



# Welcome to First United

# 2018

## **Our doors are always open.**

We believe in our communities. We believe in the people, families and businesses that live and serve here. It's not just that we're locally owned with a team that lives and works in the places you call home, it's that we're dedicated to helping you. It's why we're investing here. It's why we're renovating our offices and opening new locations, like our office in Bridgeport, West Virginia and Emerald Square in Hagerstown, Maryland. While other banks are closing their doors, we're expanding our presence to serve more people and businesses. While other banks are scaling back, we're using technology to ensure our customers always have access to their finances. Our doors truly are always open.

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# Shareholder Letter

Dear Shareholders, Associates, Customers and Community,

We believe in our communities. We believe in the people, families and businesses that live and serve our communities. It's why we are renovating offices and opening new locations like our office in Bridgeport, West Virginia and Emerald Square in Hagerstown, Maryland. While other banks are closing their doors, we're expanding our presence to serve. Our doors are open and we welcome you to come on in and let us assist you with your financial needs!

Throughout this report, you will see that we are open to innovation, open to the use of technology, open to creating a unique and inviting banking experience and open to our community. Put simply, we are passionate about helping our customers and providing unique financial solutions. We are trusted advisors interacting with our community and our customers.

Our branch transformations have resulted in functional, convenient and technologically innovative locations. Our mobile and internet banking and enhanced ATM network allow us to open the doors to our customers with 24/7 access to their accounts and our wide array of financial products and services. Our investment in technology provides a safe and sound platform for our customers. As Bill Streets, editor of The Financial Brand, points out in a recent edition, while the fundamentals of location, function and product are necessary, the key to branch relevance is keeping our bankers relevant. That is why our strategic plan places a significant focus on hiring the right people, providing them education and development opportunities

and empowering them to make decisions. Our ability to deliver a more personalized customer experience will translate to a deeper, sustainable and more profitable customer relationship. We encourage our associates to engage in our local communities – because that is what community bankers do. We engage. We invest our time and money. We believe in the prosperity of our hometowns and the financial future of our community oriented business owners, friends and neighbors.

This continued focus on delivering on our vision of an uncommon commitment to service and solutions served you well in 2018 as we delivered improved core earnings, a higher net interest margin, and we enhanced earnings per common share. Net income available to common shareholders in 2018 was \$10.7 million or \$1.51 per common share, compared

**Our ability to deliver a more personalized customer experience will translate to a deeper, sustainable and more profitable customer relationship.**

to \$4.1 million or \$.58 per common share for 2017. 2017 earnings were negatively impacted by a one-time tax expense of \$3.2 million, or approximately \$.49 per share, due to the enactment of the Tax Cuts and Jobs Act which was signed into law by the President of the United States on December 22, 2017. Excluding the 2017 one-time expense, 2018 net income improved by 47% and earnings per common share improved by 49% over 2017. This improvement was primarily due to reduction in tax expense, elimination of the dividend on preferred stock, reduced provision expense, increased net interest income and wealth management income offset by increases in operating expenses.

2018 core earnings continued to improve, driven by increased net interest income and rising fee income. Our loan balances grew in 2018, spurred by loan production and reduced payoffs as compared to 2017. The growth in loan balances, increased yield on the loan portfolio and our ability to manage our overall cost of funds resulted in higher net interest income. 2018 provision expense was lower due to good asset quality and continued improvement in our local economies. Wealth management income improved due to new relationships and expansion of existing relationships despite a decline in market values at year-end which had a negative impact on fees generated. Expenses for 2018 as compared to 2017 increased primarily due to higher salaries and benefits, data processing and equipment and occupancy expenses. The increases in salaries and benefits were attributable to incentives paid for growth and production, annual merit raises and the higher cost of healthcare benefits. Data processing reflected new digital banking services for our customers and equipment and occupancy expenses increased due to depreciation from our branch transformation initiatives.

Our stock was volatile in 2018, as we started the year from a strong \$17.40 at December

31, 2017, peaked at \$24.10 in mid-June and ended the year at \$15.92 on December 31, 2018, reflecting a 9% decrease. We believe that the peak in June resulted from news of First United Corporation stock entering the Russell 3000 index. Following the news, the stock price traded at normal values before dipping with the market during the last quarter of 2018. Since year-end, we have recovered much of that decline, closing at \$17.30 on February 28, 2019. During 2018, the Corporation returned to paying dividends as shareholders were paid \$.27 per common share in total, or \$.09 per common share per quarter starting in May 2018. This reflects a dividend yield of approximately 1.4% using the 2018 average stock price of \$18.98.

Our strategic focus in 2019 will be productivity. We are implementing plans to improve efficiencies and to eliminate redundancy in our processes. We are holding each other accountable for high levels of performance and execution of our strategic action items. We are engaging in measurements of profitability of products, customer relationships, community offices and regions. We are continuing to focus on our associates and our hiring, development and retention of the best in the industry. We are engaging with our communities to educate, serve and to provide safe, innovative ways to bank. Our doors are more open than ever as we provide innovative and resourceful bankers, the perfect blend of personal service and technology and unique financial solutions. We are trusted advisors interacting with our community and our customers.

Throughout 2019, 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 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.”

Come on in! We welcome you to stop by one of our community offices and let us help create a financial plan to serve you today, tomorrow and at every stage of life. Let us show you how to use banking technology when and where it suits you the best. Let us serve your financial needs in our unique and inviting atmosphere. The doors to this community bank are open!

Thank you for your confidence in First United Corporation!



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

We are holding  
each other  
accountable for  
high levels of  
performance and  
execution of our  
strategic action  
items.

## Summary of Selected Financial Data

(Dollars in thousands, except per share data)

	2018	2017	% Change
<b>Results of Operations:</b>			
Tax-equivalent interest income	\$53,090	\$47,586	11.57%
Interest expense	8,112	7,371	10.05%
Tax-equivalent net interest income	44,978	40,215	11.84%
Tax-equivalent adjustment	796	637	24.96%
Provision for loan losses	2,111	2,534	-16.69%
Net interest income after provision for loan losses	42,071	37,044	13.57%
Non-interest income	15,168	14,340	5.77%
Operating non-interest income	15,041	14,311	5.10%
Non-operating non-interest income:			
Net gains-other	\$127	\$29	337.93%
Non-interest expenses	43,808	39,170	11.84%
Income before income taxes	13,431	12,214	9.96%
Income tax expense			
(2017 includes \$3,226 from tax reform impact)	2,764	6,945	-60.20%
Net Income	10,667	5,269	102.45%
Preferred stock dividends	0	(1,215)	-100.00%
Net income available to common shareholders	10,667	4,054	163.12%
Common dividends paid	1,911	0	100.00%
Net income per FTE (Pre-tax)	\$40,575	\$37,011	9.63%
<b>Per Share Data:</b>			
Basic and diluted net income per common share	\$1.51	\$0.58	160.34%
Common dividends paid	0.27	0	100.00%
Book value (at year end)	16.52	15.34	7.69%
Tangible book value (at year end)	15.34	14.34	6.97%
<b>Financial Condition (at year end):</b>			
Assets	\$1,384,516	\$1,336,470	3.59%
Deposits	1,067,527	1,039,390	2.71%
Net loans	996,667	882,546	12.93%
Investment securities	231,651	240,102	-3.52%
Shareholders' equity	117,066	108,390	8.00%
<b>Performance Ratios (for the year):</b>			
Return on average equity	9.39%	4.52%	
Return on average assets	0.81	0.40	
Dividend payout ratio	17.88	0	
Yield on average interest-earning assets	4.41	3.99	
Rate on average interest-bearing liabilities	0.86	0.78	
Net interest spread	3.55	3.21	
Net interest margin	3.74	3.37	
Efficiency ratio	71.20	72.40	
<b>Capital and Credit Quality Ratios:</b>			
Average equity to average assets	8.66%	8.82%	
Total risk-based capital ratio	15.91	15.98	
Tier 1 to risk weighted assets	14.87	14.97	
Tier 1 to average assets (leverage)	11.47	11.00	
Common equity tier 1 to risk weighted assets	12.45	12.54	
Allowance for loan losses to gross loans	1.10	1.12	
Nonperforming loans and 90 days past due loans to total assets	0.39	0.58	
Net charge-offs to average loans	0.11	0.28	



We're open to  
**Innovation**





To us, innovation is only effective if it helps improve the way our partners bank and live. Every decision we make reflects our desire to accomplish this mission. Check out our interactive branch design. Ask us about our universal banker approach. Since we first opened our doors in 1900, we have seen the needs of our customers change. It is our conviction that banking must evolve to meet and exceed those needs. Our inventive spirit and ambitious nature mean we always have our eye on the future. It's how we lead our community forward.





Want to stay up-to-date?  
Sign up for shareholder  
communications at  
[MyBank.com/shareholder](http://MyBank.com/shareholder)

# We're open to Technology

We use the very best in technology to make banking faster, easier, safer and more convenient. Each of our branches are equipped with tablets for quick personal banking, and experienced staff to help with more in-depth transactions, with the goal of guarding both your time and your privacy. At First United, technology is a part of our commitment to being forward-thinking, but more importantly, it is a part of our commitment to provide the best service to our customers. We take extra measures to protect your information and to be there for you wherever you are, whenever you need.







ook.  
wed passion.

**First United**  
Bank & Trust

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# We're open to Experience

For more than a century, we've been uniting our strengths under a shared mission to serve. It's how we're able to anticipate your challenges, help you realize more opportunities and provide a banking experience like no other. We believe that gathering a diverse group of talented individuals, passionate about helping people, will better our bank and our community. Collectively, we have the knowledge and the tools necessary to improve the way people experience banking.





## We're open to this **Community**

We're passionate about partnering with you and guiding you during some of the most important financial decisions you'll ever make. Because, at First United, we believe that our communities flourish when we work together. The goal behind each new service line and each new branch is to better assist our friends and neighbors. We don't just work here, we live here and we serve here. Our staff is committed to the well-being of our customers and our communities; from expert financial guidance to compassionate community service. This is our home, and we want the best for it—and for you.





# 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 Revenue Officer

**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

**Alan D. Mullendore**

Market President  
Washington County, MD

**Denise D. Phelps**

Market President  
Berkeley County, WV

**Philip L. Rodeheaver**

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

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 16, 2019, 10:00 a.m.  
The Wisp Hotel – Crawford Room  
290 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