



Trust.
Integrity.
Community.

Together.

FIRST UNITED CORPORATION
2021 ANNUAL REPORT

2021

Trust. Integrity. Community. Together.

First United Bank and Trust is committed to being the bank of the future. We believe that companies can and should be doing better. Our commitment to the future, serving our clients and communities, has been unwavering for more than 120 years. We are a progressive team of thinkers doing business with integrity. We know each financial journey is unique and we welcome the opportunity to design solutions to reach everyone's personal and financial goals. Our reputation is built on the idea that cultivating trust and inclusion creates relationships that last a lifetime.

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Shareholder Letter



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

Dear Shareholders, Associates, Customers and Communities,

First United is creating relationships that last a lifetime. The last few years have been challenging for all of us as we navigated the COVID-19 pandemic. Through this time, our associates have focused on serving our clients and communities and we have done so by crafting solutions that were customized to each individual need. Whether it was a business challenged due to mandated closures, an individual coping with the loss of a job, or a business owner needing access to a Paycheck Protection Program (“PPP”) loan and assistance with its subsequent forgiveness, First United was there, serving as a **trusted** advisor to provide the financial relief needed. Over the past couple of years, we have received many positive emails, letters, and comments from our clients, **community** leaders and other business professionals praising our associates for their **integrity**, level of knowledge and steadfast communication, and thanking the Bank for our professional response during this unprecedented time. Our associates worked **together** tirelessly with an unwavering passion to provide an uncommon commitment to service and solutions for our clients and communities, the response everyone has come to expect and value from First United Bank & Trust. On behalf of the board, the management team and you, our shareholders, we thank this dedicated and caring group of individuals.

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John W. McCullough
Lead Director

Despite the continued health and economic challenges across the world, 2021 was a record earnings year for First United driven by reduced interest expense, release of provision, strong production in mortgage and wealth management and our ability to manage our core operating expenses. During the year, we worked to realign the balance sheet which should provide future expense savings. The Bank is well-positioned for the anticipated rising interest rates and remains well-capitalized for future growth.

Net income available to common shareholders in 2021 was \$19.8 million. Basic and diluted net income per share for 2021 were both \$2.95, a 49.0% increase when compared to basic and diluted net income per share of \$1.98 and \$1.97, respectively, for 2020. Our balance sheet remained stable with assets at \$1.7 billion at year-end. We experienced strong loan production in both our consumer and commercial portfolios. The production was offset by the decline of \$172.6 million associated with 1,631 PPP loans as we assisted our community business owners through the Small Business Administration forgiveness process. Deposit growth in 2021 was strong, allowing us to fully prepay a portfolio of Federal Home Loan Bank (“FHLB”) advances as well as to increase our investment portfolio. Net interest income, the difference between the income earned on our loans and investments and the expenses attributable to our deposits and borrowings, improved as compared to 2020, driven by a reduction in our interest expense and the collection of fees attributable to the PPP loan forgiveness process.

Our associates worked together tirelessly with an unwavering passion to provide an uncommon commitment to service and solutions.

Our allowance for loan losses remains strong following higher provision expense in 2020 that reflected the uncertainty of the economic environment related to the COVID-19 pandemic. As asset quality remained strong in 2021 and our business owners showed strength in operations, we reported net recoveries of previously charged off loans and were able to release a portion of our allowance, resulting in a credit in provision expense for the year. This credit was a contributor to our strong earnings in 2021.

Our wealth department had a stellar year, growing assets under management to approximately \$1.5 billion. Fee income earned from the wealth department as well as gains on the sale of mortgage loans to the secondary market, strong debit card income and a reimbursement from our insurance company resulted in strong other income. Other operating expenses, exclusive of a settlement of litigation, the penalty associated with the prepayment of the FHLB advances and the funding of the First United Community Dreams Foundation, were stable as management continued to be focused on cost efficiencies. We are particularly excited about the creation of the Foundation, as it will allow us to provide additional resources to our communities so that they can increase

the availability of financial literacy programs, enhance arts and culture programming, support affordable housing options and promote the health and well-being of our neighbors. The board and management were also appreciative that our profitability allowed us to pay a special performance bonus to every associate, recognizing their outstanding efforts and contribution to the financial success achieved in 2021.

Above all, we are pleased that the market reacted favorably following the release of our 2021 earnings. As of February 28, 2022, our total shareholder returns exceeded market indices and our peer group, at 36% for one-year, 51% for three-years and 82% for five-years. The dividend was increased from \$.13 per share in the first quarter to \$.15 per share for the remaining three quarters. For 2021, based on the year-end closing price of \$18.76 per share, this resulted in a dividend yield of 3.09%.

Strategically, in 2022 we are focused on two important initiatives:

1. Utilizing data analytics to assist us in targeted marketing and growing profitable customer relationships.
2. Increasing our partnerships with Fintech firms to continually improve technology offerings to our clients and to improve efficiencies in our day-to-day operations.

Additionally, we will opportunistically increase market penetration and expand our footprint via our Financial Center model, Wealth Management acquisitions, and strategic bank partnerships.

Understanding the importance of a knowledgeable and community oriented associate base, we will continue to hire and retain passionate, diverse talent. This will allow us to engage with clients and prospects across broader demographics, to provide customized financial solutions and personal service, thereby expanding our client relationships and enhancing loyalty and trust. As we execute our plan, we are committed to being dedicated stewards of our clients' well-being and our environment and continuing to manage risk through our well-developed and monitored enterprise risk management program.



First United Bank & Trust's passionate people and unrivaled culture will continue to be a driving force for our success. **Together**, we are devoted to becoming **trusted** advisors for our clients and creating relationships that will last a lifetime. We are dedicated to improving the lives of those in our local **communities**. We will do all of this with the highest level of **integrity** and with the end goal of delivering a strong shareholder return.

Trust. Integrity. Community. Together.

Thank you for your support and confidence in First United Corporation and First United Bank & Trust!

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

John W. McCullough
Lead Director



We are committed
to being dedicated
stewards of our
clients' well-being
and our
environment.

Summary of Selected Financial Data

(Dollars in thousands, except per share data)

| | 2021 | 2020 | % Change |
|---|-------------|-------------|----------|
| Results of Operations: | | | |
| Tax-equivalent interest income | \$ 59,195 | \$ 59,118 | 0.13% |
| Interest expense | 5,714 | 9,655 | 40.82% |
| Tax-equivalent net interest income | 53,481 | 49,463 | 8.12% |
| Tax-equivalent adjustment | 939 | 917 | 2.40% |
| Provision/(credit) for loan losses | (817) | 5,401 | 15.13% |
| Net interest income after provision for loan losses | 53,359 | 43,145 | 23.67% |
| Non-interest income | 20,714 | 18,577 | 11.50% |
| Operating non-interest income | 19,519 | 15,789 | 23.62% |
| Non-operating non-interest income: | | | |
| Net gains-other | \$ 1,195 | \$ 2,788 | -57.14% |
| Non-interest expenses | 47,764 | 43,934 | 8.72% |
| Operating non-interest expenses | 47,764 | 43,934 | 8.72% |
| Income before income taxes | \$ 26,309 | \$ 17,788 | 47.90% |
| Income tax expense | 6,539 | 3,947 | 65.67% |
| Net Income | 19,770 | 13,841 | 42.84% |
| Common Dividends paid | 3,891 | 3,646 | 6.72% |
| Net Income per FTE (Pre-tax) | \$ 40,575 | \$ 37,011 | 9.63% |
| Per Share Data: | | | |
| Basic net income per share | \$ 2.95 | \$ 1.98 | 48.99% |
| Diluted net income per share | \$ 2.95 | \$ 1.97 | 49.75% |
| Common Dividends paid | \$ 0.58 | \$ 0.52 | 11.54% |
| Book value (at year end) | \$ 21.41 | \$ 18.73 | 14.31% |
| Tangible book value (at year end) | \$ 19.61 | \$ 16.25 | 20.68% |
| Financial Condition (at year end): | | | |
| Assets | \$1,729,838 | \$1,733,414 | 0.21% |
| Deposits | 1,469,374 | 1,422,366 | .30% |
| Net loans | 1,137,440 | 1,149,596 | 1.06% |
| Investment Securities | 343,030 | 295,148 | 6.22% |
| Shareholders' equity | 141,900 | 131,047 | 8.28% |
| Performance Ratios (for the year): | | | |
| Return on average equity | 14.92% | 10.89% | |
| Return on average assets | 1.12% | 0.86% | |
| Yield on average interest-earning assets | 3.63% | 3.99% | |
| Rate on average interest-bearing liabilities | 0.51% | 0.91% | |
| Net interest spread | 3.12% | 3.08% | |
| Net interest margin | 3.28% | 3.34% | |
| Efficiency ratio | 64.71% | 70.26% | |
| Capital and Credit Quality Ratios: | | | |
| Average equity to average assets | 7.51% | 7.88% | |
| Total risk-based capital ratio | 15.89% | 16.08% | |
| Tier 1 to Risk Weighted Assets | 14.64% | 14.83% | |
| Tier 1 to Average Assets (leverage) | 10.80% | 10.36% | |
| Common Equity Tier 1 to Risk Weighted Assets | 12.50% | 12.61% | |
| Allowance for loan losses to total loans (as %) | 1.38% | 1.41% | |
| Nonperforming and 90 days past due loans to total assets (as %) | 0.42% | 0.78% | |
| Net recoveries/(charge-offs) to average loans (as %) | 0.02% | (0.13)% | |



Talent, Culture & Inclusion

Our passionate people and unrivaled culture is a driving force for success.

Our associates strongly believe in our core values and are dedicated to helping customers, community, and each other. Attracting and fostering talent with various backgrounds, ensures that we have the people in place to execute our values.







We support our communities, friends and neighbors in a variety of ways. We volunteer. We financially support local non-profits. We bank at home and on the road. We teach children about the value of money and how to save for the future. By pairing valuable financial education with secure and affordable product options, we can enrich the lives of those we serve.





Want to stay up-to-date?
Sign up for shareholder
communications at
MyBank.com/shareholder

Community & Customer Commitment

Our devotion is to serving our clients and improving the lives of those in our local communities.



Business Ethics & Governance

We are dedicated to doing business with integrity.

Executive 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



Tonya K. Sturm
Senior Vice President &
Chief Financial Officer,
Corporate Secretary & Treasurer

Our leadership team, including our Board and Executive team, reflect the diversity of thought from the communities we serve and are committed to upholding the high ethics, governance, and environmental stewardship standards our stakeholders expect of us.

Board of Directors



John F. Barr
Owner,
Ellsworth Electric, Inc.



Patricia Milon
Senior Regulatory Expert,
Macro Financial Solutions



Brian R. Boal
Principal,
Boal & Associates, PC



Carissa L. Rodeheaver
Chairman of the Board,
President & CEO,
First United Corporation and
First United Bank & Trust



Sanu Chadha
Managing Partner,
M&S Consulting



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



Christy DiPietro
Chartered Financial Analyst,
Hidden Code Advisory



Marisa A. Shockley
Owner,
Shockley, Inc.



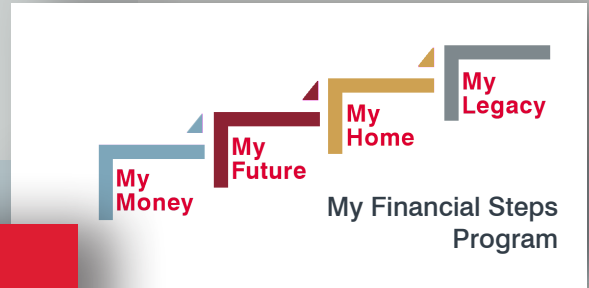
John W. McCullough
Lead Director, CPA
Retired as Partner of Ernst &
Young, LLP



H. Andrew Walls, III
President, MPB Print & Sign
Superstore; Member,
MEGBA, LLC

Our ESG Journey

Our service to our communities is not limited to delivering innovative banking products and services. Rather, we believe our service extends to nurturing, helping and partnering with the people and organizations that strive to make our communities a better, safer place to live, work and play.



Diversity Engagement
Employee Group



First United Community
Dreams Foundation



Associate Wellness
Program



Environmental stewards



Unconscious
Bias Training

Please contact our transfer agent, Computershare, 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

Computershare

Phone

1-781-575-2622 or Toll Free 1-866-298-7858

Computershare
P.O. Box 505000
Louisville, KY 40233-5000

Overnight correspondence should be sent to:
Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

Return envelopes for the proxy:

PO Box 505008, Louisville, KY 40233-9814

Questions & Inquiries via our website

<http://www.computershare.com/investor>

Hearing Impaired #: TDD: 1-800-952-9245

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 virtually on:

Thursday, May 12, 2022, 10:00 a.m.

SEC 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

Want to stay up-to-date? Sign up for shareholder communications at www.MyBank.com/shareholder.



First United
Corporation



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