



2006 MERIDIAN BANK ANNUAL REPORT  
ACCOMPLISHMENT BASED ON INNOVATION



**Meridian**Bank™



## TO OUR SHAREHOLDERS:

I am pleased to report that net income for the past year increased to \$841 thousand from a loss of \$689 thousand in 2005. This improvement resulted from expansion in all areas of our business and from achieving greater penetration of our target market. Meridian has developed a solid business base in Chester County and the Main Line region, which will enable us to continue our steady growth.

Total interest income more than doubled to \$7.4 million, resulting from robust growth in our loan portfolio. We now have eight experienced loan officers building relationships with local companies to continue this expansion. Deposits increased 59% over the year to support loan growth. At the same time, our infrastructure costs remained well controlled and allowed us to leverage this growth to a profitable position.

## OTHER MERIDIAN BANK 2006 HIGHLIGHTS INCLUDED:

- Raising \$10 million in a secondary stock offering at \$12 per share, up from our opening price of \$10 per share. The new capital will support our growth through 2008 and assure strong regulatory capital ratios.
- Opening a second banking office in West Chester in a high-visibility location which shares space with a popular community art gallery. This unique concept has been very well received by the local business community.
- Fully embracing check imaging technology. Our iPosit™ scanner streamlines the deposit process, allowing us to build full deposit

relationships with important business customers sited far from our office locations. Currently, we have over 30 scanners deployed.

Meridian is well-positioned to become a major banking company in our target market and to take advantage of the many opportunities that the rapidly changing nature of banking is sure to provide. I thank you for your support.

A handwritten signature in black ink, appearing to read "C. Annas".

CHRISTOPHER J. ANNAS  
Chairman & CEO

# | 2006 HIGHLIGHTS

>>  
02

“MERIDIAN IS WELL-POSITIONED TO BECOME  
A MAJOR BANKING COMPANY IN OUR TARGET  
MARKET AND TO TAKE ADVANTAGE OF THE  
MANY OPPORTUNITIES THAT THE RAPIDLY  
CHANGING NATURE OF BANKING IS SURE  
TO PROVIDE.”

## MERIDIAN BANK:

- Raised \$10 million in a second capital solicitation.
- Opened new Banking Office in downtown West Chester, PA.
- Achieved \$144 million in assets.
- Grew Loan Portfolio to over \$100 million.
- Pioneered deployment of Remote Capture technology.

**ACCOMPLISHMENT** BASED ON INNOVATION

Meridian's goal is **BANKING INNOVATION**. We make Meridian profitable by finding ever better ways to make our customers' financial lives easier and more profitable.



**Judy Garber** has never set foot in a Meridian Bank office. But with the help of our iPosit™ technology, she runs the complex financial affairs of the 1600-member National Association of Oil Heating Service Managers from her Lancaster County farmhouse.



The Traffic Safety Store, a unique West Chester wholesale distributor, won a 2006 Forbes Enterprise Award, being judged superior to all peers in its business category. **Will Snook**, president, awards equally high marks to his business bank, Meridian.



Meridian doesn't need a huge bricks-and-mortar footprint to deliver superior customer service. Our growth will continue to be fueled through special people serving the needs of special customers.

# | 2006 STATEMENT OF OPERATIONS

(unaudited\*)

>>  
04

(Dollars in Thousands)	QUARTER ENDED		YEAR ENDED	
	Dec 31 2006	Dec 31 2005	Dec 31 2006	Dec 31 2005
<b>Interest Income</b>				
Interest and fees on loans	\$ 2,083	\$ 1,145	\$ 6,994	\$ 3,173
Investments	121	103	428	410
Total interest income	2,204	1,248	7,422	3,583
<b>Interest Expense</b>				
Deposits	1,115	627	3,587	1,653
Borrowings	14	7	50	31
Total interest expense	1,129	634	3,637	1,684
Net interest income	1,075	614	3,785	1,889
Provision for loan losses	(95)	(60)	(543)	(472)
Net interest income after provision	980	554	3,242	1,427
<b>Non-Interest Income</b>	2	4	17	11
<b>Non-Interest Expense</b>				
Salaries & employee benefits	404	301	1,807	1,140
Occupancy & equipment	73	47	255	192
Advertising & business development	50	42	201	158
Professional fees	64	20	173	111
Data processing	42	37	159	147
Loss on sale of securities	-	-	-	31
Other	137	103	447	348
Total non-interest expense	770	550	3,042	2,127
<b>Net income (loss) before income taxes</b>	212	8	217	(689)
<b>Income tax expense (benefit)</b>	81	-	(624)	-
<b>Net Income (loss)</b>	\$ 131	\$ 8	\$ 841	\$ (689)

# 2006 STATEMENT OF CONDITION

(unaudited\*)



“SINCE ACHIEVING PROFITABILITY IN THE FOURTH QUARTER OF 2005, MERIDIAN HAS PERFORMED WELL IN EACH SUCCESSIVE QUARTER. IN 2006, INTEREST INCOME MORE THAN DOUBLED, A RESULT OF A 58% INCREASE IN OUR LOAN PORTFOLIO.”

– Denise Lindsay, CFO

(Dollars in Thousands)	Dec 31 2006	Dec 31 2005
<b>Assets</b>		
Cash & due from banks	\$ 845	\$ 368
Federal funds sold	549	–
Short-term investments	26,996	9,494
Other investment securities	10,202	6,234
Loans, net of allowance for loan losses	103,237	65,482
Bank premises and equipment, net	445	299
Other assets	1,568	667
<b>Total Assets</b>	<b>\$ 143,842</b>	<b>\$ 82,544</b>
<b>Liabilities &amp; Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 101,772	\$ 63,904
Borrowings	20,870	10,338
Other liabilities	2,407	173
<b>Total Liabilities</b>	<b>125,049</b>	<b>74,415</b>
<b>Stockholders' Equity</b>	<b>18,793</b>	<b>8,129</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 143,842</b>	<b>\$ 82,544</b>

>>  
05

\*Audited statements are available upon request

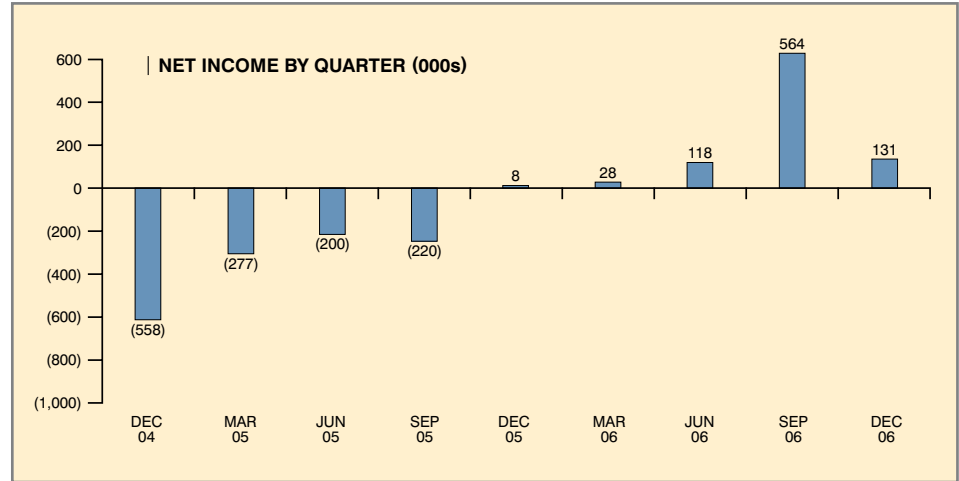
# 2006 RESULTS OF OPERATIONS

Since achieving profitability in the fourth quarter of 2005, Meridian has performed well in each successive quarter. Net income for fourth quarter 2006 was \$131,000 and for the year ended December 31, 2006 was \$841,000. This compares to \$8,000 for the fourth quarter of 2005 and a net loss of \$689,000 for the year in 2005. The improvement in earnings was the result of steady and constant asset growth, which increased net income before taxes for the year \$906,000 to \$217,000 from the loss of \$689,000 in 2005. In addition, Meridian recognized an income tax benefit of \$624,000, largely relating to net operating loss carry forwards.

>>  
06

Total interest income for the year ended December 31, 2006 was \$7.4 million, up \$3.8 million, or more than double that of 2005. The increase is attributable to significant growth in loans, as the portfolio rose \$42.8 million on average, year over year, as well as an increase in interest rates. Meridian's yield on earning assets rose 125 basis points to 7.56% from 6.31% one year ago.

Funding for loans was largely provided by interest-bearing deposits, which increased \$33.2 million on average. Specifically, certifi-



cates of deposit and money market accounts rose an average of \$27.0 million and \$5.5 million, respectively. Additional capital, raised during the second quarter through a \$10 million private offering, provided Meridian with a significant source of free funding, as did demand deposits, which increased \$2.5 million on average. Total interest expense was \$3.6 million, up \$2.0 million from 2005 due to interest rate changes along with the increased deposits. Meridian's cost of funds went up 95 basis points to 4.52% from 3.57% in 2005.

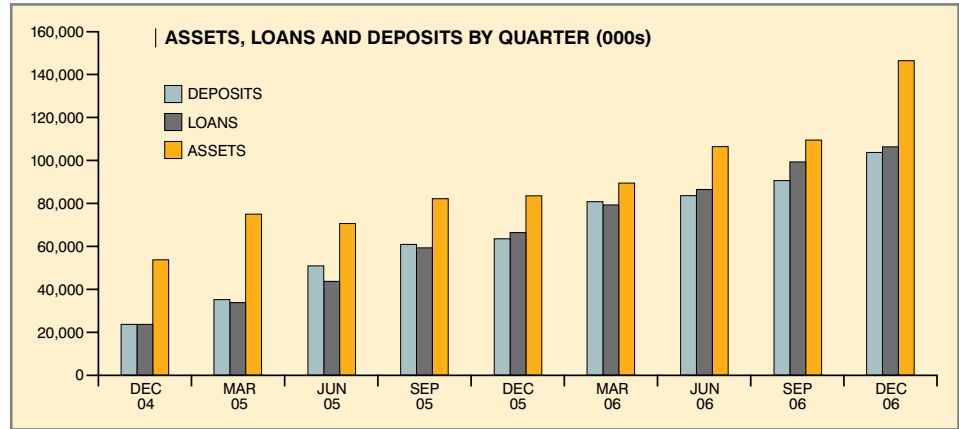
Non-interest expenses were \$3.0 million and \$2.1 million for 2006 and 2005, respectively. The \$946,000 increase in non-interest expenses year over year was due to increased salaries and employee benefits, professional services, occupancy, advertising, and other expenses attributable to asset growth and the West Chester office, which opened mid-year.



# 2006 CHANGES IN FINANCIAL CONDITION

**ASSETS:** Meridian Bank's total assets were \$143.8 million at December 31, 2006, rising \$61.3 million, or 74%, year over year. Meridian maintains a strong focus on asset expansion by loan growth. To accomplish this, market areas are targeted by attracting and retaining experienced lenders and not by location of retail branches. As evidence, the loan portfolio, which represents 73% of total assets, increased a net \$37.8 million, or 58%, to \$103.2 million at year end. Total investment securities were \$37.2 million at December 31, 2006; up \$21.5 from \$15.7 million the prior year. The investment portfolio, which consisted almost entirely of US Agency securities available for sale, had \$27.0 million in short term investments which will mature in 2007 to provide funds for future loan growth.

**LOANS:** Meridian maintains a diverse loan portfolio consisting of commercial real estate, commercial construction, commercial term loans, leases and lines of credit, residential home equity loans and consumer loans. The loan portfolio is Meridian's primary source of interest income and the principle focus of the Bank's Commercial, Commercial Real Estate, Private Banking and Consumer Groups. During 2006, the pressures of competition,



a flat yield curve and a slower housing market challenged Meridian, along with all financial institutions. Meridian's lending efforts, however, have been favorably impacted by the hiring of commercial lenders experienced in our chosen markets, our continued participation in community and civic events, strong networking efforts, and fallout from consolidation or turmoil in competitive local financial institutions.

Meridian's net loan portfolio increased \$37.8 million year over year. Total commercial real estate and commercial construction increased a combined \$18.8 million, or 70%,

to \$45.5 million at December 31, 2006. Commercial loans and leases increased \$11.7 million, or 43%, and home equity and consumer loans increased \$7.8 million, or 39%, during the same period.

**DEPOSITS:** Total deposits increased \$37.9 million, or 59%, to \$101.8 million at December 31, 2006. Most of this increase was attributable to certificates of deposit, which rose \$30.1 million, or 73%, to \$71.3 million. Money market accounts and demand deposits increased \$5.7 million, or 28%, to \$26.1 million and \$2.6 million, or 91%, to \$4.3 million, respectively.

## | 2006 BOARD OF DIRECTORS



**CHRISTOPHER J. ANNAS** is a founder, Chairman and Ceo of Meridian Bank. Previously President and CEO of Stonebridge Bank, West Chester, PA, Mr. Annas earned his MBA from Villanova and has more then 20 years experience as a senior lender. He serves on the boards of a number of regional business and service organizations.



**ROBERT T. HOLLAND** is President and principal shareholder of c.p. Allstar Corp., Downingtown, PA, a manufacturer of residential and commercial access control systems. A CPA, Mr. Holland is a member of the AICPA and PICPA and has served on the West Goshen Twp. Planning Commission and the boards of several area charitable organizations.



**ROBERT M. CASCIATO** is a founding partner of Alliance Environmental Systems, Inc., West Chester, PA, which provides demolition, asbestos abatement, mold remediation and indoor air quality services in the Mid-Atlantic region. He is a partner in a real estate development company specializing in brownfield sites and also serves on the Board of the West Vincent Land Trust.



**EDWARD J. HOLLIN** is the managing shareholder of Riley, Riper, Hollin & Colagreco, a law firm with offices in Chester County and Delaware. He serves on the Boards of the Chester County Economic Development Council, Delaware Valley Cystic Fibrosis Foundation, the Housing Partnership of Chester County and Congregation Beth Tikvah-B'Bei Jeshrun.



**GEORGE C. COLLIER** is Chief Financial Officer of Streamlight, Inc., Eagleville, PA, a leading international manufacturer of high performance lighting equipment for fire fighting, law enforcement and industrial applications.



**ANTHONY M. IMBESI** is Vice-President of Patriarch Management, a North Wales, PA private investment company. Mr. Imbesi has an MBA from Drexel and experience in the cable television industry, Internet technology development, beverage industry, and venture financing, working with start-up companies in development, marketing and early stage funding.



**EDWIN T. JOHNSON** is the retired founder and CEO of the Johnson Companies, an employee benefit firm, and a founder and member of MCG, management compensation consulting. He was founder and director of Commonwealth State Bank and First Covenant Bank (Indiana), and serves on the Advisory Board of HSBC Bank. Mr. Johnson is a past Chairman of the Gettysburg College Board of Trustees.



**KENNETH H. SLACK** is the managing partner of Slack CPA LLC, a West Chester, PA public accounting firm. Mr. Slack also serves on the Boards of the Chester County Hospital, Delaware County Attorney-CPA Forum and Camp Cadet of Chester County. He is a member of AICPA, PICPA and FICPA.



**SAMUEL J. PILOTTI** is the founder and managing partner of Metric Reality, Paoli PA, a diversified real estate development and management company which owns and manages a significant amount of commercial real estate in Chester County. He served as an Easttown Township Supervisor and is a Director of the Paoli Business & Professional Association.



**MICHAEL J. WILLNER** is the founder and President of Willner Properties Services, Inc., a King of Prussia, PA construction, development and management company of residential, office and retail properties. An attorney and CPA, Mr. Willner is active in the American-Israel Chamber of Commerce and as a coach of athletic programs within the Radnor School District.

---

## MERIDIAN BANK MANAGEMENT

Christopher J. Annas  
*President and CEO*

Joseph L. Cafarchio  
*Senior VP, Commercial Lending*

Edward J. Carpoletti  
*Senior VP, Private Banking*

Denise Lindsay  
*Senior VP and CFO*

Sara E. Shute  
*Senior VP, Real Estate Lending*

Edward J. Riegl  
*VP, Commercial Lending*

Timothy J. Mahan  
*VP, Operations*

Loretta C. Taylor  
*VP, Consumer Lending*

Stuart F. Katz  
*VP, Private Banking*

Catherine Mary Felton  
*VP, Real Estate Lending*

Bobette S. Meeter  
*AVP, Regional Branch Mgr*

1436 LANCASTER AVE  
BERWYN PA 19312

16 WEST MARKET ST  
WEST CHESTER PA 19380

[www.meridianbanker.com](http://www.meridianbanker.com)  
866.327.9199  
[info@meridianbanker.com](mailto:info@meridianbanker.com)