



Codorus Valley Bancorp, Inc.

*Larry J. Miller
Vice Chairman, President and
Chief Executive Officer*

May 1, 2012

Dear Shareholder,

I am pleased to report that Codorus Valley Bancorp, Inc. earned net income available to common shareholders of \$2,102,000 or \$0.50 per share, basic and diluted, for the quarter ended March 31, 2012, compared to the \$1,266,000 or \$0.31 per share basic, \$0.30 per share diluted, for the quarter ended March 31, 2011.

The \$836,000 or 66 percent increase in earnings for the first quarter of 2012, compared to the first quarter of 2011 was primarily the result of an increase in net interest income and a decrease in the provision for loan losses, which more than offset increases in noninterest expense and income taxes. The \$938,000 or 12 percent increase in net interest income resulted primarily from a larger volume of earning assets, principally commercial loans, and a decrease in funding costs. The decrease in funding costs resulted from a larger proportion of low cost core deposits to total deposits and lower rates generally paid on all deposit products, which reflected unusually low market interest rates. The \$425,000 or 63 percent decrease in the provision for loan losses reflected a low level of net loan charge-offs in the current quarter and adequacy of the existing allowance for loan losses. The \$232,000 or 3 percent increase in noninterest expense was due to normal business growth, which included the impact of franchise expansion in the prior year. The \$428,000 or 144 percent increase in the provision for income taxes was primarily the result of a 67 percent increase in the level of income before income taxes.

On March 31, 2012, total assets were approximately \$1,030,000,000 representing a \$69,000,000 or 7 percent increase above March 31, 2011. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and was funded primarily by an increase in core deposits. Additional financial information follows this letter.

In other news, on April 10, 2012, Codorus Valley's Board of Directors declared a regular quarterly cash dividend of \$0.09 per common share, payable on May 8, 2012, to shareholders of record on April 24, 2012. If you do not participate in the Company's Dividend Reinvestment and Stock Purchase Plan, your dividend check is enclosed. The Board of Directors regularly reviews the dividend policy and can be expected to approve future changes to it as they deem necessary and appropriate.

On behalf of the Board of Directors, the Leadership Team, and all who serve our clients on a daily basis, thank you for your investment in Codorus Valley Bancorp, Inc. and your continued confidence.

Sincerely,

Larry J. Miller
Vice-Chairman, President, and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

	As of and for the three months ended		
	March 31,		
	<u>2012</u>	<u>2011</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,029,858	\$960,706	7.2
Shareholders' equity	\$95,268	\$77,972	22.2
Net income available to common shareholders	\$2,102	\$1,266	66.0
Common shares outstanding	4,212,686	4,142,850	1.7
Ratios			
Return on average assets	0.91%	0.63%	44.4
Return on average equity	9.61%	7.78%	23.5
Capital leverage	9.86%	8.95%	10.2
Per share information			
Net income per common share, basic	\$0.50	\$0.31	61.3
Net income per common share, diluted	\$0.50	\$0.30	66.7
Book value per common share	\$16.68	\$14.81	12.6

Common stock & dividend information

NASDAQ Global Market symbol: CVLY

(Stock price is based on the high and low sales price.)

	<u>2012</u>			<u>2011</u>		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	11.20	8.28	0.09	11.23	9.30	0.08
Second quarter				11.25	10.02	0.09
Third quarter				11.00	8.75	0.09
Fourth quarter				9.75	8.23	0.09

Nasdaq market makers

Boenning & Scattergood, Inc. 1-800-842-8928

RBC Wealth Management 1-800-344-4413

Stock transfer agent

Wells Fargo Bank, N.A. 1-800-468-9716

(www.wellsfargo.com/shareownerservices)

Shareholder inquiries

Shareholder contact line 1-717-747-1519
1-888-846-1970 ext. 519

Additional financial information is available via the Internet:
www.peoplesbanknet.com
Select About Us/Investor Relations/then choose from the menu of options