Embassy Bancorp, Inc.
Form 10-Q
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016 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 000-53528

Embassy Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	26-3339011
(State of incorporation)	(I.R.S. Employer Identification No.)

One Hundred Gateway Drive, Suite 100

Bethlehem, PA	18017
(Address of principal executive offices)	(Zip Code)

(610) 882-8800

(Registrant's Telephone Number)

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 filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date:

COMMON STOCK		
Number of shares outstanding as of August 5, 2016	($1.00 Par Value)	7,413,481
	(Title Class)	(Outstanding Shares)

Embassy Bancorp, Inc.

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Part I – Financial Information

Item 1 – Financial Statements

Consolidated Balance Sheets (Unaudited)

ASSETS	June 30, 2016	December 31, 2015
	(In Thousands, Except Share Data)	
Cash and due from banks	$ 14,318	$ 12,459
Interest bearing demand deposits with banks	8,807	6,067
Federal funds sold	1,000	1,000
Cash and Cash Equivalents	24,125	19,526
Securities available for sale	89,879	77,253
Restricted investment in bank stock	624	2,178
Loans receivable, net of allowance for loan losses of $6,279 in 2016; $6,068 in 2015	725,299	684,047
Premises and equipment, net of accumulated depreciation	2,192	2,258
Bank owned life insurance	12,472	12,343
Accrued interest receivable	1,692	1,637
Other real estate owned	621	1,224
Other assets	3,870	3,572
Total Assets	$ 860,774	$ 804,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 97,298	$ 89,959
Interest bearing	677,196	570,307
Total Deposits	774,494	660,266
Securities sold under agreements to repurchase	8,603	27,535
Short-term borrowings	-	39,306
Long-term borrowings	-	3,820
Accrued interest payable	671	462
Other liabilities	5,800	4,548
Total Liabilities	789,568	735,937
Stockholders' Equity:		
Common stock, $1 par value; authorized 20,000,000 shares;		

2016 issued and outstanding 7,413,481 shares		
2015 issued and outstanding 7,407,547 shares	7,413	7,408
Surplus	24,393	24,299
Retained earnings	37,466	35,158
Accumulated other comprehensive income	1,934	1,236
Total Stockholders' Equity	71,206	68,101
Total Liabilities and Stockholders' Equity	$ 860,774	$ 804,038

See notes to consolidated financial statements.

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Embassy Bancorp, Inc.

Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In Thousands, Except Per Share Data)			
INTEREST INCOME				
Loans receivable, including fees	$ 6,891	$ 6,332	$ 13,700	$ 12,627
Securities, taxable	221	207	400	414
Securities, non-taxable	284	304	569	607
Federal funds sold, and other	41	15	82	64
Interest on time deposits	-	1	-	1
Total Interest Income	7,437	6,859	14,751	13,713
INTEREST EXPENSE				
Deposits	962	694	1,819	1,367
Securities sold under agreements to repurchase	3	5	7	9
Short-term borrowings	1	28	31	43
Long-term borrowings	-	33	5	68
Total Interest Expense	966	760	1,862	1,487
Net Interest Income	6,471	6,099	12,889	12,226
PROVISION FOR LOAN LOSSES	70	120	255	142
Net Interest Income after Provision for Loan Losses	6,401	5,979	12,634	12,084
OTHER INCOME				
Credit card processing fees	429	412	843	775
Other service fees	174	173	335	332
Bank owned life insurance	81	91	129	189
Gain on sale of securities, net	-	-	-	139
Gain on sale of other real estate owned	5	1	15	7
Impairment on other real estate owned	(80)	-	(80)	(42)
Total Other Income	609	677	1,242	1,400
OTHER EXPENSES				
Salaries and employee benefits	1,951	1,717	3,921	3,459
Occupancy and equipment	681	594	1,356	1,223
Data processing	391	444	780	803
Credit card processing	396	393	798	747
Advertising and promotion	371	381	695	673
Professional fees	150	133	277	255
FDIC insurance	106	78	208	165
Insurance	15	13	28	27

Loan & real estate	46	82	110	126
Charitable contributions	149	142	386	351
Other real estate owned expenses	20	4	57	40
Other	400	341	673	559
Total Other Expenses	4,676	4,322	9,289	8,428
Income before Income Taxes	2,334	2,334	4,587	5,056
INCOME TAX EXPENSE	670	656	1,315	1,437
Net Income	$ 1,664	$ 1,678	$ 3,272	$ 3,619
BASIC EARNINGS PER SHARE	$ 0.22	$ 0.23	$ 0.44	$ 0.49
DILUTED EARNINGS PER SHARE	$ 0.22	$ 0.23	$ 0.44	$ 0.49
DIVIDENDS PER SHARE	$ 0.13	$ 0.10	$ 0.13	$ 0.10

See notes to consolidated financial statements

Embassy Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,					
	2016			2015		
	(In Thousands)					
Net Income	$		1,664	$		1,678
Change in Accumulated Other Comprehensive Income:						
Unrealized holding gain (loss) on securities available for sale		626			(865)	
Less: reclassification adjustment for realized gains		-			-	
		626			(865)	
Income tax effect		(212)			294	
Net unrealized gain (loss)		414			(571)	
Other comprehensive gain (loss), net of tax			414			(571)
Comprehensive Income	$		2,078	$		1,107

	Six Months Ended June 30,					
	2016			2015		
	(In Thousands)					
Net Income	$		3,272	$		3,619
Change in Accumulated Other Comprehensive Income:						
Unrealized holding gain (loss) on securities available for sale		1,057			(527)	
Less: reclassification adjustment for realized gains		-			(139)	
		1,057			(666)	
Income tax effect		(359)			226	
Net unrealized gain (loss)		698			(440)	
Other comprehensive gain (loss), net of tax			698			(440)
Comprehensive Income	$		3,970	$		3,179

See notes to consolidated financial statements.

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Embassy Bancorp, Inc.

Consolidated Statements of Stockholders' Equity (Unaudited)

Six Months Ended June 30, 2016 and 2015

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
	(In Thousands, Except Share and Per Share Data)				
BALANCE - DECEMBER 31, 2014	$ 7,358	$ 24,024	$ 28,485	$ 1,465	$ 61,332
Net income	-	-	3,619	-	3,619
Other comprehensive income, net of tax	-	-	-	(440)	(440)
Dividend declared, $.10 per share	-	-	(736)	-	(736)
Compensation expense recognized on stock options	-	25	-	-	25
Common stock grants to directors, 9,122 shares	9	87	-	-	96
BALANCE - JUNE 30, 2015	$ 7,367	$ 24,136	$ 31,368	$ 1,025	$ 63,896
BALANCE - DECEMBER 31, 2015	$ 7,408	$ 24,299	$ 35,158	$ 1,236	$ 68,101
Net income	-	-	3,272	-	3,272
Other comprehensive income, net of tax	-	-	-	698	698
Dividend declared, $.13 per share	-	-	(964)	-	(964)
Compensation expense recognized on stock options	-	15	-	-	15
Common stock grants to directors, 5,934 shares	5	57	-	-	62
Compensation expense recognized on stock grants, net of unearned compensation expense of $234	-	22	-	-	22
BALANCE - JUNE 30, 2016	$ 7,413	$ 24,393	$ 37,466	$ 1,934	$ 71,206

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,272	$ 3,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	255	142
Amortization of deferred loan costs	57	12
Depreciation and amortization	374	306
Net amortization of investment security premiums and discounts	130	105
Stock compensation expense	37	25
Net realized gain on sale of other real estate owned	(15)	(7)
Impairment on other real estate owned	80	42
Income on bank owned life insurance	(129)	(189)
Net realized gain on sale of securities available for sale	-	(139)
Increase in accrued interest receivable	(55)	(39)
Increase in other assets	(657)	(22)
Increase (decrease) in accrued interest payable	209	(12)
Increase (decrease) in other liabilities	365	(20)
Net Cash Provided by Operating Activities	3,923	3,823
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(15,416)	(13,869)
Maturities, calls and principal repayments of securities available for sale	3,717	981
Proceeds from sales of securities available for sale	-	5,726
Net increase in loans	(41,041)	(46,448)
Net redemption (purchases) of restricted investment in bank stock	1,554	(1,728)
Proceeds from sale of other real estate owned	-	53
Purchases of premises and equipment	(308)	(282)
Net Cash Used in Investing Activities	(51,494)	(55,567)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	114,228	7,424
Net (decrease) increase in securities sold under agreements to repurchase	(18,932)	3,491
(Decrease) increase in short-term borrowed funds	(39,306)	35,440
Proceeds from long-term borrowed funds	-	5,455
Payments of long-term borrowed funds	(3,820)	(1,000)
Net Cash Provided by Financing Activities	52,170	50,810
Net Increase (Decrease) in Cash and Cash Equivalents	4,599	(934)
CASH AND CASH EQUIVALENTS - BEGINNING	19,526	16,390
CASH AND CASH EQUIVALENTS - ENDING	$ 24,125	$ 15,456

SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 1,641	$ 1,500
Income taxes paid	$ 1,482	$ 1,560
Other real estate sold through bank financing	$ 523	$ -
Deferral of gain from sale of other real estate sold through bank financing	$ 15	$ 195

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Basis of Presentation

Embassy Bancorp, Inc. (the "Company") is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the "Bank") in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow. Embassy Holdings, LLC (the "LLC") is a wholly-owned subsidiary of the Bank organized to engage in the holding of property acquired by the Bank in satisfaction of debts previously contracted. As such, the consolidated financial statements contained herein include the accounts of the Company, the Bank and the LLC. All significant intercompany transactions and balances have been eliminated.

The Bank, which is the Company's principal operating subsidiary, was originally incorporated as a Pennsylvania bank on May 11, 2001 and opened its doors on November 6, 2001. It was formed by a group of local business persons and professionals with significant prior experience in community banking in the Lehigh Valley area of Pennsylvania, the Bank's primary market area.

The accompanying unaudited financial statements have been prepared in accordance with United States of America generally accepted accounting principles ("US GAAP") for interim financial information and in accordance with instructions for Form 10-Q and Rule 10-01 of the Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The consolidated financial statements presented in this report should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2015, included in the Company's Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2016.

In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred after June 30, 2016 through the date these consolidated financial statements were issued. On July 15, 2016, the Board of Directors of the Company ratified the execution of the Embassy Bancorp, Inc. Employee Stock Purchase Plan. This plan had previously been approved by the Company's shareholders at the annual shareholders meeting held on June 16, 2016. Under the plan, each employee of the Company and its subsidiaries who is employed on an offering date when options are granted, scheduled to work at least twenty (20) hours per week and for more than five (5) months is eligible to participate once they have completed the appropriate documentation. Embassy Bancorp, Inc. has authorized 350,000 of its common stock for the plan.

Certain amounts in the 2015 financial statements may have been reclassified to conform to 2016 presentation. These reclassifications had no effect on 2015 net income.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies of the Company as applied in the interim financial statements presented are substantially the same as those followed on an annual basis as presented in the Company’s Form 10-K for the year ended December 31, 2015.

Note 3 – Stockholders’ Equity

On November 11, 2008, the Company consummated its acquisition of Embassy Bank For The Lehigh Valley pursuant to a Plan of Merger and Reorganization dated April 18, 2008, pursuant to which the Bank was reorganized into a bank holding company structure. At the effective time of the reorganization, each share of common stock of Embassy Bank For The Lehigh Valley issued and outstanding was automatically converted into one share of Company common stock. The issuance of Company common stock in connection with the reorganization was exempt from registration pursuant to Section 3(a)(12) of the Securities Act of 1933, as amended.

Note 4 – Stock Incentive Plan

At the Company’s annual meeting on June 16, 2010, the shareholders approved the Embassy Bancorp, Inc. 2010 Stock Incentive Plan (the “SIP”). The SIP authorizes the Board of Directors, or a committee authorized by the Board of Directors, to award a stock based incentive to (i) designated officers (including officers who are directors) and other designated employees at the Company and its subsidiaries, and (ii) non-employee members of the Board of Directors and advisors and consultants to the Company and its subsidiaries. The SIP provides for stock based incentives in the form of incentive stock options as provided in Section 422 of the

Internal Revenue Code of 1986, non-qualified stock options, stock appreciation rights, restricted stock and deferred stock awards. The term of the option, the amount of time for the option to vest after grant, if any, and other terms and limitations will be determined at the time of grant. Options granted under the SIP may not have an exercise period that is more than ten years from the time the option is granted. At inception, the aggregate number of shares available for issuance under the SIP was 500,000. The SIP provides for appropriate adjustments in the number and kind of shares available for grant or subject to outstanding awards under the SIP to avoid dilution in the event of merger, stock splits, stock dividends or other changes in the capitalization of the Company. The SIP expires on June 15, 2020. At June 30, 2016 there were 322,210 shares available for issuance under the SIP.

The Company grants shares of restricted stock, under the SIP, to certain members of its Board of Directors as compensation for their services, in accordance with the Company's Non-employee Directors Compensation program adopted in October 2010. The Company also grants restricted stock to certain officers under individual agreements with these officers. Some of these restricted stock awards vest immediately, while the remainder vest over three to nine service years. Management recognizes compensation expense for the fair value of the restricted stock awards on a straight-line basis over the requisite service period. Since inception of the plan and through the period ended June 30, 2016, there have been 65,774 awards granted. No awards were granted during the three months ended June 30, 2016 and 2015. During the six months ended June 30, 2016 and 2015 there were 5,934 and 9,122 awards granted, respectively. During the three and six month months ended June 30, 2016 the Company recognized $10 thousand and $22 thousand, respectively, in compensation expense for the restricted stock awards. There was no compensation expense recognized for the restricted stock awards during the three and six months ended June 30, 2015.

In January 2014, February 2013 and February 2012, the Company granted stock options to purchase 29,663, 29,742 and 52,611 shares of stock to certain executive officers in accordance with their respective employment agreements. No stock options were granted in quarter and year to date periods ended June 30, 2016 and 2015. Stock compensation expense related to these options was $6 thousand and $10 thousand for the three months ended June 30, 2016 and 2015, respectively. Stock compensation expense related to these options was $15 thousand and $25 thousand for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, approximately $13 thousand unrecognized cost related to stock options granted in 2014 will be recognized over the next 0.55 years. The fair value of the options granted in 2014, 2013 and 2012 was determined with the following weighted average assumptions: dividend yield of 0%, risk free interest rate of 2.30%, 1.34% and 1.43%, respectively, expected life of 6.0 years, 6.0 years and 7.5 years, respectively, and expected volatility of 28.93%, 28.79% and 31.10%, respectively. The weighted average fair value of options granted in 2014, 2013 and 2012 was $2.46, $2.14 and $2.56 per share, respectively.

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 5 – Other Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

The components of other comprehensive income (loss), both before tax and net of tax, are as follows:

	Three Months Ended June 30,					
	2016			2015		
	(In Thousands)					
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in accumulated other comprehensive income (loss):						
Unrealized holding gains (losses) on securities available for sale	$ 626	$ (212)	$ 414	$ (865)	$ 294	$ (571)
Reclassification adjustments for gains on securities transactions included in net income (A),(B)	-	-	-	-	-	-
Total other comprehensive income (loss)	$ 626	$ (212)	$ 414	$ (865)	$ 294	$ (571)

	Six Months Ended June 30,					
	2016			2015		
	(In Thousands)					
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in accumulated other comprehensive income (loss):						
Unrealized holding gains (losses) on securities available for sale	$ 1,057	$ (359)	$ 698	$ (527)	$ 179	$ (348)
Reclassification adjustments for gains on securities transactions included in net income (A),(B)	-	-	-	(139)	47	(92)
Total other comprehensive income (loss)	$ 1,057	$ (359)	$ 698	$ (666)	$ 226	$ (440)

A. Realized gains on securities transactions included in gain on sales of securities, net, in the accompanying Consolidated Statements of Income.
B. Tax effect included in income tax expense in the accompanying Consolidated Statements of Income.

There were no realized gains on securities for the three months ended June 30, 2016 and 2015. A summary of the realized gains on securities available for sale, net of tax, for the six months ended June 30, 2016 and 2015 are as follows:

	Six Months Ended June 30,	
	2016	2015
	(In Thousands)	
Securities available for sale:		
Realized gains on securities transactions	$ -	$ (139)
Income taxes	-	47
Net of tax	$ -	$ (92)

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

A summary of the accumulated other comprehensive income, net of tax, is as follows:

Three Months Ended June 30, 2016 and 2015	Securities Available for Sale (In Thousands)
Balance March 31, 2016	$ 1,520
Other comprehensive income before reclassifications	414
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive income during the period	414
Balance June 30, 2016	$ 1,934
Balance March 31, 2015	$ 1,596
Other comprehensive loss before reclassifications	(571)
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive loss during the period	(571)
Balance June 30, 2015	$ 1,025
Six Months Ended June 30, 2016 and 2015	
Balance January 1, 2016	$ 1,236
Other comprehensive income before reclassifications	698
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive income during the period	698
Balance June 30, 2016	$ 1,934

Balance January 1, 2015	$ 1,465
Other comprehensive loss before reclassifications	(348)
Amounts reclassified from accumulated other comprehensive income	(92)
Net other comprehensive loss during the period	(440)
Balance June 30, 2015	$ 1,025

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 6 – Basic and Diluted Earnings per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period, as adjusted for stock dividends and splits. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars In Thousands, Except Per Share Data)			
Net income	$ 1,664	$ 1,678	$ 3,272	$ 3,619
Weighted average shares outstanding	7,413,482	7,366,873	7,412,438	7,365,865
Dilutive effect of potential common shares, stock options	33,744	32,922	33,325	32,163
Diluted weighted average common shares outstanding	7,447,226	7,399,795	7,445,763	7,398,028
Basic earnings per share	$ 0.22	$ 0.23	$ 0.44	$ 0.49
Diluted earnings per share	$ 0.22	$ 0.23	$ 0.44	$ 0.49

There were no stock options not considered in computing diluted earnings per common share for the three and six months ended June 30, 2016, as compared to stock options of 9,122 not considered in computing diluted earnings per common share for the three and six months ended June 30, 2015 because they were not dilutive to earnings.

Note 7 – Guarantees

The Company, through the Bank, does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit and FHLBank of Pittsburgh (“FHLB”) deposit letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting these commitments. The Company had $3.7 million of standby letters of credit outstanding as of June 30, 2016. The approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was $3.6 million. Management does not consider the current amount of the liability as of June 30, 2016 for guarantees under standby letters of credit issued to be material.

FHLB deposit letters of credit are standby letters of credit commitments issued by the Bank for the benefit of a third party (the "Beneficiary"), which secure public deposits in the Bank. FHLB deposit letters of credit are secured by qualifying assets of the Bank. The Company, through the Bank, had $7.9 million of FHLB deposit letters of credit outstanding as of June 30, 2016.

Note 8 – Short-term and Long-term Borrowings

Securities sold under agreements to repurchase, federal funds purchased and FHLB short term advances generally represent overnight or less than twelve month borrowings. Long term advances from the FHLB are for periods of twelve months or more and are generally less than sixty months. The Bank has an agreement with the FHLB which allows for borrowings up to a percentage of qualifying assets. At June 30, 2016, the Bank had a maximum borrowing capacity for short-term and long-term advances of approximately $426.5 million. This borrowing capacity with the FHLB includes a line of credit of $150.0 million. There were no short-term FHLB advances outstanding as of June 30, 2016 and $39.3 million were outstanding as of December 31, 2015. No long-term advances were outstanding with FHLB as of June 30, 2016 and $3.8 million were outstanding as of December 31, 2015. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank has a federal funds line of credit with the Atlantic Community Bankers Bank ("ACBB") of $10.0 million, of which none was outstanding at June 30, 2016 and December 31, 2015. Advances from this line are unsecured.

The Company has one line of credit with Univest Bank and Trust Co. ("Univest") totaling $4.0 million, of which none was outstanding at June 30, 2016 and December 31, 2015. This line of credit is secured by 333,333 shares of Bank common stock.

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 9 – Securities Available For Sale

At June 30, 2016 and December 31, 2015, respectively, the amortized cost and approximate fair values of securities available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
June 30, 2016 :				
U.S. Government agency obligations	$ 31,596	$ 267	$ -	$ 31,863
Municipal bonds	39,045	2,508	-	41,553
U.S. Government Sponsored Enterprise (GSE) -				
Mortgage-backed securities - residential	16,309	154	-	16,463
Total	$ 86,950	$ 2,929	$ -	$ 89,879
December 31, 2015 :				
U.S. Government agency obligations	$ 34,676	$ 15	$ (121)	$ 34,570
Municipal bonds	39,378	1,970	(144)	41,204
U.S. Government Sponsored Enterprise (GSE) -				
Mortgage-backed securities - residential	1,327	152	-	1,479
Total	$ 75,381	$ 2,137	$ (265)	$ 77,253

The amortized cost and fair value of securities as of June 30, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without any penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 7,070	$ 7,077
Due after one year through five years	29,865	30,283
Due after five years through ten years	18,964	20,094

Due after ten years	14,742	15,962
	70,641	73,416
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	16,309	16,463
	$ 86,950	$ 89,879

There were no sales of securities during the three and six months ended June 30, 2016. There were no sales of securities during the three months ended June 30, 2015. Gross gains of $139 thousand were realized on sales of securities for the six months ended June 30, 2015. There were no gross losses on the sales of securities during the six months ended June 30, 2015.

Securities with a carrying value of $57.4 million and $64.9 million at June 30, 2016 and December 31, 2015, respectively, were subject to agreements to repurchase, pledged to secure public deposits, or pledged for other purposes required or permitted by law.

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The Company had no securities in an unrealized loss position at June 30, 2016. The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015 :	(In Thousands)					
U.S. Government agency obligations	$ 25,525	$ (121)	$ -	$ -	$ 25,525	$ (121)
Municipal bonds	6,180	(144)	-	-	6,180	(144)
Total Temporarily Impaired Securities	$ 31,705	$ (265)	$ -	$ -	$ 31,705	$ (265)

Note 10 – Restricted Investment in Bank Stock

Restricted investments in bank stock consist of FHLBank of Pittsburgh ("FHLB") stock and Atlantic Community Bankers Bank ("ACBB") stock. The restricted stocks are carried at cost. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The Bank had FHLB stock at a carrying value of $262 thousand and $2.1 million repurchased during the three and six months ended June 30, 2016 and $114 thousand was repurchased during the three and six months ended June 30, 2015, respectively. Stock purchases of $352 thousand and $537 thousand were made during the three and six months ended June 30, 2016 and $983 thousand and $1.8 million during the three and six months ended June 30, 2015, respectively. Dividend payments of $17 thousand and $42 thousand were received during the three and six months ended June 30, 2016 and $13 thousand and $58 thousand were received during the three and six months ended June 30, 2015, respectively.

Management evaluates the FHLB and ACBB restricted stock for impairment. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the issuer as compared to the capital stock amount for the issuer and the length of time this situation has persisted, (2) commitments by the issuer to make payments required by law or regulation and the level of such payments in relation to the operating performance of the issuer, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the issuer.

Based upon its evaluation of the foregoing criteria, management believes no impairment charge is necessary related to the FHLB or ACBB stock as of June 30, 2016.

Note 11 – Loans Receivable and Credit Quality

The following table presents the composition of loans receivable at June 30, 2016 and December 31, 2015, respectively:

	June 30, 2016		December 31, 2015	
	Balance	Percentage of total Loans	Balance	Percentage of total Loans
	(Dollars in Thousands)			
Commercial real estate	$ 295,746	40.43%	$ 289,304	41.92%
Commercial construction	23,600	3.23%	17,786	2.58%
Commercial	40,043	5.47%	34,955	5.06%
Residential real estate	371,413	50.78%	347,316	50.33%
Consumer	679	0.09%	745	0.11%
Total loans	731,481	100.00%	690,106	100.00%
Unearned origination fees	97		9	
Allowance for loan losses	(6,279)		(6,068)	
	$ 725,299		$ 684,047	

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The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention (potential weaknesses), substandard (well defined weaknesses) and doubtful (full collection unlikely) within the Company's internal risk rating system as of June 30, 2016 and December 31, 2015, respectively:

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2016	(In Thousands)				
Commercial real estate	$ 294,131	$ 21	$ 1,594	$ -	$ 295,746
Commercial construction	22,785	-	815	-	23,600
Commercial	40,028	15	-	-	40,043
Residential real estate	370,493	345	575	-	371,413
Consumer	679	-	-	-	679
Total	$ 728,116	$ 381	$ 2,984	$ -	$ 731,481
December 31, 2015					
Commercial real estate	$ 287,755	$ -	$ 1,549	$ -	$ 289,304
Commercial construction	16,971	-	815	-	17,786
Commercial	34,889	66	-	-	34,955
Residential real estate	346,787	-	529	-	347,316
Consumer	745	-	-	-	745
Total	$ 687,147	$ 66	$ 2,893	$ -	$ 690,106

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The following table summarizes information in regards to impaired loans by loan portfolio class as of June 30, 2016 and December 31, 2015, respectively:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Quarter to Date Average Recorded Investment	Quarter to Date Interest Income Recognized	Year to Date Average Recorded Investment	Year to Date Interest Income Recognized
June 30, 2016	(In Thousands)						
With no related allowance recorded:							
Commercial real estate	$ 3,655	$ 3,974		$ 3,667	$ 19	$ 3,659	$ 37
Commercial construction	815	815		815	7	815	14
Commercial	-	-		-	-	-	-
Residential real estate	800	808		811	2	793	3
Consumer	-	-		-	-	-	-
With an allowance recorded:							
Commercial real estate	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial construction	-	-	-	-	-	-	-
Commercial	268	268	61	261	3	281	6
Residential real estate	1,113	1,113	349	970	3	925	4
Consumer	-	-	-	-	-	-	-
Total:							
Commercial real estate	$ 3,655	$ 3,974	$ -	$ 3,667	$ 19	$ 3,659	$ 37
Commercial construction	815	815	-	815	7	815	14
Commercial	268	268	61	261	3	281	6
Residential real estate	1,913	1,921	349	1,781	5	1,718	7
Consumer	-	-	-	-	-	-	-
	$ 6,651	$ 6,978	$ 410	$ 6,524	$ 34	$ 6,473	$ 64
December 31, 2015							
With no related allowance recorded:							
Commercial real estate	$ 3,644	$ 3,928				$ 3,672	$ 139
Commercial construction	815	815				1,096	38
Commercial	-	-				-	-
Residential real estate	758	758				1,029	10
Consumer	-	-				-	-
With an allowance recorded:							
Commercial real estate	$ -	$ -	$ -			$ 336	$ -
Commercial construction	-	-	-			-	-
Commercial	321	321	115			323	10
Residential real estate	834	834	255			878	5

Consumer	-	-	-	-	-
Total:					
Commercial real estate	$ 3,644	$ 3,928	$ -	$ 4,008	$ 139
Commercial construction	815	815	-	1,096	38
Commercial	321	321	115	323	10
Residential real estate	1,592	1,592	255	1,907	15
Consumer	-	-	-	-	-
	$ 6,372	$ 6,656	$ 370	$ 7,334	$ 202

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Notes to Consolidated Financial Statements (Unaudited)

The following table presents non-accrual loans by classes of the loan portfolio:

	June 30, 2016	December 31, 2015
	(In Thousands)	
Commercial real estate	$ 221	$ 164
Commercial construction	-	-
Commercial	15	66
Residential real estate	865	529
Consumer	-	-
Total	$ 1,101	$ 759

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2016 and December 31, 2015, respectively:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loan Receivables	Loan Receivables > 90 Days and Accruing
June 30, 2016	(In Thousands)						
Commercial real estate	$ 46	$ -	$ 221	$ 267	$ 295,479	$ 295,746	$ -
Commercial construction	-	-	-	-	23,600	23,600	-
Commercial	188	-	15	203	39,840	40,043	-
Residential real estate	856	-	865	1,721	369,692	371,413	-
Consumer	-	-	-	-	679	679	-
Total	$ 1,090	$ -	$ 1,101	$ 2,191	$ 729,290	$ 731,481	$ -

December 31, 2015

Commercial real estate	$ 219	$ -	$ 164	$ 383	$ 288,921	$ 289,304	$ -
Commercial construction	500	-	-	500	17,286	17,786	-
Commercial	-	-	66	66	34,889	34,955	-
Residential real estate	159	76	529	764	346,552	347,316	-
Consumer	-	-	-	-	745	745	-
Total	$ 878	$ 76	$ 759	$ 1,713	$ 688,393	$ 690,106	$ -

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The following tables detail the activity in the allowance for loan losses for the three and six months ended June 30, 2016 and 2015:

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses	(In Thousands)						
Three Months Ending June 30, 2016							
Beginning Balance - March 31, 2016	$ 2,157	$ 371	$ 396	$ 2,581	$ 30	$ 674	$ 6,209
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	21	56	22	206	-	(235)	70
Ending Balance - June 30, 2016	$ 2,178	$ 427	$ 418	$ 2,787	$ 30	$ 439	$ 6,279
Six Months Ending June 30, 2016							
Beginning Balance - December 31, 2015	$ 2,132	$ 294	$ 402	$ 2,529	$ 29	$ 682	$ 6,068
Charge-offs	(35)	-	-	(9)	-	-	(44)
Recoveries	-	-	-	-	-	-	-
Provisions	81	133	16	267	1	(243)	255
Ending Balance - June 30, 2016	$ 2,178	$ 427	$ 418	$ 2,787	$ 30	$ 439	$ 6,279
Three Months Ending June 30, 2015							
Beginning Balance - March 31, 2015	$ 1,987	$ 325	$ 462	$ 2,230	$ 22	$ 609	$ 5,635
Charge-offs	(46)	-	-	(9)	-	-	(55)
Recoveries	-	-	-	-	-	-	-
Provisions	64	8	(71)	196	10	(87)	120
Ending Balance - June 30, 2015	$ 2,005	$ 333	$ 391	$ 2,417	$ 32	$ 522	$ 5,700
Six Months Ending June 30, 2015							
Beginning Balance - December 31, 2014	$ 1,704	$ 401	$ 407	$ 1,955	$ 22	$ 1,125	$ 5,614
Charge-offs	(46)	-	-	(10)	-	-	(56)

Recoveries	-	-	-	-	-	-	-
Provisions	347	(68)	(16)	472	10	(603)	142
Ending Balance - June 30, 2015	$ 2,005	$ 333	$ 391	$ 2,417	$ 32	$ 522	$ 5,700

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Notes to Consolidated Financial Statements (Unaudited)

The following tables represent the allocation for loan losses and the related loan portfolio disaggregated based on impairment methodology at June 30, 2016 and December 31, 2015.

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
	(In Thousands)						
June 30, 2016							
Allowance for Loan Losses							
Ending Balance	$ 2,178	$ 427	$ 418	$ 2,787	$ 30	$ 439	$ 6,279
Ending balance: individually evaluated for impairment	$ -	$ -	$ 61	$ 349	$ -	$ -	$ 410
Ending balance: collectively evaluated for impairment	$ 2,178	$ 427	$ 357	$ 2,438	$ 30	$ 439	$ 5,869
Loans receivables:							
Ending balance	$ 295,746	$ 23,600	$ 40,043	$ 371,413	$ 679		$ 731,481
Ending balance: individually evaluated for impairment	$ 3,655	$ 815	$ 268	$ 1,913	$ -		$ 6,651
Ending balance: collectively evaluated for impairment	$ 292,091	$ 22,785	$ 39,775	$ 369,500	$ 679		$ 724,830
December 31, 2015							
Allowance for Loan Losses							
Ending Balance	$ 2,132	$ 294	$ 402	$ 2,529	$ 29	$ 682	$ 6,068
Ending balance: individually evaluated for impairment	$ -	$ -	$ 115	$ 255	$ -	$ -	$ 370
Ending balance: collectively evaluated for impairment	$ 2,132	$ 294	$ 287	$ 2,274	$ 29	$ 682	$ 5,698
Loans receivables:							
Ending balance	$ 289,304	$ 17,786	$ 34,955	$ 347,316	$ 745		$ 690,106
Ending balance: individually evaluated for impairment	$ 3,644	$ 815	$ 321	$ 1,592	$ -		$ 6,372
Ending balance: collectively evaluated for impairment	$ 285,660	$ 16,971	$ 34,634	$ 345,724	$ 745		$ 683,734

Troubled Debt Restructurings

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider, resulting in a modified loan which is then identified as troubled debt restructuring ("TDR"). The Company may modify loans through rate reductions, extensions to maturity, interest only payments, or payment modifications to better coincide the timing of payments due under the modified terms with the expected timing of cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and the evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

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The following table presents TDRs outstanding:

	June 30, 2016		
	Accrual Loans	Non-Accrual Loans	Total Modifications
	(In Thousands)		
Commercial real estate	$ 3,111	$ -	$ 3,111
Commercial construction	260	-	260
Commercial	253	-	253
Residential real estate	1,048	-	1,048
Consumer	-	-	-
	$ 4,672	$ -	$ 4,672

	December 31, 2015		
	Accrual Loans	Non-Accrual Loans	Total Modifications
	(In Thousands)		
Commercial real estate	$ 3,145	$ -	$ 3,145
Commercial construction	260	-	260
Commercial	255	-	255
Residential real estate	1,063	-	1,063
Consumer	-	-	-
	$ 4,723	$ -	$ 4,723

As of June 30, 2016, no available commitments were outstanding on TDRs.

There were no newly restructured loans that occurred during the three and six months ended June 30, 2016 and 2015.

There were no loans that were modified and classified as a TDR within the prior twelve months that experienced a payment default (loans ninety days or more past due) during the three and six months ended June 30, 2016 and 2015.

Note 12 – Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company'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.

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 technique 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.

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Notes to Consolidated Financial Statements (Unaudited)

ASC Topic 860 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 860 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the 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 utilized at June 30, 2016 and December 31, 2015, respectively, are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(In Thousands)			
U.S. Government agency obligations	$ -	$ 31,863	$ -	$ 31,863
Municipal bonds	-	41,553	-	41,553
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	16,463	-	16,463
June 30, 2016 Securities available for sale	$ -	$ 89,879	$ -	$ 89,879
U.S. Government agency obligations	$ -	$ 34,570	$ -	$ 34,570

Municipal bonds	-	41,204	-	41,204
U.S. Government Sponsored Enterprise (GSE) -				
Mortgage-backed securities - residential	-	1,479	-	1,479
December 31, 2015 Securities available for sale	$ -	$ 77,253	$ -	$ 77,253

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For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2016 and December 31, 2015, respectively, are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(In Thousands)			
June 30, 2016 Impaired loans (1)	$ -	$ -	$ 971	$ 971
June 30, 2016 Impaired loans (2)	$ -	$ -	$ -	$ -
June 30, 2016 Other real estate owned (1)	$ -	$ -	$ 621	$ 621
December 31, 2015 Impaired loans (1)	$ -	$ -	$ 785	$ 785
December 31, 2015 Impaired loans (2)	$ -	$ -	$ -	$ -
December 31, 2015 Other real estate owned (1)	$ -	$ -	$ 1,224	$ 1,224

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 input which are not identifiable. Fair values may also include qualitative adjustments by management based on economic conditions and liquidation expenses.
(2) Fair Value determined using the debt service of the borrower.

Impaired loans are those that are accounted for under existing FASB guidance, in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the

properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

At June 30, 2016, of the impaired loans having an aggregate balance of $6.7 million, $5.3 million did not require a valuation allowance because the value of the collateral, including estimated selling costs, securing the loan was determined to meet or exceed the balance owed on the loan. Of the remaining $1.4 million in impaired loans, an aggregate valuation allowance of $410 thousand was required to reflect what was determined to be a shortfall in the value of the collateral as compared to the balance on such loans.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
Description	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	(Dollars In Thousands)			
June 30, 2016:				
Impaired loans	$ 971	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -25% (-17.4%)
			Liquidation expenses (3)	0% to -10.0% (-8.3%)
Other real estate owned	$ 621	Listings, Letters of Intent & Third Party Evaluations (4)	Liquidation expenses (3)	-5% (-5%)
December 31, 2015:				
Impaired loans	$ 785	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -25% (-25.0%)
			Liquidation expenses (3)	0% to -7.5% (-7.5%)
Other real estate owned	$ 1,224	Listings, Letters of Intent & Third Party Evaluations (4)	Liquidation expenses (3)	-5% (-5%)

1. Fair value is generally determined through independent appraisals of the underlying collateral, which generally include Level 3 inputs which are not identifiable.
2. Appraisals may be adjusted by management for qualitative factors including economic conditions and the age of the appraisal. The range and weighted average of appraisal adjustments are presented as a percent of the appraisal.
3. Appraisals and pending agreements of sale are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal or pending agreement of sale.
4. Fair value is determined by listings, letters of intent or third-party evaluations.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company'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 Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2016 and December 31, 2015:

Cash and Cash Equivalents (Carried at Cost)

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

Interest Bearing Time Deposits (Carried at Cost)

Fair values for fixed-rate time 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. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities Available for Sale (Carried at Fair Value)

The fair value of securities available for sale 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. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans Receivable (Carried at Cost)

The fair values of loans, excluding impaired loans carried at fair value of collateral, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, and 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.

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Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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.

Securities Sold Under Agreements to Repurchase, Federal Funds Purchased and Short-Term Borrowings (Carried at Cost)

These borrowings are short term and the carrying amount approximates the fair value.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB and Univest advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB and Univest 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.

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Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at June 30, 2016 and December 31, 2015:

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	(In Thousands)				
June 30, 2016:					
Financial assets:					
Cash and cash equivalents	$ 24,125	$ 24,125	$ 24,125	$ -	$ -
Interest bearing time deposits	-	-	-	-	-
Securities available-for-sale	89,879	89,879	-	89,879	-
Loans receivable, net of allowance	725,299	737,385	-	-	737,385
Restricted investments in bank stock	624	624	-	624	-
Accrued interest receivable	1,692	1,692	-	1,692	-
Financial liabilities:					
Deposits	774,494	775,560	-	775,560	-
Securities sold under agreements to repurchase and federal funds purchased	8,603	8,602	-	8,602	-
Short-term borrowings	-	-	-	-	-
Long-term borrowings	-	-	-	-	-

Accrued interest payable	671	671	-	671	-
Off-balance sheet financial instruments:					
Commitments to grant loans	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-
December 31, 2015:					
Financial assets:					
Cash and cash equivalents	$ 19,526	$ 19,527	$ 19,527	$ -	$ -
Interest bearing time deposits	-	-	-	-	-
Securities available-for-sale	77,253	77,253	-	77,253	-
Loans receivable, net of allowance	684,047	688,645	-	-	688,645
Restricted investments in bank stock	2,178	2,178	-	2,178	-
Accrued interest receivable	1,637	1,637	-	1,637	-
Financial liabilities:					
Deposits	660,266	660,503	-	660,503	-
Securities sold under agreements to repurchase and federal funds purchased	27,535	27,529	-	27,529	-
Short-term borrowings	39,306	39,273	-	39,273	-
Long-term borrowings	3,820	3,740	-	-	3,740
Accrued interest payable	462	462	-	462	-
Off-balance sheet financial instruments:					
Commitments to grant loans	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 13 – Offsetting Assets and Liabilities

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal ownership over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement.

The following table presents the liabilities subject to an enforceable master netting arrangement or repurchase agreements as of June 30, 2016 and December 31, 2015:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
	(In Thousands)					
June 30, 2016 Repurchase Agreements:						
Corporate Institutions	$ 8,603	$ -	$ 8,603	$ (8,603)	$ -	$ -
December 31, 2015 Repurchase Agreements:						
Corporate Institutions	$ 27,535	$ -	$ 27,535	$ (27,535)	$ -	$ -

As of June 30, 2016 and December 31, 2015, the fair value of securities pledged was $11.9 million and $35.0 million, respectively.

Note 14 – New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. The new guidance will be effective for public companies for periods beginning after December 15, 2017 with private companies provided a one-year deferral until periods beginning after December 15, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any. The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for years beginning after December 15, 2018 for public companies and for years beginning after December 15, 2019 for private companies. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718). This ASU was issued as part of FASB's Simplification Initiative. The areas for simplification in this Update include income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows for share-based payment transactions. For public companies, this ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments will be effective for annual periods beginning after December 31, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations.

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

This discussion and analysis provides an overview of the financial condition and results of operations of Embassy Bancorp, Inc. (the "Company") as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015, respectively. This discussion should be read in conjunction with the preceding consolidated financial statements and related footnotes, as well as with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2015, included in the Company's Form 10-K filed with the Securities and Exchange Commission. Current performance does not guarantee and may not be indicative of similar performance in the future.

Critical Accounting Policies

Disclosure of the Company's significant accounting policies is included in Note 1 to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2015. Some of these policies are particularly sensitive, requiring significant judgments, estimates and assumptions to be made by management, most particularly in connection with determining the provision for loan losses and the appropriate level of the allowance for loan losses and the valuation of deferred tax assets. Additional information is contained in this Form 10-Q under the paragraphs titled "Provision for Loan Losses," "Credit Risk and Loan Quality," and "Income Taxes" contained on the following pages.

Forward-looking Statements

This report contains forward-looking statements, including statements of goals, intentions, and expectations as to future trends, plans, events or results of Company operations and policies and regarding general economic conditions. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements are based upon current and anticipated economic conditions, nationally and in the Company's market, interest rates and interest rate policy, competitive factors and other conditions that, by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainty.

Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "should", "anticipates", or the negative of any of the foregoing or other variations thereon comparable terminology, or by discussion of strategy.

No assurance can be given that the future results covered by forward-looking statements will be achieved. Such statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could impact the Company's operating results include, but are not limited to, (i) the effects of changing economic conditions in the Company's market areas and nationally, (ii) credit risks of commercial, real estate, consumer and other lending activities, (iii) significant changes in interest rates, (iv) changes in federal and state banking laws and regulations which could impact the Company's operations, and (v) other external developments which could materially affect the Company's business and operations.

OVERVIEW

The Company is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the "Bank") in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow. Embassy Holdings, LLC (the "LLC") is a wholly-owned subsidiary of the Bank organized to engage in the holding of property acquired by the Bank in satisfaction of debts previously contracted. As such, the consolidated financial statements contained herein include the accounts of the Company, the Bank and the LLC.

The Bank, which is the Company's primary operating subsidiary, was originally incorporated as a Pennsylvania bank on May 11, 2001 and opened its doors on November 6, 2001. It was formed by a group of local business persons and professionals with significant prior experience in community banking in the Lehigh Valley area of Pennsylvania, the Bank's primary market area.

The Company's assets increased $56.7 million from $804.0 million at December 31, 2015 to $860.8 million at June 30, 2016 due primarily to an increase in loans receivable and securities.

Net income for the three months ended June 30, 2016 and June 30, 2015 was $1.7 million. Net income for the six months ended June 30, 2016 was $3.3 million compared to a net income for the six months ended June 30, 2015 of $3.6 million. The difference in net income for the six months ended June 30, 2016 and June 30, 2015 resulted, in part, from an increase in the provision for loans and lease losses of $113 thousand due to loan growth in the six months ended June 30, 2016, the personnel costs associated with opening a new branch in December 2015, no gains on sales of securities in the six months ended June 30, 2016, compared to gross gains of $139 thousand realized on sales of securities in the six months ended June 30, 2015, and a commercial loan recovery of $169 thousand in interest income during the six months ended June 30, 2015.

Loans receivable, net of the allowance for loan losses, increased $41.3 million to $725.3 million at June 30, 2016 from $684.0 million at December 31, 2015. With the market being very competitive, the Company remains committed to maintaining a high quality portfolio that returns a reasonable market rate. The Company expects to increase lending activity, as the Company expands its presence and benefits from the impact of recent mergers within its marketplace. The past and current economic conditions have created lower demand for loans by credit-worthy customers. The lending staff has been active in contacting new prospects and promoting the Company's name in the community. Management believes that this will translate into continued growth of a portfolio of quality loans and core deposit relationships, although there can be no assurance of this. The Company continues to monitor interest rate exposure of its interest bearing assets and liabilities and believes that it is well positioned for any future market rate adjustments.

RESULTS OF OPERATIONS

Net Interest Income

Total interest income for the three months ended June 30, 2016 and 2015 totaled $7.4 million and $6.9 million, respectively. Average earning assets were $824.7 million for the three months ended June 30, 2016 compared to $730.4 million for the three months ended June 30, 2015. The tax equivalent yield on average earning assets was 3.72% for the second quarter of 2016 compared to 3.88% for the second quarter of 2015.

Total interest expense for the three months ended June 30, 2016 increased $206 thousand to $966 thousand as compared to $760 thousand for the three months ended June 30, 2015, primarily due to growth in savings balances and certificates of deposit balances and rates, offset by a decrease in securities sold under agreements to repurchase balances and a decrease in FHLB short-term and long-term borrowings. Average interest bearing liabilities were $682.1 million for the three months ended June 30, 2016 compared to $614.8 million for the three months ended June 30, 2015. The yield on average interest bearing liabilities was 0.57% and 0.50% for the second quarters of 2016 and 2015, respectively.

Net interest income for the three months ended June 30, 2016 was $6.5 million compared to $6.1 million for the three months ended June 30, 2015. The improvement in net interest income for the three months ended June 30, 2016 is a result of the growth in the loan portfolio and decrease in securities sold under agreements to repurchase balances and FHLB short-term and long-term borrowings, offset by growth in savings and certificates of deposit. The Company's net interest margin for the three months ended June 30, 2016 decreased twenty-three (23) basis points to 3.25% as compared to 3.48% for the three months ended June 30, 2015, due to the current interest rate environment and competitive pressure, inclusive of decreased interest rates on the loan portfolio and increased interest rates on certificates of deposit, offset by a decrease in securities sold under agreements to repurchase balances and FHLB short-term and long-term borrowings.

Total interest income for the six months ended June 30, 2016 and 2015 totaled $14.8 million and $13.7 million, respectively. Average earning assets were $808.4 million for the six months ended June 30, 2016 compared to $719.3 million for the six months ended June 30, 2015. The tax equivalent yield on average earning assets for the six months ended June 30, 2016 decreased twenty (20) basis points to 3.76% as compared to 3.96% for the six months ended June 30, 2015.

Total interest expense for the six months ended June 30, 2016 increased $375 thousand to $1.9 million as compared to $1.5 million for the six months ended June 30, 2015. The increase is primarily due to growth in savings balances and growth in certificates of deposit balances and rates, offset by a decrease in securities sold under agreements to repurchase balances and a decrease in FHLB short-term and long-term borrowings. Average interest bearing liabilities were $669.7 million for the six months ended June 30, 2016 compared to $606.4 million for the six months ended June 30, 2015. The yield on average interest bearing liabilities for the six months ended June 30, 2016 increased seven (7) basis points to 0.56% from 0.49% as of June 30, 2015.

Net interest income for the six months ended June 30, 2016 was $12.9 million compared to $12.2 million for the six months ended June 30, 2015. The improvement in net interest income for the six months ended June 30, 2016 is a result of the growth in the loan portfolio, offset by growth in savings and certificates of deposit. The Company’s net interest margin for the six months ended June 30, 2016 decreased twenty-four (24) basis points to 3.30% as compared to 3.54% for the six months ended June 30, 2015, due to the current interest rate environment and competitive pressure, inclusive of decreased interest rates on the loan portfolio and increased interest rates on certificates of deposit.

The table below sets forth average balances and corresponding yields for the corresponding periods ended June 30, 2016 and 2015, respectively:

Distribution of Assets, Liabilities and Stockholders' Equity:

Interest Rates and Interest Differential (quarter to date)

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
	(Dollars In Thousands)					
ASSETS						
Loans - taxable	$ 708,332	$ 6,818	3.87%	$ 629,149	$ 6,252	3.99%
Loans - non-taxable	9,695	74	4.65%	9,914	80	4.90%
Investment securities - taxable	54,881	221	1.62%	50,700	207	1.64%
Investment securities - non-taxable	30,892	283	5.58%	34,106	304	5.42%
Federal funds sold	829	1	0.47%	539	-	0.21%
Time deposits	-	-	-	250	-	0.55%
Interest bearing deposits with banks	20,058	40	0.80%	5,738	15	1.05%
TOTAL INTEREST EARNING ASSETS	824,687	7,437	3.72%	730,396	6,858	3.88%
Less allowance for loan losses	(6,226)			(5,636)		
Other assets	36,797			33,943		
TOTAL ASSETS	$ 855,258			$ 758,703		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing demand deposits, NOW and money market	$ 72,407	$ 15	0.08%	$ 54,371	$ 7	0.05%
Savings	472,035	575	0.49%	408,944	496	0.49%
Certificates of deposit	123,085	372	1.22%	78,741	191	0.97%
Securities sold under agreements to repurchase, and short & long-term borrowings	14,525	4	0.11%	72,775	66	0.36%
TOTAL INTEREST BEARING LIABILITIES	682,052	966	0.57%	614,831	760	0.50%
	93,626			71,390		

Non-interest bearing demand deposits						
Other liabilities	6,092			5,531		
Stockholders' equity	73,488			66,951		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 855,258			$ 758,703		
Net interest income		$ 6,471			$ 6,098	
Net interest spread			3.15%			3.38%
Net interest margin			3.25%			3.48%

Distribution of Assets, Liabilities and Stockholders’ Equity:

Interest Rates and Interest Differential (year to date)

	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
	(Dollars In Thousands)					
ASSETS						
Loans - taxable	$ 699,466	$ 13,552	3.90%	$ 617,817	$ 12,469	4.07%
Loans - non-taxable	9,721	148	4.64%	9,741	158	4.96%
Investment securities - taxable	50,346	400	1.60%	50,446	413	1.64%
Investment securities - non-taxable	30,969	569	5.60%	34,293	608	5.41%
Federal funds sold	774	2	0.47%	653	1	0.21%
Time deposits	-	-	-	250	1	0.83%
Interest bearing deposits with banks	17,169	80	0.94%	6,073	63	2.09%
TOTAL INTEREST EARNING ASSETS	808,445	14,751	3.76%	719,273	13,713	3.96%
Less allowance for loan losses	(6,179)			(5,625)		
Other assets	35,659			33,076		
TOTAL ASSETS	$ 837,925			$ 746,724		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing demand deposits, NOW and money market	$ 72,434	$ 31	0.09%	$ 57,670	$ 15	0.05%
Savings	447,574	1,090	0.49%	410,072	988	0.49%
Certificates of deposit	116,985	698	1.20%	75,797	364	0.97%
Securities sold under agreements to repurchase, and short & long-term borrowings	32,732	43	0.26%	62,895	120	0.38%
TOTAL INTEREST BEARING LIABILITIES	669,725	1,862	0.56%	606,434	1,487	0.49%
Non-interest bearing demand deposits	90,325			69,708		
Other liabilities	5,883			5,345		

Stockholders' equity	71,992			65,237		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 837,925			$ 746,724		
Net interest income		$ 12,889			$ 12,226	
Net interest spread			3.20%			3.47%
Net interest margin			3.30%			3.54%

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Provision for Loan Losses

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

The allowance for loan losses is maintained at a level management considers to be adequate to provide for losses that can be reasonably anticipated. 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 inherently subjective, as it requires material estimates that may be susceptible to significant change.

The allowance consists of general, specific, qualitative and unallocated components. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The specific component relates to loans that are classified as watch, other assets especially mentioned, substandard, doubtful or loss. Such loans may also be classified as impaired and/or restructured. For loans that are further classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and home equity loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or there is a possible loss expected.

For the three months ended June 30, 2016, the provision for loan losses was $70 thousand, as compared to $120 thousand for the same period ended June 30, 2015. There were no charge-offs in the three months ended June 30, 2016, as compared to $55 thousand in the three months ended June 30, 2015. For the six months ended June 30, 2016, the provision for loan losses was $255 thousand, as compared to $142 thousand for the same period ended June 30, 2015. In the six months ended June 30, 2016, there were charge-offs in the amount of $44 thousand, as compared to $56 thousand in charge-offs during the same period in 2015. The allowance for loan losses is $6.3 million as of June 30, 2016, which is 0.86% of outstanding loans, compared to $5.7 million or 0.87% of outstanding loans as of June 30, 2015. At December 31, 2015, the allowance for loan losses of $6.1 million represented 0.88% of total outstanding loans. Based principally on economic conditions, asset quality, and loan-loss experience, including that of comparable institutions in the Bank’s market area, the allowance is believed to be adequate to absorb any losses inherent in the portfolio. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate, or that material increases will not be necessary should the quality of the loans deteriorate. The Bank has not participated in any sub-prime lending activity.

The activity in the allowance for loan losses is shown in the following table, as well as period end loans receivable and the allowance for loan losses as a percent of the total loan portfolio:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In Thousands)			
Loans receivable at end of period	$ 731,481	$ 656,874	$ 731,481	$ 656,874
Allowance for loan losses:				
Balance, beginning	$ 6,209	$ 5,635	$ 6,068	$ 5,614
Provision for loan losses	70	120	255	142
Loans charged off:				
Commercial real estate	-	(46)	(35)	(46)
Commercial construction	-	-	-	-
Commercial	-	-	-	-
Residential real estate	-	(9)	(9)	(10)
Consumer	-	-	-	-
Total loans charged off	-	(55)	(44)	(56)
Recoveries of loans previously charged off:				
Commercial real estate	-	-	-	-
Commercial construction	-	-	-	-
Commercial	-	-	-	-
Residential real estate	-	-	-	-
Consumer	-	-	-	-
Total recoveries	-	-	-	-
Net charge offs	-	(55)	(44)	(56)
Balance at end of period	$ 6,279	$ 5,700	$ 6,279	$ 5,700
Allowance for loan losses to loans receivable at end of period	0.86%	0.87%	0.86%	0.87%

Non-interest Income

Total non-interest income was $609 thousand for the three months ended June 30, 2016 compared to $677 thousand for the same period in 2015. The decrease is due primarily to an $80 thousand impairment loss on other real estate owned in the quarter ending June 30, 2016, compared to no impairment losses in the same period in 2015 and a decrease in the income associated with bank owned life insurance valuation, offset by increased fee income due to growth in the Bank's credit card and merchant processing customer base. Total non-interest income was $1.2 million for the six months ended June 30, 2016 compared to $1.4 million for the same period in 2015. The decrease is due primarily to the $139 thousand gain on the sale of securities realized in 2015, compared to no gains on the sale of securities during the same period in 2016, a decrease in the income associated with bank owned life insurance valuation, and an increase of $38 thousand in impairment losses of other real estate owned, offset by increased fee income due to growth in the Bank's credit card and merchant processing customer base.

Non-interest Expense

Non-interest expenses increased $354 thousand from $4.3 million for the three months ended June 30, 2015 to $4.7 million for the same period ended June 30, 2016. The increase is due to: an increase of $234 thousand in salaries and employee benefits due to salary increases and new hires including those for the new Nazareth branch in December 2015; an increase of $87 thousand in occupancy and equipment due primarily to the addition of the Nazareth branch; an increase of $28 thousand in FDIC insurance expense; and an increase of $59 thousand in other operating expenses, offset by a decrease of $53 thousand in data processing primarily due to mobile banking implementation in the second quarter of 2015; and a decrease of $36 thousand in loan and real estate expenses.

Non-interest expenses increased $861 thousand from $8.4 million for the six months ended June 30, 2015 to $9.3 million for the same period ended June 30, 2016. The increase is due to: an increase of $462 thousand in salaries and employee benefits due to salary increases and new hires including those for the new Nazareth branch in December 2015; an increase of $133 thousand in occupancy and equipment due primarily to the addition of the Nazareth branch; an increase of $51 thousand in credit card processing due to increased processing volume; an increase of $43 thousand in FDIC insurance expense; an increase of $35 thousand in charitable contributions due to EITC contributions; an increase of $22 thousand in advertising and promotion expense due primarily to the new advertising campaign; an increase of $22 thousand in professional fees; and an increase of $114 thousand in other operating expenses, offset by a decrease of $23 thousand in data processing primarily due to mobile banking implementation in the second quarter of 2015 and ATM network fees.

A breakdown of other expenses can be found in the statements of income.

Income Taxes

The allocated provision for income taxes for the three months ended June 30, 2016 totaled $670 thousand, or 28.7% of income before taxes. The provision for income taxes for the three months ended June 30, 2015 totaled $656 thousand, or 28.1% of income before taxes. The allocated provision for income taxes for the six months ended June 30, 2016 totaled $1.3 million, or 28.7% of income before taxes. The provision for income taxes for the six months ended June 30, 2015 totaled $1.4 million, or 28.4% of income before taxes. The slight increase in the tax rate is primarily the result of the change in the mix of taxable and tax free loans and investments.

FINANCIAL CONDITION

Securities

The Bank's securities portfolio continues to be classified, in its entirety, as "available for sale." Management believes that a portfolio classification of available for sale allows complete flexibility in the investment portfolio. Using this classification, the Bank intends to hold these securities for an indefinite amount of time, but not necessarily to maturity. Such securities are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity. The portfolio is structured to provide maximum return on investments while providing a consistent source of liquidity and meeting strict risk standards. Investment securities consist primarily of U.S. government agency securities, mortgage-backed securities issued by FHLMC or FNMA, and taxable and non-taxable municipal bonds. The Bank holds no high-risk securities or derivatives as of June 30, 2016. The Bank has not made any investments in non-U.S. government agency mortgage backed securities or sub-prime loans.

Total securities at June 30, 2016 were $89.9 million compared to $77.3 million at December 31, 2015. The increase in the investment portfolio is the result of the purchase of two (2) mortgage-backed securities totaling $15.4 million, offset by pay downs on mortgage-backed securities, maturities, calls, and an increase in unrealized gains. The carrying value of the securities portfolio as of June 30, 2016 includes a net unrealized gain of $2.9 million, which is recorded as accumulated other comprehensive income in stockholders' equity net of income tax effect. This compares to a net unrealized gain of $1.9 million at December 31, 2015. The current unrealized gain position of the securities portfolio is due to the changes in market rates since purchase. No securities are deemed to be other than temporarily impaired.

Loans

The loan portfolio comprises a major component of the Bank's earning assets. All of the Bank's loans are to domestic borrowers. Total net loans at June 30, 2016 increased $41.3 million to $725.3 million from $684.0 million at December 31, 2015. The loan-to-deposit ratio decreased from 105% at December 31, 2015 to 94% at June 30, 2016. The Bank's loan portfolio at June 30, 2016 was comprised of residential real estate and consumer loans of $372.1 million, an increase of $24.0 million from December 31, 2015, and commercial loans of $359.4 million, an increase of $17.3 million from December 31, 2015. The Bank has not originated, nor does it intend to originate, sub-prime mortgage loans.

Credit Risk and Loan Quality

The allowance for loan losses increased $211 thousand totaling $6.3 million at June 30, 2016 compared to $6.1 million at December 31, 2015. At June 30, 2016 and December 31, 2015, the allowance for loan losses represented 0.86% and 0.88%, respectively, of total loans. Based upon current economic conditions, the composition of the loan portfolio, the perceived credit risk in the portfolio and loan-loss experience of the Bank and comparable institutions in the Bank's market area, management feels the allowance is adequate to absorb reasonably anticipated losses.

At June 30, 2016, December 31, 2015, and June 30, 2015 aggregate balances on non-performing loans equaled $5.8 million, $5.5 million and $6.2 million, respectively, representing 0.79%, 0.79% and 0.95% of total loans at June 30, 2016, December 31, 2015 and June 30, 2015, respectively. Troubled debt restructurings, included in the following table, represent loans where the Company, for economic or legal reasons related to the debtor's financial difficulties, has granted a concession to the debtor that it would not otherwise consider. There were no loans that were modified and classified as a TDR within the prior twelve months that experienced a payment default (loans ninety or more days past due) for the six months ended June 30, 2016. The Company has three (3) foreclosed assets in the amount of $621 thousand as of June 30, 2016, of which $141 thousand is residential real estate, as compared to four (4) foreclosed assets at December 31, 2015 in the amount of $1.2 million with $221 thousand in residential real estate. The net change is a result of: the sale of one (1) asset in the amount of $123 thousand and the sale of a portion of a foreclosed property in the amount of $400 thousand, and an $80 thousand impairment loss. At June 30, 2016 and December 31, 2015 the Company had $510 thousand and $529 thousand, respectively, in recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure.

The details for non-performing loans are included in the following table:

	June 30, 2016	December 31, 2015	June 30, 2015
	(In Thousands)		
Non-accrual - commercial	$ 236	$ 230	$ 665
Non-accrual - consumer	865	529	1,170
Restructured loans, accruing interest and less than 90 days past due	4,672	4,723	4,373
Loans past due 90 or more days, accruing interest	-	-	-
Total nonperforming loans	5,773	5,482	6,208
Foreclosed assets	621	1,224	1,201
Total nonperforming assets	$ 6,394	$ 6,706	$ 7,409
Nonperforming loans to total loans at period-end	0.79 %	0.79 %	0.95 %
Nonperforming assets to total assets	0.74 %	0.83 %	0.96 %

Premises and Equipment

Company premises and equipment, net of accumulated depreciation, decreased $66 thousand from December 31, 2015 to June 30, 2016. This decrease is due primarily to depreciation on existing premises and equipment, offset by increases related to purchases.

Deposits

Total deposits at June 30, 2016 increased $114.2 million to $774.5 million from $660.3 million at December 31, 2015 due to enhanced deposit advertising, opening of the Nazareth branch, expansion of existing deposit relationships, and customer migration due to recent merger activity in the Company’s local marketplace. Demand deposits increased $13.0 million, time deposits increased $26.8 million, and savings deposits increased $74.4 million.

Liquidity

Liquidity represents the Company’s ability to meet the demands required for the funding of loans and to meet depositors’ requirements for use of their funds. The Company’s sources of liquidity are cash balances, due from banks, and federal funds sold. Cash and cash equivalents were $24.1 million at June 30, 2016, compared to $19.5 million at December 31, 2015.

Additional asset liquidity sources include principal and interest payments from the investment security and loan portfolios. Long-term liquidity needs may be met by selling unpledged securities available for sale, selling loans or raising additional capital. At June 30, 2016, the Company had $89.9 million of available for sale securities. Securities with carrying values of approximately $57.4 million and $64.9 million at June 30, 2016 and December 31, 2015, respectively, were pledged as collateral to secure securities sold under agreements to repurchase, public deposits, and for other purposes required or permitted by law.

At June 30, 2016, the Bank had a maximum borrowing capacity for short-term and long-term advances of approximately $426.5 million. This borrowing capacity with the FHLB includes a line of credit of $150.0 million. There were no short-term FHLB advances outstanding as of June 30, 2016 and $39.3 million were outstanding as of December 31, 2015. No long-term FHLB advances were outstanding as of June 30, 2016 and $3.8 million were outstanding as of December 31, 2015. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank has a federal funds line of credit with ACBB of $10.0 million, of which none was outstanding at June 30, 2016 and December 31, 2015. Advances from this line are unsecured.

The Company has one line of credit with Univest totaling $4.0 million, of which none was outstanding at June 30, 2016 and December 31, 2015. This line of credit is secured by 333,333 shares of Bank common stock.

The Company has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or capital resources.

Off-Balance Sheet Arrangements

The Company's consolidated financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk. These off-balance sheet arrangements consist of unfunded loans and commitments, as well as lines of credit made under the same standards as on-balance sheet instruments. These unused commitments totaled $96.7 million at June 30, 2016. At June 30, 2016 the Company also had letters of credit outstanding of $3.7 million and FHLB deposit letters of credit outstanding of $7.9 million. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. Management is of the opinion that the Company's liquidity is sufficient to meet its anticipated needs.

Capital Resources and Adequacy

Total stockholders' equity was $71.2 million as of June 30, 2016, representing a net increase of $3.1 million from December 31, 2015. The increase in capital was primarily the result of the net income of $3.3 million and an increase of $698 thousand in unrealized gains on available for sale securities, offset by dividends declared of $964 thousand.

The Company and the Bank are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the consolidated financial statements.

The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and Tier I capital to average assets (as defined). As of June 30, 2016, the Bank met the minimum requirements. In addition, the Bank's capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

The following table provides a comparison of the Bank's risk-based capital ratios and leverage ratios:

Consolidated Bank

	June 30, 2016	December 31, 2015
	(Dollars In Thousands)	
Tier I, common stockholders' equity	$ 69,250	$ 66,812
Tier II, allowable portion of allowance for loan losses	6,279	6,068
Total capital	$ 75,529	$ 72,880

Common equity tier 1 capital ratio	11.5	%	11.5	%
Tier I risk based capital ratio	11.5	%	11.5	%
Total risk based capital ratio	12.6	%	12.6	%
Tier I leverage ratio	8.1	%	8.4	%

Note: Unrealized gains on securities available for sale are excluded from regulatory capital components of risk-based capital and leverage ratios.

The Federal banking regulators have adopted risk-based capital guidelines for bank holding companies. Currently, the required minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier I capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder (Tier II capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier I capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

The following table provides the Company’s risk-based capital ratios and leverage ratios:

Consolidated Corporation

	June 30, 2016		December 31, 2015	
	(Dollars In Thousands)			
Tier I, common stockholders' equity	$ 69,272		$ 66,865	
Tier II, allowable portion of allowance for loan losses	6,279		6,068	
Total capital	$ 75,551		$ 72,933	
Common equity tier 1 capital ratio	11.5	%	11.5	%
Tier I risk based capital ratio	11.5	%	11.5	%
Total risk based capital ratio	12.6	%	12.6	%
Tier I leverage ratio	8.1	%	8.3	%

In July 2013, the FDIC and the Federal Reserve approved a new rule that substantially revised the regulatory risk based capital rules applicable to the Bank and the Company. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a “capital conservation buffer” of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. In January 2016, the new capital conservation buffer requirement started being phased in at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4 – Controls and Procedures

The term "disclosure controls and procedures" is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016, and they have concluded that, as of this date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

There were no significant changes to our internal controls over financial reporting or in the other factors that could significantly affect our internal controls over financial reporting during the quarter ended June 30, 2016, including any corrective actions with regard to significant deficiencies and material weakness.

Part II - Other Information

Item 1 - Legal Proceedings

The Company and the Bank are an occasional party to legal actions arising in the ordinary course of its business. In the opinion of management, the Company has adequate legal defenses and/or insurance coverage respecting any and each of these actions and does not believe that they will materially affect the Company’s operations or financial position.

Item 1A - Risk Factors

Not Applicable.

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

Not Applicable.

Item 3 - Defaults Upon Senior Securities

Not Applicable.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 - Other Information

None.

Item 6 - Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation as amended (conformed)
3.2	Amended and Restated By-Laws (conformed)
10.1	Embassy Bancorp, Inc. Employee Stock Purchase Plan (Incorporated by reference to Appendix A of Registrant's definitive proxy statement filed in April 21, 2016).
11.1	The statement regarding computation of per share earnings required by this exhibit is contained in Note 6 to the financial statements under the caption “Basic and Diluted Earnings Per Share.”
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.
101.1	Interactive Data Files (XBRL)

No.	Description
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

SIGNATURES

In accordance with 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.

		EMBASSY BANCORP, INC. (Registrant)
Dated: August 12, 2016	By:	/s/ David M. Lobach, Jr. David M. Lobach, Jr. President and Chief Executive Officer
Dated: August 12, 2016	By:	/s/ Judith A. Hunsicker Judith A. Hunsicker Senior Executive Vice President, Chief Operating Officer, Secretary and Chief Financial Officer

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