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AMERICAN VALUES *at* WORK.



**EMBASSY
BANCORP, INC.**

2011 ANNUAL REPORT

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FDIC



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Mary Beth Mulicka, *Branch Administration*

Maria P. Nace, *Branch Administration*

Lisa M. Schmidt, *Commercial Lending*

Embassy Bancorp, Inc. (the "Company") is a Pennsylvania corporation and registered as a bank holding company. It owns all of the capital stock of Embassy Bank For The Lehigh Valley (the "Bank"), giving the Bank more flexibility in meeting its capital needs as the Bank continues to grow.

Embassy Bank is a full service bank providing personal and business lending and deposit services through seven branch offices in the Lehigh Valley area of Pennsylvania.

Common Stock Outstanding

On April 16, 2012, there were 7,179,892 shares of the Company's common stock outstanding and 1,226 shareholders of record.

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
1-800-368-5948

Embassy Bancorp, Inc. and
Embassy Bank For The Lehigh Valley

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

Annual Meeting

The Annual Meeting of Embassy Bancorp, Inc. is scheduled for 5:30 PM, June 14, 2012 at the Best Western Lehigh Valley Hotel and Conference Center at 300 Gateway Drive, Bethlehem, Pennsylvania. All shareholders are invited to join us for a reception immediately following the meeting.

The Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge on-line at the SEC's website at <http://www.sec.gov> or by contacting:

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

Market Price of Common Stock & Dividend Information

Although shares of the Company's common stock are traded from time to time in private transactions and in the over-the-counter market, there is no established public trading market for the stock. The Company's common stock is not listed on any stock exchange or automated quotation system and there are no present plans to so list the stock. There can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Company's common stock. Price quotations for the Company's common stock do not appear regularly in any generally recognized investment media.

On July 14, 2011, the Company paid \$215,000 or \$0.03 per share on its common stock and has not planned for regular payment of cash dividends in the near future. As a general matter, cash available for dividend distribution to shareholders of the Company must initially come from dividends paid to the Company by the Bank. As a result, legal restrictions on the payment of dividends by the Bank affect the ability of the Company to pay dividends. The Pennsylvania Banking Code of 1965, as amended, provides that cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The Directors of the Bank intend to continue the policy of retaining earnings in order to support anticipated growth.

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

FORM 10-K

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

For the fiscal year end December 31, 2011

or

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

For the transition period from _____ to _____

Commission file number 000-1449794

Embassy Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

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

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

18017
(Zip Code)

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

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

None
(Title of each class)

None
(Name of each exchange on which registered)

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

Common Stock, Par Value \$1.00 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes [] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b2 of the Exchange Act.

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

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

The aggregate market value of the registrant’s common stock held by non-affiliates at June 30, 2011, the registrant’s most recently completed second fiscal quarter was **\$26,516,225**.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

Number of shares outstanding as of March 22, 2012	(\$1 Par Value)	7,179,892
	(Title Class)	(Outstanding Shares)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the 2012 annual meeting of shareholders are incorporated by reference into Part III of this report.

Table of Contents

		Page Number
Part I		
Item 1	Business	4
Item 1A	Risk Factors	16
Item 1B	Unresolved Staff Comments	16
Item 2	Properties	16
Item 3	Legal Proceedings	16
Item 4	Mine Safety Disclosures	16
Part II		
Item 5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6	Selected Financial Data	17
Item 7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	32
Item 8	Financial Statements and Supplementary Data	32
	Report of Independent Registered Public Accounting Firm	33
	Consolidated Balance Sheets	34
	Consolidated Statements of Income	35
	Consolidated Statements of Stockholders’ Equity	36
	Consolidated Statements of Cash Flows	37
	Notes to Financial Statements	38
Item 9	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	72
Item 9A	Controls and Procedures	72
Item 9B	Other Information	73
Part III		
Item 10	Directors, Executive Officers and Corporate Governance	74
Item 11	Executive Compensation	74
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	74
Item 13	Certain Relationships and Related Transactions, and Director Independence	74
Item 14	Principal Accounting Fees and Services	74
Part IV		
Item 15	Exhibits and Financial Statement Schedules	76
	Signatures	79

PART I

Item 1. BUSINESS.

General

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the “Bank”) in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

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

Mission

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

Market “Niche”

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

Deposits

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

As for consumers, deposit growth is driven by a variety of factors including, but not limited to, population growth, bank and non-bank competition, increase in household income, interest rates, accessibility of location and the sales efforts of Company personnel. Time deposits can be attracted and/or increased by paying an interest rate higher than that offered by competitors, but they are the most costly type of deposit. The most profitable type of deposits are non-interest bearing demand (checking) accounts which can be attracted by offering free checking. However, both high interest rates and free checking accounts generate certain expenses for a bank and the desire to increase deposits must be balanced with the need to be profitable. The deposit services of the Company are generally comprised of demand deposits, savings deposits, money market deposits, time deposits and Individual Retirement Accounts.

Loans

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

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

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

Business Lending

The Company is generally targeting businesses with annual revenues of less than \$20 million. These customers tend to be ignored by the larger institutions and have felt the most negative effects of the recent bank consolidations. The Company offers responsiveness, flexibility and local decision making for loan applications of small business owners thereby eliminating delays caused by non-local management. The Company participates in programs offered through Local, State and Federal programs and may participate in Small Business Administration (SBA) programs.

Consumer Lending

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

Residential Mortgage Loans

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

Commercial Mortgage/Construction Loans

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

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

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

Other Services

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

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

Fee Income

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

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA") is designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. The Company had its last CRA compliance examination in 2009 and received a "satisfactory" rating.

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

Service Area

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

Bank Premises

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

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

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

Employees

As of December 31, 2011, the Company had a total of 67 full-time equivalent employees.

Competition

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

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

Segments

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

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

Seasonality

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

Supervision and Regulation

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

Signed into law July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) will, over time, implement significant changes to the U.S. financial system, including among others, (i) the creation of a new Bureau of Consumer Financial Protection with supervisory authority, including the power to conduct examinations and take enforcement actions with respect to financial institutions with assets of \$10.0 billion or more, (ii) the creation of a Financial Stability Oversight Council with authority to identify institutions and practices that might pose a systemic risk, (iii) provisions affecting corporate governance and executive compensation of all companies subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended, (iv) a provision that would broaden the base for FDIC insurance assessments, and (v) a provision that would require bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for holding companies with less than \$15.0 billion in assets as of December 31, 2009.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the Company’s operating environment in substantial and unpredictable ways. While some of the Dodd-Frank Act’s provisions were effective immediately, many are to be implemented by rules yet to be promulgated by the applicable regulatory authorities.

The Dodd-Frank Act and the regulations to be adopted are expected to subject financial institutions to additional restrictions, oversight and costs that may have an adverse impact on their business, financial condition, results of operations or the price of the common stock. The Dodd-Frank Act substantially increases regulation of the financial services industry and imposes restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Company in particular, is uncertain at this time.

FDI Act and Part 363 of the FDIC Regulations

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

Bank Holding Company Regulation

As a bank holding company, the Company is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. The Company is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

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

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

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

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 1 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 2 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 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum

leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

Prior to September 2010, the Company qualified as a “small bank holding company” under the Federal Reserve Board’s Small Bank Holding Company Policy Statement (the “Policy Statement”), which exempts bank holding companies with assets of less than \$500 million from the risk-based leverage capital guidelines generally applicable to bank holding companies. Application of this exemption therefore permits a small bank holding company to maintain debt levels that are higher than what would typically be permitted for larger bank holding companies. As of September 2010, the Company exceeds \$500 million in assets and, therefore, no longer meets the eligibility of a small bank holding company in accordance with the Policy Statement. Accordingly, the Company is no longer exempt from the regulatory capital requirements administered by the federal banking agencies.

Regulation of Embassy Bank for the Lehigh Valley

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

Dividend Restrictions

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

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

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

Capital Adequacy and Operations

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

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

At December 31, 2011, the Bank qualified as “well capitalized” under these regulatory capital standards. See Note 16 of the Notes to Consolidated Financial Statements included at Item 8 of this Report.

Community Reinvestment Act

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

Restrictions on Transactions with Affiliates and Insiders

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

Section 22(g) and 22(h) of the Federal Reserve Act impose similar limitations on loans and extensions of credit from the bank to its executive officers, directors and principal shareholders and any of their related interests. The

limitations restrict the terms and aggregate amount of such transactions. Regulation O implements the provisions of Sections 22(g) and 22(h) and requires maintenance of records of such transactions by the bank and regular reporting of such transactions by insiders. The FDIC also requires the bank, upon request, to disclose publicly loans and extensions of credit to insiders in excess of certain amounts.

Emergency Economic Stabilization Act of 2008

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the “EESA”) was signed into law. Pursuant to the EESA, the U.S. Treasury announced a program, known as the Troubled Asset Relief (“TARP”) Capital Purchase Program, pursuant to which it would purchase equity stakes in a wide variety of financial institutions. The Company decided not to participate in the TARP Capital Purchase Program.

Deposit Insurance and Premiums

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

In November 2010, as required by the Dodd-Frank Act, the FDIC issued a Final Rule that provides for unlimited insurance coverage of noninterest-bearing demand transaction accounts, regardless of the balance of the account, until January 1, 2013. On January 18, 2011, the FDIC issued a Final Rule to include Interest on Lawyer Trust Accounts (“IOLTAs”) in the temporary unlimited insurance coverage for non-interest bearing demand transaction accounts. This temporary unlimited insurance coverage replaces the Transaction Account Guarantee Program, which expired on December 31, 2010. Unlike the TAGP, there is no special assessment associated with the temporary unlimited insurance coverage, nor may institutions opt-out of the unlimited coverage.

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

The Deposit Insurance Funds Act of 1996 recapitalized the Savings Association Insurance Fund (“SAIF”) and provided that DIF deposits would be subject to one-fifth of the assessment to which SAIF deposits are subject for FICO bond payments. Beginning in 2000, DIF deposits and SAIF deposits were subject to the same assessment for FICO bonds. The FICO assessment for the Bank for 2011 was \$0.01 for each \$100 of DIF deposits.

The FDIC adopted a risk-based deposit insurance assessment system that requires all FDIC-insured institutions to pay quarterly premiums beginning in 2007. Annual premiums range from 12 basis points of deposits for well-capitalized banks with the highest examination ratings to 45 basis points for undercapitalized institutions. The Bank pays an insurance premium at levels stated for well-capitalized banks. The FDIC assessment for the Bank for 2011 was \$0.10 for each \$100 of DIF deposits.

Entering 2012, the Company anticipates deposit insurance premiums to range from 10 to 14 basis points. The FDIC has also established a program under which it fully guarantees all non-interest bearing transaction accounts in excess of \$250,000 (“TLGP”) and senior unsecured debt of a bank or its holding company. The Bank elected to opt out of the debt guarantee program but opted into the deposit guarantee program. The additional premium paid in 2011 under the TLGP was \$3,000 or less than \$0.01 for each \$100 of transaction account deposits in excess of \$250,000.

On November 12, 2009, the FDIC adopted a final rule that required all insured depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform increase in assessment rates of \$0.03 per \$100 of assessable deposits effective on

January 1, 2011. In 2009, the Bank paid \$1.9 million in prepaid deposit insurance assessments.

In February 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution's deposit insurance assessment base is being changed from total deposits to total assets less tangible equity. In addition, the FDIC is revising the deposit insurance assessment rates down. The changes were effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for risk category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. The Company expects that the new rates and assessment base will further reduce the current FDIC insurance assessment rate. However, if the risk category of the Bank changes adversely, the FDIC insurance premiums could increase.

Other Federal Laws and Regulations

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

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

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

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

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibited financial institutions from charging consumers fees for paying overdrafts on automated teller machines ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer's account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services,

including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in. The Company did not charge customers for these transactions, nor provide these types of services.

Sarbanes-Oxley Act of 2002

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

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. This capital conservation buffer also increases the minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

The timing for the U.S. banking agency's publication of proposed rules to implement the Basel III capital framework and the implementation schedule is uncertain. Additionally, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to the Company and its subsidiary may be substantially different from the Basel III final framework as published in December 2010. The requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact our financial results.

Governmental Policies

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

the Company's business and earnings.

Other Legislative Initiatives

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

Forward-looking Statements

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

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

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

Item 1A. Risk Factors.

Not required of a smaller reporting company.

Item 1B. Unresolved Staff Comments.

None.

Item 2. PROPERTIES.

The Company either alone or through the Bank occupies seven full-service banking offices in the Lehigh Valley:

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

Item 3. LEGAL PROCEEDINGS.

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

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

- (a) Shares of Company common stock are traded over-the-counter under the symbol EMYB and in privately negotiated transactions. There is no established public trading market for shares of the Company's common stock and the Company's common stock is not listed on any national securities exchange.

Quotations may be obtained by researching the stock symbol EMYB. Various Internet quotation services detail information about daily transaction volume and price. One such service is the OTC Markets (www.otcmarkets.com), which includes a list of market makers of Company common stock. Quotations were first reported during the third quarter of 2010. The following table reflects high and low bid prices for shares of the Company's Common Stock for the periods indicated, based upon information derived from www.otcmarkets.com.

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 6.00	\$ 5.50	N/A	N/A
Second Quarter	\$ 5.50	\$ 4.75	N/A	N/A
Third Quarter	\$ 5.00	\$ 3.15	\$ 6.00	\$ 5.25
Fourth Quarter	\$ 4.30	\$ 3.25	\$ 6.10	\$ 5.50

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

- (b) As of March 22, 2012, there are approximately 1,228 owners of record of the common stock of the Company.
- (c) On July 14, 2011, the Company paid \$215,000 or \$0.03 per share in a special cash dividend on its common stock and has not planned for regular payment of cash dividends in the near future. As a general matter, cash available for dividend distribution to shareholders of the Company must initially come from dividends paid to the Company by the Bank.
- (d) The following table sets forth information about options outstanding under the Company's Stock Option Plan and the Company's Stock Incentive Plan, as of December 31, 2011:

	Number of Shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of Shares remaining available for future issuance
Equity Compensation Plans and Individual Employment Agreements	192,391	\$ 6.96	500,000

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

Item 6. Selected Financial Data.

Not required of a smaller reporting company.

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

This discussion and analysis provides an overview of the consolidated financial condition and results of operations of the Company for the years ended December 31, 2011 and 2010. This discussion should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements appearing elsewhere in this report.

Critical Accounting Policies

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

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

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

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

GENERAL

The Company is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "BHC Act). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the "Bank") in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

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

OVERVIEW

The Company's assets grew \$61.6 million from \$513.9 million at December 31, 2010 to \$575.5 million at December 31, 2011. The Company's deposits grew \$66.5 million from \$415.3 million at December 31, 2010 to \$481.8 million at December 31, 2011. During the same period, loans receivable, net of the allowance for loan losses, increased \$34.7 million to \$419.1 million at December 31, 2011 from \$384.4 million at December 31, 2010. The market is very competitive and the Company is committed to maintaining a high quality portfolio that returns a reasonable market rate. The Company expects increased lending activity, as the Company expands its presence in the market and 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, although there can be no assurance of this.

The Company reported net income of \$5.1 million for the year ended December 31, 2011 as compared to net income of \$4.7 million for the year ended December 31, 2010.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

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

2011 Compared to 2010

Total interest income for the year ended December 31, 2011 was \$23.7 million compared to \$23.9 for the year ended December 31, 2010. Total interest expense for the year ended December 31, 2011 was \$5.0 million compared to \$5.9 million for the year ended December 31, 2010. The decrease in interest income is due to the interest rate environment, offset by growth in loan balances as well as investment securities. The decrease in interest expense is due to the lower interest rate environment, as well as a shift in deposits from certificates of deposit to savings accounts. Net interest income increased to \$18.7 million for the year ended December 31, 2011 as compared to \$17.9 million for the year ended December 31, 2010.

Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Interest rate spread is the mathematical difference between the average interest earned on earning assets and interest paid on interest bearing liabilities. Interest margin represents the net interest yield on earning assets and is derived by dividing net interest income by average earning assets. In a mature financial institution the interest margin gives a reader better indicators of asset earning results when compared to peer groups or industry standards.

The Company's net interest margin for the year ended December 31, 2011 was 3.63% compared to 3.75% for the year ended December 31, 2010. The decrease in the margin is due primarily to the increase in loan and investment balances, as well as current market conditions, which have reduced deposit account rates and similarly reduced loan and investment yields. During this difficult market environment, the Company continued to grow and attract deposits and loans at competitive rates.

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

Average Balances, Rates and Interest Income and Expense

(Dollars in Thousands)	Year Ended December 31, 2011			Year Ended December 31, 2010			Year Ended December 31, 2009		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
ASSETS									
Loans - taxable (2)	\$ 394,650	\$ 20,734	5.25%	\$ 370,372	\$ 20,529	5.54%	\$ 338,822	\$ 19,444	5.74%
Loans - non-taxable (1)	3,234	127	5.95%	585	22	5.70%	-	-	0.00%
Investment securities - taxable (3)	61,332	1,609	2.62%	60,454	2,229	3.69%	59,044	2,590	4.39%
Investment securities - non-taxable (1)(3)	29,741	1,091	5.46%	24,540	950	5.78%	11,303	452	6.03%
Federal funds sold	3,178	3	0.09%	5,446	8	0.15%	11,606	30	0.26%
Time deposits	7,643	116	1.52%	8,300	137	1.65%	10,002	232	2.32%
Interest bearing deposits with banks	16,133	36	0.22%	9,415	18	0.19%	4,713	7	0.15%
TOTAL INTEREST EARNING ASSETS	515,911	23,716	4.60%	479,112	23,893	4.99%	435,490	22,755	5.23%
Less allowance for loan losses	(3,932)			(3,828)			(3,251)		
Other assets	21,076			24,156			12,871		
TOTAL ASSETS	\$ 533,055			\$ 499,440			\$ 445,110		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing demand deposits,									
NOW and money market	\$ 39,006	\$ 79	0.20%	\$ 34,237	\$ 154	0.45%	\$ 34,229	\$ 349	1.02%
Savings	279,342	2,619	0.94%	222,151	2,426	1.09%	159,544	2,721	1.71%
Certificates of deposit	85,124	1,383	1.62%	117,074	2,208	1.89%	144,695	4,549	3.14%
Securities sold under agreements to repurchase and other borrowings	51,576	913	1.77%	54,398	1,158	2.13%	50,674	1,609	3.18%
TOTAL INTEREST BEARING LIABILITIES	455,048	4,994	1.10%	427,860	5,946	1.39%	389,142	9,228	2.37%
Non-interest bearing demand deposits	34,169			27,163			19,284		
Other liabilities	5,145			10,402			3,555		
Stockholders' equity	38,693			34,015			33,129		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 533,055			\$ 499,440			\$ 445,110		
Net interest income		<u>\$ 18,722</u>			<u>\$ 17,947</u>			<u>\$ 13,527</u>	
Net interest spread			3.50%			3.60%			2.86%
Net interest margin			3.63%			3.75%			3.11%

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

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

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

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

	2011 vs. 2010			2010 vs. 2009		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest-earning assets:						
Loans - taxable	\$ 1,346	\$ (1,141)	\$ 205	\$ 1,811	\$ (726)	\$ 1,085
Loans - non-taxable	100	5	105	-	22	22
Investment securities - taxable	32	(652)	(620)	62	(423)	(361)
Investment securities - non-taxable	198	(57)	141	560	(62)	498
Federal funds sold	(3)	(2)	(5)	(16)	(6)	(22)
Time Deposits	(11)	(10)	(21)	(39)	(56)	(95)
Interest bearing deposits with banks	13	5	18	7	4	11
Total net change in income on interest-earning assets	1,675	(1,852)	(177)	2,385	(1,247)	1,138
Interest-bearing liabilities:						
Interest bearing demand deposits and money markets	21	(96)	(75)	-	(195)	(195)
Savings	625	(432)	193	1,068	(1,363)	(295)
Certificates of deposit	(603)	(222)	(825)	(868)	(1,473)	(2,341)
Total deposits	43	(750)	(707)	200	(3,031)	(2,831)
Securities sold under agreements to repurchase and other borrowings	(60)	(185)	(245)	118	(569)	(451)
Total net change in expense on interest-bearing liabilities	(17)	(935)	(952)	318	(3,600)	(3,282)
Change in net interest income	\$ 1,692	\$ (917)	\$ 775	\$ 2,067	\$ 2,353	\$ 4,420

Provision for Loan Losses

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

For the year ended December 31, 2011, the provision for loan losses was \$734 thousand compared to \$1.3 million for the year ended December 31, 2010. The allowance for loan losses as of December 31, 2011 was \$4.2 million, which represents 1.00% of outstanding loans, which is comparable to the prior year-end of \$3.7 million representing 0.96% of outstanding loans. Based principally on current economic conditions, perceived asset quality, loan-loss experience of comparable institutions in the Company's market area, the allowance is believed to be adequate.

Non-interest Income

Non-interest income is derived from the Company's operations and represents primarily service charge income and fees on deposit relationships. Non-interest income also may include net gains and losses from the sale of available for sale securities. Total non-interest income was \$1.9 million for the year ended December 31, 2011 compared to \$1.8 million for the year ended December 31, 2010. This increase in non-interest income is due to increased service fees from the increase in the number of deposit accounts, as well as an increase in fees from merchant credit card processing services. Proceeds from sales of securities in 2011 totaled \$6.6 million with net gains of \$487 thousand. In 2010, there were proceeds from sales of securities of \$19.0 million with net gains of \$661 thousand. As the deposit customer account base grows and the Company matures and develops additional sources of fee income, non-interest income is expected to become a more significant contributor to the overall profitability of the Company.

Non-interest Expense

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

Non-interest expenses for the year ended December 31, 2011 were \$12.7 million, compared to \$11.9 million for the year ended December 31, 2010. At December 31, 2011, the Company had sixty-seven full-time equivalent employees compared to sixty-two full-time equivalent employees at December 31, 2010. Salaries and benefits increased \$429 thousand or 8% due primarily to staff additions, increases in annual salaries and employee insurance benefits. Occupancy and equipment expense increased \$56 thousand or 3% due to the additional expense for additions, maintenance and repairs of computer equipment, and software expenses. Data processing costs increased \$127 thousand or 15% due to increased volume of accounts and enhanced network support services. Advertising and marketing expense increased \$91 thousand or 12% due to promotion of branch offices, products and our image campaign within the community. Professional fees increased \$50 thousand or 14% due to increased costs of third party auditing, regulatory and consulting services. FDIC insurance expense decreased \$315 thousand or 46% due primarily to updated FDIC insurance rates. Credit card expense increased \$195 thousand or 27% due to increased volume. Loan and real estate expense increased \$50 thousand or 34%, due to increased collection activities.

A breakdown of other non-interest expenses is included in the consolidated statements of income in the consolidated financial statements included in Item 8 of this report.

Income Taxes

The provision for income taxes was \$2.1 million at December 31, 2011 compared to \$1.9 million at December 31, 2010. The effective rate on income taxes for the years ended December 31, 2011 and 2010 was 28.8% and 29.3%, respectively. The reduction in the effective rate between the years was due to increased tax free interest for 2011 compared to 2010.

FINANCIAL CONDITION

Securities

The Company's securities portfolio is classified, in its entirety, as "available for sale." Management believes that a portfolio classification of available for sale allows complete flexibility in the investment portfolio. Using this classification, the Company intends to hold these securities for an indefinite amount of time, but not necessarily to maturity. Such securities are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity. The portfolio is structured to provide maximum return on investments while providing a consistent source of liquidity and meeting strict risk standards. The Company holds no high-risk securities or derivatives as of December 31, 2011.

The Company's securities portfolio was \$92.1 million at December 31, 2011, a \$2.2 million increase from securities of \$89.9 million at December 31, 2010. The Company's securities have increased due to primarily to the increase in unrealized gains on the investment portfolio of \$3.2 million. Purchases in the amount of \$15.6 million were offset by investment principal pay-downs, maturities and sales of \$16.7 million. The carrying value of the securities portfolio as of December 31, 2011 includes a net unrealized gain of \$3.6 million as compared to a net unrealized gain of \$449 thousand as of December 31, 2010, which is recorded to accumulated other comprehensive income in stockholders' equity. This increase in the unrealized gain is due to the changes in market conditions from 2010 to 2011. No securities are deemed to be other than temporarily impaired.

The following table sets forth the composition of the securities portfolio at fair value as of December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In Thousands)		
U.S. Government agency obligations	\$ 33,689	\$ 32,622	\$ 17,083
Municipal securities	40,048	36,546	28,574
U.S. Government sponsored enterprise (GSE)			
- Mortgage-backed securities - residential	13,841	16,749	23,119
Corporate bonds	4,532	3,954	4,019
Total Securities Available for Sale	<u>\$ 92,110</u>	<u>\$ 89,871</u>	<u>\$ 72,795</u>

The following table presents the maturities and average weighted yields of the debt securities portfolio as of December 31, 2011. Maturities of mortgage-backed securities are based on estimated life. Yields are based on amortized cost.

Securities by Maturities

	<u>1 year or Less</u>		<u>1-5 Years</u>		<u>5-10 Years</u>		<u>Over 10 Years</u>		<u>Total</u>	
	<u>Amount</u>	<u>Average Yield</u>	<u>Amount</u>	<u>Average Yield</u>	<u>Amount</u>	<u>Average Yield</u>	<u>Amount</u>	<u>Average Yield</u>	<u>Amount</u>	<u>Average Yield</u>
	(Dollars In Thousands)									
U.S. Government agency obligations	\$ 10,095	0.60%	\$ 23,594	0.99%	\$ -	-	\$ -	-	\$ 33,689	0.88%
Municipal securities	-	-	2,230	4.65%	9,749	5.17%	28,069	6.11%	40,048	5.80%
U.S. GSE - Mortgage-backed securities - residential	1,556	4.23%	7,610	5.13%	1,601	4.16%	3,074	2.70%	13,841	4.38%
Corporate bonds	<u>1,281</u>	5.92%	<u>3,251</u>	4.13%	<u>-</u>	-	<u>-</u>	-	<u>4,532</u>	4.64%
Total Debt Securities	<u>\$ 12,932</u>	1.56%	<u>\$ 36,685</u>	2.35%	<u>\$ 11,350</u>	5.03%	<u>\$ 31,143</u>	5.77%	<u>\$ 92,110</u>	3.73%

Loans

The following table sets forth information on the composition of the loan portfolio by type at December 31, 2011, 2010, 2009, 2008 and 2007. All of the Company's loans are to domestic borrowers.

	<u>December 31, 2011</u>		December 31, 2010		December 31, 2009	
	<u>Balance</u>	<u>Percentage of total Loans</u>	<u>Balance</u>	<u>Percentage of total Loans</u>	<u>Balance</u>	<u>Percentage of total Loans</u>
			(Dollars In Thousands)			
Commercial real estate	\$ 171,792	40.56%	\$ 166,780	42.95%	\$ 150,439	43.00%
Commercial construction	13,414	3.17%	15,701	4.04%	12,292	3.51%
Commercial	26,879	6.35%	27,591	7.11%	25,796	7.37%
Residential real estate	210,361	49.65%	176,141	45.37%	159,180	45.50%
Consumer	<u>1,140</u>	<u>0.27%</u>	<u>2,048</u>	<u>0.53%</u>	<u>2,160</u>	<u>0.62%</u>
Gross loans	423,586	100.00%	388,261	100.00%	349,867	100.00%
Unearned origination (fees) costs	<u>(245)</u>		<u>(96)</u>		<u>51</u>	
	<u>\$ 423,341</u>		<u>\$ 388,165</u>		<u>\$ 349,918</u>	
			<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Balance</u>	<u>Percentage of total Loans</u>	<u>Balance</u>	<u>Percentage of total Loans</u>	<u>Balance</u>	<u>Percentage of total Loans</u>
			(Dollars In Thousands)			
Commercial real estate	\$ 148,881	46.62%	\$ 125,021	45.21%		
Commercial construction	6,886	2.16%	2,969	1.07%		
Commercial	24,096	7.55%	22,583	8.17%		
Residential real estate	136,739	42.82%	123,774	44.75%		
Consumer	<u>2,726</u>	<u>0.85%</u>	<u>2,216</u>	<u>0.80%</u>		
Gross loans	319,328	100.00%	276,563	100.00%		
Unearned origination (fees) costs	<u>252</u>		<u>253</u>			
	<u>\$ 319,580</u>		<u>\$ 276,816</u>			

The following table shows the maturities of the commercial loan portfolio and the sensitivity of such loans to interest rate fluctuations at December 31, 2011.

	<u>One year or Less</u>	<u>After One Year Through Five Years</u>	<u>After Five Years</u>	<u>Total</u>
		(In Thousands)		
Commercial real estate	\$ 40,234	\$ 108,110	\$ 23,448	\$ 171,792
Commercial construction	6,336	7,078	-	13,414
Commercial	<u>13,844</u>	<u>12,011</u>	<u>1,024</u>	<u>26,879</u>
	<u>\$ 60,414</u>	<u>\$ 127,199</u>	<u>\$ 24,472</u>	<u>\$ 212,085</u>
Fixed Rates	\$ 16,417	\$ 111,361	\$ 22,550	\$ 150,328
Variable Rates	<u>43,997</u>	<u>15,838</u>	<u>1,922</u>	<u>61,757</u>
	<u>\$ 60,414</u>	<u>\$ 127,199</u>	<u>\$ 24,472</u>	<u>\$ 212,085</u>

Credit Risk and Loan Quality

The allowance for loan losses increased \$506 thousand to \$4.2 million at December 31, 2011 from \$3.7 million at December 31, 2010. At December 31, 2011 and December 31, 2010, the allowance for loan losses represented 1.00% and 0.96%, respectively, of total loans. Based upon current economic conditions, the composition of the loan portfolio, the perceived credit risk in the portfolio and loan-loss experience of comparable institutions in the Bank's market area, management feels the allowance is adequate to absorb reasonably anticipated losses.

At December 31, 2011, aggregate balances on non-performing loans equaled \$9.4 million compared to \$6.3 million at December 31, 2010, representing 2.22% and 1.63% of total loans at December 31, 2011 and December 31, 2010, respectively. In certain circumstances in which the Company has deemed it prudent for reasons related to a borrower's financial condition, the Company has agreed to restructure certain loans (referred to as troubled debt restructurings). Troubled debt restructurings are considered non-performing loans. Generally, a loan is classified as nonaccrual when it is determined that the collection of all or a portion of interest or principal is doubtful or when a default of interest or principal has existed for 90 days or more, unless the loan is well secured and in the process of collection. A non-performing loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. The Company has two foreclosed assets, one in the amount of \$3.1 million acquired in October 2010, and one in the amount of \$319 thousand acquired in December 2011. The details for the non-performing loans and assets are included in the following table:

	December 31,				
	2011	2010	2009	2008	2007
	(In Thousands)				
Non-accrual - commercial	\$ 1,869	\$ 1,140	\$ 4,152	\$ -	\$ -
Non-accrual - consumer	-	381		-	-
Restructured, accruing interest	7,264	3,345	-	-	-
Loans past due 90 or more days, accruing interest	265	1,464	584	818	-
Total nonperforming loans	9,398	6,330	4,736	818	-
Foreclosed assets	3,388	3,069	-	-	-
Total nonperforming assets	\$ 12,786	\$ 9,399	\$ 4,736	\$ 818	-
Nonperforming loans to total loans	2.22%	1.63%	1.35%	0.26%	0.00%
Nonperforming assets to total assets	2.23%	1.83%	1.02%	0.21%	0.00%
Total Loans	423,421	388,165	349,918	319,580	276,816
Total Assets	574,480	513,884	465,189	391,083	334,018

Allowance for Loan Losses

Based upon current economic conditions, the composition of the loan portfolio and loan loss experience of comparable institutions in the Company's market areas, an allowance for loan losses has been provided at 1.00% of outstanding loans. Based on its knowledge of the portfolio and current economic conditions, management believes that, as of December 31, 2011, the allowance is adequate to absorb reasonably anticipated losses. As of December 31, 2011, the Company had \$13.4 million of impaired loans compared to \$8.5 million at December 31, 2010. Most of the Company's impaired loans required no specific reserves due to adequate collateral. As of December 31, 2011, the Company had impaired loans of \$725 thousand requiring a specific reserve of \$126 thousand. As of December 31, 2010, the Company had impaired loans of \$159 thousand requiring a specific reserve of \$15 thousand.

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

	December 31,				
	2011	2010	2009	2008	2007
(Dollars In Thousands)					
Loans receivable at end of year	<u>\$ 423,341</u>	<u>\$ 388,165</u>	<u>\$ 349,918</u>	<u>\$ 319,580</u>	<u>\$ 276,816</u>
Allowance for loan losses:					
Balance, beginning	\$ 3,709	\$ 3,598	\$ 2,932	\$ 2,503	\$ 2,426
Provision for loan losses	734	1,318	702	429	390
Loans charged off	(250)	(1,244)	(36)	-	(313)
Recoveries	22	37	-	-	-
Balance at end of year	<u>\$ 4,215</u>	<u>\$ 3,709</u>	<u>\$ 3,598</u>	<u>\$ 2,932</u>	<u>\$ 2,503</u>
Allowance for loan losses to loans receivable at end of year	<u>1.00%</u>	<u>0.96%</u>	<u>1.03%</u>	<u>0.92%</u>	<u>0.90%</u>

Allocation of the Allowance for Loan Losses

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

	December 2011	% of Total Loans	December 2010	% of Total Loans	December 2009	% of Total Loans	December 2008	% of Total Loans	December 2007	% of Total Loans
(Dollars in Thousands)										
Commercial real estate	\$ 1,264	40.56%	\$ 1,014	42.95%	\$ 1,654	43.00%	\$ 1,563	46.62%	\$ 1,257	45.21%
Commercial construction	352	3.17%	443	4.04%	207	3.51%	101	2.16%	47	1.07%
Commercial	423	6.35%	325	7.11%	679	7.37%	639	7.55%	623	8.17%
Residential real estate	1,691	49.65%	1,309	45.37%	1,005	45.50%	595	42.82%	530	44.75%
Consumer	40	0.27%	35	0.53%	53	0.62%	34	0.85%	46	0.80%
Unallocated	<u>445</u>		<u>583</u>		<u>-</u>		<u>-</u>		<u>-</u>	
Total Allowance for Loan Losses	<u>\$ 4,215</u>	100.00%	<u>\$ 3,709</u>	100.00%	<u>\$ 3,598</u>	100.00%	<u>\$ 2,932</u>	100.00%	<u>\$ 2,503</u>	100.00%

Deposits

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

Total deposits at December 31, 2011 were \$481.8 million, an increase of \$67 million, or 16.1%, over total deposits of \$415.3 million as of December 31, 2010. The following table reflects the Company's deposits by category for the periods indicated. All deposits are domestic deposits.

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	(In Thousands)		
Demand, non-interest bearing	\$ 38,386	\$ 32,431	\$ 25,785
Demand, NOW and money market, interest bearing	40,128	38,167	32,987
Savings	327,048	242,529	201,727
Time, \$100 and over	32,784	41,633	54,821
Time, other	<u>43,429</u>	<u>60,507</u>	<u>65,964</u>
Total deposits	<u>\$ 481,775</u>	<u>\$ 415,267</u>	<u>\$ 381,284</u>

The following table sets forth the average balance of the Company's deposits and the average rates paid on those deposits for the years ended December 31, 2011, 2010 and 2009.

	<u>December, 31 2011</u>		<u>December, 31 2010</u>		<u>December, 31 2009</u>	
	<u>Average Amount</u>	<u>Average Rate</u>	<u>Average Amount</u>	<u>Average Rate</u>	<u>Average Amount</u>	<u>Average Rate</u>
	(Dollars In Thousands)					
Demand, NOW and money market, interest bearing	\$ 39,006	0.20%	\$ 34,237	0.45%	\$ 34,229	1.02%
Savings	279,342	0.94%	222,151	1.09%	159,544	1.71%
Certificates of deposit	85,124	1.62%	117,074	1.89%	144,695	3.14%
Total interest bearing deposits	<u>403,472</u>	<u>1.01%</u>	<u>373,462</u>	<u>1.28%</u>	<u>338,468</u>	<u>2.25%</u>
Non-interest bearing demand deposits	34,169		27,163		19,284	
Total	<u>\$ 437,641</u>		<u>\$ 400,625</u>		<u>\$ 357,752</u>	

The following table displays the maturities and the amounts of the Company's certificates of deposit of \$100,000 or more as of December 31, 2011.

	<u>December 31, 2011</u>
	(In Thousands)
3 months or less	\$ 11,704
Over 3 through 6 months	5,517
Over 6 through 12 months	5,617
Over 12 months	<u>9,946</u>
Total	<u>\$ 32,784</u>

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

Liquidity

Liquidity is a measure of the Company's ability to meet the demands required for the funding of loans and to meet depositors' requirements for use of their funds. The Company's sources of liquidity are cash balances, due from banks, Federal funds sold and short-term securities. There are other sources of liquidity that are available to the Company.

The Bank has borrowing capacity with the FHLB of Pittsburgh of approximately \$193.8 million, of which \$7.9 million was outstanding at December 31, 2011, all of which is long term. This borrowing capacity with the FHLB includes a line of credit of \$25.0 million. The Bank also has a \$6.0 million line of credit with Atlantic Central Bankers Bank, of which none was outstanding at December 31, 2011. Advances from the Federal Home Loan Bank line are secured by qualifying assets of the Bank and advances from the Atlantic Central Bankers Bank line are unsecured. The Company has two lines of credit with Univest Bank and Trust Co., totaling \$10.0 million, of which \$5.2 million was outstanding at December 31, 2011. These lines of credit are secured by 833,333 shares of Bank stock.

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

Contractual Obligations

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

	<u>2012</u>	<u>2013-2014</u>	<u>2015-2016</u>	<u>Thereafter</u>	<u>Total</u>
	(In Thousands)				
Time deposits	\$ 50,908	\$ 19,711	\$ 5,594	\$ -	\$ 76,213
Long-term borrowings	-	13,086	-	-	13,086
Operating leases	912	2,273	729	2,157	6,071
Total	<u>\$ 51,820</u>	<u>\$ 35,070</u>	<u>\$ 6,323</u>	<u>\$ 2,157</u>	<u>\$ 95,370</u>

Off-Balance Sheet Arrangements

The Company's financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk. These commitments consist of unfunded loans and lines of credit and letters of credit made under the same standards as on-balance sheet instruments. These off-balance sheet arrangements at December 31, 2011 totaled \$78.4 million. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

Management believes that any amounts actually drawn upon can be funded in the normal course of operations.

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

Capital Resources and Adequacy

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

The regulations require that banks maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and Tier 1 capital to average assets (as defined). As of December 31, 2011, 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:

	December 31, 2011	December 31, 2010
	(Dollars In Thousands)	
Tier 1, common stockholders' equity	\$ 46,648	\$ 41,712
Tier 2, allowable portion of allowance for loan losses	4,215	3,709
Total capital	<u>\$ 50,863</u>	<u>\$ 45,421</u>
Tier 1 risk based capital ratio	12.7%	11.9%
Total risk based capital ratio	13.8%	13.0%
Tier 1 leverage ratio	8.3%	8.1%

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 1 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 2 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 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

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

	December 31, 2011	December 31, 2010
	(Dollars In Thousands)	
Tier 1, common stockholders' equity	\$ 41,945	\$ 36,433
Tier 2, allowable portion of allowance for loan losses	4,215	3,709
	<u>\$ 46,160</u>	<u>\$ 40,142</u>
Total capital		
Tier 1 risk based capital ratio	11.4%	10.2%
Total risk based capital ratio	12.6%	11.0%
Tier 1 leverage ratio	7.4%	7.1%

Interest Rate Risk Management

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

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

	0-3 Months	4-12 Months	1-3 Years	4-5 Years	Over 5 Years	Total
(In Thousands)						
Interest-earning assets						
Federal funds sold and interest-bearing deposits	\$ 34,096	\$ 2,813	\$ 4,885	\$ -	\$ -	\$ 41,794
Investment securities and restricted investment in bank stock	2,785	14,113	28,317	9,377	39,159	93,751
Loans, gross	84,982	65,787	127,074	77,826	67,672	423,341
Total interest-earning assets	121,863	82,713	160,276	87,203	106,831	558,886
Interest-bearing liabilities						
NOW and money market accounts	40,128	-	-	-	-	40,128
Savings	327,048	-	-	-	-	327,048
Certificates of deposit	21,223	29,686	16,200	9,104	-	76,213
Other borrowed funds	-	-	13,086	-	-	13,086
Repurchase agreements and federal funds purchased	32,891	1,062	-	-	-	33,953
Total interest-bearing liabilities	421,290	30,748	29,286	9,104	-	490,428
GAP	\$ (299,427)	\$ 51,965	\$ 130,990	\$ 78,099	\$ 106,831	\$ 68,458
CUMULATIVE GAP	\$ (299,427)	\$ (247,462)	\$ (116,472)	\$ (38,373)	\$ 68,458	
GAP TO INTEREST EARNING ASSETS	-53.58%	9.30%	23.44%	13.97%	19.11%	
CUMULATIVE GAP TO INTEREST EARNING ASSETS	-53.58%	-44.28%	-20.84%	-6.87%	12.25%	

Based on a twelve-month forecast of the balance sheet, the following table sets forth our interest rate risk profile at December 31, 2011. For income simulation purposes, NOW and savings accounts are repriced quarterly. The impact on net interest income, illustrated in the following table would vary substantially if different assumptions were used or if actual experience differs from that indicated by the assumptions.

<u>Change in Interest Rates</u>	<u>in Net Interest Income</u>
Down 100 basis points	2.0%
Down 200 basis points	-0.6%
Up 100 basis points	-5.1%
Up 200 basis points	-10.7%

Return on Assets and Equity

The return on average assets for 2011 was 0.96%; the return on average equity for the same period was 12.02%; and the ratio of average shareholders' equity to average total assets was 7.99%.

The return on average assets for 2010 was 0.91%; the return on average equity for the same period was 11.51%; and the ratio of average shareholders' equity to average total assets was 7.87 %.

Effects of Inflation

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

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

Not required of a smaller reporting company.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Table of Contents

	Page Number
Report of Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets	34
Consolidated Statements of Income	35
Consolidated Statements of Stockholders' Equity	36
Consolidated Statements of Cash Flows	37
Notes to Financial Statements	38

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Embassy Bancorp, Inc. and its subsidiary, Embassy Bank for the Lehigh Valley (collectively the “Company”), as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

Allentown, Pennsylvania
March 30, 2012

Embassy Bancorp, Inc.

Consolidated Balance Sheets

	December 31,	
	2011	2010
	(In Thousands, Except Share and Per Share Data)	
	\$	\$
Cash and due from banks	12,039	6,645
Interest bearing demand deposits with banks	33,605	7,085
Federal funds sold	491	5,913
Cash and Cash Equivalents	46,135	19,643
Interest bearing time deposits	7,698	8,326
Securities available for sale	92,110	89,871
Restricted investment in bank stock	1,641	2,006
Loans receivable, net of allowance for loan losses of \$4,215 in 2011; \$3,709 in 2010	419,126	384,456
Premises and equipment, net of accumulated depreciation	2,095	2,398
Accrued interest receivable	1,568	1,503
Other real estate owned	3,388	3,069
Other assets	1,719	2,612
Total Assets	\$ 575,480	\$ 513,884
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 38,386	\$ 32,431
Interest bearing	443,389	382,836
Total Deposits	481,775	415,267
Securities sold under agreements to repurchase	33,953	46,433
Long-term borrowings	13,086	13,586
Accrued interest payable	582	941
Other liabilities	1,751	928
Total Liabilities	531,147	477,155
Stockholders' Equity:		
Common stock, \$1 par value; authorized 20,000,000 shares; 2011 issued 7,171,551 shares; outstanding 7,171,198 shares; 2010 issued 7,157,357 shares; outstanding 7,157,004 shares	7,171	7,157
Surplus	22,872	22,303
Retained earnings	11,905	6,976
Accumulated other comprehensive income	2,388	296
Treasury stock, at cost, 353 shares	(3)	(3)
Total Stockholders' Equity	44,333	36,729
Total Liabilities and Stockholders' Equity	\$ 575,480	\$ 513,884

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Consolidated Statements of Income

	Years Ended December 31,	
	2011	2010
	(In Thousands, Except per Share Data)	
INTEREST INCOME		
Loans receivable, including fees	\$ 20,861	\$ 20,551
Securities, taxable	1,609	2,229
Securities, non-taxable	1,091	950
Federal funds sold, and other	39	26
Interest on time deposits	116	137
Total Interest Income	23,716	23,893
INTEREST EXPENSE		
Deposits	4,081	4,788
Securities sold under agreements to repurchase and federal funds purchased	176	391
Long-term borrowings	737	767
Total Interest Expense	4,994	5,946
Net Interest Income	18,722	17,947
PROVISION FOR LOAN LOSSES	734	1,318
Net Interest Income after Provision for Loan Losses	17,988	16,629
OTHER INCOME		
Credit card processing fees	967	775
Gain on sales of investment securities, net	487	661
Other service fees	438	382
Total Other Income	1,892	1,818
OTHER EXPENSES		
Salaries and employee benefits	5,497	5,068
Occupancy and equipment	2,221	2,165
Data processing	984	857
Credit card processing	917	722
Advertising and promotion	843	752
Professional fees	420	370
FDIC Insurance	363	678
Loan and real estate	195	145
Charitable contributions	258	259
Other real estate owned	72	-
Other	882	835
Total Other Expenses	12,652	11,851
Income before Income Taxes	7,228	6,596
INCOME TAX EXPENSE	2,084	1,934
Net Income	\$ 5,144	\$ 4,662
BASIC EARNINGS PER SHARE	\$ 0.72	\$ 0.67
DILUTED EARNINGS PER SHARE	\$ 0.71	\$ 0.65

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2011 and 2010

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income			Treasury Stock	Total
				(In Thousands, Except Share and Per Share Data)				
BALANCE - DECEMBER 31, 2009	\$ 6,941	\$ 22,900	\$ 2,455	\$ 1,384	\$ (3)	\$	\$ 33,677	
Comprehensive income:								
Net income	-	-	4,662	-	-	-	4,662	
Net change in unrealized gain on securities available for sale, net of reclassification adjustment and income tax effects	-	-	-	(1,088)	-	-	(1,088)	
Total Comprehensive Income							3,574	
Dividend paid, \$0.02 per share			(141)				(141)	
Exercise of stock options, 592,921 shares	592	1,096					1,688	
Stock tendered for funding exercise of stock options and tax expense, 376,227 shares	(376)	(1,693)					(2,069)	
BALANCE - DECEMBER 31, 2010	\$ 7,157	\$ 22,303	\$ 6,976	\$ 296	\$ (3)	\$	\$ 36,729	
BALANCE - DECEMBER 31, 2010	\$ 7,157	\$ 22,303	\$ 6,976	\$ 296	\$ (3)	\$	\$ 36,729	
Comprehensive income:								
Net income	-	-	5,144	-	-	-	5,144	
Net change in unrealized gain on securities available for sale, net of reclassification adjustment and income tax effects	-	-	-	2,092	-	-	2,092	
Total Comprehensive Income							7,236	
Dividend declared, \$0.03 per share			(215)				(215)	
Exercise of stock options, 34,119 shares	34	80					114	
Stock tendered for funding exercise of stock options and tax expense, 19,925 shares	(20)	(113)					(133)	
Tax benefit of stock options exercised	-	602					602	
BALANCE - DECEMBER 31, 2011	\$ 7,171	\$ 22,872	\$ 11,905	\$ 2,388	\$ (3)	\$	\$ 44,333	

See notes to consolidated financial statements.

Embassy Bancorp, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2011	2010
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,144	\$ 4,662
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	734	1,318
Amortization of deferred loan fees/costs	5	71
Depreciation and amortization	625	613
Net amortization of investment security premiums and discounts	341	166
Deferred income taxes	(1,077)	144
Net realized gain on sale of securities available for sale	(489)	(661)
(Increase) decrease in accrued interest receivable	(65)	112
Decrease in other assets	893	502
Decrease in accrued interest payable	(359)	(516)
Increase in other liabilities	823	137
Net Cash Provided by Operating Activities	6,575	6,548
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(15,641)	(55,802)
Maturities, calls and principal repayments of securities available for sale	10,127	18,657
Proceeds from sales of securities available for sale	6,592	18,915
Net increase in loans	(35,728)	(42,594)
Decrease in restricted investment in bank stock	365	103
Net maturities of interest bearing time deposits	628	2,398
Purchases of premises and equipment	(322)	(546)
Net Cash Used in Investing Activities	(33,979)	(58,869)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	66,508	33,983
Net (decrease) increase in securities sold under agreements to repurchase and federal funds purchased	(12,480)	15,469
Proceeds from long-term borrowed funds	-	50
Payment of long-term borrowed funds	(500)	(3,480)
Net payment of stock tendered	(19)	(381)
Tax benefit of stock options exercised	602	-
Dividends paid	(215)	(141)
Net Cash Provided by Financing Activities	53,896	45,500
Net Increase (Decrease) in Cash and Cash Equivalents	26,492	(6,821)
CASH AND CASH EQUIVALENTS - BEGINNING	19,643	26,464
CASH AND CASH EQUIVALENTS - ENDING	\$ 46,135	\$ 19,643
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$ 5,353	\$ 6,462
Income taxes paid	\$ 1,600	\$ 1,985
Other real estate acquired in settlement of loans	\$ 319	\$ 3,069

See notes to consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation and Nature of Operations

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the “Bank”) in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

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

Estimates

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

Concentrations of Credit Risk

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

Presentation of Cash Flows

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

Securities

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Other than temporary accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Company recognized no other-than-temporary impairment charges during the years ended December 31, 2011 and 2010.

Restricted Investments in Bank Stock

Restricted investments in bank stock consist of Federal Home Loan Bank of Pittsburgh (“FHLB”) stock and Atlantic Central 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.

In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock, and any future capital stock repurchases will be made on a quarterly basis if conditions warrant such repurchases. During 2011 and 2010, the FHLB conducted a limited excess capital stock repurchase based upon positive quarterly net income. Any future capital stock repurchases will be made on a quarterly basis if conditions warrant such repurchases. In February 2012, the FHLB announced that dividend payments would resume in 2012.

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

Management believes no impairment charge is necessary related to the FHLB or ACBB restricted stock as of December 31, 2011.

Loans Receivable

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

Allowance for Loan Losses

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

Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Management maintains the allowance for loan losses at a level it believes adequate to absorb probable credit losses related to specifically identified loans, as well as probable incurred losses inherent in the remainder of the loan portfolio as of the balance sheet dates. The allowance for loan losses account consists of specific and general

Note 1 - Summary of Significant Accounting Policies (Continued)

reserves. The specific component consists of the specific reserve for impaired loans individually evaluated under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310, “Receivables,” and the general component is utilized for loss contingencies on those loans collectively evaluated under FASB ASC 450, “Contingencies.”

For the specific portion of the allowance for loan losses, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Factors considered by management in determining impairment include payment status, ability to pay and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans considered impaired under FASB ASC 310 are measured for impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. If the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral, if the loan is collateral dependent, is less than the recorded investment in the loan, including accrued interest and net deferred loan fees or costs, the Company will recognize the impairment by adjusting the allowance for loan losses account through charges to earnings as a provision for loan losses.

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

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

The general portion of the allowance for loan losses covers pools of loans by major loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and other consumer loans. Loss contingencies for each of the major loan pools are determined by applying a total loss factor to the current balance outstanding for each individual pool. The total loss factor is comprised of a historical loss factor using the loss migration method plus a qualitative factor, which adjusts the historical loss factor for changes in trends, conditions and other relevant factors that may affect repayment of the loans in these pools as of the evaluation date. Loss migration involves determining the percentage of each pool that is expected to ultimately result in loss based on historical loss experience. Historical loss factors are based on the ratio of net loans charged-off to loans, net, for each of the major groups of loans evaluated and measured for impairment under FASB ASC 450. The historical loss factor for each pool is an average of the Company’s historical net charge-off ratio for the most recent rolling twenty quarters. In addition to these historical loss factors, management also uses a qualitative factor that represents a number of environmental risks that may cause estimated credit losses associated with the current portfolio to differ from historical loss experience. These environmental risks include: (i) changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices; (ii) changes in the composition and volume of the portfolio;

Note 1 - Summary of Significant Accounting Policies (Continued)

(iii) changes in national, local and industry conditions, including the effects of such changes on the value of underlying collateral for collateral-dependent loans; (iv) changes in the volume and severity of classified loans, including past due, nonaccrual, troubled debt restructures and other loan modifications; (v) changes in the levels of, and trends in, charge-offs and recoveries; (vi) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (vii) changes in the experience, ability and depth of lending management and other relevant staff; (viii) changes in the quality of the loan review system and the degree of oversight by the board of directors; and (ix) the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the current loan portfolio. Each environmental risk factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Other real estate owned is recorded at fair value less cost to sell at the time of acquisition. Any excess of the loan balance over the recorded value is charged to the allowance for loan losses. Subsequent declines in the recorded values of the properties prior to their disposal and costs to maintain the assets are included in other expenses. No allowance has been established subsequent to the acquisition of other real estate owned during 2011. Any gain or loss realized upon disposal of other real estate owned is included in noninterest income or noninterest expense.

Premises and Equipment

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

Transfers of Financial Assets

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

Advertising Costs

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

Income Taxes

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Earnings per Share

Basic earnings per share represents net income divided by the weighted-average common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares (stock options) had been issued. The following table sets forth the computations of basic and diluted earnings per share for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
	(Dollars In Thousands, Except Per Share Data)	
Net income	<u>\$ 5,144</u>	<u>\$ 4,662</u>
Weighted average shares outstanding	7,164,565	7,005,406
Dilutive effect of potential common shares, stock options	<u>41,288</u>	<u>220,704</u>
Diluted weighted average common shares outstanding	<u>7,205,853</u>	<u>7,226,109</u>
Basic earnings per share	<u>\$ 0.72</u>	<u>\$ 0.67</u>
Diluted earnings per share	<u>\$ 0.71</u>	<u>\$ 0.65</u>

Stock options of 72,139 and 72,739 were not considered in computing diluted earnings per common share for the years ended December 31, 2011 and 2010, respectively, because they are not dilutive to earnings.

Employee Benefit Plan

The Company has a 401(k) Plan (the "Plan") for employees. All employees are eligible to participate after they have attained the age of 21 and have also completed 12 consecutive months of service during which at least 1,000 hours of service are completed. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan, and the Company provides a match of fifty percent of the first 8% percent to eligible participating employees. Full vesting in the Plan is prorated equally over a four-year period. The Company's contributions to the Plan for the years ended December 31, 2011 and 2010 were \$97 thousand and \$89 thousand, respectively.

Off-Balance Sheet Financial Instruments

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

Comprehensive Income

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

Note 1 - Summary of Significant Accounting Policies (Continued)

The components of the change in other comprehensive income are as follows for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Unrealized holding gain (loss) on available for sale securities	\$ 3,656	\$ (988)
Less: reclassification adjustment for realized gains (losses)	<u>487</u>	<u>661</u>
	3,169	(1,649)
Tax effect	<u>(1,077)</u>	561
Net unrealized gain (loss)	<u>\$ 2,092</u>	<u>\$ (1,088)</u>

Segment Reporting

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

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

Stock-Based Compensation

The Company applies the fair value recognition provisions of ASC 718, *Compensation-Stock Compensation*. ASC 718 requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award based on the fair value of the award.

Subsequent Events

The Company follows ASC Topic 855 *Subsequent Events*. This topic establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2011 through the date these financial statements were available for issuance for items that should potentially be recognized or disclosed in these financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

New Accounting Standards

ASU 2011-04 (Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs)

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This update amends FASB ASC Topic 820, Fair Value Measurements, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The Update clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The Update also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The Update also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this Update is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not anticipate the adoption of this update will impact its financial condition or results of operations.

ASU 2011-05 (Comprehensive Income: Presentation of Comprehensive Income)

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The provisions of this update amend FASB ASC Topic 220, Comprehensive Income, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The Update prohibits the presentation of the components of comprehensive income in the statement of stockholder's equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate statements of net income and other comprehensive income. Under previous GAAP, all 3 presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this Update are effective for fiscal years and interim periods beginning after December 31, 2011 for public entities. As the two remaining options for presentation existed prior to the issuance of this Update, early adoption is permitted.

ASU 2011-10 (Derecognition of in Substance Real Estate – a Scope Clarification)

In December, 2011, the FASB issued Accounting Standards Update (ASU) 2011-10, Derecognition of in Substance Real Estate – a Scope Clarification. This ASU clarifies previous guidance for situations in which a reporting entity would relinquish control of the assets of a subsidiary in order to satisfy the nonrecourse debt of the subsidiary. The ASU concludes that if control of the assets has been transferred to the lender, but not legal ownership of the assets, then the reporting entity must continue to include the assets of the subsidiary in its consolidated financial statements. The amendments in this ASU are effective for public entities for annual and interim periods beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013. Early adoption is permitted. The Company does not expect this ASU to have a significant impact on its consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

ASU 2011-11 (Disclosures about Offsetting Assets and Liabilities)

In December, 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, in an effort to improve comparability between U.S. GAAP and IFRS financial statements with regard to the presentation of offsetting assets and liabilities on the statement of financial position arising from financial and derivative instruments, and repurchase agreements. The ASU establishes additional disclosures presenting the gross amounts of recognized assets and liabilities, offsetting amounts, and the net balance reflected in the statement of financial position. Descriptive information regarding the nature and rights of the offset must also be disclosed. The Company does not expect this ASU to have a significant impact on its consolidated financial statements.

ASU 2011-12 (Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05)

In December, 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB has deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, Presentation of Comprehensive Income, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years and interim periods beginning after December 15, 2011 for public companies, and fiscal years ending after December 15, 2011 for nonpublic companies. The adoption of this ASU will not have a significant impact on the Company's consolidated financial statements.

Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation. These reclassifications had no effect on 2010 net income.

Note 2 - Securities Available for Sale

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In Thousands)			
December 31, 2011:				
U.S. Government agency obligations	\$ 33,399	\$ 297	\$ (7)	\$ 33,689
Municipal bonds	37,415	2,633	-	40,048
U.S. Government sponsored enterprise (GSE)				
- Mortgage-backed securities - residential	13,164	677	-	13,841
Corporate bonds	4,514	91	(73)	4,532
Total	<u>\$ 88,492</u>	<u>\$ 3,698</u>	<u>\$ (80)</u>	<u>\$ 92,110</u>
December 31, 2010:				
U.S. Government agency obligations	\$ 32,669	\$ 120	\$ (167)	\$ 32,622
Municipal bonds	37,012	102	(568)	36,546
U.S. Government sponsored enterprise (GSE)				
- Mortgage-backed securities - residential	15,961	815	(27)	16,749
Corporate bonds	3,780	174	-	3,954
Total	<u>\$ 89,422</u>	<u>\$ 1,211</u>	<u>\$ (762)</u>	<u>\$ 89,871</u>

The amortized cost and fair value of securities as of December 31, 2011 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In Thousands)	
Due in one year or less	\$ 11,315	\$ 11,376
Due after one year through five years	28,732	29,075
Due after five years through ten years	9,080	9,749
Due after ten years	26,202	28,069
	<u>75,329</u>	<u>78,269</u>
U.S. GSE - Mortgage-backed securities - residential	13,163	13,841
	<u>\$ 88,492</u>	<u>\$ 92,110</u>

Gross gains of \$487 thousand were realized on sales of securities for the year ended December 31, 2011. There were no gross losses in 2011 on the sale of securities. Gross gains of \$662 thousand and gross losses of \$1 thousand were realized on sales of securities for the year ended December 31, 2010.

Note 2 - Securities Available for Sale (Continued)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and 2010:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
December 31, 2011:						
U.S. Government agency obligations	\$ 2,007	\$ (7)	\$ -	\$ -	\$ 2,007	\$ (7)
Corporate Bonds	1,922	(73)			1,922	(73)
Total Temporarily Impaired Securities	<u>\$ 3,929</u>	<u>\$ (80)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,929</u>	<u>\$ (80)</u>
December 31, 2010:						
Municipal bonds	\$ 27,880	\$ (568)	\$ -	\$ -	\$ 27,880	\$ (568)
U.S. GSE - Mortgage-backed securities - residential	1,584	(27)	-	-	1,584	(27)
U.S. Government agency obligations	27,455	(167)	-	-	27,455	(167)
Total Temporarily Impaired Securities	<u>\$ 56,919</u>	<u>\$ (762)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,919</u>	<u>\$ (762)</u>

The Company had four (4) securities in an unrealized loss position at the end of December 31, 2011. Unrealized losses detailed above by type, are due only to interest rate fluctuations. No securities are deemed to be other than temporarily impaired. None of the individual unrealized losses are significant.

Securities with carrying values of approximately \$47.7 million and \$58.2 million at December 31, 2011 and 2010, respectively, were pledged as collateral to secure securities sold under agreements to repurchase, public deposits, and for other purposes required or permitted by law.

Note 3 - Loans Receivable

The composition of loans receivable at December 31, 2011 and 2010 is as follows:

	2011	2010
(In Thousands)		
Commercial real estate	\$ 171,792	\$ 166,780
Commercial construction	13,414	15,701
Commercial	26,879	27,591
Residential real estate	210,361	176,141
Consumer	1,140	2,048
Total Loans	423,586	388,261
Unearned net loan origination (fees) costs	(245)	(96)
Allowance for Loan Losses	(4,215)	(3,709)
	<u>\$ 419,126</u>	<u>\$ 384,456</u>

Note 4 - Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Allowance for loan losses:		
Balance, beginning	\$ 3,709	\$ 3,598
Provision for loan losses	734	1,318
Loans charged off	(250)	(1,244)
Recoveries	22	37
Balance at end of year	<u>\$ 4,215</u>	<u>\$ 3,709</u>

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention (potential weakness identified), substandard (well-defined weakness), and doubtful (unlikely to be paid in full) within the Company's internal risk rating system as of December 31, 2011 and December 31, 2010, respectively:

December 31, 2011	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
	(In Thousands)				
Commercial real estate	\$ 163,828	\$ 865	\$ 7,099	\$ -	\$ 171,792
Commercial construction	9,090	-	4,324	-	13,414
Commercial	26,612	194	73	-	26,879
Residential real estate	209,810	282	269	-	210,361
Consumer	1,140	-	-	-	1,140
Total	<u>\$ 410,480</u>	<u>\$ 1,341</u>	<u>\$ 11,765</u>	<u>\$ -</u>	<u>\$ 423,586</u>
December 31, 2010					
Commercial real estate	\$ 159,513	\$ 601	\$ 6,407	\$ 259	\$ 166,780
Commercial construction	15,576	125	-	-	15,701
Commercial	27,023	229	339	-	27,591
Residential real estate	175,635	125	-	381	176,141
Consumer	2,048	-	-	-	2,048
Total	<u>\$ 379,795</u>	<u>\$ 1,080</u>	<u>\$ 6,746</u>	<u>\$ 640</u>	<u>\$ 388,261</u>

Note 4 - Allowance for Loan Losses (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2011 and December 31, 2010, respectively:

December 31, 2011:	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
(In Thousands)					
With no related allowance recorded:					
Commercial real estate	\$ 7,814	\$ 7,863		\$ 5,787	\$ 492
Commercial construction	3,974	3,974		3,360	156
Commercial	362	362		363	15
Residential real estate	552	552		498	24
Consumer	-	-		-	-
With an allowance recorded:					
Commercial real estate	\$ 670	\$ 670	\$ 107	\$ 463	\$ 42
Commercial construction	-	-	-	-	-
Commercial	55	55	19	61	4
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial real estate	\$ 8,484	\$ 8,533	\$ 107	\$ 6,250	\$ 534
Commercial construction	3,974	3,974	-	3,360	156
Commercial	417	416	19	424	19
Residential real estate	552	552	-	498	24
Consumer	-	-	-	-	-
	<u>\$ 13,427</u>	<u>\$ 13,475</u>	<u>\$ 126</u>	<u>\$ 10,532</u>	<u>\$ 733</u>
December 31, 2010:					
With no related allowance recorded:					
Commercial real estate	\$ 7,108	\$ 7,108		\$ 5,825	\$ 84
Commercial construction	125	125		31	-
Commercial	568	568		479	4
Residential real estate	506	506		369	4
Consumer	-	-		-	-
With an allowance recorded:					
Commercial real estate	\$ 159	\$ 159	\$ 15	\$ 40	\$ 4
Commercial construction	-	-	-	-	-
Commercial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial real estate	\$ 7,267	\$ 7,267	\$ 15	\$ 5,865	\$ 88
Commercial construction	125	125	-	31	-
Commercial	568	568	-	479	4
Residential real estate	506	506	-	369	4
Consumer	-	-	-	-	-
	<u>\$ 8,466</u>	<u>\$ 8,466</u>	<u>\$ 15</u>	<u>\$ 6,744</u>	<u>\$ 96</u>

Note 4 - Allowance for Loan Losses (Continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2011 and December 31, 2010, respectively:

	December 31,	
	2011	2010
	(In Thousands)	
Commercial real estate	\$ 1,869	\$ 1,140
Commercial construction	-	-
Commercial	-	-
Residential real estate	-	381
Consumer	-	-
Total	<u>\$ 1,869</u>	<u>\$ 1,521</u>

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011 and December 31, 2010, respectively:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loan Receivables	Loans Receivable > 90 Days and Accruing
December 31, 2011							
	(In Thousands)						
Commercial real estate	\$ 300	\$ 1,222	\$ 2,074	\$ 3,596	\$ 168,196	\$ 171,792	\$ 205
Commercial construction	-	1,412	-	1,412	12,002	13,414	-
Commercial	-	-	61	61	26,818	26,879	61
Residential real estate	-	269	-	269	210,092	210,361	-
Consumer	22	-	-	22	1,118	1,140	-
Total	<u>\$ 322</u>	<u>\$ 2,903</u>	<u>\$ 2,135</u>	<u>\$ 5,360</u>	<u>\$ 418,226</u>	<u>\$ 423,586</u>	<u>\$ 266</u>
December 31, 2010							
Commercial real estate	\$ 2,272	\$ 579	\$ 2,604	\$ 5,455	\$ 161,325	\$ 166,780	\$ 1,464
Commercial construction	-	-	-	-	15,701	15,701	-
Commercial	-	20	-	20	27,571	27,591	-
Residential real estate	-	104	381	485	175,656	176,141	-
Consumer	-	-	-	-	2,048	2,048	-
Total	<u>\$ 2,272</u>	<u>\$ 703</u>	<u>\$ 2,985</u>	<u>\$ 5,960</u>	<u>\$ 382,301</u>	<u>\$ 388,261</u>	<u>\$ 1,464</u>

Note 4 - Allowance for Loan Losses (Continued)

The following table summarizes information in regards to the allowance for loan losses and the recorded investment in loans receivable at December 31, 2011, and the activity in the allowance for loan losses for the year ended December 31, 2011:

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for credit losses:							
Beginning Balance - December 31, 2010	\$ 1,014	\$ 443	\$ 325	\$ 1,309	\$ 35	\$ 583	3,709
Charge-offs	(137)	-	(50)	(63)	-	-	(250)
Recoveries	2	-	4	4	12	-	22
Provisions	385	(91)	144	441	(7)	(138)	734
Ending balance - December 31, 2011	<u>\$ 1,264</u>	<u>\$ 352</u>	<u>\$ 423</u>	<u>\$ 1,691</u>	<u>\$ 40</u>	<u>\$ 445</u>	<u>\$ 4,215</u>
Ending balance: individually evaluated for impairment	\$ 107	\$ -	\$ 19	\$ -	\$ -	\$ -	\$ 126
Ending balance: collectively evaluated for impairment	<u>\$ 1,157</u>	<u>\$ 352</u>	<u>\$ 404</u>	<u>\$ 1,691</u>	<u>\$ 40</u>	<u>\$ 445</u>	<u>\$ 4,089</u>
Loans receivables:							
Ending balance	\$ 171,792	\$ 13,414	\$ 26,879	\$ 210,361	\$ 1,140		\$ 423,586
Ending balance: individually evaluated for impairment	\$ 8,484	\$ 3,974	\$ 417	\$ 552	\$ -		\$ 13,427
Ending balance: collectively evaluated for impairment	<u>\$ 163,308</u>	<u>\$ 9,440</u>	<u>\$ 26,462</u>	<u>\$ 209,809</u>	<u>\$ 1,140</u>		<u>\$ 410,159</u>
December 31, 2010							
Allowance for credit losses:							
Ending Balance	\$ 1,014	\$ 443	\$ 325	\$ 1,309	\$ 35	\$ 583	\$ 3,709
Ending balance: individually evaluated for impairment	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15
Ending balance: collectively evaluated for impairment	<u>\$ 999</u>	<u>\$ 443</u>	<u>\$ 325</u>	<u>\$ 1,309</u>	<u>\$ 35</u>	<u>\$ 583</u>	<u>\$ 3,694</u>
Loans receivables:							
Ending Balance	\$ 166,780	\$ 15,701	\$ 27,591	\$ 176,141	\$ 2,048		\$ 388,261
Ending balance: individually evaluated for impairment	\$ 7,267	\$ 125	\$ 568	\$ 506	\$ -		\$ 8,466
Ending balance: collectively evaluated for impairment	<u>\$ 159,513</u>	<u>\$ 15,576</u>	<u>\$ 27,023</u>	<u>\$ 175,685</u>	<u>\$ 2,048</u>		<u>\$ 379,845</u>

Troubled Debt Restructurings

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

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

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the period ended September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as TDRs. The Company did not identify any additional TDR receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology.

Note 4 - Allowance for Loan Losses (Continued)

The following table presents TDRs outstanding as of December 31, 2011:

	<u>Accrual Loans</u>	<u>Non-Accrual Loans</u>	<u>Total Modifications</u>
		(In Thousands)	
Commercial real estate	\$ 4,086	\$ 521	\$ 4,607
Commercial construction	2,808	-	2,808
Commercial	209	-	209
Residential real estate	161	-	161
Consumer	-	-	-
	<u>\$ 7,264</u>	<u>\$ 521</u>	<u>\$ 7,785</u>

As of December 31, 2011, no available commitments were outstanding on TDRs.

The following tables present newly restructured loans that occurred during the year ended December 31, 2011, respectively:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Balance</u>	<u>Post- Modification Outstanding Balance</u>
		(Dollars in Thousands)	
Commercial real estate	2	\$ 1,920	\$ 1,920
Commercial construction	4	2,808	2,808
Commercial	-	-	-
Residential real estate	2	161	161
Consumer	-	-	-
	<u>8</u>	<u>\$ 4,889</u>	<u>\$ 4,889</u>

Of the TDR's described above, two loans to one relationship required an impairment reserve of \$19 thousand recorded in the allowance for loan losses for the three months and the year ended December 31, 2011.

Note 4 - Allowance for Loan Losses (Continued)

The following tables represent financing receivables modified as TDRs with payment defaults, with the payment default occurring within 12 months of the restructure date, and the payment defaults occurring during the year ended December 31, 2011:

	<u>December 31, 2011</u>	
	<u>Number of</u>	<u>Recorded</u>
	<u>Loans</u>	<u>Investment</u>
Commercial real estate	4	\$ 1,309
Commercial construction	-	-
Commercial	-	-
Residential real estate	-	-
Consumer	-	-
	<u>4</u>	<u>\$ 1,309</u>

Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
	<u>(In Thousands)</u>	
Furniture, fixtures and equipment	\$ 2,120	\$ 2,086
Leasehold improvements	1,837	1,836
Computer equipment and data processing software	1,082	978
Automobiles	166	124
Construction in progress	153	13
	<u>5,358</u>	<u>5,037</u>
Accumulated depreciation	<u>(3,263)</u>	<u>(2,639)</u>
	<u>\$ 2,095</u>	<u>\$ 2,398</u>

Note 6 - Deposits

The components of deposits at December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
	(In Thousands)	
Demand, non-interest bearing	\$ 38,386	\$ 32,431
Demand, NOW and money market, interest bearing	40,128	38,167
Savings	327,048	242,529
Time, \$100 and over	32,784	41,633
Time, other	43,429	60,507
Total deposits	<u>\$ 481,775</u>	<u>\$ 415,267</u>

At December 31, 2011, the scheduled maturities of time deposits are as follows (in thousands):

2012	\$50,908
2013	8,028
2014	8,173
2015	3,510
2016	5,594
	<u>\$76,213</u>

Note 7 - Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within a few days from the transaction date and are reflected at the amount of cash received in connection with the transaction. The securities are retained under the Company's control at its safekeeping agent. The Company adjusts collateral based on the fair value of the underlying securities, on a monthly basis. Information concerning securities sold under agreements to repurchase for the years ended December 31, 2011 and 2010 is summarized as follows:

	2011	2010
	(Dollars In Thousands)	
Balance outstanding at December 31	\$ 33,953	\$ 46,433
Weighted average interest rate at the end of the year	0.25 %	0.40 %
Average daily balance during the year	\$ 38,100	\$ 40,161
Weighted average interest rate during the year	0.46 %	0.97 %
Maximum month-end balance during the year	\$ 51,043	\$ 49,182

Note 8 – Long-term Borrowings

The Bank has borrowing capacity with the FHLB of Pittsburgh of approximately \$193.8 million, of which \$7.9 million was outstanding at December 31, 2011, all of which is long term. This borrowing capacity with the FHLB includes a line of credit of \$25.0 million. The Bank also has a \$6.0 million line of credit with Atlantic Central Bankers Bank, of which none was outstanding at December 31, 2011. Advances from the Federal Home Loan Bank line are secured by qualifying assets of the Bank and advances from the Atlantic Central Bankers Bank line are unsecured. The Company has two lines of credit with Univest Bank and Trust Co., totaling \$10.0 million, of which \$5.2 million was outstanding at December 31, 2011. These lines of credit are secured by 833,333 shares of Bank stock, subordinate to all senior indebtedness of the Company. Under the terms of the loan agreement, the Bank is required to remain well capitalized and maintain a debt service coverage ratio of 1:1. At year-end, the Company was in compliance with its loan covenants.

The components of long-term borrowings with the FHLB at December 31, 2011 and 2010 are as follows (in thousands):

Maturity Date	2011		2010	
	Interest Rate	Outstanding	Interest Rate	Outstanding
June 2013	3.86%	4,834	3.86%	4,834
August 2013	3.98%	3,052	3.98%	3,052
		<u>\$ 7,886</u>		<u>\$ 7,886</u>

The components of long-term borrowings with Univest at December 31, 2011 and 2010 are as follows (in thousands):

Maturity Date	2011		2010	
	Interest Rate	Outstanding	Interest Rate	Outstanding
November 2015	7.50%	<u>\$ 5,200</u>	7.50%	<u>\$ 5,700</u>

Note 9 - Lease Commitments

The Company leases its banking premises under leases which the Company classifies as operating leases. These leases expire at various dates through March 2020. In addition to fixed rentals, the leases require the Company to pay certain additional expenses of occupying these spaces, including real estate taxes, insurance, utilities and repairs. A portion of these leases are with related parties as described below.

On October 21, 2011, the Company executed a Second Lease Expansion Addendum with Red Bird Associates, LLC for the additional space on the second floor of the Gateway Drive facility.

Note 9 - Lease Commitments (Continued)

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

	Related Parties	Third Parties	Total
2012	\$ 180	\$ 732	\$ 912
2013	45	746	791
2014	45	707	752
2015	45	684	729
2016	30	699	729
Thereafter	-	2,157	2,157
	<u>\$ 345</u>	<u>\$ 5,725</u>	<u>\$ 6,070</u>

Total rent expense was \$1.1 million for the years ended December 31, 2011 and 2010. Rent expense to related parties was \$306 thousand for the years ended December 31, 2011 and 2010.

Note 10 - Employment Agreements and Supplemental Executive Retirement Plans

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

The Company has a non-qualified Supplemental Executive Retirement Plan for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2011 and 2010, other liabilities include \$1,216,000 and \$847,000, respectively, accrued under these plans. For the years ended December 31, 2011 and 2010, \$369,000 and \$261,000, respectively, were expensed under these plans.

Note 11 - Stock Option and Stock Incentive Plans**Stock Option Plan:**

In connection with the reorganization of the Bank into a holding company structure, the Company assumed the Bank's 2001 Stock Option Plan which was renamed the Embassy Bancorp, Inc. Option Plan (the "Plan"). The plan expired on May 10, 2011, and no new options may be granted under this plan. The Plan authorized the Board of Directors to grant options to officers, other employees and directors of the Company. The options granted under the Plan to directors were non-qualified options. The options granted under the Plan to officers and other employees were generally intended to be "incentive stock options," and are subject to the limitations under Section 422 of the Internal Revenue Code. Shares issued upon exercise of options under the Plan may be funded from authorized but unissued shares of the Company or shares purchased in the open market.

All options granted under the Plan were subject to vesting requirements of not less than three years and the term shall not exceed ten years. The exercise price of the options granted was intended to reflect the fair market value of a share of common stock at the time of the grant.

Note 11 - Stock Option and Stock Incentive Plans (Continued)

Transactions under this plan are summarized as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2009	859,153	\$ 3.82
Granted	-	-
Exercised	(592,920)	2.85
Forfeited	(26,260)	3.09
	<u>239,973</u>	<u>\$ 3.35</u>
Outstanding, December 31, 2010	239,973	\$ 6.30
Granted	-	-
Exercised	(34,119)	3.35
Forfeited	(13,463)	4.32
	<u>192,391</u>	<u>\$ 6.96</u>
Outstanding, December 31, 2011	192,391	\$ 6.96
	<u>192,391</u>	<u>\$ 6.96</u>
Exercisable, December 31, 2011	192,391	\$ 6.96

Stock options outstanding at December 31, 2011 are exercisable at prices ranging from \$2.84 to \$10.00 per share. The weighted-average remaining contractual life of options outstanding and exercisable at December 31, 2011 is 1.99 years. The weighted-average remaining contractual life of options outstanding and exercisable at December 31, 2010 is 2.55 years. At December 31, 2011, the aggregate intrinsic value of options outstanding and exercisable was \$224 thousand. The intrinsic value was determined by using the latest known sales price of the Company's common stock. For the years ending December 31, 2011 and 2010, the aggregate intrinsic value of options exercised was \$113 thousand and \$3.1 million, respectively.

The following table summarizes information about the range of exercise prices for stock options outstanding at December 31, 2011:

<u>Range of Exercise Price</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Number Exercisable</u>
\$3.00 to \$4.00	3.91	60,835	0.80	60,835
\$6.00 to \$7.00	6.40	59,417	2.00	59,417
\$9.00 to \$10.00	10.00	72,139	3.00	72,139
		<u>192,391</u>	<u>1.99</u>	<u>192,391</u>

Note 11 - Stock Option and Stock Incentive Plans (Continued)

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.

As of December 31, 2011, the aggregate number of shares available for issuance under the SIP is 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 February 2012, the Company granted 7,992 shares of restricted stock to certain members of its Board of Directors as compensation for their service in 2011 in accordance with the Company's Non-employee Directors Compensation program adopted in October of 2010. In February 2012, the Company also granted options to purchase 52,611 shares of stock to certain executive officers in accordance with their respective employment agreements.

Note 12 - Federal Income Taxes

The components of income tax expense for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Current	\$ 2,537	\$ 2,200
Deferred	<u>(453)</u>	<u>(266)</u>
	<u>\$ 2,084</u>	<u>\$ 1,934</u>

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax expense included in the statement of income for the years ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Federal income tax at statutory rate	\$ 2,458	\$ 2,243
Tax free interest	(396)	(302)
Other	<u>22</u>	<u>(7)</u>
	<u>\$ 2,084</u>	<u>\$ 1,203</u>

Note 12 - Federal Income Taxes (Continued)

The Company adopted guidance in ASC Topic 740 regarding accounting for uncertainty in income taxes as of January 1, 2007. The Company has evaluated its tax positions. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more likely than not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of January 1, 2010, December 31, 2010 and December 31, 2011, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is subject to U.S. federal income tax. Neither the Company nor the Bank is subject to examination by U.S. Federal taxing authorities for years before 2008.

The components of the net deferred tax asset at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,329	\$ 1,141
Contributions carryforward	-	214
Other	442	336
	<u>1,771</u>	<u>1,691</u>
Total Deferred Tax Assets	<u>1,771</u>	<u>1,691</u>
Deferred tax liabilities:		
Premises and equipment	187	169
Prepaid assets	145	147
Stock options	-	422
Deferred loan costs	217	184
Unrealized gain on securities available for sale	1,230	153
	<u>1,779</u>	<u>1,075</u>
Total Deferred Tax Liabilities	<u>\$ 1,779</u>	<u>\$ 1,075</u>
Net Deferred Tax (Liability) Asset	<u>\$ (8)</u>	<u>\$ 616</u>

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

Note 13 - Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Related parties were indebted to the Company for loans totaling \$2.2 million and \$2.4 million at December 31, 2011 and 2010, respectively. During 2011, loans totaling \$1.8 million were disbursed and loan repayments totaled \$2.0 million.

Fees paid to related parties for legal services for the years ended December 31, 2011 and 2010 were approximately \$31 thousand and \$70 thousand, respectively. The Company leases its main banking office from an investment group comprised of related parties and its West Broad Street office also from a related party, as described in Note 9.

Note 14 - Financial Instruments with Off-Balance Sheet Risk

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

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

At December 31, 2011 and 2010, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Commitments to grant loans, fixed	\$ 887	\$ 492
Commitments to grant loans, variable	11,319	700
Unfunded commitments under lines of credit, fixed	4,548	6,430
Unfunded commitments under lines of credit, variable	57,174	48,687
Standby letters of credit	4,422	4,226
	<u>\$ 78,350</u>	<u>\$ 60,535</u>

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

Note 14 - Financial Instruments with Off-Balance Sheet Risk (Continued)

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

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2011 and 2010 was \$4.4 million and \$4.2 million, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$4.3 million and \$3.9 million, respectively. The current amount of the liability as of December 31, 2011 and 2010 for guarantees under standby letters of credit issued is not considered material.

Note 15 - Regulatory Matters

The Company is required to maintain cash reserve balances in vault cash and with the Federal Reserve Bank. As of December 31, 2011, the Company had a \$1.4 million minimum reserve balance, which \$1.3 million was covered by vault cash and \$66 thousand was held in a specific reserve.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2011, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Note 15 - Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2011 and 2010 are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar Amounts in Thousands)						
December 31, 2011:						
Total capital (to risk-weighted assets)	\$ 50,863	13.8 %	\$ ≥ 29,412	≥ 8.0 %	\$ ≥ 36,765	≥ 10.0 %
Tier 1 capital (to risk-weighted assets)	46,648	12.7	≥ 14,706	≥ 4.0	≥ 22,059	≥ 6.0
Tier 1 capital (to average assets)	46,648	8.3	≥ 22,579	≥ 4.0	≥ 28,223	≥ 5.0
December 31, 2010:						
Total capital (to risk-weighted assets)	\$ 45,421	13.0 %	\$ ≥ 28,047	≥ 8.0 %	\$ ≥ 35,059	≥ 10.0 %
Tier 1 capital (to risk-weighted assets)	41,712	11.9	≥ 14,024	≥ 4.0	≥ 21,036	≥ 6.0
Tier 1 capital (to average assets)	41,712	8.1	≥ 20,502	≥ 4.0	≥ 25,628	≥ 5.0

The Company's actual capital amounts and ratios at December 31, 2011 and 2010 are presented below:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
(Dollar Amounts in Thousands)				
December 31, 2011:				
Total capital (to risk-weighted assets)	\$ 46,160	12.6 %	\$ ≥ 29,413	≥ 8.0 %
Tier 1 capital (to risk-weighted assets)	41,945	11.4	≥ 14,706	≥ 4.0
Tier 1 capital (to average assets)	41,945	7.4	≥ 22,764	≥ 4.0
December 31, 2010:				
Total capital (to risk-weighted assets)	\$ 40,142	11.2 %	\$ ≥ 28,047	≥ 8.0 %
Tier 1 capital (to risk-weighted assets)	36,433	10.1	≥ 14,024	≥ 4.0
Tier 1 capital (to average assets)	36,433	7.1	≥ 20,502	≥ 4.0

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

Note 16 - Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, 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.

The recent 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.

Note 16 - Fair Value of Financial Instruments (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 and 2010 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)			
December 31, 2011				
US Treasury and agency obligations	\$ -	\$ 33,689	\$ -	\$ 33,689
Municipal bonds	-	40,048	-	40,048
U.S. GSE - Mortgage-backed securities - residential	-	13,841	-	13,841
Corporate bonds	-	4,532	-	4,532
Securities available for sale	\$ -	\$ 92,110	\$ -	\$ 92,110
December 31, 2010				
US Treasury and agency obligations	\$ -	\$ 32,622	\$ -	\$ 32,622
Municipal bonds	-	36,546	-	36,546
U.S. GSE - Mortgage-backed securities - residential	-	16,749	-	16,749
Corporate bonds	-	3,954	-	3,954
Securities available for sale	\$ -	\$ 89,871	\$ -	\$ 89,871

For financial assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 and 2010 are as follows:

	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(In Thousands)			
December 31, 2011 Impaired loans	\$ -	\$ -	\$ 599	\$ 599
December 31, 2011 Other real estate owned	\$ -	\$ -	\$ 3,388	\$ 3,388
December 31, 2010 Impaired loans	\$ -	\$ -	\$ 144	\$ 144
December 31, 2010 Other real estate owned	\$ -	\$ -	\$ 3,069	\$ 3,069

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.

Note 16 - Fair Value of Financial Instruments (Continued)

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2011 and 2010:

Cash and Cash Equivalents (Carried at Cost)

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

Interest Bearing Time Deposits (Carried at Cost)

Fair values for fixed-rate time certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities Available for Sale (Carried at Fair Value)

The fair value of securities available for sale are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans Receivable (Carried at Cost)

The fair values of loans 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, 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.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those that are accounted for under existing accounting 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.

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.

Note 16 - Fair Value of Financial Instruments (Continued)

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, 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 (Carried at Cost)

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

Short-Term Borrowings (Carried at Cost)

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

Long-Term Borrowings (Carried at Cost)

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

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

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

Note 16 - Fair Value of Financial Instruments (Continued)

The estimated fair values of the Company's financial instruments were as follows at December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	\$ 46,135	\$ 46,135	\$ 19,643	\$ 19,643
Interest bearing time deposits	7,698	7,720	8,326	8,434
Securities available-for-sale	92,110	92,110	89,871	89,871
Loans receivable, net of allowance	419,126	427,861	384,456	388,794
Restricted investments in bank stock	1,641	1,641	2,006	2,006
Accrued interest receivable	1,568	1,568	1,503	1,503
Financial liabilities:				
Deposits	481,775	482,344	415,267	416,508
Securities sold under agreements to repurchase and federal funds purchased	33,953	33,955	46,433	46,435
Long-term borrowings	13,086	13,422	13,586	14,006
Accrued interest payable	582	582	941	941
Off-balance sheet financial instruments:				
Commitments to grant loans	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-
Standby letters of credit	-	-	-	-

Note 17 – Parent Company Only Financial

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

BALANCE SHEET

	As of December 31,	
	<u>2011</u>	<u>2010</u>
	(In Thousands)	
<u>ASSETS</u>		
Cash	\$ 607	\$ 399
Other assets	11	22
Investment in subsidiary	49,036	42,008
Total Assets	<u>\$ 49,654</u>	<u>\$ 42,429</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Long-term borrowings	\$ 5,200	\$ 5,700
Other liabilities	121	-
Stockholders' equity	44,333	36,729
Total Liabilities and Stockholders' Equity	<u>\$ 49,654</u>	<u>\$ 42,429</u>

STATEMENT OF INCOME

	Years Ending December 31,	
	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Interest income on interest bearing deposits	\$ -	\$ 2
Interest expense on borrowings	(425)	(432)
Other expenses	(242)	(102)
Equity in net income of banking subsidiary	5,592	5,017
Income before income taxes	4,925	4,485
Income tax benefit	219	177
Net income	<u>\$ 5,144</u>	<u>\$ 4,662</u>

Note 17 – Parent Company Only Financial (Continued)**STATEMENT OF CASH FLOWS**

	Years Ending December 31,	
	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 5,144	\$ 4,662
Adjustments to reconcile net income to net cash used in operating activities:		
Net change in other assets and liabilities	131	(11)
Equity in net income of banking subsidiary	(5,592)	(5,017)
Net Cash Used in Operating Activities	<u>(317)</u>	<u>(366)</u>
Cash Flows from Investing Activities:		
Dividend from banking subsidiary	1,259	770
Net Cash Provided by (Used in) Investing Activities	<u>1,259</u>	<u>770</u>
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	(500)	-
Proceeds from long-term borrowings	-	50
Stock tendered for options	(19)	(381)
Dividends Paid	(215)	(141)
Net Cash Used in Financing Activities	<u>(734)</u>	<u>(472)</u>
Net Increase (Decrease) in Cash	<u>208</u>	<u>(68)</u>
Cash – Beginning	<u>399</u>	<u>467</u>
Cash - Ending	<u>\$ 607</u>	<u>\$ 399</u>

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

None.

Item 9A. CONTROLS AND PROCEDURES.

(a) Disclosure Controls and Procedures.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of December 31, 2011, the Chief Executive and Chief Financial Officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our control over financial reporting based on the Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

David M. Lobach, Jr.
Chairman, President and Chief Executive Officer

Judith A. Hunsicker
Senior Executive Vice President, Chief Operating Officer,
Secretary and Chief Financial Officer

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

(c) Changes in Internal Controls Over Financial Reporting.

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

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by Part III, Item 10, is incorporated herein by reference to the information under the captions “Board of Directors,” “Information as to Nominees and Directors,” “Executive Officers,” “Nominating Process,” “Code of Conduct (Ethics),” “Committees of the Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2012 annual meeting of shareholders.

Item 11. EXECUTIVE COMPENSATION.

The information required by Part III, Item 11, is incorporated herein by reference to the information under the captions “Director Compensation,” “Executive Compensation” and “Agreements with Executive Officers” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2012 annual meeting of shareholders.

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

The information required by Part III, Item 12, is incorporated herein by reference to the information under Item 5 of this report and the information under the caption “Information Concerning Share Ownership” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2012 annual meeting of shareholders.

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

The information required by Part III, Item 13, is incorporated herein by reference to the information under the captions “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2012 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following fees were incurred by the Company for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Audit fees (1)	\$ 70,933	\$ 67,914
Audit-related fees(2)	1,000	1,500
Tax fees(3)	12,454	8,139
All other fees (4)	-	24,000
	<u>\$ 84,387</u>	<u>\$ 101,553</u>

(1) Includes professional services rendered for the audit of the Company’s annual financial statements and review of financial statements included in Forms 10-Q and 10-K, or services normally provided in connection with statutory and regulatory filing and engagements, including out-of-pocket expenses.

(2) Includes assurance and related services reasonably related to the performance of the audit or review of financial statements.

- (3) Tax fees include the following: preparation of state and federal tax returns and consultation on various other tax matters.
- (4) Other fees include assistance in implementing XBRL reporting.

These fees were approved in accordance with the Company's Audit Committee's policy.

Additional information required by Part III, Item 14, is incorporated herein by reference to the information under the captions "Fees Paid to Independent Accountants" and "Report of Audit Committee" in the Company's definitive proxy statement to be filed with the SEC in connection with the Company's 2012 annual meeting of shareholders.

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended (conformed) (Incorporated by reference to Exhibit 3.1 of Registrants Form 10-Q filed on May 14, 2010).
3.2	By-Laws (Incorporated by reference to Exhibit 2 of Registrant's Form 8-A filed on December 11, 2008).
10.1	Embassy Bancorp, Inc. Option Plan (Incorporated by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-8 filed on February 22, 2010).
10.2	Embassy Bancorp, Inc. 2010 Stock Incentive Plan (Incorporated by reference to Annex A of Registrant's definitive proxy statement filed on April 30, 2010).
10.3	Form of Stock Option Grant Agreement – Directors (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q filed on May 14, 2010).
10.4	Form of Stock Option Grant Agreement – Executive Officers (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q filed on May 14, 2010).
10.5	Lease Agreement for the Rte. 512 Bethlehem Office (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-K filed on March 31, 2009).
10.6	Lease Agreement dated October 21, 2005 for Hamilton Blvd. and Mill Creek Rd., Lower Macungie Township, Pennsylvania (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-K filed on March 31, 2009).
10.7	Lease Addendum for additional space in the Rte. 512, Bethlehem Office (Incorporated by reference to Exhibit 10.4 of Registrant's Form 10-K filed on March 31, 2009).
10.8	Lease Agreement dated March 11, 2009 for Cedar Crest Blvd., Allentown, Pennsylvania (Incorporated by reference to Exhibit 10.5 of Registrant's Form 10-K filed on March 31, 2009).
10.9	Lease Agreement for Tilghman Street location (Incorporated by reference to Exhibit 10.6 of Registrant's Form 10-K filed on March 31, 2009).
10.10	Lease Agreement dated March 17, 2006 for 925 West Broad St, Bethlehem PA (Incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K filed on March 31, 2009).
10.11	Lease Agreement dated June 17, 2008 for 5828 Old Bethlehem Pike, Center Valley, PA (Incorporated by reference to Exhibit 10.8 of Registrant's Form 10-K filed on March 31, 2009).
10.12	Lease Agreement dated March 19, 2009 for Corriere Road and Route 248 in Lower Nazareth Township, PA (Incorporated by reference to Exhibit 10.9 of Registrant's Form 10-K filed on March 31, 2009).
10.13	Second Lease Expansion Addendum dated October 21, 2011 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates, LLC (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on October 26, 2011).
10.14	Employment Agreement – D. Lobach, dated January 1, 2006 (Incorporated by reference to Exhibit 10.10 of Registrant's Form 10-K filed on March 31, 2009).
10.15	Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010 (Incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K filed on November 23, 2010).
10.16	Employment Agreement – J. Hunsicker, dated January 1, 2006 (Incorporated by reference to Exhibit 10.11 of Registrant's Form 10-K filed on March 31, 2009).

- 10.17 Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 19, 2010 (Incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K filed on November 23, 2010).

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (Continued)

- 10.18 Employment Agreement – J. Bartholomew, dated February 20, 2009 (Incorporated by reference to Exhibit 10.12 of Registrant's Form 10-K filed on March 31, 2009).
- 10.19 Amendment to Employment Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated November 19, 2010 (Incorporated by reference to Exhibit 10.7 of Registrant's Form 8-K filed on November 23, 2010).
- 10.20 Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on November 23, 2010).
- 10.21 Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 21, 2011 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on November 23, 2011).
- 10.22 Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on November 23, 2010).
- 10.23 Amendment No. 1 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 21, 2011 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on November 23, 2011).
- 10.24 Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 19, 2010 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K filed on November 23, 2010).
- 10.25 Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 21, 2011 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K filed on November 23, 2011).
- 10.26 Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated November 19, 2010 (Incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K filed on November 23, 2010).
- 10.27 Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and James R. Bartholomew, dated November 21, 2011 (Incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K filed on November 23, 2011).
- 10.28 Loan Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on December 24, 2009).
- 10.29 Subordinated Term Loan Note, dated as of December 22, 2009, by Embassy Bancorp, Inc. in favor of Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on December 24, 2009).
- 10.30 Stock Pledge Agreement, dated as of December 22, 2009, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K filed on December 24, 2009).
- 10.31 Loan Agreement, dated as of November 11, 2008, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K filed on December 24, 2009).
- 10.32 Subordinated Term Loan Note, dated as of November 11, 2008, by Embassy Bancorp, Inc. in favor of Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K filed on December 24, 2009).

- 10.33 Stock Pledge Agreement, dated as of November 11, 2008, by and between Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K filed on December 24, 2009).
- 10.34 First Allonge to Subordinated Term Note, dated as of December 22, 2009, by Embassy Bancorp, Inc. and Univest National Bank and Trust Co. (Incorporated by reference to Exhibit 10.7 of Registrant's Form 8-K filed on December 24, 2009).
- 11.1 The statement regarding computation of per share earnings required by this exhibit is contained in Note 5 to the financial statements captions "Basic and Diluted Earnings Per Share."
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of ParenteBeard LLC.
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.
- 101.1 The following Exhibits are being furnished* as part of this report:

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.*

* These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

SIGNATURES

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

EMBASSY BANCORP, INC.

Dated: March 30, 2012

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

Dated: March 30, 2012

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

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

Dated: March 30, 2012 /s/ Frank Banko III
Frank Banko III, Director

Dated: March 30, 2012 /s/ Geoffrey F. Boyer
Geoffrey F. Boyer, Director

Dated: March 30, 2012 /s/ John B. Brew, Jr.
John B. Brew, Jr., Director

Dated: March 30, 2012 /s/ Robert P. Daday
Robert P. Daday, Director

Dated: March 30, 2012 /s/ John G. Engleson
John G. Engleson, Director

Dated: March 30, 2012 /s/ Elmer D. Gates
Elmer D. Gates, Lead Director

Dated: March 30, 2012 /s/ M. Bernadette Holland
M. Bernadette Holland, Director

Dated: March 30, 2012 /s/ Bernard M. Lesavoy
Bernard M. Lesavoy, Director

Dated: March 30, 2012 /s/ David M. Lobach, Jr.
David M. Lobach, Jr., Director and Chairman of the Board

Dated: March 30, 2012 /s/ John C. Pittman
John C. Pittman, Director

Dated: March 30, 2012 /s/ John T. Yurconic
John T. Yurconic, Director

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Embassy Bancorp, Inc.

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-165015 and 333-169018) of Embassy Bancorp, Inc. of our report dated March 30, 2012, relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ ParenteBeard LLC

ParenteBeard LLC
Allentown, Pennsylvania
March 30, 2012

EXHIBIT 31.1

CERTIFICATION

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

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

By: /s/ David M. Lobach, Jr.
DAVID M. LOBACH, JR.
Chairman, President and Chief Executive Officer
DATED: March 30, 2012

EXHIBIT 31.2

CERTIFICATION

I, Judith A. Hunsicker, certify that:

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

By: /s/ Judith A. Hunsicker

JUDITH A. HUNSICKER

Senior Executive Vice President,

Chief Operating Officer,

Secretary and Chief Financial Officer

DATED: March 30, 2012

EXHIBIT 32.1

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

We hereby certify that the foregoing Form 10-K of Embassy Bancorp, Inc. for the year ended December 31, 2011 complies in all respects with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Embassy Bancorp, Inc.

/s/ David M. Lobach, Jr.

DAVID M. LOBACH, JR.
Chairman, President and
Chief Executive Officer

/s/ Judith A. Hunsicker

JUDITH A. HUNSICKER
Senior Executive Vice President,
Chief Operating Officer, Secretary and
Chief Financial Officer

Dated: March 30, 2012