karen L. Malecki**

Vice President & Director of Strategic Initiatives

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## Market Presidents

**Gordon M. Cooley**

Market President  
Frederick County, MD

**Kimberly R. Moyers**

Market President  
Monongalia County, WV  
Harrison County, WV

**Denise D. Phelps**

Market President  
Berkeley County, WV

**Philip L. Rodeheaver**

Market President  
Garrett County, MD  
Allegany County, MD  
Mineral County, WV

**Patricia E. Young**

Market President  
Washington County, MD

If you need assistance in any of the following areas:

- Change in registration
- Reporting lost certificates
- Non-receipt or loss of dividend checks
- Information on dividend reinvestment plan

Please contact our transfer agent at:

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078  
[www.computershare.com/investor](http://www.computershare.com/investor)

First United - Direct Line: 1-866-298-7858  
TDD for Hearing Impaired: 1-800-952-9245  
Foreign Shareowners: 1-781-575-2622  
TDD for Hearing Impaired: 1-781-575-2692

### **Shareholders' Meeting**

The Annual Shareholders' Meeting will be held on:

Thursday, May 17, 2018, 10:00 a.m.  
The Wisp Resort  
296 Marsh Hill Road  
McHenry, MD 21541

### **S.E.C. Form 10-K**

The Corporation files an annual report on Form 10-K with the Securities and Exchange Commission. This statement can be found on our investor relations website at <http://investors.MyBank.com> or you may request to receive a copy by calling us at 1-888-692-2654. A statement may also be requested by mail, without charge, to any shareholder who requests it in writing to:

Tonya K. Sturm  
Corporate Secretary  
First United Corporation  
c/o First United Bank & Trust  
19 South Second Street  
Oakland, MD 21550



**First United**  
Corporation

[MyBank.com](https://www.firstunit.com)