Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____to _____

Commission file number 0-14237

First United Corporation

(Exact name of registrant as specified in its charter)

Maryland	**52-1380770**
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
19 South Second Street, Oakland, Maryland	**21550-0009**
(Address of principal executive offices)	(Zip Code)

(800) 470-4356
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock	**FUNC**	**Nasdaq Stock Market**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act). :

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐	Smaller reporting company ☑
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the registrant's outstanding voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: **$129,336,923.**

The number of shares of the registrant's common stock outstanding as of February 29, 2020: **7,112,189.**

Documents Incorporated by Reference

None

First United Corporation
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As used in this Annual Report of Form 10-K, the terms “the Corporation”, “we”, “us”, and “our” mean First United Corporation and unless the context clearly suggests otherwise, its consolidated subsidiaries.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K of First United Corporation contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such statements include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking statements contained in this annual report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind when reading this annual report and not place undue reliance on these forward-looking statements. Factors that might cause such differences include, but are not limited to:

- changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
- our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the “FASB”), the Securities and Exchange Commission (the “SEC”), and other regulatory agencies; and
- the effect of fiscal and governmental policies of the United States federal government.

You should also consider carefully the risk factors discussed in Item 1A of Part I of this annual report, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. The risks discussed in this annual report are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider such disclosures to be a complete discussion of all potential risks or uncertainties.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

ITEM 1. BUSINESS

General

First United Corporation is a Maryland corporation chartered in 1985 and a bank holding company registered with the Board of Governors of the Federal Reserve System (the "FRB") under the Bank Holding Company Act of 1956, as amended. The Corporation's primary business is serving as the parent company of First United Bank & Trust, a Maryland trust company (the "Bank"), First United Statutory Trust I ("Trust I") and First United Statutory Trust II ("Trust II"), both Connecticut statutory business trusts. Until September 14, 2018 when it was canceled, the Corporation also served as the parent company to First United Statutory Trust III, a Delaware statutory business trust ("Trust III" and together with Trust I and Trust II, the "Trusts"). The Trusts were formed for the purpose of selling trust preferred securities that qualified as Tier 1 capital. The Bank has two consumer finance company subsidiaries - OakFirst Loan Center, Inc., a West Virginia corporation, and OakFirst Loan Center, LLC, a Maryland limited liability company - and two subsidiaries that it uses to hold real estate acquired through foreclosure or by deed in lieu of foreclosure - First OREO Trust, a Maryland statutory trust, and FUBT OREO I, LLC, a Maryland limited liability company.

At December 31, 2019, we had total assets of $1.4 billion, net loans of $1.0 billion, and deposits of $1.1 billion. Shareholders' equity at December 31, 2019 was $125.9 million.

The Corporation maintains an Internet website at www.mybank.com on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC.

Banking Products and Services

The Bank operates 25 banking offices, one customer care center and 32 Automated Teller Machines ("ATMs") in Allegany County, Frederick County, Garrett County, and Washington County in Maryland, and in Mineral County, Berkeley County, Monongalia County and Harrison County in West Virginia. The Bank is an independent community bank providing a complete range of retail and commercial banking services to businesses and individuals in its market areas. Services offered are essentially the same as those offered by the regional institutions that compete with the Bank and include checking, savings, money market deposit accounts, and certificates of deposit, business loans, personal loans, mortgage loans, lines of credit, and consumer-oriented retirement accounts including individual retirement accounts ("IRAs") and employee benefit accounts. In addition, the Bank provides full brokerage services through a networking arrangement with Cetera Investment Services, LLC., a full-service broker-dealer. The Bank also provides safe deposit and night depository facilities, insurance products and trust services. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC").

Lending Activities

Our lending activities are conducted through the Bank. Since 2010, the Bank has not originated any new loans through the OakFirst Loan Centers and their sole activity is servicing existing loans.

The Bank's commercial loans are primarily secured by real estate, commercial equipment, vehicles or other assets of the borrower. Repayment is often dependent on the successful business operations of the borrower and may be affected by adverse conditions in the local economy or real estate market. The financial condition and cash flow of commercial borrowers is therefore carefully analyzed during the loan approval process, and continues to be monitored throughout the duration of the loan by obtaining business financial statements, personal financial statements and income tax returns. The frequency of this ongoing analysis depends upon the size and complexity of the credit and collateral that secures the loan. It is also the Bank's general policy to obtain personal guarantees from the principals of the commercial loan borrowers.

Commercial real estate ("CRE") loans are primarily those secured by land for residential and commercial development, agricultural purpose properties, service industry buildings such as restaurants and motels, retail buildings and general purpose business space. The Bank attempts to mitigate the risks associated with these loans through low loan to value ratio standards, thorough financial analyses, and management's knowledge of the local economy in which the Bank lends.

The risk of loss associated with CRE construction lending is controlled through conservative underwriting procedures such as loan to value ratios of 80% or less, obtaining additional collateral when prudent, analysis of cash flows, and closely monitoring construction projects to control disbursement of funds on loans.

The Bank's residential mortgage portfolio is distributed between variable and fixed rate loans. Some loans are booked at fixed rates in order to meet the Bank's requirements under the federal Community Reinvestment Act (the "CRA") or to complement our asset liability mix. Other fixed rate residential mortgage loans are originated in a brokering capacity on behalf of other financial institutions, for which the Bank receives a fee. As with any consumer loan, repayment is dependent on the borrower's continuing financial stability, which can be adversely impacted by factors such as job loss, divorce, illness, or personal bankruptcy. Residential mortgage loans exceeding an internal loan-to-value ratio require private mortgage insurance. Title insurance protecting the Bank's lien priority, as well as fire and casualty insurance, is also required.

Home equity lines of credit, included within the residential mortgage portfolio, are secured by the borrower's home and can be drawn on at the discretion of the borrower. These lines of credit are at variable interest rates.

The Bank also provides residential real estate construction loans to builders and individuals for single family dwellings. Residential construction loans are usually granted based upon "as completed" appraisals and are secured by the property under construction. Site inspections are performed to determine pre-specified stages of completion before loan proceeds are disbursed. These loans typically have maturities of six to twelve months and may have a fixed or variable rate. Permanent financing for individuals offered by the Bank includes fixed and variable rate loans with five, seven or ten-year adjustable rate mortgages.

A variety of other consumer loans are also offered to customers, including indirect and direct auto loans, and other secured and unsecured lines of credit and term loans. In 2018, the Bank introduced a Student Loan program which offers a product for debt consolidation and an in-school program. This program is serviced by a third-party. Careful analysis of an applicant's creditworthiness is performed before granting credit, and on-going monitoring of loans outstanding is performed in an effort to minimize risk of loss by identifying problem loans early.

An allowance for loan losses is maintained to provide for probable losses from our lending activities. A complete discussion of the factors considered in determination of the allowance for loan losses is included in Item 7 of Part II of this report.

Deposit Activities

The Bank offers a full array of deposit products including checking, savings and money market accounts, regular and IRA certificates of deposit, Christmas Savings accounts, College Savings accounts, and Health Savings accounts. The Bank also offers the Certificate of Deposit Account Registry Service®, or CDARS®, program to municipalities, businesses, and consumers through which the Bank provides access to multi-million-dollar certificates of deposit and the Insured Cash Sweep®, or ICS®, program to municipalities, businesses, and consumers through which the Bank provides access to multi-million-dollar savings and demand deposits. Both programs are FDIC-insured. In addition, we offer our commercial customers packages which include Treasury Management, Cash Sweep and various checking opportunities.

Information about our income from and assets related to our banking business may be found in the Consolidated Statements of Financial Condition and the Consolidated Statements of Income and the related notes thereto included in Item 8 of Part II of this annual report.

Wealth Management

The Bank's Trust Department offers a full range of trust services, including personal trust, investment agency accounts, charitable trusts, retirement accounts including IRA roll-overs, 401(k) accounts and defined benefit plans, estate administration and estate planning.

At December 31, 2019 and 2018, the total market value of assets under the supervision of the Bank's Trust Department was approximately $902.2 million and $810.0 million, respectively. Trust Department revenues for these years may be found in the Consolidated Statements of Income under the heading "Other operating income", which is contained in Item 8 of Part II of this annual report.

COMPETITION

The banking business, in all of its phases, is highly competitive. Within our market areas, we compete with commercial banks, (including local banks and branches or affiliates of other larger banks), savings and loan associations and credit unions for loans and deposits, with consumer finance companies for loans, and with other financial institutions for various types of products and services, including trust services. There is also competition for commercial and retail banking business from banks and financial institutions located outside our market areas and on the internet.

The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations and office hours. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services and personalized services.

To compete with other financial services providers, we rely principally upon local promotional activities, personal relationships established by officers, directors and employees with customers, and specialized services tailored to meet customers' needs. In those instances in which we are unable to accommodate a customer's needs, we attempt to arrange for those services to be provided by other financial services providers with which we have a relationship.

The following table sets forth deposit data for the Maryland and West Virginia Counties in which the Bank maintains offices as of June 30, 2019, the most recent date for which comparative information is available.

	Offices (in Market)	Deposits (in thousands)	Market Share
Allegany County, Maryland:			
Branch Banking and Trust Company	6	$ 270,973	39.82%
Manufacturers & Traders Trust Company	5	175,028	25.72%
First United Bank & Trust	**3**	**156,452**	**22.99%**
Standard Bank, PaSB	2	78,090	11.47%
Source: FDIC Deposit Market Share Report			
Frederick County, Maryland:			
PNC Bank NA	15	$ 1,302,885	25.81%
Branch Banking & Trust Co.	10	806,671	15.98%
Bank Of America NA	5	554,221	10.98%
Frederick County Bank	5	385,455	7.64%
Manufacturers & Traders Trust Company	6	321,484	6.37%
Capital One NA	2	309,171	6.12%
Woodsboro Bank	7	234,591	4.65%
Middletown Valley Bank	4	220,455	4.37%
Sandy Spring Bank	4	210,466	4.17%
SunTrust Bank	2	205,751	4.08%
First United Bank & Trust	**4**	**176,174**	**3.49%**
Revere Bank	1	146,505	2.90%
Wells Fargo Bank NA	1	86,164	1.71%
The Columbia Bank	2	50,736	1.01%
Old Line Bank	2	35,513	0.70%
Woodforest National Bank	1	1,702	0.03%
Source: FDIC Deposit Market Share Report			
Garrett County, Maryland:			
First United Bank & Trust	**5**	**$ 373,529**	**61.85%**
Manufacturers & Traders Trust Company	2	86,389	14.30%
Branch Banking and Trust Company	2	65,632	10.87%
Clear Mountain Bank	1	53,138	8.80%
Somerset Trust Company	1	19,256	3.19%
Miners & Merchants Bank	1	5,987	0.99%
Source: FDIC Deposit Market Share Report			
Washington County, Maryland:			
Branch Banking & Trust Company	8	$ 598,407	25.41%
Fulton Financial Corp	9	506,424	21.50%
Manufacturers & Traders Trust Company	10	452,123	19.20%
PNC Bank NA	3	265,924	11.29%
Middletown Valley Bank	3	203,490	8.64%
First United Bank & Trust	**4**	**99,593**	**4.23%**
CNB Bank, Inc.	4	90,453	3.84%
United Bank	2	67,581	2.87%
Orrstown Bank	1	37,792	1.60%
Potomac Bancshares Inc	1	20,203	0.86%
Jefferson Security Bank	1	7,875	0.33%
Ameriserv Financial Bank	1	5,398	0.23%
Source: FDIC Deposit Market Share Report			

Berkeley County, West Virginia:			
Branch Banking & Trust Company	5	$ 363,788	26.49%
United Bank	4	271,572	19.77%
City National Bank of West Virginia	4	181,794	13.24%
MVB Bank Inc.	3	149,960	10.92%
First United Bank & Trust	**3**	**129,971**	**9.46%**
Jefferson Security Bank	2	92,272	6.72%
CNB Bank, Inc.	3	84,089	6.12%
Bank of Charles Town	2	81,282	5.92%
Summit Community Bank	1	17,026	1.24%
Woodforest National Bank	1	1,652	0.12%
Source: FDIC Deposit Market Share Report			

Harrison County, West Virginia:			
Branch Banking and Trust Company	3	$ 268,553	18.09%
MVB Bank, Inc	2	253,874	17.10%
The Huntington National Bank	3	240,754	16.22%
WesBanco Bank, Inc.	6	238,726	16.08%
JP Morgan Chase Bank, NA	1	187,457	12.63%
Harrison County Bank	4	100,792	6.79%
City National Bank of West Virginia	2	49,581	3.34%
Tri-County Bancorp Inc	2	43,962	2.96%
Premier Bank, Inc.	1	29,396	1.98%
BC Bank, Inc.	1	14,758	0.99%
Cornerstone Bank, Inc	1	14,603	0.98%
United Bank	1	14,060	0.95%
Freedom Bank, Inc	1	12,324	0.83%
Clear Mountain Bank	1	12,204	0.82%
First United Bank & Trust	**1**	**3,406**	**0.23%**
Source: FDIC Deposit Market Share Report			

Mineral County, West Virginia:			
First United Bank & Trust	**2**	$ **88,512**	**35.93%**
Branch Banking & Trust Company	1	64,329	26.11%
Manufacturers & Traders Trust Company	2	53,279	21.63%
Grant County Bank	1	30,943	12.56%
FNB Bank, Inc.	1	9,274	3.76%
Source: FDIC Deposit Market Share Report			

Monongalia County, West Virginia:			
United Bank	6	$ 822,783	31.16%
Huntington National Bank	7	476,738	18.06%
Branch Banking & Trust Company	4	434,769	16.47%
MVB Bank, Inc.	3	247,215	9.36%
Clear Mountain Bank	6	237,234	8.99%
Wesbanco Bank, Inc.	3	158,782	6.01%
PNC Bank NA	3	105,128	3.98%
First United Bank & Trust	**3**	**98,976**	**3.75%**
First Exchange Bank	1	29,409	1.11%
Citizens Bank of Morgantown, Inc.	1	26,312	1.00%
City National Bank of West Virginia	1	2,816	0.11%
Source: FDIC Deposit Market Share Report			

For further information about competition in our market areas, see the Risk Factor entitled "**We operate in a competitive environment, and our inability to effectively compete could adversely and materially impact our financial condition and results of operations**" in Item 1A of Part I of this annual report.

SUPERVISION AND REGULATION

The following is a summary of the material regulations and policies applicable to the Corporation and its subsidiaries and is not intended to be a comprehensive discussion. Changes in applicable laws and regulations may have a material effect on our business.

General

The Corporation is registered with the Federal Reserve as a bank holding company under the BHC Act and, as such, is subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve. As a publicly-traded company whose common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and listed on The NASDAQ Global Select Market, the Corporation is also subject to regulation and supervision by the SEC and The NASDAQ Stock Market, LLC ("NASDAQ").

The Bank is a Maryland trust company subject to the banking laws of Maryland and to regulation by the Commissioner of Financial Regulation of Maryland (the "Maryland Commissioner"), who is required by statute to make at least one examination in each calendar year (or at 18-month intervals if the Maryland Commissioner determines that an examination is unnecessary in a particular calendar year). The Bank also has offices in West Virginia, and the operations of these offices are subject to West Virginia laws and to supervision and examination by the West Virginia Division of Banking. As a member of the FDIC, the Bank is also subject to certain provisions of federal laws and regulations regarding deposit insurance and activities of insured state-chartered banks, including those that require examination by the FDIC. In addition to the foregoing, there are a myriad of other federal and state laws and regulations that affect, or govern the business of banking, including consumer lending, deposit-taking, and trust operations.

All non-bank subsidiaries of the Corporation are subject to examination by the Federal Reserve, and, as affiliates of the Bank, are subject to examination by the FDIC and the Maryland Commissioner. In addition, OakFirst Loan Center, Inc. is subject to licensing and regulation by the West Virginia Division of Banking, and OakFirst Loan Center, LLC is subject to licensing and regulation by the Maryland Commissioner.

Regulatory Reforms

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in July 2010, significantly restructured the financial regulatory regime in the United States. Although the Dodd-Frank Act's provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions such as banks and bank holding companies with total consolidated assets of $50 billion or more, it contains numerous other provisions that affect all financial institutions, including the Bank. The Dodd-Frank Act established the Consumer Financial Protection Bureau (the "CFPB"), discussed below, and contains a wide variety of provisions (many of which are not yet effective) affecting the regulation of depository institutions, including fair lending, fair debt collection practices, mortgage loan origination and servicing obligations, bankruptcy, military service member protections, use of credit reports, privacy matters, and disclosure of credit terms and correction of billing errors. Local, state and national regulatory and enforcement agencies continue efforts to address perceived problems within the mortgage lending and credit card industries through broad or targeted legislative or regulatory initiatives aimed at lenders' operations in consumer lending markets. There continues to be a significant amount of legislative and regulatory activity, nationally, locally and at the state level, designed to limit certain lending practices while mandating certain servicing procedures. Federal bankruptcy and state debtor relief and collection laws, as well as the Servicemembers Civil Relief Act affect the ability of banks, including the Bank, to collect outstanding balances.

Moreover, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and states' attorneys general may enforce consumer protection rules issued by the CFPB. Recently, U.S. financial regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the "unfair or deceptive acts or practices" ("UDAP") law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices", which has been delegated to the CFPB for supervision.

The implementation of several of the Dodd-Frank Act's provisions is subject to final rulemaking by the U.S. financial regulatory agencies, and the Dodd-Frank Act's impact on our business will depend to a large extent on how and when such rules are adopted and implemented by the primary U.S. financial regulatory agencies. We continue to analyze the impact of rules adopted under

the Dodd-Frank Act on our business, but the full impact will not be known until the rules and related regulatory initiatives are finalized and their combined impact can be understood. The Dodd-Frank Act has increased, and will likely continue to increase, our regulatory compliance burdens and costs and may restrict the financial products and services that we offer to our customers in the future. In particular, the Dodd-Frank Act will require us to invest significant management attention and resources so that we can evaluate the impact of and ensure compliance with this law and its rules.

Regulation of Bank Holding Companies

The Corporation and its affiliates are subject to the provisions of Section 23A and Section 23B of the Federal Reserve Act. Section 23A limits the amount of loans or extensions of credit to, and investments in, the Corporation and its non-bank affiliates by the Bank. Section 23B requires that transactions between the Bank and the Corporation and its non-bank affiliates be on terms and under circumstances that are substantially the same as with non-affiliates.

Under Federal Reserve policy, the Corporation is expected to act as a source of strength to the Bank, and the Federal Reserve may charge the Corporation with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank when required. This support may be required at times when the bank holding company may not have the resources to provide the support. Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require the bank holding company to guarantee the bank’s capital restoration plan. In addition, if the Federal Reserve believes that a bank holding company’s activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank holding company or its stockholders. Because the Corporation is a bank holding company, it is viewed as a source of financial and managerial strength for any controlled depository institutions, like the Bank.

In addition, under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”), depository institutions insured by the FDIC can be held liable for any losses incurred by, or reasonably anticipated to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. Accordingly, in the event that any insured subsidiary of the Corporation causes a loss to the FDIC, other insured subsidiaries of the Corporation could be required to compensate the FDIC by reimbursing it for the estimated amount of such loss. Such cross guaranty liabilities generally are superior in priority to obligations of a financial institution to its shareholders and obligations to other affiliates.

Federal Banking Regulation

Federal banking regulators, such as the Federal Reserve and the FDIC, may prohibit the institutions over which they have supervisory authority from engaging in activities or investments that the agencies believe are unsafe or unsound banking practices. Federal banking regulators have extensive enforcement authority over the institutions they regulate to prohibit or correct activities that violate law, regulation or a regulatory agreement or which are deemed to be unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, and principal shareholders or any related interest of such persons, which generally require that such credit extensions be made on substantially the same terms as those available to persons who are not related to the Bank and not involve more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to capital levels.

As part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), each federal banking regulator adopted non-capital safety and soundness standards for institutions under its authority. These standards include internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. We believe that the Bank meets substantially all standards that have been adopted. FDICIA also imposes capital standards on insured depository institutions.

The CRA requires the FDIC, in connection with its examination of financial institutions within its jurisdiction, to evaluate the record of those financial institutions in meeting the credit needs of their communities, including low and moderate income neighborhoods, consistent with principles of safe and sound banking practices. These factors are also considered by all regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility. As of the date of its most recent examination report, the Bank had a CRA rating of "Satisfactory".

The Bank is also subject to a variety of other laws and regulations with respect to the operation of its business, including, but not limited to, the TILA/RESPA Integrated Disclosure rule ("TRID"), Truth in Lending Act, the Real Estate Settlement Procedures Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, Expedited Funds Availability (Regulation CC), Reserve Requirements (Regulation D), Privacy of Consumer Information (Regulation P), Margin Stock Loans (Regulation U), the Right To Financial Privacy Act, the Flood Disaster Protection Act, the Homeowners Protection Act, the Servicemembers Civil Relief Act, the Telephone Consumer Protection Act, the CAN-SPAM Act, the Children's Online Privacy Protection Act, Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") and Office of Foreign Assets Control ("OFAC").

Capital Requirements

We require capital to fund loans, satisfy our obligations under the Bank's letters of credit, meet the deposit withdrawal demands of the Bank's customers, and satisfy our other monetary obligations. To the extent that deposits are not adequate to fund our capital requirements, we can rely on the funding sources identified below under the heading "Liquidity Management". At December 31, 2019, the Bank had $115.0 million available through unsecured lines of credit with correspondent banks, $2.1 million available through a secured line of credit with the Fed Discount Window and approximately $143.7 million available through the Federal Home Loan Bank of Atlanta ("FHLB"). Management is not aware of any demands, commitments, events or uncertainties that are likely to materially affect our ability to meet our future capital requirements.

In addition to operational requirements, the Bank and the Corporation are subject to risk-based capital regulations, which were adopted and are monitored by federal banking regulators. These regulations are used to evaluate capital adequacy and require an analysis of an institution's asset risk profile and off-balance sheet exposures, such as unused loan commitments and stand-by letters of credit.

On July 2, 2013, the Federal Reserve approved final rules that substantially amended the regulatory risk-based capital rules applicable to First United Corporation. The FDIC subsequently approved the same rules. The final rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act and were implemented as of March 31, 2015.

The Basel III capital rules include new risk-based capital and leverage ratios that were phased in between 2015 to 2019, and these rules also refine the definition of what constitutes "capital" for purposes of calculating those ratios. The minimum capital level requirements applicable to the Corporation under the final rules are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer was phased in over four years beginning on January 1, 2016. The maximum buffer was 1.25% of risk-weighted assets for 2017, 1.875% of risk-weighted assets for 2018, and 2.5% of risk-weighted assets for and after 2019. These changes resulted in the following minimum ratios beginning in 2019: (a) a common equity Tier 1 capital ratio of 7.0%, (b) a Tier 1 capital ratio of 8.5% and (c) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The Basel III capital final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that no longer qualify as Tier 1 capital, some of which will be phased out over time. Under the final rules, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations like the Corporation and the Bank that are not considered "advanced approaches" banking organizations may make a one-time permanent election to continue to exclude these items. The Corporation and the Bank made this election in their first quarter 2015 regulatory filings in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Corporation's available-for-sale securities portfolio. Additionally, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 (such as the Corporation's TPS Debentures) in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The Basel III capital rules revised the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. These revisions were effective January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions

are required to meet the following capital level requirements in order to qualify as "well capitalized": (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8%; (iii) a total capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%.

The Basel III capital rules set forth certain changes for the calculation of risk-weighted assets. These changes include (i) an increased number of credit risk exposure categories and risk weights; (ii) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (iii) revisions to recognition of credit risk mitigation; (iv) rules for risk weighting of equity exposures and past due loans, and (v) revised capital treatment for derivatives and repo-style transactions.

Regulators may require higher capital ratios when warranted by the particular circumstances or risk profile of a given banking organization. In the current regulatory environment, banking organizations must stay well-capitalized in order to receive favorable regulatory treatment on acquisition and other expansion activities and favorable risk-based deposit insurance assessments. Our capital policy establishes guidelines meeting these regulatory requirements and takes into consideration current or anticipated risks as well as potential future growth opportunities.

At December 31, 2019, we were in compliance with the applicable requirements.

In July 2019, the federal banking agencies adopted a final rule that simplifies compliance with certain aspects of the capital rules. A majority of the simplifications apply solely to banking organizations that are not subject to the advanced approaches capital rule. The rule simplified the application of regulatory capital treatment for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and capital issued by a consolidated subsidiary of a banking organization and held by third parties (minority interest). In addition, the rule revised the treatment of certain acquisition, development, or construction exposures.

Additional information about our capital ratios is contained in "Consolidated Balance Sheet Review" section of Item 7 of Part II of this annual report under the heading "Capital Resources".

Prompt Corrective Action

The Federal Deposit Insurance Act ("FDI Act") requires, among other things, the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDI Act includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized", (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%, (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%, and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

Effective January 1, 2015, the Basel III capital rules revised the prompt corrective action requirements by (i) introducing the Common Equity Tier 1 ("CET1") ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8%; and (iii) eliminating the provision that permitted a bank with a composite supervisory rating of 1 but a leverage ratio of at least 3% to be deemed adequately capitalized. The Basel III Capital Rules did not change the total risk-based capital requirement for any prompt corrective action category.

The FDI Act generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is

likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDI Act provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

At December 31, 2019, the Bank and the Corporation were "well capitalized" based on the aforementioned ratios.

Liquidity Requirements

Historically, the regulation and monitoring of bank liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III liquidity framework requires banks to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

Deposit Insurance

The Bank is a member of the FDIC and pays an insurance premium to the FDIC based upon its assessable deposits on a quarterly basis. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government.

Under the Dodd-Frank Act, a permanent increase in deposit insurance was authorized to $250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category.

The Dodd-Frank Act also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits. The FDIC is required to attain this ratio by September 30, 2020. The Dodd-Frank Act required the FDIC to redefine the deposit insurance assessment base for an insured depository institution. Prior to the Dodd-Frank Act, an institution's assessment base has historically been its domestic deposits, with some adjustments. As redefined pursuant to the Dodd-Frank Act, an institution's assessment base is now an amount equal to the institution's average consolidated total assets during the assessment period minus average tangible equity. Institutions with $1.0 billion or more in assets at the end of a fiscal quarter, like the Bank, must report their average consolidated total assets on a daily basis and report their average tangible equity on an end-of-month balance basis.

On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent. As a result, small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15 percent to 1.35 percent, to be applied when the reserve ratio is at least 1.38 percent. In 2019, the Bank received $.3 million in assessment credits and expects to receive final credits of approximately $.1 million by May 2020.

The Federal Deposit Insurance Reform Act of 2005, which created the DIF, gave the FDIC greater latitude in setting the assessment rates for insured depository institutions which could be used to impose minimum assessments. The FDIC has the flexibility

to adopt actual rates that are higher or lower than the total base assessment rates adopted without notice and comment, if certain conditions are met.

DIF-insured institutions pay a Financing Corporation (“FICO”) assessment in order to fund the interest on bonds issued in the 1980s in connection with the failures in the thrift industry.

The FDIC is authorized to conduct examinations of and require reporting by FDIC-insured institutions. It is also authorized to terminate a depository bank’s deposit insurance upon a finding by the FDIC that the bank’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank’s regulatory agency. The termination of deposit insurance for our bank subsidiary would have a material adverse effect on our earnings, operations and financial condition.

Bank Secrecy Act/Anti-Money Laundering

The Bank Secrecy Act (“BSA”), which is intended to require financial institutions to develop policies, procedures, and practices to prevent and deter money laundering, mandates that every national bank have a written, board-approved program that is reasonably designed to assure and monitor compliance with the BSA.

The program must, at a minimum: (i) provide for a system of internal controls to assure ongoing compliance; (ii) provide for independent testing for compliance; (iii) designate an individual responsible for coordinating and monitoring day-to-day compliance; and (iv) provide training for appropriate personnel. In addition, state-chartered banks are required to adopt a customer identification program as part of its BSA compliance program. State-chartered banks are also required to file Suspicious Activity Reports when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA.

In addition to complying with the BSA, the Bank is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA Patriot Act”). The USA Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the United States’ financial system and has significant implications for depository institutions, brokers, dealers, and other businesses involved in the transfer of money. The USA Patriot Act mandates that financial service companies implement additional policies and procedures and take heightened measures designed to address any or all of the following matters: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes, and cooperation between financial institutions and law enforcement authorities.

Mortgage Lending and Servicing

The Bank’s mortgage lending and servicing activities are subject to various laws and regulations that are enforced by the federal banking regulators and the CFPB, such as the Truth in Lending Act, the Real Estate Settlement Procedures Act, and various rules adopted thereunder, including those relating to consumer disclosures, appraisal requirements, mortgage originator compensation, prohibitions on mandatory arbitration provisions under certain circumstances, and the obligation to credit payments and provide payoff statements within certain time periods and provide certain notices prior to interest rate and payment adjustments.

The Bank is required to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Qualified mortgages that that are not “higher-priced” are afforded a safe harbor presumption of compliance with the ability to repay rules, while qualified mortgages that are “higher-priced” garner a rebuttable presumption of compliance with the ability to repay rules. In general, a “qualified mortgage” is a mortgage loan without negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years, where the lender determines that the borrower has the ability to repay, and where the borrower’s points and fees do not exceed 3% of the total loan amount. “Higher-priced” mortgages must have escrow accounts for taxes and insurance and similar recurring expenses.

On November 20, 2013, the CFPB issued a final rule on integrated mortgage disclosures under the Truth-in-Lending Act and the Real Estate Settlement Procedures Act, for which compliance was required by October 3, 2015. At December 31, 2019, we believe that we are in compliance.

Consumer Lending – Military Lending Act

The Military Lending Act (the “MLA”), which was initially implemented in 2007, was amended and its coverage significantly expanded in 2015. The Department of Defense (the “DOD”) issued a final rule under the MLA that took effect on October 15, 2015, but financial institutions were not required to take action until October 3, 2016. The types of credit covered under the MLA were expanded to include virtually all consumer loan and credit card products (except for loans secured by residential real property and certain

purchase-money motor vehicle/personal property secured transactions). Lenders must now provide specific written and oral disclosures concerning the protections of the MLA to active duty members of the military and dependents of active duty members of the military ("covered borrowers"). The rule imposes a 36% "Military Annual Percentage Rate" cap that includes costs associated with credit insurance premiums, fees for ancillary products, finance charges associated with the transactions, and application and participation charges. In addition, loan terms cannot include (i) a mandatory arbitration provision, (ii) a waiver of consumer protection laws, (iii) mandatory allotments from military benefits, or (iv) a prepayment penalty. The revised rule also prohibits "roll-over" or refinances of the same loan unless the new loan provides more favorable terms for the covered borrower. Lenders may verify covered borrower status using a DOD database or information provided by credit bureaus. We believe that we are in compliance with the revised rule.

Cybersecurity

We rely on electronic communications and information systems to conduct our operations and store sensitive data. We employ an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, we employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures.

The federal banking regulators have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking regulators expect financial institutions to establish lines of defense and to ensure that their risk management processes address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyberattack. If we fail to meet the expectations set forth in this regulatory guidance, then we could be subject to various regulatory actions and we may be required to devote significant resources to any required remediation efforts.

Federal Securities Laws and NASDAQ Rules

The shares of the Corporation's common stock are registered with the SEC under Section 12(b) of the Exchange and listed on the NASDAQ Global Select Market. The Corporation is subject to information reporting requirements, proxy solicitation requirements, insider trading restrictions and other requirements of the Exchange Act, including the requirements imposed under the federal Sarbanes-Oxley Act of 2002, and rules adopted by NASDAQ. Among other things, loans to and other transactions with insiders are subject to restrictions and heightened disclosure, directors and certain committees of the Board must satisfy certain independence requirements, the Corporation must comply with certain enhanced corporate governance requirements, and various issuances of securities by the Corporation require shareholder approval.

Governmental Monetary and Credit Policies and Economic Controls

The earnings and growth of the banking industry and ultimately of the Bank are affected by the monetary and credit policies of governmental authorities, including the Federal Reserve. An important function of the Federal Reserve is to regulate the national supply of bank credit in order to control recessionary and inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open market operations in U.S. Government securities, changes in the federal funds rate, changes in the discount rate of member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits and may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve authorities have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have such an effect in the future. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the Federal Reserve, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or their effect on our businesses and earnings.

SEASONALITY

Management does not believe that our business activities are seasonal in nature. Deposit and loan demand may vary depending on local and national economic conditions, but management believes that any variation will not have a material impact on our planning or policy-making strategies.

EMPLOYEES

At December 31, 2019, we employed 319 individuals, of whom 285 were full-time employees.

ITEM 1A. RISK FACTORS

The significant risks and uncertainties related to us, our business and our securities of which we are aware are discussed below. Investors and shareholders should carefully consider these risks and uncertainties before making investment decisions with respect to the Corporation's securities. Any of these factors could materially and adversely affect our business, financial condition, operating results and prospects and could negatively impact the market price of the Corporation's securities. If any of these risks materialize, the holders of the Corporation's securities could lose all or part of their investments in the Corporation. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations. Investors and shareholders should also consider the other information contained in this annual report, including our financial statements and the related notes, before making investment decisions with respect to the Corporation's securities.

Risks Relating to First United Corporation and its Affiliates

First United Corporation's future success depends on the successful growth of its subsidiaries.

The Corporation's primary business activity for the foreseeable future will be to act as the holding company of the Bank and its other direct and indirect subsidiaries. Therefore, the Corporation's future profitability will depend on the success and growth of these subsidiaries.

We could be adversely affected by risks associated with future acquisitions and expansions.

Although our core growth strategy is focused around organic growth, we may from time to time consider acquisition and expansion opportunities involving a bank or other entity operating in the financial services industry. We cannot predict if or when we will engage in such a strategic transaction, or the nature or terms of any such transaction. To the extent that we grow through an acquisition, we cannot assure investors that we will be able to adequately and profitably manage that growth or that an acquired business will be integrated into our existing businesses as efficiently or as timely as we may anticipate. Acquiring another business would generally involve risks commonly associated with acquisitions, including:

- increased capital needs;
- increased and new regulatory and compliance requirements;
- implementation or remediation of controls, procedures and policies with respect to the acquired business;
- diversion of management time and focus from operation of our then-existing business to acquisition-integration challenges;
- coordination of product, sales, marketing and program and systems management functions;
- transition of the acquired business's users and customers onto our systems;
- retention of employees from the acquired business;
- integration of employees from the acquired business into our organization;
- integration of the acquired business's accounting, information management, human resources and other administrative systems and operations with ours;
- potential liability for activities of the acquired business prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities;
- potential increased litigation or other claims in connection with the acquired business, including claims brought by regulators, terminated employees, customers, former stockholders, vendors, or other third parties; and
- potential goodwill impairment.

Our failure to execute our acquisition strategy could adversely affect our business, results of operations, financial condition and future prospects risks of unknown or contingent liabilities.

Interest rates and other economic conditions will impact our results of operations.

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors, and market interest rates.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our

interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

The outbreak of the recent coronavirus ("COVID-19"), or an outbreak of another highly infectious or contagious disease, could adversely affect the Corporation's business, financial condition and results of operations.

The Corporation's business is dependent upon the willingness and ability of its customers to conduct banking and other financial transactions. The spread of a highly infectious or contagious disease, such as COVID-19, could cause severe disruptions in the U.S. economy, which could in turn disrupt the business, activities, and operations of the Corporation's customers, as well the business and operations of the Corporation. Moreover, since the beginning of January 2020, the coronavirus outbreak has caused significant disruption in the financial markets both globally and in the United States. The spread of COVID-19, or an outbreak of another highly infectious or contagious disease, may result in a significant decrease in business and/or cause the Corporation's customers to be unable to meet existing payment or other obligations to the Corporation, particularly in the event of a spread of COVID-19 or an outbreak of an infectious disease in the Corporation's market area. A spread of COVID-19, or an outbreak of another contagious disease, could also negatively impact the availability of key personnel of the Corporation necessary to conduct the business of the Corporation. Such a spread or outbreak could also negatively impact the business and operations of third-party service providers who perform critical services for the Corporation's business. If COVID-19, or another highly infectious or contagious disease, spreads or the response to contain COVID-19 is unsuccessful, the Corporation could experience a material adverse effect on its business, financial condition, and results of operations.

The majority of our business is concentrated in Maryland and West Virginia, much of which involves real estate lending, so a decline in the real estate and credit markets could materially and adversely impact our financial condition and results of operations.

Most of the Bank's loans are made to borrowers located in Western Maryland and Northeastern West Virginia, and many of these loans, including construction and land development loans, are secured by real estate. At December 31, 2019, approximately 12%, or $117.9 million, of our total loans were real estate acquisition, construction and development loans that were secured by real estate. Accordingly, a decline in local economic conditions would likely have an adverse impact on our financial condition and results of operations, and the impact on us would likely be greater than the impact felt by larger financial institutions whose loan portfolios are geographically diverse. We cannot guarantee that any risk management practices we implement to address our geographic and loan concentrations will be effective to prevent losses relating to our loan portfolio.

The Bank's concentrations of commercial real estate loans could subject it to increased regulatory scrutiny and directives, which could force us to preserve or raise capital and/or limit future commercial lending activities.

The federal banking regulators believe that institutions that have particularly high concentrations of CRE loans within their lending portfolios face a heightened risk of financial difficulties in the event of adverse changes in the economy and CRE markets. Accordingly, through published guidance, these regulators have directed institutions whose concentrations exceed certain percentages of capital to implement heightened risk management practices appropriate to their concentration risk. The guidance provides that banking regulators may require such institutions to reduce their concentrations and/or maintain higher capital ratios than institutions with lower concentrations in CRE. At December 31, 2019, our CRE concentrations were below the heightened risk management thresholds set forth in this guidance.

The Bank may experience loan losses in excess of its allowance, which would reduce our earnings.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loans being made, the creditworthiness of the borrowers over the term of the loans and, in the case of collateralized loans, the value and marketability of the collateral for the loans. Management of the Bank maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb future losses, or if the bank regulatory authorities require us to increase the allowance for loan losses as a part of its examination process, our earnings and capital could be significantly and adversely affected. Although management continually monitors our loan portfolio and makes determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to our non-performing or performing loans. Material additions to the allowance for loan losses could result in a material decrease in our net income and capital; and could have a material adverse effect on our financial condition.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The FASB has adopted a new accounting standard that was originally effective for the Corporation and the Bank beginning with our first full fiscal year after December 15, 2019. In November 2019, the FASB approved a delay of the required implementation date of ASU No. 2016-13 for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities, including the Corporation, resulting in a required implementation date for the Corporation of January 1, 2023. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This standard will change the current method of providing allowances for loan losses that are probable, which would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

The market value of our investments could decline.

At December 31, 2019, investment securities in our investment portfolio having a cost basis of $135.0 million and a market value of $131.3 million were classified as available-for-sale pursuant to FASB Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt and Equity Securities*, relating to accounting for investments. Topic 320 requires that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in shareholders' equity (net of tax) as accumulated other comprehensive loss. There can be no assurance that future market performance of our investment portfolio will enable us to realize income from sales of securities. Shareholders' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. Moreover, there can be no assurance that the market value of our investment portfolio will not decline, causing a corresponding decline in shareholders' equity.

Management believes that several factors could affect the market value of our investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). Also, the passage of time will affect the market values of our investment securities, in that the closer they are to maturing, the closer the market price should be to par value. These and other factors may impact specific categories of the portfolio differently, and management cannot predict the effect these factors may have on any specific category.

Impairment of investment securities, goodwill, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing whether the impairment of investment securities is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. See the discussion under the heading "Estimates and Critical Accounting Policies – Other-Than-Temporary Impairment of Investment Securities" in Item 7 of Part II of this annual report for further information.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. A decline in the price of the Corporation's common stock or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, 2019, we had recorded goodwill of $11.0 million, representing approximately 8.7% of shareholders' equity. See the discussion under the heading "Estimates and Critical Accounting Policies – Goodwill" in Item 7 of Part II of this annual report for further information.

At December 31, 2019, our net deferred tax assets were valued at $7.4 million. Included in that total is $2.6 million of state net operating loss carryforwards associated with separate company tax filings of the Corporation, which we do not expect to use and, thus, we have established a $2.6 million valuation allowance. The federal net operating loss ("NOL") carryforward was fully utilized in 2018. A deferred tax asset is reduced by a valuation allowance if, based on the weight of the evidence available, both negative and positive, including the recent trend of quarterly earnings, management believes that it is more likely than not that some portion or all of the total deferred tax asset will not be realized. Moreover, our ability to utilize our net operating loss carryforwards to offset future taxable income may be significantly limited if we experience an "ownership change," as determined under Section 382 of the Code. If an ownership change were to occur, the limitations imposed by Section 382 of the Code could result in a portion of our net operating loss carryforwards expiring unused, thereby impairing their value. Section 382's provisions are complex, and we cannot predict any circumstances surrounding the future ownership of the common stock. Accordingly, we cannot provide any assurance that we will not experience an ownership change in the future.

The impact of each of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition.

We operate in a competitive environment, and our inability to effectively compete could adversely and materially impact our financial condition and results of operations.

We operate in a competitive environment, competing for loans, deposits, and customers with commercial banks, savings associations and other financial entities. Competition for deposits comes primarily from other commercial banks, savings associations, credit unions, money market and mutual funds and other investment alternatives. Competition for loans comes primarily from other commercial banks, savings associations, mortgage banking firms, credit unions and other financial intermediaries. Competition for other products, such as securities products, comes from other banks, securities and brokerage companies, and other non-bank financial service providers in our market area. Many of these competitors are much larger in terms of total assets and capitalization, have greater access to capital markets, and/or offer a broader range of financial services than those that we offer. In addition, banks with a larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the needs of larger customers.

In addition, changes to the banking laws over the last several years have facilitated interstate branching, merger and expanded activities by banks and holding companies. For example, the federal Gramm-Leach-Bliley Act (the "GLB Act") revised the BHC Act and repealed the affiliation provisions of the Glass-Steagall Act of 1933, which, taken together, limited the securities and other non-banking activities of any company that controls an FDIC insured financial institution. As a result, the ability of financial institutions to branch across state lines and the ability of these institutions to engage in previously-prohibited activities are now accepted elements of competition in the banking industry. These changes may bring us into competition with more and a wider array of institutions, which may reduce our ability to attract or retain customers. Management cannot predict the extent to which we will face such additional competition or the degree to which such competition will impact our financial conditions or results of operations.

The banking industry is heavily regulated; significant regulatory changes could adversely affect our operations.

Our operations will be impacted by current and future legislation and by the policies established from time to time by various federal and state regulatory authorities. The Corporation is subject to supervision by the Federal Reserve. The Bank is subject to supervision and periodic examination by the Maryland Commissioner of Financial Regulation, the West Virginia Division of Banking, and the FDIC. Banking regulations, designed primarily for the safety of depositors, may limit a financial institution's growth and the return to its investors by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, investments, loans and interest rates, interest rates paid on deposits, expansion of branch offices, and the offering of securities or trust services. The Corporation and the Bank are also subject to capitalization guidelines established by federal law and could be subject to enforcement actions to the extent that either is found by regulatory examiners to be undercapitalized. It is not possible to predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on our future business and earnings prospects. Management also cannot predict the nature or the extent of the effect on our business and earnings of future fiscal or monetary policies, economic controls, or new federal or state legislation. Further, the cost of compliance with regulatory requirements may adversely affect our ability to operate profitably.

The full impact of the Dodd-Frank Act is unknown because some rule making efforts are still required to fully implement all of its requirements and the implementation of some enforcement efforts is just beginning. We anticipate continued increases in regulatory expenses as a result of the Dodd-Frank Act.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and affects the lending, investment, trading and operating activities of all financial institutions. Based on the text of the Dodd-Frank Act and the

implementing regulations, it is anticipated that the costs to banks may increase or fee income may decrease significantly, which could adversely affect our results of operations, financial condition and/or liquidity.

The Consumer Financial Protection Bureau may continue to reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices. Compliance with any such change may impact our business operations.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to adopt rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an “abusive” practice is new under the law. We have been required to dedicate significant personnel resources to address the compliance burdens imposed by the CFBP’s adoption of various rules, and the adoption of additional rules in the future would likely require us to dedicate even more resources.

Bank regulators and other regulations, including the Basel III Capital Rules, may require higher capital levels, impacting our ability to pay dividends or repurchase our stock.

The capital standards to which we are subject, including the standards created by the Basel III Capital Rules, may materially limit our ability to use our capital resources and/or could require us to raise additional capital by issuing common stock. The issuance of additional shares of common stock could dilute existing stockholders.

A material weakness or significant deficiency in our disclosure or internal controls could have an adverse effect on us.

The Corporation is required by the Sarbanes-Oxley Act of 2002 to establish and maintain disclosure controls and procedures and internal control over financial reporting. These control systems are intended to provide reasonable assurance that material information relating to the Corporation is made known to our management and reported as required by the Exchange Act, to provide reasonable assurance regarding the reliability and preparation of our financial statements, and to provide reasonable assurance that fraud and other unauthorized uses of our assets are detected and prevented. We may not be able to maintain controls and procedures that are effective at the reasonable assurance level. If that were to happen, our ability to provide timely and accurate information about the Corporation, including financial information, to investors could be compromised and our results of operations could be harmed. Moreover, if the Corporation or its independent registered public accounting firm were to identify a material weakness or significant deficiency in any of those control systems, our reputation could be harmed and investors could lose confidence in us, which could cause the market price of the Corporation’s stock to decline and/or limit the trading market for the common stock.

The Bank’s funding sources may prove insufficient to replace deposits and support our future growth.

The Bank relies on customer deposits, advances from the FHLB, lines of credit at other financial institutions and brokered funds to fund our operations. Although the Bank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that the Bank would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained and/or our cost of funds will increase if we are unable to maintain our access to funding or if financing necessary to accommodate future growth is not available at favorable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In that case, our profitability would be adversely affected.

The loss of key personnel could disrupt our operations and result in reduced earnings.

Our growth and profitability will depend upon our ability to attract and retain skilled managerial, marketing and technical personnel. Competition for qualified personnel in the financial services industry is intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. Our current executive officers provide valuable services based on their many years of experience and in-depth knowledge of the banking industry and the market areas we serve. Due to the intense competition for financial professionals, these key personnel would be difficult to replace and an unexpected loss of their services could result in a disruption to the continuity of operations and a possible reduction in earnings.

The Bank’s lending activities subject the Bank to the risk of environmental liabilities.

A significant portion of the Bank’s loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Bank may be liable for remediation costs, as well as for

personal injury and property damage. Environmental laws may require the Bank to incur substantial expenses and may materially reduce the affected property's value or limit the Bank's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Bank's exposure to environmental liability. Although the Bank has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

We are a community bank and our ability to maintain our reputation is critical to the success of our business.

We are a community banking institution, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We may be subject to claims and the costs of defensive actions, and such claims and costs could materially and adversely impact our financial condition and results of operations.

Our customers may sue us for losses due to alleged breaches of fiduciary duties, errors and omissions of employees, officers and agents, incomplete documentation, our failure to comply with applicable laws and regulations, or many other reasons. Also, our employees may knowingly or unknowingly violate laws and regulations. Management may not be aware of any violations until after their occurrence. This lack of knowledge may not insulate us from liability. Claims and legal actions will result in legal expenses and could subject us to liabilities that may reduce our profitability and hurt our financial condition.

We may not be able to keep pace with developments in technology.

We use various technologies in conducting our businesses, including telecommunication, data processing, computers, automation, internet-based banking, and debit cards. Technology changes rapidly. Our ability to compete successfully with other financial institutions may depend on whether we can exploit technological changes. We may not be able to exploit technological changes, and any investment we do make may not make us more profitable.

Our information systems may experience an interruption or a breach in security, due to cyber-attacks.

In the ordinary course of business, we collect and store sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. The secure processing, maintenance, and use of this information is critical to our operations and business strategy. In addition, we rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. Although we have invested in various technologies and continually review processes and practices that are designed to protect our networks, computers, and data from damage or unauthorized access, our computer systems and infrastructure may nevertheless be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Further, cyber-attacks can originate from a variety of sources and the techniques used are increasingly sophisticated. A breach of any kind could compromise our systems, and the information stored there could be accessed, damaged, or disclosed. A breach in security or other failure could result in legal claims, regulatory penalties, disruptions in operations, increased expenses, loss of customers and business partners, and damage to our reputation, which could in turn adversely affect our business, financial condition and/or results of operations. Furthermore, as cyber threats continue to evolve and increase, we may be required to expend significant additional financial and operational resources to modify or enhance our protective measures, or to investigate and remediate any identified information security vulnerabilities.

Safeguarding our business and customer information increases our cost of operations. To the extent that we, or our third-party vendors, are unable to prevent the theft of or unauthorized access to this information, our operations may become disrupted, we may be subject to claims, and our net income may be adversely affected.

Our business depends heavily on the use of computer systems, the Internet and other means of electronic communication and recordkeeping. Accordingly, we must protect our computer systems and network from break-ins, security breaches, and other risks that could disrupt our operations or jeopardize the security of our business and customer information. Moreover, we use third party vendors to provide products and services necessary to conduct our day-to-day operations, which exposes us to risk that these vendors will not perform in accordance with the service arrangements, including by failing to protect the confidential information we entrust to them. Any security measures that we or our vendors implement, including encryption and authentication technology that we use to effect secure transmissions of confidential information, may not be effective to prevent the loss or theft of our information or to prevent risks associated with the Internet, such as cyber-fraud. Advances in computer capabilities, new discoveries in the field of cryptography, or other developments could permit unauthorized persons to gain access to our confidential information in spite of the use of security measures that we believe are adequate. Any compromise of our security measures or of the security measures employed by our vendors of our third party could disrupt our business and/or could subject us to claims from our customers, either of which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to First United Corporation's Securities

We are subject to risks from a proxy contest and/or the actions of activist shareholders.

On December 3, 2019, Driver Management Company LLC, Driver Opportunity Partners I LP, and J. Abbott R. Cooper (collectively, "Driver"), notified the Corporation of Driver's intent to nominate three candidates for election to the Corporation's Board of Directors at the 2020 annual meeting of shareholders. A proxy contest or related activities on the part of Driver or other activist shareholders could adversely affect our business for a number of reasons, including, without limitation, the following:

" Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees;

" Perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel, business partners, customers and others important to our success, any of which could negatively affect our business and our results of operations and financial condition; and

" If nominees advanced by activist shareholders are elected or appointed to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans or to realize long-term value from our assets, and this could in turn have an adverse effect on our business and on our results of operations and financial condition.

Proxy contests may cause our stock price to experience periods of volatility. Further, if a proxy contest results in a change in control of our Board of Directors, such an event could subject us to risks relating to certain third parties' rights under our existing contractual obligations, which could adversely affect our business.

The shares of common stock are not insured.

The shares of the Corporation's common stock are not deposits and are not insured against loss by the FDIC or any other governmental or private agency.

The common stock is not heavily traded.

The Corporation's common stock is listed on the NASDAQ Global Select Market, but shares of the common stock are not heavily traded. Securities that are not heavily traded can be more volatile than stock trading in an active public market. Factors such as our financial results, the introduction of new products and services by us or our competitors, various factors affecting the banking industry generally, and investor speculation as to our future plans and strategies could have a significant impact on the market price and trading volume of the shares of our common stock. ***Likewise, events that are unrelated to the Corporation but that affect the equity markets generally, such as international health crises, wars, political instability and similar factors, could also have a significant impact on the market price and trading volume of the shares of common stock.*** Management cannot predict the extent to which an active public market for the common stock will develop or be sustained in the future. Accordingly, shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

Significant sales of the common stock, or the perception that significant sales may occur in the future, could adversely affect the market price for the common stock.

The sale of a substantial number of shares amounts of the Corporation's common stock could adversely affect the market price of the common stock. The availability of shares for future sale could adversely affect the prevailing market price of the common stock and could cause the market price of the common stock to remain low for a substantial amount of time. In addition, the Corporation may grant equity awards under its equity compensation plans from time to time in effect, including fully-vested shares of common stock. It

is possible that if a significant percentage of such available shares were attempted to be sold within a short period of time, the market for the shares would be adversely affected. Management cannot predict whether the market for the common stock could absorb a large number of attempted sales in a short period of time, regardless of the price at which they might be offered. Even if a substantial number of sales do not occur within a short period of time, the mere existence of this "market overhang" could have a negative impact on the market for the common stock and our ability to raise capital in the future.

The Corporation's ability to pay dividends on the common stock is subject to the terms of the outstanding TPS Debentures, which prohibit the Corporation from paying dividends during an interest deferral period.

In March 2004, the Corporation issued approximately $30.9 million, in the aggregate, of junior subordinated debentures ("TPS Debentures") to the Trusts in connection with the Trusts' sales to third party investors of $30.0 million, in the aggregate, in mandatorily redeemable preferred capital securities. The terms of the TPS Debentures require the Corporation to make quarterly payments of interest to the Trusts, as the holders of the TPS Debentures, although the Corporation has the right to defer payments of interest for up to 20 consecutive quarterly periods. An election to defer interest payments does not constitute an event of default under the terms of the TPS Debentures. The terms of the TPS Debentures prohibit the Corporation from declaring or paying any dividends or making other distributions on, or from repurchasing, redeeming or otherwise acquiring, any shares of its capital securities, including the common stock, if the Corporation elects to defer quarterly interest payments under the TPS Debentures. In addition, a deferral election will require the Trusts to likewise defer the payment of quarterly dividends on their related trust preferred securities.

Applicable banking and Maryland laws impose additional restrictions on the ability of the Corporation and the Bank to pay dividends and make other distributions on their capital securities, and, in any event, the payment of dividends is at the discretion of the boards of directors of the Corporation and the Bank.

In the past, the Corporation has funded dividends on its capital securities using cash received from the Bank, and this will likely be the case for the foreseeable future. No assurance can be given that the Bank will be able to pay dividends to the Corporation for these purposes at times and/or in amounts requested by the Corporation. Both federal and state laws impose restrictions on the ability of the Bank to pay dividends. Under Maryland law, a state-chartered commercial bank may pay dividends only out of undivided profits or, with the prior approval of the Maryland Commissioner, from surplus in excess of 100% of required capital stock. If, however, the surplus of a Maryland bank is less than 100% of its required capital stock, cash dividends may not be paid in excess of 90% of net earnings. In addition to these specific restrictions, bank regulatory agencies have the ability to prohibit proposed dividends by a financial institution which would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice. Banks that are considered "troubled institution" are prohibited by federal law from paying dividends altogether. Notwithstanding the foregoing, shareholders must understand that the declaration and payment of dividends and the amounts thereof are at the discretion of the Corporation's Board of Directors. Thus, even at times when the Corporation is not prohibited from paying cash dividends on its capital securities, neither the payment of such dividends nor the amounts thereof can be guaranteed.

The Corporation's Articles of Incorporation and Bylaws and Maryland law may discourage a corporate takeover.

The Corporation's Amended and Restated Articles of Incorporation (the "Charter") and its Amended and Restated Bylaws, as amended (the "Bylaws"), contain certain provisions designed to enhance the ability of the Corporation's Board of Directors to deal with attempts to acquire control of the Corporation. First, the Board of Directors is classified into three classes. Directors of each class serve for staggered three-year periods, and no director may be removed except for cause, and then only by the affirmative vote of either a majority of the entire Board of Directors or a majority of the outstanding voting stock. Second, the board has the authority to classify and reclassify unissued shares of stock of any class or series of stock by setting, fixing, eliminating, or altering in any one or more respects the preferences, rights, voting powers, restrictions and qualifications of, dividends on, and redemption, conversion, exchange, and other rights of, such securities. The board could use this authority, along with its authority to authorize the issuance of securities of any class or series, to issue shares having terms favorable to management or to a person or persons affiliated with or otherwise friendly to management. In addition, the Bylaws require any shareholder who desires to nominate a director to abide by strict notice requirements.

Maryland corporation laws include provisions that could discourage a sale or takeover of the Corporation. The Maryland Business Combination Act generally prohibits, subject to certain limited exceptions, corporations from being involved in any "business combination" (defined as a variety of transactions, including a merger, consolidation, share exchange, asset transfer or issuance or reclassification of equity securities) with any "interested shareholder" for a period of five years following the most recent date on which the interested shareholder became an interested shareholder. An interested shareholder is defined generally as a person who is the beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock or who is an affiliate or associate of the corporation and was the beneficial owner, directly or indirectly, of 10% percent or more of the voting power of the then outstanding stock of the corporation at any time within the two-year period immediately prior to the date in question and after the date on which the corporation had 100 or more beneficial owners of its stock. The Maryland Control Share Acquisition Act applies to acquisitions of “control shares”, which, subject to certain exceptions, are shares the acquisition of which entitle the holder, directly or indirectly, to exercise or direct the exercise of the voting power of shares of stock of the corporation in the election of directors within any of the following ranges of voting power: one-tenth or more, but less than one-third of all voting power; one-third or more, but less than a majority of all voting power or a majority or more of all voting power. Control shares have limited voting rights. Maryland banking laws provide that the Maryland Commissioner must approve certain acquisitions of the common stock of the Corporation and the Bank, and impose penalties on persons who effect such an acquisition without approval.

Although these provisions do not preclude a sale or takeover, they may have the effect of discouraging, delaying or deferring a sale, tender offer, or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the common stock. Such provisions will also render the removal of the Board of Directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market prices of the Corporation’s securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The headquarters of the Corporation and the Bank occupies approximately 29,000 square feet at 19 South Second Street, Oakland, Maryland, and a 30,000 square feet operations center located at 12892 Garrett Highway, Oakland Maryland. These premises are owned by the Corporation. The Bank owns 19 of its banking offices and leases six. The Bank also leases one office that is used for disaster recovery purposes. Total rent expense on the leased offices and properties was $.4 million in 2019.

ITEM 3. LEGAL PROCEEDINGS

We are at times, in the ordinary course of business, subject to legal actions. Management, upon the advice of counsel, believes that losses, if any, resulting from current legal actions will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of the Corporation's common stock are listed on the NASDAQ Global Select Market under the symbol "FUNC". As of February 29, 2020, the Corporation had 1,263 shareholders of record.

The ability of the Corporation to declare dividends is limited by federal banking laws and Maryland corporation laws. Subject to these and the terms of its other securities, including the TPS Debentures, the payment of dividends on the shares of common stock and the amounts thereof are at the discretion of the Corporation's board of directors. In November 2010, the Corporation's board of directors suspended the declaration and payment of cash dividends. This suspension was lifted in 2018. Cash dividends are typically declared on a quarterly basis. When paid, dividends to shareholders are dependent on the ability of the Corporation's subsidiaries, especially the Bank, to declare dividends to the Corporation. Like the Corporation, the Bank's ability to declare and pay dividends is subject to limitations imposed by federal and Maryland banking and Maryland corporation laws. A complete discussion of these and other dividend restrictions is contained in Item 1A of Part I of this annual report under the heading "***Risks Relating to First United Corporation's Securities***" and in Note 21 to the Consolidated Financial Statements, both of which are incorporated herein by reference. Accordingly, there can be no assurance that dividends will be declared on the shares of common stock in any future fiscal quarter.

The Corporation's Board of Directors periodically evaluates the Corporation's dividend policy, both internally and in consultation with the Federal Reserve.

Issuer Repurchases

Neither the Corporation nor any of its affiliates (as defined by Exchange Act Rule 10b-18) repurchased any shares of the Corporation's common stock during 2019.

Equity Compensation Plan Information

Pursuant to the SEC's Regulation S-K Compliance and Disclosure Interpretation 106.01, the information regarding the Corporation's equity compensation plans required by this Item pursuant to Item 201(d) of Regulation S-K is located in Item 12 of Part III of this annual report and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data for each of the last five calendar years and is qualified in its entirety by the detailed information and financial statements, including notes thereto, included elsewhere or incorporated by reference in this annual report.

(Dollars in thousands, except for share data)	2019	2018	2017	2016	2015
Balance Sheet Data					
Total Assets	$ 1,442,027	$ 1,383,760	$ 1,335,867	$ 1,317,675	$ 1,322,988
Net Loans	1,038,894	996,103	882,117	881,670	866,801
Investment Securities	225,284	231,651	240,102	237,169	275,792
Deposits	1,142,031	1,067,527	1,039,390	1,014,229	998,794
Long-term Borrowings	100,929	100,929	120,929	131,737	147,537
Shareholders' Equity	125,940	117,066	108,390	113,698	120,771
Operating Data					
Interest Income	$ 57,920	$ 52,294	$ 46,949	$ 45,863	$ 45,032
Interest Expense	11,529	8,112	7,371	8,223	9,407
Net Interest Income	46,391	44,182	39,578	37,640	35,625
Provision for Loan Losses	1,320	2,111	2,534	3,122	1,054
Other Operating Income	16,636	15,041	14,311	14,127	24,992
Net Gains	147	127	29	526	1,016
Other Operating Expense	45,389	43,808	39,170	39,107	41,115
Income Before Taxes	16,465	13,431	12,214	10,064	19,464
Income Tax expense (1)	3,336	2,764	6,945	2,783	6,473
Net Income	$ 13,129	$ 10,667	$ 5,269	$ 7,281	$ 12,991
Accumulated preferred stock dividends and discount accretion	—	—	(1,215)	(2,025)	(2,700)
Net income available to common shareholders	$ 13,129	$ 10,667	$ 4,054	$ 5,256	$ 10,291
Per Share Data					
Basic and diluted net income per common share	$ 1.85	$ 1.51	$ 0.58	$ 0.84	$ 1.65
Dividends Paid	0.40	0.27	—	—	—
Book Value	17.71	16.52	15.34	14.95	14.51
Significant Ratios					
Return on Average Assets	0.93%	0.81%	0.40%	0.55%	0.98%
Return on Average Equity	10.44%	9.39%	4.52%	6.38%	11.40%
Average Equity to Average Assets	8.86%	8.66%	8.82%	8.62%	8.69%
Dividend Payout Ratio	21.70%	17.88%	0.00%	0.00%	0.00%
Total Risk-based Capital Ratio	16.29%	15.91%	15.98%	16.71%	17.21%
Tier I Capital to Risk Weighted Assets	15.17%	14.87%	14.97%	14.76%	15.24%
Tier I Capital to Average Assets	11.77%	11.47%	11.00%	10.95%	11.64%
Common Equity Tier I to Risk Weighted Assets	12.79%	12.45%	12.54%	10.74%	9.99%

(1) 2017 includes $3,226 from tax reform impact

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto for the years ended December 31, 2019 and 2018, which are included in Item 8 of Part II of this annual report.

Overview

First United Corporation is a bank holding company that, through the Bank and its non-bank subsidiaries, provides an array of financial products and services primarily to customers in four Western Maryland counties and four Northeastern West Virginia counties. Its principal operating subsidiary is the Bank, which consists of a community banking network of 25 branch offices located throughout its market areas. Our primary sources of revenue are interest income earned from our loan and investment securities portfolios and fees earned from financial services provided to customers.

Consolidated net income was $13.1 million for the year ended December 31, 2019, compared to $10.7 million for 2018. Basic and diluted net income per share for 2019 were both $1.85, compared to basic and diluted net income per share of $1.51 for 2018, a 23% increase. The increase in earnings was primarily due to an increase in net interest income of $2.2 million, a decrease in the provision for loan losses of $.8 million, an increase of $1.6 million in other operating income and gains, offset by a $1.6 million increase in other operating expenses and an increase of $.6 million in income taxes. The net interest margins, on a GAAP and fully tax equivalent ("FTE") basis, for the years ended December 31, 2019 and 2018 were 3.61% and 3.68% and 3.67% and 3.74%, respectively.

The provision for loan losses decreased to $1.3 million for the year ended December 31, 2019, compared to $2.1 million for the year ended December 31, 2018. The decrease was driven primarily by decreased loan growth and net recoveries during 2019. Specific allocations have been made for impaired loans where management has determined that the collateral supporting the loans is not adequate to cover the loan balance, and the qualitative factors affecting the allowance for loan losses (the "ALL") have been adjusted based on the current economic environment and the characteristics of the loan portfolio.

Other operating income, including gains, increased $1.6 million for the year ended December 31, 2019 when compared to 2018. The increase was primarily attributable to the $1.1 million gain from bank owned life insurance ("BOLI") death benefit proceeds that were received in the third quarter of 2019. When comparing 2019 to 2018, trust and brokerage income increased $.3 million due to expansion of customer relationships and favorable market returns, and debit card income increased $.2 million due to increased usage resulting from our new technology and marketing promotions. Service charge income remained flat for the year ended December 31, 2019 when compared to 2018.

Other operating expenses increased $1.6 million for the year ended December 31, 2019 when compared to 2018. Salaries and benefits increased $.5 million due to annual merit increases, increased life and health insurance costs related to increased claims, and severance expenses related to a voluntary employee separation program that became effective in the fourth quarter of 2019. These increases were partially offset by decreases in incentives and pension and 401(k) plan expenses. The voluntary employee separation program resulted in the recognition of $.2 million in net severance expense in the fourth quarter of 2019 and is projected to provide salary and benefit savings in 2020 of approximately $1.4 million. FDIC premiums decreased $.2 million due to credits received on our quarterly assessments. Equipment, occupancy and technology expenses increased $1.1 million when compared to 2018, due to the upgrade of technology equipment and services and the associated maintenance costs, as well as the implementation of the final stages of branch modernization. Other real estate owned ("OREO") expenses remained consistent with 2018 and were primarily due to valuation allowances from updated appraisals and reduced prices to encourage quicker sales. Other miscellaneous expenses remained flat when compared to 2018 due to heightened focus on expense control. Increased legal and professional, fraud expenses, Visa processing fees, employee benefits expense and investor relations expense were offset by reductions in marketing, directors' fees, consulting, dues and licenses, postage, office supplies, contract labor, trust department expenses and miscellaneous loan fees.

Total loans increased by $44.4 million to $1.1 billion at December 31, 2019 when compared to December 31, 2018. Commercial real estate ("CRE") loans increased $28.6 million, acquisition and development ("A&D") loans remained stable, commercial and industrial ("C&I") loans increased $10.9 million, residential mortgage loans increased $3.3 million, and the consumer loan portfolio increased by $2.1 million. The commercial loan pipeline at December 31, 2019 remains strong at $61.0 million. Approximately 29% and 27% of the commercial loan portfolio was collateralized by real estate at December 31, 2019 and 2018, respectively.

Net interest income, on an FTE basis, increased $2.3 million (5.1%) during the year ended December 31, 2019 when compared to the year ended December 31, 2018 due to a $5.7 million (10.7%) increase in interest income, offset by a $3.4 million (42.1%) increase in interest expense. The net interest margin for the year ended December 31, 2019 was 3.68%, compared to 3.74% for the year ended December 31, 2018, declining only 6 basis points despite a 75 basis point reduction in the Fed rates.

Comparing 2019 to 2018, the increase in interest income was due to a $5.1 million increase in interest and fees on loans. The increase in interest and fees on loans was due primarily to an increase in average balances of $57.0 million related to the strong loan growth in 2018 and an increase in the rate earned of 24 basis points attributable to loans repricing early in 2019, prior to the start of the declining interest rate environment. Excess cash balances due to deposit growth early in the year were invested at the lower Fed Funds rate until deployed in the fourth quarter for loan growth. This negatively impacted interest income for the year ended December 31, 2019. Additional information on the composition of interest income is available in Table 1 that appears on page 30 of this report.

Total deposits at December 31, 2019 increased $74.5 million when compared to deposits at December 31, 2018. During 2019, non-interest bearing deposits increased $32.4 million. This growth was driven by both our retail market and our commercial market, as we continued to grow existing relationships as well as cultivate new relationships. Traditional savings accounts increased $2.7 million, as our Prime Saver product continued to be the savings product of choice. Total demand deposits decreased $3.8 million and total money market accounts increased $41.0 million, due primarily to growth in our variable rate Value money market account introduced in late 2018. Time deposits less than $100,000 decreased $2.9 million and time deposits greater than $100,000 increased $5.1 million. Growth in time deposits greater than $100,000 was primarily related to new deposits for a local municipality as well as new deposits in CDARs for a local hospital. In the fourth quarter of 2018, two brokered certificates of deposit ("CD") were purchased to shift $25.0 million of overnight borrowings as a tool to manage interest rate risk. A $15.0 million brokered CD was fully repaid in November 2019 at its maturity, and the remaining $10.0 million brokered CD matures in May 2020.

Interest expense on our interest-bearing liabilities increased $3.4 million during the year ended December 31, 2019 when compared to 2018, due primarily to increased rates implemented during 2018 and the first two quarters of 2019. Additionally, we experienced growth in our deposit products, primarily our money market and special rate certificates of deposit. In the latter half of 2019, deposit rates were reduced as a result of the Fed rate cuts and sales of a higher cost CD product was discontinued. Average growth of $31.0 million in our non-interest bearing accounts offset the higher interest expense and allowed us to effectively control our cost of deposits.

Estimates and Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. (See Note 1 to the Consolidated Financial Statements.) On an on-going basis, management evaluates estimates and bases those estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the Consolidated Financial Statements.

Allowance for Loan Losses

One of our most important accounting policies is that related to the monitoring of the loan portfolio. A variety of estimates impact the carrying value of the loan portfolio and resulting interest income, including the calculation of the ALL, the valuation of underlying collateral, and the timing of loan charge-offs. The ALL is established and maintained at a level that management believes is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses are arrived at by analyzing risks associated with specific loans and the loan portfolio, current and historical trends in delinquencies and charge-offs, and changes in the size and composition of the loan portfolio. The analysis also requires consideration of the economic climate and direction, changes in lending rates, political conditions, legislation impacting the banking industry and economic conditions specific to Western Maryland and Northeastern West Virginia. Because the calculation of the ALL relies on management's estimates and judgments relating to inherently uncertain events, actual results may differ from management's estimates.

The ALL is also discussed below in Item 7 under the heading "Allowance for Loan Losses" and in Note 7 to the Consolidated Financial Statements.

Goodwill

Accounting Standards Codification ("ASC") Topic 350, *Intangibles - Goodwill and Other*, establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. The $11.0 million in recorded goodwill at December 31, 2019 is related to the Bank's 2003 acquisition of Huntington National Bank branches and is not subject to periodic amortization.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of each of an entity's reporting units be compared to the carrying amount of its net assets, including goodwill. If the estimated current fair value of the reporting unit exceeds its carrying value, then no additional testing is required and an impairment loss is not recorded. Otherwise, additional testing is performed and, to the extent such additional testing results in a conclusion that the carrying value of goodwill exceeds its implied fair value, an impairment loss is recognized.

For evaluation purposes, the Corporation is considered to be a single reporting unit. Accordingly, our goodwill relates to value inherent in the banking business and the value is dependent upon our ability to provide quality, cost effective services in a highly competitive local market. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of our services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill, which could adversely impact earnings in future periods. ASC Topic 350 requires an annual evaluation of goodwill for impairment. The determination of whether or not these assets are impaired involves significant judgments and estimates.

At December 31, 2019, the date of the Corporation's annual impairment test, the fair value of the Corporation as determined by the price of its common stock exceeded the carrying amount of the Corporation's common equity.

Based on the results of the evaluation, management concluded that the recorded value of goodwill at December 31, 2019 was not impaired. However, future changes in strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. Management will continue to evaluate goodwill for impairment on an annual basis and as events occur or circumstances change.

Accounting for Income Taxes

We account for income taxes in accordance with ASC Topic 740, "*Income Taxes*". Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

We regularly review the carrying amount of our net deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of our net deferred tax assets will not be realized in future periods, then a deferred tax valuation allowance must be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical performance, expectations of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with utilization of operating loss and tax credit carry forwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. Our evaluation is based on current tax laws as well as management's expectations of future performance.

Management expects that the Corporation's adherence to the required accounting guidance may result in increased volatility in quarterly and annual effective income tax rates because of changes in judgment or measurement including changes in actual and forecasted income before taxes, tax laws and regulations, and tax planning strategies.

Additional information about income taxes is set forth below under the heading, "CONSOLIDATED STATEMENT OF INCOME REVIEW – Applicable Income Taxes" and in Note 17 to Consolidated Financial Statements presented in Item 8 of Part II of this annual report.

Other-Than-Temporary Impairment of Investment Securities

Management systematically evaluates the securities in our investment portfolio for impairment on a quarterly basis. Based upon the application of accounting guidance for subsequent measurement in ASC Topic 320 (Section 320-10-35), management assesses whether (i) we have the intent to sell a security being evaluated and (ii) it is more likely than not that we will be required to sell the security prior to its anticipated recovery. If neither applies, then declines in the fair values of securities below their cost that are considered other-than-temporary declines are split into two components. The first is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses, which are recognized in other comprehensive loss. In estimating other-than-temporary impairment ("OTTI") losses, management considers (a) the length of time and the extent to which the fair value has been less than cost, (b) adverse conditions specifically related to the security, an industry, or a geographic area, (c) the historic and implied volatility of the fair value of the security, (d) changes in the rating of the security by a rating agency, (e) recoveries or additional declines in fair value subsequent to the balance sheet date, (f) failure of the issuer of the security to make scheduled interest or principal payments, and (g) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future. Management also monitors cash flow projections for securities that are considered beneficial interests under the guidance of ASC Subtopic 325-40, *Investments – Other – Beneficial Interests in Securitized Financial Assets*, (ASC Section 325-40-35). This process is described more fully in the section of the Consolidated Balance Sheet Review entitled "Investment Securities".

Fair Value of Investments

We have determined the fair value of our investment securities in accordance with the requirements of ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. We measure the fair market values of our investments based on the fair value hierarchy established in Topic 820. The determination of fair value of investments and other assets is discussed further in Note 23 to the Consolidated Financial Statements.

Pension Plan Assumptions

Our pension plan costs are calculated using actuarial concepts, as discussed within the requirements of ASC Topic 715, *Compensation – Retirement Benefits.* Pension expense and the determination of our projected pension liability are based upon two critical assumptions: the discount rate and the expected return on plan assets. We evaluate each of these critical assumptions annually. Other assumptions impact the determination of pension expense and the projected liability including the primary employee demographics, such as retirement patterns, employee turnover, mortality rates, and estimated employer compensation increases. These factors, along with the critical assumptions, are carefully reviewed by management each year in consultation with our pension plan consultants and actuaries. Further information about our pension plan assumptions, the plan's funded status, and other plan information is included in Note 18 to the Consolidated Financial Statements.

Other than as discussed above, management does not believe that any material changes in our critical accounting policies have occurred since December 31, 2019.

Adoption of New Accounting Standards and Effects of New Accounting Pronouncements

Note 1 to the Consolidated Financial Statements discusses new accounting pronouncements that, when adopted, could affect our future consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME REVIEW

Net Interest Income

Net interest income is our largest source of operating revenue. Net interest income is the difference between the interest that we earn on our interest-earning assets and the interest expense we incur on our interest-bearing liabilities. For analytical and discussion purposes, net interest income is adjusted to a FTE basis to facilitate performance comparisons between taxable and tax-exempt assets by increasing tax-exempt income by an amount equal to the federal income taxes that would have been paid if this income were taxable at the statutorily applicable rate. This is a non-GAAP disclosure and management believes it is not materially different than the corresponding GAAP disclosure.

The table below summarizes net interest income for 2019 and 2018.

	GAAP		Non-GAAP - FTE	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Interest income	$ 57,920	$ 52,294	$ 58,788	$ 53,090
Interest expense	11,529	8,112	11,529	8,112
Net interest income	$ 46,391	$ 44,182	$ 47,259	$ 44,978
Net interest margin %	3.61%	3.67%	3.68%	3.74%

Net interest income, on a non-GAAP, FTE basis, increased $2.3 million (5.1%) during the year ended December 31, 2019 when compared to the year ended December 31, 2018 due to a $5.7 million (10.7%) increase in interest income, offset by a $3.4 million

(42.1%) increase in interest expense. The net interest margin for the year ended December 31, 2019 was 3.68%, compared to 3.74% for the year ended December 31, 2018, declining only 6 basis points despite a 75 basis point reduction in the Fed rates.

Comparing 2019 to 2018, the increase in interest income was due to a $5.1 million increase in interest and fees on loans. The increase in interest and fees on loans was due primarily to an increase in average balances of $57.0 million related to the strong loan growth in 2018 and an increase in the rate earned of 24 basis points attributable to loans repricing early in 2019, prior to the start of the declining interest rate environment. Excess cash balances due to deposit growth early in the year were invested at the lower Fed Funds rate until deployed in the fourth quarter for loan growth. This negatively impacted interest income for the year ended December 31, 2019.

Interest expense on our interest-bearing liabilities increased $3.4 million during the year ended December 31, 2019 when compared to 2018, due primarily to increased rates implemented during 2018 and the first two quarters of 2019. Additionally, we experienced growth in our deposit products, primarily our money market and special rate certificates of deposit. In the latter half of 2019, deposit rates were reduced as a result of the Fed rate cuts and sales of a higher cost CD product was discontinued. Average growth of $31.0 million in our non-interest bearing accounts offset the higher interest expense and allowed us to effectively control our cost of deposits.

As shown below, the composition of total interest income between 2019 and 2018 remained relatively stable.

	% of Total Interest Income	
	2019	**2018**
Interest and fees on loans	87%	86%
Interest on investment securities	12%	13%
Other	1%	1%

The following table sets forth the average balances, net interest income and expense, and average yields and rates for our interest-earning assets and interest-bearing liabilities for 2019, 2018 and 2017.

Distribution of Assets, Liabilities and Shareholders' Equity
Interest Rates and Interest Differential – Tax Equivalent Basis

	For the Years Ended December 31								
	2019			2018			2017		
(Dollars in thousands)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Loans	$ 1,003,379	$ 50,254	5.01%	$ 946,376	$ 45,119	4.77%	$ 889,880	$ 39,670	4.46%
Investment Securities:									
Taxable	205,209	5,648	2.75	215,944	5,820	2.70	220,107	5,554	2.52
Non taxable	25,512	1,846	7.24	17,838	1,699	9.52	17,602	1,527	8.68
Total	230,721	7,494	3.25	233,782	7,519	3.22	237,709	7,081	3.01
Federal funds sold	45,152	727	1.61	16,594	155	0.93	59,275	574	0.97
Interest-bearing deposits with other banks	1,279	23	1.79	2,024	17	0.84	1,879	9	0.48
Other interest earning assets	4,487	290	6.48	5,037	280	5.56	5,206	252	4.84
Total earning assets	1,285,018	58,788	4.57%	1,203,813	53,090	4.41%	1,193,949	47,586	3.99%
Allowance for loan losses	(11,961)			(10,428)			(10,854)		
Non-earning assets	145,870			118,517			138,918		
Total Assets	**$ 1,418,927**			**$ 1,311,902**			**$ 1,322,013**		
Liabilities and Shareholders' Equity									
Interest-bearing demand deposits	$ 160,776	$ 594	0.37%	$ 170,642	$ 180	0.11%	$ 171,697	$ 113	0.07%
Interest-bearing money markets	253,737	2,254	0.89	211,969	937	0.44	221,325	467	0.21
Savings deposits	160,751	299	0.19	160,968	199	0.12	156,538	176	0.11
Time deposits:									
Less than $100k	107,215	1,486	1.39	104,289	1,054	1.01	114,503	1,123	0.98
$100k or more	153,727	3,158	2.05	123,170	1,876	1.52	120,190	1,412	1.17
Short-term borrowings	42,579	188	0.44	61,774	525	0.85	37,376	73	0.2
Long-term borrowings	100,929	3,550	3.52	106,217	3,341	3.15	123,356	4,007	3.25
Total interest-bearing liabilities	979,714	11,529	1.18%	939,029	8,112	0.86%	944,985	7,371	0.78%
Non-interest-bearing deposits	270,945			239,838			237,578		
Other liabilities	42,496			19,376			22,867		
Shareholders' Equity	125,774			113,659			116,583		
Total Liabilities and Shareholders' Equity	**$ 1,418,929**			**$ 1,311,902**			**$ 1,322,013**		
Net interest income and spread		**$ 47,259**	3.40%		**$ 44,978**	3.55%		**$ 40,215**	3.21%
Net interest margin			**3.68%**			**3.74%**			**3.37%**

Notes:

(1) The above table reflects the average rates earned or paid stated on a FTE basis assuming a tax rate of 21% for 2019, and 21% for 2018 and 35% for 2017. Non-GAAP interest income on a fully taxable equivalent basis for the years ended December 31, 2019, 2018 and 2017 were $868, $796 and $637, respectively.

(2) The average balances of non-accrual loans for the years ended December 31, 2019, 2018 and 2017, which were reported in the average loan balances for these years, were $11,455, $5,023 and $10,872, respectively.

(3) Net interest margin is calculated as net interest income divided by average earning assets.

(4) The average yields on investments are based on amortized cost.

The following table sets forth an analysis of volume and rate changes in interest income and interest expense of our average interest-earning assets and average interest-bearing liabilities for 2019, 2018 and 2017. This table distinguishes between the changes related to average outstanding balances (changes in volume created by holding the interest rate constant) and the changes related to average interest rates (changes in interest income or expense attributed to average rates created by holding the outstanding balance constant).

Interest Variance Analysis (1)

	2019 Compared to 2018			2018 Compared to 2017		
(In thousands and tax equivalent basis)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest Income:						
Loans	$ 2,718	$ 2,417	$ 5,135	$ 2,520	$ 2,929	$ 5,449
Taxable Investments	(289)	117	(172)	(105)	371	266
Non-taxable Investments	731	(584)	147	20	152	172
Federal funds sold	265	307	572	(414)	(5)	(419)
Interest-bearing deposits	(6)	12	6	1	7	8
Other interest earning assets	(31)	41	10	(8)	36	28
Total interest income	3,388	2,310	5,698	2,014	3,490	5,504
Interest Expense:						
Interest-bearing demand deposits	(10)	424	414	(1)	68	67
Interest-bearing money markets	185	1,132	1,317	(20)	490	470
Savings deposits	—	100	100	5	18	23
Time deposits less than $100k	30	402	432	(100)	31	(69)
Time deposits $100k or more	465	817	1,282	35	429	464
Short-term borrowings	(163)	(174)	(337)	49	403	452
Long-term borrowings	(166)	375	209	(557)	(109)	(666)
Total interest expense	341	3,076	3,417	(589)	1,330	741
Net interest income	$ 3,047	$ (766)	$ 2,281	$ 2,603	$ 2,160	$ 4,763

Note:

(1) The change in interest income/expense due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision for Loan Losses

The provision for loan losses was $1.3 million for the year ended December 31, 2019, compared to $2.1 million for the year ended December 31, 2018. For the year ended December 31, 2019, specific allocations of $2.1 million were made due to the movement of one large acquisition and development (“A&D”) loan totaling $8.0 million to non-accrual during the first quarter. At December 31, 2018, it was expected that this loan would be paid off by a prospective buyer. In the first quarter of 2019, the buyer declined to pursue the transaction and, subsequently, the Corporation entered into a forbearance agreement and placed the loan on non-accrual. Management believes that the ALL reflects a level commensurate with the risk inherent in our loan portfolio.

Other Operating Income

The following table shows the major components of other operating income for the past two years, exclusive of net gains, and the percentage changes during these years:

(Dollars in thousands)	**2019**	**2018**	**% Change**
Service charges on deposit accounts	$ 2,192	$ 2,275	-3.65%
Other service charge income	966	877	10.15%
Debit card income	2,706	2,534	6.79%
Trust department income	7,148	6,692	6.81%
Bank owned life insurance (BOLI) income	2,257	1,162	94.23%
Brokerage commissions	919	1,078	-14.75%
Other income	448	423	5.91%
Total other operating income	$ 16,636	$ 15,041	10.60%

Other operating income, exclusive of gains, increased $1.6 million during the year ended December 31, 2019 when compared to the same period of 2018. The increase resulted from increases in wealth management income, debit card income and the $1.1 million BOLI death benefit proceeds received during the third quarter 2019.

Net gains of $.1 million were reported through other income for the years ended December 31, 2019 and 2018.

Other Operating Expense

The following table compares the major components of other operating expense for 2019 and 2018:

(Dollars in thousands)	2019	2018	% Change
Salaries and employee benefits	$ 24,641	$ 24,170	1.95%
Other expenses	4,698	4,625	1.58%
FDIC premiums	405	639	-36.62%
Equipment	3,807	3,160	20.47%
Occupancy	2,884	2,551	13.05%
Data processing	4,004	3,858	3.78%
Marketing	418	530	-21.13%
Professional services	1,480	1,255	17.93%
Other real estate owned expense	1,542	1,456	5.91%
Contract labor	654	723	-9.54%
Telephony expense	856	841	1.78%
Total other operating expense	$ 45,389	$ 43,808	3.61%

Other operating expenses increased $1.6 million for the year ended December 31, 2019 when compared to 2018. Salaries and benefits increased $.5 million due to annual merit increases, increased life and health insurance costs related to increased claims, and severance expenses related to a voluntary employee separation program that became effective in the fourth quarter of 2019. These increases were partially offset by decreases in incentives and pension and 401(k) plan expenses. The voluntary employee separation program resulted in the recognition of $.2 million in net severance expense in the fourth quarter of 2019 and is projected to provide salary and benefit savings in 2020 of approximately $1.4 million. FDIC premiums decreased $.2 million due to credits received on our quarterly assessments. Equipment, occupancy and technology expenses increased $1.1 million when compared to 2018, due to the upgrade of technology equipment and services and the associated maintenance costs, as well as the implementation of the final stages of branch modernization. OREO expenses remained consistent with 2018 and were primarily due to valuation allowances from updated appraisals and reduced prices to encourage quicker sales. Other miscellaneous expenses remained flat when compared to 2018 due to heightened focus on expense control. Increased legal and professional, fraud expenses, Visa processing fees, employee benefits expense and investor relations expense were offset by reductions in marketing, directors' fees, consulting, dues and licenses, postage, office supplies, contract labor, trust department expenses and miscellaneous loan fees.

Applicable Income Taxes

We recognized a tax expense of $3.3 million in 2019, compared to a tax expense of $2.8 million in 2018. See the discussion under "Income Taxes" in Note 17 to the Consolidated Financial Statements presented elsewhere in this annual report for a detailed analysis of our deferred tax assets and liabilities. Our effective tax rate was 20.3% in 2019 and 20.6% in 2018.

At December 31, 2019, the Corporation had Maryland NOLs of $39.2 million for which a deferred tax asset of $2.6 million has been recorded. There has been and continues to be a full valuation allowance on these NOLs based on management's belief that it is more likely than not that these NOLs will not be realized prior to the expiration of their carry-forward periods because the Corporation will not generate sufficient taxable income in the future to fully utilize the NOLs. The valuation allowance was $2.6 million at December 31, 2019 and $2.4 million at December 31, 2018.

We have concluded that no valuation allowance is deemed necessary for our remaining federal and state deferred tax assets at December 31, 2019, as it is more likely than not that they will be realized based on the expected reversal of deferred tax liabilities, the generation of future income sufficient to realize the deferred tax assets as they reverse, and the ability to implement tax planning strategies to prevent the expiration of any carry-forward periods.

CONSOLIDATED BALANCE SHEET REVIEW

Overview

At December 31, 2019, total assets were $1.4 billion, representing an increase of $58.3 million from December 31, 2018. During the year ended December 31, 2019, cash and interest-bearing deposits in other banks increased $26.4 million, the investment portfolio decreased $6.4 million and gross loans increased $44.4 million. The increase in cash was due to strong deposit growth, calls on the investment portfolio and commercial loan payoffs. Premises and equipment increased slightly by $.9 million due to modernization of our branch network, offset by normal depreciation during the year ended December 31, 2019. OREO balances decreased $2.5 million due to $2.6 million in sales of properties and $1.5 million in write-downs as a result of appraisals and lower selling prices, offset by additions of new properties of $1.6 million. Other assets decreased by $4.4 million, primarily due to a valuation adjustment in the pension asset as a result of the reduction in the pension plan's discount rate. Total liabilities increased $49.4 million. This increase was attributable to the strong deposit growth of $74.5 million in 2019, offset by a decline in short-term borrowings of $29.0 million. The deposit growth during 2019 enabled the full repayment of the $40.0 million in overnight borrowings with correspondent banks that were on our balance sheet at December 31, 2018. Our Treasury Management overnight investment sweep increased $11.0 million as existing and new customers, particularly municipalities, grew their balances during the fourth quarter of 2019. Total shareholders' equity increased $9.0 million in 2019 due to the increase in retained earnings.

As indicated below, the total interest-earning asset mix remained constant at December 31, 2019 as compared to December 31, 2018. The mix for each year is illustrated below:

	Year End Percentage of Total Assets	
	2019	**2018**
Cash and cash equivalents	3%	2%
Net loans	72%	72%
Investments	16%	17%

The year-end total liability mix has remained consistent during the two-year period as illustrated below.

	Year End Percentage of Total Liabilities	
	2019	**2018**
Total deposits	87%	84%
Total borrowings	11%	14%

Loan Portfolio

The Bank is actively engaged in originating loans to customers primarily in Allegany County, Frederick County, Garrett County, and Washington County in Maryland, and in Berkeley County, Mineral County, Monongalia County, and Harrison County in West Virginia; and the surrounding regions of West Virginia and Pennsylvania. We have policies and procedures designed to mitigate credit risk and to maintain the quality of our loan portfolio. These policies include underwriting standards for new credits as well as continuous monitoring and reporting policies for asset quality and the adequacy of the allowance for loan losses. These policies, coupled with ongoing training efforts, have provided effective checks and balances for the risk associated with the lending process. Lending authority is based on the type of the loan, and the experience of the lending officer.

Commercial loans are collateralized primarily by real estate and, to a lesser extent, equipment and vehicles. Unsecured commercial loans represent an insignificant portion of total commercial loans. Residential mortgage loans are collateralized by the related property. Generally, a residential mortgage loan exceeding a specified internal loan-to-value ratio requires private mortgage insurance. Installment loans are typically collateralized, with loan-to-value ratios which are established based on the financial condition of the borrower. We also have made unsecured consumer loans to qualified borrowers meeting our underwriting standards. Additional information about our loans and underwriting policies can be found in Item 1 of Part I of this annual report under the heading "Banking Products and Services".

The following table sets forth the composition of our loan portfolio. Historically, our policy has been to make the majority of our loan commitments in our market areas. We had no foreign loans in our portfolio as of December 31 for any of the years presented.

Summary of Loan Portfolio

The following table presents the composition of our loan portfolio as of December 31 for the past five years:

(In millions)	2019	2018	2017	2016	2015
Commercial real estate	$ 335.5	$ 306.9	$ 283.2	$ 298.0	$ 280.5
Acquisition and development	117.9	118.4	110.5	104.3	111.0
Commercial and industrial	122.3	111.4	76.7	72.3	73.9
Residential mortgage	440.2	436.9	398.6	393.4	388.7
Consumer	36.2	34.1	23.5	23.9	24.9
Total Loans	$ 1,052.1	$ 1,007.7	$ 892.5	$ 891.9	$ 879.0

Total loans increased by $44.4 million to $1.1 billion at December 31, 2019 when compared to December 31, 2018. Included in the gross loans are mortgage loans held for sale. These loans are longer term, fixed rate loans, sold to the secondary market with Fannie Mae. The balance of these loans was $1.7 million at December 31, 2019 and $.4 million at December 31, 2018. CRE loans increased $28.6 million due to expansion of customer relationships as well as an increase in small business loans, primarily in the fourth quarter of 2019, despite large payoffs during the first nine months of 2019. Acquisition and development A&D loans remained stable as new production offset amortization and payoffs. C&I loans increased $10.9 million, as new production of $22.8 million in the fourth quarter of 2019 offset amortization and payoffs received during the year. Residential mortgage loans increased $3.3 million, as construction loans converted into term loans. The consumer loan portfolio increased by $2.1 million due to new originations in our student loan portfolio. 2019 was a record year for commercial loan production at approximately $177.0 million. The production was offset by amortization and higher than normal payoffs, resulting in commercial and small business growth of approximately $39.0 million. Some of the larger loan payoffs from competitors resulted from borrowers refinancing as we maintained our underwriting and pricing standards. In addition, a portion of the production was in the commercial construction portfolio of which approximately $16.0 million remains to be funded during 2020. The commercial loan pipeline at December 31, 2019 remains strong at $61.0 million.

Comparing December 31, 2018 to December 31, 2017, total loans increased by $115.2 million. CRE loans increased by $23.7 million due primarily to several new large relationships in 2018. A&D loans increased $7.9 million. C&I loans increased by $34.7 million due to several new relationships as well as new balances for several large existing relationships. Residential mortgage loans increased by $38.3 million due to the purchase of a $15.0 million mortgage pool in the first quarter of 2018 as well as production in the professional's program. Growth continued in both fixed and adjustable products. The consumer loan portfolio increased by $10.6 million due primarily to the purchase of a $10.0 million student loan pool in the first quarter of 2018. At December 31, 2018 and 2017, 27% and 28%, respectively, of the commercial loan portfolio was collateralized by real estate. Adjustable interest rate loans made up 52% of total loans at December 31, 2018 and 58% at December 31, 2017, with the balance being fixed–interest rate loans as customer preference shifted to fixed rate products in the rising rate environment.

The following table sets forth the maturities, based upon contractual dates, for selected loan categories as of December 31, 2019:

Maturities of Loan Portfolio at December 31, 2019

(In thousands)	Maturing Within One Year	Maturing After One Year But Within Five Years	Maturing After Five Years	Total
Commercial Real Estate	$ 38,311	$ 157,186	$ 140,007	$ 335,504
Acquisition and Development	61,921	34,131	21,838	117,890
Commercial and Industrial	31,579	60,641	30,132	122,352
Residential Mortgage	4,478	18,542	417,153	440,173
Consumer	3,953	18,212	14,034	36,199
Total Loans	$ 140,242	$ 288,712	$ 623,164	$ 1,052,118
Classified by Sensitivity to Change in Interest Rates				
Fixed-Interest Rate Loans	100,440	234,938	184,975	520,353
Adjustable-Interest Rate Loans	39,802	53,774	438,189	531,765
Total Loans	$ 140,242	$ 288,712	$ 623,164	$ 1,052,118

Management monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a required payment is past due. A loan is considered to be past due when a scheduled payment has not been received for 30 days past its contractual due date. For all loan segments, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. All non-accrual loans are considered to be impaired. Interest payments received on non-accrual loans are applied as a reduction of the loan principal balance. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Our policy for recognizing interest income on impaired loans does not differ from our overall policy for interest recognition.

The following sets forth the amounts of non-accrual, past-due and restructured loans for the past five years:

Risk Elements of Loan Portfolio

(In thousands)	At December 31, 2019	2018	2017	2016	2015
Non-accrual loans:					
Commercial real estate	$ 680	$ 2,141	$ 4,453	$ 12,211	$ 11,282
Acquisition and development	8,058	147	211	45	1,817
Commercial and industrial	30	—	378	—	185
Residential mortgage	2,077	2,624	2,046	1,690	2,214
Consumer	4	10	30	—	—
Total non-accrual loans	$ 10,849	$ 4,922	$ 7,118	$ 13,946	$ 15,498
Accruing Loans Past Due 90 days or more:					
Acquisition and development	135	62	144	—	—
Commercial and industrial	—	—	6	11	—
Residential mortgage	536	363	430	382	998
Consumer	54	5	15	27	27
Total accruing loans past due 90 days or more	$ 725	$ 430	$ 595	$ 420	$ 1,025
Total non-accrual and past due 90 days or more	$ 11,574	$ 5,352	$ 7,713	$ 14,366	$ 16,523
Restructured Loans (TDRs):					
Performing	$ 3,842	$ 4,633	$ 5,121	$ 7,336	$ 8,168
Non-accrual (included above)	324	231	834	1,987	5,851
Total TDRs	$ 4,166	$ 4,864	$ 5,955	$ 9,323	$ 14,019
Other Real Estate Owned	$ 4,127	$ 6,598	$ 10,141	$ 10,910	$ 6,883
Impaired loans without a valuation allowance	$ 5,974	$ 9,231	$ 12,317	$ 23,131	$ 20,940
Impaired loans with a valuation allowance	9,200	1,344	2,634	869	3,868
Total impaired loans	$ 15,174	$ 10,575	$ 14,951	$ 24,000	$ 24,808
Valuation allowance related to impaired loans	$ 2,174	$ 144	$ 362	$ 260	$ 1,157

Non-Accrual Loans as a % of Applicable Portfolio

	2019	2018	2017	2016	2015
Commercial real estate	0.2%	0.7%	1.6%	4.1%	4.0%
Acquisition and development	6.8%	0.1%	0.2%	0.1%	1.6%
Commercial and industrial	0.0%	0.0%	0.5%	0.0%	0.3%
Residential mortgage	0.5%	0.6%	0.5%	0.4%	0.6%
Consumer	0.0%	0.0%	0.1%	0.0%	0.0%

We would have recognized $.9 million in interest income for the year ended December 31, 2019 had our non-accrual loans been current and performing in accordance with their terms. During 2019, we recognized, on a cash basis, $.1 million of interest income on non-accrual loans that paid off.

Performing loans considered to be impaired (including performing troubled debt restructurings, or TDRs), as defined and identified by management, amounted to $4.6 million at December 31, 2019 and $5.7 million at December 31, 2018. Loans are identified as impaired when, based on current information and events, management determines that we will be unable to collect all amounts due according to contractual terms. These loans consist primarily of A&D loans and CRE loans. The fair values are generally determined based upon independent third-party appraisals of the collateral or discounted cash flows based upon the expected proceeds. Specific allocations have been made where management believes there is insufficient collateral to repay the loan balance if liquidated and there is no secondary source of repayment available.

The level of performing impaired loans (other than performing TDRs) decreased by $.2 million during the year ended December 31, 2019.

A troubled debt restructuring is the restructuring of a loan in which one or more concessions are granted to a borrower who is experiencing financial difficulties. A loan will be classified as a TDR if the Bank restructures the loan's terms (i.e., interest rate, payment amount, amortization period and/or maturity date) after determining that the borrower is experiencing financial difficulties. A modified loan is considered to be a TDR when the Bank has determined that the borrower is experiencing financial difficulties. The Bank evaluates the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. To make this determination, the Bank performs a global financial review of the borrower and loan guarantors to assess their current ability to meet their financial obligations. The following table presents the details of TDRs by loan class at December 31, 2019 and December 31, 2018:

	December 31, 2019		December 31, 2018	
(Dollars in thousands)	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**
Performing				
Commercial real estate				
Non owner-occupied	2	$ 235	3	$ 356
All other CRE	1	2,265	2	2,555
Acquisition and development				
1-4 family residential construction	1	291	1	230
All other A&D	1	220	1	316
Commercial and industrial	0	—	0	—
Residential mortgage				
Residential mortgage – term	8	831	7	1,176
Residential mortgage – home equity	0	—	0	—
Consumer	0	—	0	—
Total performing	13	$ 3,842	14	$ 4,633
Non-accrual				
Commercial real estate				
Non owner-occupied	0	$ —	0	$ —
All other CRE	0	—	0	—
Acquisition and development				
1-4 family residential construction	0	—	0	—
All other A&D	0	—	0	—
Commercial and industrial	0	—	0	—
Residential mortgage				
Residential mortgage – term	2	324	2	231
Residential mortgage – home equity	0	—	0	—
Consumer	0	—	0	—
Total non-accrual	2	324	2	231
Total TDRs	15	$ 4,166	16	$ 4,864

The level of TDRs decreased by $.7 million during the year ended December 31, 2019. Two new loans totaling $.2 million were added to TDRs and two loans already in performing TDRs were re-modified. During the year ended December 31, 2019, three loans totaling $.7 million paid off. Net principal payments totaling $.2 million were received during the same time period.

At December 31, 2019, there were no additional funds committed to be advanced in connection with TDRs. Interest income not recognized due to rate modifications of TDRs was $31 thousand and interest income recognized on all TDRs was $.3 million in 2019.

Allowance for Loan Losses

The ALL is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The ALL is also based on estimates, and actual losses will vary from current estimates. These estimates are reviewed quarterly, and as adjustments, either positive or negative, become necessary, a corresponding increase or decrease is made in the ALL. The methodology used to determine the adequacy of the ALL is consistent with prior years. An estimate for probable losses related to unfunded lending commitments, such as letters of credit and binding but unfunded loan commitments is also prepared. This estimate is computed in a manner similar to the methodology described above, adjusted for the probability of actually funding the commitment.

The ALL was $12.5 million at December 31, 2019 and $11.0 million at December 31, 2018. The provision for loan losses was $1.3 million for the year ended December 31, 2019 and $2.1 million for year ended December 31, 2018. Net recoveries of $.2 million were recorded for 2019, compared to net charge offs of $1.0 million for 2018. The ratio of the ALL to total loans was 1.19% at December 31, 2019 and 1.10% at December 31, 2018.

The ratio of net recoveries to average loans for the year ended December 31, 2019 was an annualized .02%, compared to a net charge-off to average loans of .11% for the year ended December 31, 2018. The CRE portfolio had an annualized net recovery rate of .03% as of December 31, 2019, compared to a net charge-off rate of .33% as of December 31, 2018. The A&D loans had an annualized net recovery rate of .12% as of December 31, 2019, compared to a net recovery rate of .15% as of December 31, 2018. The C&I portfolio had net charge-offs to average loans of .04% as of December 31, 2019, compared to a net recovery rate of .06% as of December 31, 2018. The residential mortgage ratios were a net recovery rate of .03% as of December 31, 2019, compared to a net charge-off rate of .01% as of December 31, 2018, and the consumer loan ratios were net charge-off rates of .49% and .95% as of December 31, 2019 and December 31, 2018, respectively. Our special assets team continues to aggressively collect on charged-off loans.

Accruing loans past due 30 days or more decreased to .33% of the loan portfolio at December 31, 2019, compared to 1.10% at December 31, 2018. Non-accrual loans totaled $10.8 million at December 31, 2019, compared to $4.9 million at December 31, 2018. The increase in non-accrual loans was primarily due to one large A&D loan totaling $8.0 million. This loan is a participation development loan originally booked in 2013, which entered into a forbearance agreement in the first quarter 2019. Non-accrual loans which have been subject to partial charge-offs totaled $.1 million at December 31, 2019, compared to $.3 million at December 31, 2018.

Management believes that the ALL at December 31, 2019 is adequate to provide for probable losses inherent in our loan portfolio. Amounts that will be recorded for the provision for loan losses in future periods will depend upon trends in the loan balances, including the composition of the loan portfolio, changes in loan quality and loss experience trends, potential recoveries on previously charged-off loans and changes in other qualitative factors. Management also applies interest rate risk, collateral value and debt service sensitivity analyses to the CRE loan portfolio and obtains new appraisals on specific loans under defined parameters to assist in the determination of the periodic provision for loan losses.

The ALL increased to $11.0 million at December 31, 2018, compared to $10.0 million at December 31, 2017. The provision for loan losses for the year ended December 31, 2018 decreased to $2.1 million from $2.5 million for the year ended December 31, 2017. The decreased provision expense was primarily due to decreased net charge-offs of $1.0 million in 2018, compared to net charge-offs of $2.5 million in 2017. The ratio of the ALL to total loans at December 31, 2018 was 1.10%, compared to 1.12% at December 31, 2017.

The following table presents the activity in the allowance for loan losses by major loan category for the past five years.

Analysis of Activity in the Allowance for Loan Losses

(In thousands)	2019	2018	2017	2016	2015
	For the Years Ended December 31,				
Balance, January 1	$ 11,047	$ 9,972	$ 9,918	$ 11,922	$ 12,065
Charge-offs:					
Commercial real estate	(41)	(1,298)	(4,605)	(5,301)	(420)
Acquisition and development	(29)	(170)	(133)	(248)	(1,261)
Commercial and industrial	(126)	(32)	(37)	(558)	(26)
Residential mortgage	(200)	(368)	(361)	(737)	(300)
Consumer	(320)	(422)	(336)	(333)	(307)
Total charge-offs	(716)	(2,290)	(5,472)	(7,177)	(2,314)
Recoveries:					
Commercial real estate	150	319	452	90	283
Acquisition and development	165	344	255	1,303	382
Commercial and industrial	77	89	1,683	52	26
Residential mortgage	347	353	392	461	217
Consumer	147	149	210	145	209
Total recoveries	886	1,254	2,992	2,051	1,117
Net credit recoveries/(losses)	170	(1,036)	(2,480)	(5,126)	(1,197)
Provision for loan losses	1,320	2,111	2,534	3,122	1,054
Balance at end of period	$ 12,537	$ 11,047	$ 9,972	$ 9,918	$ 11,922
Allowance for loan losses to total loans (as %)	1.19%	1.10%	1.12%	1.11%	1.36%
Net (recoveries)/charge-offs to average total loans during the period (as %)	-0.02%	0.11%	0.28%	0.57%	0.14%

The following presents management's allocation of the ALL by major loan category in comparison to that loan category's percentage of total loans. Changes in the allocation over time reflect changes in the composition of the loan portfolio risk profile and refinements to the methodology of determining the ALL. Specific allocations in any particular category may be reallocated in the future as needed to reflect current conditions. Accordingly, the entire ALL is considered available to absorb losses in any category.

Allocation of the Allowance for Loan Losses

(In thousands)	2019	% of Total Loans	2018	% of Total Loans	2017	% of Total Loans	2016	% of Total Loans	2015	% of Total Loans
	For the Years Ended December 31,									
Commercial real estate	$ 2,882	32%	$ 2,780	31%	$ 3,699	32%	$ 3,913	33%	$ 2,580	32%
Acquisition and development	3,674	11%	1,721	12%	1,257	12%	871	12%	4,129	13%
Commercial and industrial	1,341	12%	1,187	11%	869	8%	858	8%	722	8%
Residential mortgage	3,828	42%	4,544	43%	3,444	45%	3,588	44%	3,785	44%
Consumer	312	3%	315	3%	203	3%	188	3%	206	3%
Unallocated	500	0%	500	0%	500	0%	500	0%	500	0%
Total	$ 12,537	100%	$ 11,047	100%	$ 9,972	100%	$ 9,918	100%	$ 11,922	100%

Investment Securities

The following table sets forth the composition of our securities portfolio by major category as of the indicated dates:

	At December 31,								
	2019			2018			2017		
(In thousands)	Amortized Cost	Fair Value (FV)	FV As % of Total	Amortized Cost	Fair Value (FV)	FV As % of Total	Amortized Cost	Fair Value (FV)	FV As % of Total
Securities Available-for-Sale:									
U.S. government agencies	$ 39,987	$ 39,894	30%	$ 30,000	$ 29,026	21%	$ 30,000	$ 29,256	20%
Residential mortgage-backed agencies	4,917	4,900	4%	—	—	0%	—	—	0%
Commercial mortgage-backed agencies	27,634	27,764	21%	39,013	37,752	27%	41,771	40,891	28%
Collateralized mortgage obligations	29,903	29,923	23%	36,669	35,704	26%	41,298	40,384	28%
Obligations of states and political subdivisions	14,124	14,470	11%	20,083	19,882	15%	20,772	21,019	14%
Collateralized debt obligations	18,443	14,354	11%	18,358	15,277	11%	19,711	14,920	10%
Total available for sale	$ 135,008	$ 131,305	100%	$ 144,123	$ 137,641	100%	$ 153,552	$ 146,470	100%
Securities Held to Maturity:									
U.S. government agencies	$ 16,164	$ 16,823	17%	$ 16,017	$ 16,137	17%	$ 15,876	$ 16,323	17%
Residential mortgage-backed agencies	42,939	43,253	43%	46,491	45,210	48%	47,771	47,442	50%
Commercial mortgage-backed agencies	15,521	15,865	16%	15,821	15,828	17%	17,288	17,518	18%
Collateralized mortgage obligations	3,140	3,143	3%	3,761	3,605	4%	4,187	4,118	4%
Obligations of states and political subdivisions	16,215	21,572	21%	11,920	12,980	14%	8,510	9,945	11%
Total held to maturity	$ 93,979	$ 100,656	100%	$ 94,010	$ 93,760	100%	$ 93,632	$ 95,346	100%

Total fair value of investment securities available-for-sale at December 31, 2019 decreased by $6.3 million when compared to December 31, 2018. At December 31, 2019, the securities classified as available-for-sale included a net unrealized loss of $3.7 million, compared to a net unrealized loss of $6.5 million at December 31, 2018. These unrealized losses represent the difference between the fair value and amortized cost of securities in the portfolio. On June 1, 2014, management reclassified an amortized cost basis of $107.6 million of available-for-sale securities to held to maturity. The unrealized loss of approximately $4.0 million, at the date of transfer, will continue to be reported in a separate component of shareholders' equity as accumulated other comprehensive income and will be amortized over the remaining life of the securities as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

As discussed in Note 23 to the Consolidated Financial Statements, we measure fair market values based on the fair value hierarchy established in ASC Topic 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 3 prices or valuation techniques require inputs that are both significant to the valuation assumptions and are not readily observable in the market (i.e. supported with little or no market activity). These Level 3 instruments are valued based on both observable and unobservable inputs derived from the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

Approximately $117.0 million of the available-for-sale portfolio was valued using Level 2 pricing and had net unrealized gains of $.4 million at December 31, 2019. The remaining $14.3 million of the securities available-for-sale represents the entire CDO portfolio, which was valued using significant unobservable inputs, or Level 3 pricing. The $4.1 million in net unrealized losses associated with the collateralized debt obligation ("CDO") portfolio relates to nine pooled trust preferred securities. Unrealized losses of $2.8 million represent non-credit related OTTI charges on seven of the securities, while $1.3 million of unrealized losses relates to two securities which have no credit related OTTI. The unrealized losses on these securities are primarily attributable to continued depression in the marketability and liquidity associated with CDOs.

The following table provides a summary of the trust preferred securities in the CDO portfolio and the credit status of the securities as of December 31, 2019.

Investment Description		First United Level 3 Investments			Security Credit Status						
Deal	Class	Amortized Cost	Fair Market Value	Unrealized Gain/(Loss)	Lowest Credit Rating	Original Collateral	Deferrals/ Defaults as % of Original Collateral	Performing Collateral	Collateral Support	Collateral Support as % of Performing Collateral	Number of Performing Issuers/ Total Issuers
Preferred Term Security XVIII*	C	1,901	1,280	(621)	C	676,565	15.07%	290,437	16,212	5.58%	41 / 57
Preferred Term Security XVIII	C	2,727	1,920	(807)	C	676,565	15.07%	290,437	16,212	5.58%	41 / 57
Preferred Term Security XIX*	C	1,828	1,573	(255)	C	700,535	5.76%	469,762	29,623	6.31%	51 / 56
Preferred Term Security XIX*	C	1,089	944	(145)	C	700,535	5.76%	469,762	29,623	6.31%	51 / 56
Preferred Term Security XIX*	C	2,516	2,202	(314)	C	700,535	5.76%	469,762	29,623	6.31%	51 / 56
Preferred Term Security XIX*	C	1,091	944	(147)	C	700,535	5.76%	469,762	29,623	6.31%	51 / 56
Preferred Term Security XXII*	C-1	1,563	1,229	(334)	C	1,386,600	10.52%	679,548	65,774	9.68%	60 / 74
Preferred Term Security XXII*	C-1	3,905	3,073	(832)	C	1,386,600	10.52%	679,548	65,774	9.68%	60 / 74
Preferred Term Security XXIII	C-1	1,823	1,189	(634)	C	1,467,000	14.79%	720,108	64,069	8.90%	76 / 90
Total Level 3 Securities Available for Sale		18,443	14,354	(4,089)							

* Security has been deemed other-than-temporarily impaired and loss has been recognized in accordance with ASC Section 320-10-35.

The terms of the debentures underlying trust preferred securities allow the issuer of the debentures to defer interest payments for up to 20 quarters, and, in such case, the terms of the related trust preferred securities require their issuers to contemporaneously defer dividend payments. The issuers of the trust preferred securities in our investment portfolio have defaulted and/or deferred payments, ranging from 5.76% to 15.07% of the total collateral balances underlying the securities. The securities were designed to include structural features that provide investors with credit enhancement or support to provide default protection by subordinated tranches. These features include over-collateralization of the notes or subordination, excess interest or spread which will redirect funds in situations where collateral is insufficient, and a specified order of principal payments. There are securities in our portfolio that are under-collateralized, which does represent additional stress on our tranche. However, in these cases, the terms of the securities require excess interest to be redirected from subordinate tranches as credit support, which provides additional support to our investment.

Management systematically evaluates securities for impairment on a quarterly basis. Based upon application of ASC Topic 320 (Section 320-10-35), management must assess whether (i) the Corporation has the intent to sell the security and (ii) it is more likely than not that the Corporation will be required to sell the security prior to its anticipated recovery. If neither applies, then declines in the fair value of securities below their cost that are considered other-than-temporary declines are split into two components. The first is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses. The other losses are recognized in other comprehensive income. In estimating OTTI charges, management considers (a) the length of time and the extent to which the fair value has been less than cost, (b) adverse conditions specifically related to the security, an industry, or a geographic area, (c) the historic and implied volatility of the security, (d) changes in the rating of a security by a rating agency, (e) recoveries or additional declines in fair value subsequent to the balance sheet date, (f) failure of the issuer of the security to make scheduled interest payments, and (g) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future. Due to the duration and the significant market value decline in the pooled trust preferred securities held in our portfolio, we performed more extensive testing on these securities for purposes of evaluating whether or not an OTTI has occurred.

The market for these securities as of December 31, 2019 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which these securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive, as no new CDOs have been issued since 2007. There are currently very few market participants who are willing to effect transactions in these securities. The market values for these securities, or any securities other than those issued or guaranteed by the U.S. Department of the Treasury (the "Treasury"), are very depressed relative to historical levels. Therefore, in the current market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general rather than being an indicator of credit problems with a particular issue. Given the conditions in the current debt markets and the absence of observable transactions in the secondary and new issue markets, management has determined that (i) the few observable transactions and market quotations that are available are not reliable for the purpose of obtaining fair value at December 31, 2019, (ii) an income valuation approach technique (i.e. present value) that maximizes the use of relevant unobservable inputs and minimizes the use of observable inputs will be equally or more representative of fair value than a market approach, and (c) the CDO segment is appropriately classified within Level 3 of the valuation hierarchy because management determined that significant adjustments were required to determine fair value at the measurement date.

Management relies on an independent third party to prepare both the evaluations of OTTI and the fair value determinations for the CDO portfolio. Management does not believe that there were any material differences in the OTTI evaluations and pricing between December 31, 2019 and December 31, 2018.

The approach used by the third party to determine fair value involved several steps, which included detailed credit and structural evaluation of each piece of collateral in each bond, projection of default, recovery and prepayment/amortization probabilities for each piece of collateral in the bond, and discounted cash flow modeling. The discount rate methodology used by the third party combines a baseline current market yield for comparable corporate and structured credit products with adjustments based on evaluations of the differences found in structure and risks associated with actual and projected credit performance of each CDO being valued. Currently, the only active and liquid trading market that exists is for stand-alone trust preferred securities, with a limited market for highly-rated CDO securities that are more senior in the capital structure than the securities in the CDO portfolio. Therefore, adjustments to the baseline discount rate are also made to reflect the additional leverage found in structured instruments.

Based upon a review of credit quality and the cash flow tests performed by the independent third party, management determined that no additional credit-related OTTI was required during 2019.

The following table sets forth the contractual or estimated maturities of the components of our securities portfolio as of December 31, 2019 and the weighted average yields on a tax-equivalent basis.

Investment Security Maturities, Yields, and Fair Values at December 31, 2019

(In thousands)	Within 1 Year	1 Year To 5 Years	5 Years To 10 Years	Over 10 Years	Total Fair Value
Securities Available-for-Sale:					
U.S. government agencies	$ —	$ 14,987	$ 24,907	$ —	$ 39,894
Residential mortgage-backed agencies	—	—	4,900	—	4,900
Commercial mortgage-backed agencies	—	23,141	4,623	—	27,764
Collateralized mortgage obligations	—	29,923	—	—	29,923
Obligations of states and political subdivisions	—	4,498	263	9,709	14,470
Collateralized debt obligations	—	—	—	14,354	14,354
Total available for sale	$ —	$ 72,549	$ 34,693	$ 24,063	$ 131,305
Percentage of total	0.00%	51.98%	28.64%	19.04%	100.00%
Weighted average yield	0.00%	2.38%	2.61%	5.08%	2.96%
Held to Maturity:					
U.S. government agencies	$ —	$ 16,823	$ —	$ —	$ 16,823
Residential mortgage-backed agencies	2,061	18,773	3,703	18,716	43,253
Commercial mortgage-backed agencies	—	13,978	1,887	—	15,865
Collateralized mortgage obligations	—	3,143	—	—	3,143
Obligations of states and political subdivisions	—	—	—	21,572	21,572
Total held to maturity	$ 2,061	$ 52,717	$ 5,590	$ 40,288	$ 100,656
Percentage of total	0.23%	29.39%	31.55%	38.83%	100.00%
Weighted average yield	-3.63%	1.70%	3.12%	3.80%	2.95%

The weighted average yield was calculated using historical cost balances and does not give effect to changes in fair value. The negative weighted average yield was due to increased paydowns on mortgage-backed securities which impacted their factors and three-month conditional prepayment rate (“CPR”). At December 31, 2019, one Tax Increment Funding (“TIF”) bond totaling $14.0 million exceeded 10% of shareholders’ equity.

Deposits

The following table sets forth the actual and average deposit balances by major category for 2019, 2018 and 2017:

Deposit Balances

	2019			2018			2017		
(In thousands)	**Actual Balance**	**Average Balance**	**Average Yield**	**Actual Balance**	**Average Balance**	**Average Yield**	**Actual Balance**	**Average Balance**	**Average Yield**
Non-interest-bearing demand deposits	$ 294,649	$ 270,945	0.00%	$ 262,250	$ 239,838	0.00%	$ 252,049	$ 253,980	0.00%
Interest-bearing deposits:									
Demand	159,567	160,776	0.37%	163,334	170,642	0.11%	171,741	169,289	0.07%
Money Market:									
Retail	275,007	253,737	0.89%	234,038	211,969	0.44%	165,277	165,982	0.21%
Brokered/ICS	—	—	0.00%	—	—	0.00%	58,413	59,287	0.21%
Savings deposits	158,918	160,751	0.19%	156,236	160,968	0.12%	157,783	156,538	0.11%
Time deposits less than $100K:									
Retail	96,198	107,215	1.39%	99,088	104,289	1.01%	107,238	114,078	0.98%
Brokered	—	—	0.00%	—	—	0.00%	358	425	0.28%
Time deposits $100K or more:									
Retail	147,692	130,700	2.05%	127,581	120,019	1.52%	124,488	117,460	1.17%
Brokered	10,000	23,027	2.68%	25,000	3,151	1.88%	2,043	2,730	0.64%
Total Deposits	$ 1,142,031	$ 1,107,151		$ 1,067,527	$ 1,010,876		$ 1,039,390	$ 1,039,769	

Total deposits at December 31, 2019 increased $74.5 million when compared to deposits at December 31, 2018. During 2019, non-interest bearing deposits increased $32.4 million. This growth was driven by both our retail market and our commercial market, as we continued to grow existing relationships as well as cultivate new relationships. Traditional savings accounts increased $2.7 million, as our Prime Saver product continued to be the savings product of choice. Total demand deposits decreased $3.8 million and total money market accounts increased $41.0 million, due primarily to growth in our variable rate Value money market account introduced in late 2018. Time deposits less than $100,000 decreased $2.9 million and time deposits greater than $100,000 increased $5.1 million. Growth in time deposits greater than $100,000 was primarily related to new deposits for a local municipality as well as new deposits in CDARs for a local hospital. In the fourth quarter of 2018, two brokered certificates of deposit ("CD") were purchased to shift $25.0 million of overnight borrowings as a tool to manage interest rate risk. A $15.0 million brokered CD was fully repaid in November 2019 at its maturity, and the remaining $10.0 million brokered CD matures in May 2020.

On May 22, 2018, the Economic Growth Regulatory Relief and Consumer Protection Act was signed into law. As a result of this act, most reciprocal deposits are no longer considered brokered deposits. At December 31, 2019 and 2018, the ICS/CDARs balances were all considered reciprocal deposits.

The following table sets forth the maturities of time deposits of $100,000 or more:

Maturity of Time Deposits of $100,000 or More

(In thousands)	**December 31, 2019**
Maturities	
3 Months or Less	$ 9,204
3-6 Months	32,878
6-12 Months	44,226
Over 1 Year	71,384
Total	$ 157,692

Borrowed Funds

The following shows the composition of our borrowings at December 31:

(In thousands)	2019	2018	2017
Overnight borrowings, weighted average interest rate of 2.70% at December 31, 2018	$ —	$ 40,000	$ —
Securities sold under agreements to repurchase	48,728	37,707	48,845
Total short-term borrowings	$ 48,728	$ 77,707	$ 48,845
Long-term FHLB advances	$ 70,000	$ 70,000	$ 90,000
Junior subordinated debentures	30,929	30,929	30,929
Total long-term borrowings	$ 100,929	$ 100,929	$ 120,929
Total borrowings	$ 149,657	$ 178,636	$ 169,774
Average balance (from Table 1)	$ 143,508	$ 167,991	$ 160,732

The following is a summary of short-term borrowings at December 31 with original maturities of less than one year:

(Dollars in thousands)	2019	2018	2017
Overnight borrowings, weighted average interest rate of 2.70% at December 31, 2018	$ —	$ 40,000	$ —
Securities sold under agreements to repurchase:			
Outstanding at end of year	$ 48,728	$ 37,707	$ 48,845
Weighted average interest rate at year end	0.23%	0.24%	0.15%
Maximum amount outstanding as of any month end	$ 50,345	$ 55,648	$ 58,438
Average amount outstanding	39,778	44,045	37,326
Approximate weighted average rate during the year	0.28%	0.20%	0.19%

Total borrowings decreased by $29.0 million, or 16.2%, in 2019 when compared to 2018. The decrease in short-term borrowings was due to the repayment of $40.0 million in overnight borrowings, offset by an increase of $11.0 million in the balances of municipal accounts established through our Treasury Management product.

Total borrowings increased by $8.9 million, or 5.2%, in 2018 when compared to 2017. The increase in short-term borrowings was due to a $40.0 million increase in overnight borrowings due to the shift of a $15.0 million FHLB advance from long-term borrowings and $15.0 million from utilization of funding from our correspondent banks, offset by a decrease in the balances of municipal accounts established through our Treasury Management product. Long-term borrowings decreased by $20.0 million due to the repayment of two FHLB advances totaling $5.0 million at maturity in January 2018 and the shift of one FHLB advance totaling $15.0 million to short-term overnight borrowings at maturity in April 2018.

Management will continue to closely monitor interest rates within the context of its overall asset-liability management process. See the discussion under the heading “Interest Rate Sensitivity” in this Item 7 for further information on this topic.

At December 31, 2019, we had additional borrowing capacity with the FHLB totaling $143.7 million, an additional $115.0 million of unused lines of credit with various financial institutions, $2.1 million of an unused secured line of credit with the Federal Reserve Bank and approximately $113.2 million available through wholesale money market funds. See Note 12 to the Consolidated Financial Statements presented elsewhere in this annual report for further details about our borrowings and additional borrowing capacity, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

In the normal course of business, to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, lines of credit, and standby letters of credit. Our exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of the instruments. The credit risks inherent in loan commitments and letters of credit are essentially the same as those involved in extending loans to customers, and these arrangements are subject to our normal credit policies. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. We generally require collateral or other security to support the financial instruments with credit risk. The amount of collateral or other security is determined based on management’s credit evaluation of the counterparty. We evaluate each customer’s creditworthiness on a case-by-case basis.

Loan commitments and letters of credit totaled $147.8 million and $9.1 million, respectively, at December 31, 2019. Management does not believe that any of the foregoing arrangements have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. We are not a party to any other off-balance sheet arrangements. See Note 22 to the Consolidated Financial Statements presented elsewhere in this annual report for additional information on these arrangements.

Capital Resources

We require capital to fund loans, satisfy our obligations under the Bank's letters of credit, meet the deposit withdraw demands of the Bank's customers, and satisfy our other monetary obligations. To the extent that deposits are not adequate to fund our capital requirements, we can rely on the funding sources identified below under the heading "Liquidity Management". At December 31, 2019, the Bank had $115.0 million available through unsecured lines of credit with correspondent banks, $2.1 million available through a secured line of credit with the Fed Discount Window and approximately $143.7 million available through the FHLB. Management is not aware of any demands, commitments, events or uncertainties that are likely to materially affect our ability to meet our future capital requirements.

In addition to operational requirements, the Bank and the Corporation are subject to risk-based capital regulations, which were adopted and are monitored by federal banking regulators. These regulations are used to evaluate capital adequacy and require an analysis of an institution's asset risk profile and off-balance sheet exposures, such as unused loan commitments and stand-by letters of credit. Detailed information about these capital regulations and their requirements is set forth in the "Supervision and Regulation" section of Item 1 of Part I of this annual report under the heading "Capital Requirements".

At December 31, 2019, the Corporation's total risk-based capital ratio was 16.29% and the Bank's total risk-based capital ratio was 15.60%, both of which were well above the regulatory minimum of 8%. The total risk-based capital ratios of the Corporation and the Bank at December 31, 2018 were 15.91% and 15.43%, respectively. The increases for the Corporation and the Bank in 2019 were primarily due to the increased earnings.

At December 31, 2019, the most recent notification from the regulators categorizes the Corporation and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. See Note 4 to the Consolidated Financial Statements presented elsewhere in this annual report for additional information regarding regulatory capital ratios.

Liquidity Management

Liquidity is a financial institution's capability to meet customer demands for deposit withdrawals while funding all credit-worthy loans. The factors that determine the institution's liquidity are:

- Reliability and stability of core deposits;
- Cash flow structure and pledging status of investments; and
- Potential for unexpected loan demand.

We actively manage our liquidity position through meetings of a sub-committee of executive management, which looks forward 12 months at 30-day intervals. The measurement is based upon the projection of funds sold or purchased position, along with ratios and trends developed to measure dependence on purchased funds and core growth. Monthly reviews by management and quarterly reviews by the Asset and Liability Committee under prescribed policies and procedures are designed to ensure that we will maintain adequate levels of available funds.

It is our policy to manage our affairs so that liquidity needs are fully satisfied through normal Bank operations. That is, the Bank will manage its liquidity to minimize the need to make unplanned sales of assets or to borrow funds under emergency conditions. The Bank will use funding sources where the interest cost is relatively insensitive to market changes in the short run (periods of one year or less) to satisfy operating cash needs. The remaining normal funding will come from interest-sensitive liabilities, either deposits or borrowed funds. When the marginal cost of needed wholesale funding is lower than the cost of raising this funding in the retail markets, the Corporation may supplement retail funding with external funding sources such as:

- Unsecured Fed Funds lines of credit with upstream correspondent banks (M&T Bank, Atlantic Community Bankers Bank, Community Bankers Bank, PNC Financial Services ("PNC"), SunTrust, Pacific Coast Banker's Bank (PCBB) and Zions Bancorp).
- Secured advances with the FHLB of Atlanta, which are collateralized by eligible one to four family residential mortgage loans, home equity lines of credit, commercial real estate loans. Cash and various securities may also be pledged as collateral.

- Secured line of credit with the Fed Discount Window for use in borrowing funds up to 90 days, using municipal securities as collateral.
- Brokered deposits, including CDs and money market funds, provide a method to generate deposits quickly. These deposits are strictly rate driven but often provide the most cost effective means of funding growth.
- One Way Buy CDARS/ICS funding – a form of brokered deposits that has become a viable supplement to brokered deposits obtained directly.

Management believes that we have adequate liquidity available to respond to current and anticipated liquidity demands and is not aware of any trends or demands, commitments, events or uncertainties that are likely to materially affect our ability to maintain liquidity at satisfactory levels.

Market Risk and Interest Sensitivity

Our primary market risk is interest rate fluctuation. Interest rate risk results primarily from the traditional banking activities that we engage in, such as gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates and consumer preferences affect the difference between the interest earned on our assets and the interest paid on our liabilities. Interest rate sensitivity refers to the degree that earnings will be impacted by changes in the prevailing level of interest rates. Interest rate risk arises from mismatches in the repricing or maturity characteristics between interest-bearing assets and liabilities. Management seeks to minimize fluctuating net interest margins, and to enhance consistent growth of net interest income through periods of changing interest rates. Management uses interest sensitivity gap analysis and simulation models to measure and manage these risks. The interest rate sensitivity gap analysis assigns each interest-earning asset and interest-bearing liability to a time frame reflecting its next repricing or maturity date. The differences between total interest-sensitive assets and liabilities at each time interval represent the interest sensitivity gap for that interval. A positive gap generally indicates that rising interest rates during a given interval will increase net interest income, as more assets than liabilities will reprice. A negative gap position would benefit us during a period of declining interest rates.

At December 31, 2019, we were asset sensitive.

Our interest rate risk management goals are:

- Ensure that the Board of Directors and senior management will provide effective oversight and ensure that risks are adequately identified, measured, monitored and controlled;
- Enable dynamic measurement and management of interest rate risk;
- Select strategies that optimize our ability to meet our long-range financial goals while maintaining interest rate risk within policy limits established by the Board of Directors;
- Use both income and market value oriented techniques to select strategies that optimize the relationship between risk and return; and
- Establish interest rate risk exposure limits for fluctuation in net interest income ("NII"), net income and economic value of equity.

In order to manage interest sensitivity risk, management formulates guidelines regarding asset generation and pricing, funding sources and pricing, and off-balance sheet commitments. These guidelines are based on management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors. Management uses computer simulations to measure the effect on net interest income of various interest rate scenarios. Key assumptions used in the computer simulations include cash flows and maturities of interest rate sensitive assets and liabilities, changes in asset volumes and pricing, and management's capital plans. This modeling reflects interest rate changes and the related impact on net interest income over specified periods.

We evaluate the effect of a change in interest rates of +/-100 basis points to +/-400 basis points on both NII and Net Portfolio Value ("NPV") / Economic Value of Equity ("EVE"). We concentrate on NII rather than net income as long as NII remains the significant contributor to net income.

NII modeling allows management to view how changes in interest rates will affect the spread between the yield earned on assets and the cost of deposits and borrowed funds. Unlike traditional Gap modeling, NII modeling takes into account the different degree to which installments in the same repricing period will adjust to a change in interest rates. It also allows the use of different assumptions in a falling versus a rising rate environment. The period considered by the NII modeling is the next eight quarters.

NPV / EVE modeling focuses on the change in the market value of equity. NPV / EVE is defined as the market value of assets less the market value of liabilities plus/minus the market value of any off-balance sheet positions. By effectively looking at the present value of all future cash flows on or off the balance sheet, NPV / EVE modeling takes a longer-term view of interest rate risk. This complements the shorter-term view of the NII modeling.

Measures of NII at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

Based on the simulation analysis performed at December 31, 2019 and 2018, management estimated the following changes in net interest income, assuming the indicated rate changes:

(Dollars in thousands)	**2019**	**2018**
+400 basis points	$ 1,500	$ (1,939)
+300 basis points	$ 1,381	$ (1,284)
+200 basis points	$ 1,075	$ (652)
+100 basis points	$ 645	$ (163)
-100 basis points	$ (2,477)	$ (4,007)

This estimate is based on assumptions that may be affected by unforeseeable changes in the general interest rate environment and any number of unforeseeable factors. Rates on different assets and liabilities within a single maturity category adjust to changes in interest rates to varying degrees and over varying periods of time. The relationships between lending rates and rates paid on purchased funds are not constant over time. Management can respond to current or anticipated market conditions by lengthening or shortening the Bank's sensitivity through loan repricings or changing its funding mix. The rate of growth in interest-free sources of funds will influence the level of interest-sensitive funding sources. In addition, the absolute level of interest rates will affect the volume of earning assets and funding sources. As a result of these limitations, the interest-sensitive gap is only one factor to be considered in estimating the net interest margin.

Impact of Inflation – Our assets and liabilities are primarily monetary in nature, and as such, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. During inflationary periods, monetary assets lose value in terms of purchasing power and monetary liabilities have corresponding purchasing power gains. The concept of purchasing power is not an adequate indicator of the impact of inflation on financial institutions because it does not incorporate changes in our earnings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is incorporated herein by reference to Item 7 of Part II of this annual report under the heading "Market Risk and Interest Sensitivity".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First United Corporation and Subsidiaries

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of First United Corporation and Subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 2006.

Pittsburgh, Pennsylvania
March 12, 2020

First United Corporation and Subsidiaries
Consolidated Statement of Financial Condition
(In thousands, except per share amounts)

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 48,512	$ 22,187
Interest bearing deposits in banks	1,467	1,354
Cash and cash equivalents	49,979	23,541
Investment securities – available-for-sale (at fair value)	131,305	137,641
Investment securities – held to maturity (fair value of $100,656 at December 31, 2019 and $93,760 at December 31, 2018)	93,979	94,010
Restricted investment in bank stock, at cost	4,415	5,394
Loans	1,052,118	1,007,714
Unearned fees	(687)	(564)
Allowance for loan losses	(12,537)	(11,047)
Net loans	1,038,894	996,103
Premises and equipment, net	38,710	37,855
Goodwill	11,004	11,004
Bank owned life insurance	43,449	43,317
Deferred tax assets	7,441	7,844
Other real estate owned	4,127	6,598
Operating lease asset	2,661	—
Accrued interest receivable and other assets	16,063	20,453
Total Assets	$ 1,442,027	$ 1,383,760
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 294,649	$ 262,250
Interest bearing deposits	847,382	805,277
Total deposits	1,142,031	1,067,527
Short-term borrowings	48,728	77,707
Long-term borrowings	100,929	100,929
Operating lease liability	3,239	—
Accrued interest payable and other liabilities	20,235	19,893
Dividends Payable	925	638
Total Liabilities	1,316,087	1,266,694
Shareholders' Equity:		
Common Stock – par value $.01 per share; Authorized 25,000,000 shares; issued and outstanding 7,110,022 shares at December 31, 2019 and 7,086,632 shares at December 31, 2018	71	71
Surplus	32,359	31,921
Retained earnings	119,481	109,477
Accumulated other comprehensive loss	(25,971)	(24,403)
Total Shareholders' Equity	125,940	117,066
Total Liabilities and Shareholders' Equity	$ 1,442,027	$ 1,383,760

See notes to consolidated financial statements

First United Corporation and Subsidiaries
Consolidated Statement of Income
(In thousands, except per share data)

	Year Ended December 31, 2019	Year Ended December 31, 2018
Interest income		
Interest and fees on loans	$ 50,201	$ 45,073
Interest on investment securities		
Taxable	5,648	5,820
Exempt from federal income tax	1,031	949
Total investment income	6,679	6,769
Other	1,040	452
Total interest income	57,920	52,294
Interest expense		
Interest on deposits	7,791	4,246
Interest on short-term borrowings	188	525
Interest on long-term borrowings	3,550	3,341
Total interest expense	11,529	8,112
Net interest income	46,391	44,182
Provision for loan losses	1,320	2,111
Net interest income after provision for loan losses	45,071	42,071
Other operating income		
Net gains	147	127
Service charges on deposit accounts	2,192	2,275
Other service charges	966	877
Trust department	7,148	6,692
Debit card income	2,706	2,534
Bank owned life insurance	2,257	1,162
Brokerage commissions	919	1,078
Other	448	423
Total other income	16,636	15,041
Total other operating income	16,783	15,168
Other operating expenses		
Salaries and employee benefits	24,641	24,170
FDIC premiums	405	639
Equipment	3,807	3,160
Occupancy	2,884	2,551
Data processing	4,004	3,858
Marketing	418	530
Professional services	1,480	1,255
Other real estate owned expenses	1,542	1,456
Contract labor	654	723
Telephony Expense	856	841
Other	4,698	4,625
Total other operating expenses	45,389	43,808
Income before income tax expense	16,465	13,431
Provision for income tax expense	3,336	2,764
Net Income	$ 13,129	$ 10,667
Basic and diluted net income per common share	$ 1.85	$ 1.51
Weighted average number of basic and diluted shares outstanding	7,101	7,079

See notes to consolidated financial statements

First United Corporation and Subsidiaries
Consolidated Statement of Comprehensive Income
(In thousands)

Comprehensive Income	Year Ended December 31, 2019	2018
Net Income	$ 13,129	$ 10,667
Other comprehensive (loss)/income, net of tax and reclassification adjustments:		
Net unrealized (losses)/gains on investments with OTTI	(643)	1,040
Net unrealized gains/(losses) on all other AFS securities	2,748	(622)
Net unrealized gains on HTM securities	232	216
Net unrealized (losses)/gains on cash flow hedges	(858)	191
Net unrealized losses on pension plan liability	(2,400)	(951)
Net unrealized (losses)/gains on SERP liability	(647)	316
Other comprehensive (loss)/income, net of tax	(1,568)	190
Comprehensive Income	$ 11,561	$ 10,857

See notes to consolidated financial statements

First United Corporation and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
(In thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss, net of tax	Total Shareholders' Equity
Balance at January 1, 2018	$ 71	$ 31,553	$ 101,359	$ (24,593)	$ 108,390
Net income			10,667		10,667
Other comprehensive income, net of tax				190	190
Common stock issued		119			119
Common stock dividend declared - $.27 per share			(2,549)		(2,549)
Stock based compensation		249			249
Balance at December 31, 2018	71	31,921	109,477	(24,403)	117,066
Net income			13,129		13,129
Other comprehensive loss, net of tax				(1,568)	(1,568)
Common stock issued		170			170
Common stock dividend declared - $.44 per share			(3,125)		(3,125)
Stock based compensation		268			268
Balance at December 31, 2019	$ 71	$ 32,359	$ 119,481	$ (25,971)	$ 125,940

See notes to consolidated financial statements

First United Corporation and Subsidiaries
Consolidated Statement of Cash Flows
(In thousands)

	Year Ended December 31,	
	2019	2018
Operating activities		
Net income	$ 13,129	$ 10,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,320	2,111
Depreciation	3,115	2,435
Stock compensation	268	249
Gains on sales of other real estate owned	(160)	(260)
Write-downs of other real estate owned	1,459	1,356
Origination of loans held for sale	(20,668)	(10,866)
Proceeds from sales of loans held for sale	19,502	11,021
Gains on sales of loans held for sale	(150)	(88)
Loss on disposal of fixed assets	3	74
Net (accretion)/amortization of investment securities discounts and premiums- AFS	(3)	39
Net amortization of investment securities discounts and premiums- HTM	114	57
Net gain on sales of investment securities – available-for-sale	—	(113)
Amortization of deferred loan fees	(935)	(745)
Deferred tax expense	953	1,338
Earnings on bank owned life insurance	(2,257)	(1,162)
Amortization of operating lease right of use asset	277	—
Operating lease liability	(287)	—
(Increase)/decrease in accrued interest receivable and other assets	(190)	367
Increase in accrued interest payable and other liabilities	900	1,814
Net cash provided by operating activities	16,390	18,294
Investing activities		
Proceeds from maturities/calls of investment securities available-for-sale	26,553	10,888
Proceeds from maturities/calls of investment securities held-to-maturity	8,124	6,741
Proceeds from sales of investment securities available-for-sale	21,872	2,005
Purchases of investment securities available-for-sale	(39,307)	(3,390)
Purchases of investment securities held-to-maturity	(8,207)	(7,176)
Proceeds from sales of other real estate owned	2,777	2,981
Proceeds from BOLI	2,125	—
Net decrease/(increase)in FHLB stock	979	(190)
Net increase in loans	(43,465)	(116,088)
Purchases of premises and equipment	(3,973)	(9,483)
Net cash used in investing activities	(32,522)	(113,712)
Financing activities		
Net increase in deposits	74,504	28,137
Proceeds from issuance of common stock	170	119
Cash dividends paid on common stock	(3,125)	(1,911)
Net (decrease)/increase in short-term borrowings	(28,979)	28,862
Payments on long-term borrowings	—	(20,000)
Net cash provided by financing activities	42,570	35,207
Increase/(decrease) in cash and cash equivalents	26,438	(60,211)
Cash and cash equivalents at beginning of the year	23,541	83,752
Cash and cash equivalents at end of period	$ 49,979	$ 23,541
Supplemental information		
Interest paid	$ 11,485	$ 8,110
Taxes paid	$ 1,011	$ 530
Non-cash investing activities:		
Transfers from loans to other real estate owned	$ 1,605	$ 534

Initial recognition of operating lease right of use assets at adoption	$ 2,730	$ —
Initial recognition of operating lease liabilities at adoption	$ 3,317	$ —
Operating lease right of use assets recognized	$ 208	$ —
Operating lease liabilities recognized	$ 208	$ —

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Business

First United Corporation is a Maryland corporation chartered in 1985 and a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended. The Corporation's primary business is serving as the parent company of First United Bank & Trust, a Maryland trust company (the "Bank"), First United Statutory Trust I ("Trust I") and First United Statutory Trust II ("Trust II"), both Connecticut statutory business trusts. Until September 14, 2018 when it was canceled, the Corporation also served as the parent company to First United Statutory Trust III, a Delaware statutory business trust ("Trust III" and together with Trust I and Trust II, the "Trusts"). The Trusts were formed for the purpose of selling trust preferred securities that qualified as Tier 1 capital. The Bank has two consumer finance company subsidiaries - OakFirst Loan Center, Inc., a West Virginia corporation, and OakFirst Loan Center, LLC, a Maryland limited liability company - and two subsidiaries that it uses to hold real estate acquired through foreclosure or by deed in lieu of foreclosure - First OREO Trust, a Maryland statutory trust, and FUBT OREO I, LLC, a Maryland limited liability company. The Bank also owns 99.9% of the limited partnership interests in Liberty Mews Limited Partnership; a Maryland limited partnership formed for the purpose of acquiring, developing and operating low-income housing units in Garrett County, Maryland ("Liberty Mews").

First United Corporation and its subsidiaries operate principally in four counties in Western Maryland and four counties in West Virginia.

As used in these Notes, the terms "the Corporation", "we", "us", and "our" mean First United Corporation and, unless the context clearly suggests otherwise, its consolidated subsidiaries.

Basis of Presentation

The accompanying consolidated financial statements of the Corporation have been prepared in accordance with United States generally accepted accounting principles ("GAAP") as required by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") that require management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the assessment of other-than-temporary impairment ("OTTI") pertaining to investment securities, potential impairment of goodwill, and the valuation of deferred tax assets. For purposes of comparability, certain prior period amounts have been reclassified to conform to the 2018 presentation. Such reclassifications had no impact on net income or equity.

The Corporation has evaluated events and transactions occurring subsequent to the statement of financial condition date of December 31, 2019 for items that should potentially be recognized or disclosed in these consolidated financial statements as prescribed by ASC Topic 855, *Subsequent Events*.

Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of First United Corporation, the Bank, the OakFirst Loan Centers, First OREO Trust and FUBT OREO I, LLC. All significant inter-company accounts and transactions have been eliminated.

First United Corporation determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE") in accordance with GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make financial and operating decisions. The Corporation consolidates voting interest entities in which it has 100%, or at least a majority, of the voting interest. As defined in applicable accounting standards, a VIE is an entity that either (i) does not have equity investors with voting rights or (ii) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A controlling financial interest in an entity exists when an enterprise has a variable interest, or a combination of variable interests that will absorb a majority of an entity's expected losses, receive a majority of an entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

The Corporation accounts for its investment in Liberty Mews utilizing the effective yield method under guidance that applies specifically to investments in limited partnerships that operate qualified affordable housing projects. Under the effective yield method, the investor recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the investor. The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the investor. The tax credit allocated, net of the amortization of the investment in the limited partnership, is recognized in the income statement as a component of income taxes attributable to continuing operations.

Significant Concentrations of Credit Risk

Most of the Corporation's relationships are with customers located in Western Maryland and Northeastern West Virginia. At December 31, 2019, approximately 12%, or $117.9 million, of total loans were secured by real estate acquisition, construction and development projects, with $109.3 million performing according to their contractual terms and $8.6 million considered to be impaired based on management's concerns about the borrowers' ability to comply with present repayment terms. Of the $8.6 million in impaired loans, $.5 million were classified as troubled debt restructurings ("TDRs") performing in accordance with their modified terms, and $8.1 million were classified as non-performing loans at December 31, 2019. Additionally, loans collateralized by commercial rental properties represented 16% of the total loan portfolio as of December 31, 2019. Note 6 discusses the types of securities in which the Corporation invests and Note 7 discusses the Corporation's lending activities.

Investments

The investment portfolio is classified and accounted for based on the guidance of ASC Topic 320, *Investments – Debt and Equity Securities*. Securities bought and held principally for the purpose of selling them in the near term are classified as trading account securities and reported at fair value with unrealized gains and losses included in net gains/losses in other operating income. Securities purchased with the intent and ability to hold the securities to maturity are classified as held-to-maturity securities and are recorded at amortized cost. All other investment securities are classified as available-for-sale. These securities are held for an indefinite period of time and may be sold in response to changing market and interest rate conditions or for liquidity purposes as part of our overall asset/liability management strategy. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of other comprehensive income included in the consolidated statement of comprehensive income, net of applicable income taxes.

The amortized cost of debt securities is adjusted for the amortization of premiums to the first call date, if applicable, or to maturity, and for the accretion of discounts to maturity, or, in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion is included in interest income from investments. Interest and dividends are included in interest income from investments. Gains and losses on the sale of securities are recorded using the specific identification method.

Restricted Investment in Bank Stock

Restricted stock, which represents required investments in the common stock of the Federal Home Loan Bank ("FHLB") of Atlanta, Atlantic Community Bankers Bank ("ACBB") and Community Banker's Bank ("CBB"), is carried at cost and is considered a long-term investment.

Management evaluates the restricted stock for impairment in accordance with ASC Industry Topic 942, *Financial Services – Depository and Lending*, (942-325-35). Management's evaluation of potential impairment is based on its assessment of the ultimate recoverability of the cost of the restricted stock rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (i) the significance of the decline in net assets of the issuing bank as compared to the capital stock amount for that bank and the length of time this situation has persisted, (ii) commitments by the issuing bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of that bank, and (iii) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the issuing bank. Management has evaluated the restricted stock for impairment and believes that no impairment charge is necessary as of December 31, 2019 or 2018.

The Corporation recognizes dividends on a cash basis. For the years ended December 31, 2019 and December 31, 2018, dividends of $290,415 and $279,762, respectively, were recorded in other operating income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or full repayment by the borrower are reported at their unpaid principal balance outstanding, adjusted for any deferred fees or costs pertaining to origination.

Loans that management has the intent to sell are reported at the lower of cost or fair value determined on an individual basis. Loans held for sale were $1.7 million at December 31, 2019 and $.4 million at December 31, 2018.

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The commercial real estate ("CRE") loan segment is further disaggregated into two classes. Non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, generally have a greater risk profile than all other CRE loans, which include loans secured by farmland, multifamily structures and owner-occupied commercial structures. The acquisition and development ("A&D") loan segment is further disaggregated into two classes. One-to-four family residential construction loans are generally made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. All other A&D loans are generally made to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures. These loans have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the A&D loan. The commercial and industrial ("C&I") loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The consumer loan segment consists primarily of installment loans (direct and indirect), student loans and overdraft lines of credit connected with customer deposit accounts.

Interest and Fees on Loans

Interest on loans (other than those on non-accrual status) is recognized based upon the principal amount outstanding. Loan fees in excess of the costs incurred to originate the loan are recognized as income over the life of the loan utilizing either the interest method or the straight-line method, depending on the type of loan. Generally, fees on loans with a specified maturity date, such as residential mortgages, are recognized using the interest method. Loan fees for lines of credit are recognized using the straight-line method.

A loan is considered to be past due when a payment has not been received for 30 days past its contractual due date. For all loan segments, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. All non-accrual loans are considered to be impaired. Interest payments received on non-accrual loans are applied as a reduction of the loan principal balance. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Corporation's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

Generally, consumer installment loans are not placed on non-accrual status, but are charged off after they are 120 days contractually past due. Loans other than consumer loans are charged-off based on an evaluation of the facts and circumstances of each individual loan.

Allowance for Loan Losses

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Corporation's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35, *Receivables-Overall-Subsequent Measurement*, for loans individually evaluated for impairment and ASC Subtopic 450-20, *Contingencies-Loss Contingencies*, for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL.

The Corporation maintains an ALL on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is determined utilizing a methodology that is similar to that used to determine the ALL, modified to take into account the probability of a draw down on the commitment. This allowance is reported as a liability on the balance sheet within accrued interest payable and other liabilities. The balance in the liability account was $78,463 at December 31, 2019 and $63,230 at December 31, 2018.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. The provision for depreciation for financial reporting has been made by using the straight-line method based on the estimated useful lives of the assets, which range from 10 to 31.5 years for buildings and three to 20 years for furniture and equipment. Accelerated depreciation methods are used for income tax purposes.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired in business combinations. In accordance with ASC Topic 350, *Intangibles - Goodwill and Other,* goodwill is not amortized but is subject to an annual impairment test.

Bank-Owned Life Insurance ("BOLI")

BOLI policies are recorded at their cash surrender values. Changes in the cash surrender values are recorded as other operating income.

Other Real Estate Owned ("OREO")

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less the cost to sell at the date of foreclosure, with any losses charged to the ALL, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Changes in the valuation allowance, sales gains and losses, and revenue and expenses from holding and operating properties are all included in net expenses from other real estate owned.

Income Taxes

First United Corporation and its subsidiaries file a consolidated federal income tax return. Income taxes are accounted for using the asset and liability method. Under the asset and liability method, the deferred tax liability or asset is determined based on the difference between the financial statement and tax bases of assets and liabilities (temporary differences) and is measured at the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is determined by the change in the net liability or asset for deferred taxes adjusted for changes in any deferred tax asset valuation allowance.

ASC Topic 740, *Taxes,* provides clarification on accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We have not identified any income tax uncertainties.

State corporate income tax returns are filed annually. Federal and state returns may be selected for examination by the Internal Revenue Service and the states where we file, subject to statutes of limitations. At any given point in time, the Corporation may have several years of filed tax returns that may be selected for examination or review by taxing authorities.

Interest and penalties on income taxes are recognized as a component of income tax expense.

Defined Benefit Plans

The defined benefit pension plan and supplemental executive retirement plan are accounted for in accordance with ASC Topic 715, *Compensation – Retirement Benefits*. Under the provisions of Topic 715, the defined benefit pension plan and the supplemental executive retirement plan are recognized as liabilities in the Consolidated Statement of Financial Condition, and unrecognized net actuarial losses, prior service costs and a net transition asset are recognized as a separate component of other comprehensive loss, net of tax. Actuarial gains and losses in excess of 10 percent of the greater of plan assets or the pension benefit obligation are amortized over a blend of future service of active employees and life expectancy of inactive participants. Refer to Note 18 for a further discussion of the pension plan and supplemental executive retirement plan obligations.

Statement of Cash Flows

Cash and cash equivalents are defined as cash and due from banks and interest-bearing deposits in banks in the Consolidated Statement of Cash Flows.

Trust Assets and Income

Assets held in an agency or fiduciary capacity are not the Bank's assets and, accordingly, are not included in the Consolidated Statement of Financial Condition. Income from the Bank's trust department represents fees charged to customers.

Business Segments

The Corporation operates in one segment, community banking, as defined by ASC Topic 280, *Segment Reporting*. The Corporation in its entirety is managed and evaluated on an ongoing basis by First United Corporation's Board of Directors and executive management, with no division or subsidiary receiving separate analysis regarding performance or resource allocation.

Equity Compensation Plan

At the 2018 Annual Meeting of Shareholders, First United Corporation's shareholders approved the First United Corporation 2018 Equity Compensation Plan which authorizes the issuance of up to 325,000 shares of common stock to employees, directors and qualifying consultants pursuant to stock options, stock appreciation rights, stock awards, dividend equivalents, and other stock-based awards.

The Corporation measures and records compensation expenses for share-based payments based on the instruments fair value on the date of grant. The fair value of stock awards is based on the Corporation's stock price. Share-based compensation expense is recognized over the service period, generally defined as the vesting period.

Stock-based awards were made to non-employee directors in May 2019 pursuant to First United Corporation's director compensation policy. Each director receives an annual retainer of 1,000 shares of First United Corporation common stock, plus $10,000 to be paid, at the director's election, in cash or additional shares of common stock. In 2019, a total of 14,641 fully-vested shares of common stock were issued to directors, which had a grant date fair market value of $18.30 per share. Director stock compensation expense was $267,577 for the year ended December 31, 2019 and $249,324 for the year ended December 31, 2018.

Stock Repurchases

Under the Maryland General Corporation Law, shares of capital stock that are repurchased are cancelled and treated as authorized but unissued shares. When a share of capital stock is repurchased, the payment of the repurchase price reduces stated capital by the par value of that share (currently, $0.01 for common stock and $0.00 for preferred stock), and any excess over par value reduces capital surplus. There were no stock repurchases in 2019 and 2018.

Adoption of New Accounting Standards and Effects of New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 is intended to improve financial reporting about leasing transactions by requiring organizations that lease assets – referred to as "lessees" – to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. The guidance also eliminates the current real estate-specific provision and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs. With respect to lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance, entities will also need to determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for the Corporation for annual and interim periods after December 15, 2018. The Corporation adopted ASU 2016-02 effective January 1, 2019. See Note 10 for additional details.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation, Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 was issued to require share-based payment transactions for acquiring goods and services from nonemployees be accounted for under the same guidance as those issued to employees. Among other things, the guidance requires non-employee share-based payments be measured at grant-date fair value of the equity instrument received. The Corporation adopted this guidance effective January 1, 2019. There was no effect on the consolidated financial statements upon adoption.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic* 842, Leases and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-10 provides improvements related to ASU 2016-02 to increase stakeholders' awareness of the amendments and to expedite the improvements. The amendments affect narrow aspects of the guidance issued in ASU 2016-02. ASU 2018-11 allows entities adopting ASU 2016-02 to choose an additional (and optional) transition method, under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening

balance of retained earnings in the period of adoption. ASU 2018-11 also allows lessors to not separate non-lease components from the associated lease component if certain conditions are met.

The Corporation elected the optional transition method permitted by ASU 2018-11. Under this method, an entity shall recognize and measure leases that exist at the application date and prior comparative periods are not adjusted. In addition, the Corporation elected the package of practical expedients to leases that commenced before the effective date:

1. An entity need not reassess whether any expired or existing contracts contain leases.
2. An entity need not reassess the lease classification for any expired or existing leases.
3. An entity need not reassess initial direct costs for any existing leases.

The Corporation also elected the practical expedient, which must be applied consistently to all leases, to use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. The Corporation recorded a ROU asset in the amount of approximately $2.7 million and a lease liability in the amount of approximately $3.3 million on the Consolidated Statement of Financial Condition upon adoption on January 1, 2019. The adoption did not have a material impact to the Consolidated Statements of Operations or Cash Flows.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* ASU 2017-12 is intended to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for the Corporation for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Corporation adopted ASU 2017-12 effective January 1, 2019. The adoption did not have a material impact on the Corporation's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchases financial assets with credit deterioration since their origination. The new model referred to as current expected credit losses ("CECL") model, will apply to: (a) financial assets subject to credit losses and measured at amortized cost; and (b) certain off-balance sheet credit exposures. This includes loans, held to maturity debt securities, loan commitments, financial guarantees and net investments in leases as well as reinsurance and trade receivables. The estimate of expected credit losses should consider historical information, current information, and supportable forecasts, including estimates of prepayments. ASU 2016-13 was originally effective for the SEC filers for annual periods beginning after December 15, 2019, and interim periods within those annual periods. In November 2019, the FASB approved a delay of the required implementation date of ASU No. 2016-13 for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities, including the Corporation, resulting in a required implementation date for the Corporation of January 1, 2023.

In January 2017, the FASB issued ASU 2017-04, *Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Instead, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit." The ASU does not change the qualitative assessment, however, it removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. ASU 2017-04 is effective for the Corporation for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Corporation early adopted the provisions of ASU 2017-04 effective December 31, 2019. This adoption did not have an impact on the Corporation's financial condition or results of operations.

2. Earnings Per Common Share

Basic earnings per common share is derived by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings per share is derived by dividing net income available to common shareholders by the weighted-average number of shares outstanding, adjusted for the dilutive effect of outstanding common stock equivalents. There were no common stock equivalents at December 31, 2019 or December 31, 2018.

The following table sets forth the calculation of basic and diluted earnings per common share for the years ended December 31, 2019 and 2018:

	2019			2018		
(in thousands, except for per share amount)	Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
Basic and Diluted Earnings Per Share:						
Net income	$ 13,129	7,101	$ 1.85	$ 10,667	7,079	$ 1.51

3. Net Gains

The following table summarizes the gain/(loss) activity for the years ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Net gains/(losses):		
Available-for-sale securities:		
Realized gains	$ 75	$ 151
Realized losses	(75)	(38)
Gain on sale of consumer loans	150	88
Loss on disposal of fixed assets	(3)	(74)
Net gains	$ 147	$ 127

4. Regulatory Capital Requirements

We require capital to fund loans, satisfy our obligations under the Bank's letters of credit, meet the deposit withdrawal demands of the Bank's customers, and satisfy our other monetary obligations. To the extent that deposits are not adequate to fund our capital requirements, we can rely on a number of funding sources, including an unsecured Fed Funds lines of credit with upstream correspondent banks; secured advances with the FHLB of Atlanta, which are collateralized by eligible one to four family residential mortgage loans, home equity lines of credit, commercial real estate loans, and various securities. Cash may also be pledged as collateral. In addition, First United Corporation has a secured line of credit with the Fed Discount Window for use in borrowing funds up to 90 days, using municipal securities as collateral; brokered deposits, including CDs and money market funds; and One Way Buy CDARS/ ICS funding, which is a form of brokered deposits that has become a viable supplement to brokered deposits obtained directly. At December 31, 2019, the Bank had $115.0 million available through unsecured lines of credit with correspondent banks, $2.1 million through a secured line of credit with the Fed Discount Window and approximately $143.7 million at the FHLB. Management is not aware of any demands, commitments, events or uncertainties that are likely to materially affect our ability to meet our future capital requirements.

The following table presents our capital ratios for years ended December 31, 2019 and 2018:

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total Capital (to risk-weighted assets)						
Consolidated	$ 182,941	16.29%	$ 89,837	8.00%	$ 112,296	10.00%
First United Bank & Trust	169,943	15.60%	87,159	8.00%	108,948	10.00%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	170,326	15.17%	67,378	6.00%	89,837	8.00%
First United Bank & Trust	157,328	14.44%	65,369	6.00%	87,159	8.00%
Common Equity Tier 1 Capital (to risk-weighted assets)						
Consolidated	143,614	12.79%	50,533	4.50%	72,992	6.50%
First United Bank & Trust	157,328	14.44%	49,027	4.50%	70,817	6.50%
Tier 1 Capital (to average assets)						
Consolidated	170,326	11.77%	57,491	4.00%	71,864	5.00%
First United Bank & Trust	157,328	10.99%	56,729	4.00%	70,912	5.00%

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total Capital (to risk-weighted assets)						
Consolidated	$ 169,905	15.91%	$ 85,431	8.00%	$ 106,789	10.00%
First United Bank & Trust	157,631	15.43%	81,729	8.00%	102,162	10.00%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	158,795	14.87%	64,073	6.00%	85,431	8.00%
First United Bank & Trust	146,521	14.35%	61,297	6.00%	81,729	8.00%
Common Equity Tier 1 Capital (to risk-weighted assets)						
Consolidated	132,938	12.45%	48,055	4.50%	69,413	6.50%
First United Bank & Trust	146,521	14.35%	45,973	4.50%	66,405	6.50%
Tier 1 Capital (to average assets)						
Consolidated	158,795	11.47%	55,136	4.00%	68,920	5.00%
First United Bank & Trust	146,521	10.70%	54,338	4.00%	67,922	5.00%

As of December 31, 2019 and 2018, the most recent notifications from the regulators categorized First United Corporation and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. The consolidated total risk-based capital ratios include $30.9 million of First United Corporation's junior subordinated debentures ("TPS Debentures") which qualified as Tier 1 capital at December 31, 2019 under guidance issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve").

At the Bank level, the ratios increased when comparing December 31, 2019 to December 31, 2018. At December 31, 2019, we were in compliance with the requirements.

5. Cash and Cash Equivalents

Cash and due from banks, which represents vault cash in the retail offices and invested cash balances at the Federal Reserve, is carried at fair value.

(in thousands)	December 31, 2019	December 31, 2018
Cash and due from banks, weighted average interest rate of 2.45% (at December 31, 2019)	$ 48,512	$ 22,187

Interest bearing deposits in banks, which represent funds invested at a correspondent bank, are carried at fair value and, as of December 31, 2019 and 2018, consisted of daily funds invested at the FHLB of Atlanta, and M&T Bank ("M&T"). In addition, at December 31, 2019, cash was pledged at Raymond James for the interest rate swap.

(in thousands)	December 31, 2019	December 31, 2018
FHLB daily investments, interest rate of 1.43% (at December 31, 2019)	$ 467	$ 338
M&T daily investments, interest rate of 0.15% (at December 31, 2018)	—	1,016
Raymond James pledged cash, interest rate of 1.55% (at December 31, 2019)	1,000	—
	$ 1,467	$ 1,354

6. Investment Securities

The following table shows a comparison of amortized cost and fair values of investment securities at December 31, 2019 and 2018:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCL
December 31, 2019					
Available for Sale:					
U.S. government agencies	$ 39,987	$ —	$ 93	$ 39,894	$ —
Residential mortgage-backed agencies	4,917	—	17	4,900	—
Commercial mortgage-backed agencies	27,634	222	92	27,764	—
Collateralized mortgage obligations	29,903	129	109	29,923	—
Obligations of states and political subdivisions	14,124	346	—	14,470	—
Collateralized debt obligations	18,443	—	4,089	14,354	(2,835)
Total available for sale	$ 135,008	$ 697	$ 4,400	$ 131,305	$ (2,835)
Held to Maturity:					
U.S. government agencies	$ 16,164	$ 659	$ —	$ 16,823	$ —
Residential mortgage-backed agencies	42,939	469	155	43,253	—
Commercial mortgage-backed agencies	15,521	344	—	15,865	—
Collateralized mortgage obligations	3,140	3	—	3,143	—
Obligations of states and political subdivisions	16,215	5,357	—	21,572	—
Total held to maturity	$ 93,979	$ 6,832	$ 155	$ 100,656	$ —
December 31, 2018					
Available for Sale:					
U.S. government agencies	$ 30,000	$ —	$ 974	$ 29,026	$ —
Commercial mortgage-backed agencies	39,013	—	1,261	37,752	—
Collateralized mortgage obligations	36,669	—	965	35,704	—
Obligations of states and political subdivisions	20,083	132	333	19,882	—
Collateralized debt obligations	18,358	—	3,081	15,277	(1,966)
Total available for sale	$ 144,123	$ 132	$ 6,614	$ 137,641	(1,966)
Held to Maturity:					
U.S. government agencies	$ 16,017	$ 120	$ —	$ 16,137	$ —
Residential mortgage-backed agencies	46,491	6	1,287	45,210	—
Commercial mortgage-backed agencies	15,821	75	68	15,828	—
Collateralized mortgage obligations	3,761	—	156	3,605	—
Obligations of states and political subdivisions	11,920	1,156	96	12,980	—
Total held to maturity	$ 94,010	$ 1,357	$ 1,607	$ 93,760	$ —

Proceeds from sales of available-for-sale securities and the realized gains and losses for the years ended December 31, 2019 and 2018 are as follows:

(in thousands)	2019	2018
Proceeds	$ 21,872	$ 2,005
Realized gains	75	151
Realized losses	75	38

The following table shows the Corporation's securities with gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized position, at December 31, 2019 and 2018:

	Less than 12 months			12 months or more		
(in thousands)	Fair Value	Unrealized Losses	Number of Investments	Fair Value	Unrealized Losses	Number of Investments
December 31, 2019						
Available for Sale:						
U.S. government agencies	$ 24,907	$ 80	3	$ 14,987	$ 13	3
Residential mortgage-backed agencies	4,900	17	1	—	—	—
Commercial mortgage-backed agencies	4,623	37	2	5,793	55	3
Collateralized mortgage obligations	—	—	—	35,472	109	1
Collateralized debt obligations	—	—	—	14,353	4,089	9
Total available for sale	$ 34,430	$ 134	6	$ 70,605	$ 4,266	16
Held to Maturity:						
Residential mortgage-backed agencies	$ 2,722	$ 6	3	$ 9,486	$ 149	12
Total held to maturity	$ 2,722	$ 6	3	$ 9,486	$ 149	12
December 31, 2018						
Available for Sale:						
U.S. government agencies	$ —	$ —	—	$ 29,026	$ 974	5
Commercial mortgage-backed agencies	—	—	—	37,752	1,261	8
Collateralized mortgage obligations	232	1	1	35,472	964	8
Obligations of states and political subdivisions	3,310	48	5	11,068	285	8
Collateralized debt obligations	5,987	438	4	9,290	2,643	5
Total available for sale	$ 9,529	$ 487	10	$ 122,608	$ 6,127	34
Held to Maturity:						
Residential mortgage-backed agencies	$ 3,605	$ 51	2	$ 41,448	$ 1,236	29
Commercial mortgage-backed agencies	—	—	—	7,656	68	1
Collateralized mortgage obligations	—	—	—	3,605	156	1
Obligations of states and political subdivisions	—	—	—	2,199	96	1
Total held to maturity	$ 3,605	$ 51	2	$ 54,908	$ 1,556	32

Management systematically evaluates securities for impairment on a quarterly basis. Based upon application of accounting guidance for subsequent measurement in ASC Topic 320 (ASC Section 320-10-35), management assesses whether (i) the Corporation has the intent to sell a security being evaluated and (ii) it is more likely than not that the Corporation will be required to sell the security prior to its anticipated recovery. If neither applies, then declines in the fair values of securities below their cost that are considered other-than-temporary declines are split into two components. The first is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses, which are recognized in other comprehensive loss. In estimating OTTI losses, management considers (a) the length of time and the extent to which the fair value has been less than cost, (b) adverse conditions specifically related to the security, an industry, or a geographic area, (c) the historic and implied volatility of the fair value of the security, (d) changes in the rating of the security by a rating agency, (e) recoveries or additional declines in fair value subsequent to the balance sheet date, (f) failure of the issuer of the security to make scheduled interest or principal payments, and (g) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future. Management also monitors cash flow projections for securities that are considered beneficial interests under the guidance of ASC Subtopic 325-40, *Investments – Other – Beneficial Interests in Securitized Financial Assets*, (ASC Section 325-40-35).

Management believes that the valuation of certain securities is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. Management utilizes an independent third party to prepare both the impairment valuations and fair value determinations for its collateralized debt obligation ("CDO") portfolio consisting of pooled trust preferred

securities. Management performs due diligence on the third-party processes and believes that it has an adequate understanding of the analysis, assumptions and methodology used by the third party to prepare the fair value determination and the OTTI evaluation. Management reviews the qualifications of the third party and believes they are qualified to provide the analysis and pricing determinations. Quarterly, management reviews the third party's detailed assumptions and analyzes its projected discounted present value results for reasonableness and consistency with the trend of prior projections. Annually, management performs stress tests of the assumptions used in the third party models and performs back tests of the assumptions and prepayment projections to validate the impairment model results. As a result of its due diligence process, management believes that the fair value presented and the OTTI recognized are appropriate. A total of $3.0 million in impairment losses was realized during the time period 2009 through 2011 on the CDO portfolio remaining at December 31, 2019. Due to the prior credit impairment, the securities in this portfolio have continued to be evaluated to determine whether any additional OTTI has occurred. Based on management's review of the third-party evaluations, management believes that there were no material differences in the relative valuations between December 31, 2019 and December 31, 2018.

Due to the duration and market value decline in the pooled trust preferred securities held in our portfolio, we performed more extensive testing on these securities for purposes of evaluating whether or not OTTI has occurred.

The market for these securities as of December 31, 2019 as well as the market for similar securities saw limited activity. The inactivity was evidenced by a decrease in the volume of trades relative to historical levels due to limited supply. In addition, the securities that traded were typically more senior in the capital structure. The new issue market is also inactive, as no new CDOs have been issued since 2007. There are currently very few market participants who are willing to effect transactions in these securities. The market values for these securities, or any securities other than those issued or guaranteed by the Treasury, are depressed relative to historical levels. In the current market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general rather than being an indicator of credit problems with a particular issue. Given the conditions in the current debt markets and the absence of observable transactions in the secondary and new issue markets, management has determined that (i) the few observable transactions and market quotations that are available are not reliable for the purpose of obtaining fair value at either December 31, 2018 or 2019, (ii) an income valuation approach technique (i.e. present value) that maximizes the use of relevant unobservable inputs and minimizes the use of observable inputs will be equally or more representative of fair value than a market approach, and (iii) the CDO segment is appropriately classified within Level 3 of the valuation hierarchy because management determined that significant adjustments were required to determine fair value at the measurement date.

Management utilizes an independent third party to prepare both the evaluations of OTTI and the fair value determinations for the CDO portfolio. Management does not believe that there were any material differences in the OTTI evaluations and pricing between December 31, 2018 and December 31, 2019.

The approach used by the third party to determine fair value involved several steps, which included detailed credit and structural evaluation of each piece of collateral in each bond, projection of default, recovery and prepayment/amortization probabilities for each piece of collateral in the bond, and discounted cash flow modeling. The discount rate methodology used by the third party combines a baseline current market yield for comparable corporate and structured credit products with adjustments based on evaluations of the differences found in structure and risks associated with actual and projected credit performance of each CDO being valued. Currently, the only active and liquid trading market that exists is for stand-alone trust preferred securities, with a limited market for highly-rated CDO securities that are more senior in the capital structure than the securities in the CDO portfolio. Therefore, adjustments to the baseline discount rate are also made to reflect the additional leverage found in structured instruments.

On December 10, 2013, to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Treasury, the federal banking regulators including FDIC, and the SEC adopted the Volcker Rule. The Volcker Rule prohibits a banking institution from acquiring or retaining an "ownership interest" in a "covered fund". A "covered fund" is (i) an entity that would be an investment company under the Investment Company Act of 1940, as amended, but for the exemptions contained in Section 3(c)(1) or Section 3(c)(7) of that Act, (ii) a commodity pool with certain characteristics, and/or (iii) a non-US entity with certain characteristics that is sponsored or owned by a banking entity located or organized in the US. The term "ownership interest" is defined as "any equity, partnership, or other similar interest." On January 14, 2014, the federal banking agencies adopted a final interim rule that exempts CDOs from the scope of the Volcker Rule if they were issued in offerings in which, among other things, the proceeds were used primarily to purchase securities issued by depository institutions and their affiliates. In connection with that final interim rule, the agencies published a non-exclusive list of exempt offerings. All of the CDOs included in the Corporation's investment portfolio at December 31, 2019 were exempt.

The following table presents a cumulative roll-forward of the amount of non-cash OTTI charges related to credit losses which have been recognized in earnings for the trust preferred securities in the CDO portfolio held and not intended to be sold for the years ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Balance of credit-related OTTI at January 1	$ 2,646	$ 2,958
Reduction for increases in cash flows expected to be collected	(200)	(312)
Balance of credit-related OTTI at December 31	$ 2,446	$ 2,646

The amortized cost and estimated fair value of securities by contractual maturity at December 31, 2019 are shown in the following table. Actual maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Amortized Cost	Fair Value
Contractual Maturity		
Available for sale:		
Due after one year through five years	19,457	19,485
Due after five years through ten years	25,245	25,170
Due after ten years	27,852	24,063
	72,554	68,718
Residential mortgage-backed agencies	4,917	4,900
Commercial mortgage-backed agencies	27,634	27,764
Collateralized mortgage obligations	29,903	29,923
Total available for sale	$ 135,008	$ 131,305
Held to Maturity:		
Due after one year through five years	$ 16,164	$ 16,823
Due after ten years	16,215	21,572
	32,379	38,395
Residential mortgage-backed agencies	42,939	43,253
Commercial mortgage-backed agencies	15,521	15,865
Collateralized mortgage obligations	3,140	3,143
Total held to maturity	$ 93,979	$ 100,656

At December 31, 2019 and 2018, investment securities with a value of $136.6 million and $123.2 million, respectively, were pledged as permitted or required to secure public deposits, for securities sold under agreements to repurchase as required or permitted by law and as collateral for borrowing capacity.

7. Loans and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of December 31, 2019 and December 31, 2018:

(in thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
December 31, 2019						
Individually evaluated for impairment	$ 3,179	$ 8,570	$ 30	$ 3,391	$ 4	$ 15,174
Collectively evaluated for impairment	$ 332,325	$ 109,320	$ 122,322	$ 436,782	$ 36,195	$ 1,036,944
Total loans	$ 335,504	$ 117,890	$ 122,352	$ 440,173	$ 36,199	$ 1,052,118
December 31, 2018						
Individually evaluated for impairment	$ 5,239	$ 693	$ 17	$ 4,616	$ 10	$ 10,575
Collectively evaluated for impairment	$ 301,682	$ 117,667	$ 111,449	$ 432,291	$ 34,050	$ 997,139
Total loans	$ 306,921	$ 118,360	$ 111,466	$ 436,907	$ 34,060	$ 1,007,714

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The CRE loan segment is further disaggregated into two classes. Non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, generally have a greater risk profile than all other CRE loans, which include loans secured by farmland, multifamily structures and owner-occupied commercial structures. The A&D loan segment is further

disaggregated into two classes. One-to-four family residential construction loans are generally made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. All other A&D loans are generally made to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures. These loans have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the A&D loan. The C&I loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The consumer loan segment consists primarily of installment loans (direct and indirect) and overdraft lines of credit connected with customer deposit accounts.

In the ordinary course of business, executive officers and directors of the Corporation, including their families and companies in which certain directors are principal owners, were loan customers of the Bank. Pursuant to the Bank's lending policies, such loans were made on the same terms, including collateral, as those prevailing at the time for comparable transactions with persons who are not related to the Corporation and do not involve more than the normal risk of collectability. Changes in the dollar amount of loans outstanding to officers, directors and their associates were as follows for the year ended December 31:

(in thousands)	2019
Balance at January 1	$ 8,949
Loans or advances	5,046
Repayments	(4,518)
Balance at December 31	$ 9,477

Management uses a 10-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Only the portion of a specific allocation of the allowance for loan losses that management believes is associated with a pending event that could trigger loss in the short term is classified in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category. It is possible for a loan to be classified as Substandard in the internal risk rating system, but not considered impaired under GAAP, due to the broader reach of "well-defined weaknesses" in the application of the Substandard definition.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in the commercial segments at origination and on an ongoing basis. The Bank's experienced Credit Quality and Loan Review Department performs an annual review of all commercial relationships of $500,000 or greater. Confirmation of the appropriate risk grade is included as part of the review process on an ongoing basis. The Credit Quality and Loan Review Department continually reviews and assesses loans within the portfolio. In addition, the Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than $1,000,000 and/or criticized non-consumer loans greater than $500,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention and Substandard. There were no loans classified as Doubtful within the internal risk rating system as of December 31, 2019 and 2018:

(in thousands)	**Pass**	**Special Mention**	**Substandard**	**Total**
December 31, 2019				
Commercial real estate				
Non owner-occupied	$ 164,584	$ 2,765	$ 1,864	$ 169,213
All other CRE	157,407	6,556	2,328	166,291
Acquisition and development				
1-4 family residential construction	10,781	—	—	10,781
All other A&D	98,823	18	8,268	107,109
Commercial and industrial	116,221	2,896	3,235	122,352
Residential mortgage				
Residential mortgage - term	365,899	59	5,597	371,555
Residential mortgage – home equity	67,143	139	1,336	68,618
Consumer	36,047	4	148	36,199
Total	$ 1,016,905	$ 12,437	$ 22,776	$ 1,052,118
December 31, 2018				
Commercial real estate				
Non owner-occupied	$ 145,260	$ 2,904	$ 2,348	$ 150,512
All other CRE	149,076	1,752	5,581	156,409
Acquisition and development				
1-4 family residential construction	16,003	—	—	16,003
All other A&D	94,428	7,378	551	102,357
Commercial and industrial	107,174	3,703	589	111,466
Residential mortgage				
Residential mortgage - term	359,305	—	4,703	364,008
Residential mortgage – home equity	71,666	143	1,090	72,899
Consumer	33,952	4	104	34,060
Total	$ 976,864	$ 15,884	$ 14,966	$ 1,007,714

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. A loan is considered to be past due when a payment has not been received for 30 days past its contractual due date. For all loan segments, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. All non-accrual loans are considered to be impaired. Interest payments received on non-accrual loans are applied as a reduction of the loan principal balance. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Corporation’s policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The increase in substandard loans was primarily due to one large A&D loan totaling $8.0 million. This loan is a participation development loan originally booked in 2013, which entered into a forbearance agreement in the first quarter 2019.

The following table presents the classes of the loan portfolio at December 31, 2019 and December 31, 2018, summarized by the aging categories of performing loans and non-accrual loans:

(in thousands)	Current	30-59 Day Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due and still accruing	Non-Accrual	Total Loans
December 31, 2019							
Commercial real estate							
Non owner-occupied	$ 169,180	$ —	$ —	$ —	$ —	$ 33	$ 169,213
All other CRE	165,289	—	355	—	355	647	166,291
Acquisition and development							
1-4 family residential construction	10,781	—	—	—	—	—	10,781
All other A&D	98,916	—	—	135	135	8,058	107,109
Commercial and industrial	122,050	272	—	—	272	30	122,352
Residential mortgage							
Residential mortgage - term	368,631	267	967	471	1,705	1,219	371,555
Residential mortgage – home equity	67,121	288	286	65	639	858	68,618
Consumer	35,834	261	46	54	361	4	36,199
Total	$ 1,037,802	$ 1,088	$ 1,654	$ 725	$ 3,467	$ 10,849	$ 1,052,118
December 31, 2018							
Commercial real estate							
Non owner-occupied	$ 150,339	$ —	$ —	$ —	$ —	$ 173	$ 150,512
All other CRE	153,977	464	—	—	464	1,968	156,409
Acquisition and development							
1-4 family residential construction	16,003	—	—	—	—	—	16,003
All other A&D	94,540	197	7,411	62	7,670	147	102,357
Commercial and industrial	111,436	29	1	—	30	—	111,466
Residential mortgage							
Residential mortgage - term	360,073	302	1,359	363	2,024	1,911	364,008
Residential mortgage – home equity	71,611	461	114	—	575	713	72,899
Consumer	33,832	140	73	5	218	10	34,060
Total	$ 991,811	$ 1,593	$ 8,958	$ 430	$ 10,981	$ 4,922	$ 1,007,714

Non-accrual loans which have been subject to a partial charge-off totaled $.1 million at December 31, 2019, compared to $.3 million at December 31, 2018. The amount of loans secured by 1-4 family residential real estate properties in the process of foreclosure was $.1 million at December 31, 2019 and $.3 million at December 31, 2018.

The ALL is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35, *Receivables-Overall-Subsequent Measurement*, for loans individually evaluated for impairment and ASC Subtopic 450-20, *Contingencies-Loss Contingencies*, for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL.

(in thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Unallocated	Total
December 31, 2019							
Individually evaluated for impairment	$ 9	$ 2,142	$ —	$ 22	$ —	$ —	$ 2,173
Collectively evaluated for impairment	$ 2,873	$ 1,532	$ 1,341	$ 3,806	$ 312	$ 500	$ 10,364
Total ALL	$ 2,882	$ 3,674	$ 1,341	$ 3,828	$ 312	$ 500	$ 12,537
December 31, 2018							
Individually evaluated for impairment	$ 13	$ 25	$ —	$ 106	$ —	$ —	$ 144
Collectively evaluated for impairment	$ 2,767	$ 1,696	$ 1,187	$ 4,438	$ 315	$ 500	$ 10,903
Total ALL	$ 2,780	$ 1,721	$ 1,187	$ 4,544	$ 315	$ 500	$ 11,047

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $500,000 or is part of a relationship that is greater than $750,000 and (i) is either in non-accrual status or (ii) is risk-rated Substandard

and is greater than 60 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Bank does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of larger relationship that is impaired; otherwise loans in these segments are considered impaired when they are classified as non-accrual.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (i) the present value of expected future cash flows discounted at the loan’s effective interest rate; (ii) the loan’s observable market price; or (iii) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management utilizing the fair value of collateral method for all of the analyses. If the fair value of the collateral less selling costs method is utilized for collateral securing loans in the commercial segments, then an updated external appraisal is ordered on the collateral supporting the loan if the loan balance is greater than $500,000 and the existing appraisal is greater than 18 months old. If the loan balance is less than $500,000, then the estimated fair value of the collateral is determined by adjusting the existing appraisal by the appropriate percentage from an internally prepared appraisal discount grid. This grid considers the age of a third-party appraisal and the geographic region where the collateral is located in order to discount an appraisal. The discount rates in the appraisal discount grid are updated at least annually to reflect the most current knowledge that management has available, including the results of current appraisals. If there is a delay in receiving an updated appraisal or if the appraisal is found to be deficient in our internal appraisal review process and re-ordered, the Bank continues to use a discount factor from the appraisal discount grid based on the collateral location and current appraisal age in order to determine the estimated fair value. If management believes that general market conditions in that geographic market have changed considerably, the property has deteriorated or perhaps lost an income stream, or a recent appraisal for a similar property indicates a significant change, then management may adjust the fair value indicated by the existing appraisal until a new appraisal is obtained. A specific allocation of the ALL is recorded if there is any deficiency in collateral value determined by comparing the estimated fair value to the recorded investment of the loan. When updated appraisals are received and reviewed, adjustments are made to the specific allocation as needed.

The evaluation of the need and amount of a specific allocation of the ALL and whether a loan can be removed from impairment status is made on a quarterly basis.

The following table presents impaired loans by class, at December 31, 2019 and December 31, 2018, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
(in thousands)	Recorded Investment	Related Allowances	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2019					
Commercial real estate					
Non owner-occupied	$ 116	$ 9	$ 33	$ 149	$ 8,224
All other CRE	—	—	3,030	3,030	3,030
Acquisition and development					
1-4 family residential construction	—	—	291	291	291
All other A&D	8,219	2,142	60	8,279	8,340
Commercial and industrial	—	—	30	30	2,266
Residential mortgage					
Residential mortgage - term	865	22	1,668	2,533	2,724
Residential mortgage – home equity	—	—	858	858	986
Consumer	—	—	4	4	4
Total impaired loans	$ 9,200	$ 2,173	$ 5,974	$ 15,174	$ 25,865
December 31, 2018					
Commercial real estate					
Non owner-occupied	$ 121	$ 13	$ 173	$ 294	$ 8,488
All other CRE	—	—	4,945	4,945	4,945
Acquisition and development					
1-4 family residential construction	—	—	316	316	316
All other A&D	230	25	147	377	525
Commercial and industrial	—	—	17	17	2,231
Residential mortgage					
Residential mortgage - term	993	106	2,910	3,903	4,130
Residential mortgage – home equity	—	—	713	713	726
Consumer	—	—	10	10	10
Total impaired loans	$ 1,344	$ 144	$ 9,231	$ 10,575	$ 21,371

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL analysis. Management tracks the historical net charge-off activity (full and partial charge-offs, net of full and partial recoveries) at the call code level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical quarters. Consumer pools currently utilize a rolling 12 quarters, while Commercial pools currently utilize a rolling eight quarters.

"Pass" rated credits are segregated from "Criticized" credits for the application of qualitative factors. The un-criticized ("pass") pools for commercial and residential real estate are further segmented based upon the geographic location of the underlying collateral. There are seven geographic regions utilized – six that represent the Bank's lending footprint and a seventh for all out-of-market credits. Different economic environments and resultant credit risks exist in each region that are acknowledged in the assignment of qualitative factors. Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors.

Management supplements the historical charge-off factor with a number of additional qualitative factors that are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors, which are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources, are: (i) national and local economic trends and conditions; (ii) levels of and trends in delinquency rates and non-accrual loans; (iii) trends in volumes and terms of loans; (iv) effects of changes in lending policies; (v) experience, ability, and depth of lending staff; (vi) value of underlying collateral; and (vii) concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Residential mortgage and consumer loans are charged off after they are 120 days contractually past due. All other loans are charged off based on an evaluation of the facts and circumstances of each individual loan. When the Bank believes that its ability to collect is solely dependent on the liquidation of the collateral, a full or partial charge-off is recorded promptly to bring the recorded investment to an amount that the Bank believes is supported by an ability to collect on the collateral. The circumstances that may impact the Bank's decision to charge-off all or a portion of a loan include default or non-payment by the borrower, scheduled foreclosure actions, and/or prioritization of the Bank's claim in bankruptcy. There may be circumstances where due to pending events, the Bank will place a specific allocation of the ALL on a loan for which a partial charge-off has been previously recognized. This specific allocation may be either charged-off or removed depending upon the outcome of the pending event. Full or partial charge-offs are not recovered until full principal and interest on the loan have been collected, even if a subsequent appraisal supports a higher value. In most cases, loans with partial charge-offs remain in non-accrual status. Both full and partial charge-offs reduce the recorded investment of the loan and the ALL and are considered to be charge-offs for purposes of all credit loss metrics and trends, including the historical rolling charge-off rates used in the determination of the ALL.

Activity in the ALL is presented for the years ended December 31, 2019 and December 31, 2018:

(in thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Unallocated	Total
ALL balance at January 1, 2019	$ 2,780	$ 1,721	$ 1,187	$ 4,544	$ 315	$ 500	$ 11,047
Charge-offs	(41)	(29)	(126)	(200)	(320)	—	(716)
Recoveries	150	165	77	347	147	—	886
Provision	(7)	1,817	203	(863)	170	—	1,320
ALL balance at December 31, 2019	$ 2,882	$ 3,674	$ 1,341	$ 3,828	$ 312	$ 500	$ 12,537
ALL balance at January 1, 2018	$ 3,699	$ 1,257	$ 869	$ 3,444	$ 203	$ 500	$ 9,972
Charge-offs	(1,298)	(170)	(32)	(368)	(422)	—	(2,290)
Recoveries	319	344	89	353	149	—	1,254
Provision	60	290	261	1,115	385	—	2,111
ALL balance at December 31, 2018	$ 2,780	$ 1,721	$ 1,187	$ 4,544	$ 315	$ 500	$ 11,047

The ALL is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

The following table presents the average recorded investment in impaired loans and related interest income recognized for the years ended December 31, 2019 and 2018:

	2019			2018		
(in thousands)	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis
Commercial real estate						
Non owner-occupied	$ 222	$ 12	$ —	$ 1,432	$ 12	$ 66
All other CRE	4,322	149	73	5,385	195	59
Acquisition and development						
1-4 family residential construction	244	11	—	443	24	—
All other A&D	6,505	19	—	355	12	—
Commercial and industrial	26	—	—	265	13	—
Residential mortgage						
Residential mortgage - term	2,971	96	10	3,632	124	2
Residential mortgage – home equity	870	—	4	611	—	7
Consumer	10	—	—	22	—	—
Total	$ 15,170	$ 287	$ 87	$ 12,145	$ 380	$ 134

In the normal course of business, the Bank modifies loan terms for various reasons. These reasons may include as a retention strategy to compete in the current interest rate environment, and to re-amortize or extend a loan term to better match the loan's payment stream with the borrower's cash flows. A modified loan is considered to be a TDR when the Bank has determined that the borrower is troubled (i.e. experiencing financial difficulties). The Bank evaluates the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. To make this determination, the Bank performs a global financial review of the borrower and loan guarantors to assess their current ability to meet their financial obligations.

When the Bank restructures a loan to a troubled borrower, the loan terms (i.e. interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified debt service payments based on current financials and cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Bank obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Bank in the best possible position if the borrower is not able to meet the modified terms. To date, the Bank has not forgiven any principal as a restructuring concession. The Bank will not offer modified terms if it believes that modifying the loan terms will only delay an inevitable permanent default.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Corporation's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition. Accordingly, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. If the loan was accruing at the time of the modification, then it continues to be in accruing status subsequent to the modification. Non-accrual TDRs may return to accruing status when there has been sufficient payment performance for a period of at least six months. TDRs are considered to be in payment default if, subsequent to modification, the loans are transferred to non-accrual status or to foreclosure. A loan may be removed from being reported as a TDR in the calendar year following the modification if the interest rate at the time of modification was consistent with the interest rate for a loan with comparable credit risk and the loan has performed according to its modified terms for at least six months. Further, a loan that has been removed from TDR reporting status and has been subsequently re-modified at standard market terms, may be removed from impaired status as well.

The volume, type and performance of TDR activity is considered in the assessment of the local economic trend qualitative factor used in the determination of the ALL for loans that are evaluated collectively for impairment.

There were 15 loans totaling $4.2 million and 16 loans totaling $4.9 million that were classified as TDRs at December 31, 2019 and December 31, 2018, respectively. The following table presents the volume and recorded investment at the time of modification of TDRs by class and type of modification that occurred during the periods indicated:

	Temporary Rate Modification		Extension of Maturity		Modification of Payment and Other Terms	
(Dollars in thousands)	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**
For the year ended December 31, 2019						
Commercial real estate						
Non owner-occupied	—	$ —	—	$ —	—	$ —
All other CRE	—	—	—	—	—	—
Acquisition and development						
1-4 family residential construction	—	—	—	—	—	—
All other A&D	—	—	—	—	1	227
Commercial and industrial	—	—	—	—	—	—
Residential mortgage						
Residential mortgage – term	2	244	—	—	1	243
Residential mortgage – home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	2	$ 244	—	$ —	2	$ 470
For the year ended December 31, 2018						
Commercial real estate						
Non owner-occupied	—	$ —	—	$ —	3	$ 358
All other CRE	—	—	1	179	—	—
Acquisition and development						
1-4 family residential construction	—	—	1	387	—	—
All other A&D	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Residential mortgage						
Residential mortgage – term	—	—	—	—	1	435
Residential mortgage – home equity	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	—	$ —	2	$ 566	4	$ 793

During the year ended December 31, 2019, there were two new TDRs totaling $.2 million, and two existing TDRs that had reached their original modification maturity were re-modified. These re-modifications did not impact the ALL.

During the year ended December 31, 2019, there were no payment defaults. There were no additional funds committed to be advanced in connection with TDRs at December 31, 2019 or 2018.

8. Other Real Estate Owned

The following table presents the components of OREO, net of related valuation allowance, as of December 31, 2019 and 2018:

(in thousands)	**2019**	**2018**
Commercial real estate	$ 2,256	$ 2,599
Acquisition and development	1,780	3,218
Commercial & Industrial	—	24
Residential mortgage	91	757
Total OREO	$ 4,127	$ 6,598

The following table presents the activity in the OREO valuation allowance for the years ended December 31, 2019 and 2018:

(in thousands)	**2019**	**2018**
Balance January 1	$ 1,988	$ 2,740
Fair value write-down	1,459	1,356
Sales of OREO	(1,657)	(2,108)
Balance December 31	$ 1,790	$ 1,988

The following table presents the components of OREO expenses, net, for the years ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Gains on real estate, net	$ (160)	$ (260)
Fair value write-down	1,459	1,356
Expenses, net	319	486
Rental and other income	(76)	(126)
Total OREO expenses, net	$ 1,542	$ 1,456

9. Premises and Equipment

The following table presents the components of premises and equipment at December 31, 2019 and 2018:

(in thousands)	2019	2018
Land	$ 7,035	$ 7,035
Land Improvements	1,389	1,343
Premises	33,996	30,848
Furniture and Equipment	18,443	20,702
Capital Lease	—	534
	60,863	60,462
Less accumulated depreciation	(22,153)	(22,607)
Total	$ 38,710	$ 37,855

The Corporation recorded depreciation expense of $3.1 million in 2019 and $2.4 million in 2018.

10. Leases

On January 1, 2019, the Corporation adopted ASU 2016-02, “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842. The adoption of Topic 842 affected the accounting treatment for operating lease agreements in which the Corporation is the lessee.

Substantially all of the leases in which the Corporation is the lessee are comprised of real estate property for branches, ATM locations, and office equipment with terms extending through 2030. All of the Corporation’s leases are now classified as operating leases and, therefore, were previously not recognized on the Corporation’s Consolidated Statement of Financial Condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Statement of Financial Condition as a right-of-use (“ROU”) asset and a corresponding lease liability.

The following table represents the Consolidated Statement of Financial Condition classification of the Corporation’s ROU assets and lease liabilities. The Corporation elected not to include short-term leases (i.e., leases with remaining terms of 12 months or less), or equipment leases that were deemed immaterial on the Consolidated Statement of Financial Condition.

(in thousands)	December 31, 2019
Lease Right-of Use Assets	
Operating lease right-of-use assets	$ 2,661
Lease Liabilities	
Operating lease liabilities	$ 3,239

In calculating the present value of the lease payments, the Corporation has utilized its incremental borrowing rate based on electing the original lease term to account for each lease component.

The following table presents the weighted-average lease term and discount rate for operating leases at December 31, 2019:

	December 31, 2019
Weighted-average remaining lease term	
Operating leases	8.65 years
Weighted-average discount rate	

Operating leases	5.08%

The Corporation elected, for all classes of underlying assets, to separate lease and non-lease components. Total operating lease expense for the year ended December 31, 2019 was $.5 million. Short-term lease expense was $46 thousand for the year ended December 31, 2019.

Future minimum payments for operating leases with initial or remaining terms of one year or more at December 31, 2019 were as follows:

(in thousands)		
2020	$	467
2021		485
2022		492
2023		426
2024		398
Thereafter		1,778
Total future minimum lease payments		4,046
Amounts representing interest		(807)
Present value of net future minimum lease payments	$	3,239

11. Deposits

The aggregate amount of time deposits in denomination of $250,000 or more was $93.6 million at December 31, 2019 and $99.1 million at December 31, 2018. The aggregate amount of time deposits with a minimum denomination of $100,000 was $157.7 million and $152.3 million at December 31, 2019 and 2018, respectively. At December 31, 2019, $.3 million of deposit overdrafts were re-classified as loans.

The following is a summary of the scheduled maturities of all time deposits as of December 31, 2019 (in thousands):

2020	$	114,234
2021		81,279
2022		47,811
2023		7,214
2024		3,352
Thereafter		—
Total	$	253,890

In the ordinary course of business, executive officers and directors of the Corporation, including their families and companies in which certain directors are principal owners, were deposit customers of the Bank. Pursuant to the Bank's policies, such deposits are on the same terms as those prevailing at the time for comparable deposits with persons who are not related to the Corporation. At December 31, 2019, executive officers and directors had approximately $7.8 million in deposits with the Bank compared to $6.2 million at December 31, 2018.

12. Borrowed Funds

The following is a summary of short-term borrowings at December 31, 2019 and 2018 with original maturities of less than one year:

(Dollars in thousands)	2019	2018
Overnight borrowings, weighted average interest rate of 2.70% at December 31, 2018	$ —	$ 40,000
Securities sold under agreements to repurchase:		
Outstanding at end of year	$ 48,728	$ 37,707
Weighted average interest rate at year end	0.23%	0.24%
Maximum amount outstanding as of any month end	$ 50,345	$ 55,648
Average amount outstanding	$ 39,778	$ 44,045
Approximate weighted average rate during the year	0.28%	0.20%

At December 31, 2019, the repurchase agreements were secured by $58.3 million in investment securities.

The following is a summary of long-term borrowings at December 31, 2019 and 2018 with original maturities exceeding one year:

(In thousands)	2019	2018
FHLB advances, bearing fixed interest rates ranging from 2.17% to 3.34% at December 31, 2019	$ 70,000	$ 70,000
Junior subordinated debt, bearing variable interest rate of 4.65% at December 31, 2019	30,929	30,929
Total long-term debt	$ 100,929	$ 100,929

At December 31, 2019, the long-term FHLB advances were secured by $213.7 million in loans.

The contractual maturities of long-term borrowings at December 31, 2019 and 2018 are as follows:

	2019			2018
(in thousands)	Fixed Rate	Floating Rate	Total	Total
Due in 2020	$ —	$ —	$ —	$ 20,000
Due in 2021	20,000	—	20,000	30,000
Due in 2022	—	—	—	20,000
Due in 2023	30,000	—	30,000	—
Due in 2024	20,000	—	20,000	—
Thereafter	—	30,929	30,929	30,929
Total long-term debt	$ 70,000	$ 30,929	$ 100,929	$ 100,929

The Bank has a borrowing capacity agreement with the FHLB in an amount equal to 30% of the Bank's assets. At December 31, 2019, the available line of credit equaled $427.0 million. This line of credit, which can be used for both short and long-term funding, can only be utilized to the extent of available collateral. The line is secured by certain qualified mortgage, commercial and home equity loans and investment securities as follows (in thousands):

1-4 family mortgage loans	$ 154,300
Commercial loans	31,735
Multi-family loans	4,434
Home equity loans	23,278
	$ 213,747

At December 31, 2019, $143.7 million was available for additional borrowings.

The Bank also has various unsecured lines of credit totaling $115.0 million with various financial institutions and a $ 2.1 million secured line with the Federal Reserve to meet daily liquidity requirements. At December 31, 2019, there were no borrowings under these credit facilities. In addition, there was approximately $113.2 million of available funding through brokered money market funds at December 31, 2019.

Repurchase Agreements - The Bank has retail repurchase agreements with customers within its local market areas. Repurchase agreements generally have maturities of one to four days from the transaction date. These borrowings are collateralized with securities that we own and are held in safekeeping at independent correspondent banks.

FHLB Advances - The FHLB advances consist of various borrowings with maturities generally ranging from five to 10 years with initial fixed rate periods of one, two or three years. After the initial fixed rate period, the FHLB has one or more options to convert each advance to a LIBOR based, variable rate advance, but the Bank may repay the advance in whole or in part, without a penalty, if the FHLB exercises its option. At all other times, the Bank's early repayment of any advance could be subject to a prepayment penalty.

13. Junior Subordinated Debentures and Restrictions on Dividends

In March 2004, Trust I and Trust II issued preferred securities with an aggregate liquidation amount of $30.0 million to third-party investors and issued common equity with an aggregate liquidation amount of $.9 million to First United Corporation. These Trusts used the proceeds of these offerings to purchase an equal amount of TPS Debentures, as follows:

$20.6 million—floating rate payable quarterly based on three-month LIBOR plus 275 basis points (4.65% at December 31, 2019), maturing in 2034, became redeemable five years after issuance at First United Corporation's option.

$10.3 million--floating rate payable quarterly based on three-month LIBOR plus 275 basis points (4.65% at December 31, 2019) maturing in 2034, became redeemable five years after issuance at First United Corporation's option.

The TPS Debentures issued to each of the Trusts represent the sole assets of that Trust, and payments of the TPS Debentures by First United Corporation are the only sources of cash flow for the Trust. First United Corporation has the right, without triggering a default, to defer interest on all of the TPS Debentures for up to 20 quarterly periods, in which case distributions on the preferred securities will also be deferred. Should this occur, the Corporation may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. Refer to Note 4 for further details.

14. Goodwill

ASC Topic 350, *Intangibles - Goodwill and Other*, establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. The $11.0 million in recorded goodwill at December 31, 2019 is related to the Bank's 2003 acquisition of Huntington National Bank branches and is not subject to periodic amortization, but evaluated annually for impairment.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of each of an entity's reporting units be compared to the carrying amount of its net assets, including goodwill. If the estimated current fair value of the reporting unit exceeds its carrying value, then no additional testing is required and an impairment loss is not recorded. Otherwise, additional testing is performed and, to the extent such additional testing results in a conclusion that the carrying value of goodwill exceeds its implied fair value, an impairment loss is recognized.

For evaluation purposes, the Corporation is considered to be a single reporting unit. Accordingly, our goodwill relates to value inherent in the banking business and the value is dependent upon our ability to provide quality, cost effective services in a highly competitive local market. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of our services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill, which could adversely impact earnings in future periods. ASC Topic 350 requires an annual evaluation of goodwill for impairment. The determination of whether or not these assets are impaired involves significant judgments and estimates.

At December 31, 2019, the date of the Corporation's annual impairment evaluation, the estimated fair value of the Corporation, as determined by the price of its common stock, exceeded the carrying amount of the Corporation's common equity. Based on this analysis, management concluded that the recorded value of goodwill at December 31, 2019 was not impaired. However, future changes in strategy and/or market conditions could significantly impact this conclusion and require adjustments to recorded asset balances. Management will continue to evaluate goodwill for impairment on an annual basis and as events occur or circumstances change.

15. Variable Interest Entities

As noted in Note 13, First United Corporation created the Trusts for the purposes of raising regulatory capital through the sale of mandatorily redeemable preferred capital securities to third party investors and common equity interests to First United Corporation. The Trusts are considered VIEs, but are not consolidated because First United Corporation is not the primary beneficiary of the Trusts. At December 31, 2019, the Corporation reported all of the $30.9 million of TPS Debentures issued in connection with these offerings as long-term borrowings, and it reported its $.9 million equity interest in the Trusts as "Other Assets".

In November 2009, the Bank became a 99.99% limited partner in Liberty Mews. Liberty Mews was financed with a total of $10.6 million of funding, including a $6.1 million equity contribution from the Bank as the limited partner. Liberty Mews used the proceeds from these sources to purchase land and construct thereon a 36-unit low income housing rental complex at a total cost of $10.6 million. The total assets of Liberty Mews were $8.0 million at December 31, 2019 and $8.2 million at December 31, 2018.

Through December 31, 2019, the Bank had made contributions to Liberty Mews totaling $6.1 million. The project for which Liberty Mews was formed was completed in June 2011, and the Bank is entitled to $8.4 million in federal investment tax credits over a 10-year period as long as certain qualifying hurdles are maintained. The Bank will also receive the benefit of tax operating losses from

Liberty Mews the extent of its capital contribution. The investment in Liberty Mews assists the Bank in achieving its community reinvestment initiatives.

Because Liberty Mews is considered to be a VIE, management performed an analysis to determine whether its involvement with Liberty Mews would lead it to determine that it must consolidate Liberty Mews. In performing its analysis, management evaluated the risks creating the variability in Liberty Mews and identified which activities most significantly impact the VIE's economic performance. Finally, it examined each of the variable interest holders to determine which, if any, of the holders was the primary beneficiary based on their power to direct the most significant activities and their obligation to absorb potentially significant losses of Liberty Mews.

The Bank, as a limited partner, generally has no voting rights. The Bank is not in any way involved in the daily management of Liberty Mews and has no other rights that provide it with the power to direct the activities that most significantly impact Liberty Mews' economic performance, which are to develop and operate the housing project in such a manner that complies with specific tax credit guidelines. As a limited partner, there is no recourse to the Bank by the creditors of Liberty Mews. The tax credits that result from the Bank's investment in Liberty Mews are generally subject to recapture should the partnership fail to comply with the applicable government regulations. The Bank has not provided any financial or other support to Liberty Mews beyond its required capital contributions and does not anticipate providing such support in the future. Management currently believes that no material losses are probable as a result of the Bank's investment in Liberty Mews.

On the basis of management's analysis, the general partner is deemed to be the primary beneficiary of Liberty Mews. Because the Bank is not the primary beneficiary, Liberty Mews has not been included in the Corporation's consolidated financial statements.

The Corporation accounts for the Bank's investment in Liberty Mews utilizing the effective yield method under guidance that applies specifically to investments in limited partnerships that operate qualified affordable housing projects. Under the effective yield method, the investor recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the investor. The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the investor. The tax credit allocated, net of the amortization of the investment in the limited partnership, is recognized in the income statement as a component of income taxes attributable to continuing operations.

The Corporation's tax expense for the year ended December 31, 2019 was approximately $.8 million lower than for 2018 as a result of the impact of the tax credits and the tax losses relating to the partnership.

At December 31, 2019 and December 31, 2018, the Corporation included the Bank's total investment in Liberty Mews in "Other Assets" in its Consolidated Statements of Financial Condition. As of December 31, 2019, the Corporation's commitment in Liberty Mews is fully funded. The following table presents details of the Bank's involvement with Liberty Mews at the dates indicated:

(In thousands)	**2019**	**2018**
Investment in LIHTC Partnership		
Carrying amount on Balance Sheet of:		
Investment (Other Assets)	$ 1,115	$ 1,860
Maximum exposure to loss	1,115	1,860

16. Accumulated Other Comprehensive Loss ("AOCL")

The following table presents the changes in each component of accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

(in thousands)	Investment securities- with OTTI AFS	Investment securities- all other AFS	Investment securities- HTM	Cash Flow Hedge	Pension Plan	SERP	Total
Accumulated OCL, net:							
Balance - January 1, 2018	$ (2,939)	$ (2,979)	$ (1,347)	$ 582	$ (17,066)	$ (844)	$ (24,593)
Other comprehensive income/(loss) before reclassifications	1,194	(540)	—	191	(1,833)	202	(786)
Amounts reclassified from accumulated other comprehensive loss	(154)	(82)	216	—	882	114	976
Balance - December 31, 2018	$ (1,899)	$ (3,601)	$ (1,131)	$ 773	$ (18,017)	$ (528)	$ (24,403)
Other comprehensive income/(loss) before reclassifications	(497)	2,748	—	(858)	(3,189)	(730)	(2,526)
Amounts reclassified from accumulated other comprehensive loss	(146)	—	232	—	789	83	958
Balance - December 31, 2019	$ (2,542)	$ (853)	$ (899)	$ (85)	$ (20,417)	$ (1,175)	$ (25,971)

The following tables present the components of other comprehensive income/(loss) for the years ended December 31, 2019 and 2018:

Components of Other Comprehensive Loss (in thousands)	Before Tax Amount	Tax (Expense) Benefit	Net
For the year ended December 31, 2019			
Available for sale (AFS) securities with OTTI:			
Unrealized holding losses	$ (679)	$ 182	$ (497)
Less: accretable yield recognized in income	200	(54)	146
Net unrealized losses on investments with OTTI	(879)	236	(643)
Available for sale securities – all other:			
Unrealized holding gains	3,753	(1,005)	2,748
Net unrealized gains on all other AFS securities	3,753	(1,005)	2,748
Held to maturity securities:			
Unrealized holding gains	—	—	—
Less: amortization recognized in income	(317)	85	(232)
Net unrealized gains on HTM securities	317	(85)	232
Cash flow hedges:			
Unrealized holding losses	(1,172)	314	(858)
Net unrealized losses on cash flow hedges	(1,172)	314	(858)
Pension Plan:			
Unrealized net actuarial loss	(4,355)	1,166	(3,189)
Less: amortization of unrecognized loss	(1,077)	288	(789)
Net pension plan liability adjustment	(3,278)	878	(2,400)
SERP:			
Unrealized net actuarial loss	(997)	267	(730)
Less: amortization of unrecognized loss	(116)	31	(85)
Less: amortization of prior service costs	3	(1)	2
Net SERP liability adjustment	(884)	237	(647)
Other comprehensive loss	$ (2,143)	$ 575	$ (1,568)

Components of Other Comprehensive Income (in thousands)	Before Tax Amount	Tax (Expense) Benefit	Net
For the year ended December 31, 2018			
Available for sale (AFS) securities with OTTI:			
Unrealized holding gains	$ 1,638	$ (444)	$ 1,194
Less: accretable yield recognized in income	211	(57)	154
Net unrealized gains on investments with OTTI	1,427	(387)	1,040
Available for sale securities – all other:			
Unrealized holding losses	(741)	201	(540)
Less: gains recognized in income	113	(31)	82
Net unrealized losses on all other AFS securities	(854)	232	(622)
Held to maturity securities:			
Unrealized holding gains	—	—	—
Less: amortization recognized in income	(296)	80	(216)
Net unrealized gains on HTM securities	296	(80)	216
Cash flow hedges:			
Unrealized holding gains	262	(71)	191
Net unrealized gains on cash flow hedges	262	(71)	191
Pension Plan:			
Unrealized net actuarial loss	(2,514)	681	(1,833)
Less: amortization of unrecognized loss	(1,200)	325	(875)
Less: amortization of prior service costs	(9)	2	(7)
Net pension plan liability adjustment	(1,305)	354	(951)
SERP:			
Unrealized net actuarial gain	277	(75)	202
Less: amortization of unrecognized loss	(159)	43	(116)
Less: amortization of prior service costs	3	(1)	2
Net SERP liability adjustment	433	(117)	316
Other comprehensive income	$ 259	$ (69)	$ 190

The following tables present the details of accumulated other comprehensive loss components for the years ended December 31, 2019 and 2018:

Details of Accumulated Other Comprehensive Loss Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement Where Net Income is Presented
	2019		
Net unrealized losses on investment securities with OTTI:			
Accretable Yield	$	200	Interest income on taxable investment securities
Taxes		(54)	Provision for Income Tax Expense
	$	146	Net of tax
Net unrealized gains on held to maturity investment securities:			
Amortization	$	(317)	Interest income on taxable investment securities
Taxes		85	Provision for Income Tax Expense
	$	(232)	Net of tax
Net pension plan liability adjustment:			
Amortization of unrecognized loss	$	(1,077)	Other expense
Taxes		288	Provision for Income Tax Expense
	$	(789)	Net of tax
Net SERP liability adjustment:			
Amortization of unrecognized loss	$	(116)	Other expense
Amortization of prior service costs		3	Other expense
Taxes		30	Provision for Income Tax Expense
	$	(83)	Net of tax
Total reclassifications for the period	$	(958)	Net of tax

Details of Accumulated Other Comprehensive Loss Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Loss 2018	Affected Line Item in the Statement Where Net Income is Presented
Net unrealized gains on investment securities with OTTI:		
Accretable Yield	$ 211	Interest income on taxable investment securities
Taxes	(57)	Provision for Income Tax Expense
	$ 154	Net of tax
Net unrealized losses on available for sale investment securities - all other:		
Gains on sales	$ 113	Net gains
Taxes	(31)	Provision for Income Tax Expense
	$ 82	Net of tax
Net unrealized gains on held to maturity investment securities:		
Amortization	$ (296)	Interest income on taxable investment securities
Taxes	80	Provision for Income Tax Expense
	$ (216)	Net of tax
Net pension plan liability adjustment:		
Amortization of unrecognized loss	$ (1,200)	Other expense
Amortization of prior service costs	(9)	Other expense
Taxes	327	Provision for Income Tax Expense
	$ (882)	Net of tax
Net SERP liability adjustment:		
Amortization of unrecognized loss	$ (159)	Other expense
Amortization of prior service costs	3	Other expense
Taxes	42	Provision for Income Tax Expense
	$ (114)	Net of tax
Total reclassifications for the period	$ (976)	Net of tax

17. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2019 and 2018:

(In thousands)	2019	2018
Current Tax expense:		
Federal	$ 1,547	$ 675
State	836	751
	$ 2,383	$ 1,426
Deferred tax expense:		
Federal	$ 818	$ 1,278
State	135	60
	$ 953	$ 1,338
Income tax expense for the year	$ 3,336	$ 2,764

The reconciliation between the statutory federal income tax rate and effective income tax rate for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Federal statutory rate	21.0%	21.0%
Tax-exempt income on securities and loans	(1.4)	(1.6)
Tax-exempt BOLI income	(2.9)	(1.8)
State income tax, net of federal tax benefit	4.8	4.9
Tax credits	(1.5)	(2.1)
Other	0.3	0.2
	20.3%	20.6%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's temporary differences as of December 31, 2019 and 2018 are as follows:

(In thousands)	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 3,357	$ 2,994
Deferred loan fees	193	163
Deferred compensation	852	740
Federal and state tax loss carry forwards	2,617	2,537
Tax credit carry forwards	1,853	2,606
Unrealized loss on investment securities	1,336	2,193
Pension/SERP	2,412	1,811
Lease liability	840	—
Other than temporary impairment on investment securities	655	717
Other real estate owned	479	539
Other	194	(97)
Total deferred tax assets	14,788	14,203
Valuation allowance	(2,617)	(2,449)
Total deferred tax assets less valuation allowance	12,171	11,754
Deferred tax liabilities:		
Amortization of goodwill	(2,315)	(2,537)
Lease right-of-use asset	(720)	—
Pension/SERP	—	—
Depreciation	(1,528)	(1,244)
Other	(167)	(129)
Total deferred tax liabilities	(4,730)	(3,910)
Net deferred tax assets	$ 7,441	$ 7,844

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income of the appropriate character (for example, ordinary income or capital gain) within the carry-back or carry-forward period available under the tax law during the periods in which temporary differences are deductible. The Corporation has considered future market growth, forecasted earnings, future taxable income, and feasible and permissible tax planning strategies in determining whether it will be able to realize the deferred tax asset. If the Corporation were to determine that it will not be able to realize a portion of its net deferred tax asset in the future for which there is currently no valuation allowance, an adjustment to the net deferred tax asset would be charged to earnings in the period such determination was made. Conversely, if the Corporation were to make a determination that it is more likely than not that the deferred tax assets for which there is a valuation allowance will be realized, the related valuation allowance would be reduced and a benefit would be recorded.

At December 31, 2019, the Corporation had Maryland net operating losses ("NOL") of $39.2 million for which a deferred tax asset of $2.6 million has been recorded. There has been and continues to be a full valuation allowance on these NOLs based on management's belief that it is more likely than not that these NOLs will not be realized prior to the expiration of their carry-forward periods because the Corporation will not generate sufficient taxable income in the future to fully utilize the NOLs. The valuation allowance was $2.6 million at December 31, 2019 and $2.4 million at December 31, 2018.

18. Employee Benefit Plans

First United Corporation sponsors a noncontributory defined benefit pension plan (the "Pension Plan") covering the employees who were hired prior to the freeze and others who were grandfathered into the plan. The benefits are based on years of service and the employees' compensation during the last five years of employment.

Effective April 30, 2010, the Pension Plan was amended, resulting in a "soft freeze", the effect of which prohibits new entrants into the plan and ceases crediting of additional years of service, after that date. Effective January 1, 2013, the Pension Plan was amended to unfreeze it for those employees for whom the sum of (i) their ages, at their closest birthday, plus (ii) years of service for vesting purposes equals 80 or greater. The "soft freeze" continues to apply to all other plan participants. Pension benefits for these participants will be managed through discretionary contributions to the First United Corporation 401(k) Profit Sharing Plan (the "401(k) Plan").

During 2001, the Bank established an unfunded Defined Benefit Supplemental Executive Retirement Plan ("Defined Benefit SERP"). The Defined Benefit SERP is available only to a select group of management or highly compensated employees to provide supplemental retirement benefits in excess of limits imposed on qualified plans by federal tax law. Concurrent with the establishment of the Defined Benefit SERP, the Bank acquired BOLI policies on the senior management personnel and officers of the Bank. The benefits resulting from the favorable tax treatment accorded the earnings on the BOLI policies are intended to provide a source of funds for the future payment of the Defined Benefit SERP benefits as well as other employee benefit costs.

The benefit obligation activity for both the Pension Plan and Defined Benefit SERP was calculated using an actuarial measurement date of January 1. Plan assets and the benefit obligations were calculated using an actuarial measurement date of December 31.

On January 9, 2015, First United Corporation and members of management who do not participate in the Defined Benefit SERP entered into participation agreements under the Deferred Compensation Plan, each styled as a Defined Contribution SERP Agreement (the "Contribution Agreement"). Pursuant to each Contribution Agreement, First United Corporation agreed, for each Plan Year (as defined in the Deferred Compensation Plan) in which it determines that it has been Profitable (as defined in the Contribution Agreement), to make a discretionary contribution to the participant's Employer Account in an amount equal to 15% of the participant's base salary level for such Plan Year, with the first Plan Year being the year ending December 31, 2015. The Contribution Agreement provides that the participant will become 100% vested in the amount maintained in his or her Employer Account upon the earliest to occur of the following events: (i) Normal Retirement (as defined in the Contribution Agreement); (ii) Separation from Service (as defined in the Contribution Agreement) following a Change of Control (as defined in the Deferred Compensation Plan) and subsequent Triggering Event (as defined in the Contribution Agreement); (iii) Separation from Service due to a Disability (as defined in the Contribution Agreement); (iv) with respect to a particular award of Employer Contribution Credits, the participant's completion of two consecutive Years of Service (as defined in the Contribution Agreement) immediately following the Plan Year for which such award was made; or (v) death. Notwithstanding the foregoing, however, a participant will lose entitlement to the amount maintained in his or her Employer Account in the event employment is terminated for Cause (as defined in the Contribution Agreement). In addition, the Contribution Agreement conditions entitlement to the amounts held in the Employer Account on the participant (a) refraining from engaging in Competitive Employment (as defined in the Contribution Agreement) for three years following his or her Separation from Service, (b) refraining from injurious disclosure of confidential information concerning the Corporation, and (c) remaining available, at the First United Corporation's reasonable request, to provide at least six hours of transition services per month for 12 months following his or her Separation from Service (except in the case of death or Disability), except that only item (b) will apply in the event of a Separation from Service following a Change of Control and subsequent Triggering Event.

In January 2018, the Board approved discretionary contributions to four participants totaling $119,252. The contributions had a two-year vesting period that ended on December 31, 2019. The Corporation recorded $59,626 of the related compensation for the years ended December 31, 2019 and 2018. In January 2019, the Board of Directors of First United Corporation approved discretionary contributions to four participants totaling $123,179. The Corporation recorded $75,152 of related compensation expense for the year ended December 31, 2019. In January 2020, the Board of Directors approved discretionary contributions to four participants totaling $126,058. Each discretionary contribution has a two-year vesting period.

The following tables summarize benefit obligation and funded status, plan asset activity, components of net pension cost, and weighted average assumptions for the Pension Plan and the Defined Benefit SERP:

(in thousands)	Pension 2019	Pension 2018	Defined Benefit SERP 2019	Defined Benefit SERP 2018
Change in Benefit Obligation				
Obligation at the beginning of the year	$ 42,022	$ 44,975	$ 7,544	$ 7,613
Service cost	265	324	120	112
Interest cost	1,748	1,586	272	321
Change in discount rate and mortality assumptions	7,981	—	—	—
Actuarial losses/(gains)	979	(3,049)	994	(276)
Benefits paid	(2,000)	(1,814)	(283)	(226)
Obligation at the end of the year	50,995	42,022	8,647	7,544
Change in Plan Assets				
Fair value at the beginning of the year	43,056	47,216	—	—
Actual return on plan assets	7,773	(2,346)	—	—
Employer contribution	2,000	—	283	226
Benefits paid	(2,000)	(1,814)	(283)	(226)
Fair value at the end of the year	50,829	43,056	—	—
(Unfunded)/Funded Status	$ (166)	$ 1,034	$ (8,647)	$ (7,544)

(in thousands)	Pension 2019	Pension 2018	Defined Benefit SERP 2019	Defined Benefit SERP 2018
Components of Net Pension Cost				
Service cost	$ 265	$ 324	$ 120	$ 112
Interest cost	1,748	1,586	272	321
Expected return on assets	(3,055)	(3,240)	—	—
Amortization of recognized loss	1,077	1,200	116	159
Amortization of prior service cost	—	9	(3)	(3)
Net pension (income)/expense in employee benefits	$ 35	$ (121)	$ 505	$ 589
Weighted Average Assumptions used to determine benefit obligations:				
Discount rate for benefit obligations	3.25%	4.25%	3.14%	4.45%
Discount rate for net pension cost	4.25%	3.60%	—	—
Expected long-term return on assets	7.00%	7.00%	—	—
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Mortality tables	PRI-2012 White Collar	RP-2014	N/A	N/A

The accumulated benefit obligation for the Pension Plan was $48.9 million and $39.8 million at December 31, 2019 and 2018, respectively. The accumulated benefit obligation for the Defined Benefit SERP was $7.7 million and $7.5 million at December 31, 2019 and 2018, respectively.

The investment assets of a defined benefit plan are managed with the goal of providing for retiree distributions while also supporting long-term plan obligations with a moderate level of portfolio risk. In order to address the variability over time of both risk and return, the plan investment strategy entails a dynamic approach to asset allocation, providing for normalized targets for major asset classes, with the ability to tactically adjust within the following specified ranges around those targets.

Asset Class	Normalized Target	Range
Cash	5%	0% - 20%
Fixed Income	40%	30% - 50%
Equities	55%	45% - 65%

Decisions regarding tactical adjustments within the above noted ranges for asset classes are based on a top down review of factors expected to have material impact on the risk and reward dynamics of the portfolio as a whole. Such factors include, but are not limited to, the following:

- Anticipated domestic and international economic growth as a whole;
- The position of the economy within its longer term economic cycle; and
- The expected impact of economic vitality, cycle positioning, financial market risks, industry/demographic trends and political forces on the various market sectors and investment styles.

With respect to individual company securities, additional company specific matters are considered, which could include management track record and guidance, future earnings expectations, current relative price expectations and the impact of identified risks on expected performance, among others. A core equity position of large cap stocks will be maintained, with more aggressive or volatile sectors meaningfully represented in the asset mix in pursuit of higher returns.

Strategic and specific investment decisions are guided by an in-house investment committee as well as a number of outside institutional resources that provide economic, industry and company data and analytics. It is management's intent to give the Plan's investment managers flexibility with respect to investment decisions and their timing within the overall guidelines. However, certain investments require specific review and approval by management. Management is also informed of anticipated changes in nonproprietary investment managers, significant modifications of any previously approved investment, or the anticipated use of derivatives to execute investment strategies.

Portfolio risk is managed in large part by a focus on diversification across multiple levels as well as an emphasis on financial strength. For example, current investment policies restrict initial investments in debt securities to be rated investment grade at the time of purchase. Also, with the exception of the highest rated securities (e.g. - U.S. Treasury or government-backed agency securities), no more than 10% of the portfolio may be invested in a single entity's securities. As a result of the previously noted approaches to controlling portfolio risk, any concentrations of risk would be associated with general systemic risks faced by industry sectors or the portfolio as a whole.

Assets in the Pension Plan are valued by the Corporation's accounting system provider who utilizes a third-party pricing service. Valuation data is based on actual market data for stocks and mutual funds (Level 1) and matrix pricing for bonds (Level 2). Cash and cash equivalents are also considered Level 1 within the fair value hierarchy.

As of December 31, 2019 and 2018, the value of Pension Plan investments was as follows:

December 31, 2019

(Dollars in thousands)	Assets at Fair Value	% of Portfolio	Fair Value Hierarchy Level 1	Fair Value Hierarchy Level 2
Cash and cash equivalents	$ 247	0.5%	$ 247	$ —
Fixed income securities:				
U.S. Government and Agencies	1,904	3.7%	—	1,904
Taxable municipal bonds and notes	4,555	8.9%	—	4,555
Corporate bonds and notes	9,588	18.9%	—	9,588
Preferred stock	657	1.3%	—	657
Fixed income mutual funds	6,441	12.7%	6,441	—
Total fixed income	23,145	45.5%	6,441	16,704
Equities:				
Large Cap	21,460	42.2%	21,460	—
Mid Cap	1,660	3.3%	1,660	—
Small Cap	1,009	2.0%	1,009	—
International	3,308	6.5%	3,308	—
Total equities	27,437	54.0%	27,437	—
Total market value	$ 50,829	100.0%	$ 34,125	$ 16,704

December 31, 2018

(Dollars in thousands)	Assets at Fair Value	% of Portfolio	Fair Value Hierarchy Level 1	Fair Value Hierarchy Level 2
Cash and cash equivalents	$ 1,834	4.3%	1,834	$ —
Fixed income securities:				
U.S. Government and Agencies	1,394	3.2%	—	1,394
Taxable municipal bonds and notes	4,363	10.1%	—	4,363
Corporate bonds and notes	9,931	23.1%	—	9,931
Preferred stock	476	1.1%	—	476
Fixed income mutual funds	2,498	5.8%	2,498	—
Total fixed income	18,662	43.3%	2,498	16,164
Equities:				
Large Cap	17,454	40.5%	17,454	—
Mid Cap	1,342	3.1%	1,342	—
Small Cap	884	2.1%	884	—
International	2,880	6.7%	2,880	—
Total equities	22,560	52.4%	22,560	—
Total market value	$ 43,056	100.0%	$ 26,892	$ 16,164

The expected rate of return on Pension Plan assets is based on a combination of the following:

- Historical returns of the portfolio of assets;
- Monte Carlo simulations of expected returns for a portfolio with strategic asset targets similar to the normalized targets; and
- Market impact adjustments to reflect expected future investment environment considerations.

At December 31, 2019, the 25-year average return on pension portfolio assets was 7.15%, which exceeded the expected long-term return of 7.00% utilized for 2019. Considering that future equity returns are partially a function of current starting valuations and the general level of interest rates is near a historically low point, one could start to build a case for lower expected returns going forward. However, according to a recent Vanguard Global Economics Team white paper, over half of the volatility in expected returns is not explained by current valuations. As potential returns remain widely dispersed and expected returns are based on a time horizon that will likely exceed the timing of current concerns, it is considered appropriate to maintain the forward expected long-term rate of return of 7.00%.

The Pension Plan did not hold any shares of First United Corporation common stock at December 31, 2019 or 2018.

Estimated cash flows related to expected future benefit payments from the Pension Plan and Defined Benefit SERP are as follows:

(In thousands)	Pension Plan	Defined Benefit SERP
2020	$ 2,051	$ 266
2021	2,136	330
2022	2,211	332
2023	2,360	332
2024	2,506	332
2025-2029	13,540	2,472

First United Corporation made a $2.0 million contribution to the Pension Plan in 2019. First United Corporation will continue to evaluate future annual contributions to the Pension Plan based upon its funded status and an evaluation of the future benefits to be provided thereunder. The Bank expects to fund the annual projected benefit payments for the Defined Benefit SERP from operations.

Amounts included in accumulated other comprehensive loss as of December 31, 2019 and 2018, net of tax, are as follows:

	2019		2018	
(In thousands)	Pension	Defined Benefit SERP	Pension	Defined Benefit SERP
Unrecognized net actuarial loss	$ 21,241	$ 1,186	$ 18,841	$ 742
Unrecognized prior service costs	—	(3)	—	(7)
	$ 21,241	$ 1,183	$ 18,841	$ 735

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic pension cost during the next fiscal year are as follows:

(In thousands)	Pension	Defined Benefit SERP
Prior service costs	$ —	$ (3)
Net actuarial loss	1,434	188
	$ 1,434	$ 185

19. 401(k) Profit Sharing Plan

In furtherance of First United Corporation's belief that every employee should have the ability to accrue retirement benefits, it adopted the 401(k) Profit Sharing Plan, which is available to all employees, including executive officers. Employees are automatically entered in the plan on the first of the month following completion of 30 days of service to First United Corporation and/or its subsidiaries. Employees have the opportunity to opt out of participation or change their deferral amounts under the plan at any time. In addition to contributions by participants, the plan contemplates employer matching and the potential of discretionary contributions to the accounts of participants. First United Corporation believes that matching contributions encourage employees to participate and thereby plan for their post-retirement financial future. Beginning with the 2008 plan year, First United Corporation enhanced the match formula to 100% on the first 1% of salary reduction and 50% on the next 5% of salary reduction. This match is accrued for all participants, including executive officers, immediately upon entering the plan on the first day of the month following the completion of 30 days of employment. The employee must be a plan participant and be actively employed on the last day of the plan year to share in the employer matching contribution, except in the case of death, disability or retirement of the participant. Additionally, First United Corporation accrued a non-elective employer contribution during 2019 for all employees other than employees who participate in the Defined Benefit SERP and Defined Contribution SERP and those employees meeting the age plus service requirement in the Pension Plan equal to 4.0% of each employee's salary, and .5% of each employee's salary hired before January 1, 2010, which will be paid in the first quarter of 2020. Expense charged to operations for the 401(k) Plan was $1.2 million in 2019 and 2018.

20. Federal Reserve Requirements

The Bank is required to maintain cash reserves with the Federal Reserve Bank of Richmond based on specified deposit liabilities. During 2019, the daily average amount of these required reserves was approximately $6.9 million.

21. Restrictions on Subsidiary Dividends, Loans or Advances

Federal and state banking regulations place certain restrictions on the amount of dividends paid and loans or advances made by the Bank to First United Corporation. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to First United Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

22. Contractual Obligations, Commitments and Contingent Liabilities

Contractual Obligations

The Corporation enters into contractual obligations in the normal course of business. Among these obligations are FHLB advances and junior subordinated debentures, operating lease agreements for banking and subsidiaries' offices, and for data processing and telecommunications equipment. Payments required under these obligations are set forth in the table following as of December 31, 2019:

(In thousands)	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
Short-term borrowings	$ 48,728	$ —	$ —	$ —	$ 48,728
Long-term borrowings	—	50,000	20,000	30,929	100,929
Certificates of deposit	114,234	129,090	10,566	—	253,890
Data processing obligations	2,900	3,867	—	—	6,767
Operating lease obligations	467	977	824	1,778	4,046
Total	$ 166,329	$ 183,934	$ 31,390	$ 32,707	$ 414,360

Commitments

Loan commitments are made to accommodate the financial needs of our customers. Loan commitments have credit risk essentially the same as that involved in extending loans to customers and are subject to normal credit policies. Commitments to extend credit generally have fixed expiration dates, may require payment of a fee, and contain cancellation clauses in the event of an adverse change in the customer's credit quality.

Commitments to extend credit in the form of consumer, commercial and business as of December 31, 2019 and December 31, 2018 are as follows:

(In thousands)	2019	2018
Residential Mortgage - home equity	$ 53,827	$ 49,294
Residential Mortgage - construction	4,995	6,790
Commercial	85,089	63,668
Consumer - personal credit lines	3,903	3,847
Standby letters of credit	9,112	3,391
Total	$ 156,926	$ 126,990

We do not issue any guarantees that would require liability recognition or disclosure other than the standby letters of credit issued by the Bank. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party to support contractual obligations and to ensure job performance. Generally, the Bank's letters of credit are issued with expiration dates within one year. Historically, most letters of credit expire unfunded, and therefore, cash requirements are substantially less than the total commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payment required by the letters of credit. Management does not believe that the amount of the liability associated with guarantees under standby letters of credit outstanding at December 31, 2019 and December 31, 2018 is material.

23. Fair Value of Financial Instruments

The Corporation complies with the guidance of ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other

accounting pronouncements. The Corporation also follows the guidance on matters relating to all financial instruments found in ASC Subtopic 825-10, *Financial Instruments – Overall*.

Fair value is defined as the price to sell an asset or to transfer a liability in an orderly transaction between willing market participants as of the measurement date. Fair value is best determined by values quoted through active trading markets. Active trading markets are characterized by numerous transactions of similar financial instruments between willing buyers and willing sellers. Because no active trading market exists for various types of financial instruments, many of the fair values disclosed were derived using present value discounted cash flows or other valuation techniques described below. As a result, the Corporation's ability to actually realize these derived values cannot be assumed.

The Corporation measures fair values based on the fair value hierarchy established in ASC Paragraph 820-10-35-37. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of inputs that may be used to measure fair value under the hierarchy are as follows:

> *Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities. This level is the most reliable source of valuation.
>
> *Level 2:* Quoted prices that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability. Level 2 inputs include inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates). It also includes inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs). Several sources are utilized for valuing these assets, including a contracted valuation service, Standard & Poor's ("S&P") evaluations and pricing services, and other valuation matrices.
>
> *Level 3:* Prices or valuation techniques that require inputs that are both significant to the valuation assumptions and not readily observable in the market (i.e. supported with little or no market activity). Level 3 instruments are valued based on the best available data, some of which is internally developed, and consider risk premiums that a market participant would require.

The level established within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers in and out of Level 1, 2 or 3 are recorded at fair value at the beginning of the reporting period.

Management believes that the Corporation's valuation techniques are appropriate and consistent with the techniques used by other market participants. However, the use of different methodologies and assumptions could result in a different estimate of fair values at the reporting date. The following valuation techniques were used to measure the fair value of assets in the table below which are measured on a recurring and non-recurring basis as of December 31, 2019.

Investments – The investment portfolio is classified and accounted for based on the guidance of ASC Topic 320, *Investments – Debt and Equity Securities*.

The fair value of investments available-for-sale is determined using a market approach. At December 31, 2019, the U.S. Government agencies and treasuries, residential and commercial mortgage-backed securities, and municipal bonds segments are classified as Level 2 within the valuation hierarchy. Their fair values were determined based upon market-corroborated inputs and valuation matrices, which were obtained through third party data service providers or securities brokers through which we have historically transacted both purchases and sales of investment securities.

The CDO segment, which consists of pooled trust preferred securities issued by banks, thrifts and insurance companies, is classified as Level 3 within the valuation hierarchy. At December 31, 2019, the Corporation owned 9 pooled trust preferred securities with an amortized cost of $18.4 million and a fair value of $14.4 million. The market for these securities at December 31, 2019 was not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which these securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive, as few CDOs have been issued since 2007. There are currently very few market participants who are willing to effect transactions in these securities. The market values for these securities or any securities other than those issued or guaranteed by the Treasury are depressed relative to historical levels. Therefore, in the current market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general rather than being an indicator of credit problems with a particular issue. Given the conditions in the current debt markets and the absence of observable transactions in the secondary and new issue markets, management has determined that (i) the few observable transactions and market quotations that are available are not reliable for the purpose of obtaining fair value at December 31, 2019, (ii) an income valuation approach technique (i.e. present value) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or

more representative of fair value than a market approach, and (iii) the CDO segment is appropriately classified within Level 3 of the valuation hierarchy because management determined that significant adjustments were required to determine fair value at the measurement date.

Management believes that the valuation of certain securities is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. Management utilizes an independent third party to prepare both the impairment valuations and fair value determinations for its CDO portfolio consisting of pooled trust preferred securities. Management performs due diligence on the third-party processes and believes that it has an adequate understanding of the analysis, assumptions and methodology used by the third party to prepare the fair value determination and the OTTI evaluation. Management reviews the qualifications of the third party and believes they are qualified to provide the analysis and pricing determinations. Quarterly, management reviews the third party's detailed assumptions and analyzes its projected discounted present value results for reasonableness and consistency with the trend of prior projections. Annually, management performs stress tests of the assumptions used in the third party models and performs back tests of the assumptions and prepayment projections to validate the impairment model results. As a result of its due diligence process, management believes that the fair value presented and the OTTI recognized are appropriate. A total of $3.0 million in impairment losses were realized during the time period 2009 through 2011 on the CDO portfolio remaining at December 31, 2019. Due to the prior credit impairment, the securities in this portfolio have continued to be evaluated to determine whether any additional OTTI has occurred. Based on management's review of the third-party evaluations, management believes that there were no material differences in the valuations between December 31, 2019 and December 31, 2018.

The approach used by the third party to determine fair value involved several steps, which included detailed credit and structural evaluation of each piece of collateral in each bond, projection of default, recovery and prepayment/amortization probabilities for each piece of collateral in the bond, and discounted cash flow modeling. The discount rate methodology used by the third party combines a baseline current market yield for comparable corporate and structured credit products with adjustments based on evaluations of the differences found in structure and risks associated with actual and projected credit performance of each CDO being valued. Currently, the only active and liquid trading market that exists is for stand-alone trust preferred securities, with a limited market for highly-rated CDO securities that are more senior in the capital structure than the securities in the CDO portfolio. Therefore, adjustments to the baseline discount rate are also made to reflect the additional leverage found in structured instruments.

Derivative financial instruments (Cash flow hedge) – The Corporation's open derivative positions are interest rate swap agreements. Those classified as Level 2 open derivative positions are valued using externally developed pricing models based on observable market inputs provided by a third party and validated by management. The Corporation has considered counterparty credit risk in the valuation of its interest rate swap assets.

Impaired loans – Loans included in the table below are those that are considered impaired with a specific allocation or with partial charge-offs, based upon the guidance of the loan impairment subsection of the *Receivables* Topic, ASC Section 310-10-35, under which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value consists of the loan balance less its valuation allowance and is generally determined based on independent third-party appraisals of the collateral or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values based upon the lowest level of input that is significant to the fair value measurements.

Other real estate owned – OREO included in the table below are considered impaired with specific write-downs. Fair value of other real estate owned was based on independent third-party appraisals of the properties. These values were determined based on the sales prices of similar properties in the approximate geographic area. These assets are included as Level 3 fair values based upon the lowest level of input that is significant to the fair value measurements.

For Level 3 assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2019 and 2018, the significant unobservable inputs used in the fair value measurements were as follows:

(in thousands)		Fair Value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Recurring:					
Investment Securities – available for sale - CDO	$	14,354	Discounted Cash Flow	Discount Rate	Libor+ 4.75%
Non-recurring:					
Impaired Loans	$	6,995	Market Comparable Properties	Marketability Discount	10.0% to 15.0% (1) (weighted avg 12.9%)
Other Real Estate Owned	$	2,571	Market Comparable Properties	Marketability Discount	10.0% to 15.0% (1) (weighted avg 12.5%)

(in thousands)		Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Recurring:					
Investment Securities – available for sale - CDO	$	15,277	Discounted Cash Flow	Discount Rate	Libor+ 4.5%
Non-recurring:					
Impaired Loans	$	1,316	Market Comparable Properties	Marketability Discount	10.0% to 15.0% (1) (weighted avg 12.8%)
Other Real Estate Owned	$	2,707	Market Comparable Properties	Marketability Discount	10.0% to 15.0% (1) (weighted avg 13.5%)

(1) Range would include discounts taken since appraisal and estimated values

For assets and liabilities measured at fair value on a recurring and non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2019 and 2018 are as follows:

		Fair Value Measurements at December 31, 2019 Using (In Thousands)		
Description	Assets & Liabilities Measured at 12/31/19	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
Investment securities available-for-sale:				
U.S. government agencies	$ 39,894		$ 39,894	
Residential mortgage-backed agencies	$ 4,900		$ 4,900	
Commercial mortgage-backed agencies	$ 27,764		$ 27,764	
Collateralized mortgage obligations	$ 29,923		$ 29,923	
Obligations of states and political subdivisions	$ 14,470		$ 14,470	
Collateralized debt obligations	$ 14,354			$ 14,354
Financial derivative	$ (133)		$ (133)	
Non-recurring:				
Impaired loans	$ 6,995			$ 6,995
Other real estate owned	$ 2,571			$ 2,571

		Fair Value Measurements at December 31, 2018 Using (In Thousands)		
Description	Assets & Liabilities Measured at 12/31/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
Investment securities available-for-sale:				
U.S. government agencies	$ 29,026		$ 29,026	
Commercial mortgage-backed agencies	$ 37,752		$ 37,752	
Collateralized mortgage obligations	$ 35,704		$ 35,704	
Obligations of states and political subdivisions	$ 19,882		$ 19,882	
Collateralized debt obligations	$ 15,277			$ 15,277
Financial derivative	$ 1,043		$ 1,043	
Non-recurring:				
Impaired loans	$ 1,316			$ 1,316
Other real estate owned	$ 2,707			$ 2,707

There were no transfers of assets between any of the levels of the fair value hierarchy for the years ended December 31, 2019 or December 31, 2018.

The following tables show a reconciliation of the beginning and ending balances for fair valued assets measured using Level 3 significant unobservable inputs for the years ended December 31, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (In Thousands)
	Investment Securities Available for Sale
Beginning balance January 1, 2019	$ 15,277
Total gains/(losses) realized/unrealized:	
Included in other comprehensive loss	(923)
Ending balance December 31, 2019	$ 14,354

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (In Thousands)
	Investment Securities Available for Sale
Beginning balance January 1, 2018	$ 14,920
Total gains/(losses) realized/unrealized:	
Calls/maturities of investments	(996)
Included in other comprehensive income	1,353
Ending balance December 31, 2018	$ 15,277

Gains and losses (realized and unrealized) included in earnings for the periods above are reported in the Consolidated Statement of Income in other operating income.

The fair values disclosed may vary significantly between institutions based on the estimates and assumptions used in the various valuation methodologies. The derived fair values are subjective in nature and involve uncertainties and significant judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could significantly impact the derived estimates of fair value. Disclosure of non-financial assets such as buildings as well as certain financial instruments such as leases is not required. Accordingly, the aggregate fair values presented do not represent the underlying value of the Corporation.

The following table presents fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. The actual carrying amounts and estimated fair values of the Corporation's financial instruments that are included in the statement of financial condition are as follows:

	December 31, 2019		Fair Value Measurements		
(in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and due from banks	$ 48,512	$ 48,512	$ 48,512		
Interest bearing deposits in banks	1,467	1,467	1,467		
Investment securities - AFS	131,305	131,305		$ 116,951	$ 14,354
Investment securities - HTM	93,979	100,656		79,084	21,572
Restricted bank stock	4,415	4,415		4,415	
Loans, net	1,038,894	1,024,495			1,024,495
Accrued interest receivable	4,116	4,116		4,116	
Financial Liabilities:					
Deposits – non-maturity	888,141	888,141		888,141	
Deposits – time deposits	253,890	256,227		256,227	
Financial derivative	133	133		133	
Short-term borrowed funds	48,728	48,728		48,728	
Long-term borrowed funds	100,929	100,848		100,848	
Accrued interest payable	499	499		499	
Off balance sheet financial instruments	—	—	—		

	December 31, 2018		Fair Value Measurements		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and due from banks	$ 22,187	$ 22,187	$ 22,187		
Interest bearing deposits in banks	1,354	1,354	1,354		
Investment securities - AFS	137,641	137,641		$ 122,364	$ 15,277
Investment securities - HTM	94,010	93,760		80,780	12,980
Restricted bank stock	5,394	5,394		5,394	
Loans, net	996,103	967,198			967,198
Financial derivative	1,043	1,043		1,043	
Accrued interest receivable	4,175	4,175		4,175	
Financial Liabilities:					
Deposits – non-maturity	815,858	815,858		815,858	
Deposits – time deposits	251,669	252,146		252,146	
Short-term borrowed funds	77,707	77,707		77,707	
Long-term borrowed funds	100,929	102,590		102,590	
Accrued interest payable	455	455		455	
Off balance sheet financial instruments	—	—	—		

24. Derivative Financial Instruments

As a part of managing interest rate risk, the Corporation entered into interest rate swap agreements to modify the re-pricing characteristics of certain interest-bearing liabilities. The Corporation has designated its interest rate swap agreements as cash flow hedges under the guidance of ASC Subtopic 815-30, *Derivatives and Hedging – Cash Flow Hedges*. Cash flow hedges have the effective portion of changes in the fair value of the derivative, net of taxes, recorded in net accumulated other comprehensive income.

In March 2016, the Corporation entered into four interest rate swap contracts totaling $30.0 million notional amount, hedging future cash flows associated with floating rate trust preferred debt. These contracts included a three-year $5.0 million contract that matured on June 17, 2019, a five-year $5.0 million contract that will mature on March 17, 2021, a seven-year $5.0 million contract that will mature on March 17, 2023 and a 10-year $15.0 million contract that will mature on March 17, 2026.

The fair value of the interest rate swap contracts was $(.1) million and $1.0 million at December 31, 2019 and 2018, respectively, and was reported in Other Assets on the Consolidated Statement of Financial Condition.

For the year ended December 31, 2019, the Corporation recorded a decrease in the value of the derivatives of $1.2 million and the related deferred tax of $.3 million in accumulated other comprehensive loss to reflect the effective portion of cash flow hedges. ASC Subtopic 815-30 requires this amount to be reclassified to earnings if the hedge becomes ineffective or is terminated. There was no hedge ineffectiveness recorded for the twelve months ending December 31, 2019. The Corporation does not expect any losses relating to these hedges to be reclassified into earnings within the next 12 months.

Interest rate swap agreements are entered into with counterparties that meet established credit standards and the Corporation believes that the credit risk inherent in these contracts is not significant at December 31, 2019.

The table below discloses the impact of derivative financial instruments on the Corporation's Consolidated Financial Statements for the years ended December 31, 2019 and December 31, 2018.

Derivative in Cash Flow Hedging Relationships

(In thousands)	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) (1)	Amount of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) (2)
Interest rate contracts:			
December 31, 2019	$ (858)	$ —	$ —
December 31, 2018	$ 191	$ —	$ —

Notes:
(1) Reported as interest expense
(2) Reported as other income

25. Revenue Recognition

On January 1, 2018, the Corporation adopted ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as wealth management, including trust and brokerage services, service charges on deposit accounts, interchange fee income – debit card income and gains/losses on OREO sales. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Wealth Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Corporation's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Corporation's performance

obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Corporation's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Corporation's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Interchange Fees – Debit and Credit Card Income

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Corporation's debit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Corporation cardholder uses a non-Corporation ATM or a non-Corporation cardholder uses a Corporation ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Corporation's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2019 and 2018.

	Year Ended December 31,	
(in thousands)	**2019**	**2018**
Noninterest income		
In-scope of Topic 660:		
Service charges	$ 2,192	$ 2,275
Trust department	7,148	6,692
Debit card income	2,706	2,534
Brokerage commissions	919	1,078
Noninterest income (in-scope of Topic 660)	12,965	12,579
Noninterest income (out-of-scope of Topic 660)	3,671	2,462
Total Noninterest Income	$ 16,636	$ 15,041

26. Assets and Liabilities Subject to Enforceable Master Netting Arrangements

Interest Rate Swap Agreements ("Swap Agreements")

The Corporation has entered into interest rate swap agreements to modify the re-pricing characteristics of certain interest-bearing liabilities as a part of managing interest rate risk. The swap agreements have been designated as cash flow hedges, and accordingly, the fair value of the interest rate swap contracts is reported in Other Liabilities on the Consolidated Statement of Financial Condition. The swap agreements were entered into with a third party financial institution. The Corporation is party to master netting arrangements with its financial institution counterparty; however the Corporation does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, in the form of cash, is posted by the Corporation as the counterparty with net liability positions in accordance with contract thresholds. See Note 24 to the Consolidated Financial Statements for more information.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Bank enters into agreements under which it sells interests in U.S. securities to certain customers subject to an obligation to repurchase, and on the part of the customers to resell, such interests. Under these arrangements, the Bank may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Bank to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e. secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the consolidated statement of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. There is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Bank does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements. The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Bank be in default (i.e. fails to repurchase the U.S. securities on the maturity date of the agreement). The investment security collateral is held by a third party financial institution in the counterparty's custodial account.

The following table presents the liabilities subject to an enforceable master netting arrangement or repurchase agreements at December 31, 2019 and December 31, 2018.

				Gross Amounts Not Offset in the Statement of Condition		
(In thousands)	**Gross Amounts of Recognized (Assets)/ Liabilities**	**Gross Amounts Offset in the Statement of Condition**	**Net Amounts of (Assets)/Liabilities Presented in the Statement of Condition**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
December 31, 2019						
Interest Rate Swap Agreements	$ 133	$ —	$ 133	$ (133)	$ —	$ —
Repurchase Agreements	$ 48,728	$ —	$ 48,728	$ (48,728)	$ —	$ —
December 31, 2018						
Interest Rate Swap Agreements	$ (1,043)	$ —	$ (1,043)	$ 1,043	$ —	$ —
Repurchase Agreements	$ 37,707	$ —	$ 37,707	$ (37,707)	$ —	$ —

27. Parent Company Only Financial Information

Condensed Statement of Financial Condition

(In thousands)	December 31, 2019	December 31, 2018
Assets		
Cash	$ 234	$ 236
Investment securities- Available for Sale (at fair value)	13,164	13,992
Investment in bank subsidiary	142,290	131,816
Investment in non-bank subsidiaries	929	929
Other assets	5,427	4,801
Total Assets	$ 162,044	$ 151,774
Liabilities and Shareholders' Equity		
Accrued interest and other liabilities	$ 4,250	$ 3,141
Dividends payable	925	638
Junior subordinated debt	30,929	30,929
Shareholders' equity	125,940	117,066
Total Liabilities and Shareholders' Equity	$ 162,044	$ 151,774

Condensed Statement of Income

(In thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018
Income:		
Dividend income from bank subsidiary	$ 3,141	$ 1,988
Interest income on investments	948	895
Other income	99	70
Total other income	1,047	965
Total Income	4,188	2,953
Expenses:		
Interest expense	1,418	1,387
Other expenses	276	263
Total Expenses	1,694	1,650
Income before income taxes and equity in undistributed net income of subsidiaries	2,494	1,303
Applicable income tax benefit/(expense)	130	(828)
Net income before equity in undistributed net income of subsidiaries	2,624	475
Equity in undistributed net income of subsidiaries:		
Bank	10,505	10,192
Net Income	$ 13,129	$ 10,667

Condensed Statement of Comprehensive Income

Components of Comprehensive Income (in thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018
Net Income	$ 13,129	$ 10,667
Unrealized (losses)/gains on AFS Securities, net of tax	(685)	877
Unrealized (losses)/gains on cash flow hedges, net of tax	(858)	191
Other comprehensive (loss)/income, net of tax	(1,543)	1,068
Comprehensive income	$ 11,586	$ 11,735

Condensed Statement of Cash Flows

(In thousands)	Year Ended December 31, 2019	2018
Operating Activities		
Net Income	$ 13,129	$ 10,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(10,505)	(10,192)
(Increase)/decrease in other assets	(478)	2,566
Increase/(decrease) in accrued interest payable and other liabilities	539	(653)
Stock compensation	268	249
Net cash provided by operating activities	2,953	2,637
Financing Activities		
Proceeds from issuance of common stock	170	119
Cash dividends on common stock	(3,125)	(2,549)
Net cash used in financing activities	(2,955)	(2,430)
(Decrease)/increase in cash and cash equivalents	(2)	207
Cash and cash equivalents at beginning of year	236	29
Cash and cash equivalents at end of year	$ 234	$ 236

Accumulated Other Comprehensive Income

Components of Other Comprehensive Income/(Loss) (in thousands)	Before Tax Amount	Tax (Expense) Benefit	Net
For the year ended December 31, 2019			
Available for Sale Securities:			
Unrealized holding losses	$ (936)	$ 251	$ (685)
Cash flow hedges:			
Unrealized holding losses	(1,172)	314	(858)
Other comprehensive loss	$ (2,108)	$ 565	$ (1,543)
For the year ended December 31, 2018			
Available for Sale Securities:			
Unrealized holding gains	$ 1,203	$ (326)	$ 877
Cash flow hedges:			
Unrealized holding gains	262	(71)	191
Other comprehensive income	$ 1,465	$ (397)	$ 1,068

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed under the Exchange Act with the SEC, such as this annual report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Corporation's management, including the principal executive officer ("PEO") and the principal financial officer ("PFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of December 31, 2019 was carried out under the supervision and with the participation of the Corporation's management, including the PEO and the PFO. Based on that evaluation, the Corporation's management, including the PEO and the PFO, has concluded that the Corporation's disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has performed an evaluation and testing of the Corporation's internal control over financial reporting as of December 31, 2019. Management's report on the Corporation's internal control over financial reporting are included on the following pages.

Management's Report on Internal Control Over Financial Reporting

The Board of Directors and Shareholders
First United Corporation

First United Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system was designed to provide reasonable assurance to management and the Board of Directors as to the reliability of First United Corporation's financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States, as well as to safeguard assets from unauthorized use or disposition.

An internal control system, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements in the financial statements or the unauthorized use or disposition of First United Corporation's assets. Also, projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of First United Corporation's internal control over financial reporting as of December 31, 2019, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control--Integrated Framework (2013 Framework). Based on this assessment and on the foregoing criteria, management has concluded that, as of December 31, 2019, First United Corporation's internal control over financial reporting is effective.

Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm, has audited the consolidated statement of financial condition of First United Corporation and Subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, appearing elsewhere in this annual report, and has issued an attestation report on the effectiveness of First United Corporation's internal control over financial reporting as of December 31, 2019, as stated in their report, which is included herein.

Dated: March 13, 2020

/s/ Carissa L. Rodeheaver	/s/ Tonya K. Sturm
Carissa L. Rodeheaver, CPA, CFP	Tonya K. Sturm
Chairman of the Board, President	Senior Vice President and
And Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Financial Officer)

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

The number of directors constituting the Corporation's Board of Directors is currently set at 11. The Board of Directors, by resolution approved a majority vote thereof, may alter the number of directors from time to time. All current directors also serve on the board of directors of the Bank. In addition to bringing extensive knowledge of the communities served by the Corporation through their involvement with their communities, as business partners and volunteers, the Nominating and Governance Committee believes that all director possess a diverse balance of skills, business experience and expertise necessary to provide leadership to the Corporation. The following discussion sets forth the directors' names, ages, and principal occupations and business experience during the last five years, as well as the specific experience, qualifications, other attributes and skills of the directors that led the Nominating and Governance Committee to determine that they should serve on the Board of Directors.

John F. Barr served as a member of the Corporation's Advisory Council for five years before being elected to the Board in 2014. Mr. Barr brings valuable business experience as the President and sole stockholder of Ellsworth Electric, Inc. which provides comprehensive electrical contractor and insulation services for residential, industrial and commercial customers throughout Maryland, Pennsylvania, Virginia, and West Virginia. He is very active in the Washington County, Maryland community. He is a former 3-term Washington County Commissioner. He also served on the Maryland Association of Counties during the years 2010 - 2019, and the MACO board from 2014 – 2019 where he served as President in 2016. Mr. Barr is currently evaluating other community involvement having just stepped out of the political realm.

Brian R. Boal served as a member of the Corporation's Advisory Council for four years prior to his election to the Board in 2014. He has a vast amount of accounting and business experience through his education, his certification as a Certified Public Accountant, and his ownership and operation for the past 17 years of Boal and Associates, PC, *Certified Public Accountants*. Mr. Boal serves as a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants. He serves as the Treasurer of many local organizations in his community of Garrett County.

M. Kathryn Burkey possesses substantial accounting and business experience gained through her education, her certification as a Certified Public Accountant, and her ownership and operation for the past 31 years of M. Kathryn Burkey, CPA, an accounting firm. She is also the owner of The Burkey Television and Appliance Co., Inc. trading as Burkey's Furniture and Carpeting. She has gained director experience through her service as past Chairman of the Board of Western Maryland Health System, where she also served on its Compensation Committee, Audit Committee, and Finance Committee, and through her service as a director of the Corporation and the Bank since 2005. Mrs. Burkey serves as a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants. She is also the past president of Maryland Association of Certified Public Accountants.

Robert W. Kurtz has 37 years of banking experience through his service as past President, Chief Risk Officer, and Chief Financial Officer of the Corporation and its affiliates, as well as through his service as a director of the Corporation and the Bank since 1990.

John W. McCullough, a retired partner of Ernst & Young, LLP, possesses substantial accounting and auditing experience. He possesses public company M&A advisory experience, particularly with financial institutions. He is a Certified Public Accountant and obtained his B.S. degree in accounting from the University of Maryland. Mr. McCullough has served as a director of the Corporation and the Bank since 2004 and Lead Director of the Corporation and the Bank since 2014.

Elaine L. McDonald brings valuable knowledge of the local real estate industry to the Board that she gained as a realtor with Long and Foster and Taylor-Made Realtors. She retired from Taylor-Made Realtors in December 2019. She also possesses substantial business experience gained through her ownership and operation for 25 years of Alpine Village, Inc., a successful motel and restaurant. Founder and past Board member of Garrett County Memorial Hospital Foundation serving in various positions as chair and vice chair and capital campaign manager. Past board member of Garrett County Chamber of Commerce. She also has knowledge with fundraising activities for national and community based non-profits. Named Honorary Golden Ambassador by Garrett County Chamber of Commerce for promotion of tourismMrs. McDonald has served as a director of the Corporation and the Bank since 1995.

Carissa L. Rodeheaver is the Chairman of the Board, President and CEO of the Corporation and the Bank. She has served as President since November 2012 and as Chairman and CEO since January 1, 2016 upon the retirement of William B. Grant from those positions. Prior to these appointments, Mrs. Rodeheaver served as the Chief Financial Officer (the "CFO") of the Corporation and the Bank starting in January 2006 until May 2015 and as Secretary and Treasurer of the Corporation and the Bank starting in December 2009. She has been employed by the Corporation since 2004 and by the Bank since 1992. During her tenure at First United and prior to her current appointments, she has served as Trust Officer of the Bank, Assistant Vice President and Trust Officer of the Bank, Vice President and Trust Sales Officer of the Bank, Vice President and Trust Department Sales Manager of the Bank, Vice President and Assistant Chief Financial Officer of the Corporation and the Bank and Executive Vice President and Chief Financial Officer of the Corporation and the Bank. She has served as a director of the Corporation and the Bank since November 2012. Mrs. Rodeheaver is a Certified Public Accountant and a member of the Maryland Association of Certified Public Accountants, and she is a graduate of the Cannon Trust School, the Northwestern University Graduate Trust School, the Executive Development Institute for Community Banks and the Maryland Bankers School. She is currently serving in her second term on the board of directors of the Maryland Bankers Association, where she currently serves as Chairman of the Board. In addition, she serves as a director for the American Bankers Association and as Vice Chair on the American Bankers Association BankPAC Committee. Locally, Mrs. Rodeheaver serves as Vice Chair on the Board of the Garrett College Foundation, the Treasurer for the Board of the Garrett Development Corporation, on the Finance Committee forWestern Maryland Health Systems, and she attends the Oak Grove Church of the Brethren. She continues her education and professional development by attending various conferences and workshops focused on strategic planning, regulations and management for the banking industry. In addition to her service with the Corporation and the Bank, Mrs. Rodeheaver owns and operates Rodeheaver Rentals with her spouse, an unincorporated entity that owns and leases commercial and residential property, and several residential apartments that they lease to tenants.

Gary R. Ruddell obtained a B.A. degree in marketing from the University of Maryland and has also attended a multitude of Maryland Banking sessions. His business experience includes service as the president and chief executive officer of Total Biz Fulfillment, a successful logistical and back-office support services business. Mr. Ruddell is involved in his community and holds director positions with various community organizations. He has served as a director of the Corporation and the Bank since 2004.

I. Robert Rudy has served as a director of the Corporation and the Bank since 1992. His education includes a Bachelor of Business Administration degree from Ohio University. His vast business experience has been gained through his ownership and operation of I. R. Rudy's, Inc., a retail apparel and sporting goods store. His director experience includes Chairman of the Board of Sports Specialists, Ltd, a national retail buying group, and as trustee of The Ohio University Foundation. He holds the office of Vice Chairman of the Foundation and is a member of the Executive Committee. He chairs the Foundation's Real Estate Committee and the Vice Chair of the Finance Committee. January 2020, Mr. Rudy represented the Ohio University Foundation at the association of governing boards' National Leadership Conference. Other boards associated with Ohio University include: Russ Holdings LLC, Russ North Valley Road LLC, Russ Research Center LLC all located in Dayton, Ohio and Housing for Ohio/Courtyard Apartments, Athens, Ohio. Mr. Rudy is President of the Board of The Ohio University Inn and Conference Center located in Athens, Ohio. He also has leadership experience gained from and involvement with various societies, boards and commissions, including the Ohio University College of Business Society of Alumni and Friends from 2003 to 2006, Ohio University College of Business Executive Advisory Board since 2006, Ohio University College of Business Global Competitive Program during 2008 through 2010 in Hungary and 2013 in Greece, Ohio University President's CEO Roundtable, Maryland Fire Prevention Commission – Commissioner, Certified Level II Instructor for the Maryland Fire and Rescue Institute from 1978 to 1990, and Chairman of Oakland Planning and Zoning Commission since 1989. Mr. Rudy is also a retired Chief of the Oakland Volunteer Fire Department with 35 years of service. Although he is retired from the department, he continues to serve the OVFD as an apparatus driver.

Marisa A. Shockley served as a member of the Corporation's Advisory Council for two years before she was elected to the Board in 2014. She has significant business experience through her service as the owner of Shockley, Inc. in Frederick, MD, an automobile dealership. She has served as the President of the Maryland School for the Deaf Foundation from 2004 to 2015 and was the Chairman for the Maryland Auto Dealers' Association from 2011 to 2013. She was also recognized as a TIME Quality Award regional finalist.

H. Andrew Walls, III has significant business experience gained as the owner and operator of MPB Print and Sign Super Store, a large printing company, for 25 years. He is active in the Monongalia County, West Virginia community, one of the Corporation's market areas. In addition to serving as a director of the Corporation and the Bank since 2006, Mr. Walls has acquired director experience through his service on the boards of directors of the United Way, the Public Theatre, the Red Cross, and the Salvation Army.

Family Relationships

Director Brian R. Boal is the nephew of director Robert W. Kurtz.

Audit Committee

The Board of Directors has a separately-designated standing Audit Committee established pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and consists of Brian R. Boal (Chairman), M. Kathryn Burkey, Robert W. Kurtz, John W. McCullough, Elaine L. McDonald. The Board has determined that all audit committee members are financially literate and that Mrs. Burkey and Messrs. Boal, Kurtz and McCullough each qualify as an “audit committee financial expert” as that term is defined by Item 407 of the SEC’s Regulation S-K.

Executive Officers and Significant Employees

Information about the Corporation’s executive officers is set forth below. All officers are elected annually by the Corporation’s Board of Directors and hold office at its pleasure.

Carissa L. Rodeheaver, age 54, serves as the Chairman of the Board, President and CEO of both the Corporation and the Bank. She has served as President since November 2012 and as Chairman and CEO since January 1, 2016 upon the retirement of William B. Grant from those positions. Prior to these appointments, Mrs. Rodeheaver served as the CFO of the Corporation and the Bank starting in January 2006 and as Secretary and Treasurer of the Corporation and the Bank starting in December 2009. Between March 19, 2008 and her appointment as President, Mrs. Rodeheaver served as Executive Vice President of the Bank. Prior to these times, Mrs. Rodeheaver served as Trust Officer of the Bank from 1992 to 2000, as Vice President and Trust Department Sales Manager of the Bank from 2000 to 2004, and as Vice President and Assistant CFO of the Corporation from 2004 to December 31, 2005. She is a Certified Public Accountant.

Tonya K. Sturm, age 52, serves as Senior Vice President and CFO of both the Corporation and the Bank. She has served as CFO since May 2015 and as Senior Vice President since June 2016. In May 2016, she was appointed Secretary and Treasurer of the Corporation and the Bank. Prior to the appointment of Senior Vice President, she served as Vice President since September 2008. Prior to her appointment as CFO and Vice President, Mrs. Sturm served as Controller of the Corporation and the Bank starting in September 2008, as a Staff Auditor of the Bank from July 1996 to June 1998, as a Credit Analyst of the Bank from June 1998 to March 1999, as Staff Accountant of the Bank from April 1999 to May 2002, as a Senior Staff Accountant of the Bank June 2002 to December 2003, as the Finance Manager of the Bank from January 2004 to May 2006, and as Vice President and Director of Finance of the Bank from June 2006 to August 2008.

Information about the Bank’s executive officers, other than Mrs. Rodeheaver and Mrs. Sturm, is set forth below. All officers are elected annually by the Bank’s Board of Directors and hold office at its pleasure.

Robert L. Fisher, II, age 51, serves as Senior Vice President and Chief Lending Officer. Mr. Fisher has been employed by the Corporation since September 2013. Mr. Fisher has over 20 years of experience in the banking industry with the majority of his experience based in commercial banking. Most recently, Mr. Fisher held the position of Regional President at a bank in the Mid-Atlantic region.

Jason B. Rush, age 49, serves as a Senior Vice President and Chief Operating Officer. Mr. Rush was appointed Senior Vice President and Chief Operating Officer in January 2017. Prior to this appointment, he served as Senior Vice President and Chief Risk Officer and Director of Operations and Support. Mr. Rush has been employed by the First United organization since October 1993. Prior to his current position, Mr. Rush served as Vice President, Director of Operations & Support since March 2006, and before that as Vice President and Regional Manager/Community Office Manager from January 2005 to February 2006; Vice President and Community Office Manager/Manager of Cash Management from May 2004 to December 2004; Assistant Vice President and Community Office Manager from April 2001 to April 2004; Community Office Manager from August 1998 to April 2001; Customer Service Officer from March 1997 to July 1998; Assistant Compliance Officer from July 1995 to February 1997; and Management Trainee from October 1993 to July 1995. Mr. Rush also serves as the Treasurer of Rush Services, Inc., a family-owned business in which he has a fifty percent ownership interest. He also participates with his brother in farming and land investment.

Keith R. Sanders, age 50, serves as Senior Vice President and Senior Trust Officer. Mr. Sanders has been employed by the Corporation since August 2002. He served as Senior Trust Sales Officer from August 2002 until December 2005, and as Senior Trust/Investment Sales Manager from January 2006 until October 2011. He was named First Vice President and Senior Trust Officer on November 1, 2011 and Senior Vice President and Senior Trust Officer on May 22, 2013.

Code of Ethics

The Corporation has adopted a Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions, a Code of Ethics applicable to all employees, and a Code of

Ethics applicable to members of the Board of Directors. Copies of these Codes of Ethics are available free of charge upon request to Mr. Jason B. Rush, Senior Vice President and Chief Operating Officer, First United Corporation, c/o First United Bank & Trust, 19 S. Second Street, Oakland, MD 21550. Copies are also available on the Corporation's website at www.mybank.com in the "Governance Documents" tab under "Investor Relations".

Delinquent Section 16(a) Reports

Pursuant to Section 16(a) of the Exchange Act and the rules promulgated thereunder, the Corporation's executive officers and directors, and persons who beneficially own more than 10% of the Corporation's common stock, are required to file certain reports regarding their ownership of common stock with the SEC. Based solely on a review of copies of such reports and amendments thereto filed electronically with the SEC during the year ended December 31, 2019, or written representations that no reports were required, the Corporation believes that (i) Robert W. Kurtz filed one late Form 4 relating to a purchase of shares under a dividend reinvestment feature of a brokerage account), (ii) Carissa L. Rodeheaver filed two late Form 4s, each relating to a purchase of shares under a dividend reinvestment feature of a brokerage account, (iii) Gary R. Ruddell filed two late Form 4s, each relating to a purchase of shares under a dividend reinvestment feature of a brokerage account, (iv) I. Robert Rudy filed two late Form 4s, each relating to a purchase of shares under a dividend reinvestment feature of a brokerage account, and (v) Marisa A, Shockley filed two late Form 4s, each relating to a purchase of shares under a dividend reinvestment feature of a brokerage account.

ITEM 11. EXECUTIVE COMPENSATION

Director Compensation

The following table provides information about compensation paid to or earned by the Corporation's directors during 2019 who are not also "named executive officers" (as defined in the "Executive Compensation" section of this Item 11 under the heading "Remuneration of Named Executive Officers in 2019". The amounts set forth below include the compensation paid by both the Corporation and the Bank for service on their respective boards of directors.

Name	Fees earned or paid in cash ($)	Stock awards ($) (1)	All other compensation ($)	Total ($)
John F. Barr	23,908	28,292	-	52,200
Brian R. Boal	26,608	28,292	-	54,900
M. Kathryn Burkey	26,408	28,292	-	54,700
Robert W. Kurtz	34,350	18,300	-	52,650
John W. McCullough	23,308	28,292	-	51,600
Elaine L. McDonald	20,808	28,292	-	49,100
Gary R. Ruddell	23,908	28,292	-	52,200
I. Robert Rudy	30,354	23,296		53,650
Marisa A. Shockley	21,308	28,292	-	49,600
H. Andrew Walls, III	25,358	28,292	-	53,650

Notes:

(1) Amounts in this column represent the grant date fair value of fully-vested shares of Common Stock granted in 2019, computed in accordance with Financial Standards Accounting Board Accounting Standards Codification Topic 718.

The Compensation Committee of the Board of Directors is responsible for evaluating and recommending director compensation to the Board for approval. In evaluating director compensation, the Compensation Committee considers the legal responsibilities that directors owe to the Corporation and its shareholders in connection with their service on the Board and/or a committee of the Board, and the risks to the directors associated with their service, and reviews the fees and benefits paid to directors of similar institutions in and around the Corporation's market areas. The Compensation Committee's current director compensation arrangement contemplates a mix of cash and equity awards, as discussed below.

For 2019, each director who was not an employee of the Corporation or the Bank (a "Non-Employee Director") received a cash retainer of $10,000, a grant of 1,000 fully-vested shares of Common Stock, having a grant date fair value of $18,300, and a cash fee of $1,000 for each meeting of the Corporation's and/or Bank's Board of Directors that he or she attended. The cash fee is reduced to $200 when special meetings are called and the meeting lasts less than two hours or is related to regulatory matters. Directors do not receive more than one cash fee when the boards of the Corporation and the Bank meet together. Directors who served on committees of the Corporation also received a cash fee of $500 for each committee meeting that they attended. The Chairperson of each of the Audit Committee (Mr.

Boal), Compensation Committee (Mrs. Burkey) and Nominating & Governance Committee (Mr. McCullough) received an additional annual cash retainer of $2,500. All directors of the Corporation also served on the board of directors of the Bank and received cash in the amount of $500 for attending each meeting of a committee of the Bank board on which they served.

Non-Employee Directors may elect to receive some or all of their cash retainers in shares of Common Stock. The number of shares paid in lieu of cash retainers is determined by dividing the portion of the cash retainer to be paid in stock by the mean between the high and low sales price of a share of Common Stock on the trading day immediately preceding the payment date, as reported on The NASDAQ Stock Market. In 2019, each of Messrs. Barr, Boal, McCullough, Ruddell and Walls and Mmes. Burkey, McDonald and Shockley elected to receive 546 shares of Common Stock, having an aggregate grant date fair value of $9,991.80, in lieu of that amount of their annual cash retainer. Mr. Rudy elected to receive 273 shares of Common Stock, having an aggregate grant date fair value of $4,995.90, in lieu of that amount of his annual cash retainer.

All directors are permitted to participate in the Corporation's Amended and Restated Executive and Director Deferred Compensation Plan (the "Deferred Compensation Plan"). The material terms of the Deferred Compensation Plan are discussed below under the heading, "Remuneration of Executive Officers".

Executive Compensation

Overview of Compensation Philosophy and Objectives

The Compensation Committee of the Corporation's Board of Directors is responsible for overseeing and administering the Corporation's employee benefit plans and policies, and for annually reviewing and approving all compensation decisions relating to the executive officers, including the named executive officers. The Compensation Committee of the Bank's Board of Directors has identical responsibilities with respect to executive officers of the Bank. Both Compensation Committees are made of the same directors. The Compensation Committee submits its decisions regarding compensation to the independent directors of the Board. The Compensation Committee has the authority and resources to obtain, independent of management, advice and assistance from internal and external legal, human resource, accounting or other experts, advisors, or consultants as it deems desirable or appropriate.

The Compensation Committee is composed of at least three directors who are determined to be "independent directors" as that term is defined by NASDAQ Rule 5605(a)(2). The members of the Compensation Committee are appointed each year by the Board of Directors, after considering the recommendations and views of the CEO. Five members of the Corporation's Board of Directors serve on the Compensation Committee, each of whom is an "independent director". The Chair of the Compensation Committee reports to the Corporation's Board regarding all committee actions.

The Compensation Committee recognizes the importance of balancing the need to attract and retain qualified executive officers with the need to maintain sound principles for the development and administration of compensation and benefit programs. The Compensation Committee has taken steps to enhance the Compensation Committee's ability to effectively carry out its responsibilities as well as ensure that the Corporation maintains strong links between executive pay and performance. Examples of procedures and actions that the Compensation Committee utilized in 2019 include:

- Incorporating executive sessions (without management present) into all Compensation Committee meetings;
- Using an independent compensation consultant to advise on executive compensation issues;
- Reviewing elements and amounts of executive compensation paid by competitors, including peer group performance and the impact of such performance on executive compensation;
- When it deems appropriate, realigning the Corporation's compensation structure in light of its peer group reviews;
- Reviewing and approving annual performance reviews for all executive officers; and
- Conducting annual reviews of all compensation and incentive plans for appropriate corporate strategic alignment and avoidance of excessive or unnecessary risk-taking by executive officers.

The Compensation Committee believes that the compensation paid to executive officers should be closely tied to the Corporation's performance on both a short-term basis and a long-term basis. Overall, the Compensation Committee believes that a performance-based compensation program can assist the Corporation in attracting, motivating and retaining the quality executives critical to long-term success. Accordingly, when and to the extent permitted by law, the Compensation Committee generally seeks to structure executive compensation programs so that they are focused on enhancing overall financial performance.

In setting the CEO's compensation, the Compensation Committee meets with the CEO to discuss her performance and compensation package. Decisions regarding her package are based upon the Compensation Committee's independent deliberations and input from the Committee's compensation consultant, if one is engaged for that purpose. In setting compensation for other executive officers, the Compensation Committee considers the CEO's recommendations, as well as any requested input and data from the Chief Financial Officer, Human Resources Department and outside consultants and advisors. The Compensation Committee occasionally requests one or more members of senior management to be present at Compensation Committee meetings where executive compensation and corporate or individual performance are discussed and evaluated. Only Compensation Committee members are allowed to vote on decisions regarding executive compensation, and only during its executive sessions.

In addition to reviewing competitive market values, the Compensation Committee also examines the total compensation mix, pay-for-performance relationship, and how all elements, in the aggregate, comprise each executive's total compensation package. The Compensation Committee also examines all incentive compensation plans at least annually to ensure that such plans do not encourage employees to take unnecessary or excessive risks that threaten the Corporation's value. All incentive plans contain "claw-back" provisions that require, in the event the Corporation is required to prepare an accounting restatement due to its material noncompliance with any financial reporting requirement under applicable securities laws or applicable accounting principles, each participant who received an award to return it to the extent the accounting restatement shows that a smaller award should have been paid. Further, all incentive plans contain ethics provisions that require a participant to repay an award in the event that the Corporation determines that the award was paid in a plan year in which the participant willfully engaged in any activity that was or is injurious to the Corporation and its affiliates. In general, the Board of Directors and/or its Compensation Committee may terminate, suspend or amend an incentive plan at any time.

For 2019, executive compensation consisted primarily of base salary, which is targeted to recognize each executive officer's performance and contributions to success considering salary standards in the marketplace. No incentive awards were granted in 2019. For 2018, the Compensation Committee approved a one-time incentive award of $5,000 to each executive officer.

Remuneration of Named Executive Officers in 2019

All of the Corporation's executive officers are also executive officers of the Bank. Both the Corporation and the Bank maintain various compensation plans and arrangements for their respective executive officers, but, where appropriate, most of these plans and arrangements are structured to apply to executive officers of the consolidated group.

The following table sets forth, for each of the last two calendar years (which were also the Corporation's last two fiscal years), the total remuneration awarded to, earned by, or paid to (i) each person who served as the Corporation's principal executive officer at any time during 2019, (ii) the Corporation's two most highly compensated executive officers other than the principal executive officer who were serving as such as of December 31, 2019 and whose total compensation (excluding above-market and preferential earnings on nonqualified deferred compensation) exceeded $100,000 during 2019, and (iii) up to two additional individuals for whom disclosure would have been provided pursuant to the foregoing item (ii) had they been serving as executive officers of the Corporation as of December 31, 2019 (all such persons are referred to as the "named executive officers"). For this purpose, the term "executive officer" includes any executive officers of the Bank who performs a policy making function for the Corporation. The Corporation has determined that the named executive officers for purposes of this Proxy Statement include Carissa L. Rodeheaver, Robert L. Fisher, II and Jason B. Rush. In calendar years 2019 and 2018, executive compensation included annual base salary, a discretionary cash bonus (2018), and income related to certain employee benefit plans, and the table that follows reflects compensation paid by both the Corporation and the Bank.

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($) (2)	All other compensation ($) (3)	Total ($)
Carissa L. Rodeheaver, Chairman, President & CEO	2019	388,907	-	11,077	399,984
	2018	377,580	5,000	10,925	393,505
Robert L. Fisher, II, Senior Vice President, Chief Revenue Officer	2019	268,876	-	10,453	279,329
	2018	261,045	5,000	11,107	277,152
Jason B. Rush, Senior Vice President, Chief Operating Officer	2019	203,138	-	8,113	211,251
	2018	195,387	5,000	7,975	208,362

Notes:

(1) Mrs. Rodeheaver also serves as a director of the Corporation and of the Bank but does not receive any separate remuneration for such service.

(2) Each of the named executive officers received a $5,000 discretionary cash bonus in 2018. No cash bonuses were paid in 2019.

(3) Amounts include premiums related to bank-owned life insurance policies (see "Split Dollar Life Insurance Arrangements" below), group term life insurance and long term disability insurance available to all employees and matching contributions under the 401(k) Profit Sharing Plan. The aggregate dollar value of premiums related to the bank-owned life insurance policies, the group life insurance program and long-term disability insurance was as follows: Mrs. Rodeheaver, $1,277 for 2019 and $1,300 for 2018; Mr. Fisher, $928 for 2019 and $1,666 for 2018; and Mr. Rush, $998 for 2019 and $957 for 2018. Matching contributions made by the Corporation for the named executive officers under the 401(k) Profit Sharing Plan were as follows: Mrs. Rodeheaver, $9,800 for 2019 and $9,625 for 2018; Mr. Fisher, $9,525 for 2019 and $9,441 for 2018; and Mr. Rush, $7,115 for 2019 and $7,018 for 2018.

Employment Arrangements

All of the named executive officers are employed on an at-will basis and are not parties to any written employment agreement with the Corporation or the Bank.

In addition to base salaries paid in 2019, the named executive officers' employment arrangements make them eligible to receive benefits under and/or participate in the 401(k) Profit Sharing Plan, the Pension Plan, the Split Dollar Life Insurance arrangements, the Deferred Compensation Plan, and, except for Mr. Fisher, the Defined Benefit Supplemental Executive Retirement Plan, described below. Mr. Fisher participates in the Defined Contribution Agreement, described below. The material terms of these plans and arrangements and the compensation and benefits available thereunder are discussed below. In addition, all executive officers are entitled to employee benefits that the Corporation makes available to all eligible employees generally, including health, dental and vision insurance, long-term disability insurance, and group term life insurance. Mrs. Rodeheaver and Mr. Fisher are also provided with the use of employer-owned automobiles.

In 2007, the Corporation adopted a plan that provides for cash payments and employee benefits continuation to executive officers if they experience a separation from service in connection with a change in control of the Corporation, known as the Change in

Control Severance Plan (the "Severance Plan"), and it has entered into change in control severance agreements under the Severance Plan (a "Severance Agreement") with certain executive officers, including Mrs. Rodeheaver and Messrs. Fisher and Rush.

401(k) Profit Sharing Plan

In furtherance of the Corporation's belief that every employee should have the ability to accrue retirement benefits, the Corporation adopted the 401(k) Profit Sharing Plan, which is available to all employees, including executive officers. Employees are automatically entered in the plan on the first of the month following completion of 30 days of service to the Corporation and its subsidiaries. Employees have the opportunity to opt out of participation or change their deferral amounts under the plan at any time. In addition to contributions by participants, the plan contemplates employer matching and the potential of discretionary contributions to the accounts of participants. The Corporation believes that matching contributions encourage employees to participate and thereby plan for their post-retirement financial future. Beginning with the 2008 plan year, the Corporation enhanced the match formula to 100% on the first 1% of salary reduction and 50% on the next 5% of salary reduction. This match is accrued for all Participants, including executive officers, immediately upon entering the plan on the first day of the month following the completion of 30 days of employment. Additionally, the Corporation accrued a non-elective employer contribution during 2019 for all employees (other than employees who participate in the Defined Benefit SERP or the Defined Contribution Agreement Plans and those employees meeting the age plus service requirement in the Pension Plan), equal to 4% of each employee's salary for those hired after January1, 2010 and 4.5% of each employee's salary for those hired before January 1, 2010, which will be paid into the plan in the first quarter of 2020.

Pension Plan

Prior to 2010, all employees were eligible to participate in the Pension Plan, which is a qualified defined benefit plan, upon completion of one year of service and the attainment of the age of 21. Retirement benefits are determined using an actuarial formula that takes into account years of service and average compensation. Normal retirement age for the defined benefit pension plan is 65 years of age with the availability of early retirement at age 55. Pension benefits are fully vested after five years of service. A year of service is defined as working at least 1,000 hours in a plan year. Effective April 30, 2010, the plan was amended, resulting in a "soft freeze", the effect of which prohibits new entrants into the plan and ceases crediting of additional years of service after that date. Effective January 1, 2013, the plan was amended to unfreeze the plan for those employees for whom the sum of (i) their ages, at their closest birthday, plus (ii) years of service for vesting purposes equal 80 or greater. The "soft freeze" continues to apply to all other plan participants.

Defined Benefit Supplemental Executive Retirement Plan

The Bank adopted the First United Bank & Trust Defined Benefit Supplemental Executive Retirement Plan (the "Defined Benefit SERP") so that executives could reach a targeted retirement income. The SERP is available only to a select group of management or highly compensated employees, including Mrs. Rodeheaver and Mr. Rush. Mr. Fisher does not participate in the Defined Benefit SERP. The Defined Benefit SERP was created to overcome qualified plan regulatory limits or the "reverse discrimination" imposed on highly compensated executives due to IRS contribution and compensation limits. In connection with the adoption of the Severance Plan, the Compensation Committee decided to credit participants with 24 years of service, regardless of actual years of service, to minimize certain income taxes that could be imposed under Section 280G of the Internal Revenue Code upon a separation from service. In the event a participant voluntarily terminates employment without good reason, his or her credited years of service will revert to actual years of service as of the date of termination. Future participants in the plan, if any, will be credited with actual years of service.

The Defined Benefit SERP benefit is equal to 2.5% of the executive's Final Pay for each year of service through age 60 (up to a maximum of 24 years) plus 1% of Final Pay for each year of service after age 60 (up to a maximum of 5 years), for a total benefit equal to 65% of Final Pay. The Compensation Committee chose this plan design to provide competitive retirement benefits and to encourage service. The Defined Benefit SERP was designed primarily to supplement benefits payable under the Pension Plan and, as such, it would be appropriate to measure Defined Benefit SERP benefits using an actuarial formula (*i.e.*, years of service and final pay) similar to that used under the Pension Plan. Accordingly, the Defined Benefit SERP benefits are offset by any accrued benefits payable under the Pension Plan and 50% of the social security benefits received by the participant. For purposes of the Defined Benefit SERP, "Final Pay" means an amount equal to the participant's annual base salary rate in effect immediately prior to his or her Separation from Service.

The normal retirement Defined Benefit SERP benefit is paid following Normal Retirement, which is defined as a Separation from Service (as defined in the Defined Benefit SERP) after attaining age 60 and providing at least 10 years of service. Each participant is entitled to elect, upon initial participation, whether to receive the benefit in a single lump sum or in the form of a single life annuity, a level payment single life annuity, a level payment single life annuity with 120 months of guaranteed payments, a 50% joint and survivor level payment annuity, a 75% joint and survivor level payment annuity, or a 100% joint and survivor level payment annuity. Annuity payments will be made on a monthly basis and are subject to actuarial adjustments. Payments under a life annuity will be

determined based on the expected remaining number of years of life for the annuitant and actuarial tables as of the time the annuity begins. Payments under any form of annuity other than a single life annuity will be determined using the same actuarial equivalent assumptions used for the Pension Plan. If a participant fails to make an election, he or she will receive the benefit as a level payment single life annuity.

Participant vests in his or her accrued normal retirement Defined Benefit SERP benefit upon 10 years of service, upon Normal Retirement, upon a Separation from Service due to Disability (as defined in the Defined Benefit SERP), and upon the participant's death. Upon a Separation from Service following a Change in Control (as defined in the Defined Benefit SERP) and a subsequent Triggering Event (as defined in the Defined Benefit SERP), a participant will vest in the greater of (i) 60% of Final Pay or (ii) his or her accrued normal retirement Defined Benefit SERP benefit through the date of the Separation from Service.

Generally, the distribution of a participant's Defined Benefit SERP benefit will begin following the participant's Normal Retirement. If the participant suffers a Separation from Service due to death or following a Disability, then the participant or his or her designated beneficiaries will receive a lump sum payment equal to the actuarial equivalent of his or her accrued Defined Benefit SERP benefit. If the participant suffers a Separation from Service other than due to "Cause" (as defined in the Defined Benefit SERP) after 10 years of service but prior to Normal Retirement, then he or she will receive the normal retirement Defined Benefit SERP benefit that has accrued through the date of the Separation from Service at age 60, in the form elected. If the participant suffers a Separation from Service following a Change in Control and subsequent Triggering Event, then the distribution of his or her normal retirement Defined Benefit SERP benefit that has accrued through the date of the Separation from Service will begin, in the form elected, once the participant reaches age 60. If the participant dies following the commencement of distributions but prior to the complete distribution of his or her vested and accrued SERP benefit, then distributions will be paid to his or her beneficiaries only if he or she chose a joint and survivor annuity form of distribution or a 10-year guaranteed payment lifetime annuity (and then only until the guaranteed payments have been made).

A participant will lose all Defined Benefit SERP benefits if he or she is terminated for Cause (as defined in the Defined Benefit SERP). In addition, each participant has agreed that the receipt of any Defined Benefit SERP benefits is conditioned upon his or her (i) refraining from competing with the Corporation and its subsidiaries in their market areas for a period of three years following his or her Separation from Service, (ii) refraining from disclosing the Corporation's confidential information following a Separation from Service, and (iii) remaining available to provide up to six hours of consultative services per month for twelve months after his or her Separation from Service. Items (i) and (iii) do not apply, however, if the Separation from Service results from a Change in Control and subsequent Triggering Event. If a participant breaches any of these conditions, then he or she is obligated to return all SERP benefits paid to date plus interest on such benefits at the rate of 10% per year.

The amounts that could be paid to Mrs. Rodeheaver and Mr. Rush under the Defined Benefit SERP upon a separation from service is shown below in the table contained in the section entitled "Benefits Upon a Separation from Service".

Split Dollar Life Insurance Arrangements

The Bank purchased policies of bank owned life insurance ("BOLI") in the aggregate amounts of $18 million in 2001, $2.3 million in 2004, $2.8 million in 2006, $10 million in 2009 and $5.5 million in 2015 to help offset the costs of providing benefits under all benefit plans and arrangements. The Bank is the sole owner of these BOLI policies, has all rights with respect to the cash surrender values of these BOLI policies, and is the sole death beneficiary under these BOLI policies.

Because the Compensation Committee believes that it is important to reward officers for their loyalty and service, the Corporation has agreed, pursuant to Endorsement Split Dollar Agreements, to assign a portion of the cash benefits payable under these BOLI policies to the executive officers' named beneficiaries in the event they die while employed. Participation under the Split-Dollar Life Insurance arrangements can be terminated for any reason, at any time, by either the Bank or the covered officer. The Bank terminates each covered officer's participation when his or her employment is terminated. The current death benefits payable to the beneficiaries of the named executive officers under these arrangements are shown below in the table contained in the section entitled "Benefits Upon a Separation from Service".

Deferred Compensation Plan and Defined Contribution Agreement

The Corporation's directors and those executives selected by the Compensation Committee are permitted to participate in the Deferred Compensation Plan. Each of the named executive officers is entitled to participate. The Deferred Compensation Plan permits directors and executives to elect, each year, to defer receipt of up to 100% of their directors' fees, salaries and bonuses, as applicable, to be earned in the following year. The deferred amounts are credited to an account maintained on behalf of the participant (a "Deferral Account") and are deemed to be invested in certain investment options established from time to time by the Investment Committee of the Bank's Trust Department. Additionally, the Corporation may make discretionary contributions for the benefit of a participant to an

Employer Contribution Credit Account (the "Employer Account"), which will be deemed to be invested in the same manner as funds credited to the Deferral Account. Each Deferral Account and Employer Account is credited with the gain or loss generated on the investments in which the funds in those accounts are deemed to be invested, less any applicable expenses and taxes.

A participant is always 100% vested in his or her Deferral Account. The Corporation is permitted to set a vesting date or event for the Employer Account, and such date may be based on the performance by the participant of a specified number of completed years of service with the Corporation, may be based on the participant's performance of specified service goals with respect to the Corporation, may be limited to only certain termination of employment events (e.g., involuntary termination, those following a change of control, etc.), or may be based on any other standard, at the Corporation's sole and absolute discretion. Notwithstanding the foregoing, a participant will become 100% vested in his or her Employer Account if he or she terminates employment (or, in the case of a participant who is a non-employee director, terminates membership on the Board of Directors) because of death or Total and Permanent Disability (as defined in the Deferred Compensation Plan). Each participant will also become 100% vested in his or her Employer Account in the event of a Change in Control (as defined in the Plan).

Generally, a participant is entitled to choose, pursuant to an election form, the date on which his or her account balances are to be distributed, subject to any restrictions imposed by the Corporation and the trustee under the First United Corporation Executive and Director Deferred Compensation Plan in their sole and absolute discretion and applicable law. If a participant fails to select a distribution date, then distributions will begin on or about the date of the participant's termination of employment or director status with the Corporation. The participant may choose whether his or her account balances are to be distributed in one lump sum or in equal annual installments selected by the participant between 2 and 10 installments. If a participant fails to elect a payment date or the method of payment, then the account balances will be distributed in one lump sum following termination of employment. If distributions are made in installments, then the undistributed balance will continue to be deemed invested in the chosen investment options, and the accounts will be credited or debited accordingly, until all amounts are distributed.

If a participant dies or experiences a Total and Permanent Disability before terminating his or her employment or director status with the Corporation and before the commencement of payments, then the entire balance of the participant's accounts will be paid to the participant or to his or her named beneficiaries, as applicable, as soon as practicable following death or Total and Permanent Disability. If a participant dies after the commencement of payments but before he or she has received all payments to which he or she is entitled, then the remaining payments will be paid to his or her designated beneficiaries in the manner in which such benefits were payable to the participant. Upon a Change in Control, the entire balance of a participant's accounts will be paid in a single lump sum payment.

The Deferred Compensation Plan provides for limited distributions in the event of certain financial hardships.

On January 9, 2015, the Corporation entered into a participation agreement under the Deferred Compensation Plan, styled as the First United Corporation Defined Contribution Agreement (the "Defined Contribution Agreement"), with Mr. Fisher pursuant to which the Corporation agreed, for each Plan Year (as defined in the Deferred Compensation Plan) in which it determines that it has been Profitable (as defined in the Defined Contribution Agreement), to make a discretionary contribution to the Employer Account of Mr. Fisher in an amount equal to 15% of his base salary for such Plan Year, with the first Plan Year being the year ending December 31, 2015. Mr. Fisher received Employer Contribution Credits of $39,157 for the 2018 Plan Year. For the 2019 Plan Year, Mr. Fisher received Employer Contribution Credits of $40,331. The Defined Contribution Agreement provides that Mr. Fisher will become 100% vested in the amount maintained in his Employer Account upon the earliest to occur of the following events: (i) his Normal Retirement (as defined in the Defined Contribution Agreement); (ii) his Separation from Service (as defined in the Defined Contribution Agreement) following a Change of Control (as defined in the Deferred Compensation Plan) and subsequent Triggering Event (as defined in the Defined Contribution Agreement); (iii) his Separation from Service due to a Disability (as defined in the Defined Contribution Agreement); (iv) with respect to a particular award of Employer Contribution Credits, his completion of two consecutive Years of Service (as defined in the Defined Contribution Agreement) immediately following the Plan Year for which such award was made; or (v) his death. Notwithstanding the foregoing, however, Mr. Fisher will lose his entitlement to the amount credited to his Employer Account if he is terminated for Cause (as defined in the Defined Contribution Agreement). In addition, the Defined Contribution Agreement conditions his entitlement to the amounts credited to his Employer Account on his (a) refraining from engaging in Competitive Employment (as defined in the Defined Contribution Agreement) for three years following his Separation from Service, (b) refraining from injurious disclosure of confidential information concerning the Corporation, and (c) remaining available, at the Corporation's reasonable request, to provide at least six hours of transition services per month for 12 months following his Separation from Service (except in the case of death or Disability), except that only item (b) will apply in the event of a Separation from Service following a Change of Control and subsequent Triggering Event. In the event that Mr. Fisher violates any of those conditions, then he will forfeit all then-unpaid amounts in his Employer Account and be obligated to reimburse the Corporation for all amounts theretofore paid to him, plus interest thereon at the rate of 10% per year.

Benefits upon a Separation from Service

As noted above, the Corporation has entered into Severance Agreements with Mrs. Rodeheaver, Mr. Fisher and Mr. Rush; however, the Corporation has not made any payments under the Severance Agreements to date.

The Corporation's obligations under the Severance Agreements would be triggered if the participating executive officer's employment were to be terminated by the Corporation without Cause (as defined in the Severance Agreement) or by the executive for Good Reason (as defined in the Severance Agreement) during the period commencing on the date that is 90 days before a Change in Control (as defined in the Severance Plan) and ending on the first anniversary of a Change in Control (the "Protection Period"). In such case, the executive officer would be entitled to receive a lump sum cash payment equal to two times his or her Final Pay (as defined in the Severance Agreement), the immediate vesting of all equity-based compensation awards that have been granted to the executive, continued coverage for 24 months under the Corporation's group health and dental plan (or, if the executive is not eligible for such coverage, a monthly cash payment equal to the monthly premium for a similar policy), and outplacement services for up to 12 months.

Each of the Severance Agreements provides that the amount of all severance benefits described above, plus the amount of all benefits under any other plan or arrangement, the payment of which is deemed to be contingent upon a change in the ownership or effective control of the Corporation (as determined under Section 280G of the Code), may not exceed 2.99 times the participant's "annualized includable compensation for the base period" (*i.e.*, the average annual compensation that was includable in his or her gross income for the last five taxable years ending before the date on which the Change in Control occurs.

Each Severance Agreement has a one-year term, which automatically renews for additional one-year terms unless the Corporation provides the participant with six months' prior notice of its intention not to renew the Severance Agreement, except that the Severance Agreement will automatically terminate at the expiration of the Protection Period.

The table that follows shows the estimated present value of benefits that could have been paid to the named executive officers as of December 31, 2019 under the Severance Plan, the SERP and the Split Dollar Life Insurance Arrangements upon a separation from service. As discussed above, subject to certain conditions, participants in the SERP are entitled to receive their vested benefits (offset by Pension Plan benefits, 50% of social security benefits and, in the case of death, benefits paid under the Split Dollar Life Insurance arrangements described above) if they suffer a separation from service other than for cause. No SERP benefits are payable if a participant's separation from service was for cause. Except in the cases of a separation from service due to death or disability, the payment of SERP benefits does not commence until the later of normal retirement or attainment of age 60 for the SERP Plan.

Benefits Payable Upon a Termination of Employment

Name	Reason for Termination	Severance Plan Cash Benefit ($)	Severance Plan Benefit Continuation ($)(1)(1)	Estimated SERP Benefit ($)(2)(3)	Estimated Split-Dollar Benefit ($)	Total ($)
Mrs. Rodeheaver	Change in control, disability, involuntary termination other than for cause, or voluntary termination for good reason	777,814	33,515	1,898,825	-	2,710,154
	Death	-	-	1,873,825	25,000	1,898,825
	Voluntary termination without good reason	-	-	1,898,825	-	1,898,825
Mr. Fisher	Change in control, disability, involuntary termination other than for cause, or voluntary termination for good reason	537,752	33,515	111,645	-	682,912
	Death	-	-	111,645	25,000	136,646
	Voluntary termination without good reason	-	-	111,645	-	111,645

Mr. Rush	Change in control, disability, involuntary termination other than for cause, or voluntary termination for good reason	406,276	2,633	479,197	-	888,106
	Death	-	-	454,197	25,000	479,197
	Voluntary termination without good reason	-	-	479,197	-	479,197

Notes:

(1) Amounts reflect the value of two years' continued coverage under the Corporation's benefit plans. Such amounts are calculated at current rates and current cost sharing formulas, as future costs are unknown.

(2) The Defined Benefit SERP benefit payable to any named executive officer who terminates his or her employment without good reason is based on actual years of service rather than 24 years of credited service. Both Mrs. Rodeheaver and Mr. Rush have over 24 actual years of service. Mr. Fisher does not participate in the Defined Benefit SERP Plan.

(3) The amount reported for Mr. Fisher is the portion of the Employer Contribution Credits that have accrued under the Defined Defined Contribution Agreement and become vested as of December 31, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Information

At the 2018 Annual Meeting of Shareholders, the Corporation's shareholders approved the First United Corporation 2018 Equity Compensation Plan ("the Equity Plan"), which authorizes the grant of stock options, stock appreciation rights, stock awards, dividend equivalents and other stock-based awards. The following table contains information about the Equity Plan as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	N/A	297,423 (1)
Equity compensation plans not approved by security holders	—	N/A	N/A
Total	—	N/A	297,423

Note:

(1) The Equity Plan permits the grant of both stock options, restricted stock awards, and other stock-based awards. Subject to the anti-dilution provisions of the Equity Plan, the maximum number of shares for which awards may be granted to any one participant in any calendar year is 20,000, without regard to whether an award is paid in cash or shares.

Beneficial Ownership of Common Stock by Principal Shareholders and Management

The following table sets forth information as of February 29, 2020 relating to the beneficial ownership of the Common Stock by (i) each person or group known by the Corporation to beneficially own more than five percent (5%) of the outstanding shares of Common Stock; (ii) each of the Corporation's directors, director nominees and named executive officers; and (iii) all directors, director nominees and executive officers of the Corporation as a group. Generally, a person "beneficially owns" shares if he or she has, or shares with others, the right to vote those shares or to invest (or dispose of) those shares, or if he or she has the right to acquire such voting or investment rights, within 60 days of the Record Date (such as by exercising stock options or similar rights). The percentages shown for 2020 were calculated based on 7,112,189 issued and outstanding shares of Common Stock, plus, for each named person, any shares that such person may acquire within 60 days of the Record Date. Except as otherwise noted, the address of each person named below is the address of the Corporation.

	Common Stock Beneficially Owned		Percent of Outstanding Common Stock
Directors and Named Executive Officers:			
John F. Barr	18,093		*
Brian R. Boal	8,337		*
M. Kathryn Burkey	42,775		*
Robert L. Fisher, II	4,963	(1)	*
Robert W. Kurtz	10,521	(2)	*
John W. McCullough	35,742		*
Elaine L. McDonald	36,422		*
Carissa L. Rodeheaver	15,563	(3)	*
Gary R. Ruddell	17,403	(4)	*
I. Robert Rudy	40,368	(5)	*
Jason B. Rush	11,083	(6)	*
Marisa A. Shockley	16,213		*
H. Andrew Walls	57,106	(7)	*
Directors & Executive Officers as a group (13 persons)	314,589		4.4%
Driver Opportunity Partners I LP	365,212	(8)	5.1%
Total	**679,801**		**9.5%**

Notes:

* Less than 1.0%.

(1) Includes 1,793 shares of phantom stock held in a deferred compensation plan account ("Phantom Stock"). Each share of Phantom Stock represents a deemed investment of deferred compensation funds in one share of Common Stock and gives the officer the right to receive one share of Common Stock or the cash value thereof following the officer's separation from service with the Corporation. The officer may transfer the funds held in the plan account into an alternative deemed investment option at any time.

(2) Includes 3,027 shares owned jointly with spouse.

(3) Includes 283 shares held jointly with spouse, 69 shares held by spouse for benefit of a minor child, and 790 shares held in a 401(k) plan account.

(4) Includes 520 shares owned by Ruddell, LLC of which Mr. Ruddell is owner.

(5) Includes 1,033 shares owned jointly with spouse, 6,837 shares owned by spouse, and 4,500 shares of Phantom Stock in a deferred compensation plan account.

(6) Includes 125 shares owned jointly with spouse.

(7) Includes 14,854 shares owned by Morgantown Printing and Binding, Inc. of which Mr. Walls is owner.

(8) The information is based on the Schedule 13D/A filed with the SEC on January 10, 2020 by Driver Opportunity Partners I LP ("Partners"), Driver Management Company LLC ("Driver Management"), J. Abbott R. Cooper, Michael J. Driscoll, Lisa Narrell-Mead and Ethan C. Elzen. The principal address of each of Partners, Driver Management and Mr. Cooper is 250 Park Avenue, 7th Floor, New York, NY 10177. The principal address of Mr. Driscoll is 35 E. All Saints Street, #216, Frederick, MD 21701. The principal business address of Ms. Narrell-Mead is 1635 Woodridge Place, Birmingham, AL 35216. The principal business address of Mr. Elzen is 4309 Esteswood Dr Nashville, TN 37215. Partners beneficially owns 360,637 shares of Common Stock. Driver Management is the controlling person of Partners, and Mr. Cooper is the controlling person of Driver Management. Mr. Driscoll, Ms. Narrell-Mead and Mr. Elzen beneficially own 3,200 shares of Common Stock, 650 shares of Common Stock, and 425 shares of Common Stock, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

During the last two fiscal years, the Bank has had banking transactions in the ordinary course of its business with certain directors and officers of the Corporation and with their affiliates. These transactions were on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with person who are not related to the Bank.

In addition to the foregoing, Morgantown Printing & Binding ("MP&B"), a corporation owned by H. Andrew Walls and a trust established for the benefit of his minor children, provides various printing services (marketing materials, account statements, and other routine items), document storage and warehouse services, and related services to the Corporation. Total fees paid by the Corporation to MP&B in 2019 and 2018 were $186,334 and $206,887, respectively, which did not exceed 5% of MP&B's consolidated gross revenues for those years. The Corporation has again retained MP&B to provide these services in 2020, for which it expects to pay approximately $250,000. Management believes that all of the foregoing transactions with MP&B are or will be on terms that are substantially similar to those that would be available if a person unrelated to the Corporation were to provide these services.

During 2017, the Bank hired a general contractor for the completion of renovation projects in the Bank's branch office locations. The general contractor is not affiliated with the Corporation, the Bank or any of their directors or executive officers. On its own initiative and without input from the Bank, the general contractor hired Rush Services as a subcontractor to provide electrical, HVAC and other services. Jason Rush, the Chief Operating Officer of the Corporation and the Bank, serves as the Secretary of, and is a 50% owner of Rush Services. Total fees paid by the Bank directly to Rush Services in 2019 and 2018 were $51,879 and $99,364, respectively. The general contractor paid Rush Services $0 and $6,239, in 2019 and 2018, respectively, for such services.

The Corporation and the Bank have adopted written policies and procedures to help ensure that the Corporation and the Bank comply with all legal requirements applicable to related party transactions. Among other policies and procedures, the Audit Committee of the Board of Directors must review and approve transactions with directors, executive officers and/or their respective related interests and submit such transactions to the full Board of Directors for approval. This review is intended to ensure compliance with Regulation O, which imposes requirements for extensions of credit to directors and executive officers, Sections 23A and 23B of the Federal Reserve Act, which governs transactions between the Bank and its affiliates, and Section 5-512 of the Financial Institutions Article of the Annotated Code of Maryland, which limits, and requires periodic review and approval of, extensions of credit to directors and executive officers.

Director Independence

Pursuant to Rule 5605(b)(1) of The NASDAQ Stock Market Rules (the "NASDAQ Rules"), a majority of the Corporation's directors must be "independent directors" as that term is defined by NASDAQ Rule 5605(a)(2). The Corporation's Board of Directors has determined that each of John F. Barr, Brian R. Boal, M. Kathryn Burkey, Robert W. Kurtz, John W. McCullough, Elaine L. McDonald, I. Robert Rudy, Gary R. Ruddell, Marisa A. Shockley, and H. Andrew Walls, III is an "independent director", and these independent directors constitute a majority of the Corporation's Board of Directors. Each of the members of the Compensation Committee and of the Nominating Committee is an "independent director". Each member of the Audit Committee satisfies the independence requirements of NASDAQ Rule 5605(c)(2)(A). In making these independence determinations, the Board, in addition to the transactions described above under "Certain Relationships and Related Transactions", considered the fact that Mr. Kurtz previously served as an executive officer of the Corporation and the Bank and the fact that Mr. Boal is Mr. Kurtz's nephew.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows the fees paid or accrued by the Corporation in 2019 and 2018 for the audit and other services provided in those years by Baker Tilly Virchow Krause, LLP, the Corporation's independent registered public accounting firm:

	FY 2019	FY 2018
Audit Fees	$321,050	$302,000
Audit Related Fees	3,300	3,875
Tax Fees	0	0
All Other Fees	0	0
Total	$324,350	$305,875

Audit Fees for 2019 and 2018 include fees associated with the annual audits, the reviews of the Corporation's quarterly reports on Form 10-Q, and the attestation of management's reports on internal control over financial reporting contained in the Annual Reports on

Form 10-K for those years. Audit Related Fees for 2018 include fees associated with reviews of registration statements filed with the SEC by the Corporation, while 2019 is in regards to the potential sale of trust preferred securities.

It is the Audit Committee's policy to pre-approve all audit services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(l)(B) of the Exchange Act, which, when needed, are approved by the Audit Committee prior to the completion of the independent registered public accounting firm's audit. All of the 2019 and 2018 services described above were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1), (2) and (c) Financial Statements.

Report of Independent Registered Public Accounting Firm
Consolidated Statement of Financial Condition as of December 31, 2019 and 2018
Consolidated Statement of Income for the years ended December 31, 2019 and 2018
Consolidated Statement of Comprehensive Income for the years ended December 31, 2019 and 2018
Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2019 and 2018
Consolidated Statement of Cash Flows for the years ended December 31, 2019 and 2018
Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

(a)(3) and (b) Exhibits.

The exhibits filed or furnished with this annual report are listed in the following Exhibit Index.

Exhibit	Description
3.1(i)	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to First United Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 1998)
3.2(i)	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2(i) to First United Corporation's Annual Report on Form 10-K for the year ended December 31, 2007)
3.2(ii)	First Amendment to Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2(ii) to First United Corporation's Annual Report on Form 10-K for the year ended December 31, 2007)
3.2(iii)	Second Amendment to Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to First United Corporation's Current Report on Form 8-K filed on February 9, 2009)
4.1	Letter Agreement, including the related Securities Purchase Agreement – Standard Terms, dated January 30, 2009 by and between First United Corporation and the U.S. Department of Treasury (incorporated by reference to Exhibit 10.1 to First United Corporation's Form 8-K filed on February 2, 2009)
4.2	Certificate of Notice, including the Certificate of Designations incorporated therein, relating to the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated by reference Exhibit 4.1 to First United Corporation's Form 8-K filed on February 2, 2009)
4.3	Sample Stock Certificate for Series A Preferred Stock for the Series A Preferred Stock (incorporated by reference Exhibit 4.3 to First United Corporation's Form 8-K filed on February 2, 2009)
10.1	First United Bank & Trust Amended and Restated Defined Benefit Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.1 to First United Corporation's Current Report on Form 8-K filed on February 1, 2019)
10.2	Form of Amended and Restated Participation Agreement under the Defined Benefit Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.2 to First United Corporation's Current Report on Form 8-K filed on February 1, 2019)
10.3	Form of Endorsement Split Dollar Agreement between the Bank and each of William B. Grant, Robert W. Kurtz, Jeannette R. Fitzwater, Phillip D. Frantz, Eugene D. Helbig, Jr., Steven M. Lantz, Robin M. Murray, Carissa L. Rodeheaver, and Frederick A. Thayer, IV (incorporated by reference to Exhibit 10.3 to First United Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2003)
10.4	Amended and Restated First United Corporation Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to First United Corporation's Current Report on Form 8-K filed on November 24, 2008)
10.5	Form of Amended and Restated First United Corporation Defined Contribution SERP Agreement (incorporated by reference to Exhibit 10.5 to First United Corporation's annual report on Form 10-K for the year ended December 31, 2018)
10.6	Amended and Restated First United Corporation Change in Control Severance Plan (incorporated by reference to Exhibit 10.5 to First United Corporation's Current Report on Form 8-K filed on June 23, 2008)
10.7	Form of Agreement Under the First United Corporation Change in Control Severance Plan, dated as of February 14, 2007 (incorporated by reference to Exhibit 10.3 to First United Corporation's Current Report on Form 8-K filed on February 21, 2007)
10.8	Form of First Amendment to Agreement under the First United Corporation Change in Control Severance Plan, dated as of December 28, 2012 (incorporated by reference to Exhibit 10.10 to First United Corporation's Annual Report on Form 10-K for the year ended December 31, 2012)
10.9	Form of Agreement under the First United Corporation Change in Control Severance Plan, dated as of January 9, 2015, between First United Corporation and Keith R. Sanders (incorporated by reference to Exhibit 10.3 to First United Corporation's Current Report on Form 8-K filed on January 9, 2015)

10.10	First United Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to First United Corporation's Current Report on Form 8-K filed on May 21, 2018)
21	Subsidiaries (filed herewith)
23.1	Consent of Baker Tilly Virchow Krause, LLP, Independent Registered Public Accounting Firm (filed herewith)
31.1	Certifications of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
31.2	Certifications of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST UNITED CORPORATION

Date: March 13, 2020	By: /s/ Carissa L. Rodeheaver Carissa L. Rodeheaver, CPA, CFP Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: March 13, 2020	By: /s/ Tonya K. Sturm Tonya K. Sturm, Senior Vice President and Chief Financial Officer, (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

/s/ John F. Barr
John F. Barr – Director
March 13, 2020

/s/ Brian R. Boal
Brian R. Boal - Director
March 13, 2020

/s/ M. Kathryn Burkey
M. Kathryn Burkey - Director
March 13, 2020

/s/ Robert W. Kurtz
Robert W. Kurtz - Director
March 13, 2020

/s/ John W. McCullough
John W. McCullough – Director
March 13, 2020

/s/ Elaine L. McDonald
Elaine L. McDonald – Director
March 13, 2020

/s/ Carissa L. Rodeheaver
Carissa L. Rodeheaver – Director, President
and Chief Executive Officer
(Principal Executive Officer)
March 13, 2020

/s/ Gary R. Ruddell
Gary R. Ruddell - Director
March 13, 2020

/s/ I. Robert Rudy
I. Robert Rudy - Director
March 13, 2020

/s/ Marisa A. Shockley
Marisa A. Shockley - Director
March 13, 2020

/s/ Robert G. Stuck
Robert G. Stuck – Director
March 13, 2020

/s/ H. Andrew Walls, III
H. Andrew Walls, III - Director
March 13, 2020

/s/ Tonya K. Sturm
Tonya K. Sturm – Senior Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
March 13, 2020

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Section 2: EX-21 (EX-21)

Exhibit 21

Direct Subsidiary of First United Corporation

First United Bank & Trust, a Maryland corporation (the “Bank”)
First United Statutory Trust I, a Connecticut statutory business trust
First United Statutory Trust II, a Connecticut statutory business trust

Direct Subsidiary of the Bank

OakFirst Loan Center, LLC, a Maryland limited liability company
OakFirst Loan Center, Inc., a West Virginia corporation
Liberty Mews Limited Partnership, a Maryland limited partnership
First OREO Trust, a Maryland statutory trust
FUBT OREO I, LLC, a Maryland limited liability company

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Section 3: EX-23.1 (EX-23.1)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-180514) and Form S-8 (File No. 333-225133) of First United Corporation and subsidiaries of our report dated March 12, 2019, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this annual report on Form 10-K for the year ended December 31, 2018.

/s/ Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
March 12, 2019

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Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

Certifications of Principal Executive Officer
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Carissa L. Rodeheaver, certify that:

1. I have reviewed this annual report on Form 10-K of First United Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2019

/s/ Carissa L. Rodeheaver
Carissa L. Rodeheaver, CPA, CFP
Chairman of the Board, President
and Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

Certifications of the Principal Financial Officer
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tonya K. Sturm, certify that:

1. I have reviewed this annual report on Form 10-K of First United Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2019

/s/ Tonya K. Sturm
Tonya K. Sturm,
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

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Section 6: EX-32.1 (EX-32.1)

Exhibit 32.1

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, each of the undersigned hereby certifies that (i) the Annual Report of First United Corporation on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of First United Corporation.

Date: March 12, 2019	/s/ Carissa L. Rodeheaver Carissa L. Rodeheaver, CPA, CFP Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: March 12, 2019	/s/ Tonya K. Sturm Tonya K. Sturm, Senior Vice President, Chief Financial Officer (Principal Financial Officer)

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