Annual Report 2010

building Value

MeridianBank®

Innovative. Like You.

Annual Report Highlights

$1.1 million In Earnings

continued Loan Growth

improved Net Interest Margin

increased Non-interest Income

Added *experienced* Business Bankers

expanded Deposits and Account Base

Addition of *profitable* Mortgage Business

doubled Electronic Payments Business

Chairman's Letter

Dear Shareholder Building value was the goal for 2010. There were many opportunities for us during the year. We took advantage of some and left others alone. We made hiring and expansion decisions, investments in the future, that will provide long term income and value benefits for your company. On the way we also earned $1.1 Million for the year, up from a slight loss in 2009. We are expecting that this value building will lead to greater profitability and pay dividends in the future.

The profit improvement resulted from continued growth in loan volume, improvement in net interest margin and a significant increase in non-interest income. In early 2010, we hired four commercial bankers from a troubled local bank who were able to bring significant new loans and deposit business to Meridian. Our existing staff was equally successful in attracting customers from other banks and helping to expand the account base. These new relationships brought additional core deposits into the bank at favorable rates, which resulted in improved net interest margins. Our level of non-interest bearing deposits is comparable to other local banks, but we are achieving this without an expensive branch network.

Meridian's mortgage business was greatly expanded during 2010. We hired more than 20 loan officers and staff from another troubled bank, and set this group up in a new office in Plymouth Meeting. They originated $183 million in mortgages during the year and generated close to $2.0 million in fee income from loan sales. We also realized the interest spread benefit of holding these loans until they were sold. The considerable increase in salaries and benefits is mostly attributed to the mortgage staff, but our income earned from this group approached $200 thousand for the year. The mortgage business is now a core component of our service offerings and we hope to grow it further in 2011.

Meridian's electronic payments business more than doubled its income in 2010, growing steadily by month. This was a result of increased merchant card fees and ACH volume, and the development of new partnerships with card issuers. As electronic methods of making payments are increasingly adopted, the total market should grow and provide new opportunities for us. With its annualized income for 4Q 2010 at over $700 thousand, 2011 should be even more successful.

Our expansion creates balance sheet growth and therefore the need for more capital. While we are growing our own in the form of net profits, we will need to access the equity markets to stay well within regulatory capital guidelines. We expect to embark on a new capital raise in the second half of 2011, possibly as a rights offering to our existing shareholders. We'll be contacting everyone with the details.

Our industry has been under siege for the past few years because of a few bad actors and it has hurt banking's reputation and brought unyielding governmental and regulatory pressure. But community banking is a vital part of our economy. We make loans in our local markets that help businesses hire people, purchase local services and foster wealth creation. We are the leading community supporters, donating significant money to local charities and causes. And our employees are your neighbors, your kids' sports coaches and participants in many of those causes to which we contribute. We are proud to do this work and know that we help make things better in our communities.

Thank you for your support.

» Christopher J. Annas, Chairman & CEO

Statement of Operations

/UNAUDITED/DOLLARS IN THOUSANDS/

	Dec 31, 2010	Dec 31, 2009
Interest Income		
Interest and fees on loans	$ 17,230	$ 13,780
Investments	253	462
Total interest income	17,483	14,242
Interest Expense		
Deposits	4,008	5,732
Borrowings	586	1,116
Total interest expense	4,594	6,848
Net interest income	12,889	7,394
Provision for loan losses	(3,333)	(1,212)
Net interest income after provision	9,556	6,182
Non-Interest Income		
Mortgage banking fees	1,960	68
Electronic payments income	296	31
Service charges on deposits	55	32
Other income	315	175
Total non-interest income	2,626	306
Non-Interest Expense		
Salaries & employee benefits	6,893	3,654
Occupancy & equipment	741	571
FDIC assessment	648	502
Professional fees	456	361
Data processing	281	249
Advertising & business development	228	223
Prepayment penalty	-	166
Other	1,350	886
Total non-interest expense	10,597	6,612
Net income (loss) before income taxes	$ 1,585	$ (124)
Income tax (benefit) expense	$ 488	$ (93)
Net Income (Loss)	$ 1,097	$ (31)

Statement of Condition

/UNAUDITED/DOLLARS IN THOUSANDS/

	Dec 31, 2010		Dec 31, 2009	
Assets				
Cash & cash equivalents	**$**	**8,717**	$	5,689
Securities available for sale		**9,420**		3,958
Securities held to maturity		**2,834**		4,832
Loans, net of allowance for loan losses		**338,888**		268,184
Bank premises and equipment, net		**773**		640
Bank owned life insurance		**2,236**		2,147
Other assets		**5,732**		6,220
Total Assets	**$**	**368,600**	$	291,670
Liabilities & Stockholders' Equity				
Liabilities				
Deposits	**$**	**306,471**	$	231,025
Borrowings		**28,550**		28,550
Other liabilities		**2,003**		935
Total Liabilities		**337,024**		260,510
Stockholders' Equity		**31,576**		31,160
Total Liabilities & Stockholders' Equity	**$**	**368,600**	$	291,670

Management Discussion & Analysis

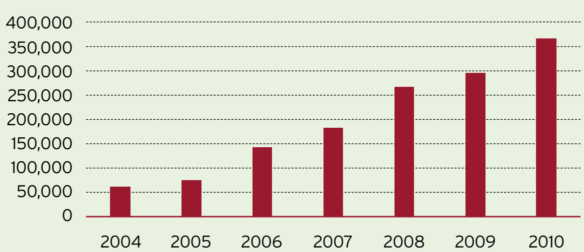
» Denise Lindsay, Executive Vice President & CFO

Financial Profile | **Business Model** Meridian is a full service commercial bank with a focus on business loans and deposits, payments, and ancillary services. Our business model is centered on low cost, low number of strategic 'boutique' business offices. Our customers are encouraged, trained and supported in the utilization of remote deposit systems and NetTeller online banking services.

Historical Data & Analysis

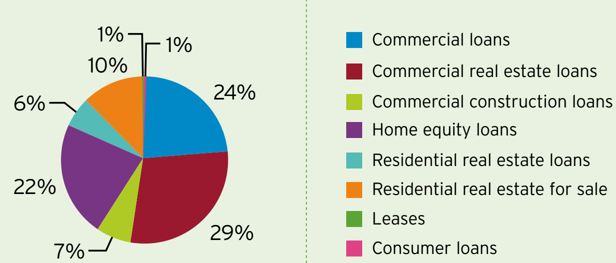
Asset Growth
Meridian's asset growth has been strong and steady since our opening in 2004. Total assets at December 31, 2010 were $369 million, up $77 million from 2009. The increase was driven by growth in the loan portfolios as new relationship managers helped to increase Meridian's market share.

Assets (000s)



Loan Composition
The loan portfolio is well diversified as to working capital lines, real estate and construction type loans, and consumer loans, as shown in the following chart. At December 31, 2010 the C & I portfolio (including leases) represented 25% of total loans, the commercial real estate portfolio was 29% and construction loans were 7%. Residential and home equity loans comprised 38% of total loans.

Loan Composition



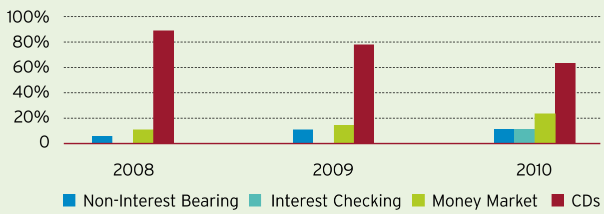
Asset Quality
The recent downturn and real estate decline caused loan quality problems throughout the banking sector. Meridian incurred $2.2 million in charge-offs in 2010, but was able to provide for these losses and continue to add to its allowance for loan loss at a level commensurate with its loan growth. Meridian's allowance at December 31, 2010 was $3.8 million or 1.25% of total loans held.

Cash and Investments
Total cash and investments at December 31, 2010 was $21 million, up $6.5 million or 45% from December 31, 2009. Due to the low rate environment over the past 15 months, excess cash on hand was utilized to pay down debt and increase the securities portfolio. Both measures were intended to provide higher levels of liquidity.

Deposit Growth

Meridian hired two experienced deposit officers in 2009 and two more in 2010 to support non-CD deposit growth in our market area. They have targeted accounts in regional markets that have been left in turmoil from the recent bank merger and regulatory activity. As a result of this effort, along with the further penetration into business checking and money market accounts undertaken by our Relationship Managers, the mix of deposits has shifted. In 2008 CDs were 85% of the portfolio and in 2010 they represented just 62%.

Deposit Growth



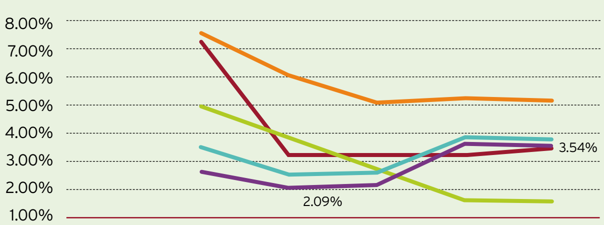
Capital

Meridian continues to exceed well capitalized guidelines with total capital at December 31, 2010 of $31.6 million. Total risk-based capital and leverage ratios were 11% and 8.4%, respectively. Capital was comprised of $19.0 million in common capital/retained earnings and $12.6 million in preferred stock. Total book value per common share was $9.27, after a 5% stock split declared in the third quarter.

Results of Operations - Net Interest Income History

The last two years have seen stable interest rates, albeit at historically low levels. The rapid decline in interest rates by the Federal Reserve in 2008 was unprecedented and required some restructuring of our balance sheet as much of our assets quickly re-priced to lower levels while our deposit base lagged. We witnessed our spread improve from 2.09% to 3.64% during this adjustment period. The chart below illustrates the decline in our spread and margin ratios as a result of the assets re-pricing in 2008 and conversely the improvement when the liabilities re-priced and margins began to widen in 2009.

Rates / Yields



	2007	2008	2009	2010
Yield on earning assets %	7.56	6.03	5.08	5.28
Prime rate %	7.25	3.25	3.25	3.25
Composite cost of funds %	4.93	3.94	2.90	1.64
Net interest income spread %	2.63	2.09	2.18	3.64
Net interest income margin %	3.50	2.57	2.64	3.89

To help stabilize our spread against future rate volatility, Meridian instituted rate floors on new variable rate assets as well as many of the existing assets. In addition, management has targeted a deposit base with staggered maturities to better match asset repricing periods.

During 2010, net interest income increased $5.5 million or 74% to $12.9 million, from $7.4 million in 2009. As shown in the Rate/Volume Analysis below, $3.6 million was attributable to rate changes and $1.8 million to volume changes. The rate changes had the most impact on the liability side of the balance sheet where deposits and borrowings repriced 127 basis points lower on average.

Rate/Volume Analysis (000s) **2010 vs 2009**

Increase (decrease) In Net interest income Due To:	Rate	Volume	Total
Cash & Federal Funds Sold	2,635	15,815	**18,450**
Investments	(171,059)	(56,934)	**(227,993)**
Loans	158,586	3,292,062	**3,450,648**
Total Interest-earning Assets	(9,838)	3,250,943	**3,241,105**
Interest Checking & Money Market	(36,345)	303,091	**266,746**
Time Deposits	(3,429,348)	1,438,918	**(1,990,430)**
Borrowings	(189,895)	(334,696)	**(524,591)**
Total Interest-bearing Liabilities	(3,655,588)	1,407,313	**(2,248,275)**
Net Interest Income	3,645,749	1,843,631	**5,489,380**

Non-Interest Income

Non-interest income is comprised of mortgage fees, electronic payments income, wealth management fees, earnings on investment life insurance, fees on deposit accounts and other fee income. Historically this has not been a large contributor to overall profitability, but with the successful expansion of our electronic payments and residential mortgage divisions we experienced a significant improvement in other income for 2010. This will help provide a steady income base to ease the pressure of future spread volatility on earnings.

Income from the electronic payments division totaled $296 thousand for 2010, up $156 thousand from 2009. This line item, as with the mortgage division, is shown as a gross income number with salaries, commissions and other overhead items shown in other expenses. Mortgage banking fees were $1.9 million in 2010 and are shown net of yield spread premium paid to brokers.

Non-Interest Expense

Non-interest expense includes salaries & employee benefits, furniture & equipment, occupancy, professional & consulting fees as well as business development, FDIC insurance and other less significant expense items. Our business model focuses on smaller and fewer business offices. The inherent low cost of such offices results in lower levels of occupancy and FFE. Non-interest expenses for 2010 were $10.7 million, up $4.0 million or 59% from 2009. The largest component of non-interest expense is salaries and employee benefits, which increased $3.3 million or 90%. Of that increase, $1.9 million related to the mortgage area which had significant start-up costs and, as stated above, was offset by the fee income generated.

Other factors contributing to the increase in non-interest expenses were increased FDIC, professional services, occupancy and other expenses. Occupancy expense increased as a result of opening the Plymouth Meeting office. Other expenses, such as telecommunications, loan and employee expenses, increased as a result of our growth.

Business Units

» Executive Vice President, Chief Lending Officer

Joseph L. Cafarchio

During the past two years we continued to build our commercial and industrial lending portfolio despite the downturn in the economy.

In large part this was due to the retraction of other area banks from the credit market, which enabled us to add a number of experienced lenders and win over new business accounts. We are now encouraged by the improving economy and the growing awareness in our marketplace of Meridian as a great business bank.

The past three years have been difficult for commercial real estate. We were not as severely impacted as some in our peer group because of the prudent lending practices we followed during the previous upswing.

This stability enabled us to support our borrowers during this difficult time. As their situations are now improving, we are gaining a reputation for true loyalty in the closely-connected development and construction market. That reputation will serve us well as the inevitable expansion evolves.

Sara E. Shute

» Senior Vice President, Commercial Real Estate Lending

» Vice President, Card Programs

Richard J. Dressel

With the rapid expansion of electronic commerce and the emergence of mobile devices, Electronic Payments constitutes one of the most exciting growth frontiers for the financial services industry. Meridian has made thoughtful and significant investments in developing services for this burgeoning segment.

Meridian helped introduce remote deposit capture to the Delaware Valley in 2005. We became principal members of the major credit card associations: Visa, MasterCard and Discover. We are currently testing an advanced, highly-secure ACH payment system. In short, we've become experts in the services and technologies that are the keys to the electronic commerce that will provide steady, service-based income for years.

We brought a great team from a troubled bank because we were all impressed by Meridian's strong financial position, entrepreneurial spirit and desire to build a full service mortgage group.

In just six months of actual operations in 2010, we took advantage of the demand for refinancing and closed $180 million of profitable loans. It will remain a challenging time for independent mortgage companies, so we're glad to be part of Meridian Bank. We made a smooth transition and are now established as a market leader in mortgage lending.

Tom Campbell

» Vice President, Residential Mortgage Lending

Edward J. Carpoletti

Our mission at Meridian Financial Services is to provide quality products and expertise across the full spectrum of customer needs...

for both credit and wealth accumulation. Our unique approach to meeting this challenge has been to combine specialists from both disciplines on one team. During 2010 we rounded out that team with a seasoned investment manager with more than 20 years in banking.

The key is communication. We over-communicate with our customers, the best counter to their understandable uncertainty. We constantly communicate with each other to ensure that each customer is getting the maximum exposure to our collective expertise. And we communicate closely with Meridian bankers in all of the company's operating units to leverage the wealth of new business opportunities they encounter.

With the emphasis shifting again to investments, with our lines of communication firmly established and with people turning back to community banking for its personal service and stability, we're ready for a breakout year.

service
Deposits
expansion
future

Directors

Christopher J. Annas, Chairman	President & CEO, Meridian Bank
Robert T. Holland, Vice Chairman	Principal, Holland Advisory Group LLC
Robert M. Casciato	President, Alliance Environmental, Inc.
George C. Collier	Chief Financial Officer, Streamlight, Inc.
Edward J. Hollin	Managing Shareholder, Riley Riper Hollin & Colagreco
Anthony Imbesi	Partner, Patriarch Management
Edwin T. Johnson	Founder, The Johnson Companies
Denise Lindsay	Executive VP & CFO, Meridian Bank
Samuel J. Pilotti	Founder & Managing Partner, Metric Realty, Inc.
Kenneth H. Slack	Partner, Stephano Slack LLC

Senior Management

Christopher J. Annas	President & CEO
Joseph L. Cafarchio	Executive VP, Chief Lending Officer
Denise Lindsay	Executive VP & CFO
James D. Nelsen	Senior VP & Credit Officer

Contact
www.meridianbanker.com
866.327.9199
investor@meridianbanker.com

Corporate Headquarters
92 Lancaster Avenue
Devon, PA 19333

Banking Offices
1776 East Lancaster Avenue
Paoli, PA 19301

16 West Market Street
West Chester, PA 19382

60 East Uwchlan Avenue
Lionville, PA 19341

Meridian Mortgage
920 Germantown Pike
Plymouth Meeting, PA 19462

service

Deposits

expansion

future

MINIMUM 30% POST CONSUMER FIBER.

GREEN SEAL