

2009



MeridianBank.

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Corporate Headquarters

92 Lancaster Avenue
Devon, PA 19333

Banking Offices

1776 East Lancaster Avenue
Paoli, PA 19301

16 West Market Street
West Chester, PA 19382

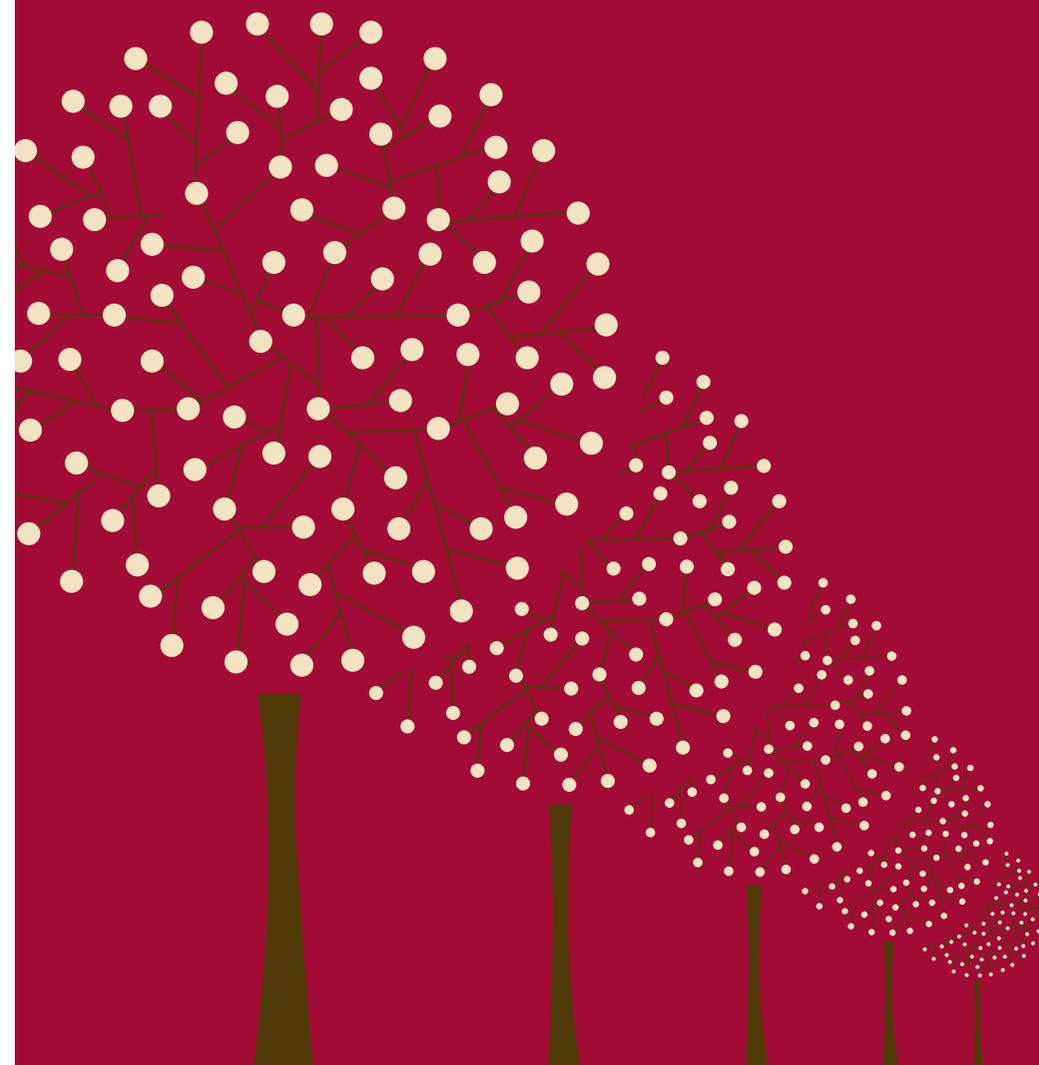
60 East Uwchlan Avenue
Lionville, PA 19341

Meridian Mortgage

920 Germantown Pike
Plymouth Meeting, PA 19462

MERIDIAN BANK ANNUAL REPORT 2009

TIME OF OPPORTUNITIES



2009 HIGHLIGHTS

- Loan portfolio grown by 26%
- Grew deposits by \$25 million
- Added experienced business teams from local competitors
- Successful start-up of Apex Card Programs
- Formed Meridian Financial Services unit
- Launched Meridian Mortgage
- Market expansion into Montgomery County

DEAR SHAREHOLDERS

In the 2004 initial capital raise for Meridian, I spoke to investors of how we could grow in times of turmoil. I used the example of Commerce Bank, which was a small New Jersey bank that rode the tumultuous Fidelity>PNB>First PA>First Union>Wachovia merger wave to extraordinary growth and huge market share. We are going through one of those times in our market now, and we hope to take full advantage of the chaos.

In 2009, we hired a team of four lenders from a troubled West Chester bank to pursue their disaffected customers. We also hired a seasoned commercial lender from a troubled Phoenixville-based bank. He has already brought in substantial new relationships in the Pottstown and Collegeville area. In early January, we hired the head of mortgage banking from a Montgomery County bank that was recently taken over. His unit originated and sold over \$500 million in new loans during 2009, generating exceptional fee income. He has brought on a team of new people who were responsible for the bulk of those originations, and is already off to a fast start. With these three major efforts at Meridian, we expect continued loan growth and market territory expansion into 2010 and beyond.

In 2009, your company managed through a very bad economic period and came close to profitability, losing \$31 thousand despite increased revenues. The precipitous decline in interest rates during 2008 caught all banks by surprise. Our interest rate spread, the difference between what we charge on loans (income) and what we pay on

CHAIRMAN'S LETTER



deposits (expense), declined dramatically in early 2009 and took most of the year to recover. In addition, the FDIC significantly increased their fees to all banks, with Meridian's expense increasing from \$86 thousand in 2008 to \$502 thousand in 2009. So after a first quarter loss of \$480 thousand, we improved each period to make a fourth quarter profit of \$453 thousand.

Most importantly, over the past year we managed the credit exposure in our loan portfolio diligently. While we haven't escaped loan problems during this time, our non-performing loans are at a manageable level. Total loans increased 26% over 2008, deposits grew 12% and our assets were up 9%. We are happy with these numbers given the economic circumstances.

Meridian remains well-capitalized, largely due to a second round of preferred stock of \$6.3 million through the CPP program. The CPP funding was the best available source of capital during 2009 based on the poor equity markets. The Board did not want to issue stock at a low multiple and incur substantial dilution to our existing shareholders. When the equity markets recover for the banking industry, we will likely pursue a larger offering to support growth and repay the CPP.

We opened our fourth office, in Plymouth Meeting, in February 2010 to expand our market territory and to accommodate the new mortgage group. It affords us a centralized location for customers to utilize, but is modest in size and multi-functional as is our model. Operationally we are making a concerted effort to convert all our customers to eStatements and terminate paper delivery. We are also instituting direct debit of loan payments and replacing the manual billing process. These initiatives will save us money and be more efficient for us and the customers.

We are proud to be community bankers serving our local markets. Through our efforts, we deliver credit and payment services to small businesses which are responsible for 70% of the jobs in our economy. The risky, speculative investing that caused severe financial problems was carried out by mega-banks and their investment bank brethren, not the community banks. We will continue to support business growth in our area, and help people reach their financial goals. Thank you for being a shareholder of Meridian Bank.

Christopher J. Annas, Chairman and CEO

/DOLLARS IN THOUSANDS/

	Dec 31 2009	Dec 31 2008
Interest Income		
Interest and fees on loans	\$ 13,780	\$ 11,251
Investments	462	863
Total interest income	<u>14,242</u>	<u>12,114</u>
Interest Expense		
Deposits	5,732	5,135
Borrowings	1,116	1,809
Total interest expense	<u>6,848</u>	<u>6,944</u>
Net interest income	7,394	5,170
Provision for loan losses	(1,212)	(851)
Net interest income after provision	<u>6,182</u>	<u>4,319</u>
Non-Interest Income	<u>306</u>	<u>377</u>
Non-Interest Expense		
Salaries & employee benefits	3,654	2,862
Occupancy & equipment	571	493
FDIC assessment	502	86
Professional fees	361	305
Data processing	249	196
Advertising & business development	223	254
Prepayment penalty	166	-
Other	886	753
Total non-interest expense	<u>6,612</u>	<u>4,949</u>
Net income (loss) before income taxes	\$ (124)	\$ (253)
Income tax (benefit) expense	\$ (93)	\$ (86)
Net Income (Loss)	<u>\$ (31)</u>	<u>\$ (167)</u>

/DOLLARS IN THOUSANDS/

	Dec 31 2009	Dec 31 2008
Assets		
Cash & due from banks	\$ 1,308	\$ 34,445
Federal funds sold	4,381	131
Securities available for sale	3,958	6,025
Securities held to maturity	4,832	7,834
Loans, net of allowance for loan losses	268,184	212,173
Bank premises and equipment, net	640	728
Bank owned life insurance	2,147	2,054
Other assets	<u>6,220</u>	<u>5,019</u>
Total Assets	<u>\$ 291,670</u>	<u>\$ 268,409</u>

Liabilities & Stockholders' Equity		
Liabilities		
Deposits	\$ 231,025	\$ 206,039
Borrowings	28,550	42,550
Other liabilities	<u>935</u>	<u>798</u>
Total Liabilities	<u>260,510</u>	<u>249,387</u>
Stockholders' Equity	<u>31,160</u>	<u>19,022</u>
Total Liabilities & Stockholders' Equity	<u>\$ 291,670</u>	<u>\$ 268,409</u>

RESULTS OF OPERATIONS

NET INTEREST INCOME

Meridian reported a net loss for the year ended December 31, 2009 of \$31,000 compared to the net loss of \$167,000 for 2008. The improvement was attributable to an overall increase in the net interest spread. The earnings pressure from the rapid decline in asset yields in 2008 was eased in 2009 as deposits repriced in the low rate environment. As shown in the chart below, Meridian's spread decreased to a bottom of 1.55% in the first quarter of 2009 and recovered to 3.25% in the fourth quarter.

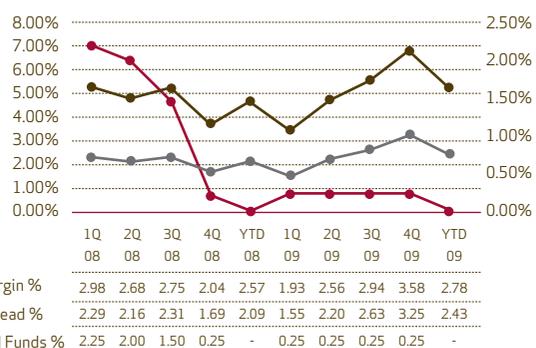
In addition to the spread improvement, Meridian's average earning assets increased \$65.3 million during 2009. The extent to which changes in interest rates and the increase (or decrease) in average balances of interest-earning assets and interest-bearing liabilities affected interest income is shown in the Rate/Volume Analysis below.

The combination of rate and asset changes increased net interest income \$2.2 million year over year, on a taxable equivalent basis. \$1.5 million of the increase was attributable to rate changes and \$777,000 to volume changes. The rate changes had the most impact on the liability side of the balance sheet, where deposits and borrowings repriced over 100 basis points lower on average for the year. The reduction in cost of funds attributable to rate decline was \$2.8 million compared to the reduction in interest on earning assets attributable to yield decline of \$1.3 million.

PROVISION FOR LOAN LOSS

To provide for potential losses in the loan portfolio Meridian maintains an allowance for loan losses. In establishing this allowance, management considers the size and risk exposure of each segment of the loan portfolio, loan growth during the period, past loss experience, and present indicators of risk such as delinquency rates. Meridian's provision for loan loss for 2009 was \$1.2 million, up \$361,000 from \$851,000 in 2008. The increase in the provision was a direct result of loan growth year over year. The total allowance represented 1.15% of loans outstanding at December 31, 2009.

NET INTEREST RATIOS vs FED FUNDS



RATE/VOLUME ANALYSIS (000s) -- 2009 vs 2008

Increase (decrease)	Rate	Volume	Total
In NII Due To:			
Cash & Federal Funds Sold	(95)	64	(31)
Investments	(143)	(216)	(359)
Loans & Leases	(1,108)	3,636	2,528
Total Interest-earning Assets	(1,346)	3,484	2,138
Interest Checking & Money Market	(276)	1	(275)
Time Deposits	(2,804)	3,153	872
Borrowings	(247)	(446)	(693)
Total Interest-bearing Liabilities	(2,804)	2,708	(96)
Net Interest Income	1,458	776	2,234

NON-INTEREST INCOME & EXPENSE

Non-interest income was \$306,000 for the year ended December 31, 2009, down slightly from \$377,000 in the prior year. The decline in mortgage banking and the absence of realized gains on the sales of loans and investments contributed to the reduced income. Earnings on investment life insurance along with other fees and service charges partially offset those declines.

Non-interest expenses were \$6.6 million for the year, up \$1.7 million or 33% from \$4.9 in 2008. Higher levels of salaries and employee benefits and FDIC insurance, along with the FHLB prepayment comprised \$1.4 million of the increase. Other expenses, such as occupancy, FF&E, data processing, professional services and other less significant expenses all increased predictably due to new business lines and the continued expansion of the Bank.

STATEMENT OF CONDITION

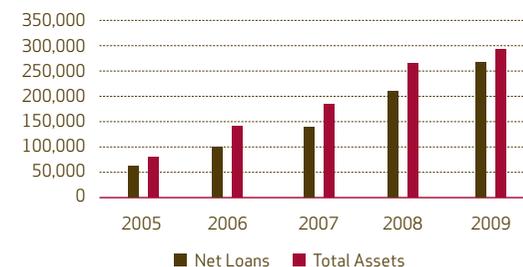
Meridian's asset growth has been strong and steady since opening in 2004. Total assets at December 31, 2009 were \$291.7 million, up \$23.3 million, or 8.7% compared to \$268.4 million at December 31, 2008. The increase was the result of significant loan growth and strategic restructuring of the balance sheet.

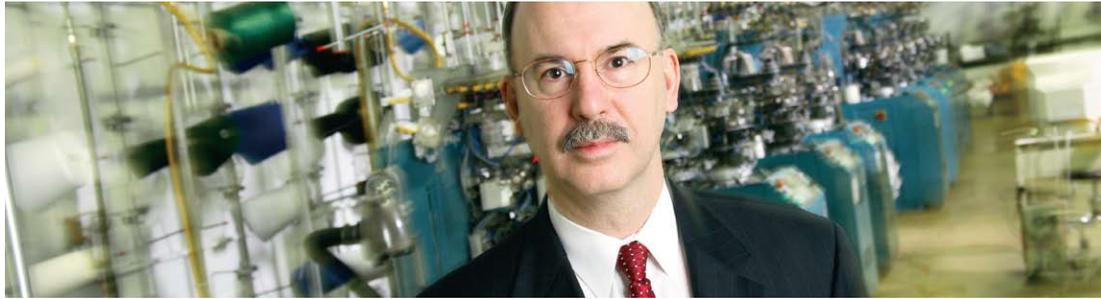
Over \$30 million in investments, Fed funds and loans at the end of 2008 were sold, matured or were called and held in cash. These assets were immediately used to fund new loans in the first quarter of 2009 and to prepay \$10 million in high rate FHLB advances. In addition, total deposits increased \$25.0 million or 12% to \$231.0 million at December 31, 2009 from \$206.0 million in 2008. While all deposit categories increased, there was a notable rise in money market and demand deposits which, combined, grew \$16.4 million, or 54%.

Along with the effort to increase core funding throughout the year, Meridian shortened the length of deposit maturities, paid off or rolled over borrowings into shorter terms and instituted rate floors on floating rate loan products. The results of these efforts moved the Bank's rate sensitivity into a more neutral position for rate changes and dramatically improved profitability.

Also during 2009, Meridian received \$12.6 million in preferred stock from the US Treasury's Capital Purchase Program (CPP). These funds were invested in loans, which helped increase outstandings \$56.0 million, or 26%, to \$271.3 million (gross) from \$214.3 million in 2008.

ASSET & LOAN GROWTH (000s)





COMMERCIAL & INDUSTRIAL LENDING

Meridian's core competency is the financing of manufacturing and service businesses. It includes revolving credit for receivables and inventory financing, term loans for capital expenditures, equipment loans, and mortgages for purchasing or refinancing owner-occupied real estate.

Meridian expands on the C&I offerings of typical banks by working to tailor these products to the individual needs of our customers and the constraints imposed by the economic landscape. This requires exceptional lending savvy and a fast-response approach, which may explain the extraordinary loyalty of our customers. During this downturn, Meridian retained all of our lending customers, enjoyed substantial loan growth and attracted a number of experienced lending professionals.



REAL ESTATE & CONSTRUCTION FINANCING

Meridian's real estate department provides lending to builders and developers of commercial projects, to investors in residential and commercial income properties, and for owner-occupied commercial construction.

Our real estate team's success is based on unique experience from inside the construction and property management industries. This enables more realistic structuring around risk and the ability to protect the Bank and prudently guide less experienced borrowers.

While real estate lending has been challenging in other areas of the country, we've been fortunate to operate in a relatively stable market and to achieve steady and responsible growth (up more than 40%) of our real estate loan portfolio.



PAYMENTS PROCESSING

Meridian has layered a level of innovation on this most traditional category of banking functions. A combination of technology and specialized expertise gives Meridian business banking customers big advantages.

Cash Management

In the cash management area, the familiar business accounts and functions have been augmented by our iPosit™ Remote Deposit technology. iPosit™ improves productivity, both for our business customers and for us. Other banks toy with remote deposit, fearing its threat to their huge investments in bricks and mortar. We pioneered it and continue to innovate this cornerstone of our business model.

A recent anecdote, just one of many iPosit™ success stories, speaks volumes: A small business customer, who adopted our iPosit™ technology to make deposits from her office, told us she was visiting her dentist and saw the office manager laboriously making out a deposit ticket for a bundle of checks. She was struck by how backward this all seemed compared to the ease, convenience and time saving she was experiencing with her Meridian iPosit™ System .

Apex Card Programs

Another facet of payments processing involves credit cards. Most small banks outsource this function, but Meridian's Apex Card Programs division is an acquiring member of the Visa, MasterCard, Discover and American Express associations, giving us cost and pricing advantages.

This higher level of affiliation allows us to give our business customers a greatly advantaged deal in processing credit card transactions. It also enables this experienced team to market highly profitable transactional services to other small banks and the many Independent Service Organizations that sell processing to merchants nationwide. During 2009, this unit actually doubled its projected level of business.



MERIDIAN MORTGAGE

Meridian Mortgage is the newest addition to Meridian Bank. We enthusiastically took the opportunity to hire another local bank's accomplished mortgage group, which generated substantial fee income in 2009. Now these experienced mortgage lenders are operating from our new Plymouth Meeting office. Meridian Mortgage offers a complete array of innovative and competitively-priced mortgage products.



MERIDIAN FINANCIAL SERVICES

Meridian Financial Services takes advantage of its position in the Meridian network by integrating all parts of a client's financial world – business and personal banking, insurance and advisory – into one relationship. It's a relationship made comfortable through our staff experience, extraordinary access to investment options and technology, and extremely high-touch delivery. It also assists businesses with 401K program investment and administration and insurance solutions, including key person coverage, and group health and disability plans.*

A prime example of this integration occurred during 2009: After Meridian Financial Services secured a business credit line for a high net worth client, his satisfaction led to the opportunity to manage a portion of his sizeable investment portfolio which then expanded to include a unique, fee-based, personal advisory service.

*Securities and insurance products offered through LPL Financial and its affiliates, member FINRA/SIPC. Advisory services offered through LPL Financial, an SEC Registered Investment Advisor. Health insurance services offered in conjunction with strategic partners and not offered through LPL Financial. Meridian Bank and Meridian Financial Services are not registered broker/dealers, nor are they affiliated with LPL Financial.

Not FDIC Insured	No Bank Guarantee	May Lose Value
Not a Deposit	Not Insured by any Federal Government Agency	

Christopher J. Annas, Chairman -- President & CEO, Meridian Bank

Robert M. Casciato -- President, Alliance Environmental, Inc.

George C. Collier -- Chief Financial Officer, Streamlight, Inc.

Robert T. Holland -- Principal, Holland Advisory Group LLC

Edward J. Hollin -- Managing Shareholder, Riley Riper Hollin & Colagreco

Anthony Imbesi -- Partner, Patriarch Management

Edwin T. Johnson -- Founder, The Johnson Companies

Denise Lindsay -- Executive VP and CFO, Meridian Bank

Samuel J. Pilotti -- Founder & Managing Partner, Metric Realty, Inc.

Kenneth H. Slack -- Member, Stephano Slack LLC

MANAGEMENT

Christopher J. Annas, President & CEO

Joseph L. Cafarchio, Executive VP, Chief Lending Officer

Denise Lindsay, Executive VP and CFO

Thomas J. Campbell, VP, Residential Lending

Edward J. Carpoletti, Senior VP, Private Banking/Wealth Management

Charles D. Kochka, Senior VP, Regional Lending

Timothy J. Mahan, Senior VP, Operations

James D. Nelsen, Senior VP and Credit Officer

Catherine J. Root, VP, Card Programs

Sara E. Shute, Senior VP, Real Estate Lending

Loretta C. Taylor, Senior VP, Consumer Lending

Erwin K. Wenner, Senior VP, Regional Lending