



# TIMELESS VISION.

AMERICAN VALUES *at* WORK.



**EMBASSY  
BANCORP, INC.**

2015 ANNUAL REPORT

## Corporate Information

### Board of Directors

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*President & CEO, Warren Distributing*

**Geoffrey F. Boyer, CFP**

*Owner & Principal, Boyer Financial Group*

**John G. Englesson**

*President, zAxis Corporation*

*Executive V.P., Integrity Business Services, LLC*

**Bernard M. Lesavoy, Esquire**

*Member/Partner, Lesavoy Butz & Seitz LLC*

**David M. Lobach, Jr.**

*Chairman of the Board, CEO & President*

*Embassy Bancorp, Inc. and*

*Embassy Bank for the Lehigh Valley*

**John C. Pittman**

*President & CEO*

*J.C. Pittman Inc.*

**Patti Gates Smith**

*Owner*

*GatesSmith Consulting*

**John T. Yurconic**

*President, JTY, Inc.*

*President, Insurance Premium Financing, Inc.*

### Executive Officers

**David M. Lobach, Jr.**

*Chairman of the Board, CEO & President*

**Judith A. Hunsicker**

*Sr. Executive Vice President, COO, CFO,  
Secretary & Treasurer*

**James R. Bartholomew**

*Executive Vice President & SLO Commercial Lending*

## Officers

### Senior Vice Presidents

**David C. Arner, Electronic Banking & Security**

**Tracy A. Barker, Deposit Operations & Human Resources**

**Desty A. Bonstein, Private Banking**

**Mark A. Casciano, Branch Administration**

**Diane M. Cunningham, Consumer Lending, Commercial  
Services & Branch Administration**

**Lynne M. Neel, Controller-Finance, Loan Operations & Assistant  
Secretary**

**Terry M. Stecker, Commercial Lending**

### Vice Presidents

**Michelle L. Barron, Deposit Operations**

**Scott A. Karwacki, Credit Analysis**

**Michael N. Lahanas, Commercial Lending**

**Michael B. Macy, Commercial Lending**

**Tracy L. McCarthy, Loan Operations**

**Joellen D. Repsher, Commercial Services**

**Brian M. Sabol, Commercial Lending**

**Brandi L. Stefanov, Branch Administration**

**Jennifer A. Tropeano, Consumer Lending**

**Kristin A. Wannisky, Marketing**

**Timothy P. Woodbridge, Commercial Lending**

### Assistant Vice Presidents

**Bryan D. Lobach, Commercial Services**

**Cynthia L. Morley, Commercial Lending**

**Mary Beth Mulicka, Branch Administration**

**Christine L. Pierce, Branch Administration**

**Kystal A. Salce, Credit Analysis**

**Debra A. Young, Commercial Services**

**Heather K. Zoito, Private Banking**

### Assistant Treasurers

**Janelle D. Creveling, Branch Administration**

**Matthew J. DePatto, Branch Administration**

**Gina P. Franco, Consumer Lending**

**Kara Helfrich, Branch Administration**

**Jessica L. Kalavoda, Consumer Lending**

**Maria McGill, Deposit Operations & Human Resources**

**Maria P. Nace, Branch Administration**

**Taryn M. Pell, Consumer Lending**

**Lisa A. Rex, Consumer Lending**

**Laura S. Suplee, Assistant Controller-Finance**

**Katrina A. Zeigler, Loan Operations**

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

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year end December 31, 2015

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**  
(State of incorporation)

**26-3339011**  
(I.R.S. Employer Identification No.)

**One Hundred Gateway Drive, Suite 100**  
**Bethlehem, PA**  
(Address of principal executive offices)

**18017**  
(Zip Code)

**(610) 882-8800**  
(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

**None**  
(Title of each class)

**None**  
(Name of each exchange on which registered)

Securities registered under section 12(g) of the Exchange Act:

**Common Stock, Par Value \$1.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [ X ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [ X ]

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 [ X ] 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 [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

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 ☒

The aggregate market value of the registrant’s common stock held by non-affiliates at June 30, 2015, the registrant’s most recently completed second fiscal quarter was \$54,122,560.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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 March 25, 2016**

**(\$1.00 Par Value)**  
(Title Class)

**7,413,481**  
(Outstanding Shares)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the 2016 annual meeting of shareholders are incorporated by reference into Part III of this report.

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## **PART I**

### **Item 1. BUSINESS.**

#### **General**

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.

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.

#### **Mission**

The Company provides a traditional range of financial products and services to meet the depository and credit needs of individual consumers, small and medium sized businesses and professionals in its market area. As a locally owned and operated community bank, there is a strong focus on service that is highly personalized, efficient and responsive to local needs. It is the intention of the Company to deliver its products and services with the care and professionalism expected of a community bank and with a special dedication to personalized service. To create this environment, the Company employs a well-trained, highly motivated staff, all with previous banking experience, and interested in building quality client relationships using state-of-the-art delivery systems and client service facilities. The Company’s senior management has extensive banking experience. The Company’s goal is to serve the financial needs of its clients and provide a profitable return to its investors, consistent with safe and sound banking practices. The Company focuses on establishing and retaining customer relationships by offering a broad range of financial services, competitively-priced and delivered in a responsive manner. Correspondent relationships are utilized where it is cost beneficial. The specific objectives of the Company are: 1) to provide individuals, professionals and local businesses with the highest standard of relationship banking in the local market; 2) to attract deposits and loans by offering state of the art products and services with competitive pricing; 3) to provide a reasonable return to shareholders on capital invested; and 4) to attract, train and retain a happy, motivated and team oriented group of banking professionals dedicated to meeting the Company’s objectives.

#### **Market “Niche”**

The Company provides the traditional array of commercial banking products and services emphasizing one-on-one delivery to consumers and businesses located in Lehigh and Northampton Counties in Pennsylvania. In the Company’s primary market area, which is dominated by offices of large statewide, regional and interstate banking institutions, banking services that are furnished in a friendly and courteous manner with a timely response to customer needs fill a “niche” that arises due to the loss of local institutions through merger and acquisitions.

#### **Deposits**

The Company offers small business cash management services to help local companies better manage their cash flow, in order for the Company to attract and retain stable deposit relationships. The expertise and experience of the Company’s management coupled with the latest technology accessed through third party providers enables the Company to maximize the growth of business-related deposits.

As for consumers, deposit growth is driven by a variety of factors including, but not limited to, population growth, bank and non-bank competition, increase in household income, interest rates, accessibility of location and the sales efforts of Company personnel. Time deposits can be attracted and/or increased by paying an interest rate higher than

that offered by competitors, but they are the most costly type of deposit. The most profitable type of deposits are non-interest bearing demand (checking) accounts which can be attracted by offering free checking. However, both high interest rates and free checking accounts generate certain expenses for a bank and the desire to increase deposits must be balanced with the need to be profitable. The deposit services of the Company are generally comprised of demand deposits, savings deposits, money market deposits, time deposits and Individual Retirement Accounts.

## **Loans**

The loan portfolio of the Company consists primarily of secured fixed-rate and variable-rate loans, with a significant concentration in commercial-purpose transactions and consumer residential mortgage and home equity loans. While most credit facilities are appropriately collateralized, major emphasis is placed upon the financial condition of the borrower and evaluating the borrower's cash flow versus debt service requirements. The Company has an experienced lending team. The Company believes that the familiarity of its experienced management team and members of the Company's Loan Committee with prospective local borrowers enables the Company to better evaluate the character, integrity and creditworthiness of the prospective borrowers.

Loan growth is driven by customer demand, which in turn is influenced by individual and business indebtedness and consumer demand for goods. The Company's loan officers call upon accountants, financial planners, attorneys, local realtors and others to generate loan referrals. A performing loan is a loan which is being repaid according to its original terms and is the most desirable type of loan that a bank seeks to make. Again, a balancing act is required for the Company inasmuch as loaning money will always entail some risk. Without loaning money, however, a bank cannot generate enough earnings to be profitable. The risk involved in each loan must, therefore, be carefully evaluated before the loan is made. The interest rate at which the loan is made should always reflect the risk factors involved, including the term of the loan, the value of collateral, if any, the reliability of the projected source of repayment and the amount of the loan requested. Credit quality will always be the Company's most important factor.

The Company has not been involved in any "sub-prime" mortgage lending and has not purchased or invested in any securities backed by or which include sub-prime loans.

## **Business Lending**

The Company is generally targeting businesses with annual revenues of less than \$10 million. These customers tend to be ignored by the larger institutions and have felt the most negative effects of the recent bank consolidations. The Company offers responsiveness, flexibility and local decision making for loan applications of small business owners thereby eliminating delays caused by non-local management. The Company participates in local, state and federal loan programs.

## **Consumer Lending**

The Company offers its retail customer base a product line of consumer loan services including mortgage loans, secured home equity loans, lines of credit, auto loans, and to a much lesser extent, unsecured personal loans.

## **Residential Mortgage Loans**

The Company offers a range of specialty home equity and mortgage products at competitive rates. The Company seeks to capitalize on its policy of closing loans in a time frame that will meet the needs of its borrowers.

## **Commercial Mortgage/Construction Loans**

The Company originates various types of loans secured by real estate, including, to a limited extent, construction loans. Construction loans are generally priced at floating rates tied to current market rates. Upon completion of construction, these loans may be converted into permanent commercial and residential loans. Construction lending is expected to constitute a minor portion of the Company's loan portfolio.

In some cases, the Company originates loans larger than its lending limit and enters into participation arrangements for those loans with other banks.

As an independent community bank, the Company serves the special needs of legal, medical, accounting, financial service providers and other professionals. Commercial mortgages, lines of credit, term loans and demand loans are tailored to meet the needs of the Company's customers in the professional community. In addition to the usual criteria for pricing credit-related products, the Company takes into consideration the overall customer relationship to establish credit pricing. Deposit relationships in demand, savings, money market, and certificate accounts are considered in loan pricing along with the credit worthiness of the borrower.

### **Other Services**

To further attract and retain customer relationships, the Company provides or will provide the standard array of financial services expected of a community bank, which include the following:

|                                       |                              |
|---------------------------------------|------------------------------|
| Treasurer Checks                      | Remote Deposit Capture       |
| Certified Checks                      | Mobile Banking               |
| Gift Cards                            | Night Depository Services    |
| Wire Transfers                        | Bond Coupon Redemptions      |
| Savings Bond Redemptions              | Bank by Mail                 |
| Credit/Debit Card Merchant Processing | Automated Teller Machines    |
| Direct Deposit/ACH Services           | On-Line Banking and Bill Pay |
| Cash Management Services              | Commercial Credit Cards      |
| Escrow Management Services            | ATM and Debit Cards          |
| Safe Deposit Boxes                    |                              |

### **Fee Income**

Fee income is non-interest related. The Company earns fee income by charging customers for banking services, credit card and merchant processing, treasurer's checks, overdrafts, wire transfers, bond coupon redemptions, and check orders, as well as other deposit and loan related fees.

### **Community Reinvestment Act**

The Community Reinvestment Act of 1977 ("CRA") is designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. The Company had its last CRA examination in 2015 and received a "satisfactory" rating.

The Company's Directors and Officers are committed to reaching out to the community in which they live and work. The personal, business and community rewards for helping local residents and businesses are numerous. The Board is dedicated to recognizing an ongoing commitment and understanding of the Company's responsibility under the CRA. The Company is committed to providing access to credit and deposit products for all members of the communities that it serves.

### **Service Area**

The Company draws its primary deposits and business from areas immediately surrounding its principal office in Hanover Township, Pennsylvania and its branch offices in South Whitehall Township, Lower Macungie Township, the City of Bethlehem, Salisbury Township, Lower Saucon Township, Lower Nazareth Township and Borough of Nazareth, Pennsylvania, as well as the remainder of Lehigh and Northampton Counties in Pennsylvania.



## **Bank Premises**

The Company leases each of its bank operations premises, situated at the following locations:

1. Hanover Township, Northampton County
2. South Whitehall Township, Lehigh County
3. Salisbury Township, Lehigh County
4. Lower Macungie Township, Lehigh County
5. City of Bethlehem, Lehigh County
6. Lower Saucon Township, Northampton County
7. Lower Nazareth Township, Northampton County
8. Borough of Nazareth, Northampton County

The Company pays certain additional expenses of occupying these spaces including, but not necessarily limited to, real estate taxes, insurance, utilities and repairs. The Company is obligated under the leases to maintain the premises in good order, condition and repair.

## **Employees**

As of December 31, 2015, the Company had a total of 76 full-time equivalent employees.

## **Competition**

The banking business is highly competitive. The Company competes with local banks as well as numerous regionally based commercial banks, most of which have assets, capital and lending limits far larger than those of the Company. The Company also competes with savings banks, savings and loan associations, money market funds, insurance companies, stock brokerage firms, regulated small loan companies, credit unions and with the issuers of commercial paper and other securities. The industry competes primarily in the area of interest rates, products offered, customer service and convenience.

Among the advantages many of the Company's competitors have over the Company are larger asset and capital bases, the ability to finance wide-ranging advertising campaigns and to allocate their investment assets to regions of highest yield and demand. Larger companies have market presence in the form of more branch offices. The Company's growth in number of offices has improved its ability to compete in the market. The Company believes it is able to compete with the market in terms of interest rate and level of customer service, as reflected in growth in market share. Many competitors offer certain services such as trust services, investment services and international banking that are not offered directly by the Company and, by virtue of their greater capital, most competitors will have substantially higher lending limits than those of the Company.

## **Segments**

The Company acts as an independent community financial services provider and offers traditional banking and related financial services to individual, business and government customers. The Company offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer, residential mortgage and home equity loans; and the providing of other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between commercial and retail operations of the Company. As such, discrete financial information is not available and segment reporting would not be meaningful.

## **Seasonality**

Management does not feel that the deposits, loans, or the business of the Company are seasonal in nature. Deposit and loan generation may, however, vary with local and national economic and market conditions, but should not have a material effect on planning and policy making.

## **Supervision and Regulation**

The Company is subject to extensive regulation under federal and Pennsylvania banking laws, regulations and policies, including prescribed standards relating to capital, earnings, dividends, the repurchase or redemption of shares, loans or extensions of credit to affiliates and insiders, internal controls, information systems, internal audit systems, loan documentation, credit underwriting, asset growth, impaired assets and loan-to-value ratios. The Bank regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking systems as a whole, and not for the protection of security holders.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their bank subsidiaries and provides certain specific information about the Company and the Bank. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Company.

### *Dodd-Frank Wall Street Reform and Consumer Protection Act*

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which became law on July 21, 2010, there is additional regulatory oversight and supervision of the Company and the Bank. The Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes, and the regulations being developed thereunder will include, provisions affecting large and small financial institutions alike, including several provisions that affect the regulations of community banks and bank holding companies.

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank’s average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to \$250,000; and expanded the FDIC’s authority to raise insurance premiums. The legislation also calls for the FDIC to raise its ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to “offset the effect” of increased assessments on insured depository institutions with assets of less than \$10 billion.

The Dodd-Frank Act also includes provisions that affect corporate governance and executive compensation at all publicly-traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates. The Dodd-Frank Act also establishes the Financial Stability Oversight Council to identify threats to the financial stability of the U.S., promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

### *Consumer Financial Protection Bureau*

The Dodd-Frank Act also establishes the Consumer Financial Protection Bureau (the “CFPB”) as an independent entity within the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB’s rules contain provisions on mortgage-related matters such as steering incentives, and determinations as to a borrower’s ability to repay, loan servicing, and prepayment penalties.

On January 10, 2013, the CFPB issued a final regulation defining a “qualified mortgage” for purposes of the Dodd-Frank Act, and setting standards for mortgage lenders to determine whether a consumer has the ability to repay the mortgage. This regulation, which became effective on January 10, 2014, also affords safe harbor legal protections for lenders making qualified loans that are not “higher priced.” On January 17, 2013, the CFPB issued a final regulation containing new mortgage servicing rules applicable to our bank subsidiary, which took effect on January 10, 2014. The announced goal of the CFPB is to bring greater consumer protection to the mortgage servicing market. These changes affect notices to be given to consumers as to delinquency, foreclosure alternatives, modification applications,

interest rate adjustments and options for avoiding “force-placed” insurance. Servicers are prohibited from processing foreclosures when a loan modification is pending, and must wait until a loan is more than 120 days delinquent before initiating a foreclosure action.

The servicer must provide direct and ongoing access to its personnel, and provide prompt review of any loss mitigation application. Servicers must maintain accurate and accessible mortgage records for the life of a loan and until one year after the loan is paid off or transferred. We expect these new standards to add to the cost of conducting our mortgage servicing business.

### *Capital Adequacy*

In July 2013, the FDIC and the Federal Reserve approved a new rule that will substantially amend 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.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 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 capital ratios to be considered “well capitalized” under the new capital rules are: common equity of 6.5%, Tier 1 leverage of 5%, Tier 1 risk-based capital of 8%, and Total Risk-Based capital of 10%.

At December 31, 2015, the Company qualified as “well-capitalized” under the foregoing regulatory capital standards. See Note 16 of the Notes to Consolidated Financial Statements included in Item 8 of this Report.

### *Federal Deposit Insurance (“FDI”) Act and Part 363 of the FDIC Regulations*

Section 36 of the FDI Act and Part 363 of the FDIC's regulations, as amended, require insured depository institutions with at least \$500 million in total assets to file a Part 363 Annual Report with the applicable bank regulatory agencies, which, among other things, requires that the Company establish and maintain an effective internal control structure over financial reporting and provide an assessment by management of the institution's compliance with the designated laws and regulations pertaining to insider loans and dividend restrictions.

### *Bank Holding Company Regulation*

As a bank holding company, the Company is subject to regulation and examination by the Pennsylvania Department of Banking and Securities (the “Pennsylvania Department of Banking”) and the Federal Reserve Board. The Company is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting

shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Company may only engage in or own companies that engage in activities deemed by the Federal Reserve Board to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto, and the holding company must obtain permission from the Federal Reserve Board prior to engaging in most new business activities.

A bank holding company and its subsidiaries are subject to certain restrictions imposed by the BHC Act on any extensions of credit to the bank or any of its subsidiaries, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Under the Dodd-Frank Act and Federal Reserve Board regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations or both. This doctrine is commonly known as the "source of strength" doctrine.

#### *Regulation of Embassy Bank for the Lehigh Valley*

Embassy Bank for the Lehigh Valley is a Pennsylvania-chartered banking institution and is subject to regulation, supervision and regular examination by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation ("FDIC"). Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations, and the establishment of branches, and management practices and other aspects of banking operations.

### *Dividend Restrictions*

The Company is a legal entity separate and distinct from the Bank. Declaration and payment of cash dividends depends upon cash dividend payments to the Company by the Bank, which is the Company's primary source of revenue and cash flow. Accordingly, the right of the Company, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Company in its capacity as a creditor may be recognized.

As a Pennsylvania chartered bank, the Bank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. See Note 16 to the consolidated financial statements included at Item 8 of this Report.

The payment of dividends by the Bank and the Company may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice.

### *Capital Adequacy and Operations*

Enacted in 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") contains provisions limiting activities and business methods of depository institutions. FDICIA required the primary federal banking regulators to promulgate regulations setting forth standards relating to, among other things, internal controls and audit systems; credit underwriting and loan documentation; interest rate exposure and other off-balance sheet assets and liabilities; and compensation of directors and officers. FDICIA also provided for expanded regulation of depository institutions and their affiliates, including parent holding companies, by such institutions' primary federal banking regulator. Each primary federal banking regulator is required to specify, by regulation, capital standards for measuring the capital adequacy of the depository institutions it supervises and, depending upon the extent to which a depository institution does not meet such capital adequacy measures, the primary federal banking regulator may prohibit such institution from paying dividends or may require such institution to take other steps to become adequately capitalized.

FDICIA established five capital tiers, ranging from "well capitalized" to "critically under-capitalized". A depository institution is well capitalized if it significantly exceeds the minimum level required by regulation for each relevant capital measure. Under FDICIA, an institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market; in addition, "pass through" insurance coverage may not be available for certain employee benefit accounts. FDICIA also requires an undercapitalized depository institution to submit an acceptable capital restoration plan to the appropriate federal bank regulatory agency. One requisite element of such a plan is that the institution's parent holding company must guarantee compliance by the institution with the plan, subject to certain limitations. In the event of the parent holding company's bankruptcy, the guarantee, and any other commitments that the parent holding company has made to federal bank regulators to maintain the capital of its depository institution subsidiaries, would be assumed by the bankruptcy trustee and entitled to priority in payment.

At December 31, 2015, the Bank qualified as "well capitalized" under these regulatory capital standards. See Note 16 of the Notes to Consolidated Financial Statements included at Item 8 of this Report.

*Community Reinvestment Act*

Under the Community Reinvestment Act of 1977 (“CRA”), the FDIC is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community (including low and moderate income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank has a current CRA rating of “Satisfactory.”

*Restrictions on Transactions with Affiliates and Insiders*

The Bank also is subject to the restrictions of Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act and Regulation O adopted by the Federal Reserve Board. Section 23A requires that loans or extensions of credit to an affiliate, purchases of securities issued by an affiliate, purchases of assets from an affiliate (except as may be exempted by order or regulation), the acceptance of securities issued by an affiliate as collateral and the issuance of a guarantee or acceptance of letters of credit on behalf of an affiliate (collectively, “Covered Transactions”) be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets to an affiliate and the payment of money or the furnishing of services to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

Section 22(g) and 22(h) of the Federal Reserve Act impose similar limitations on loans and extensions of credit from the bank to its executive officers, directors and principal shareholders and any of their related interests. The limitations restrict the terms and aggregate amount of such transactions. Regulation O implements the provisions of Sections 22(g) and 22(h) and requires maintenance of records of such transactions by the bank and regular reporting of such transactions by insiders. The FDIC also requires the bank, upon request, to disclose publicly loans and extensions of credit to insiders in excess of certain amounts.

*Deposit Insurance and Premiums*

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. In October 2008, the FDIC increased FDIC deposit insurance coverage per separately insured depositor for all account types to \$250,000. While initially stipulated to be in effect through December 31, 2009, this increase has been subsequently extended permanently through the Dodd-Frank Act.

As a FDIC member institution, the Bank’s deposits are insured to a maximum of \$250,000 per depositor through the Deposit Insurance Fund (“DIF”) that is administered by the FDIC and each institution is required to pay semi-annual deposit insurance premium assessments to the FDIC.

The Deposit Insurance Funds Act of 1996 recapitalized the Savings Association Insurance Fund (“SAIF”) and provided that DIF deposits would be subject to one-fifth of the assessment to which SAIF deposits are subject for FICO bond payments. Beginning in 2000, DIF deposits and SAIF deposits were subject to the same assessment for FICO bonds. The FICO assessment for the Bank for 2015 was \$0.01 for each \$100 of DIF deposits.

In February 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution’s deposit insurance assessment base changed from total deposits to total assets less tangible equity. In addition, the FDIC decreased deposit insurance assessment rates, effective April 1, 2011. The revised initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for risk category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. The revised rates and assessment base had a positive effect by lowering the FDIC insurance assessment rate paid by the Bank. However, if the risk category of the Bank changes adversely, FDIC insurance premiums paid by the Bank could increase.

*Other Federal Laws and Regulations*

State usury and credit laws limit the amount of interest and various other charges collected or contracted by a bank on loans. The Bank's loans are also subject to federal laws applicable to credit transactions, such as the following:

- Federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of the community it serves;
- Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibitive factors in extending credit;
- Real Estate Settlement Procedures Act, which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;
- Fair Credit Reporting Act governing the manner in which consumer debts may be collected by collection agencies; and
- Various rules and regulations of various federal agencies charged with the implementation of such federal laws.

Additionally, the Company's operations are subject to additional federal laws and regulations applicable to financial institutions, including, without limitation:

- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require the Company to maintain privacy policies intended to safeguard customer financial information, to disclose the policies to the Company's customers and to allow customers to "opt out" of having their financial service providers disclose their confidential financial information to non-affiliated third parties, subject to certain exceptions;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Consumer protection rules for the sale of insurance products by depository institutions, adopted pursuant to the requirements of the Gramm-Leach-Bliley Act; and
- USA Patriot Act, which requires financial institutions to take certain actions to help prevent, detect and prosecute international money laundering and the financing of terrorism.

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibited financial institutions from charging consumers fees for paying overdrafts on automated teller machines ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer's account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in. The Company did not charge customers for these transactions, nor provide these types of services.

*Sarbanes-Oxley Act of 2002*

Enacted in 2002, the Sarbanes-Oxley Act represented a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, including publicly held bank holding companies such as the Company. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

*Governmental Policies*

The Company's earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company's business and earnings.

*Other Legislative Initiatives*

Proposals may be introduced in the United States Congress and in the Pennsylvania Legislature and before various bank regulatory authorities which would alter the powers of, and restrictions on, different types of banking organizations and which would restructure part or all of the existing regulatory framework for banks, bank holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the regulatory framework. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on the Company's business and earnings.

**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 or 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.



**Item 1A. Risk Factors.**

Not required of a smaller reporting company.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. PROPERTIES.**

The Company, through the Bank, occupies eight full-service banking offices in the Lehigh Valley:

- Hanover Township, Northampton County (includes administrative offices)
- South Whitehall Township, Lehigh County
- Salisbury Township, Lehigh County
- Lower Macungie Township, Lehigh County
- City of Bethlehem, Lehigh County
- Lower Saucon Township, Northampton County
- Lower Nazareth Township, Northampton County
- Borough of Nazareth, Northampton County

All properties are leased.

**Item 3. 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 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

- (a) Shares of Company common stock are traded over-the-counter and in privately negotiated transactions. The Company's common stock is not listed on any national securities exchange.

Trades in Company common stock made by certain brokerage firms are reported on the OTCQX Market Tier of the OTC Markets under the symbol "EMYB". The following table reflects high and low bid prices for shares of the Company's common stock for the periods indicated, based upon information derived from [www.otcm Markets.com](http://www.otcm Markets.com).

|        | 2015     |          | 2014     |         |
|--------|----------|----------|----------|---------|
|        | High     | Low      | High     | Low     |
| First  | \$ 10.85 | \$ 10.21 | \$ 8.20  | \$ 7.45 |
| Second | \$ 10.85 | \$ 10.30 | \$ 8.99  | \$ 7.84 |
| Third  | \$ 10.92 | \$ 10.50 | \$ 9.00  | \$ 8.65 |
| Fourth | \$ 11.11 | \$ 10.45 | \$ 10.80 | \$ 8.82 |

The above quotations may not reflect inter-dealer prices and should not be considered over-the-counter market quotations as that term is customarily used.

- (b) As of March 25, 2016, there are approximately 997 owners of record of the common stock of the Company.
- (c) On September 30, 2015, the Company paid \$736,687, or \$0.10 per share, in an annual cash dividend on its common stock. On September 30, 2014, the Company paid \$440,026, or \$0.06 per share, in an annual cash dividend on its common stock. As a general matter, cash available for dividend distribution to shareholders of the Company may come from dividends paid to the Company by the Bank, depending upon existing cash levels at the Company. See "Supervision and Regulation – Dividend Restrictions" in Item 1 of this report for a description of restrictions that may limit the Company's ability to pay dividends on its common stock.
- (d) The following table sets forth information about options outstanding under the Company's Stock Incentive Plan, as of December 31, 2015:

|   | Number of Shares<br>to be issued upon exercise of<br>outstanding options | Weighted average<br>exercise price of<br>outstanding options | Number of Shares<br>remaining available<br>for future issuance |
|---|--|--|--|
| Equity Compensation Plans and<br>Individual Employment Agreements | 112,016  | \$ 7.14  | 328,144  |

- (e) Sales of Securities.  
None.
- (f) Repurchase of Equity Securities.  
None.

### Item 6. Selected Financial Data.

Not required of a smaller reporting company.

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion and analysis provides an overview of the consolidated financial condition and results of operations of the Company for the years ended December 31, 2015 and 2014. This discussion should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements appearing elsewhere in this report.

### **Critical Accounting Policies**

Note 1 to the Company's consolidated financial statements lists significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company and its results of operations.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the Company to make estimates and assumptions. The Company believes that its determination of the allowance for loan losses and the valuation of deferred tax assets involve a higher degree of judgment and complexity than the Company's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Company's borrowers, subjecting the Company to significant volatility of earnings.

The allowance for loan losses is established through the provision for loan losses, which is a charge against earnings. Provision for loan losses is made to reserve for estimated probable losses on loans. The allowance for loan losses is a significant estimate and is regularly evaluated by the Company for adequacy by taking into consideration factors such as changes in the nature and volume of the loan portfolio, trends in actual and forecasted credit quality, including delinquency, charge-off and bankruptcy rates, and current economic conditions that may affect a borrower's ability to pay. The use of different estimates of assumptions could produce different provision for loan losses. For additional discussion concerning the Company's allowance for loan losses and related matters, see "Provision for Loan Losses" and "Allowance for Loan Losses."

Real estate acquired through foreclosure, or deed-in-lieu of foreclosure is recorded at fair value less estimated selling costs at the date of acquisition or transfer, and subsequently at the lower of its new cost or fair value less estimated selling costs. Adjustments to the carrying value at the date of acquisition or transfer are charged to the allowance for loan losses. The carrying value of the individual properties is subsequently adjusted to the extent it exceeds estimated fair value less the estimated selling costs, at which time a provision for loan losses on such real estate is charged to operations. Appraisals are critical in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable.

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuations allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Based upon the level of historical taxable income and projections for future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

## **GENERAL**

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.

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.

## **OVERVIEW**

The Company’s assets grew \$84.9 million from \$719.1 million at December 31, 2014 to \$804.0 million at December 31, 2015. The Company’s deposits grew \$48.6 million from \$611.7 million at December 31, 2014 to \$660.3 million at December 31, 2015. During the same period, loans receivable, net of the allowance for loan losses, increased \$79.0 million to \$684.0 million at December 31, 2015 from \$605.0 million at December 31, 2014. The market is very competitive and the Company is committed to maintaining a high quality portfolio that returns a reasonable market rate. The Company expects increased lending activity, as the Company expands its presence in the market and continues to become more widely known. 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.

The Company reported net income of \$7.4 million for the year ended December 31, 2015 as compared to net income of \$6.4 million for the year ended December 31, 2014, an increase of \$1.0 million, or 15.7%. Diluted earnings per share increased to \$1.00 in 2015 from \$0.87 in 2014.

## **RESULTS OF OPERATIONS**

### **Net Interest Income and Net Interest Margin**

Net interest income is the difference between income on assets and the cost of funds supporting those assets. Earning assets are composed primarily of loans and investments. Interest-bearing deposits and borrowings make up the cost of funds. Non-interest bearing deposits and capital are other components representing funding sources. Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income.

### **2015 Compared to 2014**

Total interest income for the year ended December 31, 2015 was \$28.3 million, compared to \$26.1 million for the year ended December 31, 2014. Total interest expense for the year ended December 31, 2015 was \$3.1 million, compared to \$3.0 million for the year ended December 31, 2014. The increase in interest income is due to the growth in loan balances, offset by lower yields in this interest rate environment. The slight increase in interest expense is primarily due to growth in savings, certificate of deposits and short-term borrowings. Net interest income increased 9.0% to \$25.1 million for the year ended December 31, 2015 as compared to \$23.1 million for the year ended December 31, 2014.

Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Interest rate spread is the mathematical difference between the average interest earned on earning assets and interest paid on

interest bearing liabilities. Interest margin represents the net interest yield on earning assets and is derived by dividing net interest income by average earning assets. In a mature financial institution the interest margin gives a reader a better indication of asset earning results when compared to peer groups or industry standards.

The Company's net interest margin for the year ended December 31, 2015 was 3.48% compared to 3.50% for the year ended December 31, 2014. The decrease in the margin is due primarily to the decrease in loan and investment rates and increase in deposit rates associated with the current market conditions, offset by the decrease in short-term borrowing and coupled with the significant growth in the loan and interest bearing deposit balances. During this difficult market environment, the Company continued to grow and attract deposits and loans at competitive rates.

The following table includes the average balances, interest income and expense and the average rates earned and paid for assets and liabilities for the periods presented. All average balances are daily average balances.

**Average Balances, Rates and Interest Income and Expense**

|  | Year Ended December 31, 2015 |           |                            | Year Ended December 31, 2014 |           |                            | Year Ended December 31, 2013 |           |                            |
|--|------------------------------|-----------|----------------------------|------------------------------|-----------|----------------------------|------------------------------|-----------|----------------------------|
|  | Average<br>Balance           | Interest  | Tax<br>Equivalent<br>Yield | Average<br>Balance           | Interest  | Tax<br>Equivalent<br>Yield | Average<br>Balance           | Interest  | Tax<br>Equivalent<br>Yield |
|  | (Dollars in Thousands)       |           |                            |                              |           |                            |                              |           |                            |
| ASSETS   |                              |           |                            |                              |           |                            |                              |           |                            |
| Loans - taxable (2)  | \$ 643,774                   | \$ 25,823 | 4.01%                      | \$ 579,496                   | \$ 23,708 | 4.09%                      | \$ 530,174                   | \$ 22,471 | 4.24%                      |
| Loans - non-taxable (1)  | 9,887                        | 315       | 4.83%                      | 8,353                        | 230       | 4.17%                      | 3,848                        | 146       | 5.75%                      |
| Investment securities - taxable (3)                                    | 49,280                       | 795       | 1.61%                      | 45,675                       | 753       | 1.65%                      | 48,685                       | 820       | 1.68%                      |
| Investment securities - non-taxable (1) (3)                            | 33,264                       | 1,193     | 5.43%                      | 34,698                       | 1,269     | 5.54%                      | 33,357                       | 1,168     | 5.30%                      |
| Federal funds sold   | 680                          | 2         | 0.29%                      | 955                          | 2         | 0.22%                      | 792                          | 2         | 0.20%                      |
| Time deposits  | 185                          | 1         | 0.54%                      | 1,025                        | 11        | 1.07%                      | 3,487                        | 34        | 0.98%                      |
| Interest bearing deposits with banks                                   | 6,728                        | 124       | 1.84%                      | 10,738                       | 77        | 0.72%                      | 7,142                        | 25        | 0.35%                      |
| TOTAL INTEREST EARNING ASSETS  | 743,798                      | 28,253    | 3.90%                      | 680,940                      | 26,050    | 3.94%                      | 627,485                      | 24,666    | 4.04%                      |
| Less allowance for loan losses   | (5,769)                      |           |                            | (5,440)                      |           |                            | (5,140)                      |           |                            |
| Other assets   | 35,564                       |           |                            | 31,047                       |           |                            | 28,496                       |           |                            |
| TOTAL ASSETS   | \$ 773,593                   |           |                            | \$ 706,547                   |           |                            | \$ 650,841                   |           |                            |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                   |                              |           |                            |                              |           |                            |                              |           |                            |
| Interest bearing demand deposits,<br>NOW and money market              | \$ 60,401                    | \$ 41     | 0.07%                      | \$ 60,603                    | \$ 32     | 0.05%                      | \$ 57,651                    | \$ 38     | 0.07%                      |
| Savings  | 406,642                      | 1,978     | 0.49%                      | 404,196                      | 1,953     | 0.48%                      | 384,407                      | 1,816     | 0.47%                      |
| Certificates of deposit  | 83,278                       | 859       | 1.03%                      | 74,385                       | 721       | 0.97%                      | 56,787                       | 563       | 0.99%                      |
| Securities sold under agreements to<br>repurchase and other borrowings | 72,892                       | 257       | 0.35%                      | 39,634                       | 293       | 0.74%                      | 43,341                       | 523       | 1.21%                      |
| TOTAL INTEREST BEARING LIABILITIES                                     | 623,213                      | 3,135     | 0.50%                      | 578,818                      | 2,999     | 0.52%                      | 542,186                      | 2,940     | 0.54%                      |
| Non-interest bearing demand deposits                                   | 76,062                       |           |                            | 62,161                       |           |                            | 50,527                       |           |                            |
| Other liabilities  | 5,730                        |           |                            | 4,695                        |           |                            | 3,693                        |           |                            |
| Stockholders' equity   | 68,588                       |           |                            | 60,873                       |           |                            | 54,435                       |           |                            |
| TOTAL LIABILITIES AND<br>STOCKHOLDERS' EQUITY                          | \$ 773,593                   |           |                            | \$ 706,547                   |           |                            | \$ 650,841                   |           |                            |
| Net interest income  |                              | \$ 25,118 |                            |                              | \$ 23,051 |                            |                              | \$ 21,726 |                            |
| Net interest spread  |                              |           | 3.40%                      |                              |           | 3.42%                      |                              |           | 3.50%                      |
| Net interest margin  |                              |           | 3.48%                      |                              |           | 3.50%                      |                              |           | 3.57%                      |

(1) Yields on tax exempt assets have been calculated on a fully tax equivalent basis.

(2) The average balance of taxable loans includes loans in which interest is no longer accruing.

(3) Investment security yields do not give effect to changes in fair value.

The table below demonstrates the relative impact on net interest income of changes in the volume of interest-earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities.

|   | 2015 vs. 2014                          |          |          | 2014 vs. 2013                          |          |          |
|---|--|----------|----------|--|----------|----------|
|   | Increase (decrease) due to changes in: |          |          | Increase (decrease) due to changes in: |          |          |
|   | (In Thousands)                         |          |          |  |          |          |
|   | Volume                                 | Rate     | Total    | Volume                                 | Rate     | Total    |
| Interest-earning assets:  |  |          |          |  |          |          |
| Loans - taxable   | \$ 2,630                               | \$ (515) | \$ 2,115 | \$ 2,090                               | \$ (853) | \$ 1,237 |
| Loans - non-taxable   | 42                                     | 43       | 85       | 171                                    | (87)     | 84       |
| Investment securities - taxable                                     | 59                                     | (17)     | 42       | (51)                                   | (16)     | (67)     |
| Investment securities - non-taxable                                 | (52)                                   | (24)     | (76)     | 47                                     | 54       | 101      |
| Federal funds sold  | (1)                                    | 1        | -        | -                                      | -        | -        |
| Time deposits   | (9)                                    | (1)      | (10)     | (24)                                   | 1        | (23)     |
| Interest bearing deposits with banks                                | (29)                                   | 76       | 47       | 12                                     | 41       | 53       |
| Total net change in income on interest-earning assets               | 2,640                                  | (437)    | 2,203    | 2,245                                  | (860)    | 1,385    |
| Interest-bearing liabilities:                                       |  |          |          |  |          |          |
| Interest bearing demand deposits                                    | -                                      | 9        | 9        | 2                                      | (8)      | (6)      |
| Savings   | 12                                     | 13       | 25       | 93                                     | 44       | 137      |
| Certificates of deposit   | 86                                     | 52       | 138      | 174                                    | (16)     | 158      |
| Total deposits  | 98                                     | 74       | 172      | 269                                    | 20       | 289      |
| Securities sold under agreements to repurchase and other borrowings | 246                                    | (282)    | (36)     | (45)                                   | (185)    | (230)    |
| Total net change in expense on interest-bearing liabilities         | 344                                    | (208)    | 136      | 224                                    | (165)    | 59       |
| Change in net interest income                                       | \$ 2,296                               | \$ (229) | \$ 2,067 | \$ 2,021                               | \$ (695) | \$ 1,326 |

### Provision for Loan Losses

The provision for loan losses represents the expense recognized to fund the allowance for loan losses. This amount is based on many factors that reflect management's assessment of the risk in its loan portfolio. Those factors include economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company.

For the year ended December 31, 2015, the provision for loan losses was \$532 thousand, compared to \$250 thousand for the year ended December 31, 2014. The increase in the provision for loan losses was primarily due to the volume of loan growth in 2015 over 2014. Loans grew \$79.0 million in 2015 compared to \$41.7 million in 2014. The allowance for loan losses as of December 31, 2015 was \$6.1 million, which represents 0.88% of outstanding loans, which is comparable to the \$5.6 million as of December 31, 2014, representing 0.92% of outstanding loans. Based principally on current economic conditions, perceived asset quality, loan-loss experience of comparable institutions in the Company's market area, the allowance is believed to be adequate.

### Non-interest Income

Non-interest income is derived from the Company's operations and represents primarily credit card processing fees, service fees on deposit and loan relationships and income from bank owned life insurance. Non-interest income also

may include net gains and losses from the sale of available for sale securities. Total non-interest income was \$2.8 million for the year ended December 31, 2015 compared to \$2.4 million for the year ended December 31, 2014. This increase in non-interest income is due to fees from credit card processing services in the amount of \$249 thousand, or 17.5%, over 2014, as well as an increase in income on bank owned life insurance in the amount of \$97 thousand, or 31.5%, over 2014, and gain from sales of securities realized of \$165 thousand in 2015 compared to \$33 thousand in 2014, offset by a \$95 thousand increase in impairment losses on other real estate owned. As the deposit customer account base grows and the Company continues to mature and develop additional sources of fee income, non-interest income is expected to become a more significant contributor to the overall profitability of the Company.

### **Non-interest Expense**

Non-interest expenses represent the normal operating expenses of the Company. These expenses include salaries, employee benefits, occupancy, equipment, data processing, advertising and other expenses related to the overall operation of the Company.

Non-interest expenses for the year ended December 31, 2015 was \$17.0 million, compared to \$16.3 million for the year ended December 31, 2014. At December 31, 2015, the Company had seventy-six (76) full-time equivalent employees compared to sixty-nine (69) full-time equivalent employees at December 31, 2014. The increase in non-interest expenses is due to: an increase of \$232 thousand, or 21.1%, over 2014, in advertising and promotion expenses due to online banking initiatives, mortgage promotions and a new advertising program; an increase of \$302 thousand, or 23.3%, over 2014, in credit card/merchant processing expense due to increased credit card/merchant processing volume; an increase of \$222 thousand, or 16.8%, over 2014, in data processing primarily due to the implementation of mobile banking, addition of a branch, enhancements to the information technology systems and installation of fiber connectivity; and an increase of \$164 thousand, or 16.3%, over 2014, in other expenses, offset by a decrease of \$113 thousand in real estate owned expenses due primarily to expenses incurred in 2014 for site repairs of one property and the additional bank-owned properties acquired in 2014; and a decrease of \$121 thousand in salaries and employee benefits due primarily to a decrease in non-qualified pension expense, offset by increases in salaries and payroll taxes due to the increase in employees noted above. Non-qualified pension expense decreased in 2015 compared to 2014 since in the 2014 year there were amendments to certain of the non-qualified plans resulting in necessary increases in the plan liabilities for that year.

A breakdown of other non-interest expenses is included in the Consolidated Statements of Income in the Consolidated Financial Statements included in Item 8 of this Report.

### **Income Taxes**

The provision for income taxes was \$2.9 million at December 31, 2015 compared to \$2.5 million at December 31, 2014. The effective rate on income taxes for the years ended December 31, 2015 and 2014 was 28.5% and 27.9%, respectively.

## **FINANCIAL CONDITION**

### **Securities**

The Company's securities portfolio is 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 Company 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. The Company holds no high-risk securities or derivatives as of December 31, 2015.

The Company's securities portfolio was \$77.3 million at December 31, 2015, a \$56 thousand increase from securities of \$77.2 million at December 31, 2014. The Company's securities have increased primarily due to a combination of investment principal pay-downs, maturities and sales totaling \$18.6 million, offset by purchases in the amount of \$19.0 million and a \$347 thousand decrease in unrealized gains. The carrying value of the securities portfolio as of December 31, 2015 includes a net unrealized gain of \$1.9 million, as compared to a net unrealized gain of \$2.2 million as of December 31, 2014, which is recorded to accumulated other comprehensive income in stockholders' equity. This decrease in the unrealized gain is due primarily to the changes in market conditions from 2014 to 2015. No securities are deemed to be other than temporarily impaired.

The following table sets forth the composition of the securities portfolio at fair value as of December 31, 2015, 2014 and 2013.

|  | <u>2015</u>      | <u>2014</u>      | <u>2013</u>      |
|--|------------------|------------------|------------------|
|  |                  | (In Thousands)   |                  |
| U.S. Government agency obligations         | \$ 34,570        | \$ 30,076        | \$ 27,005        |
| Municipal securities                       | 41,204           | 38,624           | 32,900           |
| U.S. Government sponsored enterprise (GSE) |                  |                  |                  |
| - Mortgage-backed securities - residential | 1,479            | 7,501            | 9,362            |
| Corporate bonds                            | -                | 996              | 2,021            |
| Total Securities Available for Sale        | <u>\$ 77,253</u> | <u>\$ 77,197</u> | <u>\$ 71,288</u> |

The following table presents the maturities and average weighted yields of the debt securities portfolio as of December 31, 2015. Maturities of mortgage-backed securities are based on estimated life. Yields are based on amortized cost.

### Securities by Maturities

|   | <u>1 year or Less</u>  |                      | <u>1-5 Years</u> |                      | <u>5-10 Years</u> |                      | <u>Over 10 Years</u> |                      | <u>Total</u>     |                      |
|---|------------------------|----------------------|------------------|----------------------|-------------------|----------------------|----------------------|----------------------|------------------|----------------------|
|   | <u>Amount</u>          | <u>Average Yield</u> | <u>Amount</u>    | <u>Average Yield</u> | <u>Amount</u>     | <u>Average Yield</u> | <u>Amount</u>        | <u>Average Yield</u> | <u>Amount</u>    | <u>Average Yield</u> |
|   | (Dollars In Thousands) |                      |                  |                      |                   |                      |                      |                      |                  |                      |
| U.S. Government agency obligations                | \$ 5,025               | 0.71%                | \$ 29,545        | 1.20%                | \$ -              | -                    | \$ -                 | -                    | \$ 34,570        | 1.12%                |
| Municipal securities                              | 56                     | 4.85%                | 4,785            | 3.30%                | 19,940            | 4.55%                | 16,423               | 6.30%                | 41,204           | 5.10%                |
| U.S. GSE - Mortgage-backed securities-residential | 137                    | 4.01%                | 1,065            | 4.23%                | 277               | 6.04%                | -                    | -                    | 1,479            | 5.64%                |
| Total Debt Securities                             | <u>\$ 5,218</u>        | <u>0.84%</u>         | <u>\$ 35,395</u> | <u>1.62%</u>         | <u>\$ 20,217</u>  | <u>4.04%</u>         | <u>\$ 16,423</u>     | <u>6.15%</u>         | <u>\$ 77,253</u> | <u>3.33%</u>         |



**Loans**

The following table sets forth information on the composition of the loan portfolio by type at December 31, 2015, 2014, 2013, 2012 and 2011. All of the Company's loans are to domestic borrowers.

|                                   | <b>December 31, 2015</b> |                                      | <b>December 31, 2014</b> |                                      | <b>December 31, 2013</b> |                                      |
|-----------------------------------|--------------------------|--------------------------------------|--------------------------|--------------------------------------|--------------------------|--------------------------------------|
|                                   | <b>Balance</b>           | <b>Percentage of<br/>total Loans</b> | <b>Balance</b>           | <b>Percentage of<br/>total Loans</b> | <b>Balance</b>           | <b>Percentage of<br/>total Loans</b> |
|                                   | (Dollars in Thousands)   |                                      |                          |                                      |                          |                                      |
| Commercial real estate            | \$ 289,304               | 41.92%                               | \$ 249,454               | 40.84%                               | \$ 235,545               | 41.40%                               |
| Commercial construction           | 17,786                   | 2.58%                                | 23,220                   | 3.80%                                | 21,109                   | 3.71%                                |
| Commercial                        | 34,955                   | 5.06%                                | 34,182                   | 5.60%                                | 28,017                   | 4.92%                                |
| Residential real estate           | 347,316                  | 50.33%                               | 302,908                  | 49.60%                               | 283,421                  | 49.82%                               |
| Consumer                          | 745                      | 0.11%                                | 972                      | 0.16%                                | 846                      | 0.15%                                |
| Gross loans                       | 690,106                  | 100.00%                              | 610,736                  | 100.00%                              | 568,938                  | 100.00%                              |
| Unearned origination (fees) costs | 9                        |                                      | (155)                    |                                      | (355)                    |                                      |
|                                   | <u>\$ 690,115</u>        |                                      | <u>\$ 610,581</u>        |                                      | <u>\$ 568,583</u>        |                                      |
|                                   | <b>December 31, 2012</b> |                                      | <b>December 31, 2011</b> |                                      |                          |                                      |
|                                   | <b>Balance</b>           | <b>Percentage of<br/>total Loans</b> | <b>Balance</b>           | <b>Percentage of<br/>total Loans</b> |                          |                                      |
|                                   | (Dollars in Thousands)   |                                      |                          |                                      |                          |                                      |
| Commercial real estate            | \$ 204,904               | 40.53%                               | \$ 171,792               | 40.56%                               |                          |                                      |
| Commercial construction           | 19,717                   | 3.90%                                | 13,414                   | 3.17%                                |                          |                                      |
| Commercial                        | 28,696                   | 5.68%                                | 26,879                   | 6.35%                                |                          |                                      |
| Residential real estate           | 250,854                  | 49.62%                               | 210,361                  | 49.65%                               |                          |                                      |
| Consumer                          | 1,382                    | 0.27%                                | 1,140                    | 0.27%                                |                          |                                      |
| Gross loans                       | 505,553                  | 100.00%                              | 423,586                  | 100.00%                              |                          |                                      |
| Unearned origination (fees) costs | (334)                    |                                      | (245)                    |                                      |                          |                                      |
|                                   | <u>\$ 505,219</u>        |                                      | <u>\$ 423,341</u>        |                                      |                          |                                      |

The following table shows the maturities of the commercial loan portfolio and the sensitivity of such loans to interest rate fluctuations at December 31, 2015.

|                         | <b>One year or Less</b> | <b>After One Year<br/>Through Five Years</b> | <b>After Five Years</b> | <b>Total</b>      |
|-------------------------|-------------------------|--|-------------------------|-------------------|
|                         | (In Thousands)          |  |                         |                   |
| Commercial real estate  | \$ 31,973               | \$ 164,237                                   | \$ 93,094               | \$ 289,304        |
| Commercial construction | 6,960                   | 10,826                                       | -                       | 17,786            |
| Commercial              | 15,302                  | 16,303                                       | 3,350                   | 34,955            |
|                         | <u>\$ 54,235</u>        | <u>\$ 191,366</u>                            | <u>\$ 96,444</u>        | <u>\$ 342,045</u> |
| Fixed Rates             | \$ 20,024               | \$ 183,405                                   | \$ 96,056               | \$ 299,485        |
| Variable Rates          | 34,211                  | 7,961  | 388                     | 42,560            |
|                         | <u>\$ 54,235</u>        | <u>\$ 191,366</u>                            | <u>\$ 96,444</u>        | <u>\$ 342,045</u> |

### **Credit Risk and Loan Quality**

The allowance for loan losses increased \$454 thousand to \$6.1 million at December 31, 2015 from \$5.6 million at December 31, 2014. At December 31, 2015 and December 31, 2014, the allowance for loan losses represented 0.88% and 0.92%, 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 comparable institutions in the Bank's market area, management feels the allowance is adequate to absorb reasonably anticipated losses.

At December 31, 2015, aggregate balances on non-performing loans equaled \$5.5 million compared to \$6.7 million at December 31, 2014, representing 0.79% and 1.09% of total loans at December 31, 2015 and December 31, 2014, respectively. In certain circumstances in which the Company has deemed it prudent for reasons related to a borrower's financial condition, the Company has agreed to restructure certain loans (referred to as troubled debt restructurings). Troubled debt restructuring loans, which are considered non-performing loans, outstanding at December 31, 2015 totaled \$4.7 million. Generally, a loan is classified as nonaccrual when it is determined that the collection of all or a portion of interest or principal is doubtful or when a default of interest or principal has existed for 90 days or more, unless the loan is well secured and in the process of collection. A non-performing loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured.

As of December 31, 2015 the Company had four (4) foreclosed assets totaling \$1.2 million, one in the amount of \$532 thousand acquired in October 2010, one in the amount of \$348 thousand acquired in August 2014, one in the amount of \$221 thousand acquired in August 2015 and one in the amount of \$123 thousand acquired in November 2015. Subsequent to December 31, 2015, the Company sold the property acquired in November 2015, and a portion of the property acquired in October 2010 for a loss of \$1 thousand. The details for the non-performing loans and assets are included in the following table:

|   | <b>December 31,</b>    |                 |                  |                  |                  |
|---|------------------------|-----------------|------------------|------------------|------------------|
|   | <b>2015</b>            | <b>2014</b>     | <b>2013</b>      | <b>2012</b>      | <b>2011</b>      |
|   | (Dollars In Thousands) |                 |                  |                  |                  |
| Non-accrual - commercial                          | \$ 230                 | \$ 1,318        | \$ 1,824         | \$ 2,143         | \$ 1,869         |
| Non-accrual - consumer                            | 529                    | 366             | 481              | 301              | -                |
| Restructured, accruing interest                   | 4,723                  | 4,975           | 7,354            | 7,841            | 7,264            |
| Loans past due 90 or more days, accruing interest | -                      | -               | 763              | 361              | 265              |
| <b>Total nonperforming loans</b>                  | <b>5,482</b>           | <b>6,659</b>    | <b>10,422</b>    | <b>10,646</b>    | <b>9,398</b>     |
| Foreclosed assets                                 | 1,224                  | 1,106           | 659              | 3,038            | 3,388            |
| <b>Total nonperforming assets</b>                 | <b>\$ 6,706</b>        | <b>\$ 7,765</b> | <b>\$ 11,081</b> | <b>\$ 13,684</b> | <b>\$ 12,786</b> |
| Nonperforming loans to total loans                | 0.79%                  | 1.09%           | 1.83%            | 2.11%            | 2.22%            |
| Nonperforming assets to total assets              | 0.83%                  | 1.08%           | 1.65%            | 2.13%            | 2.23%            |

#### **Allowance for Loan Losses**

Based upon current economic conditions, the composition of the loan portfolio and loan loss experience of comparable institutions in the Company's market areas, an allowance for loan losses has been provided at 0.88% of outstanding loans. Based on its knowledge of the portfolio and current economic conditions, management believes that, as of December 31, 2015, the allowance is adequate to absorb reasonably anticipated losses. As of December 31, 2015, the Company had \$6.4 million of impaired loans (defined as a loan that management feels probable the Company will be unable to collect all amounts according to the contractual terms of the loan agreement or loans considered to be troubled debt restructurings) compared to \$8.1 million at December 31, 2014. Most of the Company's impaired loans required no specific reserves due to adequate collateral. As of December 31, 2015, the Company had impaired loans of \$1.2 million requiring a specific reserve of \$370 thousand. As of December 31, 2014, the Company had impaired loans of \$1.7 million requiring a specific reserve of \$397 thousand.

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:

|  | <b>December 31,</b>      |                          |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>2015</b>              | <b>2014</b>              | <b>2013</b>              | <b>2012</b>              | <b>2011</b>              |
|  | (Dollars In Thousands)   |                          |                          |                          |                          |
| Loans receivable at end of year                              | <u><b>\$ 690,115</b></u> | <u><b>\$ 610,581</b></u> | <u><b>\$ 568,583</b></u> | <u><b>\$ 505,219</b></u> | <u><b>\$ 423,341</b></u> |
| Allowance for loan losses:                                   |                          |                          |                          |                          |                          |
| Balance, beginning   | <u><b>\$ 5,614</b></u>   | <u><b>\$ 5,326</b></u>   | <u><b>\$ 5,147</b></u>   | <u><b>\$ 4,215</b></u>   | <u><b>\$ 3,709</b></u>   |
| Provision for loan losses                                    | <u><b>532</b></u>        | <u><b>250</b></u>        | <u><b>992</b></u>        | <u><b>1,183</b></u>      | <u><b>734</b></u>        |
| Loans charged off:   |                          |                          |                          |                          |                          |
| Commercial real estate                                       | <b>(60)</b>              | <b>(10)</b>              | <b>(530)</b>             | <b>(231)</b>             | <b>(137)</b>             |
| Commercial construction                                      | <b>-</b>                 | <b>(50)</b>              | <b>(197)</b>             | <b>-</b>                 | <b>-</b>                 |
| Commercial   | <b>-</b>                 | <b>(38)</b>              | <b>(13)</b>              | <b>-</b>                 | <b>(50)</b>              |
| Residential real estate                                      | <b>(28)</b>              | <b>(63)</b>              | <b>(112)</b>             | <b>(39)</b>              | <b>(63)</b>              |
| Consumer   | <b>-</b>                 | <b>-</b>                 | <b>(5)</b>               | <b>-</b>                 | <b>-</b>                 |
| Total charged offs   | <u><b>(88)</b></u>       | <u><b>(161)</b></u>      | <u><b>(857)</b></u>      | <u><b>(270)</b></u>      | <u><b>(250)</b></u>      |
| Recoveries of loans previously charged-off:                  |                          |                          |                          |                          |                          |
| Commercial real estate                                       | <b>10</b>                | <b>-</b>                 | <b>13</b>                | <b>1</b>                 | <b>2</b>                 |
| Commercial construction                                      | <b>-</b>                 | <b>198</b>               | <b>-</b>                 | <b>-</b>                 | <b>-</b>                 |
| Commercial   | <b>-</b>                 | <b>1</b>                 | <b>3</b>                 | <b>-</b>                 | <b>4</b>                 |
| Residential real estate                                      | <b>-</b>                 | <b>-</b>                 | <b>28</b>                | <b>18</b>                | <b>4</b>                 |
| Consumer   | <b>-</b>                 | <b>-</b>                 | <b>-</b>                 | <b>-</b>                 | <b>12</b>                |
| Total recoveries   | <u><b>10</b></u>         | <u><b>199</b></u>        | <u><b>44</b></u>         | <u><b>19</b></u>         | <u><b>22</b></u>         |
| Net charged offs   | <u><b>(78)</b></u>       | <u><b>38</b></u>         | <u><b>(813)</b></u>      | <u><b>(251)</b></u>      | <u><b>(228)</b></u>      |
| Balance at end of year                                       | <u><b>\$ 6,068</b></u>   | <u><b>\$ 5,614</b></u>   | <u><b>\$ 5,326</b></u>   | <u><b>\$ 5,147</b></u>   | <u><b>\$ 4,215</b></u>   |
| Allowance for loan losses to loans receivable at end of year | <u><b>0.88%</b></u>      | <u><b>0.92%</b></u>      | <u><b>0.94%</b></u>      | <u><b>1.02%</b></u>      | <u><b>1.00%</b></u>      |

**Allocation of the Allowance for Loan Losses**

The following table details the allocation of the allowance for loan losses to various loan categories and the related percent of total loans in each category. While allocations have been established for particular loan categories, management considers the entire allowance to be available to absorb losses in any category.

|                                 | December<br>2015 | % of<br>Total<br>Loans | December<br>2014 | % of<br>Total<br>Loans | December<br>2013 | % of<br>Total<br>Loans | December<br>2012 | % of<br>Total<br>Loans | December<br>2011 | % of<br>Total<br>Loans |
|---------------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|
| (Dollars in Thousands)          |                  |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| Commercial real estate          | \$ 2,132         | 41.92%                 | \$ 1,704         | 40.84%                 | \$ 1,791         | 41.40%                 | \$ 2,007         | 40.53%                 | \$ 1,264         | 40.56%                 |
| Commercial construction         | 294              | 2.58%                  | 401              | 3.80%                  | 495              | 3.71%                  | 660              | 3.90%                  | 352              | 3.17%                  |
| Commercial                      | 402              | 5.06%                  | 407              | 5.60%                  | 349              | 4.92%                  | 394              | 6.71%                  | 423              | 6.35%                  |
| Residential real estate         | 2,529            | 50.33%                 | 1,955            | 49.60%                 | 2,068            | 49.82%                 | 1,677            | 48.59%                 | 1,691            | 49.65%                 |
| Consumer                        | 29               | 0.11%                  | 22               | 0.16%                  | 24               | 0.15%                  | 33               | 0.27%                  | 40               | 0.27%                  |
| Unallocated                     | 682              |                        | 1,125            |                        | 599              |                        | 376              |                        | 445              |                        |
| Total Allowance for Loan Losses | <u>\$ 6,068</u>  | <u>100.00%</u>         | <u>\$ 5,614</u>  | <u>100.00%</u>         | <u>\$ 5,326</u>  | <u>100.00%</u>         | <u>\$ 5,147</u>  | <u>100.00%</u>         | <u>\$ 4,215</u>  | <u>100.00%</u>         |

**Deposits**

As growth continues, the Company expects that the principal sources of its funds will be deposits, consisting of demand deposits, NOW accounts, money market accounts, savings accounts, and certificates of deposit from the local market areas surrounding the Company's offices. These accounts provide the Company with a source of fee income and a relatively stable source of funds.

Total deposits at December 31, 2015 were \$660.3 million, an increase of \$48.6 million, or 7.9%, over total deposits of \$611.7 million as of December 31, 2014. The following table reflects the Company's deposits by category for the periods indicated. All deposits are domestic deposits.

|  | December 31,<br>2015 | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|----------------------|
| (In Thousands)                                 |                      |                      |                      |
| Demand, non-interest bearing                   | \$ 89,959            | \$ 68,467            | \$ 58,705            |
| Demand, NOW and money market, interest bearing | 67,402               | 63,263               | 59,451               |
| Savings  | 406,361              | 405,964              | 389,613              |
| Time, \$100 and over                           | 59,533               | 42,122               | 26,488               |
| Time, other                                    | 37,011               | 31,852               | 34,780               |
| Total deposits                                 | <u>\$ 660,266</u>    | <u>\$ 611,668</u>    | <u>\$ 569,037</u>    |

The following table sets forth the average balance of the Company's deposits and the average rates paid on those deposits for the years ended December 31, 2015, 2014 and 2013:

|  | <b>December 31, 2015</b>  |                         | <b>December 31, 2014</b>  |                         | <b>December 31, 2013</b>  |                         |
|--|---------------------------|-------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
|  | <b>Average<br/>Amount</b> | <b>Average<br/>Rate</b> | <b>Average<br/>Amount</b> | <b>Average<br/>Rate</b> | <b>Average<br/>Amount</b> | <b>Average<br/>Rate</b> |
|  | (Dollars In Thousands)    |                         |                           |                         |                           |                         |
| Demand, NOW and money market,<br>interest bearing deposits | \$ 60,401                 | 0.07%                   | \$ 60,603                 | 0.05%                   | \$ 57,651                 | 0.07%                   |
| Savings  | 406,642                   | 0.49%                   | 404,196                   | 0.48%                   | 384,407                   | 0.47%                   |
| Certificates of deposit                                    | 83,278                    | 1.03%                   | 74,385                    | 0.97%                   | 56,787                    | 0.99%                   |
| Total interest bearing deposits                            | 550,321                   | 0.52%                   | 539,184                   | 0.50%                   | 498,845                   | 0.48%                   |
| Non-interest bearing demand deposits                       | 76,062                    |                         | 62,161                    |                         | 50,527                    |                         |
| Total  | <u>\$ 626,383</u>         |                         | <u>\$ 601,345</u>         |                         | <u>\$ 549,372</u>         |                         |

The following table displays the maturities and the amounts of the Company's certificates of deposit of \$100,000 or more as of December 31, 2015:

|                          | <b>December 31,<br/>2015</b> |
|--------------------------|------------------------------|
|                          | (In Thousands)               |
| 3 months or less         | \$ 14,181                    |
| Over 3 through 6 months  | 10,561                       |
| Over 6 through 12 months | 10,058                       |
| Over 12 months           | 24,733                       |
| Total                    | <u>\$ 59,533</u>             |

As a FDIC member institution, the Company's deposits are insured to a maximum of \$250,000 per depositor through the Deposit Insurance Fund ("DIF") that is administered by the FDIC and each institution is required to pay semi-annual deposit insurance premium assessments to the FDIC.

## Liquidity

Liquidity is a measure of 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, federal funds sold and short-term securities. There are other sources of liquidity that are available to the Company.

The Bank has borrowing capacity with the FHLBank Pittsburgh ("FHLB") of approximately \$399.9 million, which includes a line of credit for \$150.0 million. Long-term loans outstanding with the FHLB totaled \$3.8 million as of December 31, 2015. There were no outstanding long-term loans outstanding with the FHLB as of December 31, 2014. Short-term loans outstanding with FHLB totaled \$39.3 million and \$9.0 million as of December 31, 2015 and December 31, 2014, respectively. The increase in short-term loans outstanding with FHLB was primarily used to fund loan growth and investment security purchases. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank also has a \$10.0 million line of credit with Atlantic Community Bankers Bank, of which none was outstanding at December 31, 2015. Advances from this line are unsecured.

The Company has a \$4.0 million line of credit with Univest Bank and Trust Co., of which none was outstanding at December 31, 2015. The line of credit is secured by 333,333 shares of Bank stock.

Because of the composition of the Company's balance sheet, its strong capital base, deposit growth, and borrowing capacity, the Company believes that it remains well positioned with respect to liquidity. While it is desirable to be liquid, it has the effect of a lower interest margin. The majority of funds are invested in loans; however, a sizeable portion is invested in investment securities that generally carry a lower yield.

### **Contractual Obligations**

The following table represents the Company's contractual obligations to make future payments as of the year ended December 31, 2015:

|                       | <u>2016</u>      | <u>2017-2018</u> | <u>2019-2020</u> | <u>Thereafter</u> | <u>Total</u>      |
|-----------------------|------------------|------------------|------------------|-------------------|-------------------|
|                       | (In Thousands)   |                  |                  |                   |                   |
| Time deposits         | \$ 52,441        | \$ 30,522        | \$ 13,581        | \$ -              | \$ 96,544         |
| Short-term borrowings | 39,306           | -                | -                | -                 | 39,306            |
| Long-term borrowings  | 667              | 1,447            | 1,706            | -                 | 3,820             |
| Operating Leases      | <u>1,273</u>     | <u>1,937</u>     | <u>876</u>       | <u>11</u>         | <u>4,097</u>      |
| Total                 | <u>\$ 93,687</u> | <u>\$ 33,906</u> | <u>\$ 16,163</u> | <u>\$ 11</u>      | <u>\$ 143,767</u> |

### **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 commitments consist of unfunded loans and lines of credit and letters of credit made under the same standards as on-balance sheet instruments. These off-balance sheet arrangements at December 31, 2015 and 2014 totaled \$97.4 million and \$82.5 million, respectively. 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 believes that any amounts actually drawn upon can be funded in the normal course of operations.

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 the availability of capital resources.

**Capital Resources and Adequacy**

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 1 capital (as defined in the regulations) to risk weighted assets (as defined), and Tier 1 capital to average assets (as defined). As of December 31, 2015, 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:

|  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|--|--------------------------|--------------------------|
|  | (Dollars In Thousands)   |                          |
| Tier 1, common stockholders' equity                    | \$ <b>66,812</b>         | \$ 61,510                |
| Tier 2, allowable portion of allowance for loan losses | <b>6,068</b>             | 5,614                    |
| Total capital  | <b>\$ 72,880</b>         | <b>\$ 67,124</b>         |
| Common equity tier 1 capital ratio                     | <b>11.5%</b>             | -                        |
| Tier 1 risk based capital ratio                        | <b>11.5%</b>             | 12.4%                    |
| Total risk based capital ratio                         | <b>12.6%</b>             | 13.5%                    |
| Tier 1 leverage ratio                                  | <b>8.4%</b>              | 8.5%                     |

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

In July 2013, the FDIC and the Federal Reserve approved a new rule that will substantially amend 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 revised 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.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 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 capital ratios to be considered “well capitalized” under the new capital rules are: common equity of 6.5%, Tier 1 leverage of 5%, Tier 1 risk-based capital of 8%, and Total Risk-Based capital of 10%.

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

|  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|--|--------------------------|--------------------------|
|  | (Dollars In Thousands)   |                          |
| Tier 1, common stockholders' equity                    | \$ <b>66,865</b>         | \$ 59,868                |
| Tier 2, allowable portion of allowance for loan losses | <b>6,068</b>             | 5,614                    |
| Total capital  | <b>\$ 72,933</b>         | <b>\$ 65,482</b>         |
| Common equity tier 1 capital ratio                     | <b>11.5%</b>             | -                        |
| Tier 1 risk based capital ratio                        | <b>11.5%</b>             | 12.0%                    |
| Total risk based capital ratio                         | <b>12.6%</b>             | 13.2%                    |
| Tier 1 leverage ratio                                  | <b>8.3%</b>              | 8.2%                     |

### **Interest Rate Risk Management**

A principal objective of the Company’s asset/liability management policy is to minimize the Company’s exposure to changes in interest rates by an ongoing review of the maturity and repricing of interest-earning assets and interest-bearing liabilities. The Asset Liability Committee (ALCO Committee), which meets as part of the Board of Directors meeting, oversees this review, which establishes policies to control interest rate sensitivity. Interest rate sensitivity is the volatility of a company’s earnings resulting from a movement in market interest rates. The Company monitors rate sensitivity in order to reduce vulnerability to interest rate fluctuations while maintaining adequate capital levels and acceptable levels of liquidity. The Company’s asset/liability management policy, along with monthly financial reports, supplies management with guidelines to evaluate and manage rate sensitivity.

GAP, a measure of the difference in volume between interest bearing assets and interest bearing liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indicator of the rate sensitivity of the Company. NOW and savings accounts are categorized by their respective estimated decay rates. The Company is liability sensitive, which means that if interest rates fall, interest income will fall slower than interest expense and net interest income will likely increase. If interest rates rise, interest income will rise slower than interest expense and net interest income will likely decrease. 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.

|   | <b>0-3<br/>Months</b> | <b>4-12<br/>Months</b> | <b>1-3<br/>Years</b> | <b>4-5<br/>Years</b> | <b>Over 5<br/>Years</b> | <b>Total</b> |
|---|-----------------------|------------------------|----------------------|----------------------|-------------------------|--------------|
| (In Thousands)                                    |                       |                        |                      |                      |                         |              |
| Interest-earning assets                           |                       |                        |                      |                      |                         |              |
| Federal funds sold and interest-bearing deposits  | \$ 3,093              | \$ -                   | \$ -                 | \$ -                 | \$ -                    | \$ 3,093     |
| Investment securities                             | 3,264                 | 5,167                  | 22,910               | 25,807               | 22,283                  | 79,431       |
| Loans, gross                                      | 113,843               | 128,168                | 211,031              | 103,761              | 133,312                 | 690,115      |
| Total interest-earning assets                     | 120,200               | 133,335                | 233,941              | 129,568              | 155,595                 | 772,639      |
| Interest-bearing liabilities                      |                       |                        |                      |                      |                         |              |
| NOW and money market accounts                     | 67,402                | -                      | -                    | -                    | -                       | 67,402       |
| Savings   | 406,361               | -                      | -                    | -                    | -                       | 406,361      |
| Certificates of deposit                           | 18,440                | 34,002                 | 30,522               | 13,580               | -                       | 96,544       |
| Other borrowed funds                              | 27,056                | 12,917                 | 1,447                | 1,706                | -                       | 43,126       |
| Repurchase agreements and federal funds purchased | 27,535                | -                      | -                    | -                    | -                       | 27,535       |
| Total interest-bearing liabilities                | 546,794               | 46,919                 | 31,969               | 15,286               | -                       | 640,968      |
| GAP   | \$ (426,594)          | \$ 86,416              | \$ 201,972           | \$ 114,282           | \$ 155,595              | \$ 131,671   |
| CUMULATIVE GAP                                    | \$ (426,594)          | \$ (340,178)           | \$ (138,206)         | \$ (23,924)          | \$ 131,671              |              |
| GAP TO INTEREST EARNING ASSETS                    | -55.21%               | 11.18%                 | 26.14%               | 14.79%               | 20.14%                  |              |
| CUMULATIVE GAP TO INTEREST EARNING ASSETS         | -55.21%               | -44.03%                | -17.89%              | -3.10%               | 17.04%                  |              |

Based on a twelve-month forecast of the balance sheet, the following table sets forth our interest rate risk profile at December 31, 2015. For income simulation purposes, NOW and savings accounts are repriced quarterly. The impact on net interest income, illustrated in the following table, would vary substantially if different assumptions were used or if actual experience differs from that indicated by the assumptions.

| <b>Change in Interest Rates</b> | <b>Percentage Change in Net Interest Income</b> |
|---------------------------------|---|
| Down 100 basis points           | 1.0%  |
| Down 200 basis points           | -3.6%   |
| Up 100 basis points             | -2.9%   |
| Up 200 basis points             | -6.0%   |

### **Return on Assets and Equity**

For the year ended December 31, 2015, the return on average assets was 0.96%, the return on average equity was 10.80% and the ratio of average shareholders' equity to average total assets was 8.87%.

For the year ended December 31, 2014, the return on average assets was 0.91%, the return on average equity was 10.52% and the ratio of average shareholders' equity to average total assets was 8.62%.

### **Effects of Inflation**

The majority of assets and liabilities of the Company are monetary in nature, and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. The precise impact of inflation upon the Company is difficult to measure. Inflation may affect the borrowing needs of consumers, thereby impacting the growth rate of the Company's assets. Inflation may also affect the general level of interest rates, which can have a direct bearing on the Company.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.**

Not required of a smaller reporting company.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
Embassy Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Embassy Bancorp, Inc. and its subsidiary, Embassy Bank for the Lehigh Valley (collectively the “Company”), as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania  
March 30, 2016

**Consolidated Balance Sheets**

|  | <b>December 31,<br/>2015</b>      | <b>December 31,<br/>2014</b> |
|--|-----------------------------------|------------------------------|
| <b><u>ASSETS</u></b>   |                                   |                              |
|  | (In Thousands, Except Share Data) |                              |
| Cash and due from banks  | \$ 16,433                         | \$ 14,779                    |
| Interest bearing demand deposits with banks  | 2,093                             | 611                          |
| Federal funds sold   | 1,000                             | 1,000                        |
| Cash and Cash Equivalents  | 19,526                            | 16,390                       |
| Interest bearing time deposits   | -                                 | 250                          |
| Securities available for sale  | 77,253                            | 77,197                       |
| Restricted investment in bank stock  | 2,178                             | 784                          |
| Loans receivable, net of allowance for loan losses of \$6,068 in 2015; \$5,614 in 2014 | 684,047                           | 604,967                      |
| Premises and equipment, net of accumulated depreciation                                | 2,258                             | 1,515                        |
| Bank owned life insurance  | 12,343                            | 11,938                       |
| Accrued interest receivable  | 1,637                             | 1,599                        |
| Other real estate owned  | 1,224                             | 1,106                        |
| Other assets   | 3,572                             | 3,348                        |
| <b>Total Assets</b>  | <b>\$ 804,038</b>                 | <b>\$ 719,094</b>            |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                                     |                                   |                              |
| Liabilities:   |                                   |                              |
| Deposits:  |                                   |                              |
| Non-interest bearing   | \$ 89,959                         | \$ 68,467                    |
| Interest bearing   | 570,307                           | 543,201                      |
| Total Deposits   | 660,266                           | 611,668                      |
| Securities sold under agreements to repurchase   | 27,535                            | 30,304                       |
| Short-term borrowings  | 39,306                            | 9,000                        |
| Long-term borrowings   | 3,820                             | 1,900                        |
| Accrued interest payable   | 462                               | 349                          |
| Other liabilities  | 4,548                             | 4,541                        |
| <b>Total Liabilities</b>   | <b>735,937</b>                    | <b>657,762</b>               |
| Stockholders' Equity:  |                                   |                              |
| Common stock, \$1 par value; authorized 20,000,000 shares;                             |                                   |                              |
| 2015 issued 7,407,547 shares; outstanding 7,407,547 shares;                            |                                   |                              |
| 2014 issued 7,357,752 shares; outstanding 7,357,752 shares                             | 7,408                             | 7,358                        |
| Surplus  | 24,299                            | 24,024                       |
| Retained earnings  | 35,158                            | 28,485                       |
| Accumulated other comprehensive income   | 1,236                             | 1,465                        |
| <b>Total Stockholders' Equity</b>  | <b>68,101</b>                     | <b>61,332</b>                |
| <b>Total Liabilities and Stockholders' Equity</b>                                      | <b>\$ 804,038</b>                 | <b>\$ 719,094</b>            |

*See notes to consolidated financial statements.*

**Consolidated Statements of Income**

|  | <b>Year Ended December 31,</b>        |                 |
|--|---------------------------------------|-----------------|
|  | <b>2015</b>                           | <b>2014</b>     |
|  | (In Thousands, Except Per Share Data) |                 |
| <b>INTEREST INCOME</b>   |                                       |                 |
| Loans receivable, including fees                               | \$ 26,138                             | \$ 23,938       |
| Securities, taxable  | 795                                   | 753             |
| Securities, non-taxable  | 1,193                                 | 1,269           |
| Federal funds sold, and other                                  | 126                                   | 79              |
| Interest on time deposits                                      | 1                                     | 11              |
| <b>Total Interest Income</b>                                   | <b>28,253</b>                         | <b>26,050</b>   |
| <b>INTEREST EXPENSE</b>  |                                       |                 |
| Deposits   | 2,878                                 | 2,706           |
| Securities sold under agreements to repurchase                 | 17                                    | 17              |
| Short-term borrowings  | 135                                   | 18              |
| Long-term borrowings   | 105                                   | 258             |
| <b>Total Interest Expense</b>                                  | <b>3,135</b>                          | <b>2,999</b>    |
| <b>Net Interest Income</b>                                     | <b>25,118</b>                         | <b>23,051</b>   |
| <b>PROVISION FOR LOAN LOSSES</b>                               | <b>532</b>                            | <b>250</b>      |
| <b>Net Interest Income after<br/>Provision for Loan Losses</b> | <b>24,586</b>                         | <b>22,801</b>   |
| <b>OTHER INCOME</b>  |                                       |                 |
| Credit card processing fees                                    | 1,670                                 | 1,421           |
| Other service fees   | 673                                   | 662             |
| Bank owned life insurance                                      | 405                                   | 308             |
| Gain on sale of securities                                     | 165                                   | 33              |
| Gain (loss) on sale of other real estate owned                 | (12)                                  | 10              |
| Impairment on other real estate owned                          | (104)                                 | (9)             |
| <b>Total Other Income</b>                                      | <b>2,797</b>                          | <b>2,425</b>    |
| <b>OTHER EXPENSES</b>  |                                       |                 |
| Salaries and employee benefits                                 | 7,013                                 | 7,134           |
| Occupancy and equipment  | 2,456                                 | 2,460           |
| Data processing  | 1,541                                 | 1,319           |
| Credit card processing   | 1,596                                 | 1,294           |
| Advertising and promotion                                      | 1,333                                 | 1,101           |
| Professional fees  | 503                                   | 509             |
| FDIC insurance   | 374                                   | 397             |
| Insurance  | 54                                    | 54              |
| Loan & real estate   | 250                                   | 270             |
| Charitable contributions                                       | 636                                   | 585             |
| Other real estate owned expenses                               | 100                                   | 213             |
| Other  | 1,170                                 | 1,006           |
| <b>Total Other Expenses</b>                                    | <b>17,026</b>                         | <b>16,342</b>   |
| <b>Income before Income Taxes</b>                              | <b>10,357</b>                         | <b>8,884</b>    |
| <b>INCOME TAX EXPENSE</b>                                      | <b>2,948</b>                          | <b>2,479</b>    |
| <b>Net Income</b>  | <b>\$ 7,409</b>                       | <b>\$ 6,405</b> |
| <b>BASIC EARNINGS PER SHARE</b>                                | <b>\$ 1.01</b>                        | <b>0.87</b>     |
| <b>DILUTED EARNINGS PER SHARE</b>                              | <b>\$ 1.00</b>                        | <b>0.87</b>     |
| <b>DIVIDENDS PER SHARE</b>                                     | <b>\$ 0.10</b>                        | <b>0.06</b>     |

*See notes to consolidated financial statements.*

**Consolidated Statements of Comprehensive Income**

|   | <b>Year Ended December 31,</b> |                 |
|---|--------------------------------|-----------------|
|   | <b>2015</b>                    | <b>2014</b>     |
|   | (In Thousands)                 |                 |
| <b>Net Income</b>   | <b>\$ 7,409</b>                | <b>\$ 6,405</b> |
| <b>Change in Accumulated Other Comprehensive Income:</b>        |                                |                 |
| Unrealized holding (loss) gain on securities available for sale | <b>(182)</b>                   | 1,434           |
| Less: reclassification adjustment for realized gains            | <b>(165)</b>                   | <b>(33)</b>     |
|   | <b>(347)</b>                   | 1,401           |
| Income tax effect   | <b>118</b>                     | <b>(476)</b>    |
| Net unrealized (loss) gain                                      | <b>(229)</b>                   | 925             |
| <b>Other comprehensive (loss) gain, net of tax</b>              | <b>(229)</b>                   | 925             |
| <b>Comprehensive Income</b>                                     | <b>\$ 7,180</b>                | <b>\$ 7,330</b> |

*See notes to consolidated financial statements.*



**Consolidated Statements of Stockholders' Equity**
**Years Ended December 31, 2015 and 2014**

|   | <b>Common<br/>Stock</b> | <b>Surplus</b>   | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Total</b>     |
|---|-------------------------|------------------|------------------------------|---|------------------|
| (In Thousands, Except Share and Per Share Data)   |                         |                  |                              |   |                  |
| <b>BALANCE - DECEMBER 31, 2013</b>  | \$ 7,324                | \$ 23,671        | \$ 22,520                    | \$ 540  | \$ 54,055        |
| Net income  | -                       | -                | 6,405                        | -   | 6,405            |
| Other comprehensive income  | -                       | -                | -                            | 925   | 925              |
| Dividend declared, \$.06 per share  | -                       | -                | (440)                        | -   | (440)            |
| Exercise of stock options, 33,874 shares  | 34                      | 305              | -                            | -   | 339              |
| Tax benefit of stock options exercised  | -                       | 1                | -                            | -   | 1                |
| Stock tendered for funding exercise of<br>stock options, 24,592 shares  | (25)                    | (232)            | -                            | -   | (257)            |
| Compensation expense recognized on<br>stock options   | -                       | 98               | -                            | -   | 98               |
| Common stock grants to directors,<br>10,209 shares  | 10                      | 66               | -                            | -   | 76               |
| Shares issued under Dividend Reinvestment<br>and Stock Purchase Plan, 14,706 shares                               | 15                      | 115              | -                            | -   | 130              |
| <b>BALANCE - DECEMBER 31, 2014</b>  | <u>\$ 7,358</u>         | <u>\$ 24,024</u> | <u>\$ 28,485</u>             | <u>\$ 1,465</u>   | <u>\$ 61,332</u> |
| <b>BALANCE - DECEMBER 31, 2014</b>  | <b>\$ 7,358</b>         | <b>\$ 24,024</b> | <b>\$ 28,485</b>             | <b>\$ 1,465</b>   | <b>\$ 61,332</b> |
| Net income  | -                       | -                | 7,409                        | -   | 7,409            |
| Other comprehensive income  | -                       | -                | -                            | (229)   | (229)            |
| Dividend declared, \$.10 per share  | -                       | -                | (736)                        | -   | (736)            |
| Compensation expense recognized on<br>stock options   | -                       | 49               | -                            | -   | 49               |
| Common stock grants to directors and officers,<br>32,875 shares, net of unearned compensation<br>expense of \$260 | 33                      | 63               | -                            | -   | 96               |
| Shares issued under Dividend Reinvestment<br>and Stock Purchase Plan, 16,920 shares                               | 17                      | 163              | -                            | -   | 180              |
| <b>BALANCE - DECEMBER 31, 2015</b>  | <u>\$ 7,408</u>         | <u>\$ 24,299</u> | <u>\$ 35,158</u>             | <u>\$ 1,236</u>   | <u>\$ 68,101</u> |

*See notes to consolidated financial statements.*

**Consolidated Statements of Cash Flows**

|   | <b>Year Ended December 31,</b> |                  |
|---|--------------------------------|------------------|
|   | <b>2015</b>                    | <b>2014</b>      |
|   | (In Thousands)                 |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                |                  |
| Net income  | \$ 7,409                       | \$ 6,405         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                  |
| Provision for loan losses   | 532                            | 250              |
| Amortization of deferred loan costs   | 50                             | 12               |
| Depreciation and amortization   | 605                            | 643              |
| Net amortization of investment security premiums and discounts                    | 222                            | 161              |
| Stock compensation expense  | 49                             | 98               |
| (Gain) loss on sale of other real estate owned                                    | (12)                           | 4                |
| Impairment on other real estate owned   | 104                            | 9                |
| Income on bank owned life insurance   | (405)                          | (308)            |
| Deferred income taxes   | (33)                           | (460)            |
| Net realized gain on sale of securities available for sale                        | (165)                          | (33)             |
| Increase in accrued interest receivable   | (38)                           | (66)             |
| Increase in other assets  | (73)                           | (588)            |
| Increase in accrued interest payable  | 113                            | 114              |
| Increase in other liabilities   | 151                            | 1,438            |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>8,509</b>                   | <b>7,679</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                |                  |
| Purchases of securities available for sale  | (18,956)                       | (14,801)         |
| Maturities, calls and principal repayments of securities available for sale       | 7,754                          | 9,637            |
| Proceeds from sales of securities available for sale                              | 10,742                         | 528              |
| Net increase in loans   | (80,016)                       | (42,489)         |
| Net (purchases) redemption of restricted investment in bank stock                 | (1,394)                        | 1,373            |
| Net maturities of interest bearing time deposits                                  | 250                            | 1,572            |
| Purchase of bank owned life insurance   | -                              | (4,000)          |
| Proceeds from sale of other real estate owned                                     | 96                             | 46               |
| Purchases of premises and equipment   | (1,348)                        | (276)            |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(82,872)</b>                | <b>(48,410)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                |                  |
| Net increase in deposits  | 48,598                         | 42,631           |
| Net decrease in securities sold under agreements to repurchase                    | (2,769)                        | (114)            |
| Increase (decrease) in short-term borrowed funds                                  | 30,306                         | (1,000)          |
| Proceeds from long-term borrowed funds  | 6,000                          | -                |
| Payment of long-term borrowed funds   | (4,080)                        | (2,000)          |
| Exercise of stock options, net payment for stock tendered                         | -                              | 82               |
| Proceeds from Dividend Reinvestment Plan  | 180                            | 130              |
| Tax benefit of stock options exercised  | -                              | 1                |
| Dividends paid  | (736)                          | (440)            |
| <b>Net Cash Provided by Financing Activities</b>                                  | <b>77,499</b>                  | <b>39,290</b>    |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                       | <b>3,136</b>                   | <b>(1,441)</b>   |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING</b>                                      | <b>16,390</b>                  | <b>17,831</b>    |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>   | <b>\$ 19,526</b>               | <b>\$ 16,390</b> |
| <b>SUPPLEMENTARY CASH FLOWS INFORMATION</b>                                       |                                |                  |
| Interest paid   | \$ 3,022                       | \$ 2,885         |
| Income taxes paid   | \$ 3,262                       | \$ 2,880         |
| Other real estate sold through bank financing                                     | \$ 287                         | \$ 57            |
| Deferral of gain from sale of other real estate sold through bank financing       | \$ 48                          | \$ 11            |
| Other real estate acquired in settlement of loans                                 | \$ 641                         | \$ 574           |

See notes to consolidated financial statements.

## **Note 1 – Summary of Significant Accounting Policies**

### **Principles of Consolidation and Nature of Operations**

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.

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.

### **Estimates**

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

### **Concentrations of Credit Risk**

Most of the Company’s activities are with customers located in the Lehigh Valley area of Pennsylvania. Note 2 discusses the types of securities in which the Company invests. The concentrations of credit by type of loan are set forth in Note 3. The Company does not have any significant concentrations to any one specific industry or customer, with the exception of lending activity to a broad range of lessors of residential and non-residential real estate within the Lehigh Valley. Although the Company has a diversified loan portfolio, its debtors’ ability to honor their contracts is influenced by the region’s economy.

### **Presentation of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing demand deposits with bank, and federal funds sold. Generally, federal funds are purchased or sold for less than one week periods.

### **Securities**

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company’s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Other than temporary accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Company recognized no other-than-temporary impairment charges during the years ended December 31, 2015 and 2014.

### **Restricted Investments in Bank Stock**

Restricted investments in bank stock consist of FHLBank Pittsburgh (“FHLB”) stock and Atlantic Community Bankers Bank (“ACBB”) stock. The restricted stocks have no quoted market value and 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.

During 2014 the FHLB conducted limited excess capital stock repurchases based upon positive quarterly net income. In October 2014, the FHLB amended its Capital Plan and created two subclasses of stock, one required as a member (“membership stock”) and additional stock in the FHLB in relation to the level of outstanding borrowings (“activity-based stock”). Under this new plan the costs of membership decreased. As a result of this decrease, the FHLB began repurchasing excess stock on a regular monthly repurchase date and pay dividends, if conditions warrant, on a quarterly basis. Dividend payments of \$113 thousand and \$57 thousand were received during the years ended December 31, 2015 and 2014, 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.

Management believes no impairment charge is necessary related to the FHLB or ACBB restricted stock as of December 31, 2015.

### **Loans Receivable**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield using the effective interest method. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective interest method. Delinquency fees are recognized in income when chargeable, assuming collectability is reasonably assured.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial real estate, commercial construction and commercial. Consumer loans consist of the following classes: residential real estate and other consumer loans.

The Company makes commercial loans for real estate development and other business purposes required by the customer base. The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversion of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayments of these loans are dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying interest rates (fixed or variable) depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages may have amortizations up to 30 years and home equity loans may have maturities up to 25 years. Other consumer loans include installment loans, car loans, and overdraft lines of credit. Some of these loans may be unsecured.

For all classes of loans receivable, the accrual of interest may be discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans, including impaired loans, generally is applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

### **Allowance for Loan Losses**

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded loan commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans, or portions of loans, determined to be confirmed losses are charged against the allowance account and subsequent recoveries, if any, are credited to the account. A loss is considered confirmed when information available at the balance sheet date indicates the loan, or a portion thereof, is uncollectible.

Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, 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 revision as more information becomes available.

Management maintains the allowance for loan losses at a level it believes adequate to absorb probable credit losses related to specifically identified loans, as well as probable incurred losses inherent in the remainder of the loan portfolio as of the balance sheet dates. The allowance for loan losses account consists of specific and general reserves. The specific component consists of the specific reserve for impaired loans individually evaluated under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310, “Receivables,” and the general component is utilized for loss contingencies on those loans collectively evaluated under FASB ASC 450, “Contingencies.”

For the specific portion of the allowance for loan losses, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Factors considered by management in determining impairment include payment status, ability to pay 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. Loans considered impaired under FASB ASC 310 are measured for impairment based on 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. If 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, is less than the recorded investment in the loan, including accrued interest and net deferred loan fees or costs, the Company will recognize the impairment by adjusting the allowance for loan losses account through charges to earnings as a provision for loan losses.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower’s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general portion of the allowance for loan losses covers pools of loans by major loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and other consumer loans. Loss contingencies for each of the major loan pools are determined by applying a total loss factor to the current balance outstanding for each individual pool. The total loss factor is comprised of a historical loss factor using the loss migration method plus a qualitative factor, which adjusts the historical loss factor for changes in trends, conditions and other relevant factors that may affect repayment of the loans in these pools as of the evaluation date. Loss migration involves determining the percentage of each pool that is expected to ultimately result in loss based on historical loss experience. Historical loss factors are based on the ratio of net loans charged-off to loans, net, for each of the major groups of loans evaluated and measured for impairment under FASB ASC 450. The historical loss factor for each pool is an average of the Company’s historical net charge-off ratio for the most recent rolling twenty quarters.

In addition to these historical loss factors, management also uses a qualitative factor that represents a number of environmental risks that may cause estimated credit losses associated with the current portfolio to differ from historical loss experience. These environmental risks include: (i) changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices; (ii) changes in the composition and volume of the portfolio; (iii) changes in national, local and industry conditions, including the effects of such changes on the value of underlying collateral for collateral-dependent loans; (iv) changes in the volume and severity of classified loans, including past due, nonaccrual, troubled debt restructures and other loan modifications; (v) changes in the levels of, and trends in, charge-offs and recoveries; (vi) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (vii) changes in the experience, ability and depth of lending management and other relevant staff; (viii) changes in the quality of the loan review system and the degree of oversight by the board of directors; and (ix) the effect of external factors such as competition and regulatory requirements on the level of estimated credit losses in the current loan portfolio. Each environmental risk factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The unallocated component of the general allowance is used to cover inherent losses that exist as of the evaluation date, but which have not been identified as part of the allocated allowance using the above impairment evaluation methodology due to limitations in the process. One such limitation is the imprecision of accurately estimating the impact current economic conditions will have on historical loss rates. Variations in the magnitude of impact may cause estimated credit losses associated with the current portfolio to differ from historical loss experience, resulting in an allowance that is higher or lower than the anticipated level.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payment, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weakness may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness and borrowers are highly leveraged. They include loans that are inadequately protected by the current sound net worth and the paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

### **Other Real Estate Owned**

Other real estate owned is comprised of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Other real estate owned is recorded at fair value less cost to sell at the time of acquisition. Any excess of the loan balance over the recorded value is charged to the allowance for loan losses at the time of acquisition. After foreclosure, valuations are periodically performed and the assets are carried at the lower of cost or fair value less cost to sell. Changes in the valuation allowance on foreclosed assets are included in other income. Costs to maintain the assets are included in other expenses. Any gain or loss realized upon disposal of other real estate owned is included in other income.

### **Bank Owned Life Insurance**

The Company invests in bank owned life insurance ("BOLI") as a tax deferred investment and a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on certain of its employees and directors. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from increases in cash surrender value of the policies is included in non-interest income and is not subject to income taxes unless surrendered. The Company does not intend to surrender these policies, and accordingly, no deferred taxes have been recorded on the earnings from these policies.

### **Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the related assets: furniture, fixtures and equipment for five to ten years, leasehold improvements for ten to fifteen years, computer equipment and data processing software for three to five years, and automobiles for five years.

### **Transfers of Financial Assets**

Transfers of financial assets, including sales of loan participations, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### **Advertising Costs**

The Company follows the policy of charging the costs of advertising to expense as incurred.

### **Income Taxes**

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income. Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry forwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.



**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.

|   | <u>2015</u>                                   | <u>2014</u>     |
|---|---|-----------------|
|   | (Dollars In Thousands, Except Per Share Data) |                 |
| Net income  | <u>\$ 7,409</u>                               | <u>\$ 6,405</u> |
| Weighted average shares outstanding                       | 7,371   | 7,337           |
| Dilutive effect of potential common shares, stock options | <u>34</u>                                     | <u>27</u>       |
| Diluted weighted average common shares outstanding        | <u>7,405</u>                                  | <u>7,364</u>    |
| Basic earnings per share                                  | <u>\$ 1.01</u>                                | <u>\$ 0.87</u>  |
| Diluted earnings per share                                | <u>\$ 1.00</u>                                | <u>\$ 0.87</u>  |

There were no stock options not considered in computing diluted earnings per common share for the years ended December 31, 2015 and 2014.

**Employee Benefit Plan**

The Company has a 401(k) Plan (the “Plan”) for employees. All employees are eligible to participate after they have attained the age of 21 and have also completed 12 consecutive months of service during which at least 1,000 hours of service are completed. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan, and the Company provides a match of fifty percent of the first 8% percent to eligible participating employees. Full vesting in the Plan is prorated equally over a four-year period. The Company’s contributions to the Plan for the years ended December 31, 2015 and 2014 were \$139 thousand and \$125 thousand, respectively.

**Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

## **Comprehensive Income**

Accounting principles generally accepted in the United States of America 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. In accordance with Financial Accounting Standards Board (FASB) guidance, the Company has disclosed the components of comprehensive income in the accompanying consolidated statements of comprehensive income.

## **Segment Reporting**

The Company acts as an independent, community, financial services provider, and offers traditional banking and related financial services to individual, business and government customers. The Company offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and home equity loans; and the provision of other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial and retail operations of the Company. As such, discrete financial information is not available and segment reporting would not be meaningful.

## **Stock-Based Compensation**

The Company applies the fair value recognition provisions of FASB Accounting Standards Codification (ASC) 718, Compensation-Stock Compensation. ASC 718 requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award based on the fair value of the award. The Black-Scholes model is used to estimate the fair value of stock options.

## **Subsequent Events**

The Company follows ASC Topic 855 Subsequent Events. This topic establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2015 through the date these consolidated financial statements were available for issuance for items that should potentially be recognized or disclosed in these consolidated financial statements.

## New Accounting Standards

In January 2014, the FASB issued an accounting standard update (**ASU 2014-04**) related to; ***Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure***. The update applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this update clarify when an in-substance repossession or foreclosure occurs and requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. At December 31, 2015 the Company had \$221 thousand in foreclosed residential real estate held. At December 31, 2014 the Company had no foreclosed residential real estate held. At December 31, 2015 and December 31, 2014 the Company had \$529 thousand and \$375 thousand, respectively, in recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure.

In May 2014, the FASB issued **ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)***. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised 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. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The Company is currently analyzing the impact of the guidance on its financial statements.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

Subsequent to December 31, 2015, the FASB issued Accounting Standard Update on accounting for Leases on February 25, 2016 – ***Accounting Standards Update 2016-02: Leases (Topic 842)***. The main provisions call for all lease transactions (with terms in excess of 12 months) to be recorded on the balance sheet of the lessee. In general, this recognition will be measured by discounting to present value, using the interest rate implicit in the lease, the expected lease payments to be made over the life of the lease including lease escalators and options (if exercise is likely), as the lease liability. A right to use asset will then be recognized at the same amount as the lease liability. After initial measurement, the lease liability will be reduced based on the lease payments and the right to use asset will be amortized over the life of the lease, normally using the straight-line method.

Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The initial measurement of the lease liability will be based on the remaining terms of operating leases in effect at the date of adoption and the remaining expected lease payments, discounted using the lessees incremental borrowing rate at the date of initial application; with a corresponding right to use asset. For capital leases, the existing balance will be carried over under the new standard.

The effective date for the new standard for public entities is for periods beginning after December 15, 2018. The Company is in the process of evaluating the effect this new standard will have on its consolidated financial statements.

### **Reclassification**

Certain amounts in the 2014 consolidated financial statements may have been reclassified to conform to 2015 presentation. These reclassifications had no effect on 2014 net income.

**Note 2 – Securities Available For Sale**

The amortized cost and approximate fair values of securities available-for-sale were as follows:

|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|---------------------------------------|--|-----------------------|
|  | (In Thousands)            |                                       |  |                       |
| <b>December 31, 2015 :</b>   |                           |                                       |  |                       |
| 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) -<br>Mortgage-backed securities - residential | 1,327                     | 152                                   | -                                      | 1,479                 |
| Total  | <u>\$ 75,381</u>          | <u>\$ 2,137</u>                       | <u>\$ (265)</u>                        | <u>\$ 77,253</u>      |
| <b>December 31, 2014 :</b>   |                           |                                       |  |                       |
| U.S. Government agency obligations   | \$ 30,192                 | \$ 46                                 | \$ (162)                               | \$ 30,076             |
| Municipal bonds  | 36,618                    | 2,023                                 | (17)                                   | 38,624                |
| U.S. Government Sponsored Enterprise (GSE) -<br>Mortgage-backed securities - residential | 7,168                     | 333                                   | -                                      | 7,501                 |
| Corporate bonds  | 1,000                     | -                                     | (4)                                    | 996                   |
| Total  | <u>\$ 74,978</u>          | <u>\$ 2,402</u>                       | <u>\$ (183)</u>                        | <u>\$ 77,197</u>      |

The amortized cost and fair value of securities as of December 31, 2015, 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.

|   | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|---|---------------------------|-----------------------|
|   | (In Thousands)            |                       |
| Due in one year or less   | \$ 5,077                  | \$ 5,081              |
| Due after one year through five years   | 34,361                    | 34,330                |
| Due after five years through ten years  | 19,152                    | 19,940                |
| Due after ten years   | 15,464                    | 16,423                |
|   | <u>74,054</u>             | <u>75,774</u>         |
| U.S. Government Sponsored Enterprise (GSE) - Mortgage-<br>backed securities - residential | 1,327                     | 1,479                 |
|   | <u>\$ 75,381</u>          | <u>\$ 77,253</u>      |

Gross gains of \$165 thousand and \$33 thousand were realized on sales of securities for the years ended December 31, 2015 and December 31, 2014, respectively. There were no gross losses in 2015 or 2014 on the sale of securities.

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 and December 31, 2014, respectively:

|                                       | Less Than 12 Months |                   | 12 Months or More |                   | Total            |                   |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value       | Unrealized Losses |
| (In Thousands)                        |                     |                   |                   |                   |                  |                   |
| <b>December 31, 2015 :</b>            |                     |                   |                   |                   |                  |                   |
| U.S. Government agency obligations    | \$ 25,525           | \$ (121)          | \$ -              | \$ -              | \$ 25,525        | \$ (121)          |
| Municipal bonds                       | 6,180               | (144)             | -                 | -                 | 6,180            | (144)             |
| Total Temporarily Impaired Securities | <u>\$ 31,705</u>    | <u>\$ (265)</u>   | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 31,705</u> | <u>\$ (265)</u>   |
| <b>December 31, 2014 :</b>            |                     |                   |                   |                   |                  |                   |
| U.S. Government agency obligations    | \$ 11,074           | \$ (44)           | \$ 9,959          | \$ (118)          | \$ 21,033        | \$ (162)          |
| Municipal bonds                       | 2,987               | (17)              | -                 | -                 | 2,987            | (17)              |
| Corporate Bonds                       | 996                 | (4)               | -                 | -                 | 996              | (4)               |
| Total Temporarily Impaired Securities | <u>\$ 15,057</u>    | <u>\$ (65)</u>    | <u>\$ 9,959</u>   | <u>\$ (118)</u>   | <u>\$ 25,016</u> | <u>\$ (183)</u>   |

The Company had thirty (30) securities in an unrealized loss position at December 31, 2015. Unrealized losses are due only to market rate fluctuations. As of December 31, 2015, the Company either has the intent and ability to hold the securities until maturity or market price recovery, or believes that it is more likely than not that it will not be required to sell such securities. Management believes that the unrealized loss only represents temporary impairment of the securities. None of the individual losses are significant.

Securities with a carrying value of \$64.9 million and \$62.7 million at December 31, 2015 and December 31, 2014, respectively, were subject to agreements to repurchase, pledged to secure public deposits, or pledged for other purposes required or permitted by law.

### Note 3 – Loans Receivable

The following table presents the composition of loans receivable at December 31, 2015 and 2014 respectively:

|  | 2015              | 2014              |
|--|-------------------|-------------------|
| Commercial real estate                     | \$ 289,304        | \$ 249,454        |
| Commercial construction                    | 17,786            | 23,220            |
| Commercial                                 | 34,955            | 34,182            |
| Residential real estate                    | 347,316           | 302,908           |
| Consumer                                   | 745               | 972               |
| <b>Total Loans</b>                         | <b>690,106</b>    | <b>610,736</b>    |
| Unearned net loan origination costs (fees) | 9                 | (155)             |
|  | <u>(6,068)</u>    | <u>(5,614)</u>    |
|  | <u>\$ 684,047</u> | <u>\$ 604,967</u> |

**Note 4 – Allowance for Loan Losses**

The changes in the allowance for loan losses for the years ended December 31, 2015 and 2014 are as follows:

|                            | <u>2015</u>     | <u>2014</u>     |
|----------------------------|-----------------|-----------------|
| Allowance for loan losses: | (In Thousands)  |                 |
| Balance, beginning         | \$ 5,614        | \$ 5,326        |
| Provision for loan losses  | 532             | 250             |
| Loans charged off          | (88)            | (161)           |
| Recoveries                 | 10              | 199             |
| Balance at end of year     | <u>\$ 6,068</u> | <u>\$ 5,614</u> |

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 December 31, 2015 and December 31, 2014, respectively:

|                          | <u>Pass</u>       | <u>Special Mention</u> | <u>Substandard</u> | <u>Doubtful</u> | <u>Total</u>      |
|--------------------------|-------------------|------------------------|--------------------|-----------------|-------------------|
| <b>December 31, 2015</b> | (In Thousands)    |                        |                    |                 |                   |
| 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                    | <u>\$ 687,147</u> | <u>\$ 66</u>           | <u>\$ 2,893</u>    | <u>\$ -</u>     | <u>\$ 690,106</u> |
| <b>December 31, 2014</b> |                   |                        |                    |                 |                   |
| Commercial real estate   | \$ 244,805        | \$ 1,989               | \$ 2,660           | \$ -            | \$ 249,454        |
| Commercial construction  | 21,844            | -                      | 1,376              | -               | 23,220            |
| Commercial               | 33,672            | 510                    | -                  | -               | 34,182            |
| Residential real estate  | 302,533           | 154                    | 221                | -               | 302,908           |
| Consumer                 | 972               | -                      | -                  | -               | 972               |
| Total                    | <u>\$ 603,826</u> | <u>\$ 2,653</u>        | <u>\$ 4,257</u>    | <u>\$ -</u>     | <u>\$ 610,736</u> |

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2015 and 2014, respectively:

|                                     |                        |                                |                      | Year to Date                      |                                  |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| December 31, 2015                   |                        |                                | (In Thousands)       |                                   |                                  |
| 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                            | -                      | -                              | -                    | -                                 | -                                |
|                                     | <u>\$ 6,372</u>        | <u>\$ 6,656</u>                | <u>\$ 370</u>        | <u>\$ 7,334</u>                   | <u>\$ 202</u>                    |
| December 31, 2014                   |                        |                                |                      |                                   |                                  |
| With no related allowance recorded: |                        |                                |                      |                                   |                                  |
| Commercial real estate              | \$ 4,649               | \$ 4,984                       |                      | \$ 5,729                          | \$ 172                           |
| Commercial construction             | 1,376                  | 1,376                          |                      | 2,197                             | 78                               |
| Commercial                          | 4                      | 4                              |                      | 48                                | 1                                |
| Residential real estate             | 413                    | 431                            |                      | 488                               | 8                                |
| Consumer                            | -                      | -                              |                      | -                                 | -                                |
| With an allowance recorded:         |                        |                                |                      |                                   |                                  |
| Commercial real estate              | \$ 555                 | \$ 555                         | \$ 76                | \$ 575                            | \$ 108                           |
| Commercial construction             | -                      | -                              | -                    | -                                 | -                                |
| Commercial                          | 326                    | 326                            | 119                  | 229                               | 9                                |
| Residential real estate             | 858                    | 858                            | 202                  | 925                               | 15                               |
| Consumer                            | -                      | -                              | -                    | -                                 | -                                |
| Total:                              |                        |                                |                      |                                   |                                  |
| Commercial real estate              | \$ 5,204               | \$ 5,539                       | \$ 76                | \$ 6,304                          | \$ 280                           |
| Commercial construction             | 1,376                  | 1,376                          | -                    | 2,197                             | 78                               |
| Commercial                          | 330                    | 330                            | 119                  | 277                               | 10                               |
| Residential real estate             | 1,271                  | 1,289                          | 202                  | 1,413                             | 23                               |
| Consumer                            | -                      | -                              | -                    | -                                 | -                                |
|                                     | <u>\$ 8,181</u>        | <u>\$ 8,534</u>                | <u>\$ 397</u>        | <u>\$ 10,191</u>                  | <u>\$ 391</u>                    |



The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2015 and 2014, respectively:

|                         | <u>2015</u>    | <u>2014</u>     |
|-------------------------|----------------|-----------------|
|                         | (In Thousands) |                 |
| Commercial real estate  | \$ 164         | \$ 1,251        |
| Commercial construction | -              | -               |
| Commercial              | 66             | 66              |
| Residential real estate | 529            | 366             |
| Consumer                | -              | -               |
| Total                   | <u>\$ 759</u>  | <u>\$ 1,683</u> |

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 December 31, 2015 and 2014, respectively:

|                          | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Greater<br>than 90<br>Days Past<br>Due | Total<br>Past Due | Current           | Total Loan<br>Receivables | Loan<br>Receivables ><br>90 Days and<br>Accruing |
|--------------------------|------------------------|------------------------|--|-------------------|-------------------|---------------------------|--|
|                          | (In Thousands)         |                        |  |                   |                   |                           |  |
| <b>December 31, 2015</b> |                        |                        |  |                   |                   |                           |  |
| 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                    | <u>\$ 878</u>          | <u>\$ 76</u>           | <u>\$ 759</u>                          | <u>\$ 1,713</u>   | <u>\$ 688,393</u> | <u>\$ 690,106</u>         | <u>\$ -</u>                                      |
| <b>December 31, 2014</b> |                        |                        |  |                   |                   |                           |  |
| Commercial real estate   | \$ 1,018               | \$ 182                 | \$ 937                                 | \$ 2,137          | \$ 247,317        | \$ 249,454                | \$ -   |
| Commercial construction  | 1,061                  | -                      | -                                      | 1,061             | 22,159            | 23,220                    | -  |
| Commercial               | -                      | -                      | 66                                     | 66                | 34,116            | 34,182                    | -  |
| Residential real estate  | 540                    | 154                    | 366                                    | 1,060             | 301,848           | 302,908                   | -  |
| Consumer                 | 25                     | -                      | -                                      | 25                | 947               | 972                       | -  |
| Total                    | <u>\$ 2,644</u>        | <u>\$ 336</u>          | <u>\$ 1,369</u>                        | <u>\$ 4,349</u>   | <u>\$ 606,387</u> | <u>\$ 610,736</u>         | <u>\$ -</u>                                      |

The following table summarizes information in regards to the allowance for loan losses as of December 31, 2015 and 2014, respectively:

|                                       | Commercial<br>Real Estate | Commercial<br>Construction | Commercial    | Residential<br>Real Estate | Consumer     | Unallocated     | Total           |
|---------------------------------------|---------------------------|----------------------------|---------------|----------------------------|--------------|-----------------|-----------------|
|                                       | (In Thousands)            |                            |               |                            |              |                 |                 |
| Allowance for loan losses             |                           |                            |               |                            |              |                 |                 |
| Year Ending December 31, 2015         |                           |                            |               |                            |              |                 |                 |
| Beginning Balance - December 31, 2014 | \$ 1,704                  | \$ 401                     | \$ 407        | \$ 1,955                   | \$ 22        | \$ 1,125        | \$ 5,614        |
| Charge-offs                           | (60)                      | -                          | -             | (28)                       | -            | -               | (88)            |
| Recoveries                            | 10                        | -                          | -             | -                          | -            | -               | 10              |
| Provisions                            | 478                       | (107)                      | (5)           | 602                        | 7            | (443)           | 532             |
| Ending Balance - December 31, 2015    | <u>\$ 2,132</u>           | <u>\$ 294</u>              | <u>\$ 402</u> | <u>\$ 2,529</u>            | <u>\$ 29</u> | <u>\$ 682</u>   | <u>\$ 6,068</u> |
| Year Ending December 31, 2014         |                           |                            |               |                            |              |                 |                 |
| Beginning Balance - December 31, 2013 | \$ 1,791                  | \$ 495                     | \$ 349        | \$ 2,068                   | \$ 24        | \$ 599          | \$ 5,326        |
| Charge-offs                           | (10)                      | (50)                       | (38)          | (63)                       | -            | -               | (161)           |
| Recoveries                            | -                         | 198                        | 1             | -                          | -            | -               | 199             |
| Provisions                            | (77)                      | (242)                      | 95            | (50)                       | (2)          | 526             | 250             |
| Ending Balance - December 31, 2014    | <u>\$ 1,704</u>           | <u>\$ 401</u>              | <u>\$ 407</u> | <u>\$ 1,955</u>            | <u>\$ 22</u> | <u>\$ 1,125</u> | <u>\$ 5,614</u> |

The following tables represent the allocation of the allowance for loan losses and the related loan portfolio disaggregated based on impairment methodology at December 31, 2015 and December 31, 2014:

|  | <u>Commercial<br/>Real Estate</u> | <u>Commercial<br/>Construction</u> | <u>Commercial</u> | <u>Residential<br/>Real Estate</u> | <u>Consumer</u> | <u>Unallocated</u> | <u>Total</u>      |
|--|-----------------------------------|------------------------------------|-------------------|------------------------------------|-----------------|--------------------|-------------------|
|  | (In Thousands)                    |                                    |                   |                                    |                 |                    |                   |
| <b>December 31, 2015</b>                                 |                                   |                                    |                   |                                    |                 |                    |                   |
| <b>Allowance for Loan Losses</b>                         |                                   |                                    |                   |                                    |                 |                    |                   |
| Ending Balance   | <u>\$ 2,132</u>                   | <u>\$ 294</u>                      | <u>\$ 402</u>     | <u>\$ 2,529</u>                    | <u>\$ 29</u>    | <u>\$ 682</u>      | <u>\$ 6,068</u>   |
| Ending balance: individually<br>evaluated for impairment | <u>\$ -</u>                       | <u>\$ -</u>                        | <u>\$ 115</u>     | <u>\$ 255</u>                      | <u>\$ -</u>     | <u>\$ -</u>        | <u>\$ 370</u>     |
| Ending balance: collectively<br>evaluated for impairment | <u>\$ 2,132</u>                   | <u>\$ 294</u>                      | <u>\$ 287</u>     | <u>\$ 2,274</u>                    | <u>\$ 29</u>    | <u>\$ 682</u>      | <u>\$ 5,698</u>   |
| <b>Loans receivables:</b>                                |                                   |                                    |                   |                                    |                 |                    |                   |
| Ending balance   | <u>\$ 289,304</u>                 | <u>\$ 17,786</u>                   | <u>\$ 34,955</u>  | <u>\$ 347,316</u>                  | <u>\$ 745</u>   |                    | <u>\$ 690,106</u> |
| Ending balance: individually<br>evaluated for impairment | <u>\$ 3,644</u>                   | <u>\$ 815</u>                      | <u>\$ 321</u>     | <u>\$ 1,592</u>                    | <u>\$ -</u>     |                    | <u>\$ 6,372</u>   |
| Ending balance: collectively<br>evaluated for impairment | <u>\$ 285,660</u>                 | <u>\$ 16,971</u>                   | <u>\$ 34,634</u>  | <u>\$ 345,724</u>                  | <u>\$ 745</u>   |                    | <u>\$ 683,734</u> |
| <b>December 31, 2014</b>                                 |                                   |                                    |                   |                                    |                 |                    |                   |
| <b>Allowance for Loan Losses</b>                         |                                   |                                    |                   |                                    |                 |                    |                   |
| Ending Balance   | <u>\$ 1,704</u>                   | <u>\$ 401</u>                      | <u>\$ 407</u>     | <u>\$ 1,955</u>                    | <u>\$ 22</u>    | <u>\$ 1,125</u>    | <u>\$ 5,614</u>   |
| Ending balance: individually<br>evaluated for impairment | <u>\$ 76</u>                      | <u>\$ -</u>                        | <u>\$ 119</u>     | <u>\$ 202</u>                      | <u>\$ -</u>     | <u>\$ -</u>        | <u>\$ 397</u>     |
| Ending balance: collectively<br>evaluated for impairment | <u>\$ 1,628</u>                   | <u>\$ 401</u>                      | <u>\$ 288</u>     | <u>\$ 1,753</u>                    | <u>\$ 22</u>    | <u>\$ 1,125</u>    | <u>\$ 5,217</u>   |
| <b>Loans receivables:</b>                                |                                   |                                    |                   |                                    |                 |                    |                   |
| Ending balance   | <u>\$ 249,454</u>                 | <u>\$ 23,220</u>                   | <u>\$ 34,182</u>  | <u>\$ 302,908</u>                  | <u>\$ 972</u>   |                    | <u>\$ 610,736</u> |
| Ending balance: individually<br>evaluated for impairment | <u>\$ 5,204</u>                   | <u>\$ 1,376</u>                    | <u>\$ 330</u>     | <u>\$ 1,271</u>                    | <u>\$ -</u>     |                    | <u>\$ 8,181</u>   |
| Ending balance: collectively<br>evaluated for impairment | <u>\$ 244,250</u>                 | <u>\$ 21,844</u>                   | <u>\$ 33,852</u>  | <u>\$ 301,637</u>                  | <u>\$ 972</u>   |                    | <u>\$ 602,555</u> |

Beginning with the allowance for loan losses calculation of March 31, 2015, management added a new qualitative factor into the calculation which resulted in a reduction of the unallocated portion of the allowance. This new factor was based on management's best judgment using relevant information available at the time of the evaluation and is supported through documentation in a narrative accompanying the allowance for loan loss calculation.

**Troubled Debt Restructurings**

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition than 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.

The following table presents TDRs outstanding:

| <b>December 31, 2015</b> |                      |                          |                            |
|--------------------------|----------------------|--------------------------|----------------------------|
|                          | <b>Accrual Loans</b> | <b>Non-Accrual Loans</b> | <b>Total Modifications</b> |
|                          | (In Thousands)       |                          |                            |
| Commercial real estate   | \$ 3,145             | \$ -                     | \$ 3,145                   |
| Commercial construction  | 260                  | -                        | 260                        |
| Commercial               | 255                  | -                        | 255                        |
| Residential real estate  | 1,063                | -                        | 1,063                      |
| Consumer                 | -                    | -                        | -                          |
|                          | <u>\$ 4,723</u>      | <u>\$ -</u>              | <u>\$ 4,723</u>            |
| <b>December 31, 2014</b> |                      |                          |                            |
|                          | <b>Accrual Loans</b> | <b>Non-Accrual Loans</b> | <b>Total Modifications</b> |
|                          | (In Thousands)       |                          |                            |
| Commercial real estate   | \$ 3,401             | \$ 314                   | \$ 3,715                   |
| Commercial construction  | 260                  | -                        | 260                        |
| Commercial               | 264                  | -                        | 264                        |
| Residential real estate  | 1,050                | -                        | 1,050                      |
| Consumer                 | -                    | -                        | -                          |
|                          | <u>\$ 4,975</u>      | <u>\$ 314</u>            | <u>\$ 5,289</u>            |

The following table presents newly restructured loans that occurred during the years ended December 31, 2015 and 2014:

|                                      | <b>Number of<br/>Loans</b> | <b>Pre-Modification<br/>Outstanding Balance</b> | <b>Post- Modification<br/>Outstanding Balance</b> |
|--------------------------------------|----------------------------|---|---|
|                                      |                            | (Dollars In Thousands)                          |   |
| <b>Year Ending December 31, 2015</b> |                            |   |   |
| Residential real estate              | 1                          | \$ 142  | \$ 142  |
|                                      | <b>1</b>                   | <b>\$ 142</b>                                   | <b>\$ 142</b>                                     |
| <b>Year Endin December 31, 2014</b>  |                            |   |   |
| Commercial                           | 1                          | \$ 262  | \$ 260  |
|                                      | <b>1</b>                   | <b>\$ 262</b>                                   | <b>\$ 260</b>                                     |

Of the TDRs listed above, there was not an impairment reserve recorded in the allowance for loan losses for the twelve months ended December 31, 2015. One loan required an impairment reserve of \$53 thousand recorded in the allowance for loan losses for the twelve months ended December 31, 2014. As of the years ended December 31, 2015 and 2014, no available commitments were outstanding on TDRs.

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) during the twelve months ended December 31, 2015.

#### **Note 5 - Bank Premises and Equipment**

The components of premises and equipment at December 31, 2015 and 2014 are as follows:

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | (In Thousands)  |                 |
| Furniture, fixtures and equipment               | \$ 2,710        | \$ 2,499        |
| Leasehold improvements                          | 2,715           | 2,225           |
| Computer equipment and data processing software | 2,303           | 1,756           |
| Automobiles                                     | 182             | 166             |
| Construction in progress                        | 56              | -               |
|   | 7,966           | 6,646           |
| Accumulated depreciation                        | (5,708)         | (5,131)         |
|   | <b>\$ 2,258</b> | <b>\$ 1,515</b> |

Depreciation expense for the years ended December 31, 2015 and 2014 was \$605 thousand and \$643 thousand, respectively.

**Note 6 – Deposits**

The components of deposits at December 31, 2015 and 2014 are as follows:

|  | <b>December 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|------------------------------|------------------------------|
|  | (In Thousands)               |                              |
| Demand, non-interest bearing                   | \$ 89,959                    | \$ 68,467                    |
| Demand, NOW and money market, interest bearing | 67,402                       | 63,263                       |
| Savings  | 406,361                      | 405,964                      |
| Time, \$100 and over                           | 59,533                       | 42,122                       |
| Time, other                                    | 37,011                       | 31,852                       |
| Total deposits                                 | <u>\$ 660,266</u>            | <u>\$ 611,668</u>            |

At December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

|      |                  |
|------|------------------|
| 2016 | \$ 52,441        |
| 2017 | 12,772           |
| 2018 | 17,750           |
| 2019 | 7,465            |
| 2020 | 6,116            |
|      | <u>\$ 96,544</u> |

Time deposits with individual balances equal to or greater than \$250,000 (FDIC insurance limit) at December 31, 2015 and 2014 totaled \$23.1 million and \$18.3 million, respectively.

**Note 7 - Securities Sold under Agreements to Repurchase**

Securities sold under agreements to repurchase generally mature within a few days from the transaction date and are reflected at the amount of cash received in connection with the transaction. The securities are retained under the Company's control at its safekeeping agent. The Company adjusts collateral based on the fair value of the underlying securities, on a monthly basis. Information concerning securities sold under agreements to repurchase for the years ended December 31, 2015 and 2014 is summarized as follows:

|   | <b>2015</b>            | <b>2014</b> |
|---|------------------------|-------------|
|   | (Dollars In Thousands) |             |
| Balance outstanding at December 31                    | \$ 27,535              | \$ 30,304   |
| Weighted average interest rate at the end of the year | 0.058%                 | 0.065%      |
| Average daily balance during the year                 | \$ 32,336              | \$ 30,597   |
| Weighted average interest rate during the year        | 0.054%                 | 0.056%      |
| Maximum month-end balance during the year             | \$ 34,156              | \$ 31,923   |

**Note 8 – Short-term and Long-term Borrowings**

The Bank has borrowing capacity with the FHLB of approximately \$399.9 million, which includes a line of credit for \$150.0 million. Long-term loans outstanding with the FHLB totaled \$3.8 million as of December 31, 2015. There were no outstanding long-term loans outstanding with the FHLB as of December 31, 2014. Short-term loans outstanding with FHLB totaled \$39.3 million and \$9.0 million as of December 31, 2015 and December 31, 2014, respectively. The increase in short-term loans outstanding with FHLB was primarily used to fund loan growth and investment security purchases. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank has a federal funds line of credit with ACBB of approximately \$10.0 million, of which none was outstanding at December 31, 2015 and 2014. Advances from this line are unsecured.

The Company has one line of credit with Univest Bank and Trust Co., totaling \$4.0 million, of which none was outstanding at December 31, 2015. This line of credit is secured by 333,333 shares of Bank common stock, subordinate to all senior indebtedness of the Company. The Company paid off a second line of credit in 2015 with Univest Bank and Trust Co., totaling \$6.0 million, at origination, of which \$1.9 million was outstanding at December 31, 2014.

The components of long-term borrowings with the FHLB at December 31, 2015 are as follows:

| <b>2015</b>                         |                      |                        |
|-------------------------------------|----------------------|------------------------|
| (Dollars in Thousands)              |                      |                        |
| <b>Maturity Date</b>                | <b>Interest Rate</b> | <b>Outstanding</b>     |
| April 2016                          | <b>0.26%</b>         | <b>\$ 667</b>          |
| April 2017                          | <b>0.48%</b>         | <b>668</b>             |
| April 2018                          | <b>0.69%</b>         | <b>779</b>             |
| April 2019                          | <b>0.88%</b>         | <b>836</b>             |
| April 2020                          | <b>1.06%</b>         | <b>870</b>             |
| <b>Total Outstanding Borrowings</b> |                      | <b><u>\$ 3,820</u></b> |

Subsequent to year end 2015, on March 18, 2016, the Company repaid the entire \$3.8 million in long-term borrowings with the FHLB. In connection to this repayment a penalty of \$432 was incurred.

The components of long-term borrowings with Univest at December 31, 2014 were as follows:

| <b>2014</b>            |                      |                        |
|------------------------|----------------------|------------------------|
| (Dollars in Thousands) |                      |                        |
| <b>Maturity Date</b>   | <b>Interest Rate</b> | <b>Outstanding</b>     |
| November 2015, repaid  | <b>7.50%</b>         | <b><u>\$ 1,900</u></b> |

**Note 9 - Lease Commitments**

The Company leases its banking premises under leases which the Company classifies as operating leases. These leases expire at various dates through August 2025. In addition to fixed rentals, the leases require the Company to pay certain additional expenses of occupying these spaces, including real estate taxes, insurance, utilities and repairs. A portion of these leases are with related parties as described below.

Future minimum lease payments by year and in the aggregate, under all lease agreements, are as follows:

|            | <b>Related<br/>Parties</b> | <b>Third<br/>Parties</b> | <b>Total</b>    |
|------------|----------------------------|--------------------------|-----------------|
|            | (In Thousands)             |                          |                 |
| 2016       | 418                        | 855                      | 1,273           |
| 2017       | 108                        | 881                      | 989             |
| 2018       | 46                         | 902                      | 948             |
| 2019       | 46                         | 654                      | 700             |
| 2020       | 46                         | 130                      | 176             |
| Thereafter | 11                         | -                        | 11              |
|            | <u>\$ 675</u>              | <u>\$ 3,422</u>          | <u>\$ 4,097</u> |

Total rent expense was \$1.2 million for the years ended December 31, 2015 and 2014. Rent expense to related parties was \$410 thousand and \$403 thousand for the years ended December 31, 2015 and 2014, respectively (see Note 14).

**Note 10 - Employment Agreements and Supplemental Executive Retirement Plans**

The Company has entered into employment agreements with its Chief Executive Officer, Chief Financial Officer and Executive Vice President of Commercial Lending.

The Company has a non-qualified Supplemental Executive Retirement Plan ("SERP") for certain executive officers that provides for payments upon retirement, death or disability. As of December 31, 2015 and 2014, respectively, other liabilities include \$3.4 million and \$3.0 million, respectively, accrued under these plans. For the years ended December 31, 2015 and 2014, \$377 thousand and \$808 thousand, respectively, were expensed under these plans.

**Note 11 - 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 December 31, 2015, there were 328,144 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 granted 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 Company's restricted stock grants activity for the year ended December 31, 2015, there have been 59,840 awards granted. During the years ended December 31, 2015 and 2014 there were 32,875 and 10,209 awards granted, respectively. During the years ended December 31, 2015 and 2014 the Company recognized \$96 thousand and \$76 thousand in compensation expense for the restricted stock awards.

Information regarding the Company's restricted stock grants activity for the years ended December 31, 2015 and 2014 are as follows:

|  | <b>Restricted Stock<br/>Awards</b> | <b>Weighted Average<br/>Grant Date<br/>Fair Value</b> |
|--|------------------------------------|---|
| <b>Non-Vested at December 31, 2013</b> | -                                  | \$ -  |
| Granted                                | 10,209                             | 7.51  |
| Vested                                 | (10,209)                           | 7.51  |
| <b>Non-Vested at December 31, 2014</b> | -                                  | \$ -  |
| Granted                                | 32,875                             | 10.83   |
| Vested                                 | (9,122)                            | 10.55   |
| <b>Non-Vested at December 31, 2015</b> | <b>23,753</b>                      | <b>\$ 10.94</b>                                       |

In January 2014, February 2013 and 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 2015. Stock compensation expense related to these options was \$45 thousand and \$98 thousand for the year ended December 31, 2015 and 2014, respectively. At December 31, 2015, approximately \$28 thousand unrecognized cost to these stock options granted in 2014 and 2013 will be recognized over the next 1.05 and 0.15 years, respectively. 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.

Activities under the SIP, related to stock options, is summarized as follows:

|                                       | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average Exercise<br/>Price</b> |
|---------------------------------------|------------------------------|--|
| <b>Outstanding, December 31, 2013</b> | 149,692                      | \$ 8.35  |
| Granted                               | 29,663                       | 7.51   |
| Exercised                             | (33,874)                     | 10.00  |
| Forfeited                             | (33,465)                     | 10.00  |
| <b>Outstanding, December 31, 2014</b> | 112,016                      | \$ 7.14  |
| Granted                               | -                            | -  |
| Exercised                             | -                            | -  |
| Forfeited                             | -                            | -  |
| <b>Outstanding, December 31, 2015</b> | <b>112,016</b>               | <b>\$ 7.14</b>                                 |
| <b>Exercisable, December 31, 2015</b> | <b>82,327</b>                | <b>\$ 7.06</b>                                 |

Stock options outstanding at December 31, 2015 are exercisable at prices ranging from \$6.56 to \$7.66 per share. The weighted-average remaining contractual life of options outstanding and exercisable at December 31, 2015 is 5.91 years and 5.61 years, respectively. The weighted-average remaining contractual life of options outstanding and exercisable at December 31, 2014 was 6.91 years and 6.36 years, respectively. At December 31, 2015, the aggregate intrinsic value of options outstanding and exercisable was \$194 thousand. The intrinsic value was determined by using the latest known sales price of the Company's common stock. For the years ending December 31, 2015 and 2014, the aggregate intrinsic value of options exercised was \$328 thousand, respectively.

The following table summarizes information about the range of exercise prices for stock options outstanding at December 31, 2015:

| <b>Range of Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Number<br/>Outstanding</b> | <b>Weighted Average<br/>Remaining Contractual<br/>Life (Years)</b> | <b>Number<br/>Exercisable</b> |
|------------------------------------|--|-------------------------------|--|-------------------------------|
| \$6.56 to \$7.66                   | \$ 7.14  | 112,016                       | 5.91   | 82,327                        |
|                                    |  | 112,016                       | 5.91   | 82,327                        |

**Note 12 – 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:

|   | Year Ended December 31, |               |               |               |               |               |
|---|-------------------------|---------------|---------------|---------------|---------------|---------------|
|   | 2015                    |               |               | 2014          |               |               |
|   | (In Thousands)          |               |               |               |               |               |
|   | Before<br>Tax           | Tax<br>Effect | Net of<br>Tax | Before<br>Tax | Tax<br>Effect | Net of<br>Tax |
| Change in accumulated other comprehensive income:   |                         |               |               |               |               |               |
| Unrealized holding (losses) gains on securities<br>available for sale                               | \$ (182)                | \$ 62         | \$ (120)      | \$ 1,434      | \$ (484)      | \$ 950        |
| Reclassification adjustments for gains on securities<br>transactions included in net income (A),(B) | (165)                   | 56            | (109)         | (33)          | 8             | (25)          |
| Total other comprehensive (loss) income   | \$ (347)                | \$ 118        | \$ (229)      | \$ 1,401      | \$ (476)      | \$ 925        |

(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.

A summary of the realized gains on securities available for sale, net of tax, is as follows:

|   | Year Ended<br>December 31, |                |
|---|----------------------------|----------------|
|   | 2015                       | 2014           |
|   | (In Thousands)             |                |
| Securities available for sale:            |                            |                |
| Realized gains on securities transactions | \$ (165)                   | \$ (33)        |
| Income taxes                              | 56                         | 8              |
| Net of tax                                | <u>\$ (109)</u>            | <u>\$ (25)</u> |

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

|  | <b>Securities<br/>Available<br/>for Sale</b> |
|--|--|
|  | (In Thousands)                               |
| <b>Year Ended December 31, 2015 and 2014</b>                     |  |
| <b>Balance January 1, 2015</b>                                   | <b>\$ 1,465</b>                              |
| Other comprehensive loss before reclassifications                | (120)  |
| Amounts reclassified from accumulated other comprehensive income | (109)  |
| Net other comprehensive loss during the period                   | (229)  |
| <b>Balance December 31, 2015</b>                                 | <b>\$ 1,236</b>                              |
| <b>Balance January 1, 2014</b>                                   | <b>\$ 540</b>                                |
| Other comprehensive income before reclassifications              | 950  |
| Amounts reclassified from accumulated other comprehensive income | (25)   |
| Net other comprehensive income during the period                 | 925  |
| <b>Balance December 31, 2014</b>                                 | <b>\$ 1,465</b>                              |

**Note 13 - Federal Income Taxes**

The components of income tax expense for the years ended December 31, 2015 and 2014 are as follows:

|          | <b>2015</b>     | <b>2014</b>     |
|----------|-----------------|-----------------|
|          | (In Thousands)  |                 |
| Current  | <b>\$ 2,981</b> | \$ 2,939        |
| Deferred | <b>(33)</b>     | (460)           |
|          | <b>\$ 2,948</b> | <b>\$ 2,479</b> |

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax expense included in the statement of income for the years ended December 31, 2015 and 2014 is as follows:

|                                      | <b>2015</b>     | <b>2014</b>     |
|--------------------------------------|-----------------|-----------------|
|                                      | (In Thousands)  |                 |
| Federal income tax at statutory rate | <b>\$ 3,521</b> | \$ 3,021        |
| Tax free interest                    | <b>(518)</b>    | (510)           |
| Other                                | <b>(55)</b>     | (32)            |
|                                      | <b>\$ 2,948</b> | <b>\$ 2,479</b> |

The Company follows guidance in ASC Topic 740 regarding accounting for uncertainty in income taxes. The Company has evaluated its tax positions. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more likely than not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2015 and 2014, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is subject to U.S. federal income tax.

The components of the net deferred tax asset at December 31, 2015 and 2014 are as follows:

|  | <u>2015</u>            | <u>2014</u>            |
|--|------------------------|------------------------|
|  | (In Thousands)         |                        |
| Deferred tax assets:                             |                        |                        |
| Allowance for loan losses                        | \$ 2,063               | \$ 1,909               |
| Accrued SERP                                     | 1,159                  | 1,031                  |
| Other  | <u>406</u>             | <u>502</u>             |
| <b>Total Deferred Tax Assets</b>                 | <u><b>3,628</b></u>    | <u><b>3,442</b></u>    |
| Deferred tax liabilities:                        |                        |                        |
| Premises and equipment                           | 25                     | -                      |
| Prepaid assets                                   | 320                    | 303                    |
| Non-qualified stock awards                       | 3                      | -                      |
| Deferred loan costs                              | 481                    | 373                    |
| Unrealized gain on securities available for sale | <u>636</u>             | <u>754</u>             |
| <b>Total Deferred Tax Liabilities</b>            | <u><b>\$ 1,465</b></u> | <u><b>\$ 1,430</b></u> |
| <b>Net Deferred Tax Asset</b>                    | <u><b>\$ 2,163</b></u> | <u><b>\$ 2,012</b></u> |

Based upon the level of historical taxable income and projections for future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

**Note 14 - Transactions with Executive Officers, Directors and Principal Stockholders**

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties).

Related parties were indebted to the Company for loans totaling \$4.7 million and \$3.3 million at December 31, 2015 and 2014, respectively. During 2015, loans totaling \$3.3 million were disbursed and loan repayments totaled \$1.9 million.

Deposits with related parties were \$20.5 million and \$23.4 million at December 31, 2015 and 2014, respectively.

Fees paid to related parties for legal services for the years ended December 31, 2015 and 2014 were approximately \$104 thousand and \$84 thousand, respectively. The Company leases its main banking office from an investment group comprised of related parties and its West Broad Street office also from a related party, as described in Note 9.

**Note 15 - Financial Instruments with Off-Balance Sheet Risk**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

|  | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|
|  | (In Thousands)   |                  |
| Commitments to grant loans, fixed                    | \$ 5,745         | \$ 5,696         |
| Commitments to grant loans, variable                 | -                | 200              |
| Unfunded commitments under lines of credit, fixed    | 22,679           | 14,921           |
| Unfunded commitments under lines of credit, variable | 65,142           | 57,310           |
| Standby letters of credit                            | 3,857            | 4,417            |
|  | <u>\$ 97,423</u> | <u>\$ 82,544</u> |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2015 and 2014 was \$3.9 million and \$4.4 million, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$3.7 million and \$4.1 million, respectively. The current amount of the liability as of December 31, 2015 and 2014 for guarantees under standby letters of credit issued is not considered material.

## **Note 16 - Regulatory Matters**

The Company is required to maintain cash reserve balances in vault cash and with the Federal Reserve Bank. As of December 31, 2015, the Company had a \$4.0 million minimum reserve balance.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. banks (BASEL III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. The net unrealized gain or losses available-for-sale securities is not included in computing regulatory capital amounts and ratios for December 31, 2014 are calculated using BASEL I rules. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1 common capital, and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2015 and 2014 are presented below:

|   | <b>Actual</b> |              | <b>For Capital Adequacy<br/>Purposes</b> |              | <b>To be Well Capitalized<br/>under<br/>Prompt Corrective Action</b> |              |
|---|---------------|--------------|--|--------------|--|--------------|
|   | <b>Amount</b> | <b>Ratio</b> | <b>Amount</b>                            | <b>Ratio</b> | <b>Amount</b>  | <b>Ratio</b> |
| (Dollar Amounts in Thousands)                   |               |              |  |              |  |              |
| <b>December 31, 2015:</b>                       |               |              |  |              |  |              |
| Total capital (to risk-weighted assets)         | \$ 72,880     | 12.6 %       | \$ ≥ 46,377                              | ≥ 8.0 %      | \$ ≥ 57,971  | ≥ 10.0 %     |
| Tier 1 common capital (to risk-weighted assets) | 66,812        | 11.5         | ≥ 26,087                                 | ≥ 4.5        | ≥ 37,681   | ≥ 6.5        |
| Tier 1 capital (to risk-weighted assets)        | 66,812        | 11.5         | ≥ 34,783                                 | ≥ 6.0        | ≥ 46,377   | ≥ 8.0        |
| Tier 1 capital (to average assets)              | 66,812        | 8.4          | ≥ 31,948                                 | ≥ 4.0        | ≥ 39,935   | ≥ 5.0        |
| <b>December 31, 2014:</b>                       |               |              |  |              |  |              |
| Total capital (to risk-weighted assets)         | \$ 67,124     | 13.5 %       | \$ ≥ 39,849                              | ≥ 8.0 %      | \$ ≥ 49,811  | ≥ 10.0 %     |
| Tier 1 capital (to risk-weighted assets)        | 61,510        | 12.4         | ≥ 19,925                                 | ≥ 4.0        | ≥ 29,887   | ≥ 6.0        |
| Tier 1 capital (to average assets)              | 61,510        | 8.5          | ≥ 28,846                                 | ≥ 4.0        | ≥ 36,057   | ≥ 5.0        |

The Company's actual capital amounts and ratios at December 31, 2015 and 2014 are presented below:

|   | <b>Actual</b> |              | <b>For Capital Adequacy<br/>Purposes</b> |              |
|---|---------------|--------------|--|--------------|
|   | <b>Amount</b> | <b>Ratio</b> | <b>Amount</b>                            | <b>Ratio</b> |
| (Dollar Amounts in Thousands)                   |               |              |  |              |
| <b>December 31, 2015:</b>                       |               |              |  |              |
| Total capital (to risk-weighted assets)         | \$ 72,933     | 12.6 %       | \$ ≥ 46,378                              | ≥ 8.0 %      |
| Tier 1 common capital (to risk-weighted assets) | 66,865        | 11.5         | ≥ 26,088                                 | ≥            |
| Tier 1 capital (to risk-weighted assets)        | 66,865        | 11.5         | ≥ 34,784                                 | ≥ 6.0        |
| Tier 1 capital (to average assets)              | 66,865        | 8.3          | ≥ 32,231                                 | ≥ 4.0        |
| <b>December 31, 2014:</b>                       |               |              |  |              |
| Total capital (to risk-weighted assets)         | \$ 65,482     | 13.2 %       | \$ ≥ 39,851                              | ≥ 8.0 %      |
| Tier 1 capital (to risk-weighted assets)        | 59,868        | 12.0         | ≥ 19,926                                 | ≥ 4.0        |
| Tier 1 capital (to average assets)              | 59,868        | 8.2          | ≥ 29,092                                 | ≥ 4.0        |

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.



**Note 17 – 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 control 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 December 31, 2015 and December 31, 2014:

|                          | <b>Gross<br/>Amounts of<br/>Recognized<br/>Liabilities</b> | <b>Gross Amounts<br/>Offset in the<br/>Consolidated<br/>Balance Sheet</b> | <b>Net Amounts<br/>of Liabilities<br/>Presented in the<br/>Consolidated<br/>Balance Sheet</b> | <b>Financial<br/>Instruments</b> | <b>Cash<br/>Pledged</b> | <b>Net Amount</b> |
|--------------------------|--|---|---|----------------------------------|-------------------------|-------------------|
|                          |  |   |   |                                  |                         |                   |
|                          |  |   | (In Thousands)  |                                  |                         |                   |
| <b>December 31, 2015</b> |  |   |   |                                  |                         |                   |
| Repurchase Agreements:   |  |   |   |                                  |                         |                   |
| Corporate Institutions   | \$ 27,535  | \$ -  | \$ 27,535   | \$ (27,535)                      | \$ -                    | \$ -              |
| <b>December 31, 2014</b> |  |   |   |                                  |                         |                   |
| Repurchase Agreements:   |  |   |   |                                  |                         |                   |
| Corporate Institutions   | \$ 30,304  | \$ -  | \$ 30,304   | \$ (30,304)                      | \$ -                    | \$ -              |

As of December 31, 2015 and December 31, 2014, the fair value of securities pledged was \$35.0 million and \$34.5 million, respectively.

## **Note 18 - Fair Value of Financial Instruments**

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.

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 December 31, 2015 and 2014 are as follows:

| Description  | (Level 1)<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs | Total                   |
|--|--|---|--|-------------------------|
|  | (In Thousands)   |   |  |                         |
| U.S. Government agency obligations   | \$ -   | \$ 34,570   | \$ -   | \$ 34,570               |
| Municipal bonds  | -  | 41,204  | -  | 41,204                  |
| U.S. Government Sponsored Enterprise (GSE) -<br>Mortgage-backed securities - residential | -  | 1,479   | -  | 1,479                   |
| <b>December 31, 2015 Securities available for sale</b>                                   | <u><u>\$ -</u></u>   | <u><u>\$ 77,253</u></u>                                   | <u><u>\$ -</u></u>                                 | <u><u>\$ 77,253</u></u> |
| U.S. Government agency obligations   | \$ -   | \$ 30,076   | \$ -   | \$ 30,076               |
| Municipal bonds  | -  | 38,624  | -  | 38,624                  |
| U.S. Government Sponsored Enterprise (GSE) -<br>Mortgage-backed securities - residential | -  | 7,501   | -  | 7,501                   |
| Corporate bonds  | -  | 996   | -  | 996                     |
| <b>December 31, 2014 Securities available for sale</b>                                   | <u><u>\$ -</u></u>   | <u><u>\$ 77,197</u></u>                                   | <u><u>\$ -</u></u>                                 | <u><u>\$ 77,197</u></u> |

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 and 2014 are as follows:

| Description                                   | (Level 1)<br>Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs | Total    |
|---|---|---|--|----------|
|   | (In Thousands)  |   |  |          |
| 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 |
| December 31, 2014 Impaired loans (1)          | \$ -  | \$ -  | \$ 863   | \$ 863   |
| December 31, 2014 Impaired loans (2)          | \$ -  | \$ -  | \$ 479   | \$ 479   |
| December 31, 2014 Other real estate owned (1) | \$ -  | \$ -  | \$ 1,106   | \$ 1,106 |

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include Level 3 input which are not identifiable. Fair values may also include qualitative adjustments by management based on 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.

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.

At December 31, 2015, of the impaired loans having an aggregate balance of \$6.4 million, \$5.2 million did not require a valuation allowance because the value of the collateral securing the loan was determined to meet or exceed the balance owed on the loan. Of the remaining \$1.2 million in impaired loans, an aggregate valuation allowance of \$370 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.

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:

| Description               | Quantitative Information about Level 3 Fair Value Measurements |   |                           |                          |
|---------------------------|--|---|---------------------------|--------------------------|
|                           | Fair Value Estimate  | Valuation Techniques                                      | Unobservable Input        | Range (Weighted Average) |
| (Dollars In Thousands)    |  |   |                           |                          |
| <b>December 31, 2015:</b> |  |   |                           |                          |
| Impaired loans            | \$ 785   | Appraisal of collateral (1)                               | Appraisal adjustments (2) | 0% to -25% (-25.0%)      |
|                           |  |   | Liquidation expenses (3)  | 0% to -7.5% (-7.5%)      |
| Impaired loans            | \$ -   | Discounted Cash Flows (5)                                 |                           |                          |
| Other real estate owned   | \$ 1,224   | Listings, Letters of Intent & Third Party Evaluations (4) | Liquidation expenses (3)  | -5% (-5%)                |
| <b>December 31, 2014:</b> |  |   |                           |                          |
| Impaired loans            | \$ 863   | Appraisal of collateral (1)                               | Appraisal adjustments (2) | 0% to -25% (-17.6%)      |
|                           |  |   | Liquidation expenses (3)  | 0% to -8.5% (-8.2%)      |
| Impaired loans            | \$ 479   | Discounted Cash Flows (5)                                 |                           |                          |
| Other real estate owned   | \$ 1,106   | 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 various 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 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.
- (5) Fair value is determined using the debt service of the borrower.

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 December 31, 2015 and December 31, 2014:

#### **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.

**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 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.

**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 December 31, 2015 and 2014:

|   | Carrying<br>Amount | Fair Value<br>Estimate | (Level 1)<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs |
|---|--------------------|------------------------|--|---|--|
|   |                    |                        | (In Thousands)   |   |  |
| <b>December 31, 2015:</b>   |                    |                        |  |   |  |
| 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            | 639,677                | -  | 639,677   | -  |
| Securities sold under agreements to<br>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   | -                  | -                      | -  | -   | -  |
| <b>December 31, 2014:</b>   |                    |                        |  |   |  |
| Financial assets:   |                    |                        |  |   |  |
| Cash and cash equivalents   | \$ 16,390          | \$ 16,390              | \$ 16,390  | \$ -  | \$ -   |
| Interest bearing time deposits  | 250                | 251                    | -  | 251   | -  |
| Securities available-for-sale   | 77,197             | 77,197                 | -  | 77,197  | -  |
| Loans receivable, net of allowance  | 604,697            | 611,256                | -  | -   | 611,256  |
| Restricted investments in bank stock  | 784                | 784                    | -  | 784   | -  |
| Accrued interest receivable   | 1,599              | 1,599                  | -  | 1,599   | -  |
| Financial liabilities:  |                    |                        |  |   |  |
| Deposits  | 611,668            | 611,975                | -  | 611,975   | -  |
| Securities sold under agreements to<br>repurchase and federal funds purchased | 30,304             | 30,302                 | -  | 30,302  | -  |
| Short-term borrowings   | 9,000              | 9,000                  | -  | 9,000   | -  |
| Long-term borrowings  | 1,900              | 1,877                  | -  | -   | 1,877  |
| Accrued interest payable  | 349                | 349                    | -  | 349   | -  |
| Off-balance sheet financial instruments:                                      |                    |                        |  |   |  |
| Commitments to grant loans  | -                  | -                      | -  | -   | -  |
| Unfunded commitments under lines of credit                                    | -                  | -                      | -  | -   | -  |
| Standby letters of credit   | -                  | -                      | -  | -   | -  |

**Note 19 – Parent Company Only Financial**

Condensed financial information pertaining only to the parent company, Embassy Bancorp, Inc., is as follows:

**BALANCE SHEETS**

|  | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2015               | 2014             |
|  | (In Thousands)     |                  |
| <b><u>ASSETS</u></b>                               |                    |                  |
| Cash   | \$ 209             | \$ 410           |
| Other assets                                       | 19                 | 26               |
| Investment in subsidiary                           | 68,046             | 62,972           |
| Total Assets                                       | <u>\$ 68,274</u>   | <u>\$ 63,408</u> |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b> |                    |                  |
| Long-term borrowings                               | \$ -               | \$ 1,900         |
| Other liabilities                                  | 174                | 178              |
| Stockholders' equity                               | 68,100             | 61,330           |
| Total Liabilities and Stockholders' Equity         | <u>\$ 68,274</u>   | <u>\$ 63,408</u> |

**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

|   | Years Ending December 31, |                 |
|---|---------------------------|-----------------|
|   | 2015                      | 2014            |
|   | (In Thousands)            |                 |
| Interest expense on borrowings                                  | \$ (83)                   | \$ (258)        |
| Other expenses  | (291)                     |                 |
| Equity in net income of banking subsidiary                      | 7,665                     | 6,776           |
| Income before income taxes                                      | 7,291                     | 6,227           |
| Income tax benefit  | 118                       | 178             |
| Net income  | <u>\$ 7,409</u>           | <u>\$ 6,405</u> |
| Equity in other comprehensive (loss) gain of banking subsidiary | (229)                     | 925             |
| Comprehensive income  | <u>\$ 7,180</u>           | <u>\$ 7,330</u> |



**STATEMENT OF CASH FLOWS**

|  | <b>Years Ending December 31,</b> |                |
|--|----------------------------------|----------------|
|  | <b>2015</b>                      | <b>2014</b>    |
|  | <b>(In Thousands)</b>            |                |
| <b>Cash Flows from Operating Activities:</b>   |                                  |                |
| Net income   | \$ 7,409                         | \$ 6,405       |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |                                  |                |
| Net change in other assets and liabilities   | 3                                | (1)            |
| Equity in net income of banking subsidiary   | (7,665)                          | (6,776)        |
| <b>Net Cash Used in Operating Activities</b>   | <b>(253)</b>                     | <b>(372)</b>   |
| <b>Cash Flows from Investing Activities:</b>   |                                  |                |
| Dividend from banking subsidiary   | 2,412                            | 2,185          |
| <b>Net Cash Provided by Investing Activities</b>                                     | <b>2,412</b>                     | <b>2,185</b>   |
| <b>Cash Flows from Financing Activities:</b>   |                                  |                |
| Repayment of long-term borrowings  | (1,900)                          | (2,000)        |
| Exercise of stock options, net of payment stock tendered<br>and proceeds from DRIP   | 276                              | 288            |
| Dividends Paid   | (736)                            | (440)          |
| <b>Net Cash Used in Financing Activities</b>   |                                  | <b>(2,152)</b> |
| <b>Net Decrease in Cash</b>  | <b>(201)</b>                     | <b>(339)</b>   |
| <b>Cash – Beginning</b>  | <b>410</b>                       | <b>749</b>     |
| <b>Cash - Ending</b>   | <b>\$ 209</b>                    | <b>\$ 410</b>  |

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**Item 9A. CONTROLS AND PROCEDURES.**

(a) Disclosure Controls and Procedures.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of December 31, 2015, the Chief Executive and Chief Financial Officers of the Company concluded that the Company's disclosure controls and procedures were effective.

(b) Management's Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control- Integrated Framework (updated 2013 framework version) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2015.

/s/ David M. Lobach, Jr.

David M. Lobach, Jr.

Chairman, President and Chief Executive Officer

/s/ Judith A. Hunsicker

Judith A. Hunsicker

Senior Executive Vice President, Chief Operating  
Officer, Secretary and Chief Financial Officer

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to provisions of the Dodd-Frank Act, which exempt smaller reporting companies from this requirement, thus permitting the Company to provide only management's report in this annual report.

(c) Changes in Internal Controls Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the final fiscal quarter of the year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION.**

None.

### **PART III**

#### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by Part III, Item 10, is incorporated herein by reference to the information under the captions “Board of Directors,” “Information as to Nominees and Directors,” “Executive Officers,” “Nominating Process,” “Code of Conduct (Ethics),” “Committees of the Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2016 annual meeting of shareholders.

#### **Item 11. EXECUTIVE COMPENSATION.**

The information required by Part III, Item 11, is incorporated herein by reference to the information under the captions “Director Compensation,” “Executive Compensation” and “Agreements with Executive Officers” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2016 annual meeting of shareholders.

#### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by Part III, Item 12, is incorporated herein by reference to the information under Item 5 of this report and the information under the caption “Information Concerning Share Ownership” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2016 annual meeting of shareholders.

#### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by Part III, Item 13, is incorporated herein by reference to the information under the captions “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2016 annual meeting of shareholders.

#### **Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information required by Part III, Item 14, is incorporated herein by reference to the information under the captions “Independent Registered Public Accounting Firm” and “Report of Audit Committee” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2016 annual meeting of shareholders.

**Part IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

- (a) Financial Statement Schedules can be found under Item 8 of this report.
- (b) Exhibits required by Item 601 of Regulation S-K:

Exhibit

| <u>Number</u> | <u>Description</u>  |
|---------------|---|
| 3.1           | Articles of Incorporation, as amended (conformed).  |
| 3.2           | By-Laws (Incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed on August 19, 2014).   |
| 10.1          | Embassy Bancorp, Inc. Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to Exhibit 99.1 of Registrant's Registration Statement on Form S-3 filed on June 18, 2012).  |
| 10.2          | Embassy Bancorp, Inc. 2010 Stock Incentive Plan.  |
| 10.3          | Form of Stock Option Grant Agreement – Directors.   |
| 10.4          | Form of Stock Option Grant Agreement – Executive Officers.  |
| 10.5          | Lease Agreement dated June 11, 2001 for the Rte. 512 Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.5 of Registrant's Form 10-K filed on March 30, 2015).   |
| 10.6          | Lease Agreement dated October 21, 2005 for Hamilton Blvd. and Mill Creek Rd., Lower Macungie Township, PA (Incorporated by reference to Exhibit 10.6 of Registrant's Form 10-K filed on March 30, 2015).                              |
| 10.7          | Lease Addendum dated January 1, 2005 for additional space in the Rte. 512, Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K filed on March 30, 2015).                             |
| 10.8          | Lease Agreement dated March 11, 2009 for Cedar Crest Blvd., Allentown, PA (Incorporated by reference to Exhibit 10.8 of Registrant's Form 10-K filed on March 30, 2015).  |
| 10.9          | Lease Agreement dated March 21, 2003 for Tilghman Street, Allentown, PA (Incorporated by reference to Exhibit 10.9 of Registrant's Form 10-K filed on March 30, 2015).  |
| 10.10         | Lease Agreement dated March 17, 2006 for 925 West Broad St, Bethlehem PA (Incorporated by reference to Exhibit 10.10 of Registrant's Form 10-K filed on March 30, 2015).  |
| 10.11         | Lease Agreement dated June 17, 2008 for 5828 Old Bethlehem Pike, Center Valley, PA (Incorporated by reference to Exhibit 10.11 of Registrant's Form 10-K filed on March 30, 2015).  |
| 10.12         | Lease Agreement dated March 13, 2009 for Corriere Road and Route 248 in Lower Nazareth Township, PA (Incorporated by reference to Exhibit 10.12 of Registrant's Form 10-K filed on March 30, 2015).                                   |
| 10.13         | Second Lease Expansion Addendum dated October 21, 2011 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates, LLC (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on October 26, 2011). |
| 10.14         | Lease Renewal and Modification Agreement dated May 4, 2012 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates LLC (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on May 7, 2012).   |
| 10.15         | Lease dated September 1, 2015 by and between Embassy Bank for the Lehigh Valley and Orwig Property Management Center Square, LLC (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on September 3, 2015).     |
| 10.16         | Employment Agreement – D. Lobach, dated January 1, 2006 (Incorporated by reference to Exhibit 10.15 of Registrant's Form 10-K filed on March 30, 2015).   |
| 10.17         | Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010.   |

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. (Continued)**

| <u>Exhibit<br/>Number</u> | <u>Description</u>   |
|---------------------------|--|
| 10.18                     | Employment Agreement – J. Hunsicker, dated January 1, 2006 (Incorporated by reference to Exhibit 10.17 of Registrant’s Form 10-K filed on March 30, 2015).   |
| 10.19                     | Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 19, 2010.   |
| 10.20                     | Employment Agreement – J. Bartholomew, dated February 20, 2009 (Incorporated by reference to Exhibit 10.19 of Registrant’s Form 10-K filed on March 30, 2015).   |
| 10.21                     | Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated November 19, 2010.  |
| 10.22                     | Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010.  |
| 10.23                     | Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 21, 2011 (Incorporated by reference to Exhibit 10.2 of Registrant’s Form 8-K filed on November 23, 2011). |
| 10.24                     | Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010.   |
| 10.25                     | Amendment No. 2 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated January 1, 2013 (Incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed on January 2, 2013).                          |
| 10.26                     | Amendment No. 3 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated January 23, 2014 (Incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed on January 24, 2014).                        |
| 10.27                     | Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 19, 2010.   |
| 10.28                     | Amendment No. 2 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated January 1, 2013 (Incorporated by reference to Exhibit 10.3 of Registrant’s Form 8-K filed on January 2, 2013).      |
| 10.29                     | Amendment No. 3 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated January 23, 2014 (Incorporated by reference to Exhibit 10.2 of Registrant’s Form 8-K filed on January 24, 2014).    |
| 10.30                     | Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated November 19, 2010.  |
| 10.31                     | Amendment No. 2 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated January 1, 2013 (Incorporated by reference to Exhibit 10.4 of Registrant’s Form 8-K filed on January 2, 2013).     |
| 10.32                     | Amendment No. 3 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated January 23, 2014 (Incorporated by reference to Exhibit 10.3 of Registrant’s Form 8-K filed on January 24, 2014).   |
| 10.33                     | Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 23, 2015 (Incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed on December 29, 2015).  |

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. (Continued)**

Exhibit

Number

Description

- |       |  |
|-------|--|
| 10.34 | Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated December 23, 2015 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on December 29, 2015). |
| 10.35 | Loan Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Uninvest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.32 of Registrant's Form 10-K filed on March 30, 2015).                   |
| 10.36 | Subordinated Term Loan Note, dated as of December 22, 2009, by Embassy Bancorp, Inc. in favor of Uninvest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.33 of Registrant's Form 10-K filed on March 30, 2015).          |
| 10.37 | Stock Pledge Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Uninvest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.34 of Registrant's Form 10-K filed on March 30, 2015).           |
| 11.1  | The statement regarding computation of per share earnings required by this exhibit is contained in Note 5 to the financial statements captions "Basic and Diluted Earnings Per Share."   |
| 21.1  | Subsidiaries of the Registrant.  |
| 23.1  | Consent of Baker Tilly Virchow Krause LLP.   |
| 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).   |
| 32.1  | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.   |

101.1 XBRL - Related Documents

- | 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**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed in its behalf by the undersigned, thereunto duly authorized.

EMBASSY BANCORP, INC.

Dated: March 30, 2016

By: /s/ David M. Lobach, Jr.  
David M. Lobach, Jr.  
Chairman, President and Chief Executive Officer

Dated: March 30, 2016

By: /s/ Judith A. Hunsicker  
Judith A. Hunsicker  
Senior Executive Vice President, Chief Operating  
Officer, Secretary and Chief Financial Officer



Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

|                       |   |
|-----------------------|---|
| Dated: March 30, 2016 | <u>/s/ Frank Banko III</u><br>Frank Banko III, Director                                     |
| Dated: March 30, 2016 | <u>/s/ Geoffrey F. Boyer</u><br>Geoffrey F. Boyer, Director                                 |
| Dated: March 30, 2016 | <u>/s/ John B. Brew, Jr.</u><br>John B. Brew, Jr., Director                                 |
| Dated: March 30, 2016 | <u>/s/ John G. Englessen</u><br>John G. Englessen, Director                                 |
| Dated: March 30, 2016 | <u>/s/ Bernard M. Lesavoy</u><br>Bernard M. Lesavoy, Director                               |
| Dated: March 30, 2016 | <u>/s/ David M. Lobach, Jr.</u><br>David M. Lobach, Jr., Director and Chairman of the Board |
| Dated: March 30, 2016 | <u>/s/ John C. Pittman</u><br>John C. Pittman, Director                                     |
| Dated: March 30, 2016 | <u>/s/ Patti Gates Smith</u><br>Patti Gates Smith, Director                                 |
| Dated: March 30, 2016 | <u>/s/ John T. Yurconic</u><br>John T. Yurconic, Director                                   |

**EXHIBIT INDEX**

Exhibit

Number Description

- 3.1 Articles of Incorporation, as amended (conformed).
- 3.2 By-Laws (Incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed on August 19, 2014).
- 10.1 Embassy Bancorp, Inc. Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to Exhibit 99.1 of Registrant's Registration Statement on Form S-3 filed on June 18, 2012).
- 10.2 Embassy Bancorp, Inc. 2010 Stock Incentive Plan.
- 10.3 Form of Stock Option Grant Agreement – Directors.
- 10.4 Form of Stock Option Grant Agreement – Executive Officers.
- 10.5 Lease Agreement dated June 11, 2001 for the Rte. 512 Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.5 of Registrant's Form 10-K filed on March 30, 2015).
- 10.6 Lease Agreement dated October 21, 2005 for Hamilton Blvd. and Mill Creek Rd., Lower Macungie Township, PA (Incorporated by reference to Exhibit 10.6 of Registrant's Form 10-K filed on March 30, 2015).
- 10.7 Lease Addendum dated January 1, 2005 for additional space in the Rte. 512, Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K filed on March 30, 2015).
- 10.8 Lease Agreement dated March 11, 2009 for Cedar Crest Blvd., Allentown, PA (Incorporated by reference to Exhibit 10.8 of Registrant's Form 10-K filed on March 30, 2015).
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**EXHIBIT INDEX (Continued)**

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| 10.35                     | Loan Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.32 of Registrant's Form 10-K filed on March 30, 2015).   |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 10.36                     | Subordinated Term Loan Note, dated as of December 22, 2009, by Embassy Bancorp, Inc. in favor of Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.33 of Registrant's Form 10-K filed on March 30, 2015).  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 10.37                     | Stock Pledge Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.34 of Registrant's Form 10-K filed on March 30, 2015).   |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 11.1                      | The statement regarding computation of per share earnings required by this exhibit is contained in Note 5 to the financial statements captions "Basic and Diluted Earnings Per Share."  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 21.1                      | Subsidiaries of the Registrant.   |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 23.1                      | Consent of Baker Tilly Virchow Krause LLP.  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 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).  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 32.1                      | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 101.1                     | XBRL - Related Documents  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
|                           | <table> <tr> <th>No.</th><th>Description</th></tr> <tr> <td>101. INS</td><td>XBRL Instance Document.</td></tr> <tr> <td>101. SCH</td><td>XBRL Taxonomy Extension Schema Document.</td></tr> <tr> <td>101. CAL</td><td>XBRL Taxonomy Extension Calculation Linkbase Document.</td></tr> <tr> <td>101. LAB</td><td>XBRL Taxonomy Extension Label Linkbase Document.</td></tr> <tr> <td>101. PRE</td><td>XBRL Taxonomy Extension Presentation Linkbase Document.</td></tr> <tr> <td>101. DEF</td><td>XBRL Taxonomy Extension Definitions Linkbase Document.</td></tr> </table> | 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. |
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| 101. PRE                  | XBRL Taxonomy Extension Presentation Linkbase Document.   |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |
| 101. DEF                  | XBRL Taxonomy Extension Definitions Linkbase Document.  |     |             |          |                         |          |  |          |  |          |  |          |   |          |  |

**Exhibit 21.1****SUBSIDIARIES OF THE REGISTRANT**

1. Embassy Bank for the Lehigh Valley, Bethlehem, Pennsylvania; a state-chartered bank organized under Pennsylvania Banking Code of 1965.

**Exhibit 23.1****CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-165015 and 333-169018) and S-3 (No. 333-182189) of Embassy Bancorp, Inc. of our report dated March 30, 2016, relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania  
March 30, 2016

## EXHIBIT 31.1

### CERTIFICATION

I, David M. Lobach, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Embassy Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) I evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David M. Lobach, Jr.  
David M. Lobach, Jr.  
Chairman, President and Chief Executive Officer  
DATED: March 30, 2016

## EXHIBIT 31.2

### CERTIFICATION

I, Judith A. Hunsicker, certify that:

1. I have reviewed this annual report on Form 10-K of Embassy Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) I evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Judith A. Hunsicker

Judith A. Hunsicker

Senior Executive Vice President, Chief Operating  
Officer, Secretary and Chief Financial Officer

DATED: March 30, 2016



## **EXHIBIT 32.1**

### **Certification Pursuant to 18 U.S.C. 1350 and Section 906 of Sarbanes-Oxley Act of 2002**

We hereby certify that the foregoing Form 10-K of Embassy Bancorp, Inc. for the year ended December 31, 2015 complies in all respects with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Embassy Bancorp, Inc.

/s/ David M. Lobach, Jr.

David M. Lobach, Jr.

Chairman, President and Chief Executive Officer

/s/ Judith A. Hunsicker

Judith A. Hunsicker

Senior Executive Vice President, Chief Operating  
Officer, Secretary and Chief Financial Officer

DATED: March 30, 2016

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation and registered bank holding company. It is the parent company of Embassy Bank For The Lehigh Valley (the “Bank”), a full service bank providing personal and business lending and deposit service through seven branch offices in the Lehigh Valley area of Pennsylvania.

### Transfer Agent

Computershare  
P.O. Box 30170  
College Station, TX 77842  
Phone: 1-800-368-5948

### Corporate Headquarters

100 Gateway Drive, Suite 100  
P.O. Box 20405  
Lehigh Valley, PA 18002-0405  
610-882-8800 Fax: 610-691-5600  
[www.embassybank.com](http://www.embassybank.com)

### Annual Meeting

The Annual Meeting of Embassy Bancorp, Inc. is scheduled for 5:30 PM, June 16, 2016 at the Best Western Lehigh Valley Hotel and Conference Center at 300 Gateway Drive, Bethlehem, Pennsylvania. All shareholders are invited to join us for a reception immediately following the meeting.

### Form 10-K Request

The Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge at the Company’s website at [www.embassybank.com](http://www.embassybank.com) or by contacting:

Judith Hunsicker, Chief Operating Officer  
Embassy Bancorp, Inc.  
P.O. Box 20405  
Lehigh Valley, PA 18002-0405

Embassy Bancorp, Inc. common stock is quoted on the OTCQX under the symbol EMYB and is traded over-the-counter and in privately negotiated transactions. The common stock is not listed on any national securities exchange. OTC Markets ([www.otcm Markets.com](http://www.otcm Markets.com)) maintains a list of market makers of Company common stock. You may also obtain this list by contacting Mark Casciano at 610-882-8803.

On June 18, 2015, the Company declared an annual cash dividend of \$0.10 per share.

### Dividend Reinvestment and Stock Purchase Plan

The Company provides shareholders of record the opportunity to purchase shares of Company common stock through our Dividend Reinvestment and Stock Purchase Plan. Under the Plan, shareholders have the opportunity to use their cash dividends on some or all of their shares of Company common stock, as well as optional cash payments, to purchase additional shares of Company common stock. Eligibility to participate in the plan may be limited to certain jurisdictions, as determined in the discretion of the Company.

To request a prospectus describing the plan, please contact the plan agent:

Computershare  
P.O. Box 30170  
College Station, TX 77842  
Phone: 1-800-368-5948  
Internet: [www.computershare.com](http://www.computershare.com)

**ALLENTOWN**  
1142 S Cedar Crest Blvd.  
(484) 223-0018

**ALLENTOWN**  
4148 W Tilghman St.  
(484) 223-1782

**BETHLEHEM**  
100 Gateway Dr.  
(610) 882-8800

**BETHLEHEM**  
925 West Broad St.  
(484) 821-1210

**EASTON**  
Easton-Nazareth Hwy.  
& Corriere Rd.  
(484) 536-1870

**NAZARETH**  
10 N. Main St.  
(610) 614-3251

**SAUCON VALLEY**  
Route 378 & Colesville Rd.  
(610) 332-2981

**TREXLEERTOWN**  
6379 Hamilton Blvd.  
(610) 336-8034



[www.embassybank.com](http://www.embassybank.com)

