Codorus Valley Bancorp, Inc.

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

February 1, 2014

Dear Shareholder,

Codorus Valley Bancorp, Inc.'s net income available to common shareholders (earnings) for the year 2013 was $10,316,000 or $2.17 per share basic, $2.13 per share diluted, compared to $9,010,000 or $1.93 per share basic, $1.91 per share diluted, earned in the year 2012. For the quarter ended December 31, 2013, the Corporation earned $2,519,000 or $0.53 per share basic, $0.52 per share diluted, compared to $2,391,000 or $0.51 per share basic, $0.50 per share diluted, for the quarter ended December 31, 2012.

We are pleased with the Corporation's financial performance for the year 2013, which enabled us to pay cash dividends totaling $0.46 per common share, an increase of $0.06 or 15 percent per share, distribute a 5 percent stock dividend and improve the price of the company's stock from the prior year-end. In addition to our focus on profitable operations, we also concentrated on expanding the banking franchise. During the year PeoplesBank opened two banking offices, one in downtown Hanover, PA (May) and the other in Dover, PA (September). To date, both offices have contributed to the growth of loans and deposits. We have also been busy this year planning and laying the groundwork to celebrate a very special event in 2014, PeoplesBank's 150th anniversary! To commemorate this important milestone in our history, we have many special activities and events planned throughout 2014, which we'll advertise under the banner of our anniversary theme—Proud of Our Past, Focused on Your Future.

As recently announced, the Corporation's Board of Directors declared a regular quarterly cash dividend of $0.12 per common share on January 14, 2014, payable on February 11, 2014, to shareholders of record at the close of business on January 28, 2014. 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.

Fourth quarter commentary

Items worthy of mention for the quarter ending December 31, 2013, include:

- Net income available to common shareholders for the fourth quarter of 2013 increased $128,000 or 5 percent compared to the fourth quarter of 2012. Earnings were driven primarily by a 10 percent increase in net interest income, which resulted from an increase in interest income from a larger volume of earning assets, principally commercial loans, and a decrease in the cost of deposits. The increase in net interest income, more than offset a decrease in noninterest income and an increase in noninterest expense, which are described below under the Review of Operations for the full year 2013.

- At December 31, 2013, the Corporation's nonperforming assets ratio was 2.24 percent, compared to 1.64 percent at December 31, 2012. The increase in the ratio was due largely to the reclassification of a $5.5 million commercial loan to nonaccrual status in the fourth quarter of this year. Management has established an appropriate allowance for this account while it evaluates its collection options.

Additional financial information, which like all information contained herein is unaudited, follows this letter.

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

717-747-1519 • Fax 717-747-0490

Review of operations

For the full year 2013, net income available to common shareholders totaled $10,316,000, an increase of $1,306,000 or 14 percent compared to the year 2012. The increase in earnings was due primarily to an increase in net interest income and, to a lesser degree, decreases in the provision for loan losses and preferred stock dividends, which more than offset a decrease in noninterest income and an increase in noninterest expense, as described below.

The $2,368,000 or 7 percent increase in net interest income was due primarily to a decrease in funding costs resulting 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. An increase in interest income from an increase in the average volume of loans also contributed to the increase in net interest income, although the volume effect was muted by lower yields, a reflection of the low interest rate environment.

The $280,000 or 16 percent decrease in the provision for loan losses was due primarily to a decrease in the level of net charge-offs for the year and adequacy of the allowance for loan losses.

The $436,000 or 5 percent decrease in noninterest income was primarily the result of decreases in gains from the periodic sale of investment securities, net gain from the sale of loans held for sale and income from mutual fund, annuity and insurance sales. Gains from the sale of U.S. agency mortgage-back securities were greater in the year 2012 as selected instruments that no longer met the Corporation's investment standards were liquidated in that year. Net gain from the sale of loans held for sale, principally residential mortgages, for the year 2013 was adversely affected by a sharp decrease in refinancing demand as a result of saturation and an increase in market interest rates. The decrease in income from mutual fund, annuity and insurance sales for the year 2013 reflected a decrease in sales volume and loss of accounts as a result of staff resignations. Core noninterest income, which excludes gains or losses from the sale of securities, decreased $92,000 or 1 percent for the year 2013, compared to the year 2012.

The $226,000 or 1 percent increase in noninterest expense was driven primarily by a 10 percent increase in personnel expense, which resulted from expanding the banking franchise and normal business growth. A significant reduction in impairment costs associated with foreclosed real estate more than offset the increase in personnel expense, which kept the overall increase in noninterest expense to a minimum.

The $814,000 or 26 percent increase in the provision for income taxes was due to the 16 percent increase in income before income taxes.

The $134,000 or 35 percent decrease in preferred stock dividends was the result of a decrease in the dividend rate caused by the addition of loans that qualified for the U.S. Treasury's Small Business Lending Fund Program. Dividends under this program were 1 percent for the year 2013, compared to approximately 1.5 percent for the year 2012.

Review of financial condition

On December 31, 2013, total assets were approximately $1.15 billion, representing a $91 million or 9 percent increase, compared to December 31, 2012. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and was funded primarily by an increase in core deposits and low-rate advances from the Federal Home Loan Bank of Pittsburgh. The growth of core deposits is a particular focus of the Corporation because the rates are relatively low, are a source of fee income and provide the opportunity to cross-sell other financial products and services. The Corporation excludes time deposits in its definition of core deposits.

As a result of profitable operations, the Corporation's capital level remained sound as evidenced by capital ratios that exceed current regulatory requirements for well capitalized institutions.

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

Sincerely,

Larry J. Miller

Larry J. Miller
Vice-Chairman, President and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

	For the year ended December 31, 2013	2012	%chg
Selected financial information			
(dollars in thousands)			
Assets	$1,150,641	$1,059,737	8.6
Shareholders' equity	$107,649	$101,331	6.2
Net income available to common shareholders	$10,316	$9,010	14.5
Common shares outstanding, as adjusted	4,800,318	4,706,435	2.0
Ratios			
Return on average assets	0.96%	0.90%	6.7
Return on average equity	10.08%	9.55%	5.5
Capital leverage	10.18%	10.02%	1.6
Per share information			
(adjusted for stock dividend)			
Net income per common share, basic	$2.17	$1.93	12.4
Net income per common share, diluted	$2.13	$1.91	11.5
Book value per common share	$17.22	$16.22	6.2

Common stock & dividend information
NASDAQ Global Market symbol: CVLY
(Cash dividends and stock price are adjusted for common stock dividends.)

	2013			2012		
	$high	$low	$div	$high	$low	$div
First quarter	16.10	12.61	0.105	10.16	7.51	0.082
Second quarter	16.75	14.52	0.105	12.59	9.77	0.082
Third quarter	18.19	16.43	0.114	14.66	12.02	0.100
Fourth quarter	21.98	16.73	0.114	15.24	12.88	0.100

Nasdaq market makers

Boenning & Scattergood, Inc.	800-842-8928 or 610-862-5368
Janney Montgomery Scott LLC	800-999-0503 or 717-779-2720
Sandler O'Neill & Partners, L.P. (institutional trades only)	800-635-6871 or 212-466-8000

Stock transfer agent
Wells Fargo Bank, N.A. 800-468-9716
(www.wellsfargo.com/shareownerservices)

Shareholder inquiries
Shareholder contact line 717-747-1519 or 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