

**New look.  
Renewed passion.**



My bank is

**passionate** about people.

**dedicated** to service.

always **helpful**.

building **customized** solutions.

**trusted**.

**here** for local business.

**involved** in this community.

**personal**.

My bank is

**First United.**

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# SHAREHOLDER LETTER

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

Times are changing and so is First United Bank & Trust!

We have a  
new look and  
a renewed  
passion for  
knowing and  
understanding  
our customers  
and providing  
unique,  
customized  
solutions.

2016 was a very exciting year for First United and I am pleased to communicate our progress to you on behalf of our Board of Directors and management team. Our goal was to become more relevant to our customers and communities. Today, more than ever, we recognize that customers have many options when it comes to choosing their financial services providers. How our Bank delivers financial products and services must continue to evolve with technology and with the changing demographics of our communities. So, we continued the evolution of our Bank in 2016 by introducing a new look and feel for First United Bank & Trust. We held focus groups comprised of our existing customers, prospective customers, associates and shareholders, to learn what is important for banking now and in the future. We listened to what they told us and incorporated their suggestions into our new logo, colors and the re-branding of our Bank. We may be 117 years old, but we have a bold new look and a renewed passion for knowing and understanding our customers and providing unique, customized financial solutions.

I am sure you are asking yourselves, “just how does a bank become more relevant?” We do this through continuous change. It is necessary for our retail offices to appeal to customers of all ages in both design and functionality. We are blending our products and services to provide both personalized customer service and technology to make the banking experience both efficient and welcoming. We are training our associates to cater to all customers so that we can satisfy all needs immediately – whether it is a simple question about a transaction, opening new accounts or downloading apps on mobile devices. As we continue this evolution over the next few years, customers will experience a shift to brighter, more relaxed environments where they can easily approach a relationship advisor, use a state-of-the-art automated teller machine or step up to a mobile tablet and complete a transaction while enjoying a cup of coffee. Our associates will be dedicated to proactively building relationships and leveraging our team approach and specialist knowledge to engage customers in meaningful financial conversations. We are building a broad range of



We understand  
that it is necessary  
to invest in our  
future by adding  
new technology  
and innovative  
products and  
services and by  
updating and  
modernizing our  
community office  
network.

innovative service packages that will enable our clients to meet or exceed their personal and business-related financial goals.

As shareholders, it is our expectation that you will benefit from a growing customer base, more profitable accounts and innovative delivery methods, resulting in an increase in the value of our Company. I am very pleased to report that our 2016 financial results reflected our commitment to improving shareholder return. Our stock price improved from \$11.70 at December 31, 2015 to \$15.95 at December 30, 2016, a 36% increase. We expect to see continued improvements in our stock price as earnings increase over time and we execute our capital initiatives.

Our net income available to common shareholders in 2016 was \$5.3 million or \$.84 per common share, compared to \$10.3 million or \$1.65 per common share for 2015 (which included a one-time, pre-tax arbitration settlement of \$11.6 million). Core earnings improved in 2016 when compared to 2015 driven by increased net interest income, increased other income and decreased expenses. Asset size remained stable as compared to 2015. Loan production was very strong during 2016 in both commercial and residential mortgage lending but was offset by repayments as we continued to strive for higher loan yield and continued to reduce our adversely classified loan portfolio. We funded our loan growth with lower cost, core deposits as evidenced by our lower interest expense. The community office network continued its success in changing the mix in the deposit portfolio toward core accounts linked to full customer relationships. In addition, other operating income continued to improve in 2016 as we increased our service charge income and saw a slight increase in our wealth management income. Provision expense was higher than anticipated as we continued to proactively set aside capital for potential loan losses. However, other expenses were relatively flat as compared to previous years.

Your management team and our associates regularly implement efficiencies in our operations to reduce and control both current and future expenses. However, we understand that it is necessary to invest in our future by adding new technology and innovative products and services, and by updating and modernizing our community office network. We will continue to incorporate cost savings through consolidation, contract negotiation and workforce efficiencies, to offset the expenses associated with future innovation.

Late in the year, we announced a rights offering to all shareholders of record as of November 28, 2016. Through the offering, which closed on March 17, 2017, we sold an additional 783,626 shares of common stock and raised gross proceeds of approximately \$9.3 million. The proceeds from this offering will be used to offset our planned redemption of \$10 million, or 10,000 shares, of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, and to repay \$10.8 million of outstanding junior subordinated debentures. We anticipate that the redemption of the Preferred Stock and repayment of the debentures will be accretive to earnings in the future. Your Board of Directors believed that the rights offering provided shareholders with an excellent opportunity to purchase additional shares of First United Corporation common stock at a discount to the then-current market price, resulting in a more cost effective capital mix for our Company. Our capital levels remain strong and should both provide us with a foundation for future growth and adequately cover the risks inherent in our balance sheet.

As we look to the future, we continue to add highly qualified individuals to our workforce in our retail, mortgage, commercial and wealth management departments so that we may continue to ramp up our loan and deposit production, expand our wealth management network and extend our community reach. We also continue to invest in the education and development of our operations and support associates. We have found great synergies in our team approach to serving our community oriented business owners.

**We remain committed  
to creating value for  
our customers  
and for you,  
our shareholders.**

As your Company's evolution continues, we will remain committed to creating value for our customers and for you, our shareholders. I strongly believe that it is our associates who are the distinction to our uncommon commitment to service and solutions. It is our passion for providing 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 and Chief Executive Officer

# Summary of Selected Financial Data

(Dollars in thousands, except per share data)

	2016	2015	% Change
<b>Results of Operations:</b>			
Tax-equivalent interest income	\$ 46,418	\$ 45,827	1.29%
Interest expense	8,223	9,407	-12.59%
Tax-equivalent net interest income	38,195	36,420	4.87%
Tax-equivalent adjustment	555	795	-30.19%
Provision for loan losses	3,122	1,054	196.20%
Net interest income after provision for loan losses	34,518	34,571	-0.15%
Noninterest income	14,653	26,008	-43.66%
Operating noninterest income	14,127	24,992	-43.47%
Non-operating noninterest income:			
Net gains	\$ 526	\$ 1,016	-48.23%
Noninterest expenses	39,107	41,115	-4.88%
Operating noninterest expenses	39,107	41,115	-4.88%
Income before income taxes	10,064	19,464	-48.29%
Income tax expense	2,783	6,473	-57.01%
Net income	7,281	12,991	-43.95%
Accumulated preferred stock dividends	(2,025)	(2,700)	-25.00%
Net income Available to common shareholders	5,256	10,291	-48.93%
Net Income per FTE (Pre-tax)	\$ 31,352	\$ 59,893	-47.65%
<b>Per Share Data:</b>			
Basic and diluted net income per common share	\$ 0.84	\$ 1.65	-49.09%
Book value (at year end)	14.95	14.51	3.03%
Tangible book value (at year end)	13.76	13.20	4.24%
<b>Financial Condition (at year end):</b>			
Assets	\$ 1,318,190	\$ 1,323,458	-0.40%
Deposits	1,014,229	998,794	1.55%
Net loans	882,008	867,101	1.72%
Investment securities	237,169	275,792	-14.00%
Shareholders' equity	113,698	120,771	-5.86%
<b>Performance Ratios (for the year):</b>			
Return on average equity	6.38	11.40	
Return on average assets	0.55	0.98	
Yield on average interest-earning assets	3.88 %	3.83 %	
Rate on average interest-bearing liabilities	0.84	0.97	
Net interest spread	3.04	2.86	
Net interest margin	3.19	3.04	
Efficiency ratio	73.90	69.30	
<b>Capital and Credit Quality Ratios:</b>			
Average equity to average assets	8.62	8.69	
Total risk-based capital ratio	16.71	17.21	
Tier 1 to risk weighted assets	14.76 %	15.24 %	
Tier 1 to average assets (leverage)	10.95	11.64	
Common equity tier 1 to risk weighted assets	10.74	9.99	
Allowance for loan losses to gross loans	1.11	1.36	
Nonperforming loans and 90 days past due loans to total assets	1.09	1.25	
Net charge-offs to average loans	0.57	0.14	

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

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

Shareholders' Meeting  
The Annual Shareholders' Meeting  
will be held on:

**Thursday, May 18, 2017, 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





**650**  
combined hours of  
community education outreach

# INSPIRING THROUGH EDUCATION

Our idea of service has no beginning or end. We are on a mission to enrich the lives of our communities by simply being helpful. Like the people we serve, we live, work, volunteer and support our educational efforts to build community relationships that last a lifetime.



First United has positioned itself to continue delivering new and innovative products and services that customers want. These technological advancements will help customers better manage their finances and provide them with the unified banking experience that we want to deliver. A personal, interactive and one-on-one approach to delivering this information and education is our commitment to our customers and our communities. We believe banking should be an experience, not a transaction!

# 15,500

pounds of food donated to  
the MBA Embrace Life, Nurture  
Success Food Drive



# u1

In 2016, First United renewed our passion in our communities with a wide variety of cause efforts, all aimed at helping those in need. Associates bank-wide contributed to helping those in each of our local communities through food drives, cash and supply donations, bake sales, cake walks, shoe drives and coat drives. They participated in walk-a-thons, marathons and served as bell ringers for the Salvation Army. Associates volunteered their time at shelter locations, at food banks and across a large range of local organizations and non-profits.

# 400

cases of water donated to  
assist with WV Flood Relief



# 6,500

dollars raised for the charity  
Ronald McDonald House



# 200,000

dollars in contributions to  
our local communities



# 40,000

combined hours of  
volunteerism for 2016



# 23,000

dollars raised for  
United Way through Annual  
First United Golf Tournament





# SHARING THE PASSION

In August, First United associates, executives, board members and our families were invited to gather at the fairgrounds at Deep Creek Lake to enjoy the day together with games, food, fun and fellowship. At the event, associates were also given the first look at the exciting, new and modernized design of the First United brand. The energy and excitement from associates displayed a renewed spirit toward the Bank's mission and vision, and a renewed passion that was shared with our families.







## Executive Team

### Carissa L. Rodeheaver

*Chairman of the Board, Chief Executive Officer & President*

### 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*



## 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  
(not pictured)*

### Carissa L. Rodeheaver

*Chairman of the Board, Chief Executive Officer & President 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*





**Philip L. Rodeheaver**  
Market President serving Garrett  
& Allegany County, MD &  
Mineral County, WV

## GARRETT

**Mark Boucot**, *President,*  
*Garrett Regional Medical Center*

**Brian Brenneman**, *CPA,*  
*The Rodeheaver Group*

**Dr. Ken Buczynski**  
**Gary Willmon**,  
*Wellspring Family Medicine*

**Nicole Christian**, *President &*  
*CEO, Garrett County Chamber of*  
*Commerce*

**Melinda Gibson**, *President,*  
*Keystone Lime Company*

**Kevin Liller**, *Owner / Broker,*  
*Railey Realty*

**Sheldon Maust**, *CFO, Beitzel*  
*Corp / Pillar Innovations*

**Alex McCoy**, *Director of*  
*Economic Development*

**Kathy Shaffer**, *CEO,*  
*Shaffer Ford*

**Mike Tumbarello**, *Garrett*  
*Information Enterprise Center,*  
*Garrett College*

**Hugh Umbel**  
**Sherry Gosnell**,  
*Umbel Enterprises*

## ALLEGANY & MINERAL

**Chris Lockard**, *Retired R.C.*  
*Marker Company*

**Dave Hare & Jennifer Walsh**  
**Hare**, *Attorneys,*  
*Kazary Hare & Walsh PC*

**Ed Huber, Tim Michaels, Mindy**  
**Kirkwood**, *Huber Michaels & Co.,*  
*Certified Public Accountants*

**Jim Kaufman**, *Owner,*  
*Criterion Inc.*

**Mark Farris**, *VP, General Counsel,*  
*CFO, The Belt Group/Carl Belt,*  
*Inc.*

**Steve Peer**, *Retired,*  
*Mineral County Board of*  
*Education*

**Tom Marsh**, *Owner,*  
*Chat n Chew*

**Greg, Tim, Linda and Jeff Uhl**,  
*Owners, Uhl Enterprises*

**Mary Beth Pirolozzi**, *Executive*  
*Director, County United Way*

**Jason Bennett**, *CPA Director*  
*of Finance Allegany County*  
*Commissioners*

**Leanne Mazer**, *Executive*  
*Director, Tri-County Council*

**Bruce Kirkwood**, *Attorney,*  
*Kirkwood & Rogers PA*

**Rick Gornall**, *President,*  
*Gornall Construction Inc*

**Dr. John Gustafson**,  
*Hi Rock Animal Hospital*



**David G. Esworthy**  
Market President serving  
Frederick County, MD

## FREDERICK

**Amy Bednarcik**, *Executive Vice*  
*President, Association Services*  
*of America*

**Brett Hess**, *Owner, Business*  
*Management Company*

**Catherine Mock**, *Business*  
*Development Strategist,*  
*CorpOHS*

**Dani Gurrie**, *Owner,*  
*Tots2tweens.com*

**Denise Jacoby**, *Executive*  
*Officer, Frederick County Building*  
*Industry Association*

**George Cox**, *Ph.D, JD, Chief*  
*Legal Officer, Vizuri Health*  
*Sciences, LLC*

**Jamie Stup**, *Creative Director,*  
*Wood Street, Inc.*

**Jason Lee**, *CEO,*  
*Lee Building Maintenance*

**Jonathan Warner**, *Owner,*  
*Warner Commercial Real Estate*

**Joshua B. Pedersen**, *President &*  
*CEO, 2-1-1 Maryland, Inc.*

**Sri R. Konduru**, *President, Srisai*  
*Biopharmaceutical Solutions, LLC*

**Connie Phillips**, *President,*  
*Connie Phillips Insurance, Inc.*



**Kimberly R. Moyers**  
Market President serving  
Monongalia County, WV

## MONONGALIA

**Russell Bonasso, II**, *Owner,*  
*Micro Outdoors, LLC*

**Nikki Bowman**, *Publisher & Editor,*  
*New South Media, Inc.*

**Holly Childs**, *CECd, President & CEO,*  
*Morgantown Area Economic Partnership,*  
*Director, Monongalia Co. Development*  
*Authority*

**Tyler Etris**, *Architect,*  
*Paradigm Architecture*

**Bonnie Fisher**, *Program Director,*  
*TwoPointO, LLC*

**Brian Gallagher**, *Managing Member,*  
*Stepcoe & Johnson, PLLC*

**Lincoln Kinkade**, *PT, Owner,*  
*Dynamic Physical Therapy, LLC*

**Morgan (Mike) Mosser**, *Owner,*  
*Mosser Resources Consulting, LLC*

**Randy Neal**, *Associate Broker, KLM*  
*Properties, Inc., General Appraiser, Chico*  
*Appraisal Services*

**Mark J. Nesselroad**, *Chief Operating*  
*Officer & General Counsel, Glenmark*  
*Holding, LLC, Broker, Black Diamond Realty*

**Kelly Palmer**, *Monongalia County*  
*Chief Tax Deputy*

**Daniel J. Powell**, *CPA, Partner,*  
*Cunningham Powell Alexander, A.C.*

**Joshua Rogers**, *Partner,*  
*Dinsmore & Shohl*

**Jack Thompson**, *Corporate Relations*  
*Manager, West Virginia University*

**C. Seth Wilson**, *Partner,*  
*Bowles Rice, LLP*

**Tom S. Witt**, *Ph.D., Chief Economist,*  
*Witt Economics, LLC*



**Patricia E. Young**  
Market President serving  
Washington County, MD  
& Berkeley County, WV

## WASHINGTON

**Jim and Tammy Aaron**,  
*Total Comfort Heating and Air*

**John Barr**,  
*Ellsworth Electric &*  
*First United Director*

**Peggy Bushey**, *The*  
*Cavetown Planning Mill Co.*

**Paul Cox, Sr.**,  
*Professional Tax Service &*  
*Former First United Director*

**George "Glenn" Fuscick**,  
*CPA*

**Michael Guessford**,  
*Applause Catering*

**Michele Hatzes**,  
*Trickling Springs Creamery*

**Dale Martin**,  
*Agri Services*

**Tim McSherry**,  
*Carpet Gallery*

**Rick and Shari Metzger**,  
*Cavetown Auto Parts*

**Jay Miller**,  
*Miller Construction*

**Robin Miller**,  
*Miller Construction*

**Bob Rankin**, *Manager,*  
*Minnich Funeral Home*

**Jim Reed**, *Antietam Tractor*  
*and Equipment*

**Richard Tydings**,  
*Reliable Craftsmanship*

**Bonnie Winders**,  
*Bonnie A. Winders Attorney*

## BERKELEY

**Michael Bush**,  
*Real Property Solutions*

**Lee Cloughfeather**, *Daily*  
*Companions, Inc.*

**Dr. Kay W. Gilpin**,  
*Shenandoah Veterinary*  
*Hospital*

**William S. Haines**, *A-1*  
*Services & ASi Pools & Spa*

**William G. Hearn, Sr.**,  
*Retired US Government*

**Susan E. and Jason M.**  
**Johnson**, *Owners, Johnson*  
*and Johnson Heating and Air*  
*Conditioning, Inc.*

**Walter M. Johnson III**,  
*Fairway Homes Services &*  
*Artisan Kitchens*

**Clarence "Butch"**  
**Pennington**, *Penn & Penn,*  
*Inc., J-Bird, LLC*

**Amanda M. Stevens**,  
*Principal, Marlow Elementary*  
*School*

**Marissa A. Velasquez**,  
*Johnson and Johnson Heating*  
*and Air Conditioning, Inc.*

**Manuel H. Washington, Jr.**,  
*Groves Cleaning Service, LLC*

**David R. Welch**, *Multi-Media*  
*Communications, Inc.*



# **First United**

Corporation