FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2017**

Or

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

For the transition period from __________ to __________

FDIC Certificate Number: **57777**

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 19335
(Address of principal executive offices) (Zip Code)

(484) 568-5000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "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 13(a) of the Exchange Act. ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of December 21, 2017 there were 6,392,287 outstanding shares of the issuer's common stock, par value $1.00 per share.

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PART I–FINANCIAL INFORMATION

Item 1. Financial Statements.

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

		(unaudited) September 30,2017	December 31, 2016
Cash and due from banks	$	8,242	18,478
Federal funds sold		1,285	394
Cash and cash equivalents		9,527	18,872
Securities available-for-sale, amortized cost of $37,322 and $33,501 as of September 30, 2017 and December 31, 2016, respectively.		37,270	33,027
Securities held-to-maturity, fair value of $13,552 and $14,344 as of September 30, 2017 and December 31, 2016, respectively.		13,392	14,525
Mortgage loans held for sale, amortized cost of $31,939 as of September 31, 2017 and $39,263 as of December 31, 2016		32,350	39,573
Loans, net of fees and costs (includes $10,479 and $9,316 of loans at fair value, amortized cost of $10,249 and $9,207 as of September 30, 2017 and December 31, 2016, respectively.)		676,334	604,291
Allowance for loan losses		(6,359)	(5,425)
Loans, net of the allowance for loan losses		669,975	598,866
Restricted investment in bank stock		6,792	7,355
Bank premises and equipment, net		9,321	8,716
Bank owned life insurance		11,187	4,994
Accrued interest receivable		2,044	2,123
Other real estate owned		59	—
Deferred income taxes		1,138	1,270
Goodwill and intangible assets		5,564	—
Other assets		5,287	4,372
Total assets	$	803,906	733,693
Liabilities:			
Deposits:			
Noninterest bearing	$	101,061	96,102
Interest-bearing		516,621	431,034
Total deposits		617,682	527,136
Short-term borrowings		81,995	105,553
Long-term debt		10,269	12,800
Subordinated debentures		13,376	13,376
Accrued interest payable		379	194
Other liabilities		7,971	4,671
Total liabilities		731,672	663,730
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 3,686,405 and 3,685,368 shares as of September 30, 2017 and December 31, 2016.		3,686	3,685
Surplus		40,006	39,887
Retained earnings		15,731	13,854
Accumulated other comprehensive loss		(34)	(308)
Total stockholders' equity		72,234	69,963
Total liabilities and stockholders' equity	$	803,906	733,693

See accompanying notes to unaudited consolidated financial statements.

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest income:				
Loans, including fees	$ 8,924	7,905	$ 25,148	22,210
Securities:				
Taxable	143	93	366	284
Tax-exempt	110	113	343	315
Cash and cash equivalents	14	15	55	52
Total interest income	9,191	8,126	25,912	22,861
Interest expense:				
Deposits	1,207	851	3,079	2,581
Borrowings	643	494	1,728	1,265
Total interest expense	1,850	1,345	4,807	3,846
Net interest income	7,341	6,781	21,105	19,015
Provision for loan losses	665	551	1,445	858
Net interest income after provision for loan losses	6,676	6,230	19,660	18,157
Noninterest income:				
Mortgage banking income	9,904	12,945	25,089	30,637
Wealth management income	934	142	1,905	298
Earnings on investment in life insurance	83	31	194	94
Net change in the fair value of derivative instruments	(503)	(311)	(115)	345
Net change in the fair value of loans held-for-sale	(115)	166	102	383
Net change in the fair value of loans held-for-investment	71	221	113	221
Gain on sale of investment securities available-for-sale	—	3	4	3
Service charges	22	19	62	47
Other	54	83	168	(50)
Total noninterest income	10,450	13,299	27,522	31,978
Noninterest expenses:				
Salaries and employee benefits	10,330	11,574	29,753	29,854
Occupancy and equipment	992	762	2,818	2,142
FDIC assessment	183	(10)	479	474
Professional fees	481	568	1,384	1,174
Data processing	337	311	871	864
Advertising and promotion	597	363	1,537	1,062
Loan expenses	1,000	1,986	3,008	5,109
Other	1,092	994	3,207	2,892
Total noninterest expenses	15,012	16,548	43,057	43,571
Income before income taxes	2,114	2,981	4,125	6,564
Income tax expense	716	1,042	1,381	2,302
Net income	1,398	1,939	2,744	4,262
Dividends on preferred stock	(289)	(289)	(867)	(866)
Net income for common stockholders	$ 1,109	1,650	$ 1,877	3,396
Basic earnings per common share	$ 0.30	0.45	$ 0.51	1.04
Diluted earnings per common share	$ 0.30	0.45	$ 0.51	1.03

See accompanying notes to unaudited consolidated financial statements.

(Continued)

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income:	$ 1,398	1,939	$ 2,744	4,262
Other comprehensive income:				
Net change in unrealized gains on investment securities available for sale:				
Net unrealized gains (losses) arising during the period, net of tax expense of $(19), $(35), $147 and $179, respectively	(31)	(63)	277	333
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of $0, $1, $1 and $1, respectively	—	(3)	(3)	(3)
Unrealized investment gains (losses), net of tax expense of $(19), $(34), $148 and $180, respectively	(31)	(66)	274	330
Total other comprehensive income	(31)	(66)	274	330
Total comprehensive income	$ 1,367	1,873	$ 3,018	4,592

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ 12,845	3,685	39,887	13,854	(308)	69,963
Comprehensive income:						
Net income				2,744		2,744
Change in unrealized gains on securities available-for-sale, net of tax					274	274
Total comprehensive income						3,018
Dividends on preferred stock				(867)		(867)
Share-based awards and exercises		1	9			10
Compensation expense related to stock option grants			110			110
Balance, September 30, 2017	$ 12,845	3,686	40,006	15,731	(34)	72,234

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	$ 12,845	2,598	24,404	13,154	(80)	52,921
Comprehensive income:						
Net income				4,262		4,262
Change in unrealized gains on securities available-for-sale, net of tax					330	330
Total comprehensive income						4,592
Dividends on preferred stock				(866)		(866)
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			157			157
Balance, September 30, 2016	$ 12,845	3,685	39,869	13,484	250	70,133

See accompanying notes to unaudited consolidated financial statements.

(Continued)

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30,	
	2017	**2016**
September 30, 2017 and 2016		
Net income	$ 2,744	4,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of investment securities	4	3
Depreciation and amortization	1,673	1,229
Provision for credit losses	1,445	858
Compensation expense for stock options	110	157
Net change in fair value of loans held for sale	(102)	(383)
Net change in fair value of derivative instruments	115	(345)
Net loss on sale and write down of OREO and other repossessed property	—	24
Proceeds from sale of loans	556,777	722,329
Loans originated for sale	(524,363)	(703,292)
Mortgage banking income	(25,089)	(30,637)
Increase in accrued interest receivable	79	(81)
Decrease in other assets	(202)	2,155
Earnings from investment in life insurance	(194)	(94)
Increase in accrued interest payable	185	149
Increase in other liabilities	3,299	3,261
Net cash provided by (used in) operating activities	16,481	(405)
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities, repayments and calls	2,928	5,400
Purchases	(7,178)	(11,711)
Activity in held-to-maturity securities:		
Maturities, repayments and calls	1,045	500
Acquisition of wealth management company	(3,225)	
Settlement of forward contracts	(845)	(2,101)
(Increase) decrease in restricted stock	563	(605)
Net increase in loans	(72,613)	(70,627)
Purchases of premises and equipment	(1,628)	(3,192)
Purchase of bank owned life insurance	(5,999)	—
Proceeds from sale of OREO	—	165
Net cash used in investing activities	(86,952)	(82,171)
Cash flows from financing activities:		
Net increase in deposits	90,546	35,484
(Decrease) increase in short term borrowings	(28,358)	28,247
Repayment of long term debt (purchaser note)	(206)	—
Issuance of common stock	—	13,133
Share based awards and exercises	10	144
Notes repaid for common stock	—	52
Dividends paid on preferred stock	(866)	(867)
Net cash provided by financing activities	61,126	76,193
Net change in cash and cash equivalents	(9,345)	(6,383)
Cash and cash equivalents at beginning of period	18,872	19,159
Cash and cash equivalents at end of period	$ 9,527	12,776
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 4,622	3,697
Income taxes	1,487	952
Supplemental disclosure of non-cash information:		
Non-cash consideration paid for acquisition of wealth management company (purchaser note)	2,475	—
Transfers from loans and leases to real estate owned	59	—

See accompanying notes to unaudited consolidated financial statements.

(Continued)

(1) Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In the opinion of Meridian Bank's (the "Bank") management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Bank's Annual Report for the twelve months ended December 31, 2016 (the "2016 Annual Report").

(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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income available to common shareholders	$ 1,109	$ 1,650	$ 1,877	$ 3,395
Denominator for basic earnings per share - weighted average shares outstanding	3,686	3,666	3,686	3,272
Effect of dilutive common shares	27	28	26	28
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	3,713	3,694	3,712	3,300
Basic earnings per share	$ 0.30	$ 0.45	$ 0.51	$ 1.04
Diluted earnings per share	$ 0.30	$ 0.45	$ 0.51	$ 1.03
Antidilutive shares excluded from computation of average dilutive earnings per share	50	96	50	96

(3) Business Combinations

HJ Wealth Management, LLC ("HJ Wealth")

The acquisition of HJ Wealth, a Pennsylvania-based wealth management firm, was completed on April 5, 2017. Immediately after the acquisition, HJ Wealth was merged into a new single member LLC, Meridian Wealth Partners, LLC. The consideration paid by the Bank was $5.7 million, of which $3.2 million was paid at closing, with a note payable of $2.5 million bearing interest at 3%. Interest and principal payments are due quarterly through April 1, 2020. The note payable may be reduced if certain contractual considerations are not met. The acquisition enhanced the Bank's ability to offer comprehensive wealth management and fiduciary services to clients.

In connection with the HJ Wealth acquisition, the following table details the consideration paid, the fair value of identifiable assets acquired as of the date of acquisition and the resulting goodwill recorded:

(dollars in thousands)

Consideration Paid:		
Cash paid at closing	$	3,025
Purchaser note		2,475
Seller fees paid by buyer		200
Value of consideration		5,700
Assets acquired:		
Intangible assets - trade name		266
Intangible assets - customer relationships		4,083
Intangible assets - non competition agreements		275
Contingent asset		177
Total assets		4,801
Goodwill resulting from acquisition of HJ Wealth	$	899

No liabilities were assumed in connection with the HJ Wealth acquisition.

Through September 30, 2017, $1.4 million of revenue is attributable to the acquisition.

All goodwill associated with the acquisition of HJ Wealth is included in the Banking segment in Footnote 14 to the financial statements.

(4) Goodwill and Other Intangibles

The Bank's goodwill and intangible assets related to the acquisition of HJ Wealth, LLC in April 2017 are detailed below:

(dollars in thousands)

	Balance December 31, 2016	Additions/ Adjustments	Amortization	Balance September 30, 2017	Amortization Period (in years)
Goodwill - Wealth	$ -	$ 899	$ -	$ 899	Indefinite
Total	$ -	$ 899	$ -	$ 899	
Intangible assets - trade name	$ -	$ 266	$ -	$ 266	Indefinite
Intangible assets - customer relationships	-	4,083	(102)	3,981	20
Intangible assets - non competition agreements	-	275	(34)	241	4
Contingent asset	-	177	-	177	N/A
Total	$ -	$ 4,801	$ (136)	$ 4,665	
Grand total	$ -	$ 5,700	$ (136)	$ 5,564	

The contingent asset is marked to fair value on a quarterly basis through the term of the purchaser note, April 1, 2020.

The Bank will perform its annual review of goodwill and identifiable intangible assets in the 4th quarter of 2017 in accordance with ASC 350, "Intangibles Goodwill and Other." For period from April 5, 2017 through September 30, 2017, the Bank determined there were no events that would necessitate impairment testing of goodwill and other intangible assets.

(5) Securities

The amortized cost and approximate fair value of securities as of September 30, 2017 and December 31, 2016 are as follows:

(dollars in thousands)		September 30th, 2017			
		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		21,452	67	(132)	21,387
U.S. government agency collateralized mortgage obligations		5,592	3	(38)	5,557
State and municipal securities		9,278	94	(54)	9,318
Investments in mutual funds and other equity securities		1,000	8	—	1,008
Total securities available-for-sale	$	37,322	172	(224)	37,270
Securities held to maturity:					
U.S. Treasuries	$	1,975	9	—	1,984
State and municipal securities		11,417	151		11,568
Total securities held-to-maturity	$	13,392	160	—	13,552

(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

At September 30, 2017, the Bank had twelve U.S. Government sponsored agency mortgage-backed securities, six U.S. Government sponsored agency collateralized mortgage obligations and five State and municipal securities in unrealized loss positions. 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. As of September 30, 2017, 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 September 30, 2017 and December 31, 2016:

(dollars in thousands)		September 30th. 2017 Less than 12 Months		12 Months or more		Total	
		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities							
U.S. government agency securities	$	—	—	—	—	—	—
U.S. government agency mortgage-backed securities		11,098	(123)	4,778	(47)	15,876	(170)
State and municipal securities		690	(7)	2,162	(47)	2,852	(54)
U.S. government agency collateralized mortgage obligations		—	—	—	—	—	—
Total securities	$	11,788	(130)	6,940	(94)	18,728	(224)

(dollars in thousands)	December 31, 2016					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities						
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	17,764	(500)	—	—	17,764	(500)
U.S. government agency collateralized mortgage obligations	1,167	(7)	—	—	1,167	(7)
Total securities	$ 28,615	(705)	3,392	(31)	32,007	(736)

The amortized cost and carrying value of securities at September 30, 2017 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)	September 30, 2017			
	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 1,000	1,008	-	-
Due after one year through five years	3,742	3,768	3,401	3,416
Due after five years through ten years	8,420	8,471	7,369	7,452
Due after ten years	24,160	24,023	2,622	2,684
	$ 37,322	37,270	13,392	13,552

(6) Loans Receivable

Loans and leases outstanding at September 30, 2017 and December 31, 2016 are detailed by category as follows:

(dollars in thousands)		September 30, 2017	December 31, 2016
Mortgage loans held for sale	$	32,350	39,573
Real estate loans:			
Commercial mortgage		248,955	225,564
Home equity lines and loans		84,187	85,385
Residential mortgage		33,587	30,295
Construction		91,283	65,846
Total real estate loans		458,012	407,090
Commercial and industrial		218,738	196,091
Consumer		307	450
Leases, net		885	1,469
Total portfolio loans and leases		677,942	605,100
Total loans and leases	$	710,292	644,673
Loans with predetermined rates	$	199,488	193,378
Loans with adjustable or floating rates		510,804	451,295
Total loans and leases	$	710,292	644,673
Net deferred loan origination (fees) costs	$	(1,608)	(809)

Components of the net investment in leases at September 30, 2017 and December 31, 2016 are detailed as follows:

(dollars in thousands)		September 30, 2017	December 31, 2016
Minimum lease payments receivable	$	925	1,550
Unearned lease income		(40)	(81)
Total	$	885	1,469

Age Analysis of Past Due Loans and Leases

The following table presents an aging of the Bank's loan and lease portfolio as of September 30, 2017 and December 31, 2016, respectively:

(dollars in thousands)

September 30, 2017	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	$ -	454	454	248,501	248,955	0.18%
Home equity lines and loans	89	374	463	83,724	84,187	0.55
Residential mortgage	325	961	1,286	32,301	33,587	3.83
Construction	-	219	219	91,064	91,283	0.24
Commercial and industrial	-	4,050	4,050	214,688	218,738	1.85
Consumer	-	-	—	307	307	—
Leases	54	126	180	705	885	20.34
	$ 468	6,184	6,652	671,290	677,942	0.98%

As of September 30, 2017, there were three leases with a total unpaid principal balance of $126,000, and one home equity line of credit with a total unpaid principal balance of $238,000 that were 90 days past due and still accruing.

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 with a total unpaid principal balance of $42,000 that were 90 days past due and still accruing.

(7) 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, for the three and nine month periods ended September 30, 2017 and 2016, respectively:

Nine months ended September 30, 2017

(dollars in thousands)	Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2016	$ 2,038	460	85	690	1,973	2	5	172	5,425
Charge-offs	(83)	(42)	—	—	(647)	—	—	—	(772)
Recoveries	16	46	2	—	193	4	—	—	261
Provision for loan and lease losses	409	(242)	(10)	791	672	(5)	2	(172)	1,445
Balance, September 30, 2017	$ 2,380	222	77	1,481	2,191	1	7	—	6,359

Nine months ended September 30, 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	—	(208)	(225)	—	(119)	—	—	—	(552)
Recoveries	13	25	3	2	32	3	—	—	78
Provision for loan and lease losses	257	171	64	79	137	(3)	1	152	858
Balance, September 30, 2016	$ 1,905	443	96	781	2,297	2	6	152	5,682

Three months ended September 30, 2017

(dollars in thousands)	Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Balance, June 30, 2017	$ 2,423	228	79	1,388	2,086	2	8	—	6,214
Charge-offs	(52)	—	—	—	(528)	—	—	—	(580)
Recoveries	—	52	—	—	7	1	—	—	60
Provision for loan and lease losses	9	(58)	(2)	93	626	(2)	(1)	—	665
Balance, September 30, 2017	$ 2,380	222	77	1,481	2,191	1	7	—	6,359

Three months ended September 30, 2016

(dollars in thousands)	Commercial mortgage	Home equity	Residential mortgage	Construction	Commercial & industrial	Consumer	Leases	Unallocated	Total
Balance, June 30, 2016	$ 1,902	436	73	567	2,205	1	7	52	5,243
Charge-offs	—	—	—	—	(117)	—	—	—	(117)
Recoveries	1	2	—	—	1	1	—	—	5
Provision for loan and lease losses	2	5	23	214	208	—	(1)	100	551
Balance, September 30, 2016	$ 1,905	443	96	781	2,297	2	6	152	5,682

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 September 30, 2017 and December 31, 2016:

September 30, 2017

(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	$	—	—	—	—	32	—	—	—	32
Collectively evaluated for impairment		2,380	222	77	1,481	2,159	1	7	—	6,327
Total	$	2,380	222	77	1,481	2,191	1	7	—	6,359

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		2,027	460	72	690	1,676	2	5	172	5,104
Total	$	2,038	460	85	690	1,973	2	5	172	5,425

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 September 30, 2017 and December 31, 2016:

September 30, 2017

(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	$	3,258	374	258	483	5,587	—	—	9,960
Collectively evaluated for impairment		245,697	83,813	22,578	90,800	213,151	307	885	657,231
Total	$	248,955	84,187	22,836	91,283	218,738	307	885	667,191

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

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 September 30, 2017 and December 31, 2016:

September 30, 2017 (dollars in thousands)		Pass	Special mention	Substandard	Doubtful	Total
Commercial mortgage	$	241,852	6,359	744	—	248,955
Home equity lines and loans		83,813	—	374	—	84,187
Construction		89,446	1,618	—	219	91,283
Commercial and industrial		205,514	8,438	3,540	1,246	218,738
Total	$	620,625	16,415	4,658	1,465	643,163

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

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 of September 30, 2017 and December 31, 2016. No Troubled debt restructurings performing according to modified terms are included in Performing Residential mortgages below as of September 30, 2017 and December 31, 2016.

September 30, 2017

(dollars in thousands)	Residential mortgage	Consumer	Leases	Total
Performing	$ 22,578	307	885	23,770
Nonperforming	258	—	—	258
Total	$ 22,836	307	885	24,028

At, September 30, 2017, there were three residential mortgage loans with a combined outstanding principal balance of $703 thousand, which were carried at fair value and not included in the table above.

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 for either of the periods presented below.

(dollars in thousands) September 30, 2017		Recorded investment	Principal balance	Related allowance	Average principal balance
Impaired loans with related allowance:					
Commercial mortgage	$	—	—	—	—
Commercial and industrial		1,152	1,152	32	1,152
Home equity lines and loans		—	—	—	—
Residential mortgage		—	—	—	—
Construction		—	—	—	—
Total		1,152	1,152	32	1,152
Impaired loans without related allowance:					
Commercial mortgage	$	3,258	3,258	—	3,260
Commercial and industrial		4,435	3,407	—	3,221
Home equity lines and loans		513	513	—	513
Residential mortgage		258	258	—	258
Construction		483	483	—	483
Total		8,947	7,919	—	7,735
Grand total	$	10,099	9,071	32	8,887

(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

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 etermination 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 September 30, 2017 and December 31, 2016 are as follows:

(dollars in thousands)

	September 30, 2017	December 31, 2016
TDRs included in nonperforming loans and leases	$ 3,254	3,482
TDRs in compliance with modified terms	2,093	2,279
Total TDRs	$ 5,347	5,761

The following table presents information regarding loan and lease modifications granted during the nine months ended September 30, 2017 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 and industrial	1	169	169	-
	1	169	169	-

No loan modifications granted during the nine months ended September 30, 2017 subsequently defaulted during the same time period.

The following table presents information regarding loan and lease modifications granted during the nine months ended September 30, 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	2	407	407	-
Commercial and industrial	1	2,240	2,240	-
Leases	-	-	-	-
	3	2,647	2,647	-

No loan modifications granted during the nine months ended September 30, 2016 subsequently defaulted during the same time period.

The following tables present information regarding the types of loan and lease modifications made for the nine months ended September 30, 2017 and the nine months ended September 30, 2016:

September 30, 2017	Loan Term Extension
Commercial mortgage	-
Commercial and industrial	1
Total	1

September 30, 2016	Interest Rate Change	Loan Term Extension	Interest Rate Change and Loan Term Extension
Commercial mortgage		1	1
Commercial and industrial	1	-	-
Total	1	1	1

(8) Deposits

The components of deposits at September 30, 2017 and December 31, 2016 are as follows:

(dollars in thousands)		September 30 2017	December 31 2016
Demand, noninterest bearing	$	101,061	96,102
Demand, interest-bearing		80,420	70,582
Savings Accounts		211	180
Money market accounts		210,720	173,870
Time, $100,000 and over		214,913	177,866
Time, other		10,357	8,536
Total	$	617,682	527,136

At September 30, 2017, the scheduled maturities of time deposits are as follows (in thousands):

2017	$	39,458
2018		133,090
2019		48,418
2020		3,739
2021		466
After 2021		99
	$	225,270

(9) 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 $20,000,000, respectively. The first $5,000,000 and $15,000,000, 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 June 30, 2017 and December 31, 2016, respectively. The Bank also has a facility with the Federal Reserve discount window of $12,410,837. This facility is secured by investment securities and loans. There were no borrowings under this facility at September 30, 2017.

Short-term borrowings as of September 30, 2017 consisted of short-term advances from FHLB of Pittsburgh in the amount of $76,005,000 with interest at 1.27%, $1,190,000 with interest at 0.78% $2,500,000 with an original term of 5 years and interest at 1.92%, $1,000,000 with an original term of 4 years and interest at 1.68%, and $1,300,000 with an original term of 4 years and interest at 1.55%.

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.

Long-term debt at September 30, 2017 and December 31, 2016 consisted of the following fixed rate notes with the FHLB of Pittsburgh:

(dollars in thousands)	Maturity date	Interest Rate	Balance as of September 30, 2017	Balance as of December 31, 2016
Mid-term Repo-fixed	08/10/20	2.76%	5,000	5,000
Mid-term Repo-fixed	09/17/18	1.92%	—	2,500
Mid-term Repo-fixed	03/28/18	1.68%	—	1,000
Mid-term Repo-fixed	03/28/18	1.55%	—	1,300
Mid-term Repo-fixed	06/26/19	1.70%	1,800	1,800
Mid-term Repo-fixed	10/29/18	0.97%	1,200	1,200
Acquisition Purchase Note	04/01/20	3.00%	2,269	—
		$	10,269	12,800

The FHLB of Pittsburgh has also issued $43,600,000 of letters of credit to the Bank for the benefit of the Bank's public deposit funds and loan customers. These letters of credit expire throughout 2017.

The Bank has a maximum borrowing capacity with the FHLB of Pittsburgh of $359,055,587 as of September 30, 2017. All advances and letters of credit from the FHLB are secured by qualifying assets of the Bank.

(10) Stock-Based Compensation

The Bank has issued stock options under the 2004 Stock Option Plan, which is no longer in effect. The Plan authorized the Board of Directors to grant options up to an aggregate of 446,091 shares, as adjusted for 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. 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 2016 5% stock dividend. A total of 48,750 shares have been granted under the 2016 plan through September 30, 2017. 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.

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period. The fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk-free interest rate and annual dividend yield.

The following table provides information about options outstanding for the nine months ended September 30, 2017:

	Shares		Average exercise price
Outstanding at December 31, 2016	169,358		13.70
Exercised	(1,037)		9.88
Granted	48,750		19.00
Expired	(1,276)		10.19
Forfeited	—		-
Outstanding at September 30, 2017	215,795		14.94
Exercisable at September 30, 2017	132,621	$	13.72

The weighted average remaining contractual life of the outstanding stock options at September 30, 2017 is 7.8 years. The weighted average remaining life of options exercisable at September 30, 2017 is 7.0 years. The range of exercise prices is $9.88 to $19.00. The aggregate intrinsic value of options outstanding and exercisable was $519,099 as of September 30, 2017.

The fair value of each option granted in 2017 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 2.17%, expected life of 7 years, and expected volatility of 19.45%. 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 2017 was $4.05 per share.

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.

Total stock compensation cost for the nine months ended September 30, 2017 was $132,224. During the nine months ended September 30, 2017, there were no tax benefits recognized related to stock compensation cost.

As of September 30, 2017, there was no unrecognized compensation cost related to nonvested stock options.

(11) Accounting for Uncertainty in Income Taxes

The Bank recognizes the financial statement benefit of a tax position only after determining that the Bank would be more likely than not to sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the relevant tax authority.

The Bank is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Bank is no longer subject to U.S. federal income tax examination by taxing authorities for years before 2013.

The Bank's policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued for the nine month periods ended September 30, 2017. It is management's belief that there are no uncertain tax positions with respect to Federal or State tax returns to which the Bank is subject to examination.

(12) 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 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 is 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.

(Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017			
(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	21,387	—	21,387	—
U.S. government agency collateralized mortgage obligations	5,557	—	5,557	—
State and municipal securities	9,318	—	9,318	—
Investments in mutual funds and other equity securities	1,008	—	1,008	—
Mortgage loans held-for-sale	32,350	—	32,350	—
Loans held-for-investment	10,479	—	10,479	—
Interest rate lock commitments	515	—	515	—
Total	$ 80,614	—	80,614	—

	December 31, 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	$ 82,593	—	82,593	—

Assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2017 and December 31, 2016 are as follows:

(dollars in thousands)	September 30, 2017 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$ 10,099	—	—	10,099
Other real estate owned (1)	59	—	—	59
Total	$ 10,158	—	—	10,158

(dollars in thousands)	December 31, 2016 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$ 6,387	—	—	6,387
Other real estate owned (1)	—	—	—	—
Total	$ 6,387	—	—	6,387

(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 September 30, 2017 and December 31, 2016 are as follows:

(dollars in thousands)	Fair Value Hierarchy Level	September 30, 2017 Carrying amount	September 30, 2017 Fair value	December 31, 2016 Carrying amount	December 31, 2016 Fair value
Financial assets:					
Cash and cash equivalents	Level 1	$ 9,527	9,527	18,872	18,872
Securities available-for-sale	Level 2	37,270	37,270	33,027	33,027
Securities held to maturity	Level 2	13,392	13,552	14,525	14,345
Loans held for sale	Level 2	32,350	32,350	39,573	39,573
Loans receivable, net	Level 3	669,975	663,017	598,866	588,140
Derivative financial instruments	Level 2	547	547	677	677
Restricted investment in bank stock	Level 3	6,792	6,792	7,355	7,355
Accrued interest receivable	Level 3	2,044	2,044	2,123	2,123
Financial liabilities:					
Deposits	Level 2	617,682	607,945	527,136	517,854
Short-term borrowings	Level 2	81,995	81,995	105,553	105,553
Long-term debt	Level 2	10,269	10,395	12,800	12,818
Subordinated debentures	Level 2	13,376	13,039	13,376	12,887
Accrued interest payable	Level 2	379	379	194	194
Derivative financial instruments	Level 3	—	—	15	15

(13) 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 within mortgage banking income on the consolidated statements of income.

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

	September 30, 2017		December 31, 2016	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(dollars in thousands)			
Interest Rate Lock Commitments				
Positive fair values	$ 58,815	$ 566	$ 50,423	$ 721
Negative fair values	5,782	(51)	3,687	(44)
Net interest rate lock commitments	$ 64,597	$ 515	$ 54,110	$ 677
Forward Commitments				
Positive fair values	$ 40,500	$ 55	$ 9,750	$ 61
Negative fair values	14,500	(23)	15,750	(76)
Net forward commitments	$ 55,000	$ 32	$ 25,500	$ (15)
Net derivative fair value asset	$ 119,597	$ 547	$ 79,610	$ 662

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Interest rate lock commitments	$ (423)	$ (582)	$ (162)	$ 482
Forward commitments	(80)	271	47	(137)
Net fair value (losses)gains on derivative financial instruments	$ (503)	$ (311)	$ (115)	$ 345

Realized losses on derivatives were $278,000 and $748,000 for the three months ended September 30, 2017 and 2016, respectively, and $845,000 and $2.1 million for the nine months ended September 30, 2017 and 2016, respectively.

(14) Segments

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

(Continued)

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.

	Three Months Ended September 30, 2017		
(dollars in thousands)	**Meridian Bank**	**Meridian Mortgage**	**Consolidated**
Net interest income	$ 7,221	$ 120	$ 7,341
Provision for loan losses	(665)	-	(665)
Net interest income after provision	6,556	120	6,676
Non-interest Income			
Service charges on deposits	22	-	22
Other fee income	248	87	335
Wealth management	934	-	934
Mortgage fees (margin)	67	9,199	9,266
Mortgage document prep & processing fees	-	637	637
Boli income	83	-	83
Net change in the fair value of loans held-for-sale	-	(115)	(115)
Net change in the fair value of loans held-for-investment	-	71	71
Net change in the fair value of derivative instruments	-	(503)	(503)
Realized losses on derivative instruments	-	(278)	(278)
Gain on sale of loans	-	(2)	(2)
Gain on sale of securites	-	-	-
Total non-interest income	1,354	9,096	10,450
Non-interest Expense			
Salaries and employee benefits	3,648	6,682	10,330
Occupancy & equipment	601	391	992
Professional services	399	82	481
FDIC expense	183	-	183
Loan expenses	69	931	1,000
Other	1,564	462	2,026
Total non-interest expense	6,464	8,548	15,012
Operating Margin	$ 1,446	$ 668	$ 2,114

(dollars in thousands)	Nine Months Ended September 30, 2017		
	Meridian Bank	Meridian Mortgage	Consolidated
Net interest income	$ 20,803	$ 302	$ 21,105
Provision for loan losses	(1,445)	-	(1,445)
Net interest income after provision	19,358	302	19,660
Non-interest Income			
Service charges on deposits	62	-	62
Other fee income	649	280	929
Wealth management	1,905	-	1,905
Mortgage fees (margin)	68	23,357	23,425
Mortgage document prep & processing fees	-	1,664	1,664
Boli income	194	-	194
Net change in the fair value of loans held-for-sale	-	102	102
Net change in the fair value of loans held-for-investment	-	113	113
Net change in the fair value of derivative instruments	-	(115)	(115)
Realized losses on derivative instruments	-	(845)	(845)
Gain on sale of loans	86	(2)	84
Gain on sale of securites	4	-	4
Total non-interest income	2,968	24,554	27,522
Non-interest Expense			
Salaries and employee benefits	10,730	19,023	29,753
Occupancy & equipment	1,718	1,100	2,818
Professional services	1,068	316	1,384
FDIC expense	479	-	479
Loan expenses	481	2,527	3,008
Other	4,060	1,555	5,615
Total non-interest expense	18,536	24,521	43,057
Operating Margin	$ 3,790	$ 335	$ 4,125

(Continued)

(dollars in thousands)	Three Months Ended September 30, 2016 Meridian Bank	Meridian Mortgage	Consolidated
Net interest income	$ 6,487	$ 294	$ 6,781
Provision for loan losses	(551)	-	(551)
Net interest income after provision	5,936	294	6,230
Non-interest Income			
Service charges on deposits	19	-	19
Other fee income	218	471	689
Wealth management	142	-	142
Mortgage fees (margin)	-	12,225	12,225
Mortgage document prep & processing fees	-	720	720
Boli income	31	-	31
Net change in the fair value of loans held-for-sale	-	166	166
Net change in the fair value of loans held-for-investment	-	221	221
Net change in the fair value of derivative instruments	-	(311)	(311)
Realized losses on derivative instruments	-	(748)	(748)
Gain on sale of OREO	12	-	12
Gain on sale of loans	130	-	130
Gain on sale of securites	3	-	3
Total non-interest income	555	12,744	13,299
Non-interest Expense			
Salaries and employee benefits	3,325	8,249	11,574
Occupancy & equipment	418	344	762
Professional services	430	138	568
FDIC expense	(10)	-	(10)
Loan expenses	72	1,914	1,986
Other	1,051	617	1,668
Total non-interest expense	5,286	11,262	16,548
Operating Margin	$ 1,205	$ 1,776	$ 2,981

(Continued)

(dollars in thousands)	Nine Months Ended September 30, 2016 Meridian Bank	Meridian Mortgage	Consolidated
Net interest income	$ 18,272	$ 743	$ 19,015
Provision for loan losses	(858)	-	(858)
Net interest income after provision	17,414	743	18,157
Non-interest Income			
Service charges on deposits	47	-	47
Other fee income	593	1,321	1,914
Wealth management	298	-	298
Mortgage fees (margin)	-	28,734	28,734
Mortgage document prep & processing fees	-	1,903	1,903
Boli income	94	-	94
Net change in the fair value of loans held-for-sale	-	383	383
Net change in the fair value of loans held-for-investment	-	221	221
Net change in the fair value of derivative instruments	-	345	345
Realized losses on derivative instruments	-	(2,101)	(2,101)
Gain on sale of OREO	12	-	12
Gain on sale of loans	125	-	125
Gain on sale of securites	3	-	3
Total non-interest income	1,172	30,806	31,978
Non-interest Expense			
Salaries and employee benefits	9,379	20,475	29,854
Occupancy & equipment	1,042	1,100	2,142
Professional services	904	270	1,174
FDIC expense	474	-	474
Loan expenses	198	4,911	5,109
Other	3,034	1,784	4,818
Total non-interest expense	15,031	28,540	43,571
Operating Margin	$ 3,555	$ 3,009	$ 6,564

(Continued)

(15) Recent Litigation

On October 31, 2017, two former employees of the mortgage-banking division of the Bank filed suit in the Philadelphia Court of Common Pleas, *Weissenberg et al. v. Meridian Bank*, against the Bank seeking unpaid commissions pursuant to a breach of contract claim and liquidated damages under the Pennsylvania Wage Payment and Collection Law. The aggregate amount of such damages set forth in the complaint was approximately $325,000. The plaintiffs also sought reimbursement for their attorneys' fees and costs. The Bank settled the claim in the fourth quarter of 2017 for damages of $137,000, with accrued and unbilled legal expenses capped at the Bank's insurance deductible of $50,000. Based on the settled claim and insurance policy in place, total expense related to the claim will not exceed $187,000.

(16) Recent Accounting Pronouncements

As an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), Meridian Bank is permitted an extended transition period for complying with new or revised accounting standards affecting public companies. We will remain an emerging growth company until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of $1,070,000,000 or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of this offering, (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt and (iv) the end of the fiscal year in which the market value of our equity securities that are held by non-affiliates exceeds $700 million as of June 30 of that year. We have elected to take advantage of this extended transition period, which means that the financial statements included herein, as well as any financial statements that we file in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as we remain an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period under the JOBS Act. If we do so, we will prominently disclose this decision in the first periodic report following our decision, and such decision is irrevocable. As a filer under the JOBS Act, we will implement new accounting standards subject to the effective dates required for non-public entities.

FASB ASU No. 2014-09 (Topic 606), "Revenue from Contracts with Customers"

Issued in May 2014, ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016- 08, "Principal versus Agent Considerations (Reporting Gross versus Net)," which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers and 2016-12, Narrow-Scope Improvements and Practical Expedients, both of which provide additional clarification of certain provisions in Topic 606. These Accounting Standards Codification ("ASC") updates are effective for public companies for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method. For non-public companies, the ASC updates are effective for annual reporting periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019. The Bank is currently in the process of evaluating all revenue streams, accounting policies, practices and reporting to identify and understand any impact on the Bank's Consolidated Financial Statements. Our preliminary evaluation suggests that adoption of this guidance is not expected to have a material effect on our Consolidated Financial Statements.

FASB ASU 2017-04 (Topic 350), "Intangibles – Goodwill and Others"

Issued in January 2017, ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. ASU 2017-04 is

effective for public companies for annual periods beginning after December 15, 2019 including interim periods within those periods. ASU 2017-04 is effective for non-public companies for annual periods beginning after December 15, 2021 including interim periods within those periods. The Bank is evaluating the effect that ASU 2017-04 will have on its consolidated financial statements and related disclosures.

FASB ASU 2017-01 (Topic 805), "Business Combinations"

Issued in January 2017, ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for public companies for annual periods beginning after December 15, 2017 including interim periods within those periods, while for non-public companies the ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Bank is evaluating the effect that ASU 2017-01 will have on its consolidated financial statements and related disclosures.

FASB ASU 2016-15 (Topic 320), "Classification of Certain Cash Receipts and Cash Payments"

Issued in August 2016, ASU 2016-15 provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt, contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the Predominance principle. 2016-15 is effective for public companies for the annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. For non-public companies ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Bank is currently evaluating the impact of this guidance and does not anticipate a material impact on its consolidated financial statements.

FASB ASU 2016-13 (Topic 326), "Measurement of Credit Losses on Financial Instruments"

Issued in June 2016, ASU 2016-13 significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities. ASU 2016-13 is effective for public companies for the annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted. For non-public companies the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within the fiscal years beginning after December 31, 2021. The Bank is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

FASB ASU 2016-02 (Topic 842), "Leases"

Issued in February 2016, ASU 2016-02 revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for public companies for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. For non-public companies the ASU is effective for for fiscal years beginning after December 15, 2019, and interim periods within the fiscal years beginning after December 31, 2020. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Bank is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

FASB ASU 2016-01 (Subtopic 825-10), "Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities"

Issued in January 2016, ASU 2016-01 provides that equity investments will be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment's observable price. For financial liabilities that are measured at fair value, the amendment requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. For public companies, ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For non-public companies the ASU is effective for for fiscal years beginning after December 15, 2018, and interim periods within the fiscal years beginning after December 31, 2019. Early adoption is permitted. Entities may apply this guidance on a prospective or retrospective basis. The Bank is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

FASB ASU 2017-08 (Subtopic 310-20), "Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"

Issued in March 2017, ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendment requires the premium to be amortized to the earliest call date. The amendments does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. For non-public companies the ASU is effective for for fiscal years beginning after December 15, 2019, and interim periods within the fiscal years beginning after December 31, 2020. The Bank is evaluating the effect that ASU 2017-08 will have on its consolidated financial statements and related disclosures.

FASB ASU 2017-12 (Subtopic 815), "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities"

Issued in August 2017, ASU 2017-12 better aligns hedge accounting with an organization's risk management activities in the financial statements. In addition, the ASU simplifies the application of hedge accounting guidance in areas where practice issues exist. Specifically, the proposed ASU eases the requirements for effectiveness testing, hedge documentation and application of the shortcut and the critical terms match methods. Entities would be permitted to designate contractually specified components as the hedged risk in a cash flow hedge involving the purchase or sale of nonfinancial assets or variable rate financial instruments. In addition, entities would no longer separately measure and report hedge ineffectiveness. Also, entities, may choose refined measurement techniques to determine the changes in fair value of the hedged item in fair value hedges of benchmark interest rate risk. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the ASU for existing hedging relationships on the date of adoption and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date). The Bank has evaluated ASU 2017-12, and has determined it has no activities for which it plans to implement the ASU in the near future.

(17) Subsequent Events

Initial Public Offering

On November 9, 2017, we closed an initial public offering ("IPO") of 2,705,882 shares of our common stock at an initial offering price of $17.00 per share, and, on November 13, 2017, we issued an additional 352,941 shares pursuant to the underwriters' option to purchase additional shares of our common stock at the initial offering price of $17.00 per share, resulting in gross proceeds to us of $45.9 million ($42.8 million net of expenses). The offer

and sale of the common stock was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) the Securities Act of 1933.

Tax Reform Legislation

On December 20, 2017, Congress passed H.R.1, dealing with tax reform. Of primary impact to the Bank would be the bill's reduction of the corporate tax rate from 34 percent to 21 percent. Due to the recency of the passage of the bill and the fact that it has not yet been signed into law, we are evaluating its impact to our financial statements and related disclosures, which may be material.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis in conjunction with the unaudited consolidated interim financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the quarter ended June 30, 2017 included in the final prospectus for our initial public offering ("IPO") dated as of November 6, 2017 and filed with the Federal Deposit Insurance Corporation (the "FDIC") on November 6, 2017 (the "November 2017 Prospectus").

Cautionary Statement Regarding Forward-Looking Statements

Meridian Bank (the "Bank") may from time to time make written or oral "forward-looking statements," including statements contained in the Bank's filings with the FDIC (including this Quarterly Report on Form 10-Q and the exhibits thereto), in its reports to stockholders and in other communications by the Bank, which are made in good faith by the Bank pursuant to the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the "Exchange Act").

These forward-looking statements involve risks and uncertainties, such as statements of the Bank's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Bank's control). The following factors, among others, could cause the Bank's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Bank conducts operations; the effects of, and changes in monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; market volatility; the value of our products and services as perceived by actual and prospective customers, including the features, pricing and quality compared to competitors' products and services; loss of management and key personnel; failure of our controls and procedures; inability to close loans in our pipeline; operational risks, including the risk of fraud by employees, customers or outsiders; our borrowers' ability to repay their loans; changes in the real estate market that can affect real estate that serves as collateral for some of our loans; the adequacy of our allowance for loan losses and our methodology for determining such allowance; the willingness of customers to substitute competitors' products and services for the Bank's products and services; the impact of changes in applicable laws and regulations; changes in technology or interruptions and breaches in security of our information systems; the impact of any acquisitions; changes in consumer spending and saving habits; and the success of the Bank at managing the risks involved in the foregoing.

The Bank cautions that the foregoing list of important factors is not exclusive. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank, except as required by applicable law or regulation.

Throughout this document, references to "we," "us," or "our" refer to the Bank and its consolidated subsidiaries.

Brief History of the Bank

Founded in 2004, Meridian Bank is a full-service, state-chartered commercial bank with offices in the greater Philadelphia metropolitan market. Our teams of experienced lenders service small and middle market businesses throughout our market area. We promote electronic banking, minimizing branch visits and reduce people and paper costs. We have a modern, progressive consultative approach to creating innovative solutions. We provide a high degree of service, convenience and products our customers need to achieve their financial objectives, through commercial and commercial real estate, cash management and merchant solutions, homeowner mortgages and trusted advice regarding financial planning and management of wealth.

As a full-service community bank, Meridian offers products to meet our retail and commercial customer's needs through three principal business line unit distribution channels. Our primary focus is to serve small and middle-market businesses and their executives, entrepreneurs, real estate investors, professionals and high net worth individuals with a variety of financial services and solutions, while maintaining a disciplined approach to risk management. We have invested heavily in commercial lenders and operations personnel to take advantage of what we believe would be significant account turnover among banks due to local merger activity.

Corporate Structure and Business Line Units

The bank is the parent to three wholly-owned subsidiaries: Meridian Land Settlement Services, which provides title insurance services; Apex Realty, a real estate holding company; and Meridian Wealth Partners, LLC, a registered investment advisory firm, which we refer to as Meridian Wealth. With these subsidiaries, the bank is organized into the following three lines of business.

Commercial Banking

Our traditional banking operations serving both commercial and consumer customers via deposits and cash management, commercial and industrial lending, commercial real estate lending, shared national credit participations, consumer and home equity lending, merchant services, and title and land settlement services.

Typical borrowers include:

- Commercial clients operating in manufacturing, industry and retail markets
- Commercial real estate clients focused on investment properties, land development for both commercial and residential construction
- Consumer and commercial depositors
- Consumers seeking home equity finance options
- Shared national credit participations/syndications (SNCs)

Our commercial and industrial lending department supports our small business and middle market borrowers with a comprehensive selection of loan products including financing solutions for wholesalers, manufacturers, distributors, service providers, importers, exporters, among others. Our portfolio includes business lines of credit, term loans, small business lending (SBA), lease financing and SNCs.

Our alliances with local economic development councils provide SBA and other financing options to help grow local businesses, create and retain jobs and stimulate our local economy. In addition, Meridian understands that connections with the local professional industries benefits the bank, not only with these individuals as customers or investors, but also given the proven potential for business referrals.

We have a strong credit culture that promotes diversity of lending products with a focus on commercial businesses. We have no particular credit concentration. Our commercial loans have been proactively managed in an effort to achieve a balanced portfolio with no unusual exposure to one industry.

The extensive backgrounds of our commercial real estate lending team, not only in banking, but also directly in the builder/developer fields, bring a unique perspective and ability to communicate and consider all elements of a project and related risk from the clients' and our viewpoint. The commercial real estate portfolio consists of permanent/amortizing loans, owner-occupied commercial real estate loans and land development and construction loans for residential and commercial projects. Our approach is to apply disciplined and integrated standards to underwriting, credit and portfolio management.

Mortgage Banking

A division of the bank, where our mortgage consultants guide our clients through the complex process of obtaining a loan to meet individual specific needs. Originations consist of consumer for-sale mortgage lending, loans to be held within our portfolio, and wholesale mortgage lending services. Clients include homeowners and smaller scale investors. The bank's mortgage division operates and originates approximately 90% of its mortgage loans in the Pennsylvania, New Jersey and Delaware markets, most typically for 1-4 family dwellings, with the intention of the bank to principally sell substantially all of these loans in the secondary market to qualified investors. Mortgages are originated through sales and marketing initiatives, as well as realtor, builder, bank, advertising and customer referral resources. The bank utilizes a web-based loan origination system for origination, secondary pricing/lock-in, processing, closing, post-closing and government reporting. The division's main origination, processing, underwriting, closing and post-closing functions are performed at the Plymouth Meeting mortgage headquarters with 14 other production/processing offices.

(Continued)

The division plans on a steady, managed growth policy of deliberate production locations and personnel hiring. From time to time opportunities exist that we may take advantage of by establishing new production offices that we would not normally consider because of their location outside our primary market, but because of the quality of individuals involved, we would consider opening a mortgage loan production office for them or assuming these personnel into our current network.

Wealth Management and Advisory Services

Meridian Wealth, a registered investment advisor and wholly-owned subsidiary of the bank, provides a comprehensive array of wealth management services and products and the trusted guidance to help its clients and our banking customers prepare for the future. Such clients include professionals, higher net worth individuals, companies seeking to provide benefits plans for their employees, and more. Acquiring and sustaining wealth is a gradual progression, one that requires a considerable amount of thought and planning. Our process takes a comprehensive approach to financial planning and encompasses all aspects of retirement, with an emphasis on sustainability. Meridian Wealth acquired HJ Wealth Management, LLC ("HJ Wealth") in April 2017. This newly combined group brings together the experience of Meridian's own advisors, with their direct access to banking products and services and the breadth and long experience of HJ Wealth's management and staff.

Founded in 2000 by certified public accountants, HJ Wealth's proprietary analytical system, the Progression of Wealth®, is a discipline that connects the management of wealth to meaningful personal goals. HJ Wealth's client-first perspective made them a perfect match for Meridian's own business philosophy.

Following this acquisition, Meridian Wealth provides a significant enhancement to both our capacity and the variety of tools we can use to help bring effective financial planning and wealth management services to a broad segment of customers. It also enhances the opportunity for future organic growth and other possible acquisitions in these increasingly important services to offer our customers.

Critical Accounting Policies, Judgments and Estimates

Our accounting and reporting policies conform to GAAP and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgements are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgements inherent in those policies, are critical in understanding our financial statements.

These policies include (i) determining the provision and allowance for loan and lease losses, (ii) the valuation of intangible assets and goodwill, and (iii) the determination of fair value for financial instruments. Management has presented the application of these policies to the audit committee of our board of directors.

These critical accounting policies, along with other significant accounting policies, are presented in in Note 1 of Meridian's Consolidated Financial Statements as of and for the years ended December 31, 2016 and 2015.

Recent Acquisitions

As discussed previously, Meridian Bank acquired HJ Wealth Management, LLC in April 2017.

Executive Overview

The following items highlight the Banks's results of operations for the three and nine months ended September 30, 2017, as compared to the same periods in 2016, and the changes in its financial condition as of September 30, 2017 as compared to December 31, 2016. More detailed information related to these highlights can be found in the sections that follow.

Three Month Results of Operations

- Net income for the three months ended September 30, 2017 was $1.4 million, a decrease of $500 thousand as compared to net income of $1.9 million for the same period in 2016. Diluted earnings per share was $0.30 for the three months ended September 30, 2017 as compared to $0.45 for the same period in 2016.

- Return on average equity (“ROE”) and return on average assets (“ROA”) for the three months ended September 30, 2017 were 7.77% and 0.70%, respectively, as compared to ROE and ROA of 11.57% and 1.05%, respectively, for the same period in 2016.

- Net interest income increased $561 thousand, or 8.2%, to $7.3 million for the three months ended September 30, 2017, as compared to $6.8 million for the same period in 2016.

- Provision for loan and lease losses (the “Provision”) of $665 thousand for the three months ended September 30, 2017 was an increase of $114 thousand from the $551 thousand Provision recorded for the same period in 2016.

- Noninterest income of $10.5 million for the three months ended September 30, 2017 was a $2.8 million decrease from the same period in 2016.

- Mortgage banking income decreased $3.0 million, or 23.5%, to $9.9 million for the three months ended September 30, 2017, as compared to $12.9 million for the same period in 2016.

- Noninterest expense of $15.0 million for the three months ended September 30, 2017 decreased $1.5 million, from $16.5 million for the same period in 2016.

Nine Month Results of Operations

- Net income for the nine months ended September 30, 2017 was $2.7 million, a decrease of $1.6 million as compared to net income of $4.3 million for the same period in 2016. Diluted earnings per share was $0.51 for the nine months ended September 30, 2017 as compared to $1.03 for the same period in 2016.

- ROE and ROA for the nine months ended September 30, 2017 were 5.24% and 0.49%, respectively, as compared to ROE and ROA of 9.10% and 0.84%, respectively, for the same period in 2016.

- Net interest income increased $2.1 million, or 11.0%, to $21.1 million for the nine months ended September 30, 2017, as compared to $19.0 million for the same period in 2016.

- The Provision of $1.4 million for the nine months ended September 30, 2017 was an increase of $587 thousand from $858 thousand for the same period in 2016.

- Noninterest income of $27.5 million for the nine months ended September 30, 2017 was a $4.5 million decrease from the same period in 2016.

- Mortgage banking income decreased $5.5 million, or 18.1%, to $25.1 million for the nine months ended September 30, 2017, as compared to $30.6 million for the same period in 2016.

- Noninterest expense of $43.1 million for the nine months ended September 30, 2017 decreased $514 thousand, from $43.6 million for the same period in 2016.

Changes in Financial Condition

- Total assets of $803.9 million as of September 30, 2017 increased $70.2 million from December 31, 2016.

- Shareholders’ equity of $72.2 million as of September 30, 2017 increased $2.2 million from $70.0 million as of December 31, 2016.

- Total portfolio loans and leases as of September 30, 2017 were $676.3 million, an increase of $72.0 million from the December 31, 2016 balance.

- Total non-performing loans and leases of $6.2 million represented 0.91% of portfolio loans and leases as of September 30, 2017 as compared to $5.3 million, or 0.88% of portfolio loans and leases as of December 31, 2016.

- The $6.4 million Allowance, as of September 30, 2017, represented 0.94% of portfolio loans and leases, as compared to $5.4 million, or 0.90% of portfolio loans and leases as of December 31, 2016.

- Total deposits of $617.7 million as of September 30, 2017 increased $90.5 million from $527.1 million as of December 31, 2016.

Key Performance Ratios

Key financial performance ratios for the three and nine months ended September 30, 2017 and 2016 are shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Annualized return on average equity	7.77%	11.57%	5.24%	9.10%
Annualized return on average assets	0.70%	1.05%	0.49%	0.84%
Net interest margin (TEY)	3.91%	3.85%	3.94%	3.90%
Basic earnings per share	$ 0.30	$ 0.45	$ 0.51	$ 1.04
Diluted earnings per share	$ 0.30	$ 0.45	$ 0.51	$ 1.03

The following table presents certain key period-end balances and ratios as of September 30, 2017 and December 31, 2016:

(dollars in millions, except per share amounts)	**September 30, 2017**	**December 31, 2016**
Book value per share	$ 16.11	$ 15.50
Allowance as a percentage of loans and leases held for investment	0.94 %	0.90 %
Tier I capital to risk weighted assets	9.20 %	10.62 %
Tangible common equity ratio [(1)]	6.74 %	7.78 %
Loans held for investment	$ 676.3	$ 604.3
Total assets	$ 803.9	$ 733.7
Shareholders' equity	$ 72.2	$ 70.0

(1) Tangible common equity ratio is a non-GAAP financial measure. See "Non-GAAP Financial Measures" for a reconciliation of this measure to its most comparable GAAP measure.

Non-GAAP Financial Measures

Some of the financial measures included in this Quarterly Report on Form 10-Q are not measures of financial performance recognized by GAAP. These non-GAAP financial measures include the "tangible common equity" ratio. Our management used the measure of the tangible common equity ratio to assess our capital strength. We believe that this non-GAAP financial measure is useful to investors because, by removing the impact of our preferred stock, goodwill and other intangible assets, it allows investors to more easily assess our capital adequacy. This non-GAAP financial measure should not be considered a substitute for any regulatory capital ratios and may not be comparable to other similarly titled measures used by other companies. The table below provides the non-GAAP reconciliation for our tangible common equity ratio:

Tangbile common equity ratio:	September 30, 2017	December 31, 2016
Total stockholders' equity	72,234	69,963
Less:		
Preferred stock	12,845	12,845
Goodwill	899	-
Intangible assets	4,665	-
Tangible common equity	53,825	57,118
Total assets	803,906	733,693
Less:		
Goodwill	899	-
Intangible assets	4,665	-
Tangible assets	798,342	733,693
Tangible common equity ratio	6.74%	7.78%

The following sections discuss, in detail, the Bank's results of operations for the three and nine months ended September 30, 2017, as compared to the same periods in 2016, and the changes in its financial condition as of September 30, 2017 as compared to December 31, 2016.

Components of Net Income

Net income is comprised of five major elements:

- **Net Interest Income**, or the difference between the interest income earned on loans, leases and investments and the interest expense paid on deposits and borrowed funds;
- **Provision For Loan and Lease Losses**, or the amount added to the Allowance to provide for estimated inherent losses on portfolio loans and leases;
- **Noninterest Income,** which is made up primarily of mortgage banking revenue, wealth management revenue, gains and losses from the sale loans, gains and losses from the sale of investment securities available for sale and other fees from loan and deposit services;
- **Noninterest Expense**, which consists primarily of salaries and employee benefits, occupancy, loan expenses, professional fees and other operating expenses; and
- **Income Taxes**, which include state and federal jurisdictions.

NET INTEREST INCOME

Net interest income is an integral source of the Bank's revenue. The below tables present a summary, for the three and nine months ended September 30, 2017 and 2016, of the Bank's average balances and tax-equivalent yields earned on its interest-earning assets and the tax-equivalent rates paid on its interest-bearing liabilities. The tax-equivalent net interest margin is the tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread is the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of noninterest-bearing liabilities represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity.

Net interest income increased $561 thousand, or 8.2%, to $7.3 million for the three months ended September 30, 2017, compared to $6.8 million for the three months ended September 30, 2016. This improvement resulted from the growth in average interest-earning assets of $44.7 million, in addition to a rise in the tax equivalent net interest margin of 5 basis points to 3.88% in the 2017 period from 3.83% in the 2016 period. Interest income increased $1.1 million, or 13.1%, to $9.2 million for the three months ended September 30, 2017 compared to $8.1 million for the three months ended September 30, 2016. This increase was due to the growth in the average balances of loans between periods of $40.9 million as well as the average yield on loans increasing 29 basis points to 5.11% in the three months ended September 30, 2017 from 4.82% in the three months ended September 30, 2016. The increase in yield is the result of prime rate increases as 47% of our loan portfolio reprices in three months or less. Interest expense increased $505 thousand, or 37.5%, to $1.8 million for the three months ended September 30, 2017, compared to $1.3 million for the three months ended September 30, 2016. This increase was due to additional interest expense for both deposits and borrowings. The increase in deposit interest of $355 thousand was predominantly due to higher rates paid on both market and time deposits of 18 basis points and 27 basis points, respectively, in addition to an average balance increase in money market accounts of $41.7 million. Certificates of deposit average balances remained relatively stable at $187 million. The increase in borrowing interest amounted to $150 thousand and was driven by higher borrowing costs which moved the yield 70 basis points to 1.47% for the three months ended September 30, 2017 from 0.77% for the three months ended September 30, 2016. The average borrowing utilization for same comparable period dropped $19.9 million as borrowed funds were replaced with lower costing branch deposits.

For the nine months ended September 30, 2017, net interest income increased $2.1 million, or 11.0%, to $21.1 million for the nine months ended September 30, 2017, as compared to $19.0 million for the same period in 2016. The increase in net interest income between the periods was related to the increase in yield earned on loans and leases of 14 basis points, along with the $61.3 million increase in average loans and leases for the nine months ended September 30, 2017 as compared to the same period in 2016. The increase in yield is the result of prime rate increases as 47% of our loan portfolio reprices in three months or less. Interest expense increased $961 thousand, or 25.0%, to $4.8 million for the nine months ended September 30, 2017, compared to $3.8 million for the nine months ended September 30, 2016. This increase was due to additional interest expense for both deposits and borrowings. The increase in deposit interest of $498 thousand was predominantly due to higher rates paid on both market and time deposits of 12 basis points and 15 basis points, respectively, in addition to an average balance increase in money market accounts of $28.2 million. Certificates of deposit average balances declined by $16.3 million period over period. The increase in borrowing interest amounted to $463 thousand and was driven by higher borrowing costs which moved the yield 38 basis points to 1.32% for the nine months ended September 30, 2017 from 0.94% for the nine months ended September 30, 2016.

Analyses of Interest Rates and Interest Differential

The tables below present the major asset and liability categories on an average daily balance basis for the periods presented, along with interest income, interest expense and key rates and yields on a tax equivalent basis.

For the Three Months Ended September 30,	2017			2016		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yields/ rates	Average Balance	Interest Income/ Expense	Yields/ rates
Assets						
Interest-earning assets						
Due from banks	$ 3,642	$ 11	1.20%	$ 8,020	$ 15	0.74%
Federal funds sold	945	3	1.26%	291	-	0.44%
Investment securities[(1)]	50,774	292	2.28%	44,838	245	2.17%
Loans held for sale	33,816	333	3.91%	98,489	873	3.53%
Loans held for investment[(1)]	659,430	8,596	5.17%	553,901	7,037	5.05%
Total loans	693,246	8,929	5.11%	652,390	7,910	4.82%
Total interst-earning assets	748,607	$ 9,235	4.89%	705,539	$ 8,170	4.61%
Noninterest earning assets	40,051			26,076		
Total assets	$ 788,658			$ 731,615		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 83,165	$ 135	0.64%	$ 79,322	$ 88	0.44%
Money market and savings deposits	214,956	499	0.92%	173,169	324	0.74%
Time deposits	187,642	573	1.21%	187,195	441	0.94%
Total deposits	485,763	1,207	0.99%	439,686	853	0.77%
Short-term borrowings	95,669	326	1.35%	113,783	177	0.62%
Long-term borrowings	12,388	74	2.37%	14,165	72	2.02%
Total Borrowings	108,057	400	1.47%	127,948	249	0.77%
Subordinated Debentures	13,376	244	7.24%	13,445	245	7.25%
Total interest-bearing liabilities	607,196	$ 1,851	1.21%	581,079	$ 1,347	0.92%
Noninterest-bearing deposits	101,611			77,349		
Other noninterest-bearing liabilities	8,472			6,524		
Total liabilities	$ 717,279			$ 664,952		
Total stockholders' equity	71,379			66,663		
Total stockholders' equity and liabilities	$ 788,658			$ 731,615		
Net interest income		$ 7,384			$ 6,823	
Net interest spread			3.68%			3.68%
Net interest margin			3.91%			3.85%

(1) *Yields and net interest income are reflected on a tax-equivalent basis.*

(Continued)

For the Nine Months Ended September 30,	2017			2016		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yields/ rates	Average Balance	Interest Income/ Expense	Yields/ rates
Assets						
Interest-earning assets						
Due from banks	$ 6,765	$ 49	0.97%	$ 8,987	$ 49	0.73%
Federal funds sold	836	6	0.96%	841	3	0.48%
Investment securities[1]	49,526	828	2.24%	43,630	710	2.17%
Loans held for sale	28,419	833	3.92%	74,362	2,050	3.68%
Loans held for investment[1]	634,951	24,329	5.12%	527,748	20,161	5.10%
Total loans	663,370	25,162	5.07%	602,110	22,211	4.93%
Total interst-earning assets	720,497	$ 26,045	4.83%	655,568	$ 22,973	4.68%
Noninterest earning assets	34,340			22,713		
Total assets	$ 754,837			$ 678,281		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 76,618	$ 304	0.53%	$ 78,216	$ 245	0.42%
Money market and savings deposits	210,593	1,356	0.86%	182,427	1,010	0.74%
Time deposits	177,215	1,418	1.07%	193,553	1,326	0.92%
Total deposits	464,426	3,078	0.89%	454,196	2,581	0.76%
Short-term borrowings	88,711	788	1.19%	60,802	316	0.69%
Long-term borrowings	12,650	215	2.27%	15,131	221	1.95%
Total Borrowings	101,361	1,003	1.32%	75,933	537	0.94%
Subordinated Debentures	13,376	725	7.25%	13,445	728	7.23%
Total interest-bearing liabilities	579,163	$ 4,806	1.11%	543,574	$ 3,846	0.95%
Noninterest-bearing deposits	99,001			66,706		
Other noninterest-bearing liabilities	6,731			5,425		
Total liabilities	$ 684,895			$ 615,705		
Total stockholders' equity	69,942			62,576		
Total stockholders' equity and liabilities	$ 754,837			$ 678,281		
Net interest income		$ 21,239			$ 19,127	
Net interest spread			3.72%			3.74%
Net interest margin			3.94%			3.90%

(1) *Yields and net interest income are reflected on a tax-equivalent basis.*

Rate/Volume Analysis (tax-equivalent basis)

The rate/volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the three and nine months ended September 30, 2017 as compared to the same period in 2016, allocated by rate and volume. Changes in interest income and/or expense attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of the change in each category.

	2017 Compared to 2016					
	Three Months Ended September 30,			Nine Months Ended September 30,		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Due from banks	$ 32	$ (36)	$ (4)	$ 18	$ (18)	$ -
Federal funds sold	1	2	3	3	-	3
Investment securities[1]	13	34	47	20	98	118
Loans held for sale	568	(1,108)	(540)	204	(1,421)	(1,217)
Loans held for investment[1]	170	1,389	1,559	79	4,089	4,168
Total loans	738	281	1,019	283	2,668	2,951
Total interest income	$ 784	$ 281	$ 1,065	$ 324	$ 2,748	$ 3,072
Interest expense:						
Interest checking	$ 43	$ 4	$ 47	$ 67	$ (8)	$ 59
Money market and savings deposits	87	88	175	178	168	346
Time deposits	131	1	132	261	(169)	92
Total interest-bearing deposits	261	93	354	506	(9)	497
Short-term borrowings	329	(180)	149	287	185	472
Long-term borrowings	43	(41)	2	46	(52)	(6)
Total borrowings	372	(221)	151	333	133	466
Subordinated debentures	-	(1)	(1)	2	(5)	(3)
Total interest expense	633	(129)	504	841	119	960
Interest differential	$ 151	$ 410	$ 561	$ (517)	$ 2,629	$ 2,112

(1) *Yields and net interest income are reflected on a tax-equivalent basis.*

Interest Rate Sensitivity

The Bank actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. The Bank's Asset Liability Committee ("ALCO"), using policies and procedures approved by the Bank's Board of Directors, is responsible for the management of the Bank's interest rate sensitivity position. The Bank manages interest rate sensitivity by changing the mix, pricing and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms and through wholesale funding. Wholesale funding consists of multiple sources including borrowings from the FHLB, the Federal Reserve Bank of Philadelphia's discount window and certificates of deposit from institutional brokers, including the Certificate of Deposit Account Registry Service ("CDARS").

The Bank uses several tools to measure its interest rate risk including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios and tax-equivalent net interest margin trend reports. The results of these reports are compared to limits established by the Corporation's ALCO policies and appropriate adjustments are made if the results are outside the established limits.

The following table demonstrates the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock", in the yield curve and subjective adjustments in deposit pricing, might have on the Bank's projected net interest income over the next 12 months.

This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next 12 months. The changes to net interest income shown below are in compliance with the Bank's policy guidelines.

Summary of Interest Rate Simulation

	Change in Net Interest Income Over the Twelve Months Beginning After September 30, 2017			Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2016		
		Amount	Percentage		Amount	Percentage
+300 basis points	$	296	1.08%	$	467	1.86%
+200 basis points	$	200	0.73%	$	290	1.16%
+100 basis points	$	105	0.38%	$	128	0.51%
-100 basis points	$	(786)	(2.86)%	$	(401)	(1.60)%

The above interest rate simulation suggests that the Bank's balance sheet is asset sensitive as of September 30, 2017, which is similar to the December 31, 2016 simulation. The asset sensitivity table indicates that a 100, 200 or 300 basis point increase in interest rates would have a positive impact on net interest income over the next 12 months. The simulated exposure to a change in interest rates is contained and manageable and the results are consistent with our strategy of increasing relationship-based retail and business accounts (core deposits) and opportunistically utilizing term deposits to fund short to medium duration assets.

Gap Analysis

Management measures and evaluates the potential effects of interest rate movements on earnings through an interest rate sensitivity "gap" analysis. Given the size and turnover rate of the originated mortgage loans held for sale, loans held for sale are treated as having a maturity of 12 months or less. Interest rate sensitivity reflects the potential effect on net interest income when there is movement in interest rates. An institution is considered to be asset sensitive, or having a positive gap, when the amount of its interest-earning assets repricing within a given period exceeds the amount of its interest-bearing liabilities also repricing within that time period. Conversely, an institution is considered to be liability sensitive, or having a negative gap, when the amount of its interest-bearing liabilities repricing within a given period exceeds the amount of its interest-earning assets also within that time period. During a period of rising interest rates, a negative gap would tend to decrease net interest income, while a positive gap would tend to increase net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to decrease net interest income.

The following table presents the interest rate gap analysis of our assets and liabilities as of September 30, 2017.

As of September 30, 2017 (in thousands)	12 Months or Less	1-2 Years	2-5 Years	Greater Than 5 years and Not Rate Sensitive	Total
Cash and investments	$ 18,342	$ 6,554	$ 8,188	$ 27,105	$ 60,189
Loans, net (1)	404,912	70,258	186,825	40,330	702,325
Other Assets	-	-	-	41,392	41,392
Total Assets	423,254	76,812	195,013	108,827	803,906
Liabilities and Equity:					
Noninterest-bearing deposits	11,498	10,191	24,138	55,373	101,200
Interest-bearing deposits	237,657	26,830	26,830	-	291,317
Time deposits	158,040	62,596	4,529	-	225,165
FHLB advances	82,098	3,000	7,166	13,376	105,640
Other Liabilities	-	-	-	8,350	8,350
Total stockholders' equity	-	-	-	72,234	72,234
Total liabilities and stockholders' equity	$ 489,293	$ 102,617	$ 62,663	$ 149,333	$ 803,906
Repricing gap-positive					
(Negative) Positive	(66,039)	(25,805)	132,350	(40,506)	-
Cumulative repricing gap: Dollar amount	$ (66,039)	$ (91,844)	$ 40,506	$ -	$
Percent of total assets	-8.21%	-11.42%	5.04%		

[1] *Loans include portfolio loans and loans held for sale*

Under the repricing gap analysis for both periods, we are liability-sensitive in the short-term mainly due to recent loan growth which has out-paced our deposit growth. In addition, customer preference has been for short-term or liquid deposits. We generally manage our interest rate risk profile close to neutral, therefore our strategy is focused on increasing our concentration of relationship-based transaction accounts. To that end, and accordance with our business plan, we opened three deposit taking branches and hired three new business development officers in 2016 and for the first nine months of 2017. The gap results presented could vary substantially if different assumptions are used or if actual experience differs from the assumptions used in the preparation of the gap analysis. Furthermore, the gap analysis provides a static view of interest rate risk exposure at a specific point in time and offers only an approximate estimate of the relative sensitivity of our interest- earning assets and interest-bearing liabilities to changes in market interest rates. In addition, the impact of certain optionality is embedded in our balance sheet such as contractual caps and floors, and trends in asset and liability growth. Accordingly, we combine the use of gap analysis with the use of an earnings simulation model that provides a dynamic assessment of interest rate sensitivity.

PROVISION FOR LOAN AND LEASE LOSSES

For the three months ended September 30, 2017, the Bank recorded a Provision of $665 thousand which was a $114 thousand increase from the same period in 2016. Net charge-offs for the three months ended September 30, 2017 were $520 thousand as compared to $113 thousand for the same period in 2016. The increased provision for the period relates in part to the loss incurred for a single commercial loan as well as the general component of the allowance for loan losses relative to the growth in our commercial loan portfolios.

For the nine months ended September 30, 2017, the Bank recorded a Provision of $1.4 million, which was a $587 thousand increase from the same period in 2016. Net charge-offs for the nine months ended September 30, 2017 were $511 thousand as compared to $474 thousand for the same period in 2016. The provision of $1.4 million was the result of several factors, including the $72.0 million increase in loans during the nine-month period. Additonally, management refined the allowance methodology, which included lengthening the period used to determine historical loss factors and implementing a quantitative framework for certain considerations that were previously included in qualitative factors. This refinement contributed to the higher provision for the nine-month period ended September 30, 2017.

Asset Quality and Analysis of Credit Risk

As of September 30, 2017, total nonperforming loans and leases increased by $861 thousand, to $6.2 million, representing 0.91% of loans and leases held-for-investment, compared to $5.3 million, or 0.88% of loans and leases held-for-investment as of December 31, 2016. The increase to nonperforming loans resulted from the addition of $2.4 million in new non-performing loans partially offset by pay-offs and pay-downs of $1.1 million, charge-offs of $266 thousand, and foreclosures taken to OREO of $59 thousand. Loans and leases classified as non-performing as of December 31, 2016 totaling $174 thousand returned to performing status during the period.

As of September 30, 2017, the Allowance of $6.4 million represented 0.94% of loans and leases held-for-investment, a four basis point increase from 0.90% as of December 31, 2016. The allowance to non-performing loans increased from 101.92% as of December 31, 2017 to 102.83% as of September 30, 2017.

As of September 30, 2017, the Bank had OREO valued at $59 thousand, as compared to $0 as of December 31, 2016 One commercial real estate loan was foreclosed and the $59 thousand collateral was taken into OREO. During the nine months ended September 30, 2017, there were no impairments on OREO. The balance of OREO as of September 30, 2017 was comprised of the aforementioned foreclosure, which consists of two properties. All properties are recorded at the lower of cost or fair value less cost to sell.

As of September 30, 2017, the Bank had $5.3 million of troubled debt restructurings (“TDRs”), of which $2.1 million were in compliance with the modified terms and excluded from non-performing loans and leases. As of December 31, 2016, the Bank had $5.8 million of TDRs, of which $2.3 million were in compliance with the modified terms, and were excluded from non-performing loans and leases.

As of September 30, 2017, the Bank had a recorded investment of $10.0 million of impaired loans and leases which included $5.3 million of TDRs. Impaired loans and leases are those for which it is probable that the Bank will not be able to collect all scheduled principal and interest in accordance with the original terms of the loans and leases. Impaired loans and leases as of December 31, 2016 totaled $6.4 million, which included $5.8 million of TDRs. Refer to Note 7 in the Notes to unaudited consolidated Financial Statements for more information regarding the Bank’s impaired loans and leases.

The Bank continues to be diligent in its credit underwriting process and proactive with its loan review process, including the engagement of the services of an independent outside loan review firm, which helps identify developing credit issues. Proactive steps that are taken include the procurement of additional collateral (preferably outside the current loan structure) whenever possible and frequent contact with the borrower. The Bank believes that timely identification of credit issues and appropriate actions early in the process serve to mitigate overall risk of loss.

Nonperforming Assets and Related Ratios

(dollars in thousands)	As of September 30, 2017		As of December 31, 2016	
Non-performing assets:				
Nonaccrua loans:				
Real estate loans:				
Commercial mortgage	$	454	$	892
Commercial land development		219		219
Home equity lines and loans		137		132
Residential mortgage		961		298
Commercial construction		-		-
Total real estate loans	$	1,771	$	1,541
Commercial and industrial		4,050		3,740
Shared national commercial credits		-		-
Consumer		-		-
Lease financing		-		-
Total nonaccrual loans	$	5,821	$	5,281
Loans 90 days or more past due and accruing		363		42
Other real estate owned		59		-
Total non-performing loans	$	6,184		5,323
Total non-performing assets	$	6,243		5,323
Troubled debt restructurings:				
TDRs included in non-performing loans		3,252		3,482
TDRs in compliance with modified terms		2,092		2,279
Total TDRs	$	5,344	$	5,761
Asset quality ratios:				
Non-performing assets to total assets		0.78%		0.73%
Non-performing loans to:				
Total loans		0.87%		0.83%
Total loans held-for-investment		0.91%		0.88%
Allowance for loan losses to:				
Total loans		0.90%		0.84%
Total loans held-for-investment		0.94%		0.90%
Non-performing loans		102.83%		101.92%
Total loans and leases	$	708,684	$	643,864
Total loans and leases held-for-investment	$	676,334	$	604,291
Allowance for loan and lease losses	$	6,359	$	5,425

(Continued)

NONINTEREST INCOME

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Non-interest income decreased $2.8 million, or 21.4%, to $10.5 million for the three months ended September 30, 2017 compared to $13.3 million during the same quarter of the prior year. The decrease was attributable to a $3.7 million decrease in mortgage division revenue as a result of lower levels of mortgage originations and sales caused in part by the rate environment, lower levels of housing inventory and a decrease in mortgage loan origination personnel. This decline in revenue was partially offset by an increase of $831 thousand in wealth management revenue as a result of the wealth company acquisition in the second quarter and modest increases in other fee income.

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Noninterest income for the nine months ended September 30, 2017 decreased by $4.5 million from the same period in 2016. The decrease is attributable mainly to a decrease in mortgage banking income of $5.5 million. The decrease was partially offset by a $1.6 million increase in fees for wealth management services. The decrease in mortgage banking income was attributable to lower levels of mortgage originations and sales caused in part by the rate environment, lower levels of housing inventory and a decrease in mortgage loan origination personnel. The increase in fees for wealth management services is attributable to the acquisition of HJ Wealth in the second quarter of 2017.

NONINTEREST EXPENSE

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Non-interest expenses decreased $1.5 million, or 9.3%, to $15.0 million for the three months ended September 30, 2017 from $16.5 million in the third quarter of 2016. This decrease was principally due to lower levels of salaries and employee benefits, loan fees and other expenses related to the mortgage division, which decreased a combined $2.7 million period over period, partially offset by increased salaries and employee benefits expense for the bank, as well as higher costs relative to occupancy, business development and other expenses noted above, all related to our strategic growth plan.

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Noninterest expense for the nine months ended September 30, 2017 decreased $514 thousand from the same period in 2016. Loan expenses decrease by $2.1 million from the same period in 2016 due to the decrease in mortgage origination volume. Offsetting the decrease in loan expenses were increases in occupancy and equipment, professional fees and data processing of $676 thousand, $210 thousand and $475 thousand respectively. The increases in occupancy and equipment and data processing are related to the expansion of the retail branch structure, while the increase in professional fees is related to the acquisition of HJ Wealth.

INCOME TAXES

Income tax expense for the three months ended September 30, 2017 was $716 thousand, as compared to $1.0 million for the same period in 2016. The tax expense recorded reflects a decrease in the effective tax rate from 35.0% for the third quarter of 2016 to 33.9% for the third quarter of 2017. The decrease in effective tax rate for the three months ended September 30, 2017 as compared to the same period in 2016 was due to a larger percentage of tax-exempt income in relation to our pre-tax income during the three month ended September 30, 2017 compared the prior year quarter. Income tax expense differs from the amount determined at the statutory rate of 34.0% due to state income taxes owed in states which the bank has nexus, tax-exempt income on loans and investment securities, Meridian's ownership of BOLI policies, tax benefits on the exercise of stock options and tax credits recognized on low-income housing projects.

Income tax expense for the nine months ended September 30, 2017 was $1.4 million, as compared to $2.3 million for the same period in 2016. The tax expense recorded reflects a decrease in the effective tax rate from 35.1% for the nine months ended September 30, 2016 to 33.5% for the nine months ended September 30, 2017. The decrease in effective tax rate for the three months ended September 30, 2017 as compared to the same period in 2016 was due to a larger percentage of tax-exempt income in relation to our pre-tax income during the three month ended September 30, 2017 compared the prior year quarter. Income tax expense differs from the amount determined at the statutory rate of 34.0% due to state income taxes owed in states which the bank has nexus, tax-exempt income on loans and investment securities, Meridian's ownership of BOLI policies, tax benefits on the exercise of stock options and tax credits recognized on low-income housing projects.

(Continued)

BALANCE SHEET ANALYSIS

Total assets increased $70.2 million, or 9.6%, to $803.9 million at September 30, 2017 from $733.7 million at December 31, 2016. This growth was concentrated in our loan portfolio which increased by $64.8 million or 10.1% along with investments in bank owned life insurance and a wealth advisory subsidiary. Investment securities increased $3.1 million or 6.5% during the period. Our overall asset growth was funded by an increase in deposits of $90.5 million or 17.2%.

Loans held for investment increased $72.0 million, or 11.9%, to $676.3 million at September 30, 2017 from $604.3 million at December 31, 2016. This growth occurred across all commercial loan categories, which increased a combined $70.0 million or 14.4% for the three months ended September 30, 2017 as well as residential loans held for investment, which increased $3.3 million or 10.8% for the same period. These increases were modestly offset by a decrease in home equity loans of $1.2 million or 1.4%. The growth in the commercial portfolios reflect work of our strategically expanded lending team as well as strong local market conditions. At September 30, 2017, loans held for sale, which consists of closed residential first mortgage loans which the Bank has committed to sell to investors, totaled $32.4 million compared to $39.6 million at December 31, 2016. This decrease has been indicative of the lower levels of originations experienced all year.

Deposits increased $90.5 million, or 17.2%, to $617.7 million at September 30, 2017 from $527.1 million at December 31, 2016. This growth was across all deposit categories. Non-maturity deposits, consisting of demand deposits, NOW accounts, money market accounts and regular savings accounts increased $51.7 million, or 15.2%. The increase in non-maturity deposits resulted from the work of our strategically expanded business development team as well as the efforts from all sales personnel in our new branch markets. Non-maturity deposits at the three new branches totaled $77.2 million at September 30, 2017, up $53.9 million from December 31, 2016. Certificates of deposit increased $38.9 million or 20.9% to $225.3 million. This increase was due to both special rate programs as well as wholesale funding.
Total equity increased $2.2 million, or 3.3%, to $72.2 million at September 30, 2017 from $70.0 million at December 31, 2016. This increase was entirely attributable to the net income of $2.7 million for the nine months ended September 30, 2017, along with the increase in the unrealized gain on investment securities of $274 thousand, partially offset by dividends to preferred shareholders of $867 thousand.

Capital

Consolidated shareholder's equity of the Bank was $72.2 million, or 9.0% of total assets as of September 30, 2017, as compared to $70.0 million, or 9.5% of total assets as of December 31, 2016. The following table presents the Corporation's and Bank's capital ratios and the minimum capital requirements to be considered "Well Capitalized" by regulators as of September 30, 2017 and December 31, 2016:

	September 30, 2017					
(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)	$ 87,649	11.93%	$ 63,377	8.625%	$ 73,480	10.00%
Common equity tier 1 capital (to risk-weighted assets)	54,792	7.46%	37,659	5.125%	47,762	6.50%
Tier 1 capital (to risk-weighted assets)	67,637	9.20%	48,681	6.625%	58,784	8.00%
Tier 1 capital (to average assets)	67,637	8.68%	31,170	4.000%	38,963	5.00%

(dollars in thousands)	December 31, 2016					
	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%

* Includes capital conservation buffer of 0.625%.

The capital ratios for the Bank, as of September 30, 2017, as shown in the above tables, indicate levels above the regulatory minimum to be considered "well capitalized." The capital ratios to risk-weighted assets have all decreased from their December 31, 2016 levels largely as a result of the increase in risk-weighted assets, much of which was in the commercial mortgage, construction, and commercial and industrial segments of the loan portfolio, which are typically risk-weighted at 100%.

Liquidity

Management maintains liquidity to meet depositors' needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Meridian's foundation for liquidity is a stable and loyal customer deposit base, cash and cash equivalents, a marketable investment portfolio that provides periodic cash flow through regular maturities and amortization, or that can be used as collateral to secure funding. In addition, as part of its liquidity management, Meridian maintains a segment of commercial loan assets that are comprised of SNCs, which have a national market and can be sold in a timely manner. Meridian's primary liquidity, which totaled $116.4 million at September 30, 2017 compared to $112 million at December 31, 2016 includes investments, SNCs, Federal funds sold, mortgages held-for-sale and cash and cash equivalents, less the amount of securities required to be pledged for certain liabilities. Meridian also anticipates scheduled payments and prepayments on its loan and mortgage-backed securities portfolios. In addition, Meridian maintains borrowing arrangements with various correspondent banks, the FHLB and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Through its relationship at the Federal Reserve, Meridian had available credit of approximately $12.4 million at September 30, 2017. As a member of the FHLB, we are eligible to borrow up to a specific credit limit, which is determined by the amount of our residential mortgages, commercial mortgages and other loans that have been pledged as collateral. As of September 30, 2017, Meridian's maximum borrowing capacity with the FHLB was $359.1 million. At September 30, 2017, Meridian had borrowed $90.0 million and the FHLB had issued letters of credit, on Meridian's behalf, totaling $43.6 million against its available credit lines. At September 30, 2017, Meridian also had available $30.0 million of unsecured federal funds lines of credit with other financial institutions as well as $80.4 million of available short or long term funding through the Certificate of Deposit Account Registry Service (CDARS) program and $57.1 million of available short or long term funding through brokered CD arrangements. Management believes that Meridian has adequate resources to meet its short-term and long-term funding requirements.

Discussion of Segments

The Corporation has two principal segments as defined by FASB ASC 280, "*Segment Reporting.*" The segments are Banking and Mortgage Banking (see Note 14 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Banking Segment recorded net income before tax ("operating income") of $1.4 million and $3.8 million for the three and nine months ended September 30, 2017, respectively, as compared to operating income of $1.2 million and $3.6 million for the same respective periods in 2016. The Banking Segment provided 68.4% and 91.9% of the Bank's pre-tax profit for both the three and nine month periods ended September 30, 2017, respectively, as compared to 40.4% and 54.2% for the same respective periods in 2016.

The Mortgage Banking Segment recorded operating income of $668 thousand and $335 thousand for the three and nine months ended September 30, 2017, respectively, as compared to operating income of $1.8 million and $3.0 million, respectively, for the same periods in 2016. The Mortgage Banking Segment provided 31.6% and 8.1% of the Bank's pre-tax profit for the three and nine

month periods ended September 30, 2017, respectively, as compared to 59.6% and 45.8% for the same respective periods in 2016. For the three and nine month periods ended September 30, 2017, both Mortgage Banking income and expenses decreased due to a decline in origination volume.

Off Balance Sheet Risk

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 standby letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Total commitments to extend credit at September 30, 2017 were $221.5 million, as compared to $195.2 million at December 31, 2016.

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in granting loan facilities to customers. The Bank's obligation under standby letters of credit at September 30, 2017 amounted to $2.8 million, as compared to $1.8 million at December 31, 2016.

Estimated fair values of the Corporation's off-balance sheet instruments are based on fees and rates currently charged to enter into similar loan agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Since fees and rates charged for off-balance sheet items are at market levels when set, there is no material difference between the stated amount and the estimated fair value of off-balance sheet instruments.

Recent Litigation

On October 31, 2017, two former employees of the mortgage-banking division of the bank filed suit in the Philadelphia Court of Common Pleas, *Weissenberg et al. v. Meridian Bank*, against the bank seeking unpaid commissions pursuant to a breach of contract claim and liquidated damages under the Pennsylvania Wage Payment and Collection Law. The aggregate amount of such damages set forth in the complaint was approximately $325,000. The plaintiffs also sought reimbursement for their attorneys' fees and costs. The bank settled the claim in the fourth quarter of 2017 for damages of $137,000, with accrued and unbilled legal expenses capped at Meridian's insurance deductible of $50,000. Based on the settled claim and insurance policy in place, total expense related to the claim will not exceed $187,000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

See the discussion of quantitative and qualitative disclosures about market risks in the Bank's 2017 Offering Circular, as updated by the disclosure in "Management's Discussion and Analysis of Results of Operations – Interest Rate Summary," "– Interest Rate Sensitivity," and "Gap Analysis" in this quarterly report on Form 10-Q.

Disclosure Controls and Procedures

Management, with the participation of the Bank's President and Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of the design and operation of the Bank's disclosure controls and procedures (as defined in Rule l3a-l5 (e) promulgated under the Exchange Act) as of September 30, 2017. Based on this evaluation, the Bank's President and Chief Executive Officer and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures are effective as of September 30, 2017 to ensure that the information required to be disclosed by the Bank in the reports that the Bank files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in FDIC rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in the Bank's internal control over financial reporting identified during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II–OTHER INFORMATION

Item 1. Legal Proceedings.

On October 31, 2017, two former employees of the mortgage-banking division of the bank filed suit in the Philadelphia Court of Common Pleas, *Weissenberg et al. v. Meridian Bank*, against the bank seeking unpaid commissions pursuant to a breach of contract claim and liquidated damages under the Pennsylvania Wage Payment and Collection Law. The aggregate amount of such damages set forth in the complaint was approximately $325,000. The plaintiffs also sought reimbursement for their attorneys' fees and costs. The bank settled the claim in the fourth quarter of 2017 for damages of $137,000, with accrued and unbilled legal expenses capped at Meridian's insurance deductible of $50,000. Based on the settled claim and insurance policy in place, total expense related to the claim will not exceed $187,000.

Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On November 9, 2017, we closed our IPO of 2,705,882 shares of our common stock at an initial offering price of $17.00 per share, and, on November 13, 2017, we issued an additional 352,941 shares pursuant to the underwriters' option to purchase additional shares of our common stock at the initial offering price of $17.00 per share, resulting in gross proceeds to us of $45.9 million. The offer and sale of the common stock was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) the Securities Act of 1933.

Sandler O'Neill + Partners, L.P. acted as sole book-running manager for the offering. Keefe, Bruyette & Woods, Inc., a Stifel Company, and D.A. Davidson & Co. acted as co-managers. The offering commenced on November 9, 2017 and, following the sale of the shares upon the closing of the IPO, the offer terminated.

The net proceeds to us, after deducting underwriting discounts and commission of $3.1 million were $42.8 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10% or more of any class of our equity securities or to any other affiliates.

There has been no material change in the planned use of proceeds from our IPO from those disclosed in the final prospectus for our IPO dated as of November 6, 2017 and filed with the FDIC on November 6, 2017.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed or incorporated by reference as part of this report are listed in the Exhibit Index, which appears at page 63.

SIGNATURES

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

Meridian Bank

Date: December 21, 2017

By: /s/ Christopher J. Annas
Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Denise Lindsay
Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Executive Officer
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Financial Officer
32	Section 1350 Certifications

(Continued)

Exhibit 31.1

RULE 13A-14(a) CERTIFICATION
OF THE PRINCIPAL EXECUTIVE OFFICER

I, Christopher J. Annas, President and Chief Executive Officer of Meridian Bank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Meridian Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 21, 2017

/s/ Christopher J. Annas
Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

(Continued)

Exhibit 31.2

**RULE 13A-14(a) CERTIFICATION
OF THE PRINCIPAL FINANCIAL OFFICER**

I, Denise Lindsay, Executive Vice President and Chief Financial Officer of Meridian Bank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Meridian Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 21, 2017

/s/ Denise Lindsay
Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

(Continued)

Exhibit 32

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Meridian Bank on Form 10-Q for the period ended September 30, 2017 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Meridian Bank.

/s/ Christopher J. Annas
Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Denise Lindsay
Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: December 21, 2017