

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarter ended March 31, 2002

Commission file number 0-14237

First United Corporation
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1380770 (I. R. S. Employer Identification no.)
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19 South Second Street, Oakland, Maryland (address of principal executive offices)	21550-0009 (zip code)
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(301) 334-4715
Registrant's telephone number, including area code

Not applicable
Former name, address and former fiscal year, if changed since last report.

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 for such shorter periods 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock, \$.01 Par value--6,080,568 shares outstanding as of March 31, 2002.
Preferred stock, No par value--No shares outstanding as of March 31, 2002.

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FIRST UNITED CORPORATION

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Consolidated Balance Sheets

	March 31, 2002 (unaudited)	December 31, 2001
	(in thousands)	
Assets		
Cash and due from banks	\$17,201	\$22,827
Federal funds sold	9,790	9,875
Interest-bearing deposits in banks	4,808	1,167
Investment securities:		
U.S. Treasury Securities	-	301
Obligations of other US Government Agencies	33,227	30,358
Obligations of State and Local Government	27,410	25,915
Other investments	72,322	74,118
Total investment securities	132,959	130,692
Federal Home Loan Bank stock, at cost	5,950	5,950
Loans and Leases	595,988	607,136
Reserve for probable credit losses	(5,845)	(5,752)
Net loans	590,143	601,384
Bank premises and equipment	11,643	11,527
Accrued interest receivable and other assets	31,944	34,691
Total Assets	\$804,438	\$818,113
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest bearing deposits	\$ 58,684	\$ 64,366
Interest bearing deposits	543,451	552,403
Total deposits	602,135	616,769
Reserve for taxes, accrued interest, and other liabilities	8,565	9,132
Federal Home Loan Bank borrowings		
and other borrowed funds	120,504	120,104
Dividends payable	1,032	1,032
Total Liabilities	732,236	724,038
Shareholders' Equity		
Preferred stock -no par value		
Authorized and unissued; 2,000 Shares		
Capital Stock -par value \$.01 per share:		
Authorized 25,000 shares; issued and outstanding	61	61
6,081 shares at March 31, 2002, 6,081 outstanding		
at December 31, 2001		
Surplus	20,199	20,199
Retained earnings	51,546	50,254
Accumulated comprehensive income	396	563
Total Shareholders' Equity	72,202	71,076

Total Liabilities and Shareholders' Equity	<u>\$804,438</u>	<u>\$818,113</u>
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FIRST UNITED CORPORATION

Consolidated Statement of Income
(in thousands, except per share data)

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Interest income		
Interest and fees on loans and leases	\$ 12,102	\$ 13,552
Interest on investment securities:		
Taxable	1,649	2,334
Exempt from federal income tax	313	229
	1,962	2,563
Interest on federal funds sold	25	189
Total interest income	14,089	16,304
Interest expense		
Interest on deposits:		
Savings	64	115
Interest-bearing transaction accounts	312	1,298
Time, \$100,000 or more	1,104	2,161
Other time	3,022	3,737
Interest on Federal Home Loan Bank borrowings and other borrowed funds	1,890	2,052
Total interest expense	6,392	9,363
Net interest income	7,697	6,941
Provision for probable credit losses	656	535
Net interest income after provision for probable credit losses	7,041	6,406
Other operating income		
Trust department income	682	706
Service charges on deposit accounts	585	567
Insurance premium income	260	229
Security (losses) gains	-	53
Other income	925	726
Total other operating income	2,452	2,281
Other operating expenses		
Salaries and employees benefits	3,450	3,082
Occupancy expense of premises	311	335
Equipment expense	494	446
Data processing expense	299	241
Deposit assessments and related fees	44	41
Other expense	1,745	1,593
Total other operating expenses	6,343	5,738
Income before income taxes	3,150	2,949
Applicable income taxes	822	932
Net income	\$2,328	\$2,017
Earnings per share	\$0.38	\$0.33
Dividends per share	\$0.17	\$0.16

FIRST UNITED CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2002	2001
	(Unaudited)	
Operating activities		
Net Income	\$ 2,328	\$ 2,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible credit losses	656	535
Provision for depreciation	436	377
Net accretion and amortization of investment security discounts and premiums	(82)	69
Realized gain on sale of investment securities	-	(52)
Decrease in accrued interest and other assets	2,747	6,476
Decrease in reserve for taxes, accrued interest and other liabilities	(567)	(762)
Net cash provided (used in) by operating activities	5,518	(4,292)
Investing activities		
Proceeds from maturities of available-for-sale securities	13,046	96,325
Purchases of available-for-sale securities	(15,395)	(66,403)
Net increase in loans	10,585	(45)
Purchases of premises and equipment	(552)	(440)
Net cash provided by investing activities	7,684	29,437
Financing activities		
Increase in Federal Home Loan Bank borrowings and other borrowed money	400	10,000
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	625	(22,486)
Net decrease in certificates of deposits	(15,259)	(17,807)
Cash dividends paid or declared	(1,040)	(1,005)
Net cash used in financing activities	(15,273)	(31,298)
Cash and cash equivalents at beginning of the year	33,869	26,921
Decrease in cash and cash equivalents	(2,070)	(6,153)

Cash and cash equivalents at end of period	\$31,799	\$20,768
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FIRST UNITED CORPORATION

Note to Unaudited Consolidated Financial Statements

March 31, 2002

Note A -- Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items have been included. Operating results for the three month period ended March 31, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The enclosed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

Earnings per share are based on the weighted average number of shares outstanding of 6,080 for the three months ended March 31, 2002, and 2001.

Note B - Accumulated Comprehensive Income

Accumulated comprehensive income represents the unrealized gains and losses on the company's available-for-sale securities, net of income taxes. During the first three months of 2002 and 2001, total comprehensive income, net income plus the change in unrealized gains (losses) on available-for-sale securities, amounted to \$2.16 million and \$2.66 million, net of income taxes, respectively.

Part I. Financial Information

Item II. Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated net income for the quarter ended March 31, 2002 totaled \$2.33 million, which is \$.31 million more than was recorded for the first quarter of 2001. This translates into \$.38 per share for the first quarter of 2002 compared to \$.33 per share for the first quarter of 2001. Return on Average Equity (ROAE) decreased from 13.26%, at December 31, 2001, to 13.06% as of March 31, 2002. Return on Average Equity was 12.25% as of March 31, 2001.

The "efficiency ratio" is a key measuring tool for profitability and operating efficiency. A lower ratio equals higher profitability and operating efficiencies. The Corporation's efficiency ratio was 61.31% for the period ended March 31, 2002. This represents a slight decline in efficiency from year-end 2001 when the ratio was 58.58%. This decrease can be attributed to an increase in salaries and benefits as noted below.

Because the Corporation purchased an additional policy late in 2001, income received from the Bank Owned Life Insurance ("BOLI") policies increased \$.18 million in the first quarter of 2002 compared to the first quarter of 2001. This increase resulted in other operating income increasing 7.46% in comparison to March 31, 2001. Other operating income for the first quarter of 2002 was \$2.45 million compared to \$2.28 million for the same period in 2001. Other operating expense for the first quarter of 2002 was \$6.34 million compared to \$5.74 million for the same period in 2001. This 10.45% increase is a direct result of salaries and employee benefits increasing from \$3.08 million in 2001 to \$3.45 million in 2002. This represents an increase of 12.01%, primarily due to salary increases.

In the first quarter of 2002, net loans decreased \$11.24 million to a total of \$590.14 million. The decrease for the same quarter of 2001 was \$.49 million, bringing the total to \$609.06 million at March 31, 2001. During the first quarter of 2002, Commercial lending experienced a net decrease of \$2.51 million. Commercial mortgages increased \$2.05 million. However, commercial installment loans declined \$1.19 million, and commercial lines of credit decreased \$3.36 million. Residential mortgages experienced high payback from increased refinancings due to decreasing market rates, decreasing \$10.32 million. Installment loans, excluding commercial installments, decreased \$1.08 million. Home equity loans increased \$1.27 million.

The declining loan balances combined with decreasing market rates experienced in 2001 and 2002 resulted in a decrease in interest income from \$16.30 million at March 31, 2001 to \$14.09 million at March 31, 2002. This total represents a decrease of \$2.21 million or 13.56%.

The Corporation's interest expense year to date was \$2.97 million lower than was recorded for the same period in 2001. The decrease in expense can be attributed to declining interest rates in 2001 and the first quarter of 2002. The deposits of the Corporation have decreased \$14.63 million since December 31, 2001 from \$616.77 million to \$602.14 million. The Corporation elected not to renew \$4.50 million of \$14.50 million of brokered deposits that matured in February 2002. The remainder of the certificate of deposit portfolio decreased \$10.26 million as Management maintained the lower rates that began in 2001. Savings balances increased \$2.95 million as customers displayed a preference for liquid investments over certificates of deposit. Demand deposits decreased \$3.38 million.

Net interest income for the first three months of 2002 increased 9.91% from the same period in 2001, to a total of \$7.04 million. The result was a Corporate net interest margin of 3.97% at March 31, 2002, in comparison to the net interest margin of 3.87% for the year ending 2001. During the first quarter of 2002, Management continued managing the interest rate risk of the loan and deposit portfolios by maintaining lower deposit rates achieved in 2001 while not lowering loan rates. Return on Average Assets (ROAA) has increased 5.40% to 1.17% at March 31, 2002 compared to 1.11% at December 31, 2001.

The provision for probable credit losses was \$0.66 million for the first three months of 2002 compared to \$.54 million for the same period in 2001. Net charge-offs for the first three months were \$0.56 million, which, on an annualized basis, equates to 0.37% of our average net loan balance of \$595.51 million. For the same period of 2001, net charge-offs were \$.63 million or 0.41% on an annualized basis of the March 31, 2001 average net loan balance of \$611.46 million. The 30-day or more delinquency ratio was 0.98% of gross loans as of March 31, 2002. As of March 31, 2001, this ratio was 1.17% of gross loans. Nonperforming loans were 0.43% of total gross loans as of March 31, 2002, and 0.40% of total gross loans as of March 31, 2001. As of March 31, 2002, the Corporation's loan loss reserve was 0.99% of total gross loans representing 229.31% of nonperforming loans. As of March 31, 2001, the loan loss reserve was 0.82% of total gross loans and 177.19% of nonperforming loans.

Summary of Loan Loss Experience

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	<u>March 31, 2002</u>
Balance at the Beginning of the period	\$5,752
Charge-offs:	
Domestic:	
Commercial, financial and agricultural	158
Real estate - mortgage	22
Installment loans to individuals	<u>503</u>
	683
Recoveries:	
Domestics:	
Commercial, financial and agricultural	6
Real estate - mortgage	3
Installment loans to individuals	<u>111</u>
	<u>120</u>
Net Charge-offs	<u>563</u>
Additions charged to operations	656
	<u><u>\$5,845</u></u>
Balance at end of period	
Ratio of net charge-offs during the period to average loans outstanding during the period, annualized	<u><u>.37%</u></u>

Risk Elements of Loan Portfolio

The following table provides a comparison of the Risk Elements of the Loan Portfolio in the format prescribed by Item III-C of Industry Guide 3. The Corporation has no foreign loans or loans defined as troubled debt restructurings. Further, the Corporation has no potential problem loans other than those in the table below. First United's non-accrual loans decreased \$1.47 million in the first quarter of 2002 from the year end total of \$3.20 million.

	<u>March 31</u> <u>2002</u>	<u>December 31</u> <u>2001</u>
Non-accrual loans	\$1,725	\$3,196
Accruing loans past due 90 days or more	824	1,230

Information with respect to non-accrual loans at March 31, 2002 and December 31, 2001 is as follows:

Non-accrual Loans	\$1,725	\$3,196
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Interest income that would have been recorded under original terms	25	48
Interest income recorded during the period	1	6

Shareholders' equity was \$72.20 million at March 31, 2002, a 1.58% increase from December 31, 2001, which was \$71.07 million. Risk based capital, which is an expression of the Corporation's stability and security was 16.11%, which is greater than the 15.54% reported at December 31, 2001. Both are in excess of the regulatory minimum of 8.00%.

The Corporation paid a cash dividend of \$.17 on February 1, 2002. On March 20, 2002, the Corporation declared another dividend of an equal amount, to be paid May 1, 2002, to shareholders of record at April 19, 2002.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

The Corporation filed Form 8-K on April 23, 2002, to record statements made by management at the annual shareholders' meeting.

SIGNATURES

Pursuant to the requirement 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 5/10/02 /s/ WILLIAM B. GRANT
William B. Grant, Chairman of the Board
and Chief Executive Officer

Date 5/10/02 /s/ Robert W. Kurtz
Robert W Kurtz, President and Chief
Financial Officer