As filed with the Federal Deposit Insurance Corporation on February 2, 2018

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20006

FORM 10/A

Amendment No. 2

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

MERIDIAN BANK

(Exact name of registrant as specified in its charter)

Pennsylvania	**32-0116054**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9 Old Lincoln Highway **Malvern, Pennsylvania**	**19355**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (866) 327-9199

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

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Common Stock, $1.00 par value per share	**NASDAQ Global Select Market**

Securities to be registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "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	☐(Do not check if a smaller reporting company)	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 7(a)(2)(B) of the

Securities Act. ☐

Explanatory Note

This Amendment No. 2 to the Registration Statement on Form 10 of Meridian Bank (the "Bank"), originally filed on September 29, 2017 (as amended, the "Original Filing"), is being filed solely to correct a typographical error within the Report of Independent Accounting Firm for the consolidated financial statements for the year ended December 31, 2016 and 2015 (the "Report"). The Report included in the Original Filing was dated March 31, 2016 (except, September 25, 2017 as to Note 2, 19 and 20). The correct date of the Report is March 31, 2017 (except, September 25, 2017 as to Note 2, 19 and 20), as indicated in the Report included in this Amendment No. 2. Accordingly, Items 13 and 15 are amended solely to reflect the inclusion of the Report and the consolidated financial statements for the year ended December 31, 2016 and 2015.

Except as described above, no other changes have been made to the Original Filing, and this Form 10/A does not modify, amend or update in any way any of the financial or other information contained in the Original Filing. This Form 10/A does not reflect events that may have occurred subsequent to the filing date of the Original Filing.

Item 13. Financial Statements and Supplementary Data.

Except as set forth in the consolidated financial statements below, the information required by this item is contained under the sections of the offering circular entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosure About Market Risk." Those sections are incorporated herein by reference.

Item 15. Financial Statements and Exhibits.

(a) Financial Statements

Except as set forth in the consolidated financial statements below, the information required by this item is contained under the section of the offering circular entitled "Index to Consolidated Financial Statements" (and the financial statements referenced therein and attached thereto). That section is incorporated herein by reference.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

MERIDIAN BANK

Date: February 2, 2018

By: /s/ Denise Lindsay
Name: Denise Lindsay
Title: Chief Financial Officer

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

KPMG

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Meridian Bank:

We have audited the accompanying consolidated balance sheets of Meridian Bank and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meridian Bank and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
March 31, 2017
(except, September 25, 2017 as to Note 2, 19 and 20)

Meridian Bank and Subsidiaries

Consolidated Balance Sheets
December 31, 2016 and 2015

(in thousands, except share data)

		2016	2015
Cash and due from banks	$	18,478	19,121
Federal funds sold		394	38
Cash and cash equivalents		18,872	19,159
Securities available-for-sale, amortized cost of $33,501 in 2016 and $24,216 in 2015		33,027	24,092
Securities held-to-maturity, fair value of $14,344 in 2016 and $15,799 in 2015		14,525	15,647
Mortgage loans held for sale, amortized cost of $39,263 in 2016 and $82,542 in 2015		39,573	83,684
Loans, net of fees and costs (includes $9,316 of loans at fair value, amortized cost of $9,207)		604,291	500,744
Allowance for loan losses		(5,425)	(5,298)
Loans, net of the allowance for loan losses		598,866	495,446
Restricted investment in bank stock		7,355	7,215
Bank premises and equipment, net		8,716	6,151
Bank owned life insurance		4,994	4,869
Accrued interest receivable		2,123	1,950
Other real estate owned		—	189
Deferred income taxes		1,270	414
Other assets		4,372	4,528
Total assets	$	733,693	663,344
Liabilities:			
Deposits:			
Noninterest bearing	$	96,102	60,500
Interest-bearing		431,034	430,068
Total deposits		527,136	490,568
Short-term borrowings		105,553	85,825
Long-term debt		12,800	15,600
Subordinated debentures		13,376	13,445
Accrued interest payable		194	159
Other liabilities		4,671	4,826
Total liabilities		663,730	610,423
Stockholders' equity:			
Preferred stock, no stated par value. Authorized 5,000,000 shares; liquidation preference of $1,000 per share, 12,845 outstanding (total preferred stock liquidation value $12,845)		12,845	12,845
Common stock, $1 par value. Authorized 10,000,000 shares; issued and outstanding 3,685,368 and 2,597,547 shares as of December 31, 2016 and 2015, respectively.		3,685	2,598
Surplus		39,887	24,404
Retained earnings		13,854	13,154
Accumulated other comprehensive loss		(308)	(80)
Total stockholders' equity		69,963	52,921
Total liabilities and stockholders' equity	$	733,693	663,344

See accompanying notes to financial statements.

Meridian Bank and Subsidiaries

Consolidated Statements of Income
Years ended December 31, 2016 and 2015

(dollars in thousands)

		2016	2015
Interest income:			
Loans, including fees	$	30,117	27,230
Securities:			
Taxable		372	374
Tax-exempt		426	321
Cash and cash equivalents		65	56
Total interest income		30,980	27,981
Interest expense:			
Deposits		3,470	3,104
Borrowings		1,722	1,486
Total interest expense		5,192	4,590
Net interest income		25,788	23,391
Provision for loan losses		1,198	1,434
Net interest income after provision for loan losses		24,590	21,957
Noninterest income:			
Mortgage banking income		41,431	33,665
Earnings on investment in life insurance		125	124
Net change in the fair value of derivative instruments		(122)	423
Net change in the fair value of loans held-for-sale		(833)	487
Net change in the fair value of loans held-for-investment		30	—
Gain (loss) on sale of investment securities available-for-sale		3	(32)
Service charges		66	49
Other		2,144	1,405
Total noninterest income		42,844	36,121
Noninterest expenses:			
Salaries and employee benefits		40,852	33,011
Occupancy and equipment		2,946	2,292
FDIC assessment		625	912
Professional fees		1,762	1,452
Data processing		1,146	932
Advertising and promotion		1,727	1,478
Loan expenses		6,686	5,610
Other		4,169	2,955
Total noninterest expenses		59,913	48,642
Income before income taxes		7,521	9,436
Income tax expense		2,599	3,248
Net income		4,922	6,188
Dividends on preferred stock		(1,156)	(1,099)
Net income for common stockholders	$	3,766	5,089
Basic earnings per common share	$	1.12	1.91
Diluted earnings per common share	$	1.11	1.88

See accompanying notes to financial statements.

Meridian Bank and Subsidiaries

Consolidated Statements of Comprehensive Income
Years ended December 31, 2016 and 2015

(dollars in thousands)

		2016	2015
Net income:	$	4,922	6,188
Other comprehensive income:			
Net change in unrealized gains on investment securities available for sale:			
Net unrealized gains arising during the period, net of tax (benefit) expense of ($123) and $12, respectively		(230)	22
Less: reclassification adjustment for net losses on sales realized in net income, net of tax (benefit) expense of ($1) and $11, respectively		2	21
Unrealized investment gains (losses), net of tax expense (benefit) of ($124) and $23, respectively		(228)	43
Total other comprehensive income		(228)	43
Total comprehensive income	$	4,694	6,231

See accompanying notes to financial statements.

Meridian Bank and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years ended December 31, 2016 and 2015

(dollars in thousands)

		Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$	12,845	2,405	21,849	8,065	(123)	45,041
Comprehensive income:							
Net income					6,188		6,188
Change in unrealized gains on securities available-for-sale, net of tax						43	43
Total comprehensive income							6,231
Dividends on preferred stock					(1,099)		(1,099)
Common stock dividend			—	—	—		—
Issuance of common stock			137	1,849			1,986
Notes repaid for common stock				195			195
Share-based awards and exercises			56	449			505
Excess tax benefit on share based awards				23			23
Compensation expense related to stock option grants				39			39
Balance, December 31, 2015	$	12,845	2,598	24,404	13,154	(80)	52,921
Comprehensive income:							
Net income					4,922		4,922
Change in unrealized gains on securities available-for-sale, net of tax						(228)	(228)
Total comprehensive income							4,694
Dividends on preferred stock					(1,156)		(1,156)
Common stock dividend			175	2,891	(3,066)		—
Issuance of common stock			891	12,242			13,133
Notes repaid for common stock				52			52
Share-based awards and exercises			21	123			144
Compensation expense related to stock option grants				175			175
Balance, December 31, 2016	$	12,845	3,685	39,887	13,854	(308)	69,963

See accompanying notes to financial statements.

Meridian Bank and Subsidiaries

Consolidated Statements of Cash Flows
Years ended December 31, 2016 and 2015

(dollars in thousands)

		2016	2015
December 31, 2016 and 2015			
Net income	$	4,922	6,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain (loss) on sale of investment securities		3	(32)
Depreciation and amortization		1,788	815
Provision for credit losses		1,198	1,434
Compensation expense for stock options		175	39
Net change in fair value of loans held for sale		833	(487)
Net change in fair value of derivative instruments		122	(423)
Net (gain) loss on sale and write down of OREO and other repossessed property		24	(24)
Proceeds from sale of loans		994,951	822,349
Loans originated for sale		(910,239)	(826,816)
Mortgage banking income		(41,431)	(33,665)
Increase in accrued interest receivable		(173)	(650)
Decrease (increase) in other assets		932	(1,307)
Earnings from investment in life insurance		(125)	(124)
Increase in accrued interest payable		35	7
Deferred income tax (benefit) expense		(732)	215
Decrease in other liabilities		(155)	(1,254)
Net cash provided by (used in) operating activities		52,128	(33,736)
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, repayments and calls		6,321	11,318
Purchases		(16,235)	(16,134)
Activity in held-to-maturity securities:			
Maturities, repayments and calls		1,000	3,203
Purchases		—	(7,393)
Settlement of forward contracts		(965)	(821)
Increase in restricted stock		(140)	(1,570)
Net increase in loans		(104,618)	(21,061)
Purchases of premises and equipment		(3,542)	(1,324)
Proceeds from sale of OREO		165	233
Net cash used in investing activities		(118,014)	(33,549)
Cash flows from financing activities:			
Net increase in deposits		36,568	27,859
Increase in short term borrowings		15,728	44,844
Principal repayment of long term debt (subordinated debt)		(69)	—
Proceeds from long term debt (FHLB advances)		1,200	1,800
Issuance of common stock		13,133	1,986
Share based awards and exercises		144	505
Notes repaid (received) for common stock		52	195
Excess tax benefit on share based awards		—	23
Dividends paid on preferred stock		(1,156)	(1,099)
Net cash provided by financing activities		65,600	76,113
Net change in cash and cash equivalents		(286)	8,828
Cash and cash equivalents at beginning of year		19,158	10,330
Cash and cash equivalents at end of year	$	18,872	19,158
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$	5,157	4,583
Income taxes		2,722	3,696
Supplemental disclosure of noncash flow information:			
Available for sale securities purchased, not settled	$	—	756
Common stock dividend		3,066	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Meridian Bank (the Bank) was incorporated on March 16, 2004 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank commenced operations on July 8, 2004 and is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The area served by the Bank is the southeastern area of Pennsylvania. The consolidated financial statements include accounts of the Bank and its wholly owned subsidiaries APEX Realty LLC and Meridian Land Settlement Services LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

(c) Significant Concentrations of Credit Risk

Most of the Bank's activities are with customers located within the tri-state area of Pennsylvania, Delaware and New Jersey. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer, however there is significant concentration of commercial real estate-backed loans, amounting to 38% and 34% of total loans held for investment, as of December 31, 2016 and December 31, 2015, respectively.

(d) Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased or sold for one day periods. Cash balances required to meet regulatory reserve requirements of the Federal Reserve Board amounted to $5.7 million at December 31, 2016.

(e) Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed on a level yield basis.

The Bank's accounting policy specifies that (a) if the Bank does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired, unless there is a credit loss. When the Bank does not intend to sell the security, and it is more likely than not, the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Bank did not recognize any other-than-temporary impairment charges during the years ended December 31, 2016 and 2015.

(f) Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank generally amortizes these amounts over the contractual life of the loan.

Loans that were originated by the Bank and intended for sale in the secondary market to permanent investors, but were either repurchased or unsalable due to defect, are held for the foreseeable future or until maturity or payoff, but are carried at fair value.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and charged against current year income. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

(g) Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Charge-offs for retail consumer loans are generally made for any balance not adequately secured after 120 cumulative days past due.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that are probable and estimable. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for credit losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

The allowance consists of general and specific components. The general component covers non-classified loans, as well as, non-impaired classified loans and is based on historical loss experience adjusted for qualitative factors. The specific component relates to loans that are classified as doubtful, substandard, or special mention and have been deemed impaired. Loan classifications are determined based on various assessments such as the borrower's overall financial condition, payment history, repayment sources, guarantors and value of collateral.

A loan is considered 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 determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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.

For commercial and construction loans, impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral adjusted for cost to sell, if the loan is collateral dependent.

Large groups of smaller balance homogeneous residential mortgage and consumer loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual loans of this nature for impairment disclosures, unless such loans are troubled and the subject of a restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date.

No portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

(h) Mortgage Banking Activities and Mortgage Loans Held for Sale

The Bank's mortgage banking division operates 15 offices in the tri-state area of Pennsylvania, Delaware and New Jersey. The mortgage banking division originates FHA insured and conventional mortgages and sells these loans to various investors in the secondary market. Mortgage loans originated by the Bank and intended for sale in the secondary market to permanent investors are carried at fair value and are classified as mortgage loans held for sale on the balance sheet. Gains and losses on loan sales are recorded in mortgage banking income. The Bank does not retain servicing on loans sold.

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Time elapsing between the issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Bank protects itself from changes in interest rates through the use of best efforts forward sale contracts, whereby the Bank commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. The Bank also enters into mandatory loan sales commitments which are hedged by the future sale of mortgage-backed securities to third-party counterparties to mitigate the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Mandatory loan sales commitments provide that the loan must be delivered or the commitment be paired off. By entering into best efforts commitments and hedging the mandatory commitments, the Bank limits its exposure to loss and its realization of significant gains related to its rate lock commitments due to changes in interest rates.

The Bank utilizes a third party model which determines the fair value of rate lock commitments and forward sale contracts by using investor quotes while taking into consideration the probability that the rate lock commitments will close. Net derivative assets and liabilities are recorded within other assets or other liabilities, respectively, on the consolidated balance sheets, with changes in fair value during the period recorded within net change in the fair value of derivative instruments on the consolidated statements of income.

(i) Other Real Estate Owned

Other real estate owned (OREO) is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. The Bank acquires OREO through its wholly owned subsidiary, Apex Realty. OREO is recorded at the lower of cost or fair value, or the loan amount net of estimated selling costs, at the date of foreclosure. The cost basis of OREO is its recorded value at the time of acquisition. After acquisition, valuations are periodically performed by management and subsequent changes in the valuation allowance are charged to OREO expense. Revenues, such as rental income, and holding expenses are included in other income and other expenses, respectively.

(j) Restricted Investment in Bank Stock

Restricted bank stock is principally comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB). Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula. As of December 31, 2016 and 2015, the Bank had an investment of $7,305,300 and $7,164,600, respectively, related to the FHLB stock. Also included in restricted stock is Atlantic Central Bankers Bank (primary correspondent bank) stock in the amount of $50,000 as of December 31, 2016 and 2015, respectively. All restricted stock is carried at cost.

Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2016 or 2015.

(k) Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(l) Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

(m) Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

(n) Employee Benefit Plans

The Bank has a 401(k) Plan (the Plan) and an Employee Stock Ownership Plan (ESOP). All employees are eligible to participate in the Plan and ESOP after they have attained the age of 21 and have also completed 3 consecutive months of service. Employees must participate in the Plan to be eligible for participation in the ESOP. The employees may contribute to the Plan up to the maximum percentage allowable by law of their compensation. The Bank may make a discretionary matching contribution to the Plan and the ESOP. Full vesting in the Bank's contribution to the Plan and ESOP is over a three-year period. The Bank's contribution to the Plan and ESOP was $562,138 and $313,091, respectively for the year ended December 31, 2016 and $447,817 and $227,332, respectively for the year ended December 31, 2015. During the year ended December 31, 2016, 12,206 shares were purchased by the ESOP at an average market value of $15.50.

(o) Income Taxes

Deferred income taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating losses and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry-forwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Bank follows accounting guidance related to accounting for uncertainty in income taxes. Under the “more likely than not” threshold guidelines, the Bank believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2016 and 2015, the Bank had no material unrecognized tax benefits or accrued interest and penalties. The Bank’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Bank is no longer subject to examination by federal, state and local taxing authorities for years before January 1, 2013.

(p) Stock Compensation Plans

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options and restricted share plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees’ service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Bank’s common stock at the date of grant is used for restricted stock awards.

(q) Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) for the years ended December 31, 2016 and 2015 consist of unrealized holding gains and (losses) arising during the year on available-for-sale securities.

(r) Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

(s) Derivative Financial Instruments

The Bank recognizes all derivative financial instruments related to its mortgage banking activities on its balance sheet at fair value. The Bank utilizes investor quotes to determine the fair value of interest rate lock commitment derivatives and market pricing to determine the fair value of forward security purchase commitment derivatives. All changes in fair value of derivative instruments are recognized in earnings.

(t) Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 31, 2017, the date these financial statements were issued. Further, the Bank has evaluated subsequent events in connection with the re-issuance of the audited financial statements through September 25, 2017, the date these financial statements were issued. On January 18, 2017, the Bank entered into an asset purchase agreement to acquire HJ Wealth Management, LLC, a Pennsylvania-based wealth management firm. The acquisition closed on April 5, 2017.

(2) Earnings per Common Share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

(dollars in thousands except per share data)	Years Ended December 31, 2016	Years Ended December 31, 2015
Numerator:		
Net income available to common shareholders	$ 3,766	$ 5,089
Denominator for basic earnings per share - weighted average shares outstanding	3,362	2,669
Effect of dilutive common shares	27	37
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	3,389	2,706
Basic earnings per share	$ 1.12	$ 1.91
Diluted earnings per share	$ 1.11	$ 1.88
Antidilutive shares excluded from computation of average dilutive earnings per share	96	—

(3) Securities

The amortized cost and approximate fair value of securities as of December 31, 2016 and 2015 are as follows:

(dollars in thousands)		December 31, 2016			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale:					
U.S. government agency securities	$	—	—	—	—
U.S. government agency mortgage-backed securities		21,668	41	(227)	21,482
U.S. government agency collateralized mortgage obligations		1,436	5	(7)	1,434
State and municipal securities		9,397	—	(287)	9,110
Investments in mutual funds and other equity securities		1,000	1	—	1,001
Total securities available-for-sale	$	33,501	47	(521)	33,027
Securities held to maturity:					
U.S. Treasuries	$	1,965	9	—	1,974
State and municipal securities		12,560	25	(215)	12,370
Total securities held-to-maturity	$	14,525	34	(215)	14,344

(dollars in thousands)		2015			
		Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Securities available-for-sale:					
U.S. government agency securities	$	3,669	—	(62)	3,607
U.S. government agency mortgage-backed securities		15,584	25	(127)	15,482
U.S. government agency collateralized mortgage obligations		634	10	(4)	640
State and municipal securities		3,329	21	(4)	3,346
Investments in mutual funds and other equity securities		1,000	17	—	1,017
Total securities available-for-sale	$	24,216	73	(197)	24,092
Securities held to maturity:					
U.S. Treasuries	$	1,952	8	—	1,960
State and municipal securities		13,695	150	(6)	13,839
Total securities held-to-maturity	$	15,647	158	(6)	15,799

At December 31, 2016, the Bank had thirteen U.S. Government sponsored agency mortgage-backed securities, two U.S. Government sponsored agency collateralized mortgage obligations and fourteen State and municipal securities in unrealized loss positions. At December 31, 2015, the Bank had five U.S. Government agency securities, ten U.S. Government sponsored agency mortgage-backed securities, one U.S. Government sponsored agency collateralized mortgage obligation and three State and municipal securities in unrealized loss positions. As of December 31, 2016, the Bank did not intend to sell these securities prior to recovery and it is more likely than not that the Bank will not be required to sell these securities prior to recovery to satisfy liquidity needs, and therefore, no securities are deemed to be other-than-temporarily impaired.

The following table shows the Bank's investment gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at December 31, 2016 and 2015:

(dollars in thousands)	2016					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available-for-sale:						
U.S. government agency securities	$ —	—	—	—	—	—
U.S. government agency mortgage-backed securities	9,684	(198)	3,392	(31)	13,076	(229)
State and municipal securities	7,911	(287)	—	—	7,911	(287)
U.S. government agency collateralized mortgage obligations	1,167	(7)	—	—	1,167	(7)
Total securities available-for-sale	$ 18,762	(491)	3,392	(31)	22,154	(522)
Securities held-to-maturity:						
State and municipal securities	$ 9,853	(215)	—	—	9,853	(215)
U.S. Treasures						
Total securities held-to-maturity	$ 9,853	(215)	—	—	9,853	(215)

(dollars in thousands)	2015					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available-for-sale:						
U.S. government agency securities	$ —	—	3,607	(62)	3,607	(62)
U.S. government agency mortgage-backed securities	11,836	(102)	931	(25)	12,767	(127)
State and municipal securities	1,567	(4)	—	—	1,567	(4)
U.S. government agency collateralized mortgage obligations	—	—	254	(4)	254	(4)
Total securities available-for-sale	$ 13,403	(106)	4,792	(91)	18,195	(197)
Securities held-to-maturity:						
State and municipal securities	$ 1,126	(6)	—	—	1,126	(6)
Total securities held-to-maturity	$ 1,126	(6)	—	—	1,126	(6)

The amortized cost and carrying value of securities at December 31, 2016 are shown below by contractual maturities. Actual maturities may differ from contractual maturities as issuers may have the right to call or repay obligations with or without call or prepayment penalties.

(dollars in thousands)		Available-for-sale		Held-to-maturity	
		Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$	1,000	1,001	156	156
Due after one year through five years		2,267	2,241	2,969	2,973
Due after five years through ten years		5,833	5,718	6,341	6,245
Due after ten years		24,401	24,066	5,059	4,971
	$	33,501	33,027	14,525	14,345

(4) Loans Receivable

Loans and leases outstanding at December 31, 2016 and 2015 are detailed by category as follows:

(dollars in thousands)		2016	2015
Mortgage loans held for sale	$	39,573	83,684
Real estate loans:			
Commercial mortgage		225,564	168,096
Home equity lines and loans		85,385	85,288
Residential mortgage		30,295	25,378
Construction		65,846	55,182
Total real estate loans		407,090	333,944
Commercial and industrial		196,091	164,346
Consumer		450	417
Leases, net		1,469	1,389
Total portfolio loans and leases		605,100	500,096
Total loans and leases	$	644,673	583,780
Loans with predetermined rates	$	193,378	214,056
Loans with adjustable or floating rates		451,295	369,724
Total loans and leases	$	644,673	583,780
Net deferred loan origination (fees) costs	$	(809)	648

Components of the net investment in leases at December 31, 2016 and 2015 are detailed as follows:

(dollars in thousands)	2016	2015
Minimum lease payments receivable	$ 1,549	1,461
Unearned lease income	(81)	(72)
Total	$ 1,469	1,389

Age Analysis of Past Due Loans and Leases

The following table presents an aging of the Bank's loan and lease portfolio as of December 31, 2016 and 2015, respectively:

December 31, 2016	30-89 Days past due	Over 89 days past due and nonaccrual loans	Total past due	Current	Total loans and leases	Delinquency percentage
Commercial mortgage	$ 589	892	1,481	224,083	225,564	0.66%
Home equity lines and loans	264	132	396	84,989	85,385	0.46
Residential mortgage	122	298	420	29,875	30,295	1.39
Construction	-	219	219	65,627	65,846	0.33
Commercial and industrial	-	3,741	3,741	192,350	196,091	1.91
Consumer	-	-	—	450	450	—
Leases	172	42	214	1,255	1,469	14.57
	$ 1,147	5,324	6,471	598,629	605,100	1.07%

As of December 31, 2016, there were three leases that were 90 days past due and still accruing.

December 31, 2015	30-89 Days past due	Over 89 days past due and nonaccrual loans	Total past due	Current	Total loans and leases	Delinquency percentage
Commercial mortgage	$ -	808	808	167,288	168,096	0.48%
Home equity lines and loans	347	208	555	84,733	85,288	0.65
Residential mortgage	316	818	1,134	24,244	25,378	4.47
Construction	-	439	439	54,743	55,182	0.80
Commercial and industrial	1,252	1,443	2,695	161,651	164,346	1.64
Consumer	-	-	—	417	417	—
Leases	241	38	279	1,110	1,389	20.09
	$ 2,156	3,754	5,910	494,186	500,096	1.18%

As of December 31, 2015, there was one lease that was 90 days past due and still accruing.

(5) Allowance for Loan Losses (the Allowance)

Roll-Forward of Allowance for Loan and Lease Losses by Portfolio Segment

The following table details the roll-forward of the Bank's allowance, by portfolio segment, as of December 31, 2016 and 2015, respectively:

December 31, 2016

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2015	$	1,635	455	254	700	2,247	2	5	—	5,298
Charge-offs		(219)	(248)	(225)	—	(633)	(1)	—	—	(1,326)
Recoveries		13	185	4	2	47	4	—	—	255
Provision for loan and lease losses		609	68	52	(12)	312	(3)	—	172	1,198
Balance, December 31, 2016	$	2,038	460	85	690	1,973	2	5	172	5,425

December 31, 2015

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2014	$	1,634	456	207	912	1,718	6	11	64	5,008
Charge-offs		—	(243)	(281)	—	(1,152)	—	—	—	(1,676)
Recoveries		—	4	3	492	21	12	—	—	532
Provision for loan and lease losses		1	238	325	(704)	1,660	(16)	(6)	(64)	1,434
Balance, December 31, 2015	$	1,635	455	254	700	2,247	2	5	—	5,298

Allowance for Loan and Lease Losses Allocated by Portfolio Segment

The following table details the allocation of the allowance for loan and lease losses by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and 2015, respectively:

December 31, 2016

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:										
Individually evaluated for impairment	$	11	—	13	—	297	—	—	—	321
Collectively evaluated for impairment		2,026	460	72	690	1,676	2	5	172	5,104
Total	$	2,038	460	85	690	1,973	2	5	172	5,425

December 31, 2015

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:										
Individually evaluated for impairment	$	1	—	162	—	581	—	—	—	744
Collectively evaluated for impairment		1,634	455	92	700	1,666	2	5	—	4,554
Total	$	1,635	455	254	700	2,247	2	5	—	5,298

The following table details the carrying value for loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and 2015, respectively:

December 31, 2016

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Total
Carrying value of loans and leases:									
Individually evaluated for impairment	$	1,461	132	137	219	4,438	—	—	6,387
Collectively evaluated for impairment		224,103	85,253	20,868	65,627	191,653	450	1,469	589,423
Total	$	225,564	85,385	21,005	65,846	196,091	450	1,469	595,810

December 31, 2015

(dollars in thousands)		Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Total
Carrying value of loans and leases:									
Individually evaluated for impairment	$	1,746	208	806	439	2,850	—	—	6,049
Collectively evaluated for impairment		166,350	85,080	24,572	54,743	161,496	417	1,389	494,047
Total	$	168,096	25,288	25,378	55,182	164,346	417	1,389	500,096

Loans and Leases by Credit Ratings

As part of the process of allocating the Allowance to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by

Management. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

- **Pass** – Loans considered to be satisfactory with no indications of deterioration.
- **Special mention** – Loans classified as special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard** – Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

The following table details the carrying value of loans and leases by portfolio segment based on the credit quality indicators used to allocate the allowance for loan and lease losses as of December 31, 2016 and 2015, respectively:

December 31, 2016 *(dollars in thousands)*	**Pass**	**Special mention**	**Substandard**	**Doubtful**	**Total**
Commercial mortgage	$ 217,249	6,854	1,461	—	225,564
Home equity lines and loans	85,253	—	132	—	85,385
Construction	63,406	2,221	—	219	65,846
Commercial and industrial	188,496	3,157	3,861	577	196,091
Total	$ 554,404	12,232	5,454	796	572,886

December 31, 2015

(dollars in thousands)	Pass	Special mention	Substandard	Doubtful	Total
Commercial mortgage	$ 160,538	5,812	1,746	—	168,096
Home equity lines and loans	85,080	—	208	—	85,288
Construction	51,821	2,922	439	—	55,182
Commercial and industrial	153,331	8,165	2,243	607	164,346
Total	$ 450,770	16,899	4,636	607	472,912

In addition to the allocations based on the credit quality indicators as shown in the above tables, allowance allocations for residential mortgages, consumer loans and leases are also applied based on their performance status as December 31, 2016 and 2015, respectively. No troubled Debt Restructurings performing according to modified terms are included in Performing Residential mortgage below for the twelve months ended December 31, 2016 and 2015, respectively.

December 31, 2016

(dollars in thousands)	Residential mortgage	Consumer	Leases	Total
Performing	$ 20,868	451	1,469	22,788
Nonperforming	137	—	—	137
Total	$ 21,005	451	1,469	22,925

December 31, 2015

(dollars in thousands)	Residential mortgage	Consumer	Leases	Total
Performing	$ 24,572	417	1,389	26,378
Nonperforming	806	—	—	806
Total	$ 25,378	417	1,389	27,184

Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related allowance for loan and lease losses and interest income recognized for the periods. No interest income was recognized on a cash-basis in 2016 or 2015.

(dollars in thousands) December 31, 2016	Recorded investment	Principal balance	Related allowance	Average principal balance
Impaired loans with related allowance:				
Commercial mortgage	$ 186	188	11	186
Commercial and industrial	1,096	1,487	297	1,096
Home equity lines and loans	—	—	—	—
Residential mortgage	137	137	13	137
Construction	—	—	—	—
Total	1,419	1,812	321	1,419
Impaired loans without related allowance:				
Commercial mortgage	$ 1,275	1,719	—	1,275
Commercial and industrial	3,342	3,571	—	3,340
Home equity lines and loans	132	139	—	132
Residential mortgage	—	—	—	—
Construction	219	463	—	219
Total	4,968	5,892	—	4,966
Grand total	$ 6,387	7,704	321	6,385

(dollars in thousands) December 31, 2015		Recorded investment	Principal balance	Related allowance	Average principal balance
Impaired loans with related allowance:					
Commercial mortgage	$	131	131	1	132
Commercial and industrial		1,201	1,234	581	1,188
Home equity lines and loans		—	—	—	—
Residential mortgage		806	806	162	806
Construction		—	—	—	—
Total		2,138	2,171	744	2,126
Impaired loans without related allowance:					
Commercial mortgage	$	1,615	2,024	—	2,058
Commercial and industrial		1,649	1,649	—	1,622
Home equity lines and loans		208	208	—	210
Residential mortgage		—	—	—	—
Construction		439	439	—	439
Total		3,911	4,320	—	4,329
Grand total	$	6,049	6,491	744	6,455

Troubled Debt Restructuring

The restructuring of a loan is considered a "troubled debt restructuring" if both of the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the creditor has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan, and (e) for leases, a reduced lease payment. A less common concession granted is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower, were a concession not granted. The determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

The balance of TDRs at December 31, 2016 and 2015 are as follows:

(dollars in thousands)		2016	2015
TDRs included in nonperforming loans and leases	$	3,482	2,659
TDRs in compliance with modified terms		2,279	2,658
Total TDRs	$	5,761	5,317

The following table presents information regarding loan and lease modifications granted during the twelve months ended December 31, 2016 that were categorized as TDRs:

($ in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
Real Estate:				
Commercial mortgage	1	119	119	-
Commercial and industrial	1	2,247	2,247	-
	2	2,366	2,366	-
Contracts that subsequently defaulted:				
Real Estate:				
Commercial mortgage	1	119	119	-
Commercial and industrial	1	2,247	2,247	-
	2	2,366	2,366	-

The following table presents information regarding loan and lease modifications granted during the twelve months ended December 31, 2015 that were categorized as TDRs:

($ in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
Real Estate:				
Commercial mortgage	4	1,351	1,351	-
Commercial and industrial	3	437	437	-
	7	1,788	1,788	-
Contracts that subsequently defaulted:				
Real Estate:				
Commercial mortgage	1	35	35	-
Commercial and industrial	3	594	594	293
	4	629	629	293

Contracts that have subsequently defaulted on the above table consist of restructured loans that have been classified as non-accrual.

The following tables present information regarding the types of loan and lease modifications made for the twelve months ended December 31, 2016 and 2015:

December 31, 2016	Loan Term Extension	Interest Rate Change and Loan Term Extension
Commercial mortgage	-	1
Commercial and industrial	1	-
Total	1	1

December 31, 2015	Interest Rate Change	Loan Term Extension	Interest Rate Change and Loan Term Extension	Interest-Only Period
Commercial mortgage	1	3	1	-
Commercial and industrial	-	5	-	1
Total	1	8	1	1

(6) Bank Premises and Equipment

The components of premises and equipment at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	2016	2015
Building	$ 3,448	3,504
Leasehold improvements	681	379
Land	600	600
Land Improvements	198	212
Furniture, fixtures and equipment	910	459
Computer equipment and data processing software	2,879	997
	$ 8,716	6,151

Total accumulated depreciation at December 31, 2016 totaled $3,662,000 and $2,685,000 at December 31, 2015.

(7) Deposits

The components of deposits at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	2016	2015
Demand, noninterest bearing	$ 96,102	60,500
Demand, interest-bearing	70,582	67,584
Savings Accounts	180	64
Money market accounts	173,869	178,710
Time, $100,000 and over	177,866	174,394
Time, other	8,536	9,316
Total	$ 527,136	490,568

At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

2017	$ 147,705
2018	31,680
2019	6,049
2020	598
2021	369
	$ 186,402

(8) Short-Term Borrowings and Long-Term Debt

The Bank's short-term borrowings generally consist of federal funds purchased and short-term borrowings extended under agreements with Federal Home Loan Bank of Pittsburgh. The Bank has two Federal Funds borrowing facilities with correspondent banks: one of $10,000,000 and one of $16,000,000, respectively. The first $5,000,000 and $11,000,000, respectively, borrowed under each facility is unsecured and the remaining balance would be secured by securities safe-kept with the correspondent banks. Federal funds purchased generally represent one-day borrowings. The Bank had no Federal funds purchased at December 31, 2016 or December 31, 2015, respectively. The Bank also has a facility with the Federal Reserve discount window of $13,052,768. This facility is secured by investment securities and loans. There were no borrowings under this facility at December 31, 2016.

Short-term borrowings as of December 31, 2016 consisted of short-term advances from FHLB of Pittsburgh in the amount of $100,363,000 with interest at 0.74%, $1,190,000 with interest at 0.78% and $4,000,000 with an original term of 5 years and interest at 1.03%, respectively.

Short-term borrowings as of December 31, 2015 consisted of short-term advances from FHLB of Pittsburgh in the amount of $25,612,500 with interest at 0.54%, $12,500,000 with interest at 0.43% and $47,712,300 with interest at 0.43%, respectively.

Long-term debt at December 31, 2016 consisted of the following fixed rate notes with the FHLB of Pittsburgh:

	Maturity	Interest	Balance at December 31,	
(dollars in thousands)	date	rate	2016	2015
Mid-term Repo-fixed	08/10/20	2.76%	5,000	5,000
Mid-term Repo-fixed	09/17/18	1.92%	2,500	2,500
Mid-term Repo-fixed	03/28/18	1.68%	1,000	1,000
Mid-term Repo-fixed	03/28/18	1.55%	1,300	1,300
Mid-term Repo-fixed	08/29/17	1.03%	—	4,000
Mid-term Repo-fixed	06/26/19	1.70%	1,800	1,800
Mid-term Repo-fixed	10/29/18	0.97%	1,200	—
			$ 12,800	15,600

The FHLB of Pittsburgh had issued $45,850,000 and $68,000,000 of letters of credit to the Bank for the benefit of the Bank's public deposit funds and loan customers as of December 31, 2016 and 2015, respectively. The letters of credit outstanding as of December 31, 2016 expire throughout 2017.

The Bank has a maximum borrowing capacity with the FHLB of Pittsburgh of $350,055,100 and $287,253,000 as of December 31, 2016 and 2015, respectively. All advances and letters of credit from the FHLB are secured by qualifying assets of the Bank.

(9) Subordinated Debentures

In December 2008, the Bank issued $550,000 of mandatory convertible unsecured subordinated debentures (2008 Debentures). The 2008 Debentures have a maturity date of December 18, 2023 and interest on the 2008 Debentures is paid quarterly at 6%. The 2008 Debentures are convertible into 1.05 shares of the Bank's common stock for every $15 in principal amount of the 2008 Debentures automatically on such date, if any, as accumulated losses of the Bank first exceed the sum of the retained earnings and capital surplus accounts of the Bank. The 2008 Debentures began to repay principal in eight equal installments which commenced in December of 2016. As of December 31, 2016 $481,250 of the 2008 Debentures remained outstanding.

In December 2011, the Bank issued $1,425,000 of mandatory convertible unsecured subordinated debentures (2011 Debentures). The 2011 Debentures have a maturity date of December 31, 2026 and interest on the 2011 Debentures is paid quarterly at 6%. The 2011 Debentures are convertible into 1 share of the Bank's common stock for every $17 in principal amount of the 2011 Debentures automatically on such date, if any, as accumulated losses of the Bank first exceed the sum of the retained earnings and capital surplus accounts of the Bank.

In April 2013, the Bank issued $1,370,000 of mandatory convertible unsecured subordinated debentures (2013 Debentures). The 2013 Debentures have a maturity date of December 31, 2028 and interest on the 2013 Debentures is paid quarterly at 6.5%. The 2013 Debentures are convertible into 1 share of the Bank's common stock for every $22 in principal amount of the 2013 Debentures automatically on such date, if any, as accumulated losses of the Bank first exceed the sum of the retained earnings and capital surplus accounts of the Bank.

In June, August and September 2014, the Bank issued $3,000,000, $100,000 and $7,000,000 of non-convertible unsecured subordinated debentures (2014 Debentures). The 2014 Debentures have maturity dates of June 30, 2024, June 30, 2024 and September 30, 2024, respectively. Interest on all three tranches of the 2014 Debentures is paid quarterly at 7.25%.

The 2008, 2011, 2013 and 2014 Debentures are includable as Tier 2 capital for determining the Bank's compliance with regulatory capital requirements (see note 15). Upon conversion, the 2008, 2011 and 2013 Debentures become Tier 1 Capital.

(10) Preferred Stock

In October 2008, the United States Treasury Department announced a voluntary Capital Purchase Program, a part of the Troubled Asset Relief Program (TARP), to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Meridian Bank received approval for these capital funds.

On February 13, 2009, the Bank entered into a Letter Agreement with the United States Department of the Treasury pursuant to which the Bank issued and sold to the Treasury (i) 6,200 shares of the Bank's Series 2009A Preferred Stock and (ii) a warrant to purchase 310 shares of the Bank's Series 2009B Preferred Stock for an aggregate purchase price of $6.2 million in cash (TARP funds). The warrant was exercised as a cashless exercise on February 13, 2009 and 310 shares of Series 2009B Preferred Stock were issued on that date. Series 2009A Preferred Stock paid cumulative dividends of 5% per annum for the first five years and pay 9% per annum thereafter. Series 2009B Preferred Stock pays dividends of 9% per annum.

On December 3, 2009, the Bank entered into a second agreement with the United States Department of the Treasury pursuant to which the Bank issued and sold to the Treasury 6,335 shares of the Bank's Series 2009 C Preferred Stock for $6,335,000. There were no warrants issued with the Series 2009C Preferred Stock and the Series 2009 C Preferred Stock paid dividends of 5% per annum for the first five years and pays 9% per annum thereafter.

On March 7, 2014, Meridian Bank participated in the United States Treasury Department auction in which all 12,845 shares were sold to private investors. The rate and term of the shares remain the same, while the Treasury Department standards in regards to executive compensation limitations and corporate governance are no longer applicable.

All series of the preferred stock qualify as Tier 1 capital. The preferred shares are nonvoting. The preferred shares are redeemable at any time at the option of the Bank.

(11) Lease Commitments

The Bank leases twenty branch spaces from third parties under operating lease agreements expiring at different periods through December 2026. Under all current agreements, the Bank is responsible for its portion of real estate taxes, utilities, insurance, and repairs and maintenance.

Total rental expense for the years ended December 31, 2016 and 2015 was $1,177,904 and $1,028,782, respectively. Future minimum lease payments by year and in the aggregate, under these lease agreements, are as follows:

Future minimum lease payments (in thousands):

2017	$ 1,051
2018	848
2019	779
2020	631
2021	575
Thereafter	2,477
	$ 6,360

(12) Stockholders' Equity and Stock Option Plan

On April 22, 2012, the Board of Directors approved a stock distribution in the form of a 5% stock dividend to stockholders of record as of April 22, 2012. If the Bank had accumulated profits (retained earnings), the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and the surplus. Since the Bank currently had an accumulated deficit at the time of the stock dividend, it transferred the par value of the shares issued from surplus to common stock.

On June 26, 2014, the Board of Directors approved a stock distribution in the form of a 5% stock dividend to stockholders of record as of June 27, 2014. Since the Bank had cumulative retained earnings, it transferred the fair market value of the shares issued from retained earnings to common stock and surplus.

On August 25, 2016, the Board of Directors approved a stock distribution in the form of a 5% stock dividend to stockholders of record as of September 2, 2016. Since the Bank had cumulative retained earnings, it transferred the fair market value of the shares issued from retained earnings to common stock and surplus.

All references to number of common shares and per share amounts in the financial statements and related notes have been restated as appropriate to reflect the effect of the stock dividends for all periods presented.

The Bank has issued stock options under the 2004 Stock Option Plan, which is no longer in effect as of December 31, 2016. The Plan authorized the Board of Directors to grant options up to an aggregate of 446,091 shares, as adjusted for the 5% stock dividends in 2012, 2014 and 2016 to officers, other employees and directors of the Bank. No additional shares are available for future grants as of December 31, 2016. The shares granted under the Plan to directors are nonqualified options. The shares granted under the Plan to officers and other employees are “incentive stock options,” and are subject to the limitations under Section 422 of the Internal Revenue Code.

All options granted under the 2004 Stock Option Plan have a term that does not exceed ten years. The exercise price of the options granted is the fair market value of a share of common stock at the time of the grant.

The Bank has a 2016 Stock Option Plan, which authorizes the Board of Directors to grant options up to an aggregate of 186,900 shares, adjusted for the September 2, 2016 share dividend. No shares have been granted under the 2016 plan through December 31, 2016. Future shares granted under the 2016 plan to directors are nonqualified options, while shares granted to officers and other employees are “incentive stock options”, and are subject to the limitations under Section 422 of the Internal Revenue Code.

A summary of the status of the Bank’s 2004 stock option plan as of December 31, 2016 and 2015, and the change in outstanding stock options during the years ended December 31, 2016 and 2015, as adjusted for the 5% stock dividends is represented below:

	Shares	Average exercise price
Outstanding at December 31, 2014	165,562	10.18
Exercised	(54,405)	8.58
Granted	8,914	14.29
Expired	(2,065)	8.38
Forfeited	(1,193)	11.60
Outstanding at December 31, 2015	116,813	11.45
Exercised	(36,177)	10.23
Granted	88,722	15.26
Expired	—	—
Forfeited	—	—
Outstanding at December 31, 2016	169,358	13.70
Exercisable at December 31, 2016	93,086	$ 12.64

The weighted average remaining contractual life of the outstanding stock options at December 31, 2016 is 7.9 years. The weighted average remaining life of options exercisable at December 31, 2016 is 6.9 years. The range of exercise prices is $9.88 to $16.19. The aggregate intrinsic value of options outstanding and exercisable was $428,960 as of December 31, 2016.

The fair value of each option granted in 2016 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0.0%, risk-free interest rate of 1.48%, expected life of 7 years, and expected volatility of 20.71%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The weighted average fair value of options granted in 2016 was $3.83 per share.

The fair value of each option granted in 2015 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0.0%, risk-free interest rate of 1.89%, expected life of 7 years, and expected volatility of 25.47%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The weighted average fair value of options granted in 2015 was $4.71 per share.

Total stock compensation cost for the years ended December 31, 2016 and 2015 was $175,437 and $69,141, respectively. During 2016 and 2015, there were no tax benefits recognized related to stock compensation cost.

As of December 31, 2016, there was no unrecognized compensation cost related to nonvested stock options.

(13) Federal Income Taxes

The components of the federal and state income tax expense for the years ended December 31, 2016 and 2015 are as follows:

(dollars in thousands)		2016	2015
Federal:			
Current	$	3,082	2,838
Deferred		(698)	207
		2,384	3,045
State:			
Current		249	195
Deferred		(34)	8
		215	203
Totals	$	2,599	3,248

A reconciliation of the statutory income tax at 34% to the income tax expense included in the statement of operations is as follows for 2016 and 2015:

(dollars in thousands)	2016		2015	
Federal income tax at statutory rate	2,557	34.0%	3,208	34.0%
State tax expense, net of federal benefit	142	1.9	134	1.4
Tax exempt interest	(151)	(2.0)	(102)	(1.1)
Bank owned life insurance	(42)	(0.6)	(42)	(0.4)
Incentive stock options	46	0.6	14	0.1
Other	47	0.6	36	0.4
Effective income tax rate	2,599	34.5%	3,248	34.4%

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	2016	2015
Deferred tax assets:		
Allowance for loan loss	$ 1,725	1,516
Foreclosed assets	—	25
Accrued incentive compensation	14	21
Accrued retirement	444	431
Unrealized loss on available for sale securities	167	43
Deferred rent	280	20
Mortgage repurchase reserve	115	—
Other	55	72
	2,800	2,128
Deferred tax liabilities:		
Property and equipment	(762)	(292)
Mortgage pipeline fair-value adjustment	(111)	(406)
Hedge instrument fair-value adjustment	(236)	(278)
Prepaid expenses	(43)	(47)
Deferred loan costs	(378)	(691)
	(1,530)	(1,714)
Net deferred tax asset	$ 1,270	414

In assessing the realizability of 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 deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets.

Based on projections of future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize the benefits of these deductible differences.

As of December 31, 2016, the Bank had an investment in low income housing tax credits of $980,356 on which it recognized tax credits of $14,051, amortization of $19,644 and tax benefits from losses of $8,347 during the year ended December 31, 2016.

(14) Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans receivable from related parties totaled $1,798,000 and $2,004,000 at December 31, 2016 and 2015, respectively. Advances and repayments during 2016 totaled $1,722,000 and $1,929,000 respectively. Advances and repayments during 2015 totaled $1,990,000 and $2,618,000 respectively. Deposits of related parties totaled $8,174,000 and $7,690,000 at December 31, 2016 and 2015, respectively. Subordinated debt held by related parties totaled $1,229,000 and $1,260,000 at December 31, 2016 and 2015, respectively.

The Bank paid legal fees of $31,000 and $28,000 to a law firm of a director for the years ended December 31, 2016 and 2015, respectively.

(15) Financial Instruments with Off-Balance Sheet Risk, Commitments and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2016 and 2015 is as follows:

(dollars in thousands)		2016	2015
Commitments to grant loans and commitments under lines of credit	$	195,162	220,790
Letters of credit		1,806	4,473

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2016 and 2015 for guarantees under standby letters of credit issues is not material.

Included in commitments to grant loans are mortgage loan commitments of $54,110,000 and $73,686,000 in 2016 and 2015, respectively, which included interest rate lock commitments. These rate lock commitments represent an agreement to extend credit to a mortgage loan applicant whereby the interest rate on the loan is set prior to funding. The loan commitment binds the Bank to lend funds to a potential borrower at the specified rate, regardless of whether interest rates change between the commitment date and the loan funding date. The Bank loan commitments generally range between 30-90 days; however, the borrower is not obligated to obtain the loans. As such, these commitments are subject to interest rate risk and related price risk during the period from interest rate lock commitment through the loan funding date or expiration date. The Bank hedges its mandatory delivery channel using the forward sale of mortgage-backed securities, in addition to best-efforts forward sale commitments to substantially eliminate these risks. At December 31, 2016 and 2015, the Bank had a notional hedge amount of $25,500,000 and $32,000,000, respectively. At December 31, 2016 and 2015, the Bank had best efforts forward sale commitments to sell loans amounting to $27,128,000 and $40,935,000, respectively. The Bank is only obligated to settle the forward sale commitment if the loan closes in accordance with the terms of the interest rate lock commitment. The Bank's forward sale commitments generally expire within 90 days.

Loans sold under FHA or investor programs are subject to repurchase or indemnification if they fail to meet the origination criteria of those programs. In addition, loans sold to investors may be subject to repurchase or indemnification if the loan is two or three months delinquent during a set period that usually varies from the first six months to a year after the loan is sold. At December 31, 2016 there were no indemnification or repurchase requests pending.

Management feels that potential losses, if any, would not have a material adverse effect on the Bank's financial condition.

In the ordinary course of business, the Bank is subject to litigation, claims, and assessments that involve claims for monetary relief. Some of these are covered by insurance. Based upon information presently available to the Bank and its counsel, it is the Bank's opinion that any legal and financial responsibility arising from such claims will not have a material, adverse effect on its results of operations, financial condition or capital.

(16) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2016 and 2015 are presented below:

	2016					
(dollars in thousands)	Actual		For capital adequacy purposes *		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 89,396	13.51%	$ 57,071	8.625%	$ 66,169	10.00%
Common equity tier 1 capital (to risk-weighted assets)	57,426	8.68%	33,912	5.125%	43,010	6.50%
Tier 1 capital (to risk-weighted assets)	70,271	10.62%	43,837	6.625%	52,935	8.00%
Tier 1 capital (to average assets)	70,271	9.67%	29,055	4.000%	36,318	5.00%

	2015								
(dollars in thousands)	Actual		For capital adequacy purposes			To be well capitalized under prompt corrective action provisions			
		Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk-weighted assets)	$	71,744	12.58%	$	45,622	8.00%	$	57,028	10.00%
Common equity tier 1 capital (to risk-weighted assets)		40,155	7.04%		25,662	4.50%		37,068	6.50%
Tier 1 capital (to risk-weighted assets)		53,001	9.29		34,217	6.00		45,622	8.00%
Tier 1 capital (to average assets)		53,001	8.39		25,257	4.00		31,571	5.00%

*Includes capital conservation buffer of 0.625%.

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

(17) Fair Value Measurements and Disclosures

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation techniques or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2016 and 2015 are as follows:

	2016			
(dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Securities available for sale:				
U.S. government agency securities	$ —	—	—	—
U.S. government agency mortgage-backed securities	21,481	—	21,481	—
U.S. government agency collateralized mortgage obligations	1,434	—	1,434	—
State and municipal securities	9,110	—	9,110	—
Investments in mutual funds and other equity securities	1,001	—	1,001	—
Mortgage loans held-for-sale	39,573	—	39,573	—
Loans held-for-investment	9,317	—	9,317	—
Interest rate lock commitments	677	—	677	—
Total	$ 82,594	—	82,594	—

(dollars in thousands)	2015 Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. government agency securities	$ 3,607	—	3,607	—
U.S. government agency mortgage-backed securities	15,482	—	15,482	—
U.S. government agency collateralized mortgage obligations	640	—	640	—
State and municipal securities	3,346	—	3,346	—
Investments in mutual funds and other equity securities	1,017	—	1,017	—
Mortgage loans held-for-sale	83,684	—	83,684	—
Interest rate lock commitments	889	—	889	—
Total	$ 108,665	—	108,665	—

Assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	2016 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$ 6,387	—	—	6,387
Total	$ 6,387	—	—	6,387

(dollars in thousands)	2015 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$ 6,049	—	—	6,049
Other real estate owned (1)	189	—	—	189
Total	$ 6,238	—	—	6,238

(1) Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement. Appraised values may be discounted based on management's expertise, historical knowledge, changes in market conditions from the time of valuation and/or estimated costs to sell.

(2) Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, 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.

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on the Bank's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments:

(a) Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

(b) Securities

The fair value of securities available-for-sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

(c) Mortgage Loans for Sale

The fair value of loans held for sale is based on secondary market prices.

(d) Loans Receivable

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value below is not reflective of an exit price.

(e) Impaired Loans

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, 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.

(f) Restricted Investment in Bank Stock

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

(g) Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

(h) Deposit Liabilities

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

(i) Short-Term Borrowings

The carrying amounts of short-term borrowings approximate their fair values.

(j) Long-Term Debt

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

(k) Subordinated Debt

Fair values of junior subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

(l) Off-Balance Sheet Financial Instruments

Off-balance sheet instruments are primarily comprised of loan commitments, which are generally priced at market at the time of funding. Fees on commitments to extend credit and stand-by letters of credit are deemed to be immaterial and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments and as a result they are not included in the table below. Fair values assigned to the notional value of interest rate lock commitments and forward sale contracts are based on market quotes.

The estimated fair values of the Bank's financial instruments at December 31, 2016 and 2015 are as follows:

(dollars in thousands)	Fair Value Hierarchy Level		2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Financial assets:						
Cash and cash equivalents	Level 1	$	18,872	18,872	19,159	19,159
Securities available-for-sale	Level 2		33,027	33,027	24,092	24,092
Securities held to maturity	Level 2		14,525	14,345	15,647	15,799
Loans held for sale	Level 2		39,573	39,573	83,684	83,684
Loans receivable, net	Level 3		598,866	588,140	495,446	489,883
Derivative financial instruments	Level 2		677	677	889	889
Restricted investment in bank stock	Level 3		7,355	7,355	7,215	7,165
Accrued interest receivable	Level 3		2,123	2,123	1,950	1,950
Financial liabilities:						
Deposits	Level 2		527,136	517,854	490,568	490,606
Short-term borrowings	Level 2		105,553	105,553	85,825	85,825
Long-term debt	Level 2		12,800	12,818	15,600	15,732
Subordinated debentures	Level 2		13,376	12,887	13,445	12,933
Accrued interest payable	Level 2		194	194	159	159
Derivative financial instruments	Level 2		15	15	105	105

Off-balance sheet financial instruments:		2016 Notional amount	2016 Fair value	2015 Notional amount	2015 Fair value
Commitments to extend credit	Level 2	195,162	677	220,790	889
Letters of credit	Level 2	1,806	—	4,473	—

(18) Derivative Financial Instruments

Mortgage Banking Derivatives

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans or interest rate locks at a fixed price at a future date. The amount necessary to settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets, with changes in fair values during the period recorded on the consolidated statements of income.

The following table presents a summary of the notional amounts and fair values of derivative financial instruments:

	December 31, 2016		December 31, 2015	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(dollars in thousands)			
Interest Rate Lock Commitments				
Positive fair values	$ 50,423	$ 721	$ 70,420	$ 929
Negative fair values	3,687	(44)	3,266	(40)
Net interest rate lock commitments	$ 54,110	$ 677	$ 73,686	$ 889
Forward Commitments				
Positive fair values	$ 9,750	$ 61	$ 4,000	$ 13
Negative fair values	15,750	(76)	28,000	(118)
Net forward commitments	$ 25,500	$ (15)	$ 32,000	$ (105)
Net derivative fair value asset	$ 79,610	$ 662	$ 105,686	$ 784

All derivative instruments are considered Level 3 in the fair value hierarchy.

The following table presents a summary of the fair value gains and losses on derivative financial instruments:

	Year Ended December 31	
	2016	2015
	(dollars in thousands)	
Interest rate lock commitments	$ (212)	$ 371
Forward commitments	90	53
Net fair value (losses)gains on derivative financial instruments	$ (122)	$ 424

Realized losses on derivatives were $965,000 and $821,000 for the year ended December 31, 2016 and 2015, respectively.

(19) Other Business Lines

FASB Codification 280 – "Segment Reporting" identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Operating Decision Maker, our Chief Executive Officer, in deciding how to allocate resources and assess performance. The Bank has applied the aggregation criterion set forth in this codification to the results of its operations.

Our Banking segment consists of commercial and retail banking. The Banking segment is evaluated as a single strategic unit which generates revenues from a variety of products and services. The Banking segment generates interest income from its lending (including leasing) and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives revenues from other sources including gains on the sale of available for sale investment securities, gains on the sale of residential mortgage loans, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income and wealth management services.

Meridian's mortgage banking segment ("Mortgage") consists of one central loan production facility and several retail and profit sharing loan production offices located throughout the Delaware Valley. The Meridian Mortgage unit originates 1 – 4 family residential mortgages and sells all of its production, including servicing to third party investors. The unit generates net interest income on the loans it originates and earns fee income (primarily gain on sales) at the time of the sale.

The table below summarizes income and expenses, directly attributable to each business line, which has been included in the statement of operations.

(dollars in thousands)	Year Ended December 31, 2016 Meridian Bank	Meridian Mortgage	Consolidated
Net interest income	$ 24,868	$ 920	$ 25,788
Provision for loan losses	(1,198)	-	(1,198)
Net interest income after provision	23,670	920	24,590
Non-interest Income			
Service charges on deposits	66	-	66
Other fee income	869	1,680	2,549
Wealth management	425	-	425
Mortgage fees (margin)	-	39,022	39,022
Mortgage document prep & processing fees	-	2,409	2,409
Boli income	125	-	125
Net change in the fair value of loans held-for-sale	-	(833)	(833)
Net change in the fair value of loans held-for-investment	-	30	30
Net change in the fair value of derivative instruments	-	(122)	(122)
Realized losses on derivative instruments	-	(965)	(965)
Gain on sale of OREO	12	-	12
Gain on sale of loans	123	-	123
Gain on sale of securites	3	-	3
Total non-interest income	1,623	41,221	42,844
Non-interest Expense			
Salaries and employee benefits	11,927	28,925	40,852
Occupancy & equipment	1,445	1,501	2,946
Professional services	1,378	384	1,762
FDIC expense	625	-	625
Loan expenses	264	6,422	6,686
Other	4,579	2,463	7,042
Total non-interest expense	20,218	39,695	59,913
Operating Margin	$ 5,075	$ 2,446	$ 7,521