LAZARD GLOBAL TOTAL RETURN & INCOME FUND INC
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LAZARD ASSET MANAGEMENT

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Lazard Global Total Return & Income Fund, Inc.

First Quarter Report

MARCH 31, 2006

This report is intended only for the information of stockholders or those who have received the current prospectus covering shares of Common Stock of Lazard Global Total Return & Income Fund, Inc. which contains information about management fees and other costs.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview

Dear Shareholder,

We are pleased to present the First Quarter Report for Lazard Global Total Return & Income Fund, Inc. ("LGI" or the "Fund"), for the period ended March 31, 2006. LGI is a diversified, closed-end management investment company that began trading on the New York Stock Exchange ("NYSE") on April 28, 2004. Its ticker symbol is "LGI."

The Fund has been in operation for nearly two years, and we are pleased with LGI's overall performance. We believe that the Fund has provided investors with an attractive yield and diversification, backed by the extensive experience, commitment, and professional management of Lazard Asset Management LLC (the "Investment Manager" or "Lazard").

Portfolio Update (as of March 31, 2006)

During the first quarter of 2006, the Fund's Net Asset Value per share ("NAV") gained an impressive 8.2%, outperforming the Morgan Stanley Capital International (MSCI®) World® Index return of 6.6%. Since inception, the Fund's annualized NAV return of 15.2% is also ahead of its benchmark's return of 14.5%. Shares of LGI ended the first quarter of 2006 with a market price of $19.54, representing a 13.2% discount to the Fund's NAV of $22.50. The Fund's net assets were $216.1 million, with total leveraged assets of $307.7 million, representing 29.8% leverage.

We believe that LGI's investment thesis remains sound, as the Fund's NAV returns, since its inception and in the first quarter of 2006, have outperformed the Index. Contributing factors to the first quarter's strong performance included the sharp rally in global stocks, which experienced a mid-quarter selloff, then bounced back in mid-March, to levels not seen since 2000, and strong global merger and acquisition activity. Following a period of modest returns in 2005 for the smaller, short-duration currency and debt portion of the Fund, performance on this portion of the portfolio was stronger in the first quarter of 2006, and has been a significant positive contributor to overall performance in this period and since the Fund's inception.

At the quarter's end, 68.7% of the Fund's total leveraged assets consisted of global equities and 31.2% consisted of emerging markets currency and debt instruments, while the remaining 0.1% consisted of cash and other assets.

Declaration of Dividends

Pursuant to LGI's level distribution policy, the Fund's Board of Directors has declared a monthly dividend distribution of $0.1042 per share on the Fund's outstanding stock each month since the first dividend was paid on July 23, 2004. This distribution level represents an annualized market yield of 6.4%, based on the share price of $19.54 at the close of NYSE trading on March 31, 2006. LGI has met all of its distribution obligations without returning any capital to the Fund's stockholders.

Additional Information

Please note that available on www.LazardNet.com are frequent updates on the Fund's performance, press releases, and a monthly fact sheet that provides information about the Fund's major holdings, sector weightings, regional exposures, and other characteristics. You may also reach Lazard by phone at 1-800-828-5548.

On behalf of Lazard, we thank you for your investment in Lazard Global Total Return & Income Fund, Inc. and look forward to continuing to serve your investment needs in the future.

Message from the Portfolio Managers

Global Equity Portfolio
(68.7% of total leveraged assets)

The Fund's equity portfolio is invested primarily in 35 to 45 equity securities of large, well-known global companies with strong financial productivity at attractive valuations. As of March 31, 2006, examples included GlaxoSmithKline, a global, research-based pharmaceutical company based in the United Kingdom; Home Depot, a U.S.-based company that operates warehouse-style stores selling building materials, home improvement supplies, and lawn and gar-

Investment Overview (continued)

den products; Nokia Corp., the Finnish manufacturer of mobile telephones, enhanced communicators, entertainment and gaming devices, and media and imaging telephones; and Total SA, the French-based energy supplier that explores for, produces, refines, transports, and markets oil and natural gas.

Companies held in the global equity portfolio are all based in developed-market regions around the world. As of March 31, 2006, 42.9% of these companies were based in North America, 30.1% were in continental Europe (not including the U.K.), 20.4% were in the U.K., and 6.6% were in Japan. The global equity portfolio is similarly well diversified across a number of industry sectors. The top two sectors, by weight, at March 31, 2006, were financials (29.4%), which includes banks, insurance companies, and financial services companies, and information technology (16.6%), a sector that encompasses those industries that include design, development, installation, and implementation of information systems and applications, which includes hardware, software, IT services, and media-related companies. Other sectors represented in the portfolio include consumer discretionary, consumer staples, energy, health care, industrials, and telecommunications services. The average dividend yield on the global equity portfolio was 2.3% as of the end of the first quarter.

Global Equity Market Review

A sharp rally in global stocks marked the first quarter of 2006, including a mid-quarter selloff before the mid-March bounce-back. The mid-quarter selloff was attributed to concerns over the sustainability of global growth and worries that the monetary tightening around the world (particularly in Japan, where rates have essentially been at zero for many years) would lead to a global reduction in investor risk tolerance. However, a continuation of strong profit growth, coupled with robust merger and acquisition activity (particularly in Europe), aided the overall rally in the global markets. In fact, the first quarter witnessed over $800 billion worth of global merger and acquisition activity. The largest deal was AT&T’s $67 billion offer for BellSouth. Subsequently, the telecom services sector outpaced the overall U.S. market. In addition, Europe’s utility sector saw significant merger activity when Germany’s E.ON offered 29 billion euros for Spain’s Endesa. From a sector perspective, energy, which had dominated index performance in 2005, performed modestly better than the global broad market, as oil prices failed to surpass last year’s records. Telecom services, 2005’s worst performing sector, performed well in the first quarter of 2006, driven by gains in U.S. telecoms. The materials sector was the best performer, while technology, health care, and consumer staples lagged. The Japanese market, which had soared during the second half of 2005 on expectations that its economy was finally emerging from a long malaise, lagged the global broad market, as the Central Bank of Japan halted its policy of flooding the economy with funds to fight deflation, and the Livedoor securities fraud weighed on the market. On the positive side, economic reports from Japan continue to be strong, U.S. stocks had their best performance in five quarters and, in Europe, takeover speculation helped stocks advance in the face of forecasts for slower earnings growth and the European Central Bank’s second interest-rate increase in three months.

What Helped and What Hurt LGI

During the first quarter of 2006, the performance for the Fund’s global equity portfolio benefited from stock selection in health care, as Schering AG, a pharmaceutical holding, received a takeover offer as a result of consolidation in the global pharmaceutical industry. Stock selection in technology also helped the performance, as some of the Fund’s large U.S. holdings benefited from reaccelerating revenue growth. Conversely, performance was hurt by stock selection in energy, as some of the portfolio’s European holdings lagged, including ENI, and by an underweight to the oil services sector.

Lazard Global Total Return & Income Fund, Inc.
Investment Overview (continued)

Emerging Market Currency and Debt Portfolio
(31.2% of total leveraged assets)

The Fund also seeks enhanced income through investing in high-yielding, short-duration[1] (typically, under one-year) emerging market forward currency contracts and local currency debt instruments. As of March 31, 2006, this portfolio consisted primarily of forward currency contracts (82.1%), and a smaller allocation to sovereign debt obligations (12.7%) and structured notes (5.2%). The average duration of the emerging market currency and debt portfolio was approximately 5.2 months, with an average yield of 8.2%.

At the end of the first quarter of 2006, the Fund's emerging market currency and debt holdings were highly diversified across 31 countries within Eastern Europe (15.2%), Asia (26.6%), Latin America (19.8%), the Middle East (9.5%), Africa (17.2%), and the Commonwealth of Independent States and Baltic countries (11.7%).

Emerging Market Currency and Debt Market Review 2006 was off to a solid start in emerging markets. Currencies have generally been appreciating, while external debt spreads are near record levels of tightness, and the multi-year emerging-markets equities bull-market run has continued unabated. There is increasing investor confidence in the current environment of strong global expansion alongside controlled inflation.

Accelerating global growth, historically low VIX levels (volatility index used to measure the markets' levels of satisfaction or anxiety), ongoing soundness of emerging markets fundamentals, record portfolio inflows, and tightening monetary policy biases in place among many emerging markets central banks are all supportive factors for this portfolio's performance year-to-date. During this global expansionary period, faster export growth from emerging markets has been noted. Many of these markets are net commodity exporters. Thus, high prices and a strong Asian growth profile are supportive factors for continued trade surpluses. Many emerging markets continue to post current account surpluses and are benefiting from increased capital (especially equity and overseas worker remittance) inflows. These factors have been associated with local currency appreciation pressures across most of our holdings. Emerging market policymakers are keen to support strengthening domestic demand, in its contributory role, together with net exports, toward sustained growth in gross domestic product. While both currency strength and higher interest rates have a role to play in tightening monetary conditions, locally, there appears to be increasing policymaker tolerance (or even explicit support) for appreciating exchange rates as an alternative or complement to higher official monetary policy rates.

What Helped and Hurt LGI

In keeping with the Fund's thesis on the risk/return attributes of a diversified local currency market portfolio, it is interesting to note that each of the top five countries contributing to first quarter returns were sourced from a different region of the emerging world. The top contributor was the portfolio's bullish exposure to Brazil. This country's trade surplus has gone from strength to strength. The Romanian currency market was also a strong contributor to portfolio returns. Exposure to the Russian ruble was positive, as the Central Bank of Russia permitted a material appreciation of the real effective exchange rate during the first quarter to counter domestic inflationary pressure. The Indonesian currency market contributed to performance, as the high-carry rupiah rallied sharply. Indonesia's policy rate is the highest in Asia, and the market is gaining confidence in its central bank policy and investment climate. And, continued strong performance from the Turkish lira and local debt helped the portfolio during the quarter.

Detracting from the portfolio's performance was its position in the Icelandic currency market, as the krona weakened sharply in an environment of thin liquidity. The Tanzanian shilling hurt portfolio performance due to the country's strong import-related demand for U.S. dollars. Finally, constrained position sizes or lack of exposure to the highest returning markets, such as the Czech Republic, Hungary, Indonesia, and the Philippines, limited portfolio upside.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

Please consider the Fund's investment objectives, risks, charges and expenses carefully before investing. For more complete information about the Fund, you may obtain the prospectus by calling 800-828-5548. Read the prospectus carefully before you invest. The prospectus contains investment objectives, risks, charges, expenses and other information about the Fund, which may not be detailed in this report.

Notes to Investment Overview:

1 A measure of the average cash weighted term-to-maturity of the investment holdings. Duration is a measure of the price sensitivity of a bond to interest rate movements. Duration for a forward currency contract is equal to its term-to-maturity.

All returns are for the period ended March 31, 2006 and reflect reinvestment of all dividends and distributions. Past performance is not indicative, nor a guarantee, of future results.

The performance data of the index and other market data have been prepared from sources and data that the Investment Manager believes to be reliable, but no representation is made as to their accuracy. The index is unmanaged, has no fees or costs and is not available for investment.

The views of the Fund's management and the portfolio holdings described in this report are as of March 31, 2006; these views and portfolio holdings may have changed subsequent to this date. Nothing herein should be construed as a recommendation to buy, sell, or hold a particular investment. There is no assurance that the portfolio holdings discussed herein will remain in the Fund at the time you receive this report, or that portfolio holdings sold will have not been repurchased. The specific portfolio holdings may in aggregate represent only a small percentage of the Fund's holdings. It should not be assumed that investments identified and discussed were, or will be, profitable, or that the investment decisions we make in the future will be profitable, or equal the performance of the investments discussed herein.

The views and opinions expressed are provided for general information only, and do not constitute specific tax, legal, or investment advice to, or recommendations for, any person. There can be no guarantee as to the accuracy of the outlooks for markets, sectors and securities as discussed herein. You should read the Fund's prospectus for a more detailed discussion of the Fund's investment objective, strategies, risks and fees.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

Comparison of Changes in Value of $10,000 Investment in LGI and MSCI World Index* (unaudited)

Average Annual Total Returns*
Periods Ended March 31, 2006
(unaudited)

	One Year	Since Inception**
Market Price	11.29%	4.98%
Net Asset Value	13.72	15.16
MSCI World Index	18.03	14.47

* All returns reflect reinvestment of all dividends and distributions. The performance quoted represents past performance. Current performance may be lower or higher than the performance quoted. Past performance is not indicative, nor a guarantee, of future results; the investment return, market price and net asset value of the Fund will fluctuate, so that an investor's shares in the Fund, when sold, may be worth more or less than their original cost. The returns do not reflect the deduction of taxes that a stockholder would pay on the Fund's distributions or on the sale of Fund shares.

The performance data of the index has been prepared from sources and data that the Investment Manager believes to be reliable, but no representation is made as to its accuracy. The index is unmanaged, has no fees or costs and is not available for investment. The MSCI World Index represents market value-weighted average returns of selected securities listed on the stock exchanges of Europe, Australasia and Far East, New Zealand, Canada, and the United States.

** The Fund's inception date was April 28, 2004.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (concluded)

Ten Largest Equity Holdings
March 31, 2006 (unaudited)

Security	Value	Percentage of Net Assets
Credit Suisse Group Sponsored ADR	$8,390,172	3.88%
Nokia Oyj Sponsored ADR	8,122,240	3.76
Exxon Mobil Corp.	7,802,252	3.61
Total SA Sponsored ADR	7,653,513	3.54
Microsoft Corp.	7,635,126	3.53
Nomura Holdings, Inc. ADR	7,373,742	3.41
Oracle Corp.	6,530,130	3.02
Diageo PLC Sponsored ADR	6,412,773	2.97
HSBC Holdings PLC Sponsored ADR	6,392,414	2.96
Barclays PLC Sponsored ADR	6,332,040	2.93

Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments

March 31, 2006 (unaudited)

Description	Shares	Value
Common Stocks—97.8%		
Finland—3.8%		
Nokia Oyj Sponsored ADR (c)	392,000	$ 8,122,240
France—6.9%		
Societe Generale Sponsored ADR	101,300	3,052,169
Total SA Sponsored ADR (c)	58,100	7,653,513
Vivendi SA Sponsored ADR	124,800	4,268,160
Total France		14,973,842
Germany—3.7%		
Schering AG ADR (d)	31,800	3,304,338
Siemens AG Sponsored ADR	50,600	4,714,402
Total Germany		8,018,740
Italy—2.3%		
Eni SpA Sponsored ADR (c)	89,250	5,085,465
Japan—6.5%		
Canon, Inc. Sponsored ADR	69,000	4,557,450
Kao Corp. Sponsored ADR	7,700	2,031,568
Nomura Holdings, Inc. ADR (d)	332,600	7,373,742
Total Japan		13,962,760
Netherlands—2.9%		
Heineken NV ADR (d)	327,500	6,225,775
Switzerland—9.7%		
Credit Suisse Group Sponsored ADR (d)	150,200	8,390,172
Nestle SA Sponsored ADR (d)	57,400	4,263,098
Novartis AG ADR	39,600	2,195,424
Swiss Re Sponsored ADR (c), (d)	55,200	3,860,688

UBS AG	21,400	2,353,358
Total Switzerland		21,062,740
United Kingdom20.0%		
Barclays PLC Sponsored ADR (c), (d) .	135,300	6,332,040
BP PLC Sponsored ADR	69,600	4,798,224
Cadbury Schweppes PLC Sponsored ADR (c), (d)	112,700	4,508,000
Diageo PLC Sponsored ADR (d)	101,100	6,412,773
GlaxoSmithKline PLC ADR (c)	80,200	4,195,262
HSBC Holdings PLC Sponsored ADR (d)	76,300	6,392,414
Tesco PLC Sponsored ADR (d)	119,000	2,043,468
Unilever PLC Sponsored ADR	95,500	3,922,185
Vodafone Group PLC Sponsored ADR	219,100	4,579,190
Total United Kingdom		43,183,556
United States42.0%		
Bank of America Corp. (c)	138,200	6,293,628
Chevron Corp. (c)	73,400	4,254,998
Cisco Systems, Inc. (a)	220,400	4,776,068
Citigroup, Inc. (c)	116,000	5,478,680
Exxon Mobil Corp. (c)	128,200	7,802,252
First Data Corp.	84,300	3,946,926
General Electric Co.	116,300	4,044,914
Golden West Financial Corp. (d)	31,200	2,118,480
Honeywell International, Inc.	55,000	2,352,350
International Business Machines Corp.	42,600	3,513,222
Johnson & Johnson	104,300	6,176,646
JPMorgan Chase & Co. (c)	148,896	6,200,029
Microsoft Corp. (c)	280,600	7,635,126
Oracle Corp. (a), (c)	477,000	6,530,130
Pfizer, Inc.	103,500	2,579,220
The Coca-Cola Co.	74,200	3,106,754
The Home Depot, Inc.	107,600	4,551,480
United Technologies Corp.	88,000	5,101,360
Wells Fargo & Co.	67,000	4,279,290
Total United States		90,741,553
Total Common Stocks (Identified cost $179,944,558)		211,376,671

See Notes to Portfolio of Investments.

Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments (continued)

March 31, 2006 (unaudited)

Description	Principal Amount (000) (e)	Value
Foreign Government Obligations5.7%		
Egypt3.7%		
Egypt Treasury Bills:		
0.00%, 04/25/06	6,425	$ 1,111,170
0.00%, 05/09/06	2,750	474,019
0.00%, 05/30/06	9,150	1,569,231
0.00%, 07/18/06	7,475	1,267,661
0.00%, 07/25/06	4,550	770,353
0.00%, 08/08/06	2,250	379,691
0.00%, 09/12/06	3,775	632,112
0.00%, 09/26/06	3,100	517,413
0.00%, 10/17/06	6,800	1,129,528
Total Egypt		7,851,178
Israel0.2%		
Israel Government Bond, 6.00%, 01/31/10	1,930	408,189
Turkey1.8%		
Turkey Government Bonds:		
0.00%, 11/08/06	897	616,600
0.00%, 03/07/07	3,231	2,131,859
0.00%, 05/09/07	843	545,372
0.00%, 09/05/07	1,083	667,315
Total Turkey		3,961,146
Total Foreign Government Obligations (Identified cost $12,151,079)		12,220,513
Structured Notes2.3%		

Brazil1.3%			
Citibank Brazil Inflation-Linked Bond			
NTN-B:			
9.75%, 05/18/09 (f)	927	$	918,956
9.60%, 08/17/10 (f)	1,029		989,464
8.45%, 05/18/15 (f)	989		970,910
Total Brazil			2,879,330
Costa Rica0.7%			
Citibank CRC Linked Deposit,			
14.05%, 10/11/06 (f)	1,511		1,526,488
Zambia0.3%			
Smith Barney ZMK Linked Deposit,			
13.00%, 09/29/06	1,941,300		597,323
Total Structured Notes			
(Identified cost $5,023,003)			5,003,141

Description	Shares		Value
Short-Term Investment18.8%			
Collateral for Securities on Loan18.8%			
State Street Navigator Securities Lending Prime Portfolio, 4.71% (Identified cost $40,540,475) (g), (h)	40,540,475		40,540,475
Total Investments124.6%			
(Identified cost $237,659,115) (b) .		**$**	**269,140,800**
Liabilities in Excess of Cash and Other Assets(24.6)% .			**(53,075,842)**
Net Assets100.0%		**$**	**216,064,958**

See Notes to Portfolio of Investments.

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Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments (continued)

March 31, 2006 (unaudited)

Forward Currency Contracts open at March 31, 2006:

Forward Currency Purchase Contracts	Expiration Date	Foreign Currency	U.S. $ Cost on Origination Date	U.S. $ Current Value	Unrealized Appreciation	Unrealized Depreciation
ARS	04/03/06	2,222,640	$ 720,000	$ 721,314	$ 1,314	$ —
ARS	04/12/06	3,506,000	1,137,278	1,137,665	387	—
ARS	04/18/06	1,674,349	545,000	543,267	—	1,733
ARS	04/28/06	1,993,944	646,000	646,877	877	—
ARS	05/03/06	2,185,493	709,000	708,805	—	195
BRL	04/06/06	8,936,820	3,790,000	4,110,432	320,432	—
BRL	04/10/06	3,929,550	1,675,000	1,805,389	130,389	—
BRL	09/01/06	237,334	106,000	105,012	—	988
BRL	12/20/06	1,672,163	645,000	721,810	76,810	—
BRL	01/31/07	1,874,000	773,421	801,417	27,996	—
BWP	05/03/06	2,889,316	526,000	523,247	—	2,753
BWP	06/09/06	2,937,525	530,000	528,522	—	1,478
BWP	06/19/06	2,917,805	529,000	524,059	—	4,941
CLP	04/20/06	242,468,250	453,000	461,654	8,654	—
CLP	06/19/06	327,256,000	620,614	622,769	2,155	—
COP	04/06/06	4,464,224,000	1,952,000	1,946,086	—	5,914
COP	05/02/06	1,178,191,000	518,000	513,414	—	4,586
COP	05/02/06	1,044,309,000	465,171	455,073	—	10,098
COP	05/12/06	1,119,552,000	476,000	487,793	11,793	—
COP	05/18/06	929,880,000	405,000	405,118	118	—
COP	05/24/06	687,420,000	304,000	299,461	—	4,539
COP	06/21/06	328,074,000	145,294	142,774	—	2,520
CSD	05/11/06	36,887,400	495,000	507,264	12,264	—
CSD	04/20/06	37,676,840	521,695	521,369	—	326
CSD	06/09/06	28,147,588	384,215	383,847	—	368
EUR	05/08/06	801,405	958,000	972,057	14,057	—
GHC	04/10/06	2,754,280,000	296,000	300,927	4,927	—
GHC	04/13/06	1,379,054,000	149,832	150,635	803	—
GHC	08/31/06	5,922,351,000	629,836	630,406	570	—
GHC	09/18/06	2,077,498,000	221,364	220,272	—	1,092
IDR	04/11/06	4,967,505,000	531,000	546,661	15,661	—
IDR	04/20/06	2,125,200,000	231,000	233,873	2,873	—
IDR	05/16/06	22,935,040,000	2,480,000	2,523,940	43,940	—
IDR	06/27/06	4,808,830,000	521,000	529,199	8,199	—
ILS	05/31/06	1,682,100	356,000	359,958	3,958	—
ILS	06/19/06	11,374,448	2,405,000	2,433,739	28,739	—
ILS	09/29/06	2,418,504	528,000	516,967	—	11,033
INR	04/03/06	79,887,700	1,790,000	1,792,239	2,239	—
INR	04/10/06	24,379,790	547,000	546,683	—	317

INR	04/17/06	12,926,000	289,496	289,707	211	
INR	05/03/06	83,051,460	1,853,000	1,859,410	6,410	
INR	06/05/06	23,162,970	519,000	517,579		1,421
ISK	04/06/06	40,388,565	633,000	565,460		67,540
ISK	04/06/06	39,100,152				

Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In Thousands, Except Per Share Data)			
INTEREST INCOME				
Loans receivable, including fees	$ 6,332	$ 5,939	$ 12,627	$ 11,723
Securities, taxable	207	195	414	391
Securities, non-taxable	304	334	607	617
Federal funds sold, and other	15	18	64	37
Interest on time deposits	1	5	1	9
Total Interest Income	6,859	6,491	13,713	12,777
INTEREST EXPENSE				
Deposits	694	674	1,367	1,316
Securities sold under agreements to repurchase	5	5	9	9
Short-term borrowings	28	-	43	2
Long-term borrowings	33	69	68	142
Total Interest Expense	760	748	1,487	1,469
Net Interest Income	6,099	5,743	12,226	11,308
PROVISION FOR LOAN LOSSES	120	105	142	210
Net Interest Income after Provision for Loan Losses	5,979	5,638	12,084	11,098
OTHER INCOME				
Credit card processing fees	412	356	775	689
Other service fees	173	169	332	320
Bank owned life insurance	91	54	189	121
Gain on sale of securities, net	-	-	139	31
Profit (loss) on sale of other real estate owned	1	(9)	7	(3)
Impairment on other real estate owned	-	-	(42)	(9)
Total Other Income	677	570	1,400	1,149
OTHER EXPENSES				
Salaries and employee benefits	1,717	1,804	3,459	3,600
Occupancy and equipment	594	615	1,223	1,244
Data processing	444	320	803	625
Credit card processing	393	318	747	619

Advertising and promotion	381	280	673	530
Professional fees	133	144	255	264
FDIC insurance	78	98	165	198
Insurance	13	14	27	27
Loan & real estate	82	45	126	106
Charitable contributions	142	127	351	321
Other real estate owned expenses	4	10	40	17
Other	341	286	559	501
Total Other Expenses	4,322	4,061	8,428	8,052
Income before Income Taxes	2,334	2,147	5,056	4,195
INCOME TAX EXPENSE	656	599	1,437	1,175
Net Income	$ 1,678	$ 1,548	$ 3,619	$ 3,020
BASIC EARNINGS PER SHARE	$ 0.23	$ 0.21	$ 0.49	$ 0.41
DILUTED EARNINGS PER SHARE	$ 0.23	$ 0.21	$ 0.49	$ 0.41
DIVIDENDS PER SHARE	$ 0.10	$ 0.06	$ 0.10	$ 0.06

See notes to consolidated financial statements

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Embassy Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30, 2015	2014
	(In Thousands)	
Net Income	$ 1,678	$ 1,548
Change in Accumulated Other Comprehensive Income:		
Unrealized holding (loss) gain on securities available for sale	(865)	722
Less: reclassification adjustment for realized gains	-	-
	(865)	722
Income tax effect	294	(245)
Net unrealized (loss) gain	(571)	477
Other comprehensive (loss) gain, net of tax	(571)	477
Comprehensive Income	$ 1,107	$ 2,025

	Six Months Ended June 30, 2015	2014
	(In Thousands)	
Net Income	$ 3,619	$ 3,020
Change in Accumulated Other Comprehensive Income:		
Unrealized holding (loss) gain on securities available for sale	(527)	1,152
Less: reclassification adjustment for realized gains	(139)	(31)
	(666)	1,121
Income tax effect	226	(381)
Net unrealized (loss) gain	(440)	740
Other comprehensive (loss) gain, net of tax	(440)	740
Comprehensive Income	$ 3,179	$ 3,760

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Consolidated Statements of Stockholders' Equity (Unaudited)

Six Months Ended June 30, 2015 and 2014

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
	(In Thousands, Except Share and Per Share Data)				
BALANCE - DECEMBER 31, 2013	$ 7,324	$ 23,671	$ 22,520	$ 540	$ 54,055
Net income	-	-	3,020	-	3,020
Other comprehensive income, net of tax	-	-	-	740	740
Dividend declared, $.06 per share	-	-	(440)	-	(440)
Compensation expense recognized on stock options	-	48	-	-	48
Common stock grants to directors, 10,209 shares	10	67	-	-	77
BALANCE - JUNE 30, 2014	$ 7,334	$ 23,786	$ 25,100	$ 1,280	$ 57,500
BALANCE - DECEMBER 31, 2014	$ 7,358	$ 24,024	$ 28,485	$ 1,465	$ 61,332
Net income	-	-	3,619	-	3,619
Other comprehensive loss, net of tax	-	-	-	(440)	(440)
Dividend declared, $.10 per share	-	-	(736)	-	(736)
Compensation expense recognized on stock options	-	25	-	-	25
Common stock grants to directors, 9,122 shares	9	87	-	-	96
BALANCE - JUNE 30, 2015	$ 7,367	$ 24,136	$ 31,368	$ 1,025	$ 63,896

See notes to consolidated financial statements.

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Embassy Bancorp, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2015	2014
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,619	$ 3,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	142	210
Amortization (accretion) of deferred loan costs	12	(1)
Depreciation and amortization	306	340
Net amortization of investment security premiums and discounts	105	81
Stock compensation expense	25	48
Net realized (gain) loss on sale of other real estate owned	(7)	3
Impairment on other real estate owned	42	9
Income on bank owned life insurance	(189)	(121)
Net realized gain on sale of securities available for sale	(139)	(31)
Increase in accrued interest receivable	(39)	(59)
Increase in other assets	(22)	(338)
(Decrease) increase in accrued interest payable	(12)	86
(Decrease) increase in other liabilities	(20)	648
Net Cash Provided by Operating Activities	3,823	3,895
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(13,869)	(13,799)
Maturities, calls and principal repayments of securities available for sale	981	2,509
Proceeds from sales of securities available for sale	5,726	528
Net increase in loans	(46,448)	(20,225)
Net redemption (purchases) of restricted investment in bank stock	(1,728)	772
Net maturities of interest bearing time deposits	-	492
Proceeds from sale of other real estate owned	53	46
Purchases of premises and equipment	(282)	(82)
Net Cash Used in Investing Activities	(55,567)	(29,759)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	7,424	37,263
Net increase (decrease) in securities sold under agreements to repurchase	3,491	(661)
Increase (decrease) in short-term borrowed funds	35,440	(10,000)
Proceeds from long-term borrowed funds	5,455	
Payments of long-term borrowed funds	(1,000)	(500)
Net Cash Provided by Financing Activities	50,810	26,102
Net (Decrease) Increase in Cash and Cash Equivalents	(934)	238
CASH AND CASH EQUIVALENTS - BEGINNING	16,390	17,831
CASH AND CASH EQUIVALENTS - ENDING	$ 15,456	$ 18,069

SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 1,500	$ 1,383
Income taxes paid	$ 1,560	$ 1,180
Other real estate sold through bank financing	$ -	$ 58
Other real estate acquired in settlement of loans	$ 195	$ -

See notes to consolidated financial statements.

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Basis of Presentation

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

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

The accompanying unaudited financial statements have been prepared in accordance with United States of America generally accepted accounting principles ("US GAAP") for interim financial information and in accordance with instructions for Form 10-Q and Rule 10-01 of the Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The consolidated financial statements presented in this report should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2014, included in the Company's Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2015.

In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred after June 30, 2015 through the date these consolidated financial statements were issued.

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

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies of the Company as applied in the interim financial statements presented are substantially the same as those followed on an annual basis as presented in the Company's Form 10-K for the year ended December 31, 2014.

Note 3 – Stockholders' Equity

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

Note 4 – Stock Incentive Plan

At the Company's annual meeting on June 16, 2010, the shareholders approved the Embassy Bancorp, Inc. 2010 Stock Incentive Plan (the "SIP"). The SIP authorizes the Board of Directors, or a committee authorized by the Board of Directors, to award a stock based incentive to (i) designated officers (including officers who are directors) and other designated employees at the Company and its subsidiaries, and (ii) non-employee members of the Board of Directors and advisors and consultants to the Company and its subsidiaries. The Board of Directors believes that the SIP will encourage the designated participants to contribute materially to the growth of the Company. 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.

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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. There were no awards granted under the SIP for the years ended December 31, 2011 and 2010. In January 2015 and 2014, February 2013 and 2012, the Company granted 9,122, 10,209, 8,764, and 7,992 shares of restricted stock, respectively, to certain members of its Board of Directors as compensation for their service in 2014, 2013, 2012 and 2011, respectively, in accordance with the Company's Non-employee Directors Compensation program adopted in October of 2010. Such compensation was accrued for as of December 31, 2014, 2013, 2012 and 2011. In January 2014, February 2013 and 2012, the Company also 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 the six months ended June 30, 2015. Stock compensation expense related to the options granted was $10 thousand and $25 thousand for the three and six months ended June 30, 2015, respectively, and $24 thousand and $48 thousand for the three and six months ended June 30, 2014, respectively. At June 30, 2015, approximately $48 thousand of unrecognized cost related to stock options granted in 2014 and 2013 will be recognized over the next 1.55 and 0.65 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 per share, $2.14 per share and $2.56 per share, respectively. At June 30, 2015, there were 351,897 shares available for issuance under the SIP.

Note 5 – Other Comprehensive Income (Loss)

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

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

	Three Months Ended June 30,					
	2015			2014		
	(In Thousands)					
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax

Change in accumulated other comprehensive (loss) income:						
Unrealized holding (losses) gains on securities available for sale	$ (865)	$ 294	$ (571)	$ 722	$ (245)	$ 477
Reclassification adjustments for gains on securities transactions included in net income (A),(B)	-	-	-	-	-	-
Total other comprehensive (loss) income	$ (865)	$ 294	$ (571)	$ 722	$ (245)	$ 477

	Six Months Ended June 30,					
	2015			2014		
	(In Thousands)					
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in accumulated other comprehensive (loss) income:						
Unrealized holding (losses) gains on securities available for sale	$ (527)	$ 179	$ (348)	$ 1,152	$ (391)	$ 761
Reclassification adjustments for gains on securities transactions included in net income (A),(B)	(139)	47	(92)	(31)	10	(21)
Total other comprehensive (loss) income	$ (666)	$ 226	$ (440)	$ 1,121	$ (381)	$ 740

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.

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

There were no realized gains on securities available-for-sale for the three months ended June 30, 2015 and 2014. A summary of the realized gains on securities available for sale, net of tax, for the six months ended June 30, 2015 and 2014 is as follows:

	Six Months Ended June 30, 2015	2014
	(In Thousands)	
Securities available for sale:		
Realized gains on securities transactions	$ (139)	$ (31)
Income taxes	47	10
Net of tax	$ (92)	$ (21)

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

Three Months Ended June 30, 2015 and 2014	Securities Available for Sale (In Thousands)
Balance March 31, 2015	$ 1,596
Other comprehensive loss before reclassifications	(571)
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive loss during the period	(571)
Balance June 30, 2015	$ 1,025
Balance March 31, 2014	$ 803
Other comprehensive income before reclassifications	477
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive income during the period	477

Balance June 30, 2014	$ 1,280

Six Months Ended June 30, 2015 and 2014	
Balance January 1, 2015	$ 1,465
Other comprehensive loss before reclassifications	(348)
Amounts reclassified from accumulated other comprehensive income	(92)
Net other comprehensive loss during the period	(440)
Balance June 30, 2015	$ 1,025
Balance January 1, 2014	$ 540
Other comprehensive income before reclassifications	761
Amounts reclassified from accumulated other comprehensive income	(21)
Net other comprehensive income during the period	740
Balance June 30, 2014	$ 1,280

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 6 – Basic and Diluted Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars In Thousands, Except Per Share Data)			
Net income	$ 1,678	$ 1,548	$ 3,619	$ 3,020
Weighted average shares outstanding	7,367	7,333	7,366	7,332
Dilutive effect of potential common shares, stock options	33	7	32	6
Diluted weighted average common shares outstanding	7,400	7,340	7,398	7,338
Basic earnings per share	$ 0.23	$ 0.21	$ 0.49	$ 0.41
Diluted earnings per share	$ 0.23	$ 0.21	$ 0.49	$ 0.41

Stock options of 9,122 and 94,752 for the three and six months ended June 30, 2015 and June 30, 2014, respectively, were not considered in computing diluted earnings per common share because they are not dilutive to earnings.

Note 7 – Guarantees

The Company, through the Bank, does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting these commitments. The Company had $4.2 million of standby letters of credit outstanding as of June 30, 2015. The approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was $4.1 million. Management does not consider the current amount of the liability as of June 30, 2015 for guarantees under standby letters of credit issued to be material.

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 8 – Short-term and Long-term Borrowings

Securities sold under agreements to repurchase, federal funds purchased and Federal Home Loan Bank of Pittsburgh ("FHLB") short term advances generally represent overnight or less than twelve month borrowings. Long term advances from the FHLB are for periods of twelve months or more and are generally less than sixty months. The Bank has an agreement with the FHLB which allows for borrowings up to a percentage of qualifying assets. At June 30, 2015, the Bank had a maximum borrowing capacity for short-term and long-term advances of approximately $370.5 million. This borrowing capacity with the FHLB includes a line of credit of $150.0 million. Short-term loans outstanding with FHLB totaled $44.4 million as of June 30, 2015 and $9.0 million were outstanding as of December 31, 2014. The increase in short-term loans outstanding with the FHLB was primarily used to fund loan growth and investment security purchases. Long-term advances outstanding with FHLB totaled $5.5 million as of June 30, 2015 and no long-term advances were outstanding as of December 31, 2014. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank has a federal funds line of credit with the Atlantic Community Bankers Bank ("ACBB") of approximately $10.0 million, of which none was outstanding at June 30, 2015 and December 31, 2014. Advances from this line are unsecured.

The Company has two lines of credit with Univest Bank and Trust Co. ("Univest") totaling $10 million. As of June 30, 2015 and December 31, 2014, the outstanding balance was $900 thousand and $1.9 million, respectively. Advances from these lines of credit are secured by 833,333 shares of Bank common stock. Under the terms of the loan agreement, the Bank is required to remain well capitalized. The proceeds of the loan were primarily used for the holding company's investment in the Bank, thus providing additional capital to support the Bank's growth.

The components of long-term borrowings with the FHLB at June 30, 2015 are as follows:

	June 30, 2015 (Dollars in Thousands)	
Maturity Date	Interest Rate	Outstanding
April 2016	0.26%	$ 1,667

April 2017	0.48%	917
April 2018	0.69%	945
April 2019	0.88%	959
April 2020	1.06%	967
Total Outstanding Borrowings		$ 5,455

The components of long-term borrowings with Univest at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015		December 31, 2014	
	(Dollars in Thousands)			
Maturity Date	Interest Rate	Outstanding	Interest Rate	Outstanding
November 2015	7.50%	$ 900	7.50%	$ 1,900

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 9 – Securities Available For Sale

At June 30, 2015 and December 31, 2014, respectively, the amortized cost and approximate fair values of securities available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
June 30, 2015 :				
U.S. Government agency obligations	$ 37,662	$ 76	$ (61)	$ 37,677
Municipal bonds	41,972	1,608	(243)	43,337
U.S. Government Sponsored Enterprise (GSE) -				
Mortgage-backed securities - residential	1,540	183	-	1,723
Corporate bonds	1,000	-	(10)	990
Total	$ 82,174	$ 1,867	$ (314)	$ 83,727
December 31, 2014 :				
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) -				
Mortgage-backed securities - residential	7,168	333	-	7,501
Corporate bonds	1,000	-	(4)	996
Total	$ 74,978	$ 2,402	$ (183)	$ 77,197

The amortized cost and fair value of securities as of June 30, 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.

	Amortized Cost	Fair Value

	(In Thousands)	
Due in one year or less	$ 5,574	$ 5,577
Due after one year through five years	40,132	40,235
Due after five years through ten years	17,156	17,692
Due after ten years	17,772	18,500
	80,634	82,004
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	1,540	1,723
	$ 82,174	$ 83,727

There were no gains realized in the three months ended June 30, 2015 and June 30, 2014. Gross gains of $139 thousand and $31 thousand were realized on sales of securities for the six months ended June 30, 2015 and June 30, 2014, respectively. There were no gross losses on the sales of securities during the six months ended June 30, 2015 and June 30, 2014.

Securities with a carrying value of $65.4 million and $62.7 million at June 30, 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.

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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 June 30, 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
June 30, 2015 :	(In Thousands)					
U.S. Government agency obligations	$ 15,495	$ (50)	$ 3,030	$ (11)	$ 18,525	$ (61)
Municipal bonds	7,063	(243)	-	-	7,063	(243)
Corporate Bonds	990	(10)	-	-	990	(10)
Total Temporarily Impaired Securities	$ 23,548	$ (303)	$ 3,030	$ (11)	$ 26,578	$ (314)
December 31, 2014 :						
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	$ 15,057	$ (65)	$ 9,959	$ (118)	$ 25,016	$ (183)

The Company had twenty-five (25) securities in an unrealized loss position at June 30, 2015. The unrealized losses are due only to market rate fluctuations. As of June 30, 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.

Note 10 – Restricted Investment in Bank Stock

Restricted investments in bank stock consist of Federal Home Loan Bank of Pittsburgh ("FHLB") stock and Atlantic Community Bankers Bank ("ACBB") stock. The restricted stocks are carried at cost. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The Bank had FHLB stock at a carrying value of $114 thousand repurchased during the three and six months ended June 30, 2015, respectively, and $224 thousand and $1.1 million was repurchased during the three and six months ended June 30, 2014, respectively. Stock purchases of $983 thousand and $1.8 million were made during the three and six months ended June 30, 2015, respectively, and $335 thousand during the three and six months ending June 30, 2014, respectively. Dividend payments of $13 and $58 thousand were received during the three and six months ended June 30, 2015, respectively, and $14 thousand and $27 thousand were received during the three and six months ended June 30, 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.

Based upon its evaluation of the foregoing criteria, management believes no impairment charge is necessary related to the FHLB or ACBB stock as of June 30, 2015.

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 11 – Loans Receivable and Credit Quality

The following table presents the composition of loans receivable at June 30, 2015 and December 31, 2014, respectively:

	June 30, 2015		December 31, 2014	
	Balance	Percentage of total Loans	Balance	Percentage of total Loans
	(Dollars in Thousands)			
Commercial real estate	$ 272,946	41.55%	$ 249,454	40.84%
Commercial construction	20,171	3.07%	23,220	3.80%
Commercial	32,164	4.90%	34,182	5.60%
Residential real estate	330,793	50.36%	302,908	49.60%
Consumer	800	0.12%	972	0.16%
Total loans	656,874	100.00%	610,736	100.00%
Unearned origination fees	(108)		(155)	
Allowance for loan losses	(5,700)		(5,614)	
	$ 651,066		$ 604,967	

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention (potential weaknesses), substandard (well defined weaknesses) and doubtful (full collection unlikely) within the Company's internal risk rating system as of June 30, 2015 and December 31, 2014, respectively:

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2015	(In Thousands)				

Commercial real estate	$ 268,989	$ 1,961	$ 1,996	$ -	$ 272,946
Commercial construction	18,795	-	1,376	-	20,171
Commercial	32,098	66	-	-	32,164
Residential real estate	329,623	-	1,170	-	330,793
Consumer	800	-	-	-	800
Total	$ 650,305	$ 2,027	$ 4,542	$ -	$ 656,874
December 31, 2014					
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	$ 603,826	$ 2,653	$ 4,257	$ -	$ 610,736

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Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following table summarizes information in regards to impaired loans by loan portfolio class as of June 30, 2015 and December 31, 2014, respectively:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Quarter to Date Average Recorded Investment	Quarter to Date Interest Income Recognized	Year to Date Average Recorded Investment	Year to Date Interest Income Recognized
June 30, 2015	(In Thousands)						
With no related allowance recorded:							
Commercial real estate	$ 3,956	$ 4,271		$ 4,063	$ 33	$ 4,258	$ 66
Commercial construction	1,376	1,376		1,376	13	1,376	25
Commercial	-	-		-	-	1	-
Residential real estate	1,359	1,385		1,223	1	953	5
Consumer	-	-		-	-	-	-
With an allowance recorded:							
Commercial real estate	$ 48	$ 48	$ 4	$ 299	$ (26)	$ 384	$ -
Commercial construction	-	-	-	-	-	-	-
Commercial	323	323	117	324	2	325	5
Residential real estate	846	846	258	849	1	852	3
Consumer	-	-	-	-	-	-	-
Total:							
Commercial real estate	$ 4,004	$ 4,319	$ 4	$ 4,362	$ 7	$ 4,642	$ 66
Commercial construction	1,376	1,376	-	1,376	13	1,376	25
Commercial	323	323	117	324	2	326	5
Residential real estate	2,205	2,231	258	2,072	2	1,805	8
Consumer	-	-	-	-	-	-	-
	$ 7,908	$ 8,249	$ 379	$ 8,134	$ 24	$ 8,149	$ 104
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	-	-	-	-	-
	$ 8,181	$ 8,534	$ 397	$ 10,191	$ 391

Embassy Bancorp, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	June 30, 2015	December 31, 2014
	(In Thousands)	
Commercial real estate	$ 599	$ 1,251
Commercial construction	-	-
Commercial	66	66
Residential real estate	1,170	366
Consumer	-	-
Total	$ 1,835	$ 1,683

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2015 and December 31, 2014, respectively:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loan Receivables	Loan Receivables > 90 Days and Accruing
June 30, 2015	(In Thousands)						
Commercial real estate	$ 675	$ -	$ 302	$ 977	$ 271,969	$ 272,946	$ -
Commercial construction	1,061	-	-	1,061	19,110	20,171	-
Commercial	29	-	66	95	32,069	32,164	-
Residential real estate	311	143	1,047	1,501	329,292	330,793	-
Consumer	2	-	-	2	798	800	-
Total	$ 2,078	$ 143	$ 1,415	$ 3,636	$ 653,238	$ 656,874	$ -
December 31, 2014							
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	$ 2,644	$ 336	$ 1,369	$ 4,349	$ 606,387	$ 610,736	$ -

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The following tables detail the activity in the allowance for loan losses for the three and six months ended June 30, 2015 and 2014:

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses	(In Thousands)						
Three Months Ending June 30, 2015							
Beginning Balance - March 31, 2015	$ 1,987	$ 325	$ 462	$ 2,230	$ 22	$ 609	$ 5,635
Charge-offs	(46)	-	-	(9)	-	-	(55)
Recoveries	-	-	-	-	-	-	-
Provisions	64	8	(71)	196	10	(87)	120
Ending Balance - June 30, 2015	$ 2,005	$ 333	$ 391	$ 2,417	$ 32	$ 522	$ 5,700
Six Months Ending June 30, 2015							
Beginning Balance - December 31, 2014	$ 1,704	$ 401	$ 407	$ 1,955	$ 22	$ 1,125	$ 5,614
Charge-offs	(46)	-	-	(10)	-	-	(56)
Recoveries	-	-	-	-	-	-	-
Provisions	347	(68)	(16)	472	10	(603)	142
Ending Balance - June 30, 2015	$ 2,005	$ 333	$ 391	$ 2,417	$ 32	$ 522	$ 5,700
Three Months Ending June 30, 2014							
Beginning Balance - March 31, 2014	$ 1,782	$ 587	$ 364	$ 2,094	$ 20	$ 527	$ 5,374
Charge-offs	-	-	-	(45)	-	-	(45)
Recoveries	-	-	-	-	-	-	-
Provisions	(156)	(171)	(3)	(190)	(7)	632	105
Ending Balance - June 30, 2014	$ 1,626	$ 416	$ 361	$ 1,859	$ 13	$ 1,159	$ 5,434
Six Months Ending June 30, 2014							
Beginning Balance - December 31, 2013	$ 1,791	$ 495	$ 349	$ 2,068	$ 24	$ 599	$ 5,326
Charge-offs	(2)	-	(38)	(63)	-	-	(103)
Recoveries	-	-	1	-	-	-	1
Provisions	(163)	(79)	49	(146)	(11)	560	210

Ending Balance - June 30, 2014	$ 1,626	$ 416	$ 361	$ 1,859	$ 13	$ 1,159	$ 5,434

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Notes to Consolidated Financial Statements (Unaudited)

The following tables represent the allocation for loan losses and the related loan portfolio disaggregated based on impairment methodology at June 30, 2015 and December 31, 2014.

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
	(In Thousands)						
June 30, 2015							
Allowance for Loan Losses							
Ending Balance	$ 2,005	$ 333	$ 391	$ 2,417	$ 32	$ 522	$ 5,700
Ending balance: individually evaluated for impairment	$ 4	$ -	$ 117	$ 258	$ -	$ -	$ 379
Ending balance: collectively evaluated for impairment	$ 2,001	$ 333	$ 274	$ 2,159	$ 32	$ 522	$ 5,321
Loans receivables:							
Ending balance	$ 272,946	$ 20,171	$ 32,164	$ 330,793	$ 800		$ 656,874
Ending balance: individually evaluated for impairment	$ 4,004	$ 1,376	$ 323	$ 2,205	$ -		$ 7,908
Ending balance: collectively evaluated for impairment	$ 268,942	$ 18,795	$ 31,841	$ 328,588	$ 800		$ 648,966
December 31, 2014							
Allowance for Loan Losses							
Ending Balance	$ 1,704	$ 401	$ 407	$ 1,955	$ 22	$ 1,125	$ 5,614
Ending balance: individually evaluated for impairment	$ 76	$ -	$ 119	$ 202	$ -	$ -	$ 397
Ending balance: collectively evaluated for impairment	$ 1,628	$ 401	$ 288	$ 1,753	$ 22	$ 1,125	$ 5,217
Loans receivables:							
Ending balance	$ 249,454	$ 23,220	$ 34,182	$ 302,908	$ 972		$ 610,736
Ending balance: individually evaluated for impairment	$ 5,204	$ 1,376	$ 330	$ 1,271	$ -		$ 8,181
Ending balance: collectively evaluated for impairment	$ 244,250	$ 21,844	$ 33,852	$ 301,637	$ 972		$ 602,555

Starting 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.

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Notes to Consolidated Financial Statements (Unaudited)

The following table presents TDRs outstanding:

	June 30, 2015		
	Accrual Loans	Non-Accrual Loans	Total Modifications
	(In Thousands)		
Commercial real estate	$ 2,821	$ 297	$ 3,118
Commercial construction	260	-	260
Commercial	257	-	257
Residential real estate	1,035	-	1,035
Consumer	-	-	-
	$ 4,373	$ 297	$ 4,670

	December 31, 2014		
	Accrual Loans	Non-Accrual Loans	Total Modifications
	(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	-	-	-
	$ 4,975	$ 314	$ 5,289

As of June 30, 2015, no available commitments were outstanding on TDRs.

There were no newly restructured loans that occurred during the three and six months ended June 30, 2015. The following table presents newly restructured loans that occurred during the three and six months ended June 30, 2014.

	Number of Loans	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
	(Dollars In Thousands)		
Three Months Ending June 30, 2014			
Commercial	1	$ 262	$ 262
	1	$ 262	$ 262
Six Months Ending June 30, 2014			
Commercial	1	$ 262	$ 262
	1	$ 262	$ 262

The commercial loan above was restructured through a rate reduction and payment modification. The impairment reserve on this TDR described was $55 thousand recorded in the allowance for loan loss for the three and six months ending June 30, 2014.

There were no loans that were modified and classified as a TDR within the prior twelve months that experienced a payment default (loans ninety days or more past due) during the three and six months ended June 30, 2015 and June 30, 2014.

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Note 12 – Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

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.

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Notes to Consolidated Financial Statements (Unaudited)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy utilized at June 30, 2015 and December 31, 2014, respectively, are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(In Thousands)			
U.S. Government agency obligations	$ -	$ 37,677	$ -	$ 37,677
Municipal bonds	-	43,337	-	43,337
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	1,723	-	1,723
Corporate bonds	-	990	-	990
June 30, 2015 Securities available for sale	$ -	$ 83,727	$ -	$ 83,727
U.S. Government agency obligations	$ -	$ 30,076	$ -	$ 30,076
Municipal bonds	-	38,624	-	38,624
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	7,501	-	7,501
Corporate bonds	-	996	-	996
December 31, 2014 Securities available for sale	$ -	$ 77,197	$ -	$ 77,197

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2015 and December 31, 2014, respectively, are as follows:

Description	(Level 1) Quoted Prices in Active Markets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total

	for Identical Assets			
	(In Thousands)			
June 30, 2015 Impaired loans (1)	$ -	$ -	$ 839	$ 839
June 30, 2015 Impaired loans (2)	$ -	$ -	$ -	$ -
June 30, 2015 Other real estate owned (1)	$ -	$ -	$ 1,201	$ 1,201
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 various Level 3 input which are not identifiable. Fair values may also include qualitative adjustments by management based on economic conditions and liquidation expenses.
2) Fair Value determined using the debt service of the borrower.

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

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

At June 30, 2015, of the impaired loans having an aggregate balance of $7.9 million, $6.7 million did not require a valuation allowance because the value of the collateral, including estimated selling costs, securing the loan was determined to meet or exceed the balance owed on the loan. Of the remaining $1.2 million in impaired loans, an aggregate valuation allowance of $379 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.

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Notes to Consolidated Financial Statements (Unaudited)

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:

	Quantitative Information about Level 3 Fair Value Measurements			
Description	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	(Dollars In Thousands)			
June 30, 2015:				
Impaired loans	$ 839	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -25% (-24.2%)
			Liquidation expenses (3)	0 to -8.5% (-7.6%)
Other real estate owned	$ 1,201	Listings, Letters of Intent & Third Party Evaluations (4)	Liquidation expenses (3)	-5% (-5%)
December 31, 2014:				
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 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 The range and weighted average of appraisal adjustments are presented as a percent of the appraisal.
3. Appraisals and pending agreements of sale are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal or pending agreement of sale.
4. Fair value is determined by listings, letters of intent or third-party evaluations.
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 June 30, 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.

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Notes to Consolidated Financial Statements (Unaudited)

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, Federal Funds Purchased and Short-Term Borrowings (Carried at Cost)

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

Long-Term Borrowings (Carried at Cost)

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

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Notes to Consolidated Financial Statements (Unaudited)

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

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

The estimated fair values of the Company's financial instruments were as follows at June 30, 2015 and December 31, 2014:

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	(In Thousands)				
June 30, 2015:					
Financial assets:					
Cash and cash equivalents	$ 15,456	$ 15,456	$ 15,456	$ -	$ -
Interest bearing time deposits	250	250	-	250	-
Securities available-for-sale	83,727	83,727	-	83,727	-
Loans receivable, net of allowance	651,066	654,786	-	-	654,786
Restricted investments in bank stock	2,512	2,512	-	2,512	-
Accrued interest receivable	1,638	1,638	-	1,638	-
Financial liabilities:					
Deposits	619,092	619,719	-	619,719	-
Securities sold under agreements to repurchase and federal funds purchased	33,795	33,792	-	33,792	-
Short-term borrowings	44,440	44,442	-	44,442	-
Long-term borrowings	6,355	6,248	-	-	6,248
Accrued interest payable	337	337	-	337	-

Off-balance sheet financial instruments:					
Commitments to grant loans	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-
December 31, 2014:					
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 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	-	-	-	-	-

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Note 13 – Offsetting Assets and Liabilities

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal 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 June 30, 2015 and December 31, 2014:

Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Pledged

	(In Thousands)					Net Amount
June 30, 2015 Repurchase Agreements: Corporate Institutions	$ 33,795	$ -	$ 33,795	$ (33,795)	$ -	$ -
December 31, 2014 Repurchase Agreements: Corporate Institutions	$ 30,304	$ -	$ 30,304	$ (30,304)	$ -	$ -

As of June 30, 2015 and December 31, 2014, the fair value of securities pledged was $35.4 million and $34.5 million, respectively.

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Note 14 – New Accounting Standards

In January 2014, the Financial Accounting Standards Board (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 June 30, 2015 and December 31, 2014 the Company had no foreclosed residential real estate held. At June 30, 2015 and December 31, 2014, the Company had $154 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, 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.

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

This discussion and analysis provides an overview of the financial condition and results of operations of Embassy Bancorp, Inc. (the "Company") as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014, respectively. This discussion should be read in conjunction with the preceding consolidated financial statements and related footnotes, as well as with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2014, included in the Company's Form 10-K filed with the Securities and Exchange Commission. Current performance does not guarantee and may not be indicative of similar performance in the future.

Critical Accounting Policies

Disclosure of the Company's significant accounting policies is included in Note 1 to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2014. Some of these policies are particularly sensitive, requiring significant judgments, estimates and assumptions to be made by management, most particularly in connection with determining the provision for loan losses and the appropriate level of the allowance for loan losses and the valuation of deferred tax assets. Additional information is contained in this Form 10-Q under the paragraphs titled "Provision for Loan Losses," "Credit Risk and Loan Quality," and "Income Taxes" contained on the following pages.

Forward-looking Statements

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

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

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

OVERVIEW

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

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

The Company's assets increased $54.0 million from $719.1 million at December 31, 2014 to $773.1 million at June 30, 2015 due primarily to an increase in loans receivable and an increase in securities available for sale.

Net income for the three months ended June 30, 2015 was $1.7 million compared to a net income for the three months ended June 30, 2014 of $1.5 million. Net income for the six months ended June 30, 2015 was $3.6 million compared to a net income for the six months ended June 30, 2014 of $3.0 million. Loans receivable, net of the allowance for loan losses, increased $46.1 million to $651.1 million at June 30, 2015 from $605.0 million at December 31, 2014. With the market being very competitive, the Company remains committed to maintaining a high quality portfolio that returns a reasonable market rate. The Company expects to increase lending activity, as the Company expands its presence in its market and becomes 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.

RESULTS OF OPERATIONS

Net Interest Income

Total interest income for the three months ended June 30, 2015 and 2014 totaled $6.9 million and $6.5 million, respectively. Average earning assets were $730.4 million for the three months ended June 30, 2015 compared to $676.7 million for the three months ended June 30, 2014. The tax equivalent yield on average earning assets was 3.88% for the second quarter of 2015 compared to 3.97% for the second quarter of 2014.

Total interest expense for the three months ended June 30, 2015 increased $12.0 thousand to $760.0 thousand as compared to $748.0 thousand for the three months ended June 30, 2014, primarily due to an increase in average deposits and in deposit rates. Average interest bearing liabilities were $614.8 million for the three months ended June 30, 2015 compared to $575.4 million for the three months ended June 30, 2014. The yield on average interest bearing liabilities was 0.50% and 0.52% for the second quarter of 2015 and 2014, respectively.

Net interest income for the three months ended June 30, 2015 was $6.1 million compared to $5.7 million for the three months ended June 30, 2014. The improvement in net interest income for the three months ended June 30, 2015 is a result of a decrease of interest expense on long-term borrowings and the growth in the loan portfolio; offset by growth in interest bearing deposits and short term borrowings. The Company's net interest margin for the three months ended June 30, 2015 decreased seven (7) basis points to 3.48% as compared to 3.55% for the three months ended June 30, 2014, due to the current interest rate environment, including decreased interest rates on the investment securities and the loan portfolio due to the competitive interest rate pressure of lending; offset by the decreased cost of borrowed funds.

Total interest income for the six months ended June 30, 2015 and 2014 totaled $13.7 million and $12.8 million, respectively. Average earning assets were $719.3 million for the six months ended June 30, 2015 compared to $670.8 million for the six months ended June 30, 2014. The tax equivalent yield on average earning assets for the six months ended June 30, 2015 increased one (1) basis point to 3.96% as compared to 3.95% for the six months ended June 30, 2014.

Total interest expense for the six months ended June 30, 2015 and 2014 totaled $1.5 million. Average interest bearing liabilities were $606.4 million for the six months ended June 30, 2015 compared to $572.0 million for the six months ended June 30, 2014. The yield on average interest bearing liabilities as of June 30, 2015 decreased three (3) basis points to 0.49% from 0.52% as of June 30, 2014. This decrease was the result of market conditions, deposit mix, borrowing costs, competition and management's resulting adjustments to the interest rates provided to depositors.

Net interest income for the six months ended June 30, 2015 was $12.2 million compared to $11.3 million for the six months ended June 30, 2014. The improvement in net interest income for the six months ended June 30, 2015 is a result of a decrease of interest expense on long-term borrowings and the growth in the loan portfolio; offset by growth in interest bearing deposits and short term borrowings. The Company's net interest margin for the six months ended June 30, 2015 increased three (3) basis points to 3.54% as compared to 3.51% for the six months ended June 30, 2014, due to the current interest rate environment, including decreased cost of borrowed funds; offset by decreased interest rates on the loan and investment securities portfolios and the competitive interest rate pressure of lending.

The table below sets forth average balances and corresponding yields for the corresponding periods ended June 30, 2015 and 2014, respectively:

Distribution of Assets, Liabilities and Stockholders' Equity:

Interest Rates and Interest Differential (quarter to date)

	Three Months Ended June 30, 2015			2014		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
	(Dollars In Thousands)					
ASSETS						
Loans - taxable	$ 629,149	$ 6,252	3.99%	$ 575,312	$ 5,880	4.10%
Loans - non-taxable	9,914	80	4.90%	8,444	59	4.25%
Investment securities - taxable	50,700	207	1.64%	47,103	195	1.66%
Investment securities - non-taxable	34,106	304	5.42%	36,019	334	5.63%
Federal funds sold	539	-	0.21%	856	-	0.21%
Time deposits	250	-	0.55%	1,446	5	1.16%
Interest bearing deposits with banks	5,738	15	1.05%	7,475	18	0.97%
TOTAL INTEREST EARNING ASSETS	730,396	6,858	3.88%	676,655	6,491	3.97%
Less allowance for loan losses	(5,636)			(5,396)		
Other assets	33,943			28,646		
TOTAL ASSETS	$ 758,703			$ 699,905		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing demand deposits, NOW and money market	$ 54,371	$ 7	0.05%	$ 58,747	$ 8	0.05%
Savings	408,944	496	0.49%	406,816	489	0.48%
Certificates of deposit	78,741	191	0.97%	74,927	177	0.95%
Securities sold under agreements to repurchase, and short & long-term borrowings	72,775	66	0.36%	34,951	74	0.85%
TOTAL INTEREST BEARING LIABILITIES	614,831	760	0.50%	575,441	748	0.52%

Non-interest bearing demand deposits	71,390				60,588				
Other liabilities	5,531				4,473				
Stockholders' equity	66,951				59,403				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	758,703			$	699,905			
Net interest income			$	6,098			$	5,743	
Net interest spread				3.38%					3.45%
Net interest margin				3.48%					3.55%

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Distribution of Assets, Liabilities and Stockholders' Equity:

Interest Rates and Interest Differential (year to date)

	Six Months Ended June 30,					
	2015			2014		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
	(Dollars In Thousands)					
ASSETS						
Loans - taxable	$ 617,817	$ 12,469	4.07%	$ 570,713	$ 11,616	4.10%
Loans - non-taxable	9,741	158	4.96%	7,500	107	4.36%
Investment securities - taxable	50,446	413	1.64%	46,543	391	1.69%
Investment securities - non-taxable	34,293	608	5.41%	33,465	617	5.63%
Federal funds sold	653	1	0.21%	920	1	0.22%
Time deposits	250	1	0.83%	1,634	9	1.11%
Interest bearing deposits with banks	6,073	63	2.09%	10,035	36	0.72%
TOTAL INTEREST EARNING ASSETS	719,273	13,713	3.96%	670,810	12,777	3.95%
Less allowance for loan losses	(5,625)			(5,357)		
Other assets	33,076			27,917		
TOTAL ASSETS	$ 746,724			$ 693,370		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing demand deposits, NOW and money market	$ 57,670	$ 15	0.05%	$ 60,098	$ 17	0.06%
Savings	410,072	988	0.49%	403,396	955	0.48%
Certificates of deposit	75,797	364	0.97%	72,774	344	0.95%
Securities sold under agreements to repurchase, and short & long-term borrowings	62,895	120	0.38%	35,768	153	0.86%
TOTAL INTEREST BEARING LIABILITIES	606,434	1,487	0.49%	572,036	1,469	0.52%
Non-interest bearing demand deposits	69,708			59,587		
Other liabilities	5,345			4,016		

Stockholders' equity	65,237		57,731	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 746,724		$ 693,370	
Net interest income		$ 12,226		$ 11,308
Net interest spread		3.47%		3.43%
Net interest margin		3.54%		3.51%

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Provision for Loan Losses

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

The allowance for loan losses is maintained at a level management considers to be adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change.

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

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

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

For the three months ended June 30, 2015, the provision for loan losses was $120 thousand, as compared to $105 thousand for the same period ended June 30, 2014. In the three months ended June 30, 2015, there were charge-offs in the amount of $55 thousand, as compared to $45 thousand in the three months ended June 30, 2014. For the six months ended June 30, 2015, the provision for loan losses was $142 thousand, as compared to $210 thousand for the same period ended June 30, 2014. In the six months ended June 30, 2015, there were charge-offs in the amount of $56 thousand, compared to $103 thousand in charge-offs and $1 thousand in recoveries during the same period in 2014. The allowance for loan losses is $5.7 million as of June 30, 2015, which is 0.87% of outstanding loans, compared to $5.4 million or 0.92% of outstanding loans as of June 30, 2014. At December 31, 2014, the allowance for loan losses of $5.6 million represented 0.92% of total outstanding loans. Based principally on economic conditions, asset quality, and loan-loss experience, including that of comparable institutions in the Bank's market area, the allowance is believed to be adequate to absorb any losses inherent in the portfolio. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate, or that material increases will not be necessary should the quality of the loans deteriorate. The Bank has not participated in any sub-prime lending activity.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In Thousands)			
Loans receivable at end of period	$ 656,874	$ 589,018	$ 656,874	$ 589,018
Allowance for loan losses:				
Balance, beginning	$ 5,635	$ 5,374	$ 5,614	$ 5,326
Provision for loan losses	120	105	142	210
Loans charged off:				
Commercial real estate	(46)	-	(46)	(2)
Commercial construction	-	-	-	-
Commercial	-	-	-	(38)
Residential real estate	(9)	(45)	(10)	(63)
Consumer	-	-	-	-
Total loans charged off	(55)	(45)	(56)	(103)
Recoveries of loans previously charged off:				
Commercial real estate	-	-	-	-
Commercial construction	-	-	-	-
Commercial	-	-	-	1
Residential real estate	-	-	-	-
Total recoveries	-	-	-	1
Net charge offs	(55)	(45)	(56)	(102)
Balance at end of period	$ 5,700	$ 5,434	$ 5,700	$ 5,434
Allowance for loan losses to loans receivable at end of period	0.87%	0.92%	0.87%	0.92%

Non-interest Income

Total non-interest income was $677 thousand for the three months ended June 30, 2015 compared to $570 thousand for the same period in 2014. The increase is due primarily to growth in the Bank's credit card and merchant processing customer base, an increase in income associated with bank owned life insurance and an increase in the sale of other real estate owned. Total non-interest income was $1.4 million for the six months ended June 30, 2015 compared to $1.1 million for the same period in 2014. The increase is due primarily to the $139 thousand gain on sale of securities realized in 2015 compared to $31 thousand for the same period in 2014, growth in the Bank's credit card and merchant processing customer base, an increase in fee income on deposit accounts and an increase in income associated with bank owned life insurance, offset by a $33 thousand decrease in impairment losses on other real estate owned.

Non-interest Expense

Non-interest expenses increased $261.0 thousand, or 6.4%, from $4.1 million for the three months ended June 30, 2014 to $4.3 million for the same period ended June 30, 2015. The increase is due to: an increase of $124 thousand in data processing expense due primarily to the implementation of mobile banking; an increase of $75 thousand due to credit card processing volume; an increase of $101 thousand in advertising and promotion expense due to mortgage promotions; an increase of $37 thousand in loan and real estate fees; and an increase of $15 thousand in charitable contributions, offset by a decrease in salaries and employee benefits of $87 thousand, due primarily to a decrease in supplemental executive retirement plan expense; a decrease of $21 thousand in occupancy and equipment expense, due primarily to a decrease in depreciation; a decrease of $20 thousand in FDIC insurance expense; and a decrease of $6 thousand in other real estate owned expenses.

Non-interest expenses increased $376.0 thousand, or 4.7%, from $8.1 million for the six months ended June 30, 2014 to $8.4 million for the same period ended June 30, 2015. The increase is due to: an increase of $178 thousand in data processing expense due primarily to the implementation of mobile banking; an increase of $128 thousand due to credit card processing volume; an increase of $143 thousand in advertising and promotion expense due to the launch of new online banking initiatives and mortgage promotions; an increase of $20 thousand in loan and real estate fees; an increase of $30 thousand in charitable contributions due to EITC contributions; and an increase of $23 thousand in other real estate owned expenses due to newly acquired properties, offset by a decrease in salaries and employee benefits of $141 thousand, due primarily to a decrease in supplemental executive retirement plan expense; a decrease of $21 thousand in occupancy and equipment expense, due primarily to a decrease in depreciation; and a decrease of $33 thousand in FDIC insurance expense.

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

Income Taxes

The allocated provision for income taxes for the three months ended June 30, 2015 totaled $656 thousand, or 28.1% of income before taxes. The provision for income taxes for the three months ended June 30, 2014 totaled $599 thousand, or 27.9% of income before taxes. The allocated provision for income taxes for the six months ended June 30, 2015 totaled $1.4 million, or 28.4% of income before taxes. The provision for income taxes for the six months ended June 30, 2014 totaled $1.2 million, or 28.0% of income before taxes. The slight increase in the tax rate is a result of the change in the mix of taxable and tax free loans and investments.

FINANCIAL CONDITION

Securities

The Bank's securities portfolio continues to be classified, in its entirety, as "available for sale." Management believes that a portfolio classification of available for sale allows complete flexibility in the investment portfolio. Using this classification, the Bank intends to hold these securities for an indefinite amount of time, but not necessarily to maturity. Such securities are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity. The portfolio is structured to provide maximum return on investments while providing a consistent source of liquidity and meeting strict risk standards. Investment securities consist primarily of U.S. government agency securities, mortgage-backed securities issued by FHLMC or FNMA, corporate bonds, and taxable and non-taxable municipal bonds. The Bank holds no high-risk securities or derivatives as of June 30, 2015. The Bank has not made any investments in non-U.S. government agency mortgage backed securities or sub-prime loans.

Total securities at June 30, 2015 were $83.7 million compared to $77.2 million at December 31, 2014. The increase in the investment portfolio is the result of the purchase of six (6) U.S. Government agency obligations totaling $7.5 million, the purchase of eight (8) municipal obligations totaling $6.4 million, offset by pay downs on mortgage-backed securities, a decrease in unrealized gains, and the sale of five (5) mortgage-backed securities totaling $5.2 million and the sale of one (1) municipal obligations totaling $478 thousand. The carrying value of the securities portfolio as of June 30, 2015 includes a net unrealized gain of $1.6 million, which is recorded as accumulated other comprehensive income in stockholders' equity net of income tax effect. This compares to a net unrealized gain of $2.2 million at December 31, 2014. The current unrealized gain position of the securities portfolio is due to the changes in market rates since purchase. No securities are deemed to be other than temporarily impaired.

Loans

The loan portfolio comprises a major component of the Bank's earning assets. All of the Bank's loans are to domestic borrowers. Total net loans at June 30, 2015 increased $46.1 million to $651.1 million from $605.0 million at December 31, 2014. The loan-to-deposit ratio increased from 100% at December 31, 2014 to 106% at June 30, 2015. The Bank's loan portfolio at June 30, 2015 was comprised of residential real estate and consumer loans of $331.6 million, an increase of $27.7 million from December 31, 2014, and commercial loans of $325.3 million, an increase of $18.4 million from December 31, 2014. The Bank has not originated, nor does it intend to originate, sub-prime mortgage loans.

Credit Risk and Loan Quality

The allowance for loan losses increased $86 thousand totaling $5.7 million at June 30, 2015 compared to $5.6 million at December 31, 2014. At June 30, 2015 and December 31, 2014, the allowance for loan losses represented 0.87% 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 June 30, 2015, December 31, 2014, and June 30, 2014 aggregate balances on non-performing loans equaled $6.2 million, $6.7 million and $11.4 million, respectively, representing 0.95%, 1.09% and 1.94% of total loans at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Troubled debt restructurings, included in the following table, represent loans where the Company, for economic or legal reasons related to the debtor's financial difficulties, has granted a concession to the debtor that it would not otherwise consider. There were no loans that were modified and classified as a TDR within the prior twelve months that experienced a payment default (loans ninety or more days past due) for the six months ended June 30, 2015. The Company has seven foreclosed assets in the amount of $1.2 million as of June 30, 2015, as compared to six foreclosed assets at December 31, 2014 in the amount of $1.1 million. The net change is a result of: the acquisition of two assets in the amount of $194 thousand, the sale two assets in the amount of $58 thousand, and a $42 thousand impairment loss.

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

	June 30, 2015	December 31, 2014	June 30, 2014
	(In Thousands)		
Non-accrual - commercial	$ 665	$ 1,318	$ 1,638
Non-accrual - consumer	1,170	366	221
Restructured loans, accruing interest and less than 90 days past due	4,373	4,975	8,245
Loans past due 90 or more days, accruing interest	-	-	1,296
Total nonperforming loans	6,208	6,659	11,400
Foreclosed assets	1,201	1,106	532
Total nonperforming assets	$ 7,409	$ 7,765	$ 11,932
Nonperforming loans to total loans at period-end	0.95 %	1.09 %	1.94 %
Nonperforming assets to total assets	0.96 %	1.08 %	1.70 %

Premises and Equipment

Company premises and equipment, net of accumulated depreciation, decreased $24.0 thousand from December 31, 2014 to June 30, 2015. This decrease is due primarily to depreciation on existing premises and equipment, offset by increases related to purchases.

Deposits

Total deposits at June 30, 2015 increased $7.4 million to $619.1 million from $611.7 million at December 31, 2014. Demand deposits decreased $30.4 thousand, savings deposits decreased $425.4 thousand, offset by an increase in time deposits of $7.9 million.

Liquidity

Liquidity represents the Company’s ability to meet the demands required for the funding of loans and to meet depositors’ requirements for use of their funds. The Company’s sources of liquidity are cash balances, due from banks, and federal funds sold. Cash and cash equivalents were $15.5 million at June 30, 2015, compared to $16.4 million at

December 31, 2014.

Additional asset liquidity sources include principal and interest payments from the investment security and loan portfolios. Long-term liquidity needs may be met by selling unpledged securities available for sale, selling loans or raising additional capital. At June 30, 2015, the Company had $83.7 million of available for sale securities. Securities with carrying values of approximately $65.4 million and $62.7 million at June 30, 2015 and December 31, 2014, respectively, were pledged as collateral to secure securities sold under agreements to repurchase, public deposits, and for other purposes required or permitted by law.

The Bank also has borrowing capacity with the FHLB of approximately $370.5 million, which includes a line of credit for $150.0 million. Long-term loans outstanding with the FHLB totaled $5.5 million as of June 30, 2015. There were no outstanding long-term loans as of December 31, 2014. Short-term loans outstanding with FHLB totaled $44.4 million and $9.0 million as of June 30, 2015 and December 31, 2014. 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 line of credit with ACBB of approximately $10.0 million, of which none was outstanding at June 30, 2015. Advances from this line are unsecured.

The Company has two lines of credit totaling an aggregate of $10 million with Univest, of which an aggregate of $900 thousand was outstanding at June 30, 2015, and $1.9 million was outstanding at December 31, 2014. These lines of credit are secured by 833,333 shares of Bank common stock.

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

Off-Balance Sheet Arrangements

The Company’s consolidated financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk. These off-balance sheet arrangements consist of unfunded loans and commitments, as well as lines of credit made under the same standards as on-balance sheet instruments. These unused commitments totaled $92.2 million at June 30, 2015. The Company also has letters of credit outstanding of $4.2 million at June 30, 2015. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. Management is of the opinion that the Company’s liquidity is sufficient to meet its anticipated needs.

Capital Resources and Adequacy

Total stockholders’ equity was $63.9 million as of June 30, 2015, representing a net increase of $2.6 million from December 31, 2014. The increase in capital was primarily the result of the net income of $3.6 million, offset by a decrease in unrealized gains on available for sale securities of $440 thousand.

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

The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and Tier I capital to average assets (as defined). As of June 30, 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:

	June 30, 2015	December 31, 2014
	(Dollars In Thousands)	
Tier I, common stockholders' equity	$ 63,673	$ 61,510
Tier II, allowable portion of allowance for loan losses	5,700	5,614
Total capital	$ 69,373	$ 67,124
Common equity tier 1 capital ratio	11.7 %	-
Tier I risk based capital ratio	11.7 %	12.4 %
Total risk based capital ratio	12.8 %	13.5 %

Tier I leverage ratio	8.4	%	8.5	%

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

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

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

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

	June 30, 2015	December 31, 2014
	(Dollars In Thousands)	
Tier I, common stockholders' equity	$ 62,871	$ 59,868
Tier II, allowable portion of allowance for loan losses	5,700	5,614
Total capital	$ 68,571	$ 65,482
Common equity tier 1 capital ratio	11.6 %	-
Tier I risk based capital ratio	11.6 %	12.0 %
Total risk based capital ratio	12.6 %	13.2 %
Tier I leverage ratio	8.3 %	8.2 %

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%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4 – Controls and Procedures

The term “disclosure controls and procedures” is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2015, and they have concluded that, as of this date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

There were no significant changes to our internal controls over financial reporting or in the other factors that could significantly affect our internal controls over financial reporting during the quarter ended June 30, 2015, including any corrective actions with regard to significant deficiencies and material weakness.

Part II - Other Information

Item 1 - Legal Proceedings

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

Item 1A - Risk Factors

Not Applicable.

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

Not Applicable.

Item 3 - Defaults Upon Senior Securities

Not Applicable.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 - Other Information

None.

Item 6 - Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation as amended (conformed) (Incorporated by reference to Exhibit 3.1 of Registrant's Form 10-Q filed on May 14, 2010).
3.2	Amended and Restated By-Laws (Incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed on August 19, 2014).
11.1	The statement regarding computation of per share earnings required by this exhibit is contained in Note 6 to the financial statements under the caption "Basic and Diluted Earnings Per Share."
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.
101.1	Interactive Data Files (XBRL)

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

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		EMBASSY BANCORP, INC. (Registrant)
Dated: August 12, 2015	By:	/s/ David M. Lobach, Jr. David M. Lobach, Jr. President and Chief Executive Officer
Dated: August 12, 2015	By:	/s/ Judith A. Hunsicker Judith A. Hunsicker Senior Executive Vice President, Chief Operating Officer, Secretary and Chief Financial Officer

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