



Codus Valley Bancorp, Inc.

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

August 1, 2012

Dear Shareholder,

I am pleased to report that Codorus Valley Bancorp, Inc. earned net income available to common shareholders (earnings) of \$2,708,000 or \$0.64 per share basic, \$0.63 per share diluted, for the quarter ended June 30, 2012. Comparatively, the Company earned \$1,626,000 or \$0.39 per share, basic and diluted, for the quarter ended June 30, 2011. For the first six months of 2012, earnings were \$4,810,000 or \$1.14 per share basic, \$1.13 per share diluted, compared to \$2,892,000 or \$0.70 per share basic, \$0.69 per share diluted for the first six months of 2011.

The increase in earnings for both periods was due primarily to an increase in net interest income, which resulted from an increase in the average 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. A decrease in the provision for loan losses, due to the adequacy of the allowance for loan losses and improving credit quality, also contributed to the increase in earnings for both periods.

On June 30, 2012, total assets were approximately \$1.045 billion, representing a \$68 million or 7 percent increase above June 30, 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 July 10, 2012, Codorus Valley's Board of Directors declared a regular quarterly cash dividend of \$0.11 per common share, payable on August 14, 2012, to shareholders of record on July 24, 2012. This dividend represents a \$0.02 or 22 percent increase above the regular quarterly cash dividend paid in May 2012. If you do not participate in the Company's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your dividend check is enclosed. To enroll in the DRSPP you may contact the Company's stock transfer agent Wells Fargo at 800-468-9716. 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.

Also, in July of this year, Michael F. Allen was hired as Vice President and Chief Operating Officer of Codorus Valley Bancorp, Inc. and Executive Vice President and Chief Operating Officer of PeoplesBank, the Corporation's principal financial services subsidiary. As Chief Operating Officer, Mr. Allen assumes overall responsibility for PeoplesBank's primary sales and services divisions, including retail banking, business banking, wealth management, information technology and operations. We believe Mr. Allen's extensive business knowledge and strong credit and leadership skills will contribute to our Company's continued success. In accordance with our management succession plan, Mr. Allen assumes the operating responsibilities previously held by Harry R. "Ron" Swift, Esq., Executive Vice President and General Counsel who has this date relinquished the Chief Operating Officer position, but continues as General Counsel and Secretary of Codorus Valley and PeoplesBank, as he transitions to part-time status effective January 1, 2013. General Counsel Swift will continue to serve on the Boards of Directors of the Corporation and Bank.

Codus Valley Corporate Center, 105 Leader Heights Road, P.O. Box 2887, York, PA 17405-2887

717-747-1519 Fax 717-747-0490

Our marketing department recently completed the construction of a brand-new website for Peoplesbank, which has a new theme, design, added features and improved functionality. Please visit the website at: www.peoplesbanknet.com where an Investor Relations tab is conveniently provided on the home page so that you may be informed about our Company and your investment.

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,

A handwritten signature in black ink, appearing to read "Larry J. Miller". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

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

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

	As of and for the six months ended		
	June 30,		
	<u>2012</u>	<u>2012</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,044,551	\$977,245	6.9
Shareholders' equity	\$98,122	\$81,536	20.3
Net income available to common shareholders	\$4,810	\$2,892	66.3
Common shares outstanding	4,233,847	4,162,627	1.7
Ratios			
Return on average assets	0.99%	0.70%	41.4
Return on average equity	10.53%	8.56%	23.0
Capital leverage	9.87%	9.03%	9.3
Per share information			
Net income per common share, basic	\$1.14	\$0.70	62.9
Net income per common share, diluted	\$1.13	\$0.69	63.8
Book value per common share	\$17.27	\$15.60	10.7

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	13.88	10.77	0.09	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 Investor Relations, then choose from the menu of options