UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 **March 31, 2021**

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number: **000-55983**

(Exact name of registrant as specified in its charter)

Pennsylvania	**83-1561918**
(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)

Title of class	**Trading Symbol**	**Name of exchange on which registered**
Common Stock, $1 par value	MRBK	The NASDAQ Stock Market

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒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 ☒	Smaller Reporting Company ☒
Emerging Growth Company ☒	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 13, 2021 there were 6,171,550 outstanding shares of the issuer's common stock, par value $1.00 per share.

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MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands, except per share data)	**March 31, 2021**	**December 31, 2020**
Cash and due from banks	$ 23,072	34,190
Federal funds sold	7,932	2,554
Cash and cash equivalents	31,004	36,744
Securities available-for-sale (amortized cost of $133,341 and $120,215 as of March 31, 2021 and December 31, 2020)	134,165	123,562
Securities held-to-maturity (fair value of $6,772 and $6,857 as of March 31, 2021 and December 31, 2020)	6,476	6,510
Equity investments	1,013	1,031
Mortgage loans held for sale (amortized cost of $169,925 and $225,007 as of March 31, 2021 and December 31, 2020), at fair value	170,248	229,199
Loans, net of fees and costs (includes $13,590 and $12,182 of loans at fair value, amortized cost of $13,007 and $11,514 as of March 31, 2021 and December 31, 2020)	1,354,551	1,284,764
Allowance for loan and lease losses	(18,376)	(17,767)
Loans, net of the allowance for loan and lease losses	1,336,175	1,266,997
Restricted investment in bank stock	5,114	7,861
Bank premises and equipment, net	8,080	7,777
Bank owned life insurance	12,204	12,138
Accrued interest receivable	5,567	5,482
Deferred income taxes	2,531	62
Servicing assets	8,278	5,617
Goodwill	899	899
Intangible assets	3,533	3,601
Other assets	18,690	12,717
Total assets	$ 1,743,977	1,720,197
Liabilities:		
Deposits:		
Non-interest bearing	$ 257,730	203,843
Interest bearing	1,125,860	1,037,492
Total deposits	1,383,590	1,241,335
Short-term borrowings	26,376	106,862
Long-term debt	122,884	165,546
Subordinated debentures	40,701	40,671
Accrued interest payable	743	1,154
Other liabilities	26,178	23,007
Total liabilities	1,600,472	1,578,575
Stockholders' equity:		
Common stock, $1 par value. Authorized 10,000,000 shares; issued 6,487,695 and 6,455,566 as of March 31, 2021 and December 31, 2020	6,488	6,456
Surplus	81,727	81,196
Treasury stock - 320,000 shares at March 31, 2021 and December 31, 2020	(5,828)	(5,828)
Unearned common stock held by employee stock ownership plan	(1,768)	(1,768)
Retained earnings	62,249	59,010
Accumulated other comprehensive income	637	2,556
Total stockholders' equity	143,505	141,622
Total liabilities and stockholders' equity	$ 1,743,977	1,720,197

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(dollars in thousands, except per share data)	Three months ended March 31, 2021	2020
Interest income:		
Loans, including fees	$ 16,822	13,270
Securities:		
Taxable	273	364
Tax-exempt	353	102
Cash and cash equivalents	3	58
Total interest income	17,451	13,794
Interest expense:		
Deposits	1,566	3,254
Borrowings	765	874
Total interest expense	2,331	4,128
Net interest income	15,120	9,666
Provision for loan losses	599	1,552
Net interest income after provision for loan losses	14,521	8,114
Non-interest income:		
Mortgage banking income	24,100	6,793
Wealth management income	1,136	1,021
SBA loan income	1,245	542
Earnings on investment in life insurance	66	70
Net change in the fair value of derivative instruments	(944)	954
Net change in the fair value of loans held-for-sale	(3,867)	860
Net change in the fair value of loans held-for-investment	(102)	(62)
Net gain (loss) on hedging activity	4,261	(1,425)
Net gain on sale of investment securities available-for-sale	48	—
Service charges	32	28
Other	1,073	438
Total non-interest income	27,048	9,219
Non-interest expenses:		
Salaries and employee benefits	22,139	9,884
Occupancy and equipment	1,152	924
Professional fees	940	667
Advertising and promotion	785	609
Data processing	616	344
Information technology	425	318
Pennsylvania bank shares tax	163	226
Other	2,043	1,090
Total non-interest expenses	28,263	14,062
Income before income taxes	13,306	3,271
Income tax expense	3,136	755
Net income	$ 10,170	2,516
Basic earnings per common share	$ 1.70	0.39
Diluted earnings per common share	$ 1.65	0.39

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(dollars in thousands)	Three months ended March 31, 2021	Three months ended March 31, 2020
Net income:	$ 10,170	2,516
Other comprehensive (loss) income:		
Net change in unrealized gains on investment securities available for sale:		
Net unrealized (losses) gains arising during the period, net of tax expense of $(592), and $102, respectively	(1,883)	429
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of $(12), and $0, respectively	(36)	—
Unrealized investment (losses) gains, net of tax expense of $(604), and $102, respectively	(1,919)	429
Total other comprehensive (loss) income	(1,919)	429
Total comprehensive income	$ 8,251	2,945

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock	Surplus	Treasury Stock	Unearned Common Stock - ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2020	$ 6,408	80,196	(3)	—	34,097	(3)	120,695
Comprehensive income:							
Net income					2,516		2,516
Net change in unrealized gains on securities available-for-sale, net of tax						429	429
Total comprehensive income							2,945
Common stock issued through share-based awards and exercises	6	90					96
Net purchase of treasury stock through publicly announced plans			(5,703)				(5,703)
Balance, March 31, 2020	$ 6,414	80,286	(5,706)	—	36,613	426	118,033
Balance, January 1, 2021	$ 6,456	81,196	(5,828)	(1,768)	59,010	2,556	141,622
Comprehensive income:							
Net income					10,170		10,170
Net change in unrealized losses on securities available-for-sale, net of tax						(1,919)	(1,919)
Total comprehensive income							8,251
Dividends declared, $1.125 per share					(6,931)		(6,931)
Common stock issued through share-based awards and exercises	32	302					334
Stock based compensation		229					229
Balance, March 31, 2021	$ 6,488	81,727	(5,828)	(1,768)	62,249	637	143,505

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(dollars in thousands)	Three months ended March 31, 2021	2020
Net income	$ 10,170	2,516
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gain on sale of investment securities	(48)	—
Depreciation and amortization	(1,709)	160
Net amortization of investment premiums and discounts and change in fair value of equity securities	331	58
Provision for loan losses	599	1,552
Amortization of issuance costs on subordinated debt	30	24
Share-based compensation	229	—
Net change in fair value of derivative instruments	944	(954)
Net change in fair value of loans held for sale	3,867	(860)
Net change in fair value of loans held for investment	102	62
Gain on sale of OREO	—	(6)
Amortization and net impairment (recovery) of servicing rights	(45)	234
Capitalization of servicing rights, net	(2,616)	(343)
SBA loan income	(1,245)	(542)
Proceeds from sale of loans	803,858	188,452
Loans originated for sale	(724,675)	(254,862)
Mortgage banking income	(24,100)	(6,793)
Increase in accrued interest receivable	(85)	(135)
(Increase) decrease in other assets	(5,246)	8,587
Earnings from investment in life insurance	(66)	(70)
(Decrease) income in deferred income tax	(1,865)	412
(Decrease) increase in accrued interest payable	(411)	490
Increase (decrease) in other liabilities	4,745	(660)
Net cash provided by (used in) operating activities	62,764	(62,678)
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities, repayments and calls	2,343	1,559
Sales	13,639	—
Purchases	(28,151)	(30,006)
Activity in held-to-maturity securities:		
Maturities, repayments and calls	—	1,000
Proceeds from sale of OREO	—	126
Decrease (increase) in restricted stock	2,747	(275)
Net increase in loans	(70,915)	(56,197)
Purchases of premises and equipment	(677)	(186)
Net cash used in investing activities	(81,014)	(83,979)
Cash flows from financing activities:		
Net increase in deposits	142,255	142,585
(Decrease) in short-term borrowings	(5,465)	(18,169)
(Decrease) increase in short-term borrowings with original maturity > 90 days	(75,021)	24,200
Proceeds from long-term debt, net	(42,662)	1,900
Issuance costs on subordinated debt	—	(101)
Net purchase of treasury stock	—	(5,703)
Dividends paid	(6,931)	—
Share based awards and exercises	334	96
Net cash provided by financing activities	12,510	144,808
Net change in cash and cash equivalents	(5,740)	(1,849)
Cash and cash equivalents at beginning of period	36,744	39,371
Cash and cash equivalents at end of period	$ 31,004	37,522
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,742	3,638
Income taxes	—	145
Supplemental disclosure of cash flow information:		
Transfers from loans held for sale to loans held for investment	2,390	—
Net loans sold, not settled	(4,432)	(206)
Investment security purchases, not settled	(1,188)	(2,757)

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Basis of Presentation

The Corporation's 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 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. Amounts subject to significant estimates are items such as the allowance for loan losses and lending related commitments, the fair value of financial instruments, other-than-temporary impairments of investment securities, and the valuations of goodwill and intangible assets, and servicing assets.

These unaudited consolidated financial statements should be read in conjunction with the Corporation's filings with the Securities and Exchange Commission (including our Annual Report on Form 10-K for the year ended December 31, 2020) and, subsequently filed quarterly reports on Form 10-Q and current reports on Form 8-K that update or provide information in addition to the information included in Form 10-K and Form 10-Q filings, if any.

Certain prior period amounts have been reclassified to conform with current period presentation. Reclassifications had no effect on net income or stockholders' equity. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results for the year ending December 31, 2020 or for any other period.

Since COVID-19 was recognized as a pandemic by the World Health Organization (WHO) and a national emergency by the U.S. Government, it has caused a significant disruption in economic activity worldwide, including in market areas served by the Corporation. Estimates for the allowance for loan and lease losses at March 31, 2021 include probable losses related to the pandemic. While there have been signals of economic recovery and a resumption of many types of business activity, there remains significant uncertainty involved in the measurement of these losses. If economic conditions deteriorate further, then additional provision for loan losses may be required in future periods. It is unknown how long these conditions will last and what the ultimate financial impact will be to the Corporation.

(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 reduced by unearned ESOP Plan shares and treasury shares. 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 and if restricted stock awards were vested. 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 March 31, 2021	2020
Numerator:		
Net income available to common stockholders	$ 10,170	2,516
Denominator for basic earnings per share		
Weighted average shares outstanding	6,119	6,383
Average unearned ESOP shares	(119)	—
Basic weighted averages shares outstanding	6,000	6,383
Effect of dilutive common shares	146	37
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	6,146	6,420
Basic earnings per share	$ 1.70	0.39
Diluted earnings per share	$ 1.65	0.39
Antidilutive shares excluded from computation of average dilutive earnings per share	22	202

(3) Securities

The amortized cost and fair value of securities as of March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021				
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	# of Securities in unrealized loss position
Securities available-for-sale:					
U.S. asset backed securities	$ 26,828	458	(56)	27,230	7
U.S. government agency mortgage-backed securities	3,796	126	—	3,922	—
U.S. government agency collateralized mortgage obligations	23,014	642	(137)	23,519	5
State and municipal securities	72,815	704	(871)	72,648	30
U.S. Treasuries	1,938	—	(22)	1,916	1
Corporate bonds	4,950	17	(37)	4,930	4
Total securities available-for-sale	$ 133,341	1,947	(1,123)	134,165	47
Securities held-to-maturity:					
State and municipal securities	6,476	296	—	6,772	—
Total securities held-to-maturity	$ 6,476	296	—	6,772	—

(dollars in thousands)	December 31, 2020 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	# of Securities in unrealized loss position
Securities available-for-sale:					
U.S. asset backed securities	$ 25,303	364	(75)	25,592	8
U.S. government agency mortgage-backed securities	3,854	192	—	4,046	—
U.S. government agency collateralized mortgage obligations	23,010	916	(17)	23,909	1
State and municipal securities	63,848	2,025	(63)	65,810	3
Corporate bonds	4,200	7	(2)	4,205	2
Total securities available-for-sale	$ 120,215	3,504	(157)	123,562	14
Securities held-to-maturity:					
State and municipal securities	6,510	347	—	6,857	—
Total securities held-to-maturity	$ 6,510	347	—	6,857	—

Although the Corporation's investment portfolio overall is in a net unrealized gain position at March 31, 2021, the temporary impairment in the above noted securities is primarily the result of changes in market interest rates subsequent to purchase and the Corporation does not intend to sell these securities prior to recovery and it is more likely than not that the Corporation 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.

As of March 31, 2021 and December 31, 2020, securities having a fair value of $63.6 million and $55.9 million, respectively, were specifically pledged as collateral for public funds, the FRB discount window program, FHLB borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

The following table shows the Corporation'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 March 31, 2021 and December 31, 2020:

	March 31, 2021					
	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 available-for-sale:						
U.S. asset backed securities	$ 948	(24)	8,373	(32)	9,321	(56)
U.S. government agency collateralized mortgage obligations	6,781	(137)	—	—	6,781	(137)
State and municipal securities	47,927	(871)	—	—	47,927	(871)
U.S. Treasuries	1,916	(22)			1,916	(22)
Corporate bonds	2,913	(37)	—	—	2,913	(37)
Total securities available-for-sale	$ 60,485	(1,091)	8,373	(32)	68,858	(1,123)

	December 31, 2020					
	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 available-for-sale:						
U.S. asset backed securities	$ 2,884	(4)	7,443	(71)	10,327	(75)
U.S. government agency collateralized mortgage obligations	2,284	(17)	—	—	2,284	(17)
State and municipal securities	4,163	(63)	—	—	4,163	(63)
Corporate bonds	1,198	(2)	—	—	1,198	(2)
Total securities available-for-sale	$ 10,529	(86)	7,443	(71)	17,972	(157)

The amortized cost and carrying value of securities at March 31, 2021 and December 31, 2020 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.

	March 31, 2021				December 31, 2020			
	Available-for-sale		Held-to-maturity		Available-for-sale		Held-to-maturity	
(dollars in thousands)	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Investment securities:								
Due in one year or less	$ —	—	—	—	$ —	—	—	—
Due after one year through five years	—	—	3,165	3,255	—	—	3,181	3,288
Due after five years through ten years	14,077	13,963	3,311	3,517	12,035	12,095	3,329	3,569
Due after ten years	92,454	92,761	—	—	81,316	83,512	—	—
Subtotal	106,531	106,724	6,476	6,772	93,351	95,607	6,510	6,857
Mortgage-related securities	26,810	27,441	—	—	26,864	27,955	—	—
Total	$ 133,341	134,165	6,476	6,772	$ 120,215	123,562	6,510	6,857

Proceeds from the sale of available for sale investment securities totaled $13.6 million for the period ended March 31, 2021, resulting in a gross gain on sale of $248 thousand and a gross loss on sale of $200 thousand for the year ended March 31, 2021.

There were no sales of available for sale investment securities for the period ended March 31, 2020.

(4) Loans Receivable

Loans and leases outstanding at March 31, 2021 and December 31, 2020 are detailed by category as follows:

(dollars in thousands)	March 31, 2021	December 31, 2020
Mortgage loans held for sale	$ 170,248	229,199
Real estate loans:		
Commercial mortgage	517,421	485,103
Home equity lines and loans	55,578	64,987
Residential mortgage (1)	49,085	52,454
Construction	134,601	140,246
Total real estate loans	756,685	742,790
Commercial and industrial	261,421	261,750
Small business loans	62,373	49,542
Paycheck Protection Program loans ("PPP")	230,847	203,543
Main Street Lending Program Loans ("MSLP")	583	580
Consumer	469	511
Leases, net	46,670	31,040
Total portfolio loans and leases	1,359,048	1,289,756
Total loans and leases	$ 1,529,296	1,518,955
Loans with predetermined rates	$ 622,498	658,458
Loans with adjustable or floating rates	906,798	860,497
Total loans and leases	$ 1,529,296	1,518,955
Net deferred loan origination (fees) costs	$ (4,497)	(4,992)

(1) Includes $13,590 and $12,182 of loans at fair value as of March 31, 2021 and December 31, 2020, respectively.

Components of the net investment in leases at March 31, 2021 and December 31, 2020 are detailed as follows:

(dollars in thousands)	March 31, 2021	December 31, 2020
Minimum lease payments receivable	$ 56,818	37,919
Unearned lease income	(10,148)	(6,879)
Total	$ 46,670	31,040

Age Analysis of Past Due Loans and Leases

The following tables present an aging of the Corporation's loan and lease portfolio as of March 31, 2021 and December 31, 2020, respectively:

March 31, 2021 *(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 portfolio and leases**	**Delinquency percentage**
Commercial mortgage	$ —	—	—	517,421	517,421	—	517,421	— %
Home equity lines and loans	—	—	—	54,659	54,659	919	55,578	1.65
Residential mortgage (1)	640	—	640	45,730	46,370	2,715	49,085	6.84
Construction	—	—	—	134,601	134,601	—	134,601	—
Commercial and industrial	—	—	—	257,510	257,510	3,911	261,421	1.50
Small business loans	—	—	—	61,456	61,456	917	62,373	1.47
Paycheck Protection Program loans	—	—	—	230,847	230,847	—	230,847	—
Main Street Lending Program loans	—	—	—	583	583	—	583	—
Consumer	—	—	—	469	469	—	469	—
Leases	160	—	160	46,379	46,539	131	46,670	0.62
Total	$ 800	—	800	1,349,655	1,350,455	8,593	1,359,048	0.69 %

(1) Includes $13,590 of loans at fair value as of March 31, 2021 ($12,048 of current, $640 of 30-89 days past due, and $902 of nonaccrual).

December 31, 2020 *(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 portfolio and leases**	**Delinquency percentage**
Commercial mortgage	$ —	—	—	482,042	482,042	3,061	485,103	0.63 %
Home equity lines and loans	—	—	—	64,128	64,128	859	64,987	1.32
Residential mortgage (1)	3,595	—	3,595	46,134	49,729	2,725	52,454	12.05
Construction	—	—	—	140,246	140,246	—	140,246	—
Commercial and industrial	—	—	—	260,465	260,465	1,285	261,750	0.49
Small business loans	—	—	—	49,542	49,542	—	49,542	—
Paycheck Protection Program loans	—	—	—	203,543	203,543	—	203,543	—
Main Street Lending Program loans	—	—	—	580	580	—	580	—
Consumer	—	—	—	511	511	—	511	—
Leases	109	—	109	30,931	31,040	—	31,040	0.35
Total	$ 3,704	—	3,704	1,278,122	1,281,826	7,930	1,289,756	0.90 %

(1) Includes $12,182 of loans at fair value as of December 31, 2020 ($10,314 of current, $958 of 30-89 days past due and $910 of nonaccrual).

(5) 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 by Portfolio Segment

The following tables detail the roll-forward of the Corporation's Allowance, by portfolio segment, for the three month periods ended March 31, 2021 and 2020, respectively:

(dollars in thousands)	Balance, December 31, 2020	Charge-offs	Recoveries	Provision	Balance, March 31, 2021
Commercial mortgage	$ 7,451	—	—	204	7,655
Home equity lines and loans	434	—	2	(126)	310
Residential mortgage	385	—	2	(73)	314
Construction	2,421	—	—	(110)	2,311
Commercial and industrial	5,431	—	5	(150)	5,286
Small business loans	1,259	—	—	661	1,920
Consumer	4	—	1	(1)	4
Leases	382	—	—	194	576
Total	$ 17,767	—	10	599	18,376

(dollars in thousands)	Balance, December 31, 2019	Charge-offs	Recoveries	Provision	Balance, March 31, 2020
Commercial mortgage	$ 3,426	—	—	686	4,112
Home equity lines and loans	342	—	1	141	484
Residential mortgage	179	—	2	38	219
Construction	2,362	—	—	19	2,381
Commercial and industrial	2,684	—	29	456	3,169
Small business loans	509	—	—	216	725
Consumer	6	—	1	(3)	4
Leases	5	—	—	(1)	4
Total	$ 9,513	—	33	1,552	11,098

Allowance 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 March 31, 2021 and December 31, 2020.

	Allowance on loans and leases			Carrying value of loans and leases		
March 31, 2021 *(dollars in thousands)*	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**
Commercial mortgage	$ —	7,655	7,655	$ 730	516,691	517,421
Home equity lines and loans	8	302	310	919	54,659	55,578
Residential mortgage	72	242	314	1,814	33,681	35,495
Construction	—	2,311	2,311	1,206	133,395	134,601
Commercial and industrial	1,562	3,724	5,286	4,339	257,082	261,421
Small business loans	376	1,544	1,920	1,087	61,286	62,373
Paycheck Protection Program loans	—	—	—	—	230,847	230,847
Main Street Lending Program	—	—	—	—	583	583
Consumer	—	4	4	—	469	469
Leases	—	576	576	131	46,539	46,670
Total	$ 2,018	16,358	18,376	$ 10,226	1,335,232	1,345,458 (1)

	Allowance on loans and leases			Carrying value of loans and leases		
December 31, 2020 *(dollars in thousands)*	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**
Commercial mortgage	$ —	7,451	7,451	$ 1,606	483,497	485,103
Home equity lines and loans	9	425	434	921	64,066	64,987
Residential mortgage	73	312	385	1,817	38,455	40,272
Construction	—	2,421	2,421	1,206	139,040	140,246
Commercial and industrial	1,563	3,868	5,431	4,645	257,105	261,750
Small business loans	—	1,259	1,259	185	49,357	49,542
Paycheck Protection Program loans	—	—	—	—	203,543	203,543
Main Street Lending Program	—	—	—	—	580	580
Consumer	—	4	4	—	511	511
Leases	—	382	382	—	31,040	31,040
Total	$ 1,645	16,122	17,767	$ 10,380	1,267,194	1,277,574 (1)

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

Loans and Leases by Credit Ratings

As part of the process of determining the Allowance to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by Management. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

- **Pass** – Loans considered to be satisfactory with no indications of deterioration.
- **Special mention –** Loans classified as special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

- **Substandard –** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- **Doubtful –** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

The following tables detail the carrying value of loans and leases by portfolio segment based on the credit quality indicators used to determine the allowance for loan and lease losses as of March 31, 2021 and December 31, 2020:

March 31, 2021 *(dollars in thousands)*	**Pass**	**Special mention**	**Substandard**	**Doubtful**	**Total**
Commercial mortgage	$ 482,177	32,076	3,168	—	517,421
Home equity lines and loans	54,174	—	1,404	—	55,578
Construction	125,974	8,627	—	—	134,601
Commercial and industrial	232,768	16,828	8,215	3,610	261,421
Small business loans	58,753	—	3,620	—	62,373
Paycheck Protection Program loans	230,847	—	—	—	230,847
Main Street Lending Program loans	583	—	—	—	583
Total	$ 1,185,276	57,531	16,407	3,610	1,262,824

December 31, 2020 *(dollars in thousands)*	**Pass**	**Special mention**	**Substandard**	**Doubtful**	**Total**
Commercial mortgage	$ 449,545	32,059	3,499	—	485,103
Home equity lines and loans	63,923	—	1,064	—	64,987
Construction	132,286	7,960	—	—	140,246
Commercial and industrial	227,349	21,721	9,000	3,680	261,750
Small business loans	46,789	—	2,753	—	49,542
Paycheck Protection Program loans	203,543	—	—	—	203,543
Main Street Lending Program loans	580	—	—	—	580
Total	$ 1,124,015	61,740	16,316	3,680	1,205,751

In addition to 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 March 31, 2021 and December 31, 2020. No troubled debt restructurings performing according to modified terms are included in performing residential mortgages below as of March 31, 2021 and December 31, 2020.

	March 31, 2021			**December 31, 2020**		
(dollars in thousands)	**Performing**	**Nonperforming**	**Total**	**Performing**	**Nonperforming**	**Total**
Residential mortgage	$ 33,681	1,814	35,495	$ 38,457	1,815	40,272
Consumer	469	—	469	511	—	511
Leases	46,539	131	46,670	31,040	—	31,040
Total	$ 80,689	1,945	82,634	$ 70,008	1,815	71,823

There were five nonperforming residential mortgage loans at March 31, 2021 and five nonperforming residential mortgage loans at December 31, 2020 with a combined outstanding principal balance of $902 thousand and $910 thousand, respectively, which were carried at fair value and not included in the table above.

Impaired Loans

The following table details the recorded investment and principal balance of impaired loans by portfolio segment, and their related allowance for loan and lease losses.

	As of March 31, 2021			As of December 31, 2020		
(dollars in thousands)	Recorded investment	Principal balance	Related allowance	Recorded investment	Principal balance	Related allowance
Impaired loans with related allowance:						
Commercial and industrial	3,790	3,866	1,562	3,860	3,902	1,563
Small business loans	917	917	376	—	—	—
Home equity lines and loans	94	104	8	95	105	9
Residential mortgage	688	688	72	689	689	73
Total	5,489	5,575	2,018	4,644	4,696	1,645
Impaired loans without related allowance:						
Commercial mortgage	$ 730	730	—	1,606	1,642	—
Commercial and industrial	549	630	—	785	862	—
Small business loans	170	170	—	185	185	—
Home equity lines and loans	825	839	—	826	839	—
Residential mortgage	1,126	1,126	—	1,128	1,128	—
Construction	1,206	1,206	—	1,206	1,206	—
Leases	131	131	—	—	—	—
Total	4,737	4,832	—	5,736	5,862	—
Grand Total	$ 10,226	10,407	2,018	10,380	10,558	1,645

The following table details the average recorded investment and interest income recognized on impaired loans by portfolio segment.

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
(dollars in thousands)	Average recorded investment	Interest Income Recognized	Average recorded investment	Interest Income Recognized
Impaired loans with related allowance:				
Commercial and industrial	$ 3,826	5	451	5
Small business loans	918	—	—	—
Home equity lines and loans	95	—	458	—
Residential mortgage	688	—	—	—
Total	$ 5,527	5	909	5
Impaired loans without related allowance:				
Commercial mortgage	$ 735	8	2,129	21
Commercial and industrial	579	—	587	4
Small business loans	176	4	934	6
Home equity lines and loans	825	—	305	-
Residential mortgage	1,127	—	3,806	-
Construction	1,206	15	1,239	17
Leases	122	—	—	—
Total	$ 4,770	27	9,000	48
Grand Total	$ 10,297	32	9,909	53

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 March 31, 2021 and December 31, 2020 are as follows:

(dollars in thousands)	March 31, 2021	December 31, 2020
TDRs included in nonperforming loans and leases	$ 239	244
TDRs in compliance with modified terms	2,534	3,362
Total TDRs	$ 2,773	3,606

There were no loan and lease modifications granted during the three months ended March 31, 2021 or March 31, 2020 that were categorized as a TDR. No loan and lease modifications granted during the three months ended March 31, 2021 and 2020 subsequently defaulted during the same time period.

COVID-19 Loan Modifications

The following table details the loan modifications that the Corporation provided to loan customers as of March 31, 2021.

	March 31, 2021			December 31, 2020		
Loan Portfolio	Portfolio Balance	Active Modifications	% of Portfolio Balance	Portfolio Balance	Active Modifications	% of Portfolio Balance
Commercial mortgage	$ 517,421	$ 24,341	4.7%	$ 485,103	$ 19,836	4.1%
Commercial and industrial, including leases	308,091	70	0.0%	292,790	—	—
Construction & land development	134,601	4,343	3.2%	140,246	4,343	3.1%
Home equity lines and loans	55,578	—	—	64,987	—	—
Residential mortgage	35,495	—	—	40,272	—	—
Small business loans	62,373	—	—	49,542	2,726	—
Consumer	469	—	—	511	—	—
Total	$ 1,114,028	$ 28,754	2.6%	$ 1,073,451	$ 26,905	2.5%

In accordance with Section 4013 of the CARES Act, loan deferrals granted to customers that resulted from the impact of COVID-19 and who were not past due at the time of deferral were not considered trouble debt restructurings under ASC 310-40 as of March 31, 2021. This provision was extended to January 1, 2022 under the Consolidated Appropriations Act, 2021. Management continues to monitor these deferrals and has adequately considered these credits in the March 31, 2021 allowance for loan losses balance. These modified loans are classified as performing and are not considered past due. Loans are to be placed on non-accrual when it becomes

apparent that payment of interest or recovery of all principal is questionable, and the COVID-19 related modification is no longer considered short-term or the modification is deemed ineffective.

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

The Corporation'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 Corporation has two unsecured Federal Funds borrowing facilities with correspondent banks: one of $24 million and one of $15 million. Federal Funds purchased generally represent one-day borrowings. The Corporation had no Federal Funds purchased at March 31, 2021 and December 31, 2020. The Corporation also has a facility with the Federal Reserve Bank ("FRB") of Philadelphia discount window of $10.1 million. This facility is fully secured by investment securities. There were no borrowings under this at March 31, 2021 and $10 million at December 31, 2020.

Short-term borrowings at March 31, 2021 and December 31, 2020 consisted of the following notes:

			Balance as of	
(dollars in thousands)	**Maturity date**	**Interest rate**	**March 31, 2021**	**December 31, 2020**
Open Repo Plus Weekly	05/28/2021	0.41 %	—	60,416
Federal Reserve Discount Window	03/31/2021	0.25	—	10,000
Mid-term Repo-fixed	01/13/2021	0.36	—	4,605
Mid-term Repo-fixed	06/10/2021	0.10	6,376	6,376
Mid-term Repo-fixed	09/10/2021	0.11	10,000	10,000
Mid-term Repo-fixed	12/10/2021	0.16	10,000	10,000
Mid-term Repo-fixed	01/27/2021	0.23	—	5,465
Total			$ 26,376	106,862

As part of the CARES Act, the FRB of Philadelphia offered secured discounted borrowings to banks who originated PPP loans through the Paycheck Protection Program Liquidity Facility or PPPLF program. Advances from this facility are secured 100% by the aggregate face value of pools comprised of loans with common maturity dates. PPPLF advances mature concurrently with the loans in a given pool. At March 31, 2021, the Corporation pledged $110.6 million of PPP loans to the FRB of Philadelphia to borrow $110.6 million of funds at a rate of 0.35%.

Long-term debt at March 31, 2021 and December 31, 2020 consisted of the following notes:

			Balance as of	
(dollars in thousands)	**Maturity date**	**Interest rate**	**March 31, 2021**	**December 31, 2020**
PPPLF Advances	2022	0.35 %	45,189	153,269
PPPLF Advances	2026	0.35	$ 65,417	—
Mid-term Repo-fixed	06/29/2022	0.32	7,392	7,392
Mid-term Repo-fixed	09/12/2022	0.23	4,886	4,885
Total	`		$ 122,884	165,546

The FHLB of Pittsburgh has also issued $154 million of letters of credit to the Corporation for the benefit of the Corporation's public deposit funds and loan customers. These letters of credit expire throughout 2021.

The Corporation has a maximum borrowing capacity with the FHLB of $546.7 million as of March 31, 2021 and $638.9 million as of December 31, 2020. All advances and letters of credit from the FHLB are secured by a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

(7) Servicing Assets

The Corporation sells certain residential mortgage loans and the guaranteed portion of certain small business loans ("SBA loans") to third parties and retains servicing rights and receives servicing fees. All such transfers are accounted for as sales. When the Corporation sells a residential mortgage loan, it does not retain any portion of that loan and its continuing involvement in such transfers is limited to certain servicing responsibilities. While the Corporation may retain a portion of certain sold SBA loans, its continuing involvement in the portion of the loan that was sold is limited to certain servicing responsibilities. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. The Corporation accounts for the transfers and servicing of financial assets in accordance with ASC 860, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.

Residential Mortgage Loans

The mortgage servicing rights ("MSRs") are amortized over the period of the estimated future net servicing life of the underlying assets. MSR's are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount of the MSR. The Corporation serviced $690.9 million and $506.0 million of residential mortgage loans as of March 31, 2021 and December 31, 2020, respectively. During the three months ended March 31, 2021, the Corporation recognized servicing fee income of $358 thousand, compared to $183 thousand during the three months ended March 31, 2020.

Changes in the MSR balance are summarized as follows:

	Three Months Ended March 31,		
(dollars in thousands)		2021	2020
Balance at beginning of the period	$	4,647	446
Servicing rights capitalized		2,342	184
Amortization of servicing rights		(199)	(33)
Change in valuation allowance		328	(174)
Balance at end of the period	$	7,118	423

Activity in the valuation allowance for MSR's was as follows:

	Three Months Ended March 31,		
(dollars in thousands)		2021	2020
Valuation allowance, beginning of period	$	(435)	(98)
Impairment		—	(174)
Recovery		328	—
Valuation allowance, end of period	$	(107)	(272)

The Corporation uses assumptions and estimates in determining the fair value of MSRs. These assumptions include prepayment speeds and discount rates. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At March 31, 2021, the key assumptions used to determine the fair value of the Corporation's MSRs included a lifetime constant prepayment rate equal to 7.21% and a discount rate equal to 9.00%. At December 31, 2020, the key assumptions used to determine the fair value of the Corporation's MSRs included a lifetime constant prepayment rate equal to 9.39% and a discount rate equal to 9.00%. The prepayment speed assumption has declined from December 31, 2020 to March 31, 2021 as interest

rates have started to increase and the number of mortgage refinancings have started to decline, while the discount rate assumption is unchanged over this period as the underlying credit quality of the loans sold in each period is relatively unchanged.

At March 31, 2021 and December 31, 2020, the sensitivity of the current fair value of the residential mortgage servicing rights to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table.

(dollars in thousands)	March 31, 2021	December 31, 2020
Fair value of residential mortgage servicing rights	$ 7,258	$ 4,647
Weighted average life (years)	6.0	5.0
Prepayment speed	7.21%	9.39%
Impact on fair value:		
10% adverse change	$ (250)	$ (183)
20% adverse change	(485)	(354)
Discount rate	9.00%	9.00%
Impact on fair value:		
10% adverse change	$ (284)	$ (168)
20% adverse change	(547)	(329)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

SBA Loans

SBA loan servicing assets are amortized over the period of the estimated future net servicing life of the underlying assets. SBA loan servicing assets are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount of the SBA loan servicing asset. The Corporation serviced $44.8 million and $55.9 million of SBA loans, as of March 31, 2021 and December 31, 2020, respectively.

Changes in the SBA loan servicing asset balance are summarized as follows:

	Three Months Ended March 31,	
(dollars in thousands)	2021	2020
Balance at beginning of the period	$ 970	337
Servicing rights capitalized	274	159
Amortization of servicing rights	(67)	(19)
Change in valuation allowance	(17)	(8)
Balance at end of the period	$ 1,160	469

Activity in the valuation allowance for SBA loan servicing assets was as follows:

(dollars in thousands)	Three Months Ended March 31, 2021		2020
Valuation allowance, beginning of period	$	(39)	(26)
Impairment		(17)	(8)
Recovery		—	—
Valuation allowance, end of period	$	(56)	(34)

The Corporation uses assumptions and estimates in determining the fair value of SBA loan servicing rights. These assumptions include prepayment speeds, discount rates, and other assumptions. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At March 31, 2021, the key assumptions used to determine the fair value of the Corporation's SBA loan servicing rights included a lifetime constant prepayment rate equal to 14.09%, and a discount rate equal to 6.90%. At December 31, 2020, the key assumptions used to determine the fair value of the Corporation's SBA loan servicing rights included a lifetime constant prepayment rate equal to 12.73%, and a discount rate equal to 8.33%.

At March 31, 2021 and December 31, 2020, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table.

(dollars in thousands)		March 31, 2021		December 31, 2020
Fair value of SBA loan servicing rights	$	1,234	$	1,010
Weighted average life (years)		3.6		3.7
Prepayment speed		14.09%		12.73%
Impact on fair value:				
10% adverse change	$	(49)	$	(37)
20% adverse change		(94)		(71)
Discount rate		6.90%		8.33%
Impact on fair value:				
10% adverse change	$	(32)	$	(25)
20% adverse change		(62)		(49)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the fair value of the SBA servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

(8) Fair Value Measurements and Disclosures

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities. 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 Corporation'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 Corporation groups its financial assets and financial liabilities 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.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis.

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.

Mortgage Loans Held for Sale

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

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.

Derivative Financial Instruments

The fair values of forward commitments and interest rate swaps are based on market pricing and therefore are considered Level 2. Derivatives classified as Level 3 consist of interest rate lock commitments related to mortgage loan commitments. The determination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption. A significant increase or decrease in the external market price would result in a significantly higher or lower fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021			
(dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Securities available for sale:				
U.S. asset backed securities	$ 27,230	—	27,230	—
U.S. government agency mortgage-backed securities	3,922	—	3,922	—
U.S. government agency collateralized mortgage obligations	23,519	—	23,519	—
State and municipal securities	72,648	—	72,648	—
U.S. Treasuries	1,916		1,916	
Corporate bonds	4,930	—	4,930	—
Equity investments	1,013	—	1,013	—
Mortgage loans held for sale	170,248	—	170,248	—
Mortgage loans held for investment	13,590	—	13,590	—
Interest rate lock commitments	3,285	—	—	3,285
Forward commitments	1,832	—	1,832	—
Customer derivatives - interest rate swaps	151	—	151	—
Total	$ 324,284	—	320,999	3,285
Liabilities				
Interest rate lock commitments	890	—	—	890
Forward commitments	8	—	8	—
Customer derivatives - interest rate swaps	155	—	155	—
	$ 1,053	—	163	890

(dollars in thousands)	December 31, 2020 Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale:				
U.S. asset backed securities	$ 25,592	—	25,592	—
U.S. government agency mortgage-backed securities	4,046	—	4,046	—
U.S. government agency collateralized mortgage obligations	23,909	—	23,909	—
State and municipal securities	65,810	—	65,810	—
Corporate bonds	4,205	—	4,205	—
Equity investments	1,031	—	1,031	—
Mortgage loans held for sale	229,199	—	229,199	—
Mortgage loans held for investment	12,182	—	12,182	—
Interest rate lock commitments	6,932	—	—	6,932
Forward commitments	—	—	—	—
Customer derivatives - interest rate swaps	1,118	—	1,118	—
Total	$ 374,024	—	367,092	6,932
Liabilities				
Interest rate lock commitments	100	—	—	100
Forward commitments	1,572	—	1,572	—
Customer derivatives - interest rate swaps	1,219	—	1,219	—
	$ 2,891	—	2,791	100

Financial assets measured at fair value on a nonrecurring basis, are considered Level 3 assets in the fair value hierarchy. The fair value used at March 31, 2021 and December 31, 2020 are as follows:

(dollars in thousands)	March 31, 2021 Fair Value	December 31, 2020 Fair Value
Mortgage servicing rights	$ 7,118	4,647
SBA loan servicing rights	1,160	970
Impaired loans [(1)]	3,550	2,998
Total	$ 11,828	8,615

(1) Impaired loans are those in which the Corporation 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.

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on the Corporation's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation'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 Corporation'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 Corporation's financial instruments:

Cash and Cash Equivalents

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

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 reflective of an exit price.

Loan Servicing Rights

The Corporation estimates the fair value of mortgage servicing rights and SBA loan servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. These servicing rights are classified within Level 3 in the fair value hierarchy based upon management's assessment of the inputs. The Corporation reviews the servicing rights portfolios on a quarterly basis for impairment.

Impaired Loans

Impaired loans are those in which the Corporation 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.

Accrued Interest Receivable and Payable

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

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.

Short-Term Borrowings

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

Long-Term Debt

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

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.

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 Corporation's financial instruments at March 31, 2021 and December 31, 2020 are as follows:

(dollars in thousands)	Fair Value Hierarchy Level	March 31, 2021 Carrying amount	March 31, 2021 Fair value	December 31, 2020 Carrying amount	December 31, 2020 Fair value
Financial assets:					
Cash and cash equivalents	Level 1	$ 31,004	31,004	36,744	36,744
Securities available-for-sale	Level 2	134,165	134,165	123,562	123,562
Securities held-to-maturity	Level 2	6,476	6,772	6,510	6,857
Equity investments	Level 2	1,013	1,013	1,031	1,031
Mortgage loans held for sale	Level 2	170,248	170,248	229,199	229,199
Loans receivable, net of the allowance for loan and lease losses	Level 3	1,340,961	1,352,643	1,272,582	1,289,776
Mortgage loans held for investment	Level 2	13,590	13,590	12,182	12,182
Interest rate lock commitments	Level 3	3,285	3,285	6,932	6,932
Forward commitments	Level 2	1,832	1,832	—	—
Restricted investment in bank stock	NA	5,114	NA	7,861	NA
Accrued interest receivable	Level 3	5,567	5,567	5,482	5,482
Customer derivatives - interest rate swaps	Level 2	151	151	1,118	1,118
Financial liabilities:					
Deposits	Level 2	1,383,590	1,470,200	1,241,335	1,392,500
Short-term borrowings	Level 2	26,376	26,376	106,862	106,862
Long-term debt	Level 2	122,884	124,450	165,546	168,000
Subordinated debentures	Level 2	40,701	41,479	40,671	38,375
Accrued interest payable	Level 2	743	743	1,154	1,154
Interest rate lock commitments	Level 3	890	890	100	100
Forward commitments	Level 2	8	8	1,572	1,572
Customer derivatives - interest rate swaps	Level 2	155	155	1,219	1,219
Off-balance sheet financial instruments:		Notional amount	Fair value	Notional amount	Fair value
Commitments to extend credit	Level 2	$ 445,536	3,285	421,399	6,932
Letters of credit	Level 2	8,730	—	8,928	—

The following table includes a rollforward of interest rate lock commitments for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the three month peiods ended March 31, 2021 and 2020.

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Balance at beginning of the period	$ 6,932	504
(Decrease) increase in value	(3,647)	3,517
Balance at end of the period	$ 3,285	4,021

The following table details the valuation techniques for Level 3 interest rate lock commitments.

	Fair Value Level 3	Valuation Technique	Significant Unobservable Input	Range of Inputs	Weighted Average
March 31, 2021	$ 3,285	Market comparable pricing	Pull through	1 - 99 %	89.79 %
December 31, 2020	6,932	Market comparable pricing	Pull through	1 - 99	83.08

Net realized losses of $4.4 million and net realized gains of $3.3 million due to changes in the fair value of interest rate lock commitments which are classified as Level 3 assets and liabilities for the three months ended March 31, 2021 and 2020, respectively, are recorded in non-interest income as net change in the fair value of derivative instruments in the Corporation's consolidated statements of income.

(9) Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Corporation is exposed to certain risk arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Corporation enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash receipts and its known or expected cash payments principally related to the Corporation's loan portfolio.

Mortgage Banking Derivatives

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

Customer Derivatives – Interest Rate Swaps

Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain customers to swap a fixed rate product for a variable rate product, or vice versa. The Corporation executes interest rate derivatives with commercial banking customers to facilitate their respective risk management strategies. Those interest rate derivatives are simultaneously hedged by offsetting derivatives that the Corporation executes with a third party, such that the Corporation minimizes its net interest rate risk exposure resulting from such transactions. The fair value of interest rate derivatives are recorded within other assets/liabilities on the consolidated balance sheets. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

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

(dollars in thousands)	Balance Sheet Line Item	March 31, 2021 Notional Amount	March 31, 2021 Asset (Liability) Fair Value	December 31, 2020 Notional Amount	December 31, 2020 Asset (Liability) Fair Value
Interest Rate Lock Commitments					
Positive fair values	Other assets	$ 258,001	3,285	406,422	6,932
Negative fair values	Other liabilities	92,007	(890)	22,406	(100)
Total		350,008	2,395	428,828	6,832
Forward Commitments					
Positive fair values	Other assets	161,000	1,832	—	—
Negative fair values	Other liabilities	32,500	(8)	218,000	(1,572)
Total		193,500	1,824	218,000	(1,572)
Customer Derivatives - Interest Rate Swaps					
Positive fair values	Other assets	36,408	151	20,979	1,118
Negative fair values	Other liabilities	36,408	(155)	20,979	(1,219)
Total		72,816	(4)	41,958	(101)
Total derivative financial instruments		$ 616,324	4,215	688,786	5,159

Interest rate lock commitments are considered Level 3 in the fair value hierarchy, while the forward commitments and interest rate swaps 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 March 31, 2021	2020
Interest Rate Lock Commitments	$ (4,437)	3,342
Forward Commitments	3,396	(2,311)
Customer Derivatives - Interest Rate Swaps	97	(77)
Net fair value (losses) gains on derivative financial instruments	$ (944)	954

Net realized gains on derivatives were $4.3 million for the three months ended March 31, 2021 and net realized losses on derivatives were $1.4 million for the three months ended March 31, 2020.

(10) Segments

ASC Topic 280 – Segment Reporting identifies operating segments as components of an enterprise which are evaluated regularly by the Chief Executive Officer, in deciding how to allocate resources and assess performance. The Corporation 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 investment securities, gains on the sale of loans, SBA income, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income, title insurance fees, and other less significant non-interest income.

Meridian Wealth Partners ("Wealth"), is a registered investment advisor and wholly-owned subsidiary of the Bank, that 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 Mortgage (“Mortgage”) consists of 16 loan production offices located throughout the Delaware Valley and Maryland. The Mortgage segment originates 1 – 4 family residential mortgages and sells nearly all of its production to third party investors. The unit generates net interest income on the loans it originates and holds temporarily, then earns fee income (primarily gain on sales) at the time of the sale. The unit also recognizes income from document preparation fees, changes in portfolio pipeline fair values and related net hedging gains.

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

Segment Information

	Three Months Ended March 31, 2021				Three Months Ended March 31, 2020			
(Dollars in thousands)	**Bank**	**Wealth**	**Mortgage**	**Total**	**Bank**	**Wealth**	**Mortgage**	**Total**
Net interest income	$ 14,500	(14)	634	15,120	$ 9,518	(2)	150	9,666
Provision for loan losses	599	—	—	599	1,552	—	—	1,552
Net interest income after provision	13,901	(14)	634	14,521	7,966	(2)	150	8,114
Non-interest Income								
Mortgage banking income	268	—	23,832	24,100	102	—	6,691	6,793
Wealth management income	—	1,136	—	1,136	—	1,021	—	1,021
SBA income	1,245	—	—	1,245	542	—	—	542
Net change in fair values	98	—	(5,011)	(4,913)	(65)	—	1,817	1,752
Net gain (loss) on hedging activity	—	—	4,261	4,261	—	—	(1,425)	(1,425)
Other	712	—	507	1,219	445	—	91	536
Non-interest income	2,323	1,136	23,589	27,048	1,024	1,021	7,174	9,219
Non-interest expense	8,932	895	18,436	28,263	6,937	788	6,337	14,062
Income before income taxes	$ 7,292	227	5,787	13,306	$ 2,053	231	987	3,271
Total Assets	$ 1,578,721	6,092	159,164	1,743,977	$ 1,192,882	5,337	105,223	1,303,442

(11) Stockholders' Equity

On January 28, 2021, the Corporation announced that its Board of Directors declared a cash dividend of $0.125 per share, payable on February 22, 2021 to shareholders of record as of February 8, 2021. On February 16, 2021, the Corporation announced that its Board of Directors declared a special dividend of $1.00 per share. The special dividend was paid on March 15, 2021 to shareholders of record as of March 1, 2021. During the first quarter of 2021, the Corporation paid a quarterly dividend of $0.125 per share and the special dividend of $1.00 per share noted above.

On April 22, 2021, the Corporation's Board of Directors declared a cash dividend of $0.125 per common share, payable on May 17, 2021 to shareholders of record as of May 10, 2021.

On April 26, 2021, the Corporation announced that its Board of Directors has authorized a stock repurchase plan pursuant to which the Corporation may repurchase up to $6 million of the company's outstanding common stock, par value $1.00 per share. Stock will be purchased from time to time in the open market or through privately negotiated transactions, or otherwise, at the discretion of management of the company in accordance with legal requirements. This program is subject to applicable regulatory protocol.

(12) Recent Accounting Pronouncements

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

FASB ASU 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. This ASU requires businesses and other organizations to measure the current expected credit losses ("CECL") on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which an other-than-temporary impairment has been recognized before the effective date. In October 2019, the FASB approved a delay for the implementation of the ASU. Accordingly, as an emerging growth company, the Corporation's effective date for the implementation of the ASU will be January 1, 2023. The Corporation is currently determining under which method we

will adopt this ASU. The Corporation has assembled a cross-functional team from Finance, Credit, and IT that is leading the implementation efforts to evaluate the impact of this guidance on the Corporation's consolidated financial statements and related disclosures, internal systems, accounting policies, processes and related internal controls. At this time the Corporation cannot yet estimate the impact to the consolidated financial statements.

FASB ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments"

Issued in April 2019, ASU 2019-04 clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments (addressed by ASUs 2016-13, 2017-12, and 2016-01, respectively). The amendments to estimating expected credit losses (ASU 2016-13), in particular, how a company considers recoveries and extension options when estimating expected credit losses, are the most relevant to the Corporation. The ASU clarifies that (1) the estimate of expected credit losses should include expected recoveries of financial assets, including recoveries of amounts expected to be written off and those previously written off, and (2) that contractual extension or renewal options that are not unconditionally cancellable by the lender are considered when determining the contractual term over which expected credit losses are measured. Management will consider the impact of ASU 2019-04 when considering the impact of ASU 2016-13 as discussed above.

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. In June 2020, the FASB approved a delay for the implementation of the ASU. Accordingly, the amendments in this update are effective for the Corporation for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Under ASU 2016-02, the Corporation will recognize a right-of-use asset and a lease obligation liability on the consolidated statement of financial condition, which will increase the Corporation's assets and liabilities. The Corporation is evaluating other potential impacts of ASU 2016-02 on its consolidated financial statements.

FASB ASU 2020-04 (Topic 848), "Reference Rate Reform ("ASC 848"): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"

Issued in March 2020, ASU 2020-04 contains optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The Corporation does not have a significant concentration of loans, derivative contracts, borrowings or other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The guidance under ASC-848 will be available for a limited time, generally through December 31, 2022. The Corporation expects to adopt the LIBOR transition relief allowed under this standard.

FASB ASU 2018-15 (Topic 350), "Intangibles - Goodwill and Other - Internal-Use Software"

Issued in August 2018, ASU 2018-15 provides clarity on capitalizing and expensing implementation costs for cloud computing arrangements in a service contract. If an implementation cost is capitalized, the cost should be recognized over the noncancellable term and periodically assessed for impairment. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Adoption should be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Corporation does not expect the adoption of this ASU to have a material impact on our consolidated financial statements and related disclosures.

FASB ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"

Issued in December 2019, ASU 2019-12 adds new guidance to simplify accounting for income taxes, changes the accounting for certain income tax transactions and makes minor improvements to the codification. The guidance is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. The adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures.

FASB ASU 2020-06, "Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity"

This ASU clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update reduce the number of accounting models for convertible debt instruments and convertible preferred stock by removing the cash conversion model and the beneficial conversion feature models. For public business entities that meet the definition of an SEC filer (excluding smaller reporting entities), the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, and interim periods within. Early adoption is permitted, but no earlier than for fiscal years beginning after Dec. 15, 2020.

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, 2020 included in Meridian Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC").

Cautionary Statement Regarding Forward-Looking Statements

Meridian Corporation (the "Corporation") may from time to time make written or oral "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements with respect to Meridian Corporation's strategies, goals, beliefs, expectations, estimates, intentions, capital raising efforts, financial condition and results of operations, future performance and business. Statements preceded by, followed by, or that include the words "may," "could," "should," "pro forma," "looking forward," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or similar expressions generally indicate a forward-looking statement. These forward-looking statements involve risks and uncertainties that are subject to change based on various important factors (some of which, in whole or in part, are beyond Meridian Corporation's control). Numerous competitive, economic, regulatory, legal and technological factors, risks and uncertainties including, without limitation: the impact of the current COVID-19 pandemic and government responses thereto, on the U.S. economy, including the markets in which we operate; actions that we and our customers take in response to these factors and the effects such actions have on our operations, products, services and customer relationships; and the risk that the Small Business Administration may not fund some or all Paycheck Protection Program (PPP) loan guaranties, among others, could cause Meridian Corporation's financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements. Meridian Corporation cautions that the foregoing factors are not exclusive, and neither such factors nor any such forward-looking statement takes into account the impact of any future events. All forward-looking statements and information set forth herein are based on management's current beliefs and assumptions as of the date hereof and speak only as of the date they are made. For a more complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review Meridian Corporation's filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2020 and subsequently filed quarterly reports on Form 10-Q and current reports on Form 8-K that update or provide information in addition to the information included in the Form 10-K and Form 10-Q filings, if any. Meridian Corporation does not undertake to update any forward-looking statement whether written or oral, that may be made from time to time by Meridian Corporation or by or on behalf of Meridian Bank.

Recent Developments

Impacts of COVID-19

The COVID-19 pandemic continues to cause significant, unprecedented disruption that affects daily living and negatively impacts the economy. The current interest rate environment, borrower and counterparty credit quality and market volatility, among other factors, continue to impact our performance. Though we are unable to estimate the magnitude, we expect the pandemic and the resulting economic environment will continue to affect our future operating results.

Meridian was able to react quickly to the changes required by the pandemic because of the commitment and flexibility of its workforce coupled with well-prepared business continuity plans. While state and local governments have eased temporary business closures and we have opened our branches, we expect our colleagues who have been operating remotely to continue for a period of time. While the approved vaccines are being administered throughout our footprint, it remains unknown when, or if, there will be a return to historical norms of economic and social activity.

We continue to work with our customers to originate and renew business loans as well as originate loans made available through the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), a lending program established as part of the relief to American consumers and businesses in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Several subsequent congressional acts have reopened and extended the PPP loan program. During the 2021 first quarter, we have processed over 797 applications totaling approximately $117 million under the reopened PPP.

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. While certain valuation assumptions and judgments will change to account for COVID-19 pandemic-related circumstances such as widening credit spreads, the Corporation does not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP. In particular, management has identified the provision and allowance for loan losses as the accounting policy that, due to the estimates, assumptions and judgements inherent in that policy, is critical in understanding our financial statements. Management has presented the application of this policy to the audit committee of our board of directors.

This critical accounting policy, along with other significant accounting policies, are presented in in Footnote 1 of the Corporation's Consolidated Financial Statements as of and for the years ended December 31, 2020 and 2019 included in the Annual Report on Form 10-K.

Executive Overview

The following items highlight the Corporation's results of operations for the three months ended March 31, 2021, as compared to the same period in 2020, and the changes in its financial condition as of March 31, 2021 as compared to December 31, 2020. More detailed information related to these highlights can be found in the sections that follow.

Three Month Results of Operations

- Net income was $10.2 million or $1.65 per diluted share, an increase of $7.7 million, or 304.2%. The increase was driven by growth in the balance sheet, as well as growth in our fee producing divisions of mortgage, wealth and SBA.
- ROE and ROA were 30.06% and 2.43%, respectively, for the first quarter 2021, compared to 8.40% and 0.87%, respectively, for the first quarter 2020.
- Pre-tax, pre-provision income (a non-GAAP measure) for the first quarter of 2021 was $13.9 million, an increase of $9.1 million or 188.3%. A reconciliation of this non-GAAP measure is included in the Non-GAAP Financial Measures section below.
- Total revenue was $44.5 million, an increase of $21.5 million or 93.4%.
- Net interest income increased $5.5 million, or 56.4%, with interest expense down $1.8 million or 43.5%.
- Non-interest income increased $17.8 million or 193.4%, driven by mortgage banking revenue, wealth management income, SBA income, gains on security sales and other fee income.
    - Mortgage banking net revenue increased $17.3 million, or 254.8%, due to higher levels of originations and refinancings, largely derived from the expansion of our mortgage division into Maryland. Net gains on hedging activity increased $5.7 million, while negative fair value changes in loans and derivative instruments were $6.6 million.
    - Wealth management income was up $115 thousand, or 11.3%.
    - SBA income was up $703 thousand, or 129.7% as the number and value of SBA loans sold increased from the prior year.
    - Gains on sales of securities were up $48 thousand, or 100.0%.
    - Other fee income increased $634 thousand, or 144.4%.
- Provision for loan losses was $599 thousand in the first quarter of 2021 compared to $1.6 million in the first quarter of 2020.
- Non-interest expenses increased $14.2 million, or 101.0%, driven by an increase in salaries and benefits.

Changes in Financial Condition

- Total assets increased $23.8 million, or 1.4%, to $1.7 billion as of March 31, 2021.
- Total loans, net of allowance, increased $ 69.2 million, or 5.5%, to $1.3 billion as of March 31, 2021. SBA PPP loans contributed $27.0 million net to this increase, while portfolio loans increased $42.2 million, or 3.9%.
- Since the beginning of the COVID-19 pandemic, Meridian provided nearly 200 borrowers with assistance through loan payment holidays of 3-6 months on loans totaling approximately $166.6 million. As of March 31, 2021, $137.8 million of loans had returned to their original payment terms with $28.8 million in active loan modifications, compared to loan modifications of $26.9 million as of December 31, 2020. The increase in loan modifications in the first quarter of 2021 was due to a first loan modification provided to a borrower in the hospitality industry.
- As of March 31, 2021, we have assisted borrowers with the forgiveness of approximately 453 PPP "round 1" loans totaling approximately $88.9 million, while also helping borrowers to secure approximately 435 PPP "round 2" loans totaling approximately $92.6 million.
- Mortgage loans held for sale decreased $59.0 million, or 25.7%, to $170.2 million as of March 31, 2021.
- Mortgage segment originated $725.0 in loans for the quarter-ended March 31, 2021.
- Total deposits grew $142.3 million, or 11.5%, to $1.4 billion as of March 31, 2021.
- Non-interest bearing deposits grew $53.9 million, or 26.4%, to $257.7 million as of March 31, 2021.
- Borrowings from the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF") were $110.6 million as of March 31, 2021, a decrease of $42.7 million from December 31, 2020. Other borrowings were down $80.5 million or 67.6%.
- Returned $6.9 million of capital to Meridian shareholders through a quarterly dividend of $0.125 and $1.00 special dividend, both paid during first quarter 2021.

Key Performance Ratios

Key financial performance ratios for the three months ended March 31, 2021 and 2020 are shown in the table below:

	Three Months Ended March 31,	
	2021	2020
Annualized return on average equity	30.06 %	8.40 %
Annualized return on average assets	2.43 %	0.87 %
Net interest margin (tax effected yield)	3.72 %	3.49 %
Basic earnings per share	$ 1.70	$ 0.39
Diluted earnings per share	$ 1.65	$ 0.39

The following table presents certain key period-end balances and ratios as of March 31, 2021 and December 31, 2020:

(dollars in thousands, except per share amounts)	March 31, 2021	December 31, 2020
Book value per common share	$ 23.27	$ 23.08
Tangible book value per common share (1)	$ 22.55	$ 22.35
Allowance as a percentage of loans and leases held for investment	1.36 %	1.38 %
Allowance as a percentage of loans and leases held for investment (excl. loans at fair value and PPP loans) (1)	1.65 %	1.65 %
Tier I capital to risk weighted assets	9.90 %	10.22 %
Tangible common equity ratio (1)	7.99 %	7.99 %
Loans held for investment	$ 1,354,551	$ 1,284,764
Total assets	$ 1,743,977	$ 1,720,197
Stockholders' equity	$ 143,505	$ 141,622

(1) Non-GAAP financial measure. See “Non-GAAP Financial Measures” below for Non-GAAP to GAAP reconciliation.

Non-GAAP Financial Measures

Meridian believes that non-GAAP measures are meaningful because they reflect adjustments commonly made by management, investors, regulators and analysts to evaluate performance trends and the adequacy of common equity. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for performance and financial condition measures determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of Meridian’s results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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 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 for Meridian Corporation:

(dollars in thousands)	March 31, 2021	December 31, 2020
Tangible common equity ratio:		
Total stockholders' equity	143,505	141,622
Less:		
Goodwill and intangible assets	(4,432)	(4,500)
Tangible common equity	139,073	137,122
Total assets	1,743,977	1,720,197
Less:		
Goodwill and intangible assets	(4,432)	(4,500)
Tangible assets	$ 1,739,545	$ 1,715,697
Tangible common equity ratio	7.99%	7.99%

The table below provides the non-GAAP reconciliation for our tangible book value per common share for Meridian Corporation:

	2021	2020
Reconciliation of tangible book value per common share	March 31	December 31
Book value per common shares	$ 23.27	$ 23.08
Less: Impact of goodwill and intangible assets	0.72	0.73
Tangible book value per common share	$ 22.55	$ 22.35

The following is a reconciliation of the allowance for loan losses to total loans held for investment ratio for the three months ended March 31, 2021. This is considered a non-GAAP measure as the calculation excludes the impact of loans held for investment that are fair valued and the impact of PPP loans as these loan types are not included in the allowance for loan losses calculation.

	2021	2020
Reconciliation of Allowance for Loan Losses / Total loans held for investment	March 31	December 31
Allowance for loan losses / Total loans held for investment	1.36%	1.38%
Less: Impact of loans held for investment - fair valued	0.00%	0.00%
Less: Impact of PPP loans	0.29%	0.27%
Allowance for loan losses / Total loans held for investment (excl. loans at fair value and PPP loans)	1.65%	1.65%

The table below provides the non-GAAP reconciliation for pre-tax, pre-provision income:

(Dollars in thousands)	2021	2020
Reconciliation of pre-tax, pre-provision income	1st QTR	1st QTR
Income before income tax expense	$ 13,306	$ 3,271
Provision for loan losses	599	1,552
Pre-tax, pre-provision income	$ 13,905	$ 4,823

The following sections discuss, in detail, the Corporation's results of operations for the three months ended March 31, 2021, as compared to the same period in 2020, and the changes in its financial condition as of March 31, 2021 as compared to December 31, 2020.

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;

- **Non-interest Income,** which is made up primarily of mortgage banking income, wealth management income, gains and losses from the sale of loans, gains and losses from the sale of investment securities available for sale and other fees from loan and deposit services;

- **Non-interest 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 Corporation's revenue. The tables below present a summary, for the three months ended March 31, 2021 and 2020, of the Corporation'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 non-interest deposits and stockholders' equity.

Total interest income for the three months ending March 31, 2021 was $17.5 million, which represented a $3.7 million, or 26.5%, increase compared with the three months ending March 31, 2020. The increase in interest income was attributable to a $539.6 million increase in average interest earning assets, year over year, led by the $212.0 million increase in average balances on PPP loans, offset by a decrease of 69 basis points in yield on earning assets, to 4.29% from 4.98%, for same period in 2020. The commercial loan portfolio yield, shared national credit portfolio yield and the home equity loan portfolio yield fell 73, 144 and 85 basis points, respectively, over the same period in 2020. Helping to lessen the impact of these yield decreases was an increased yield of 183 basis points in leases as our Meridian Equipment Finance ("MEF") group has significantly increased lease originations year-over-year.

Total interest expense declined $1.8 million or 43.5% to $2.3 million for the three months ending March 31, 2021, compared with $4.1 million for the three months ending March 31, 2020. While interest-bearing deposit balances increased $283.7 million from March 31, 2020 compared to March 31, 2021, the cost of all deposit types declined sharply over this period. The cost of interest-bearing deposits declined 94 basis points. The cost of money market and savings deposits declined 85 basis points and the cost of time deposits decreased by 132 basis points over the period. Contributing to the decline in interest expense on deposits over this period was the $96.9 million increase in non-interest bearing deposits. Interest expense on borrowings declined $109 thousand or 12.5% to $765 thousand for the three months ended March 31, 2021. The average balance of borrowings increased $125.3 million due largely to PPPLF advances used to fund PPP loans, while the cost of borrowings declined 157 basis points over this period.

Net interest income increased $5.5 million, or 56.4%, to $15.1 million for the three months ended March 31, 2021, compared to $9.7 million for the three months ended March 31, 2020. The net-interest margin increased 23 basis points for the three months ending March 31, 2021 at 3.72%, compared with 3.49% for the three month ending March 31, 2020. The increase in net interest margin reflects declining interest rates paid on deposits and borrowings loan portfolios overall, out-pacing the declines in the yields on interest earning assets during the year-over-year period presented.

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 March 31, *(dollars in thousands)*	2021 Average Balance	2021 Interest Income/ Expense	2021 Yields/ rates	2020 Average Balance	2020 Interest Income/ Expense	2020 Yields/ rates
Assets						
Interest-earning assets						
Due from banks	$ 13,647	2	0.09%	$ 5,488	24	1.75%
Federal funds sold	17,791	1	0.02%	9,015	34	1.48%
Investment securities[1]	135,612	688	2.06%	75,545	479	2.55%
Loans held for sale	173,664	1,131	2.61%	43,850	369	3.37%
Loans held for investment[1]	1,314,077	15,695	4.84%	981,303	12,904	5.26%
Total loans	1,487,741	16,826	4.59%	1,025,153	13,273	5.51%
Total interest-earning assets	1,654,791	17,517	4.29%	1,115,201	13,810	4.98%
Noninterest earning assets	40,170			41,481		
Total assets	$ 1,694,961			$ 1,156,682		
Liabilities and stockholders' equity						
Interest bearing liabilities						
Interest-bearing deposits	$ 224,362	298	0.54%	$ 139,750	514	1.48%
Money market and savings deposits	577,472	829	0.58%	333,820	1,184	1.43%
Time deposits	271,416	439	0.66%	316,030	1,556	1.98%
Total deposits	1,073,250	1,566	0.59%	789,600	3,254	1.66%
Short-term borrowings	54,806	61	0.45%	53,015	258	1.96%
Long-term borrowings	128,530	111	0.35%	5,023	24	1.92%
Total Borrowings	183,336	172	0.38%	58,038	282	1.95%
Subordinated Debentures	40,682	593	5.83%	41,590	593	5.70%
Total interest-bearing liabilities	1,297,268	2,331	0.73%	889,228	4,129	1.87%
Non-interest bearing deposits	234,030			137,141		
Other non-interest bearing liabilities	26,474			9,844		
Total liabilities	$ 1,557,772			$ 1,036,213		
Total stockholders' equity	137,189			120,469		
Total stockholders' equity and liabilities	$ 1,694,961			$ 1,156,682		
Net interest income [1]		$ 15,186			$ 9,681	
Net interest spread [1]			3.56%			3.11%
Net interest margin [1]			3.72%			3.49%

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

Rate/Volume Analysis

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 months ended March 31, 2021 as compared to the same period in 2020, 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.

	March 31, 2021 Compared to 2020 Change in interest due to:		
(dollars in thousands)	Rate	Volume	Total
Interest income:			
Due from banks	$ (120)	98	(22)
Federal funds sold	(147)	114	(33)
Investment securities[(1)]	(559)	768	209
Loans held for sale	(569)	1,331	762
Loans held for investment[(1)]	(6,101)	8,892	2,791
Total loans	(6,670)	10,223	3,553
Total interest income	$ (7,496)	11,203	3,707
Interest expense:			
Interest bearing deposits	$ (1,394)	1,178	(216)
Money market and savings deposits	(3,282)	2,927	(355)
Time deposits	(922)	(195)	(1,117)
Total interest bearing deposits	(5,598)	3,910	(1,688)
Short-term borrowings	(256)	59	(197)
Long-term borrowings	(150)	237	87
Total borrowings	(406)	296	(110)
Subordinated debentures	53	(53)	—
Total interest expense	(5,951)	4,153	(1,798)
Interest differential	$ (1,545)	7,050	5,505

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

For the three months ended March 31, 2021 as compared to the same period in 2020, tax-equivalent interest income increased $3.7 million as volume changes in average earning assets contributed $11.5 million and unfavorable rate changes reduced interest income by $7.8 million. The favorable change in interest income due to volume changes was driven mostly from growth in the loans held for investment portfolio, which increased $332.8 million on average over the three month periods, while the loans held for sale portfolio also increased $129.8 million on average over this period. Within the loans held for investment portfolio, the average balance on PPP loans increased $212.0 million. Partially off-setting these favorable volume changes were unfavorable loan rate changes of 92 basis points reducing interest income by $7.8 million.

On the funding side, interest expense decreased $1.8 million due to the impact from rate declines which offset the impact from volume increases. The cost of deposits and borrowings were down across the board, having a $6.0 million positive effect on interest expense. The cost of interest-bearing deposits, money market and savings accounts and time deposits declined 94 basis points, 85 basis points and 132 basis points, respectively, while the cost of borrowings declined 157 basis points. Interest-bearing deposits, and money market and savings accounts increased $84.6 million, and $243.7 million on average, while time deposits decreased $44.6 million on average, and borrowings overall were up $125.3 million on average. These average balance changes led to a $4.2 million increase in interest expense.

Overall, the increase in interest income from volume changes contributed $11.5 million and out-paced the unfavorable rate changes to improve tax-equivalent net interest income by $5.5 million.

Simulations of net interest income. We use a simulation model on a quarterly basis to measure and evaluate potential changes in our net interest income resulting from various hypothetical interest rate scenarios. Our model incorporates various assumptions that management believes to be reasonable, but which may have a significant impact on results such as:

- The timing of changes in interest rates;
- Shifts or rotations in the yield curve;
- Repricing characteristics for market rate sensitive instruments on the balance sheet;
- Differing sensitivities of financial instruments due to differing underlying rate indices;
- Varying timing of loan prepayments for different interest rate scenarios;
- The effect of interest rate floors, periodic loan caps and lifetime loan caps;
- Overall growth rates and product mix of interest-earning assets and interest-bearing liabilities.

Because of the limitations inherent in any approach used to measure interest rate risk, simulated results are not intended to be used as a forecast of the actual effect of a change in market interest rates on our results, but rather as a means to better plan and execute appropriate Asset / Liability Management ("ALM") strategies.

Potential changes to our net interest income between a flat interest rate scenario and hypothetical rising and declining interest rate scenarios, measured over a one-year period as of March 31, 2021 and 2020 are presented in the following table. The simulation assumes rate shifts occur upward and downward on the yield curve in even increments over the first twelve months (ramp), followed by rates held constant thereafter. We would note that starting in the first quarter of 2020 that our simulations in a downward parallel shift of the yield curve, interest and discount rates at the short-end of the yield curve are allowed to decline below 0%. Negative rates do impact the net interest income calculations, however there are floors in place and they override the negative rates on applicable instruments.

Rate Ramp

	Estimated increase (decrease) in Net Interest Income For the year ending March 31,	
Changes in Market Interest Rates	**2021**	**2020**
+300 basis points over next 12 months	3.83 %	0.81 %
+200 basis points over next 12 months	2.28 %	0.21 %
+100 basis points over next 12 months	1.06 %	(0.08)%
No Change		
-100 basis points over next 12 months	(1.56)%	(0.70)%
-200 basis points over next 12 months	(5.01)%	(3.35)%

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of March 31, 2021. In its current position, the table indicates that a 100, 200 or 300 basis point increase in interest rates would have a positive 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.

Simulation of economic value of equity. To quantify the amount of capital required to absorb potential losses in value of our interest-earning assets and interest-bearing liabilities resulting from adverse market movements, we calculate economic value of equity on a quarterly basis. We define economic value of equity as the net present value of our balance sheet's cash flow, and we calculate economic value of equity by discounting anticipated principal and interest cash flows under the prevailing and hypothetical interest rate environments. Potential changes to our economic value of equity between a flat rate scenario and hypothetical rising and declining rate scenarios, measured as of March 31, 2021 and 2020, are presented in the following table. The projections assume shifts upward and downward in the yield curve of 100, 200 and 300 basis points occurring immediately. We would note that starting in the first quarter of 2020 that our simulations in a downward parallel shift of the yield curve, interest and discount rates at the short-end of the yield curve are allowed to decline below 0%. Negative rates for this simulation mainly impacts the discount rate for the economic value calculation.

Management has and continues to employ strategies to mitigate risk in these scenarios. Strategies include actively lowering deposit and funding rates as well as adding and maintaining the use of interest rate floors on floating rate loans.

Changes in Market Interest Rates	Estimated increase (decrease) in Net Economic Value at March 31,	
	2021	2020
+300 basis points	7 %	58 %
+200 basis points	4 %	47 %
+100 basis points	2 %	29 %
No Change		
-100 basis points	(4)%	(46)%
-200 basis points	(13)%	(117)%

This economic value of equity profile at March 31, 2021 suggests that we would experience a positive effect from an increase in rates, and that the impact would become greater as rates continue to rise due to the duration of our interest-earning assets and conversely we would experience a negative effect from a decrease in rates. While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, we believe that a gradual shift in interest rates would have a much more modest impact. Since economic value of equity measures the discounted present value of cash flows over the estimated lives of instruments, the change in economic value of equity does not directly correlate to the degree that earnings would be impacted over a shorter time horizon.

The results of our net interest income and economic value of equity simulation analysis are purely hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from that projected, our net interest income might vary significantly. Non-parallel yield curve shifts or changes in interest rate spreads would also cause our net interest income to be different from that projected. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term interest-bearing liabilities reprice faster than expected or faster than our interest-earning assets. Actual results could differ from those projected if we grow interest-earning assets and interest-bearing liabilities faster or slower than estimated, or otherwise change its mix of products. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Furthermore, the results do not take into account the impact of changes in loan prepayment rates on loan discount accretion. If prepayment rates were to increase on our loans, we would recognize any remaining loan discounts into interest income. This would result in a current period offset to declining net interest income caused by higher rate loans prepaying.

Finally, these simulation results do not contemplate all the actions that we may undertake in response to changes in interest rates, such as changes to our loan, investment, deposit, funding or other strategies.

Management has and continues to employ strategies to mitigate risk in the Net Interest Income and Economic Value simulations. Strategies include actively lowering deposit and funding rates, adding and maintaining interest rate floors on assets. Recent changes in interest rates and the yield curve, in addition to the strategies employed, have helped mitigate the impact in all rate scenarios and moved us to a more neutral positon over time.

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 March 31, 2021 and December 31, 2020.

As of March 31, 2021 *(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	$	54,578	5,380	17,436	95,264	172,658
Loans (1)		1,060,791	173,452	257,746	14,434	1,506,423
Other Assets		—	—	—	64,896	64,896
Total Assets	$	1,115,369	178,832	275,182	174,594	1,743,977
Non-interest bearing deposits		8,489	8,197	23,796	217,248	257,730
Interest bearing deposits		836,092	—	—	—	836,092
Time deposits		193,967	43,173	52,628	—	289,768
Borrowings		26,376	57,467	65,417	—	149,260
Other Liabilities		—	—	169	67,453	67,622
Total stockholders' equity		—	—	—	143,505	143,505
Total liabilities and stockholders' equity	$	1,064,924	108,837	142,010	428,206	1,743,977
Repricing gap:						
Positive (negative)	$	50,445	69,995	133,172	(253,612)	—
Cumulative repricing gap: Dollar amount	$	50,445	120,440	253,612	—	
Percent of total assets		2.9%	6.9%	14.5%	—	

(1) Loans include portfolio loans and loans held for sale

As of December 31, 2020 *(dollars in thousands)*		**12 Months**	**1-2 Years**	**2-5 Years**	**Greater Than 5 years and Not Rate Sensitive**	**Total**
Cash and investments	$	59,739	5,376	20,303	82,429	167,847
Loans (1)		1,041,269	199,978	226,594	10,588	1,478,429
Other Assets		—	—	—	73,921	73,921
Total Assets		1,101,008	205,354	246,897	166,938	1,720,197
Noninterest-bearing deposits		6,871	6,638	19,280	171,054	203,843
Interest-bearing deposits		779,195	—	—	—	779,195
Time deposits		197,649	41,533	19,115	—	258,297
Borrowings		106,862	165,546	—	—	272,408
Other Liabilities		—	—	169	64,663	64,832
Total stockholders' equity		—	—	—	141,622	141,622
Total liabilities and stockholders' equity	$	1,090,577	213,717	38,564	377,339	1,720,197
Repricing gap:						
Positive (negative)		10,431	(8,363)	208,333	(210,401)	—
Cumulative repricing gap: Dollar amount	$	10,431	2,068	210,401	—	
Percent of total assets		0.6%	0.1%	12.2%	—	

(1) Loans include portfolio loans and loans held for sale

Under the repricing gap analysis for both periods, we are asset-sensitive due to recent loan growth which has out-paced our deposit growth. 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 March 31, 2021, the Corporation recorded a provision for loan and lease losses ("Provision") of $599 thousand which was a $953 thousand decrease from the same period in 2020. For the three months ended March 31, 2021 there were net recoveries of $10 thousand as compared to net recoveries of $33 thousand for the same period in 2020. While the Provisions recorded for both periods were impacted by qualitative provisioning for the economic uncertainty as a result of the COVID-19 pandemic, the first quarter 2021 Provision had less such impact as the first quarter 2020 Provision, which was developed right at the start of the pandemic when economic factors were severely impacted, but to date have recovered to some degree.

The provision for loan and lease losses could increase in future periods based on our belief that the credit quality of our loan portfolio could decline and loan defaults could increase if the COVID-19 pandemic continues for a prolonged period of time.

Asset Quality and Analysis of Credit Risk

Asset quality remains strong despite the pressures that the COVID-19 pandemic has had on businesses and the economy locally and nationally. Meridian realized net charge-offs of 0.00% of total average loans for the quarter ending March 31, 2021, unchanged from the quarter ended December 31, 2020. Total non-performing assets, including loans and other real estate property, were $8.6 million as of March 31, 2021, compared to $7.9 million as of December 31, 2020. The ratio of non-performing assets to total assets as of March 31, 2021 was 0.49% compared to 0.46% as of December 31, 2020. The ratio of allowance for loan losses to total loans held for investment, excluding loans at fair value and PPP loans (a non-GAAP measure), was 1.65% as of both March 31, 2021 and December 31, 2020. PPP loans are excluded from calculation of this ratio as they are guaranteed by the SBA and therefore we have not provided for in the allowance for loan losses. A reconciliation of this non-GAAP measure is included in the Appendix.

There were no properties in OREO as of March 31, 2021 and December 31, 2020.

As of March 31, 2021, the Corporation had $2.8 million of troubled debt restructurings ("TDRs"), of which $2.5 million were in compliance with the modified terms and excluded from non-performing loans and leases. As of December 31, 2020, the Corporation had $3.6 million of TDRs, of which $3.4 million were in compliance with the modified terms, and were excluded from non-performing loans and leases. As of March 31, 2021, the Corporation had a recorded investment of $10.2 million of impaired loans and leases which included $2.8 million of TDRs.

The Corporation 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 Corporation believes that timely identification of credit issues and appropriate actions early in the process serve to mitigate overall risk of loss.

Nonperforming Assets and Related Ratios

(dollars in thousands)		As of March 31, 2021	As of December 31, 2020
Non-performing assets:			
Nonaccrual loans:			
Real estate loans:			
Commercial mortgage	$	—	3,061
Home equity lines and loans		919	859
Residential mortgage		2,715	2,725
Total real estate loans	$	3,634	6,645
Commercial and industrial		3,911	1,285
Small business loans		917	
Leases		131	—
Total nonaccrual loans	$	8,593	7,930
Total non-performing loans	$	8,593	7,930
Total non-performing assets	$	8,593	7,930
Troubled debt restructurings:			
TDRs included in non-performing loans		239	244
TDRs in compliance with modified terms		2,534	3,362
Total TDRs	$	2,773	3,606
Asset quality ratios:			
Non-performing assets to total assets		0.49%	0.46%
Non-performing loans to:			
Total loans and leases		0.56%	0.52%
Total loans held-for-investment		0.63%	0.62%
Total loans held-for-investment (excluding loans at fair value and PPP loans) (1)		0.77%	0.74%
Allowance for loan losses to:			
Total loans and leases		1.21%	1.17%
Total loans held-for-investment		1.36%	1.38%
Total loans held-for-investment (excluding loans at fair value and PPP loans) (1)		1.65%	1.65%
Non-performing loans		213.83%	224.04%
Total loans and leases	$	1,524,799	1,513,963
Total loans and leases held-for-investment	$	1,354,551	1,284,764
Total loans and leases held-for-investment (excluding loans at fair value and PPP loans)	$	1,115,384	1,072,727
Allowance for loan and lease losses	$	18,376	17,767

(1) The allowance for loan losses to total loans held-for-investment (excluding loans at fair value and PPP loans) ratio is a non-GAAP financial measure. See “Non-GAAP Financial Measures” above for a reconciliation of this measure to its most comparable GAAP measure. PPP loans have only been excluded from this calculation as of March 31, 2021.

NON-INTEREST INCOME

Three Months Ended March 31, 2021 Compared to the Same Period in 2020

Total non-interest income for the first quarter of 2021 was $27.1 million, up $17.8 million or 193.4% from the comparable period in 2020. This overall increase in non-interest income came largely from our mortgage division. Mortgage banking net revenue increased $17.3 million or 254.8% over the first quarter of 2020. The significant increase in first quarter 2021 came from increased levels of mortgage loan originations due to both the expansion of the division into Maryland as well as the favorable rate environment for refinance activity. Our mortgage division originated $724.7 million in loans during

the first quarter of 2021, an increase of $469.9 million, or 184.6%, from the first quarter of 2020. Refinance activity represented 64% of the total loans originated for the first quarter of 2021, compared to 61% for the first quarter of 2020. The fair value of derivative instruments and loans held for sale decreased a combined $6.6 million over the period. Net hedging activity increased $5.7 million to a net gain of $4.3 million for the first quarter of 2021.

Non-interest income from the sales of SBA 7(a) loans increased $703 thousand as $13.0 million in loans were sold in the first quarter of 2021 compared to $10.3 million in loans sold in the first quarter of 2020. Wealth management revenue increased $115 thousand year-over-year due to the favorable market conditions discussed above. Other fee income was up $634 thousand or 144.4% from the first quarter of 2020 due to increases period over period of $131 thousand on interest rate swap fee income, $307 thousand in mortgage fee income, $111 thousand in wire transfer fee income, $38 thousand in title transfer fee income, and $95 thousand in other fee income.

NON-INTEREST EXPENSE

Three Months Ended March 31, 2021 Compared to the Same Period in 2020

Total non-interest expense for the first quarter of 2021 was $28.3 million, up $14.2 million or 101.0%, from the comparable period in 2020. The increase in non-interest expense is largely attributable to an increase in salaries and employee benefits expense, which increased $12.3 million or 124.0%, from the comparable period in 2020. Of this increase, $12.5 million relates to the mortgage division. Full-time equivalent employees, particularly in the mortgage division, increased from the prior year comparable quarter as we expanded our mortgage division into Maryland.

Occupancy and equipment expense increased $228 thousand or 24.7%, from the first quarter of 2020 as the result of rent expense incurred at the seven loan production locations for our mortgage division expansion into Maryland. Professional fees increased $273 thousand or 40.9% due largely to an increase in consulting costs incurred on several IT related projects that Meridian has undertaken to improve efficiency and automation in processes, combined with an increase in audit and legal fees year over year as Meridian continues to grow.

Advertising and promotion expense increased $176 thousand, or 28.9%, from the comparable period in 2020. This increase was due to an increase in Meridian's overall general marketing and advertising costs, in addition to an increase in marketing costs from our mortgage division. Data processing costs increased $272 thousand or 79.1%, from the first quarter of 2020 as the result of increased loan processing activity from our mortgage division, combined with processing activity relating to PPP loans. IT related costs increased $107 thousand due to increased software related costs as Meridian continues to grow and expand the number of technology platforms used to accommodate this growth.

Other non-interest expenses were up $953 thousand, or 87.4%, from the comparable period in 2020, due largely to employee expenses for travel and client meetings, which have begun to open up. Additionally, as Meridian continues to grow as an organization in headcount, geographic footprint and services offered, certain non-interest expenses have increased year over year, including insurance expense, postage and shipping costs, and communications costs. The overall increase of $953 thousand in other non-interest expenses was also driven by an increase in loan servicing and other volume based fees in our mortgage and commercial loan portfolios.

INCOME TAXES

Income tax expense for the three months ended March 31, 2021 was $3.1 million, as compared to $755 thousand for the same period in 2020. The increase in income tax expense was attributable to the increase in earnings, period over period. Our effective tax rate was 23.6% for the first quarter of 2021 and 23.1% for the first quarter of 2020.

BALANCE SHEET ANALYSIS

As of March 31, 2021, total assets were $1.7 billion, an increase of $23.8 million from December 31, 2020. Total assets increased $440.5 million, or 33.8%, from March 31, 2020 primarily due to strong loan growth.

Total loans, net of allowance, grew $69.2 million, or 5.5%, to $1.3 billion as of March 31, 2021, from $1.3 billion as of December 31, 2020. The increase is attributable partially to the $37.9 million net increase in PPP loans as of March 31, 2021. There was also growth in several commercial categories as we continue to grow our presence in the Philadelphia market area. Commercial real estate loans increased $32.3 million, or 6.7% from December 31, 2020. Small business loans increased $12.8 million, or 26.0% from December 31, 2020, and leases increased $15.6 million as our MEF leasing team continues to grow at a rapid pace after starting up in early 2020. Residential mortgage loans held for sale decreased $59.0 million, or 25.7%, to $170.2 million as of March 31, 2021 from $229.2 million at December 31, 2020.

Servicing assets were $8.3 million as of March 31, 2021, up $2.7 million, or 47.4%, from December 31, 2020. $7.2 million of this balance is comprised of mortgage servicing rights, while $1.1 million is comprised of SBA loan servicing assets. The increase in both servicing asset types was the result of the continued strong loan sales markets since December 31, 2021.

Deposits were $1.4 billion as of March 31, 2021, up $142.3 million, or 11.5%, from December 31, 2020. Non-interest bearing deposits increased $53.9 million, or 26.4%, from December 31, 2020. Interest-bearing checking accounts increased $37.3 million, or 18.0%, from December 31, 2020. Money market accounts/savings accounts increased $19.6 million, or 3.4% since December 31, 2020, driven by business money market accounts and sweep accounts. Increases in core deposits were driven from loan customers as part of new business and municipal relationships and also as a result of the PPP loan process. Certificates of deposits increased $31.5 million, or 12.2%, from December 31, 2020.

Short-term borrowings were $26.4 million as of March 31, 2021, down $80.5 million, or 75.3%, from December, 31, 2020, while long-term debt was $122.9 million as of March 31, 2021, down $42.7 million, or 25.8%, from December 31, 2020. Short-term borrowings declined from December 31, 2020 to March 31, 2021, largely due to the increase in non-interest deposits noted above. As non-interest bearing deposits increased over this period, the need for borrowings to fund loan growth, declined. The decline in long-term debt was due to a decrease in PPPLF advances, which were funding sources for PPP loans, as $64.7 of PPP loans from “round 1” were forgiven for the period ended March 31, 2021.

Capital

Consolidated stockholders’ equity of the Corporation was $143.5 million, or 8.2% of total assets as of March 31, 2021, as compared to $141.6 million, also 8.2% of total assets as of December 31, 2020. The change in stockholders’ equity is the result of year-to-date net income of $10.2 million, partially offset by dividends of $6.9 million paid during the first quarter of 2021, which included a special dividend of $1 per share, in addition to the quarterly dividend of $0.125 per share. Net unrealized gains on available for sale investment securities declined by $1.9 million from December 31, 2020 to March 31, 2021 due to the changing interest rate environment over this period.

As of March 31, 2021, the Tier 1 leverage ratio was 8.86% for the Corporation and 11.34% for the Bank, the Tier 1 risk-based capital and common equity ratios were 9.90% for the Corporation and 12.66% for the Bank, and total risk-based capital was 14.05% for the Corporation and 14.03% for the Bank. Quarter-end numbers show a tangible common equity to tangible assets ratio (a non-GAAP measure) of 7.99% for the Corporation and 10.22% for the Bank. A reconciliation of this non-GAAP measure is included in the Appendix. Tangible book value per share was $22.55 as of March 31, 2021, compared with $22.35 as of December 31, 2020.

The following table presents the Corporation's capital ratios and the minimum capital requirements to be considered "well capitalized" by regulators as of March 31, 2021 and December 31, 2020:

	March 31, 2021			
	Actual		To Be Well Capitalized Under CBLR Framework	
(dollars in thousands)	Amount	Ratio	Amount	Ratio
Tier 1 capital (to average assets)				
Corporation	$ 138,435	8.86%	$ 124,958	8.00%
Bank	177,102	11.34%	124,959	8.00%

	December 31, 2020			
	Actual		To Be Well Capitalized Under CBLR Framework	
(dollars in thousands)	Amount	Ratio	Amount	Ratio
Tier 1 capital (to average assets)				
Corporation	$ 134,564	8.96%	$ 120,082	8.00%
Bank	173,231	11.54%	120,080	8.00%

Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response, Congress provided an "off-ramp" for institutions, like us, with total consolidated assets of less than $10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" ("CBLR") of between 8 and 10%. Under the final rule, a community banking organization is eligible to elect the new framework if it has: less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%.The bank regulatory agencies temporarily lowered the CBLR to 8% as a result of the COVID-19 pandemic. During the first quarter of 2020, the Bank adopted the CBLR framework as its primary regulatory capital ratio, but reports all ratios for comparative purposes.

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 shared national credits ("SNCs"), which have a national market and can be sold in a timely manner. Meridian's primary liquidity, which totaled $341.6 million at March 31, 2021, compared to $408.8 million at December 31, 2020, includes investments, SNCs, Federal funds sold, mortgages held-for-sale and cash and cash equivalents, less the amount of securities required to be pledged for certain liabilities. Meridian also anticipates scheduled payments and prepayments on its loan and mortgage-backed securities portfolios.

In addition, Meridian maintains borrowing arrangements with various correspondent banks, the FHLB and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Through its relationship at the Federal Reserve, Meridian had available credit of approximately $10.1 million at March 31, 2021. At March 31, 2021, Meridian had no borrowings from the Federal Reserve. 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 March 31, 2021, Meridian's maximum borrowing capacity with the FHLB was $546.7 million. At March 31, 2021, Meridian had borrowed $38.6 million and the FHLB had issued letters of credit, on Meridian's behalf, totaling $154 million against its available credit lines. At March 31, 2021, Meridian also had available $39 million of unsecured federal funds lines of credit with other financial institutions as well as $259.8 million of available short or long term funding through the Certificate of Deposit Account Registry Service ("CDARS") program and $182.4 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 March 31, 2021, the Corporation has three principal segments as defined by FASB ASC 280, "*Segment Reporting.*" The segments are Banking, Mortgage Banking and Wealth Management (see Note 10 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Banking Segment recorded income before tax of $7.3 million for the three months ended March 31, 2021, as compared to income before tax of $2.1 million for the same period in 2020. The Banking Segment provided 54.8% of the Corporation's pre-tax profit for the three month period ended March 31, 2021, as compared to 62.7% for the same period in 2020.

The Wealth Management Segment recorded income before tax of $227 thousand for the three months ended March 31, 2021, as compared to income before tax of $231 thousand for the same period in 2020.

The Mortgage Banking Segment recorded income before tax of $5.8 million for the three months ended March 31, 2021, as compared to income before tax of $1.0 million and $1.0 million for the same period in 2020. Mortgage Banking income and expenses related to loan originations and sales increased due to higher origination volume.

Off Balance Sheet Risk

The Corporation 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 March 31, 2021 were $445.5 million, as compared to $421.4 million at December 31, 2020.

Standby letters of credit are conditional commitments issued by the Corporation 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 Corporation's obligation under standby letters of credit at March 31, 2021 amounted to $8.7 million, as compared to $8.9 million at December 31, 2020.

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.

In certain circumstances the Corporation may be required to repurchase loans from investors under the terms of loan sale agreements. Generally, these circumstances include the breach of representations and warranties made to investors regarding borrower default or early payment, as well as a violation of the applicable federal, state, or local lending laws. The Corporation agrees to repurchase loans if the representations and warranties made with respect to such loans are breached, and such breach has a material adverse effect on the loans. Based on the obligations described above, the Corporation did not repurchase loans for the three months ended March 31, 2021, and repurchased 1 loan in the amount of $154 thousand for the three months ended March 31, 2020.

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Corporation's CEO and CFO have concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2021 to ensure that the information required to be disclosed by the Corporation in the reports that the Corporation files or submits under the Exchange Act is recorded, processed, summarized, and reported completely and accurately within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in the Corporation's internal control over financial reporting identified during the quarter ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II–OTHER INFORMATION

Item 1. Legal Proceedings.

Item 1A. Risk Factors.

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020.

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

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed or incorporated by reference as part of this report are listed in the Exhibit Index, which appears at page 52.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Plan of Merger and Reorganization dated April 26, 2018 by and between Registrant, Bank and Meridian Interim Bank, filed as Exhibit 2.1 to Form 8-K on August 24, 2018 and incorporated herein by reference.
3.1	Articles of Incorporation of Registrant, filed as Exhibit 3.1 to Form 8-K on August 24, 2018 and incorporated herein by reference.
3.2	Bylaws of Registrant, filed as Exhibit 3.2 to Form 8-K on August 24, 2018 and incorporated herein by reference.
4.2	Indenture, dated as of December 18, 2019, between Meridian Corporation, as Issuer, and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the SEC on December 18, 2019.
4.3	Form of 5.375% Subordinated Note due 2029 (included as Exhibit A-1 and Exhibit A-2 to the Indenture incorporated by reference as Exhibit 4.2 hereto), filed with the SEC on December 18, 2019.
10.1	Meridian Bank 2016 Equity Incentive Plan, filed as Exhibit 10.1 of the Registration Statement on Form 10, filed with the FDIC on September 29, 2017 and incorporated herein by reference.
10.2	Employment Agreement between Meridian Bank and Christopher Annas, effective April 11, 2019, filed as Exhibit 10.1 to Form 8-K on April 11, 2019 and incorporated herein by reference.
10.3	Amendment to Meridian Corporation Supplemental Executive Retirement and Deferred Compensation Plan, filed as Exhibit 10.1 to Form 8-K on March 12, 2020 and incorporated herein by reference.
10.4	Meridian Bank Employee Stock Ownership Plan, filed as Exhibit 10.4 of the Registration Statement on Form 10, filed with the FDIC on September 29, 2017 and incorporated herein by reference.
10.5	Employment Agreement between Meridian Bank and Denise Lindsay, effective July 23, 2018, filed as Exhibit 10.2, to Form 8-K with the FDIC on July 23, 2018, and incorporated herein by reference.
10.6	Meridian Bank 2004 Stock Option Plan, as amended June 15, 2006, filed as Exhibit 10.6 to Form 10-K on March 29, 2021, and incorporated herein by reference.
10.7	Change in Control Agreement between Meridian Bank and Joseph Cafarchio, effective July 23, 2018, filed as Exhibit 10.1, to Form 8-K with the FDIC on July 23, 2018, and incorporated herein by reference.
10.8	Change in Control Agreement between Meridian Bank and Charlie Kochka, effective July 23, 2018, filed as Exhibit 10.1, to Form 8-K with the FDIC on July 23, 2018, and incorporated herein by reference.
10.9	Change in Control Agreement between Meridian Bank and Randy McGarry, effective November 2, 2018, and filed herewith.
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Executive Officer, filed herewith.
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Financial Officer, filed herewith.
32	Section 1350 Certifications, filed herewith.
101.INS	XBRL Instance Document – The instance document does not appear in the interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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.

Date: May 14, 2021

Meridian Corporation

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

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

Exhibit 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 Corporation;

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: May 14, 2021

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

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 Corporation;

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: May 14, 2021

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

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Meridian Corporation on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission 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 Corporation.

/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: May 14, 2021