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 **June 30, 2018**

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**

MeridianBank®

(Exact name of registrant as specified in its charter)

Pennsylvania	**32-0116054**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 Old Lincoln Highway, Malvern, Pennsylvania 19355
(Address of principal executive offices) (Zip Code)

(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 ☒	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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 August 14, 2018 there were 6,400,585 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) June 30, 2018	December 31, 2017
Cash and due from banks	$	27,013	24,893
Federal funds sold		-	10,613
Cash and cash equivalents		27,013	35,506
Securities available-for-sale, amortized cost of $42,801 and $40,393 as of June 30, 2018 and December 31, 2017, respectively		41,972	40,006
Securities held-to-maturity, fair value of $12,659 and $12,869 as of June 30, 2018 and December 31, 2017, respectively		12,801	12,861
Mortgage loans held for sale, amortized cost of $45,161 and $34,673 as of June 30, 2018 and December 31, 2017, respectively		45,571	35,024
Loans, net of fees and costs (includes $10,948 and $9,972 of loans at fair value, amortized cost of $10,957 and $9,788 as of June 30, 2018 and December 31, 2017, respectively		781,622	694,637
Allowance for loan losses		(7,449)	(6,709)
Loans, net of the allowance for loan losses		774,173	687,928
Restricted investment in bank stock		7,915	6,814
Bank premises and equipment, net		10,207	9,741
Bank owned life insurance		11,420	11,269
Accrued interest receivable		2,713	2,536
Other real estate owned		-	437
Deferred income taxes		1,594	1,312
Goodwill and intangible assets		5,359	5,495
Other assets		4,697	7,106
Total assets	$	945,435	856,035
Liabilities:			
Deposits:			
Noninterest bearing	$	106,942	100,454
Interest-bearing		576,308	526,655
Total deposits		683,250	627,109
Short-term borrowings		135,526	99,750
Long-term debt		6,650	8,863
Subordinated debentures		9,308	13,308
Accrued interest payable		237	216
Other liabilities		6,084	5,426
Total liabilities		841,055	754,672
Stockholders’ equity:			
Common stock, $1 par value. Authorized 10,000,000 shares; issued and outstanding 6,400,585 and 6,392,287 as of June 30, 2018 and December 31, 2017, respectively.		6,401	6,392
Surplus		79,776	79,501
Retained earnings		18,840	15,768
Accumulated other comprehensive loss		(637)	(298)
Total stockholders’ equity		104,380	101,363
Total liabilities and stockholders’ equity	$	945,435	856,035

See accompanying notes to the unaudited consolidated financial statements.

(continued)

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

		Three Months ended June 30,		Six Months ended June 30,	
		2018	2017	2018	2017
Interest income:					
Loans, including fees	$	10,507	8,363	20,000	16,224
Securities:					
Taxable		168	122	336	223
Tax-exempt		112	114	224	232
Cash and cash equivalents		22	17	45	41
Total interest income		10,809	8,616	20,605	16,720
Interest expense:					
Deposits		2,028	970	3,687	1,872
Borrowings		635	610	1,080	1,085
Total interest expense		2,663	1,580	4,767	2,957
Net interest income		8,146	7,036	15,838	13,763
Provision for loan losses		413	621	967	780
Net interest income after provision for loan losses		7,733	6,415	14,871	12,983
Noninterest income:					
Mortgage banking income		7,312	9,121	12,133	15,185
Wealth management income		988	869	2,066	972
Earnings on investment in life insurance		73	82	151	111
Net change in the fair value of derivative instruments		(218)	220	(11)	388
Net change in the fair value of loans held-for-sale		62	17	59	217
Net change in the fair value of loans held-for-investment		(15)	(20)	(186)	41
Gain on sale of investment securities available-for-sale		-	4	-	4
Service charges		28	20	60	40
Other		438	(244)	1,452	113
Total noninterest income		8,668	10,069	15,724	17,071
Noninterest expenses:					
Salaries and employee benefits		9,382	9,809	17,818	19,423
Occupancy and equipment		990	948	1,950	1,826
Loan expenses		723	1,236	1,193	2,008
Professional fees		477	536	956	903
Advertising and promotion		631	518	1,212	940
Data processing		302	273	590	534
FDIC assessment		164	185	179	296
Other		1,405	1,078	2,738	2,113
Total noninterest expenses		14,074	14,583	26,636	28,043
Income before income taxes		2,327	1,901	3,959	2,011
Income tax expense		525	657	887	665
Net income		1,802	1,244	3,072	1,346
Dividends on preferred stock		-	(289)	-	(578)
Net income for common stockholders	$	1,802	955	3,072	768
Basic earnings per common share	$	0.28	0.26	0.48	0.21
Diluted earnings per common share	$	0.28	0.26	0.48	0.21

See accompanying notes to the unaudited consolidated financial statements.

(continued)

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

		Three Months ended June 30,		Six Months ended June 30,	
		2018	2017	2018	2017
Net income:	$	1,802	1,244	3,072	1,346
Other comprehensive income:					
Net change in unrealized gains on investment securities available for sale:					
Net unrealized (losses) gains arising during the period, net of tax (benefit) expense of ($18), $61, ($101) and $166, respectively		(63)	184	(339)	310
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of $0, $1, $0, and $1, respectively		-	(3)	-	(3)
Unrealized investment gains (losses), net of tax expense (benefit) of ($18), $60, ($101) and $167, respectively		(63)	181	(339)	307
Total other comprehensive income					
Total comprehensive income	$	1,739	1,425	2,733	1,653

See accompanying notes to the unaudited consolidated financial statements.

(continued)

MERIDIAN BANK AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ 6,392	79,501	15,768	(298)	101,363
Comprehensive income:					
Net income			3,072		3,072
Change in unrealized gains on securities available-for-sale, net of tax				(339)	(339)
Total comprehensive income					2,733
Share-based awards and exercises	9				9
Compensation expense related to stock option grants		275			275
Balance, June 30, 2018	$ 6,401	79,776	18,840	(637)	104,380

See accompanying notes to the unaudited consolidated financial statements.

(continued)

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
Net income	$ 3,072	1,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of investment securities	-	4
Depreciation and amortization	639	1,083
Provision for credit losses	967	780
Compensation expense for stock options	275	90
Net change in fair value of loans held for sale	(59)	(217)
Net change in fair value of derivative instruments	11	(388)
Gain on sale of OREO	(57)	-
Proceeds from sale of loans	317,752	354,168
Loans originated for sale	(316,107)	(335,604)
Mortgage banking income	(12,133)	(15,185)
Increase in accrued interest receivable	(177)	(35)
(Increase) decrease in other assets	(318)	1,191
Earnings from investment in life insurance	(151)	(111)
Deferred income tax (benefit)	(181)	(16)
Increase (decrease) in accrued interest payable	21	(16)
Increase in other liabilities	536	1,962
Net cash (used in) provided by operating activities	(5,910)	9,052
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities, repayments and calls	2,375	1,901
Purchases	(4,958)	(6,144)
Activity in held-to-maturity securities:		
Maturities, repayments and calls	-	887
Proceeds from sale of OREO	494	-
Settlement of forward contracts	75	(567)
Acquisition of wealth management company	-	(3,225)
Increase in restricted stock	(1,101)	(260)
Net increase in loans	(86,642)	(44,098)
Purchases of premises and equipment	(1,305)	(873)
Proceeds from settlment of loans	2,766	-
Purchase of bank owned life insurance	-	(6,000)
Net cash used in investing activities	(88,296)	(58,379)
Cash flows from financing activities:		
Net increase in deposits	56,141	32,383
Increase in short term borrowings	33,976	8,989
Repayment of long term debt (Acquisition note)	(413)	-
Principal repayment of long term debt (subordinated debt)	(4,000)	-
Share based awards and exercises	9	10
Dividends paid on preferred stock	-	(578)
Net cash provided by financing activities	85,713	40,804
Net change in cash and cash equivalents	(8,493)	(8,523)
Cash and cash equivalents at beginning of period	35,506	18,872
Cash and cash equivalents at end of period	$ 27,013	10,349
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 4,746	2,973
Income taxes	390	82
Supplemental non-cash disclosure:		
Non-cash consideration paid for acquisition of wealth management company (purchaser note)	-	2,475

See accompanying notes to the 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") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. 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.

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

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 on Form 10-K for the year ended December 31, 2017 (the "2017 Annual Report"). Certain prior period amounts have been reclassified to conform with current period presentation. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results for the year ended December 31, 2018 or for any other period.

(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.

(dollars in thousands, except per share data)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Numerator:				
Net income available to common shareholders	$ 1,802	$ 955	3,072	$ 768
Denominator for basic earnings per share - weighted average shares outstanding	6,395	3,686	6,393	3,686
Effect of dilutive common shares	30	28	32	26
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	6,425	3,714	6,425	3,712
Basic earnings per share	$ 0.28	$ 0.26	0.48	$ 0.21
Diluted earnings per share	$ 0.28	$ 0.26	0.48	$ 0.21
Antidilutive shares excluded from computation of average dilutive earnings per share	113	35	113	35

(continued)

(3) Goodwill and Other Intangibles

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

(dollars in thousands)	Balance December 31, 2017	Accumulated Amortization	Balance June 30, 2018	Amortization Period (in years)
Goodwill - Wealth	$ 899	-	899	Indefinite
Total Goodwill	899	-	899	
Intangible assets - trade name	266	-	266	Indefinite
Intangible assets - customer relationships	3,930	(102)	3,828	20
Intangible assets - non competition agreements	223	(34)	189	4
Contingent asset	177	-	177	N/A
Total Intangible Assets	4,596	(136)	4,460	
Grand total	$ 5,495	(136)	5,359	

We recognized amortization expense on intangible assets of $68 thousand and $136 thousand, respectively, during the three and six month periods ended June 30, 2018. The contingent asset is marked to fair value on a quarterly basis for 18 months after the closing date.

The Bank performed its annual review of goodwill and identifiable intangible assets in accordance with ASC 350, "Intangibles - Goodwill and Other" as of December 31, 2017. For the period from January 1, 2018 through June 30, 2018, the Bank determined there were no events that would necessitate impairment testing of goodwill and other intangible assets.

(4) Securities

The amortized cost and fair value of securities as of June 30, 2018 and December 31, 2017 are as follows:

(dollars in thousands)	June 30, 2018 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale:				
U.S. government agency mortgage-backed securities	$ 22,351	10	(370)	21,991
U.S. government agency collateralized mortgage obligations	9,459	-	(164)	9,295
State and municipal securities	9,991	-	(283)	9,708
Investments in mutual funds and other equity securities	1,000	-	(22)	978
Total securities available-for-sale	$ 42,801	10	(839)	41,972
Securities held to maturity:				
U.S. Treasuries	$ 1,984	-	(18)	1,966
State and municipal securities	10,817	19	(143)	10,693
Total securities held-to-maturity	$ 12,801	19	(161)	12,659

(dollars in thousands)	December 31, 2017 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale:				
U.S. government agency mortgage-backed securities	$ 21,439	19	(190)	21,268
U.S. government agency collateralized mortgage obligations	7,875	2	(99)	7,778
State and municipal securities	10,079	14	(134)	9,959
Investments in mutual funds and other equity securities	1,000	1	-	1,001
Total securities available-for-sale	$ 40,393	36	(423)	40,006
Securities held to maturity:				
U.S. Treasuries	$ 1,978	-	(8)	1,970
State and municipal securities	10,883	86	(70)	10,899
Total securities held-to-maturity	$ 12,861	86	(78)	12,869

At June 30, 2018, the Bank had twenty-six U.S. government sponsored agency mortgage-backed securities, eleven U.S. government sponsored agency collateralized mortgage obligations, twenty-eight state and municipal securities and one mutual fund in unrealized loss positions. At December 31, 2017, the Bank had nineteen U.S. government sponsored agency mortgage-backed securities, eight U.S. government sponsored agency collateralized mortgage obligations and twenty-two state and municipal securities in unrealized loss positions. At June 30, 2018, the temporary impairment is primarily the result of changes in market interest rates subsequent to purchase and the Bank does 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 June 30, 2018 and December 31, 2017:

	June 30, 2018					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities						
U.S. government agency mortgage-backed securities	$ 12,780	(140)	8,093	(230)	20,873	(370)
U.S. government agency collateralized mortgage obligations	5,323	(108)	2,610	(56)	7,933	(164)
State and municipal securities	6,971	(146)	2,736	(137)	9,707	(283)
Investments in mutual funds and other equity securities	978	(22)	-	-	978	(22)
Total securities available-for-sale	$ 26,052	(416)	13,439	(423)	39,491	(839)
Securities held-to-maturity:						
U.S. Treasuries	$ 1,966	(18)			1,966	(18)
State and municipal securities	7,891	(143)	-	-	7,891	(143)
Total securities held-to-maturity	$ 9,857	(161)	-	-	9,857	(161)

(dollars in thousands)	December 31, 2017					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available-for-sale:						
U.S. government agency mortgage-backed securities	$ 9,788	(28)	7,854	(162)	17,642	(190)
U.S. government agency collateralized mortgage obligations	6,732	(81)	860	(18)	7,592	(99)
State and municipal securities	6,147	(57)	2,818	(77)	8,965	(134)
Total securities available-for-sale	$ 22,667	(166)	11,532	(257)	34,199	(423)
Securities held-to-maturity:						
U.S. Treasuries	$ 1,962	(8)	-	-	1,962	(8)
State and municipal securities	4,851	(70)	-	-	4,851	(70)
Total securities held-to-maturity	$ 6,813	(78)	-	-	6,813	(78)

The amortized cost and carrying value of securities at June 30, 2018 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)	June 30, 2018				December 31, 2017			
	Available-for-sale		Held-to-maturity		Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 1,000	978	-	-	$ -	-	-	-
Due after one year through five years	7,319	7,193	4,745	4,717	5,630	5,587	3,803	3,791
Due after five years through ten years	5,065	4,876	6,189	6,064	6,298	6,228	7,180	7,156
Due after ten years	29,417	28,925	1,867	1,878	28,465	28,191	1,878	1,922
Total	$ 42,801	41,972	12,801	12,659	$ 40,393	40,006	12,861	12,869

(5) Loans Receivable

Loans and leases outstanding at June 30, 2018 and December 31, 2017 are detailed by category as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Mortgage loans held for sale	$ 45,571	35,024
Real estate loans:		
Commercial mortgage	301,816	263,141
Home equity lines and loans	81,824	84,039
Residential mortgage	47,994	32,375
Construction	101,925	104,970
Total real estate loans	533,559	484,525
Commercial and industrial	248,868	209,996
Consumer	535	1,022
Leases, net	473	762
Total portfolio loans and leases	783,435	696,305
Total loans and leases	$ 829,006	731,329
Loans with predetermined rates	$ 253,115	202,317
Loans with adjustable or floating rates	575,891	529,012
Total loans and leases	$ 829,006	731,329
Net deferred loan origination (fees) costs	$ (1,813)	(1,668)

Components of the net investment in leases at June 30, 2018 and December 31, 2017 are detailed as follows:

(dollars in thousands)		June 30, 2018	December 31, 2017
Minimum lease payments receivable	$	490	793
Unearned lease income		(17)	(31)
Total	$	473	762

Age Analysis of Past Due Loans and Leases

The following tables present an aging of the Bank's loan and lease portfolio as of June 30, 2018 and December 31, 2017, respectively:

June 30, 2018

(dollars in thousands)		30-89 days past due	90+ days past due and still accruing	Total past due	Current	Total Accruing Loans and leases	Nonaccrual loans and leases	Total loans and leases	Delinquency percentage
Commercial mortgage	$	1,338	-	1,338	300,014	301,352	464	301,816	0.60%
Home equity lines and loans		184	-	184	81,554	81,738	86	81,824	0.33
Residential mortgage		230	-	230	45,980	46,210	1,784	47,994	4.20
Construction		-	-	-	101,925	101,925	-	101,925	-
Commercial and industrial		278	-	278	248,124	248,402	466	248,868	0.30
Consumer		-	-	-	535	535	-	535	-
Leases		63	45	108	365	473	-	473	22.83
Total	$	2,093	45	2,138	778,497	780,635	2,800	783,435	0.63%

December 31, 2017

(dollars in thousands)		30-89 days past due	90+ days past due and still accruing	Total past due	Current	Total Accruing Loans and leases	Nonaccrual loans and leases	Total loans and leases	Delinquency percentage
Commercial mortgage	$	-	-	-	262,727	262,727	414	263,141	0.16%
Home equity lines and loans		142	-	142	83,760	83,902	137	84,039	0.33
Residential mortgage		734	-	734	30,557	31,291	1,084	32,375	5.62
Construction		-	-	-	104,785	104,785	185	104,970	0.18
Commercial and industrial		-	-	-	208,670	208,670	1,326	209,996	0.63
Consumer		-	-	-	1,022	1,022	-	1,022	-
Leases		87	11	98	664	762	-	762	12.86
Total	$	963	11	974	692,185	693,159	3,146	696,305	0.59%

(continued)

(6) Allowance for Loan Losses (the "Allowance")

The Allowance is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the Allowance, and subsequent recoveries, if any, are credited to the Allowance.

The Allowance is maintained at a level considered adequate to provide for losses that are probable and estimable. Management's periodic evaluation of the adequacy of the Allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available.

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

The following tables detail the roll-forward of the Bank's Allowance, by portfolio segment, for the three and six month periods ended June 30, 2018 and 2017, respectively:

		Balance, March 31, 2018	Charge-offs	Recoveries	Provision	Balance, June 30, 2018
Commercial mortgage	$	2,566	-	2	443	3,011
Home equity lines and loans		262	(71)	2	76	269
Residential mortgage		127	-	61	(22)	166
Construction		1,861	-	-	(423)	1,438
Commercial and industrial		2,315	(114)	17	341	2,559
Consumer		3	-	1	(1)	3
Leases		4	-	-	(1)	3
Unallocated		-	-	-	-	-
Total	**$**	**7,138**	**(185)**	**83**	**413**	**7,449**

		Balance, December 31, 2017	Charge-offs	Recoveries	Provision	Balance, June 30, 2018
Commercial mortgage	$	2,434	-	4	573	3,011
Home equity lines and loans		280	(137)	4	122	269
Residential mortgage		82	-	61	23	166
Construction		1,689	-	-	(251)	1,438
Commercial and industrial		2,214	(194)	33	506	2,559
Consumer		5	-	2	(4)	3
Leases		5	-	-	(2)	3
Unallocated		-	-	-	-	-
Total	**$**	**6,709**	**(331)**	**104**	**967**	**7,449**

(continued)

		Balance, March 31, 2017	Charge-offs	Recoveries	Provision	Balance, June 30, 2017
Commercial mortgage	$	1,808	(30)	16	629	2,423
Home equity lines and loans		465	(33)	(7)	(197)	228
Residential mortgage		113	-	1	(35)	79
Construction		1,132	-	2	254	1,388
Commercial and industrial		2,140	(120)	56	10	2,086
Consumer		4	-	(1)	(1)	2
Leases		13	-	-	(5)	8
Unallocated		34	-	-	(34)	-
Total	**$**	**5,709**	**(183)**	**67**	**621**	**6,214**

		Balance, December 31, 2016	Charge-offs	Recoveries	Provision	Balance, June 30, 2017
Commercial mortgage	$	2,038	(30)	16	399	2,423
Home equity lines and loans		460	(42)	(6)	(184)	228
Residential mortgage		85	-	2	(8)	79
Construction		690	-	2	696	1,388
Commercial and industrial		1,973	(120)	187	46	2,086
Consumer		2	-	-	-	2
Leases		5	-	-	3	8
Unallocated		172	-	-	(172)	-
Total	**$**	**5,425**	**(192)**	**201**	**780**	**6,214**

Allowance for Loan and Lease Losses Allocated by Portfolio Segment

The following tables detail the allocation of the allowance for loan and lease losses and 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 June 30, 2018 and December 31, 2017

June 30, 2018		Allowance on loans and leases				Carrying value of loans and leases			
(dollars in thousands)		Individually evaluated for impairment	Collectively evaluated for impairment	Total		Individually evaluated for impairment	Collectively evaluated for impairment	Total	
Commercial mortgage	$	-	3,011	3,011	$	1,275	300,539	301,814	
Home Equity lines and loans		-	269	269		-	81,824	81,824	
Residential mortgage		-	166	166		978	36,070	37,048	
Construction		-	1,438	1,438		1,867	100,058	101,925	
Commercial and industrial		-	2,559	2,559		4,081	244,787	248,868	
Consumer		-	3	3		-	535	535	
Leases		-	3	3		-	473	473	
Unallocated		-	-	-		-	-	-	
Total	$	-	7,449	7,449	$	8,201	764,286	772,487	(1)

December 31, 2017		Allowance on loans and leases				Carrying value of loans and leases			
(dollars in thousands)		Individually evaluated for impairment	Collectively evaluated for impairment	Total		Individually evaluated for impairment	Collectively evaluated for impairment	Total	
Commercial mortgage	$	-	2,434	2,434	$	1,533	261,607	263,140	
Home Equity lines and loans		-	280	280		137	83,902	84,039	
Residential mortgage		-	82	82		249	22,155	22,404	
Construction		-	1,689	1,689		260	104,710	104,970	
Commercial and industrial		1	2,213	2,214		2,506	207,490	209,996	
Consumer		-	5	5		-	1,022	1,022	
Leases		-	5	5		-	762	762	
Unallocated		-	-	-		-	-	-	
Total	$	1	6,708	6,709	$	4,685	681,648	686,333	(1)

(1) Excludes deferred fees and loans carried at fair value.

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 factors, 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 tables detail 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 June 30, 2018 and December 31, 2017:

June 30, 2018

(dollars in thousands)		Pass	Special mention	Substandard	Doubtful	Total
Commercial mortgage	$	296,318	4,858	638	-	301,814
Home equity lines and loans		81,656	-	168	-	81,824
Construction		99,464	2,461	-	-	101,925
Commercial and industrial		226,438	18,606	3,742	82	248,868
Total	$	703,876	25,925	4,548	82	734,431

December 31, 2017

(dollars in thousands)		Pass	Special mention	Substandard	Doubtful	Total
Commercial mortgage	$	258,337	3,917	887	-	263,141
Home equity lines and loans		83,902	-	137	-	84,039
Construction		103,118	1,852	-	-	104,970
Commercial and industrial		194,784	13,997	448	767	209,996
Total	$	640,141	19,766	1,472	767	662,146

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 June 30, 2018 and December 31, 2017. No troubled debt restructurings performing according to modified terms are included in performing residential mortgages below as of June 30, 2018 and December 31, 2017.

		June 30, 2018				December 31, 2017		
(dollars in thousands)		Performing	Nonperforming	Total		Performing	Nonperforming	Total
Residential mortgage	$	36,070	978	37,048	$	22,154	249	22,403
Consumer		535	-	535		1,022	-	1,022
Leases		473	-	473		762	-	762
Total	$	37,078	978	38,056	$	23,938	249	24,187

(continued)

There were four nonperforming residential mortgage loans at June 30, 2018 and December 31, 2017 with a combined outstanding principal balance of $833 thousand and $826 thousand, respectively, 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.

	At June 30, 2018				At December 31, 2017			
(dollars in thousands)	Recorded investment	Principal balance	Related allowance	Average recorded investment	Recorded investment	Principal balance	Related allowance	Average recorded investment
Impaired loans with related allowance:								
Commercial mortgage	$ -	-	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	124	491	1	173
Home equity lines and loans	-	-	-	-	-	-	-	-
Residential mortgage	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Total	-	-	-	-	124	491	1	173
Impaired loans without related allowance:								
Commercial mortgage	$ 1,275	1,706	-	1,293	1,534	2,025	-	1,537
Commercial and industrial	4,081	4,228	-	4,215	1,907	3,180	-	2,945
Home equity lines and loans	-	-	-	-	137	137	-	137
Residential mortgage	978	978	-	981	249	249	-	249
Construction	1,867	1,867	-	1,813	260	260	-	267
Total	8,201	8,779	-	8,302	4,087	5,851	-	5,135
Grand Total	$ 8,201	8,779	-	8,302	4,211	6,342	1	5,308

Interest income recognized on performing impaired loans amounted to $73 thousand and $66 thousand for the three months ended June 30, 2018 and June 30, 2017, respectively, and $125 thousand and $150 thousand for the six months ended June 30, 2018 and June 30, 2017, respectively.

Troubled Debt Restructuring

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

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower were a concession not granted. The determination of whether a concession has been granted is 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 June 30, 2018 and December 31, 2017 are as follows:

(dollars in thousands)

	June 30, 2018	December 31, 2017
TDRs included in nonperforming loans and leases	$ 593	741
TDRs in compliance with modified terms	3,424	1,900
Total TDRs	$ 4,017	2,641

The following table presents information regarding loan and lease modifications granted during the three and six months ended June 30, 2018 that were categorized as TDRs:

(dollar in thousands)	For the Three and Six Months Ended June 30, 2018			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
Real Estate:				
Land and Construction	1	$ 1,614	$ 1,614	$ -
Commercial and industrial	1	120	120	-
Total	2	$ 1,734	$ 1,734	$ -

No loan and lease modifications granted during the three and six months ended June 30, 2018 subsequently defaulted during the same time period.

The following table presents information regarding loan and lease modifications granted during the six months ended June 30, 2017 that were categorized as TDRs:

(dollar in thousands)	For the Six Months Ended June 30, 2017			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
Real Estate:				
Commercial and industrial	1	$ 165	$ 165	$ -
Total	1	$ 165	$ 165	$ -

No loan and lease modifications granted during the six months ended June 30, 2017 subsequently defaulted during the same time period. There were no loan and lease modifications made for the three months ended June 30, 2017.

The following table presents information regarding the types of loan and lease modifications made for the three and six months ended June 30, 2018:

	For the Three and Six Months Ended June 30, 2018	
	Loan Term Extension	Interest Rate Change and Loan Term Extension
Land and Construction	1	-
Commercial and industrial	-	1
Total	1	1

The following table presents information regarding the types of loan and lease modifications made for the six months ended June 30, 2017:

	For the Six Months Ended June 30, 2017
	Interest Rate Change and Loan Term Extension
Commercial and industrial	1
Total	1

(continued)

(7) 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 the Federal Home Loan Bank of Pittsburgh ("FHLB"). The Bank has two Federal Funds borrowing facilities with correspondent banks: one of $10,000,000 and one of $20,000,000. 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 Federal funds purchased of $5,857,000 and $0 at June 30, 2018 and December 31, 2017, respectively. The Bank also has a facility with the Federal Reserve discount window of $11,734,210. This facility is secured by investment securities and loans. There were no borrowings under this facility at June 30, 2018.

Short-term borrowings as of June 30, 2018 consisted of short-term advances from the FHLB in the amount of $124,169,200 with interest at 2.10%, $2,500,000 with an original term of 5 years with interest at 1.92%, $1,800,000 with an original term of 4 years with interest at 1.70% and $1,200,000 with an original term of 2 years and interest at 0.97%. In addition, one short-term advance was from Atlantic Community Bankers Bank ("ACBB") in the amount of $5,857,000 with interest at 2.25%.

Short-term borrowings as of December 31, 2017 consisted of short-term advances from the FHLB in the amount of $93,750,000 with interest at 1.54%, $2,500,000 with an original term of 5 years and interest at 1.92%, $1,200,000 with an original term of 2 years and interest at 0.97%, $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%.

Long-term debt at June 30, 2018 and December 31, 2017 consisted of the following fixed rate notes with the FHLB and the acquisition purchase note issued in connection with HJ Wealth:

				Balance as of	
(dollars in thousands)	Maturity date	Interest rate		June 30, 2018	December 31, 2017
Mid-term Repo-fixed	06/26/19	1.70%		-	1,800
Mid-term Repo-fixed	08/10/20	2.76%		5,000	5,000
Acquisition Purchase Note	04/01/20	3.00%		1,650	2,063
			$	6,650	8,863

The FHLB has also issued $68,100,000 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 2018. The Bank has a maximum borrowing capacity with the FHLB of $404,040,024 as of June 30, 2018 and $380,159,142 as of December 31, 2017. All advances and letters of credit from the FHLB are secured by qualifying assets of the Bank.

(8) Stock-Based Compensation

The Bank's 2016 Stock Option Plan (2016 Plan) was amended on May 24, 2018 to authorize the Board of Directors to grant options up to an aggregate of 686,900 shares, adjusted for the 2016 5% stock dividend. A total of 114,950 shares have been granted under the 2016 plan through June 30, 2018. 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.

All awards granted under the 2016 Plan to date have a term that does not exceed ten years and vest and become fully exercisable after three years of service from the grant date.

The following table provides information about options outstanding for the three months ended June 30, 2018:

	Shares		Weighted Average Exercise Price		Weighted Average Grant Date Fair Value
Outstanding at March 31, 2018	209,353	$	15.00	$	4.05
Exercised	(8,298)	$	12.84	$	3.75
Granted	65,200	$	17.80	$	5.52
Forfeited	-	$	-	$	-
Outstanding at June 30, 2018	266,255	$	15.75	$	4.97
Exercisable at June 30, 2018	165,513	$	14.68		
Nonvested at June 30, 2018	100,742	$	17.51		

The following table provides information about options outstanding for the six months ended June 30, 2018:

	Shares		Weighted Average Exercise Price		Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	211,915	$	14.99	$	4.01
Exercised	(9,573)	$	12.57	$	3.42
Granted	66,200	$	17.80	$	5.58
Forfeited	(2,287)	$	17.71	$	4.30
Outstanding at June 30, 2018	266,255	$	15.75	$	4.97
Exercisable at June 30, 2018	165,513	$	14.68		
Nonvested at June 30, 2018	100,742	$	17.51		

The weighted average remaining contractual life of the outstanding stock options at June 30, 2018 is 7.9 years. The range of exercise prices is $9.88 to $19.00. The aggregate intrinsic value of options outstanding and exercisable was $597 thousand as of June 30, 2018.

The fair value of each option granted in 2018 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 2.86%, expected life of 5.75 years, and expected volatility of 26.11% based on an average of the Bank's share price since going public and the expected volatility of similar public financial institutions in the Bank's market area for the period before the Bank went public. The weighted average fair value of options granted in 2018 was $5.52 per share.

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.

Total stock compensation cost for the three months ended June 30, 2018 and June 30, 2017 was $272 thousand and $68 thousand, respectively, and for the six months ended June 30, 2018 and June 30, 2017 was $275 thousand and $90 thousand, respectively. During the three and six months ended June 30, 2018, there were no tax benefits recognized related to stock compensation cost.

As of June 30, 2018, there was $432 thousand of unrecognized compensation cost related to nonvested stock options. This cost will be recognized over a weighted average period of 1.46 years.

(9) 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.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018			
(dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Securities available for sale:				
U.S. government agency mortgage-backed securities	$ 21,991	-	21,991	-
U.S. government agency collateralized mortgage obligations	9,295	-	9,295	-
State and municipal securities	9,708	-	9,708	-
Investments in mutual funds and other equity securities	978	-	978	-
Mortgage loans held-for-sale	45,571	-	45,571	-
Mortgage loans held-for-investment	10,948	-	10,948	-
Interest rate lock commitments	424	-	-	424
Total	$ 98,915	-	98,491	424

(dollars in thousands)		December 31, 2017 Total	Level 1	Level 2	Level 3
Securities available for sale:					
U.S. government agency mortgage-backed securities	$	21,269	-	21,269	-
U.S. government agency collateralized mortgage obligations		7,778	-	7,778	-
State and municipal securities		9,959	-	9,959	-
Investments in mutual funds and other equity securities		1,001	-	1,001	-
Mortgage loans held-for-sale		35,024	-	35,024	-
Mortgage loans held-for-investment		9,972	-	9,972	-
Interest rate lock commitments		310	-	-	310
Total	$	85,313	-	85,003	310

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2018 and December 31, 2017 are as follows:

(dollars in thousands)		June 30, 2018 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$	8,201	-	-	8,201
Other real estate owned (1)		-	-	-	-
Total	$	8,201	-	-	8,201

(dollars in thousands)		December 31, 2017 Total	Level 1	Level 2	Level 3
Impaired loans (2)	$	4,685	-	-	4,685
Other real estate owned (1)		437	-	-	437
Total	$	5,122	-	-	5,122

(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.

(continued)

(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 Held for Sale

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

(d) Loans Receivable

The fair value of loans receivable is 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) Mortgage Loans Held for Investment

The fair value of mortgage loans held for investment is based on the price secondary markets are currently offering for similar loans using observable market data.

(f) 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.

(g) 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.

(h) Accrued Interest Receivable and Payable

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

(i) 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.

(j) Short-Term Borrowings

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

(k) Long-Term Debt

Fair values of FHLB advances and the acquisition purchase note payable 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.

(l) 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.

(continued)

(m) 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 June 30, 2018 and December 31, 2017 are as follows:

		June 30, 2018		December 31, 2017	
(dollars in thousands)	Fair Value Hierarchy Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Cash and cash equivalents	Level 1	$ 27,013	27,013	35,506	35,506
Securities available-for-sale	Level 2	41,972	41,972	40,006	40,006
Securities held-to-maturity	Level 2	12,801	12,659	12,861	12,869
Mortgage loans held-for-sale	Level 2	45,571	45,571	35,024	35,024
Loans receivable, net	Level 3	763,216	761,305	678,140	669,852
Mortgage loans held-for-investment	Level 2	10,957	10,948	9,788	9,972
Interest rate lock commitments	Level 3	424	424	310	310
Restricted investment in bank stock	Level 3	7,915	7,915	6,814	6,814
Accrued interest receivable	Level 3	2,713	2,713	2,536	2,536
Financial liabilities:					
Deposits	Level 2	683,250	678,600	627,109	626,635
Short-term borrowings	Level 2	135,526	135,526	99,750	99,750
Long-term debt	Level 2	6,650	6,653	8,863	8,865
Subordinated debentures	Level 2	9,308	9,418	13,308	12,883
Accrued interest payable	Level 2	237	237	216	216
Forward commitments	Level 2	200	200	75	75
Off-balance sheet financial instruments:		**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Commitments to extend credit	Level 2	$ 242,443	424	220,180	310
Letters of credit	Level 2	2,561	-	1,809	-

(10) Derivative Financial Instruments

Mortgage Banking Derivatives

In connection with its mortgage banking activities, the Bank enters into commitments to originate certain fixed rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Bank 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. Interest rate lock commitments are recorded within other assets and forward commitments are recorded within other liabilities on the consolidated balance sheets, with changes in fair values during the period recorded within net change in the fair value of derivative instruments on the unaudited consolidated statements of income.

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

(dollars in thousands)	June 30, 2018		December 31, 2017	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
Interest Rate Lock Commitments				
Positive fair values	$ 61,109	506	38,574	344
Negative fair values	12,943	(82)	7,201	(34)
Net interest rate lock commitments	74,052	424	45,775	310
Forward Commitments				
Positive fair values	2,500	-	6,500	5
Negative fair values	55,500	(200)	32,250	(80)
Net forward commitments	58,000	(200)	38,750	(75)
Net derivative fair value asset	$ 132,052	224	84,525	235

Interest rate lock commitments are considered Level 3 in the fair value hierarchy, while the forward commitments are considered Level 2 in the fair value hierarchy.

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

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Lock Commitments	$ (138)	262	114	(108)
Forward Commitments	(80)	126	(125)	328
Net fair value gains (losses) on derivative financial instrument	$ (218)	388	(11)	220

Realized gains/(losses) on derivatives were $4 thousand and ($558 thousand) for the three months ended June 30, 2018 and 2017, respectively, and $704 thousand and ($567 thousand) for the six months ended June 30, 2018 and 2017, respectively, and are included in other non-interest income in the unaudited consolidated statements of income.

(11) Segments

ASC Topic 280 – Segment Reporting identifies operating segments as components of an enterprise which are evaluated regularly by the Bank'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 generates interest income from its lending (including leasing) and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives revenues from other sources including gains on the sale of available for sale investment securities, gains on the sale of residential mortgage loans, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income.

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. The unit generates non-interest income through advisory fees.

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 Mortgage segment originates 1 – 4 family

(continued)

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 June 30, 2018				Three Months Ended June 30, 2017			
(dollars in thousands)	Bank	Wealth	Mortgage	Total	Bank	Wealth	Mortgage	Total
Net interest income	$ 7,964	62	120	8,146	$ 6,891	39	106	7,036
Provision for loan losses	(413)	-	-	(413)	(621)	-	-	(621)
Net interest income after provision	7,551	62	120	7,733	6,270	39	106	6,415
Non-interest Income								
Mortgage banking income	13	-	7,299	7,312	-	-	9,121	9,121
Wealth management income	62	926	-	988	112	757	-	869
Net change in the fair values related to mortgage loans	-	-	(171)	(171)	-	-	217	217
Other	459	-	80	539	328	-	(466)	(138)
Total non-interest income	534	926	7,208	8,668	440	757	8,872	10,069
Non-interest Expense								
Salaries and employee benefits	3,634	439	5,309	9,382	3,314	445	6,050	9,809
Occupancy & equipment	544	37	409	990	541	26	381	948
Professional fees	304	3	170	477	303	120	113	536
Advertising & promotion	361	110	160	631	242	79	197	518
Other	1,345	156	1,093	2,594	1,418	105	1,249	2,772
	6,188	745	7,141	14,074	5,818	775	7,990	14,583
Operating Margin	$ 1,897	243	187	2,327	$ 892	21	988	1,901

	Six Months Ended June 30, 2018				Six Months Ended June 30, 2017			
(dollars in thousands)	Bank	Wealth	Mortgage	Total	Bank	Wealth	Mortgage	Total
Net interest income	$ 15,490	146	202	15,838	$ 13,542	39	182	13,763
Provision for loan losses	(967)	-	-	(967)	(780)	-	-	(780)
Net interest income after provision	14,523	146	202	14,871	12,762	39	182	12,983
Non-interest Income								
Mortgage banking income	43	-	12,090	12,133	-	-	15,185	15,185
Wealth management income	90	1,976	-	2,066	215	757	-	972
Net change in the fair values related to mortgage loans	-	-	(138)	(138)	-	-	646	646
Other	773	-	890	1,663	644	-	(376)	268
Total non-interest income	906	1,976	12,842	15,724	859	757	15,455	17,071
Non-interest Expense								
Salaries and employee benefits	7,126	928	9,764	17,818	6,637	445	12,341	19,423
Occupancy & equipment	1,078	70	802	1,950	1,090	26	710	1,826
Professional feees	735	11	210	956	549	120	234	903
Advertising & promotion	616	208	388	1,212	492	79	369	940
Other	2,568	299	1,833	4,700	2,528	105	2,318	4,951
	12,123	1,516	12,997	26,636	11,296	775	15,972	28,043
Operating Margin	$ 3,306	606	47	3,959	$ 2,325	21	(335)	2,011

(12) Recent Litigation

On November 21, 2017, three former employees of the mortgage-banking division of the Bank filed suit in the United States District Court for the Eastern District of Pennsylvania, *Juan Jordan et al. v. Meridian Bank, Thomas Campbell and Christopher Annas*, against the Bank purporting to be a class and collective action seeking unpaid and overtime wages under the Fair Labor Standards Act of 1938, the New Jersey Wage and Hour Law, and the Pennsylvania Minimum Wage Act of 1968 on behalf of similarly situated plaintiffs. In February 2018, the Bank answered the complaint and presented affirmative defenses. In March 2018, plaintiffs' counsel and the Bank agreed to move forward with non-binding mediation. Although the Bank believes it has strong and meritorious defenses, given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, success on the merits, the Bank has recorded a $200 thousand reserve as a reasonable estimate for possible losses that may result from this action. This estimate may change from time to time, and actual losses could vary.

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(13) 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 our initial 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 Accounting Standards Update ("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 Financial Accounting Standards Board ("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 evaluating all revenue streams, accounting policies, practices and reporting to identify and understand any impact on the Bank's Consolidated Financial Statements and related disclosures.

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. ASU 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 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 2016-13 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 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 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. ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) clarifies certain aspects of ASU 2016-01 and has the same effective dates for non-public companies. The Bank is evaluating the effects that ASU 2016-01 and ASU 2018-03 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 amendment 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

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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 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 hedging strategies for which it plans to implement the ASU but we will consider the impact of the ASU on future hedging strategies that may arise.

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 year ended December 31, 2017 (the "2017 10-K") included in our Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation (the "FDIC").

Cautionary Statement Regarding Forward-Looking Statements

Meridian Bank ("Meridian" or 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.

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, and (ii) 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, 2017 and 2016 included in the 2017 10-K.

Recent Acquisitions

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

Executive Overview

The following items highlight the Bank’s results of operations for the three and six months ended June 30, 2018, as compared to the same periods in 2017, and the changes in its financial condition as of June 30, 2018 as compared to December 31, 2017. More detailed information related to these highlights can be found in the sections that follow.

Three Month Results of Operations

- Net income for common stockholders for the three months ended June 30, 2018 was $1.8 million, or $0.28 per diluted share, an increase of $847 thousand as compared to net income of $955 thousand for the same period in 2017.

- Return on average equity (“ROE”) and return on average assets (“ROA”) for the three months ended June 30, 2018 were 7.0% and 0.81%, respectively.

- Net interest income increased $1.1 million, or 15.8%, to $8.1 million for the three months ended June 30, 2018, as compared to $7.0 million for the same period in 2017.

- Provision for loan and lease losses (the “Provision”) of $413 thousand for the three months ended June 30, 2018 was a decrease of $208 thousand from the $621 thousand Provision recorded for the same period in 2017.

- Non-interest income of $8.7 million for the three months ended June 30, 2018 was a $1.4 million or 13.9% decrease from the same period in 2017.

- Mortgage banking income decreased $1.8 million, or 19.8%, to $7.3 million for the three months ended June 30, 2018, as compared to $9.1 million for the same period in 2017.

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- Non-interest expense of $14.1 million for the three months ended June 30, 2018 decreased $509 thousand, or 3.5%, from $14.6 million for the same period in 2017.

Six Month Results of Operations

- Net income for common stockholders for the six months ended June 30, 2018 was $3.1 million, or $0.48 per diluted share, an increase of $2.3 million as compared to net income of $768 million for the same period in 2017.

- ROE and ROA for the six months ended June 30, 2018 were 6.05% and 0.72%, respectively.

- Net interest income increased $2.1 million, or 15.1%, to $15.8 million for the six months ended June 30, 2018, as compared to $13.8 million for the same period in 2017.

- The Provision of $967 thousand for the six months ended June 30, 2018 was an increase of $187 thousand from the $780 thousand Provision recorded for the same period in 2017.

- Non-interest income of $15.7 million for the six months ended June 30, 2018 was a $1.4 million or 7.9% decrease from the same period in 2017.

- Mortgage banking income decreased $3.1 million, or 20.1%, to $12.1 million for the six months ended June 30, 2018, as compared to $15.2 million for the same period in 2017.

- Non-interest expense of $26.6 million for the six months ended June 30, 2018 decreased $1.4 million, or 5.0%, from $28.0 million for the same period in 2017.

Changes in Financial Condition

- Total assets of $945.4 million as of June 30, 2018 increased $89.4 million, or 10.4%, from $856.0 million as of December 31, 2017.

- Shareholders' equity of $104.4 million as of June 30, 2018 increased $3.0 million from $101.4 million as of December 31, 2017.

- Total portfolio loans and leases, excluding mortgage loans held for sale, as of June 30, 2018 were $781.6 million, an increase of $87.0 million, or 12.5%, from $694.6 million at December 31, 2017.

- Total non-performing loans and leases of $2.8 million represented 0.34% of portfolio loans and leases as of June 30, 2018 as compared to $3.2 million, or 0.43% of portfolio loans and leases, as of December 31, 2017.

- The $7.5 million allowance for loan losses ("Allowance'), as of June 30, 2018, represented 0.95% of portfolio loans and leases, as compared to $6.7 million, or 0.96% of portfolio loans and leases, as of December 31, 2017.

- Total deposits of $683.3 million as of June 30, 2018 increased $56.1 million, or 9.0%, from $627.1 million as of December 31, 2017.

Key Performance Ratios

Key financial performance ratios for the three and six months ended June 30, 2018 and 2017 are shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Annualized return on average equity	7.00%	7.20%	6.05%	3.92%
Annualized return on average assets	0.81%	0.66%	0.72%	0.37%
Net interest margin (tax effected yield)	3.88%	3.94%	3.89%	3.93%
Basic earnings per share	$ 0.28	$ 0.26	$ 0.48	$ 0.21
Diluted earnings per share	$ 0.28	$ 0.26	$ 0.48	$ 0.21

(continued)

The following table presents certain key period-end balances and ratios as of June 30, 2018 and December 31, 2017:

(dollars in thousands, except per share amounts)	June 30, 2018	December 31, 2017
Book value per common share	$ 16.31	$ 15.86
Tangible book value per common share	$ 15.47	$ 15.00
Allowance as a percentage of loans and leases held for investment	0.95%	0.96%
Tier I capital to risk weighted assets	12.03%	12.86%
Tangible common equity ratio (1)	10.53%	11.27%
Loans held for investment	$ 781,622	$ 694,637
Total assets	$ 945,435	$ 856,035
Shareholders' equity	$ 104,380	$ 101,363

(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:

(dollars in thousands) **Tangbile common equity ratio:**	June 30, 2018	December 31, 2017
Total stockholders' equity	104,380	101,363
Less:		
Goodwill	899	899
Intangible assets	4,460	4,596
Tangible common equity	99,021	95,868
Total assets	945,435	856,035
Less:		
Goodwill	899	899
Intangible assets	4,460	4,596
Tangible assets	940,076	850,540
Tangible common equity ratio	10.53%	11.27%

The following sections discuss, in detail, the Bank's results of operations for the three and six months ended June 30, 2018, as compared to the same periods in 2017, and the changes in its financial condition as of June 30, 2018 as compared to December 31, 2017.

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 tables below present a summary, for the three and six months ended June 30, 2018 and 2017, of the Bank's average balances and yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities. The net interest margin is the net interest income as a percentage of average interest-earning assets. The net interest spread is the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The difference between the net interest margin and the net interest spread is the results of net free funding sources such as noninterest deposits and stockholders' equity.

Total interest income for the three months ending June 30, 2018 was $10.8 million, which represented a $2.2 million, or 25.5%, increase compared with the three months ending June 30, 2017. The increase in income was attributable to a $124.8 million increase in average earning assets, year over year, helped by an increase of 30 basis points in yield on earning assets, to 5.12% from 4.82%, for same period in 2017. The commercial loan portfolio and shared national credits loan portfolio yields, in particular, rose 77 and 60 basis points, respectively. Total interest expense rose $1.1 million or 68.5% to $2.7 million for the second quarter of 2018, compared with $1.6 million for the second quarter of 2017. The increase was primarily due to an increase in average interest bearing deposits of $121.3 million, year over year, as well as an overall increase of 50 basis points in the cost of interest-bearing funds reflective of the overall increase in market rates.

Net interest income increased $1.1 million, or 15.8%, to $8.1 million for the three months ended June 30, 2018, compared to $7.0 million for the three months ended June 30, 2017. The net-interest margin remained strong for the second quarter of 2018 at 3.88%, compared with 3.94% for the second quarter of 2017. The strength in the Bank's net-interest margin reflects the size and asset quality of the loan portfolio, as well as the $6.7 million or 6.7% increase in average non-interest bearing deposits period over period.

Total interest income for the six months ending June 30, 2018 was $20.6 million, which represented a $3.9 million, or 23.2%, increase compared with the six months ending June 30, 2017. The increase in income was attributable to a $112.7 million increase in average earning assets, year over year, helped by an increase of 29 basis points in yield on earning assets, to 5.03% from 4.74%, for same period in 2017. The commercial loan portfolio and home equity loan portfolio yields, in particular, rose 59 and 47 basis points, respectively. Total interest expense rose $1.8 million or 61.2% to $4.8 million for the first six months of 2018, compared with $3.0 million for the first six months of 2017. The year-over-year increase was primarily due to an increase in average interest bearing deposits of $114.6 million, year over year, as well as an overall increase of 42 basis points in the cost of interest-bearing funds reflective of the overall increase in market rates.

Net interest income increased $2.1 million, or 15.1%, to $15.8 million for the six months ended June 30, 2018, compared to $13.8 million for the six months ended June 30, 2017. The net-interest margin remained strong for the first six months of 2018 at 3.89%, compared with 3.93% for the first six months of 2017. The strength in the Bank's net-interest margin reflects the size and asset quality of the loan portfolio, as well as the $9.9 million or 10.2% increase in average non-interest bearing deposits period over period.

(continued)

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 June 30,	2018			2017		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yields/ rates	Average Balance	Interest Income/ Expense	Yields/ rates
Assets						
Interest-earning assets						
Due from banks	$ 4,471	18	1.60%	$ 6,003	15	1.01%
Federal funds sold	993	4	1.73%	596	1	0.96%
Investment securities (1)	52,662	305	2.32%	50,256	277	2.24%
Loans held for sale	28,884	315	4.36%	28,357	282	3.93%
Loans held for investment (1)	758,141	10,194	5.37%	635,125	8,081	5.10%
Total loans	787,025	10,509	5.33%	663,482	8,363	5.05%
Total interst-earning assets	845,151	10,836	5.12%	720,337	8,656	4.82%
Noninterest earning assets	44,079			36,654		
Total assets	$ 889,230			$ 756,991		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 112,534	317	1.13%	$ 74,980	92	0.49%
Money market and savings deposits	224,135	726	1.30%	215,412	452	0.84%
Time deposits	241,854	985	1.63%	166,820	426	1.03%
Total deposits	578,523	2,028	1.41%	457,212	970	0.85%
Short-term borrowings	79,032	413	2.10%	101,630	301	1.20%
Long-term borrowings	6,650	47	2.83%	8,700	66	3.08%
Total Borrowings	85,682	460	2.16%	110,330	367	1.34%
Subordinated Debentures	9,308	175	7.52%	13,376	243	7.28%
Total interest-bearing liabilities	673,513	2,663	1.59%	580,918	1,580	1.09%
Noninterest-bearing deposits	106,863			100,164		
Other noninterest-bearing liabilities	5,630			6,672		
Total liabilities	$ 786,006			$ 687,754		
Total stockholders' equity	103,224			69,237		
Total stockholders' equity and	$ 889,230			$ 756,991		
Net interest income		$ 8,173			$ 7,076	
Net interest spread			3.53%			3.73%
Net interest margin			3.88%			3.94%

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

(continued)

For the Six Months Ended June 30,	2018			2017		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yields/ rates	Average Balance	Interest Income/ Expense	Yields/ rates
Assets						
Interest-earning assets						
Due from banks	$ 4,820	36	1.53%	$ 12,716	38	0.60%
Federal funds sold	940	9	1.90%	780	3	0.78%
Investment securities [1]	52,401	609	4.66%	48,892	534	2.20%
Loans held for sale	26,615	555	4.17%	25,676	500	3.89%
Loans held for investment [1]	738,452	19,450	5.24%	622,507	15,731	5.07%
Total loans	765,067	20,005	5.24%	648,183	16,231	5.02%
Total interst-earning assets	823,228	20,659	5.03%	710,571	16,806	4.74%
Noninterest earning assets	40,956			27,075		
Total assets	$ 864,184			$ 737,646		
Liabilities and stockholders' equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 102,996	499	0.98%	$ 73,291	169	0.46%
Money market and savings deposits	223,035	1,293	1.17%	208,375	857	0.83%
Time deposits	242,158	1,895	1.58%	171,915	846	0.99%
Total deposits	568,189	3,687	1.31%	453,581	1,872	0.83%
Short-term borrowings	63,809	633	2.00%	85,260	471	1.11%
Long-term borrowings	6,756	93	2.78%	12,698	133	2.11%
Total Borrowings	70,565	726	2.08%	97,958	604	1.24%
Subordinated Debentures	9,639	354	7.40%	13,376	481	7.25%
Total interest-bearing liabilities	648,393	4,767	1.48%	564,915	2,957	1.06%
Noninterest-bearing deposits	107,616			97,673		
Other noninterest-bearing liabilities	5,742			5,846		
Total liabilities	$ 761,751			$ 668,434		
Total stockholders' equity	102,433			69,212		
Total stockholders' equity and liabilities	$ 864,184			$ 737,646		
Net interest income		$ 15,892			$ 13,849	
Net interest spread			3.55%			3.69%
Net interest margin			3.89%			3.93%

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

(continued)

Rate/Volume Analysis (tax-equivalent basis)

The rate/volume analysis 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 six months ended June 30, 2018 as compared to the same periods in 2017, 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.

	2018 Compared to 2017					
	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest income:						
Due from banks	$ 24	(21)	3	$ 66	(68)	(2)
Federal funds sold	2	1	3	5	1	6
Investment securities [(1)]	13	15	28	70	5	75
Loans held for sale	28	5	33	36	19	55
Loans held for investment [(1)]	447	1,666	2,113	583	3,136	3,719
Total loans	475	1,671	2,146	619	3,155	3,774
Total interest income	$ 514	1,666	2,180	$ 760	3,093	3,853
Interest expense:						
Interest checking	$ 162	63	225	$ 243	87	330
Money market and savings deposits	255	19	274	372	64	436
Time deposits	318	241	559	620	429	1,049
Total interest-bearing deposits	735	323	1,058	1,235	580	1,815
Short-term borrowings	504	(392)	112	486	(324)	162
Long-term borrowings	(5)	(14)	(19)	85	(125)	(40)
Total borrowings	499	(406)	93	571	(449)	122
Subordinated debentures	51	(119)	(68)	29	(156)	(127)
Total interest expense	1,285	(202)	1,083	1,835	(25)	1,810
Interest differential	$ (771)	1,868	1,097	$ (1,075)	3,118	2,043

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

For the three months ended June 30, 2018 as compared to the same period in 2017, the favorable change in net interest income due to volume changes was driven largely from growth in the loan portfolio, which increased $123.5 million on average over the three month periods. This increase contributed $1.7 million to interest income. Total investment securities, cash and cash equivalents were relatively flat, period over period. On the funding side, interest checking and money market accounts together rose $46.3 million on average, reducing net interest income by $82 thousand. Time deposits increased $75 million on average, causing an increase to interest expense of $241 thousand. Lower levels of borrowings, down $24.7 million on average affected net interest income $406 thousand favorably, and lower levels of subordinated debt contributed $119 thousand to the net interest income over the three month periods compared.

For the three months ended June 30, 2018 as compared to the same period in 2018, the unfavorable change in net interest income due to rate changes was driven largely from the increase in cost of funds, particularly from wholesale funding such as borrowings and time deposits, which rose 82 and 60 basis points, respectively. Core deposits, such as interest checking and money market accounts rose 64 and 46 basis points, respectively. These unfavorable rate changes were partially offset by favorable rate changes in interest earning assets. Overall, the increase in interest income from volume changes contributed $1.9 million and out-paced the unfavorable rate changes to improve net interest income by $1.1 million.

For the six months ended June 30, 2018 as compared to the same period in 2017, the favorable change in net interest income due to volume changes was driven largely from growth in the loan portfolio, which increased $116.9 million on average over

(continued)

the six month periods. This increase contributed $3.2 million to interest income. Total investment securities, cash and cash equivalents were relatively flat, period over period. On the funding side, interest checking and money market accounts together rose $44.4 million on average, reducing net interest income by $151 thousand. Time deposits increased $70.2 million on average, causing an increase to interest expense of $429 thousand. Lower levels of borrowings, down $27.4 million on average affected net interest income $449 thousand favorably, and lower levels of subordinated debt contributed $156 thousand to the net interest income over the six month periods compared.

For the six months ended June 30, 2018 as compared to the same period in 2017, the unfavorable change in net interest income due to rate changes was driven largely from the increase in cost of funds, particularly from wholesale funding such as borrowings and time deposits, which rose 84 and 59 basis points, respectively. Core deposits, such as interest checking and money market accounts rose 52 and 34 basis points, respectively. These unfavorable rate changes were partially offset by favorable rate changes in interest earning assets. Overall, the increase in interest income from volume changes contributed $3.1 million to interest income and out-paced the unfavorable rate changes to improve net interest income by $2.0 million.

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"), and listing services.

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 Bank'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. The simulation assumes rate shifts occur upward and downward on the yield curve in even increments over the first twelve months (ramp). 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 June 30, 2018		Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2017	
(dollars in thousands)	**Amount**	**Percentage**	**Amount**	**Percentage**
+300 basis points	$ (43)	(0.14) %	$ 135	0.48 %
+200 basis points	$ (40)	(0.13) %	$ 74	0.26 %
+100 basis points	$ (21)	(0.07) %	$ 38	0.13 %
-100 basis points	$ 19	0.06 %	$ (45)	(0.16) %

The above interest rate simulation suggests that the Bank's balance sheet has shifted to slightly liability sensitive as of June 30, 2018 from December 31, 2017. The table indicates that a 100, 200 or 300 basis point increase in interest rates would have a modestly negative impact from rising rates on net interest income over the next 12 months. The simulated exposure to a change in interest rates is contained, manageable and well within policy guidelines. The results continue to drive our funding strategy of increasing relationship-based accounts (core deposits) and utilizing term deposits to fund short to medium duration assets.

(continued)

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, these loans 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 tables present the interest rate gap analysis of our assets and liabilities as of June 30, 2018 and December 31, 2017.

As of June 30, 2018

(dollars in thousands)		12 Months or Less	1-2 Years	2-5 Years	Greater Than 5 years and Not Rate Sensitive	Total
Cash and investments	$	51,926	7,561	8,748	13,551	81,786
Loans, net (1)		455,590	83,874	236,458	51,271	827,193
Other Assets		-	-	-	36,456	36,456
Total Assets		507,516	91,435	245,206	101,278	945,435
Liabilities and Equity:						
Noninterest-bearing deposits		12,849	7,871	15,710	70,512	106,942
Interest-bearing deposits		325,301	-	-	-	325,301
Time deposits		216,011	30,185	4,811	-	251,007
FHLB advances		129,669	-	5,000	-	134,669
Other Liabilities		-	-	-	23,136	23,136
Total stockholders' equity		-	-	-	104,380	104,380
Total liabilities and stockholders' equity	$	683,830	38,056	25,521	198,028	945,435
Repricing gap-positive						
(Negative) Positive	$	(176,314)	53,379	219,685	(96,750)	-
Cumulative repricing gap: Dollar amount	$	(176,314)	(122,935)	96,750	-	
Percent of total assets		(18.65)%	(13.00)%	10.23%	-	

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

(continued)

As of December 31, 2017						
(dollars in thousands)		12 Months or Less	1-2 Years	2-5 Years	Greater Than 5 years and Not Rate Sensitive	Total
Cash and investments	$	26,648	7,475	8,523	52,542	95,188
Loans, net (1)		420,500	75,629	202,736	30,794	729,659
Other Assets		-	-	-	31,188	31,188
Total Assets		447,148	83,104	211,259	114,524	856,035
Liabilities and Equity:						
Noninterest-bearing deposits		11,414	10,116	23,960	54,964	100,454
Interest-bearing deposits		253,664	27,291	27,292	-	308,247
Time deposits		159,808	52,830	5,770	-	218,408
FHLB advances		99,750	1,800	7,063	13,308	121,921
Other Liabilities		-	-	-	5,642	5,642
Total stockholders' equity		-	-	-	101,363	101,363
Total liabilities and stockholders' equity	$	524,636	92,037	64,085	175,277	856,035
Repricing gap-positive						
(Negative) Positive		(77,488)	(8,933)	147,174	(60,753)	-
Cumulative repricing gap: Dollar amount	$	(77,488)	(86,421)	60,753	-	
Percent of total assets		(9.05)%	(10.10)%	6.88%	-	

[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 core 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, using a strategy that is focused on increasing our concentration of relationship-based transaction accounts through efforts of our business developers and new branches. 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 June 30, 2018, the Bank recorded a Provision of $413 thousand which was a $208 thousand decrease from the same period in 2017. Net charge-offs for the three months ended June 30, 2018 were $102 thousand as compared to $116 thousand for the same period in 2017. The decreased provision for the period relates to the improved credit quality in the loan portfolio in addition to the increased level of allowance for loan and lease loss coverage when compared to non-performing loans, despite loan growth.

For the six months ended June 30, 2018, the Bank recorded a Provision of $967 thousand which was a $187 thousand increase from the same period in 2017. Net charge-offs for the six months ended June 30, 2018 were $227 thousand as compared to $9 thousand of net recoveries for the same period in 2017. The increased provision for the period relates to the significant level of loan growth over the first six months of 2018, in addition to the impact of the net recoveries recorded in the prior period.

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Asset Quality and Analysis of Credit Risk

As of June 30, 2018, total nonperforming loans and leases decreased by $311 thousand, to $2.8 million, representing 0.34% of loans and leases held-for-investment, compared to $3.2 million, or 0.45% of loans and leases held-for-investment, as of December 31, 2017. The decrease to nonperforming loans resulted from the pay-downs in the commercial and industrial portfolio as well as in the commercial mortgage portfolio.

As of June 30, 2018 the Allowance represented 0.95% of loans and leases held-for-investment, while at December 31, 2017 the Allowance represented 0.96%. The Allowance to non-performing loans increased from 212.51% as of December 31, 2017 to 261.83% as of June 30, 2018.

As of June 30, 2018, the Bank did not have OREO, as compared to $437 thousand as of December 31, 2017. The balance of OREO as of December 31, 2017 was comprised of one foreclosure, which consisted of two properties. These properties were sold in the quarter ended June 30, 2018 and the Bank recorded a gain on sale of $57 thousand which is recorded in non-interest income. All OREO properties are recorded at the lower of cost or fair value less cost to sell.

As of June 30, 2018, the Bank had $4.0 million of troubled debt restructurings ("TDRs"), of which $3.4 million were in compliance with the modified terms and excluded from non-performing loans and leases. As of December 31, 2017, the Bank had $2.6 million of TDRs, of which $1.9 million were in compliance with the modified terms, and were excluded from non-performing loans and leases. As of June 30, 2018, the Bank had a recorded investment of $6.8 million of impaired loans and leases which included $4.0 million of TDRs.

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.

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Nonperforming Assets and Related Ratios

	As of	
(dollars in thousands)	**June 30, 2018**	**December 31, 2017**
Non-performing assets:		
Nonaccrual loans:		
Real estate loans:		
Commercial mortgage	$ 464	$ 414
Home equity lines and loans	86	137
Residential mortgage	1,784	1,084
Commercial construction	-	185
Total real estate loans	$ 2,334	$ 1,820
Commercial and industrial	466	1,326
Total nonaccrual loans	$ 2,800	$ 3,146
Loans 90 days or more past due and accruing	45	11
Other real estate owned	-	437
Total non-performing loans	$ 2,845	3,157
Total non-performing assets	$ 2,845	3,594
Troubled debt restructurings:		
TDRs included in non-performing loans	593	741
TDRs in compliance with modified terms	3,424	1,900
Total TDRs	$ 4,017	$ 2,641
Asset quality ratios:		
Non-performing assets to total assets	0.30%	0.42%
Non-performing loans to:		
Total loans	0.34%	0.43%
Total loans held-for-investment	0.36%	0.45%
Allowance for loan losses to:		
Total loans	0.90%	0.92%
Total loans held-for-investment	0.95%	0.96%
Non-performing loans	261.83%	212.51%
Total loans and leases	$ 827,193	$ 729,661
Total loans and leases held-for-investment	$ 781,622	$ 694,637
Allowance for loan and lease losses	$ 7,449	$ 6,709

NONINTEREST INCOME

Three Months Ended June 30, 2018 Compared to the Same Period in 2017

Total non-interest income for the second quarter of 2018 was $8.7 million, down $1.4 million, or 13.9%, from the second quarter of 2017. The overall decrease in non-interest income came primarily from our mortgage division. Mortgage banking income decreased $1.8 million, or 19.8%, from $9.1 million for the three months ended June 30, 2017 to $7.3 million for three months ended June 30, 2018. This decrease was due to lower levels of loans sold, which was $159 million for the three months ended June 30, 2018, compared to $180 million for the same period in 2017. The margin over this period decreased 60 basis points. Realized gains on derivatives related to mortgage banking, included in other non-interest income, increased $562 thousand for the three months ended June 30, 2018 to $4 thousand, compared to a loss of ($558) thousand for the same period in 2017. The increase in realized gains was offset somewhat by a $388 thousand decline in fair value adjustments related to mortgage banking to ($171) thousand from $217 thousand for the same period in 2017. These trends are typical in a rising rate environment as the hedge works to offset the lower fair value of the mortgage pipeline. Wealth management

(continued)

revenue increased $119 thousand to $988 thousand for the three months ended June 30, 2018 compared to $869 thousand for the same period in 2017.

Six Months Ended June 30, 2018 Compared to the Same Period in 2017

Total non-interest income for the six months ended June 30, 2018 was $15.7 million, down $1.4 million, or 7.9%, from the same period in 2017. The overall decrease in non-interest income came primarily from our mortgage division. Mortgage banking income decreased $3.1 million, or 20.1%, from $15.2 million for the six months ended June 30, 2017 to $12.1 million for six months ended June 30, 2018. This decrease was due to lower levels of loans sold, which was $287.1 million for the six months ended June 30, 2018, compared to $326.4 million for the same period in 2017. The margin over this period decreased 21 basis points. Realized gains on derivatives related to mortgage banking, included in other non-interest income, increased $1.3 million for the six months ended June 30, 2018 to $704 thousand, compared to a loss of ($567) thousand for the same period in 2017. The increase in realized gains was offset somewhat by a $784 thousand decline in fair value adjustments related to mortgage banking to ($138) thousand from $646 thousand for the same period in 2017. As noted above, these trends are typical in a rising rate environment as the hedge works to offset the lower fair value of the mortgage pipeline. Wealth management revenue increased $1.1 million to $2.1 million for the six months ended June 30, 2018 compared to $972 thousand for the same period in 2017, due primarily to the acquisition in our Wealth Division in April of 2017.

NONINTEREST EXPENSE

Three Months Ended June 30, 2018 Compared to the Same Period in 2017

Non-interest expense was $14.1 million for the second quarter of 2018, down $509 thousand, or 3.5%, from $14.6 million in the second quarter of 2017. The decrease is mainly attributable to a reduction in salaries and employee benefits expense, which decreased $427 million or 4.4%, as full-time equivalent employees, particularly in the mortgage division were reduced. In addition, loan expenses decreased $513 thousand, or 41.5%, reflecting the lower level of mortgage originations. Occupancy and equipment expenses increased $42 thousand or 4.4% and advertising and promotion increased $113 thousand or 21.8%, respectively, were up due primarily to the new business locations. Professional fees decreased $59 thousand, or 11.0%, due to professional fees being higher in the prior year period related to the acquisition of HJ Wealth. Other expenses were up period over period by $327 thousand or 30.3%. The increase was primarily the result of a $200 thousand reserve established for the open litigation as well as higher levels of other employee-related expenses, shares tax expense, and OREO expense.

Six Months Ended June 30, 2018 Compared to the Same Period in 2017

Non-interest expense was $26.6 million for six months ended June 30, 2018, down $1.4 million, or 5.0%, from $28.0 million in the 2017. The decrease is mainly attributable to a reduction in salaries and employee benefits expense, which decreased $1.6 million or 8.3%, as full-time equivalent employees, particularly in the mortgage division were reduced. In addition, loan expenses decreased $815 thousand, or 40.6%, reflecting the lower level of mortgage originations. Occupancy and equipment expenses increased $124 thousand or 6.8% and advertising and promotion increased $272 thousand or 28.9%, respectively, were up due primarily to the new business locations. Professional fees increased $53 thousand, or 5.9%, due to increased legal and accounting fees related to public filings. Other expenses were up period over period by $625 thousand or 29.6%. The increase was primarily the result of the $200 thousand litigation reserve noted above, higher levels of other employee-related expenses, shares tax expense, OREO expense, as well as $136 thousand of amortization of intangibles related to the acquisition of HJ Wealth.

INCOME TAXES

Income tax expense for the three months ended June 30, 2018 was $525 thousand, as compared to $657 thousand for the same period in 2017, despite the increase in pre-tax income over this period. The Federal statutory tax rate was 34% for the second quarter of 2017 and 21% for the second quarter of 2018. The decreases in income tax expense and the Federal statutory tax rate were attributable to the change in tax rates due to the enactment of the Tax Cuts and Jobs Act, which was effective January 1, 2018.

Income tax expense for the six months ended June 30, 2018 was $887 thousand, as compared to $665 thousand for the same period in 2017. The increase in income tax expense was attributable to the significant increase in earnings, period over period,

(continued)

offset by the change in the Federal corporate income tax rate. The Federal statutory tax rate was 34% for the first six months of 2017 and 21% for the first six months of 2018.

BALANCE SHEET ANALYSIS

As of June 30, 2018, total assets were $945.4 million compared with $856.0 million as of December 31, 2017. Total assets increased $89.4 million, or 10.4%, mostly due to net new loans of $96.8 million, partially offset by lower levels of cash.

Total loans, excluding mortgage loans held for sale, grew $87.0 million, or 12.5%, to $781.6 million as of June 30, 2018, from $694.6 million as of December 31, 2017. The increase in loans for this period is attributable to several commercial categories as the Bank continues to grow its presence in the Philadelphia market area. Commercial loans increased $22.2 million, or 14.3%, during the first six months of the year. Commercial real estate and commercial construction loans combined increased $35.5 million, or 9.7%, during the first six months of the year. Residential loans held in portfolio increased $15.4 million, or 47.2%, during the first six months as certain loan products or terms were targeted to hold in portfolio. The residential mortgage loans-for-sale portfolio was $45.6 million and $35.0 million as of June 30, 2018, and December 31, 2017 respectively, reflecting the seasonality of the cycle.

Deposits were $683.3 million as of June 30, 2018, up $56.1 million, or 9.0%, from the prior year. Non-interest bearing deposits increased $6.5 million, or 6.5%, from December 31, 2017. New business relationships fueled the increases. Money market accounts/savings accounts decreased $11.3 million, or 5.0%, since December 31, 2017 while interest-bearing checking accounts increased $28.4 million, or 34.7%, since December 31, 2017, reflecting the customer's preference for checking accounts over money market accounts. Certificates of deposit increased $32.6 million, or 14.9%, during the first six months of the year and $79.2 million, or 46.1%, year over year as a result of wholesale funds management in the rising rate environment.

Capital

Consolidated shareholder's equity of the Bank was $104.4 million, or 11.0% of total assets as of June 30, 2018, as compared to $101.4 million, or 11.8% of total assets as of December 31, 2017. The following table presents the Bank's capital ratios and the minimum capital requirements to be considered "well capitalized" by regulators as of June 30, 2018 and December 31, 2017:

	June 30, 2018					
(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)	$ 116,503	14.07%	$ 66,250	8.00%	$ 82,812	10.00%
Common equity tier 1 capital						
(to risk-weighted assets)	99,636	12.03%	37,265	4.50%	53,828	6.50%
Tier 1 capital (to risk-weighted assets)	99,636	12.03%	49,687	6.00%	66,250	8.00%
Tier 1 capital (to average assets)	99,636	11.28%	35,327	4.00%	44,159	5.00%

	December 31, 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)	$ 117,239	15.53%	$ 60,376	8.00%	$ 75,469	10.00%
Common equity tier 1 capital						
(to risk-weighted assets)	101,661	12.86%	33,961	4.50%	49,055	6.50%
Tier 1 capital (to risk-weighted assets)	97,084	12.86%	45,282	6.00%	60,376	8.00%
Tier 1 capital (to average assets)	97,084	12.37%	31,582	4.00%	39,478	5.00%

* Excludes capital conservation buffer of 1.25% for 2017 and 1.875% for 2018.

(continued)

The capital ratios for the Bank, as of June 30, 2018, 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, 2017 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, and 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 $128.0 million at June 30, 2018, compared to $125.9 million at December 31, 2017, includes investments, shared national credit portfolio ("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 $11.7 million at June 30, 2018. 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 June 30, 2018, Meridian's maximum borrowing capacity with the FHLB was $404.0 million. At June 30, 2018, Meridian had borrowed $134.7 million and the FHLB had issued letters of credit, on Meridian's behalf, totaling $68.1 million against its available credit lines. At June 30, 2018, Meridian also had available $24.2 million of unsecured federal funds lines of credit with other financial institutions as well as $94.5 million of available short or long term funding through the Certificate of Deposit Account Registry Service ("CDARS") program and $28.9 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

As of June 30, 2018, the Bank has three principal segments as defined by FASB ASC 280, "*Segment Reporting.*" The segments are Banking, Mortgage Banking and Wealth Management (see Note 11 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Banking Segment recorded net income before tax ("operating margin") of $1.9 million and $3.3 million for the three and six months ended June 30, 2018, respectively, as compared to operating margin of $892 thousand and $2.3 million for the same respective periods in 2017. The Banking Segment provided 81.5% and 83.5% of the Bank's pre-tax profit for the three and six month periods ended June 30, 2018, respectively, as compared to 46.9% and 115.7% for the same respective periods in 2017.

The Wealth Management Segment recorded operating margin of $243 thousand and $606 thousand for the three and six months ended June 30, 2018, respectively, as compared to operating margin of $21 thousand for the same respective periods in 2017. Prior to our wealth management expansion due to the acquisition in April of 2017, revenue and expenses for wealth management services were immaterial and were included in the Banking Segment.

The Mortgage Banking Segment recorded operating margin of $187 thousand and $47 thousand for the three and six months ended June 30, 2018, respectively, as compared to operating margin of $988 thousand for the three months ended June 30, 2017 and an operating loss of $337 thousand for the six month period ended June 30, 2017. Mortgage Banking income and expenses decreased as origination volume declines seasonally. Loans sold were $159 million for the three months ended June 30, 2018, compared to $180 million for the same period in 2017, while loans sold for the six months ended June 30, 2018 were $287.1 million, compared to $326.4 million for the same period in 2017.

(continued)

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 June 30, 2018 were $244.8 million, as compared to $220.2 million at December 31, 2017.

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 June 30, 2018 amounted to $451 thousand, as compared to $1.8 million at December 31, 2017.

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

See "Part II, Item 1. Legal Proceedings" below for information regarding a lawsuit filed in November 2017 against the Bank.

Regulatory Update

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), which was designed to ease certain restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, was enacted into law on May 24, 2018. Most of the changes made by the Act can be grouped into five general areas: mortgage lending; certain regulatory relief for "community" banks; enhanced consumer protections in specific areas, including subjecting credit reporting agencies to additional requirements; certain regulatory relief for large financial institutions, including increasing the threshold at which institutions are classified a systemically important financial institutions (from $50 billion to $250 billion) and therefore subject to stricter oversight, and revising the rules for larger institution stress testing; and certain changes to federal securities regulations designed to promote capital formation. Some of the key provisions of the Act as it relates to community banks and bank holding companies include, but are not limited to: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidate assets not less than 8% or more than 10% and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; and (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings. The Bank continues to analyze the changes implemented by the Act and further rulemaking from federal banking regulators, but, at this time, does not believe that such changes will materially impact the Bank's business, operations, or financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

See the discussion of quantitative and qualitative disclosures about market risks 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.

Item 4. Controls and Procedures

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 June 30, 2018. 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 June 30, 2018 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 June 30, 2018 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 November 21, 2017, three former employees of the mortgage-banking division of the Bank filed suit in the United States District Court for the Eastern District of Pennsylvania, *Juan Jordan et al. v. Meridian Bank, Thomas Campbell and Christopher Annas*, against the Bank purporting to be a class and collective action seeking unpaid and overtime wages under the Fair Labor Standards Act of 1938, the New Jersey Wage and Hour Law, and the Pennsylvania Minimum Wage Act of 1968 on behalf of similarly situated plaintiffs. In February 2018, the Bank answered the complaint and presented affirmative defenses. In March 2018, plaintiffs' counsel and the Bank agreed to move forward with non-binding mediation. Although the Bank believes it has strong and meritorious defenses, given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, success on the merits, the Bank has recorded a $200 thousand reserve as a reasonable estimate for possible losses that may result from this action. This estimate may change from time to time, and actual losses could vary.

Item 1A. Risk Factors.

Not applicable.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

In May 2017, shareholders of the Bank approved and adopted the Plan of Merger and Reorganization among Meridian Bank, Meridian Interim Bank and Meridian Corporation, whereby, among other things, Meridian Bank will merge with and into Meridian Interim Bank and become a wholly owned subsidiary of Meridian Corporation, with shareholders of Meridian Bank receiving one share of Meridian Corporation common stock, par value $1.00 per share in exchange for each share of common stock of Meridian Bank presently owned. As permitted by the terms of the Plan of Merger and Reorganization, the Board of

(continued)

Directors of the Bank restructured the transaction such that Meridian Interim Bank will merge with and into Meridian Bank. All other aspects of the transaction remain unchanged, and shareholders of Meridian Bank receiving one share of Meridian Corporation common stock, par value $1.00 per share in exchange for each share of common stock of Meridian Bank presently owned. Applications for the restructured transaction have been approved by the Federal Reserve, the FDIC and the Pennsylvania Department of Banking and Securities. We anticipate completing this transaction during the third quarter of 2018.

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 48.

(continued)

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: August 14, 2018

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)

(continued)

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, 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: August 14, 2018

/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, 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: August 14, 2018

/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 June 30, 2018 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: August 14, 2018

(continued)