

## Management Discussion and Analysis

### Results of Operations

Meridian reported a net loss for the year ended December 31, 2008 of \$167,000 compared to net income of \$229,000 for 2007. The decrease was attributable to an overall decline in the net interest spread resulting from the unprecedented 400 basis point drop in rates during 2008. This rate pressure was largely offset by growth in assets, allowing net interest income to increase year-over-year, but not enough to cover the increase in the provision for loss and net overhead.

### Net Interest Income

Meridian's earnings performance is primarily dependent upon its level of net interest income, which was \$5.2 million for the year ended December 31, 2008, up \$415,000 or 9% from \$4.8 million for 2007. Interest income was \$12.1 million compared to \$10.3 million for the same period in 2007. The increase was due to a \$66.6 million increase in average earning assets as a result of loan and investment growth, but was largely offset by lower earning yields. The yield on interest-earning assets for the year ended December 31, 2008 was 6.03%, compared to 7.64% for 2007.

Interest expense for the year ended December 31, 2008 was \$6.9 million compared to \$5.5 million for the same period in 2007. The increase was due to a corresponding \$65.9 million increase in average paying liabilities, partially offset by lower paying rates. The yield on paying liabilities for 2008 was 3.94% compared to 4.98% for the same period in 2007. The net interest margin for 2008 was 2.57%, compared to 3.54% for 2007.

### Provision For Loan Loss

Meridian's provision for loan loss for 2008 was \$851,000, up \$484,000 from \$367,000 in 2007. The increase was a direct result of loan growth year over year.

### Non-Interest Income & Expense

Non-interest income was \$378,000 for the year ended December 31, 2008, up \$256,000 from the prior year due to fee income from mortgage banking, income from the bank owned life insurance and realized gains on the sales of loans and investments. Non-interest expenses were \$4.9 million for 2008, up \$797,000 or 19% from 2007. The increase in non-interest expenses year-over-year was due to increased salaries and employee benefits, data processing, and occupancy, all of which were directly attributable to increased staff and overall growth of the Bank.

## Meridian Bank Directors

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 & Colagregco

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  
Managing Partner, Stephano Slack LLC

## Senior Management

Christopher J. Annas, President & CEO  
Joseph L. Cafarchio, Executive VP, Chief Lending Officer  
Denise Lindsay, Executive VP and CFO  
Edward J. Carpoletti, Senior VP, Private Banking  
Timothy J. Mahan, Senior VP, Operations  
James D. Nelsen, Senior VP and Credit Officer  
Sara E. Shute, Senior VP, Real Estate Lending  
Loretta C. Taylor, Senior VP, Consumer Lending



**MeridianBank.**

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## Meridian Bank Financial Overview

(Dollars in Thousands)

### Statement of Operations (Unaudited)

	Year Ended	
	Dec 31 2008	Dec 31 2007
<b>Interest Income</b>		
Interest & fees on loans	\$ 11,251	\$ 9,683
Investments	<u>863</u>	<u>578</u>
Total interest income	<u>12,114</u>	<u>10,261</u>
<b>Interest Expense</b>		
Deposits	5,135	4,847
Borrowings	<u>1,809</u>	<u>659</u>
Total interest expense	<u>6,944</u>	<u>5,506</u>
Net interest income	5,170	4,755
Provision for loan losses	<u>(851)</u>	<u>(367)</u>
Net interest income after provision	<u>4,319</u>	<u>4,388</u>
<b>Non-Interest Income</b>	<u>378</u>	<u>122</u>
<b>Non-Interest Expense</b>		
Salaries & employee benefits	2,863	2,239
Occupancy & equipment	493	375
Data processing	305	179
Advertising & business development	254	168
Professional fees	196	288
Other non-interest expense	<u>839</u>	<u>904</u>
Total non-interest expense	<u>4,950</u>	<u>4,153</u>
Net (loss) income before income tax expense	<u>(253)</u>	<u>357</u>
Income tax (benefit) expense	<u>(86)</u>	<u>128</u>
<b>Net Income</b>	<u>\$ (167)</u>	<u>\$ 229</u>

### Statement of Condition (Unaudited)

	Dec 31 2008	Dec 31 2007
<b>Assets</b>		
Cash & due from banks	\$ 34,445	\$ 1,244
Federal funds sold	131	—
Short-term investments	—	24,998
Other investment securities	16,441	13,466
Loans, net of allowance for loan losses	212,173	141,103
Bank premises and equipment, net	728	607
Bank owned life insurance	2,054	—
Other assets	<u>2,437</u>	<u>1,773</u>
<b>Total Assets</b>	<u>\$268,409</u>	<u>\$183,191</u>
<b>Liabilities &amp; Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits	\$206,039	\$111,053
Borrowings	42,550	52,470
Other liabilities	<u>798</u>	<u>514</u>
<b>Total Liabilities</b>	<u>249,387</u>	<u>164,037</u>
<b>Stockholders' Equity</b>	<u>19,022</u>	<u>19,154</u>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<u>\$268,409</u>	<u>\$183,191</u>

## Management Discussion and Analysis

### Changes in Financial Condition

#### Assets

Meridian Bank's total assets were \$268.4 million at December 31, 2008, increasing \$85.2 million or 47% from \$183.2 million at December 31, 2007. Loan growth year-over-year was \$71.1 million or a 50% increase. Investments, cash and cash equivalent holdings also increased significantly. Total investments, cash and Federal funds sold were a combined \$51.0 million at December 31, 2008 compared to \$39.7 million in 2007.

During the third quarter the Bank purchased \$2 million of Bank Owned Life Insurance (BOLI). The rate of return and future tax benefits made the purchase an attractive investment. Earnings will be used to offset employee benefit costs. In addition, other assets, such as accrued interest receivable, bank premises and equipment, deferred income taxes and other miscellaneous items, increased \$785,000 or 33% as a result of the Lionville expansion and overall growth of the Bank.

#### Loans

Our diverse loan portfolio, consisting of commercial real estate, commercial construction, commercial term loans, leases and lines of credit, consumer loans, and residential and home equity loans is Meridian's primary source of interest income. During 2008, Meridian expanded on its residential mortgage lending division, growing the residential real estate portfolio \$9.2 million or 70% to \$22.4 million at December 31, 2008. Home equity loans also increased markedly, approximately \$15.4 million or 90% to \$32.6 million. Total commercial real estate, commercial construction and commercial loans and leases increased a combined \$48.6 million or 45% to \$156.9 million at December 31, 2008 from \$108.3 million in 2007.

#### Deposits and Borrowings

Total deposits increased \$95.0 million, or 86%, to \$206.0 million at December 31, 2008. The increase was attributable to certificates of deposit, which rose \$98.8 million or 129% to \$175.6 million. Money market and demand deposits decreased a combined \$3.9 million or 11%.

Total borrowings at December 31, 2008 were \$42.6 million compared to \$52.5 million at December 31, 2007. The decrease was due to the maturity of short-term advances from the Federal Home Loan Bank which were ultimately replaced with certificates of deposit.