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

February 2, 2016

Dear Shareholder,

During the year ended December 31, 2015, the Corporation continued to pursue its long-term strategic growth objectives. The Corporation's total assets grew to over \$1.4 billion by the end of 2015, and total loans grew to over \$1.1 billion, reflecting both continued organic growth throughout the year in our core business banking activities, as well as the loans and deposits added from our successful acquisition of Madison Bancorp, Inc. (Madison) in January 2015. To effectively meet the needs of our expanded market footprint and growing client base, the Corporation made additional investments in personnel, back-office facilities, and new financial centers. As a result of the additional costs during 2015 associated with these personnel and facilities investments, and the additional loan loss provision associated with our loan growth, our 2015 earnings performance trailed our 2014 results. Net income available to common shareholders (earnings) for the year ended December 31, 2015, was \$11.0 million or \$1.76 per share basic and \$1.75 per share diluted, compared to \$11.6 million or \$1.97 per share basic and \$1.93 per share diluted for the year ending December 31, 2014.

We were pleased to distribute cash dividends to our shareholders totaling \$0.49 per common share during 2015, and we also distributed a 5 percent stock dividend in December 2015. Also, on January 12, 2016, the Board of Directors declared a regular quarterly cash dividend of \$0.13 per common share payable on February 9, 2016, to shareholders of record at the close of business on January 26, 2016. If you do not participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your cash dividend check is enclosed with this letter. If you do not currently participate in the Company's Dividend Reinvestment and Stock Purchase Plan (DRSPP) but wish to enroll, you may contact the Company's plan advisor, *Wells Fargo Shareowner Services*, at 800-468-9716.

Importantly, in December we raised over \$32 million in capital from the net proceeds of a common stock offering. This will enhance our already well-capitalized financial position, and support our planned loan growth and franchise expansion. Also, we intend to use \$12 million of the net proceeds from the capital raise to redeem the remaining preferred stock held by the U.S Treasury related to their previous Small Business Lending Fund investment in the Corporation.

Other Financial Highlights

Net interest income for the full year of 2015 was \$47.8 million reflecting a 13 percent increase over net interest income of \$42.4 million for the 2014 year. The increase was supported by substantial growth in interest-earning assets, primarily commercial loans; however, the additional interest income from this new loan volume was partially offset by increased funding costs associated with the additional long-term borrowings by the Corporation, as loan growth outpaced deposit growth during the year.

The provision for loan losses was \$3.5 million for the full year of 2015, as compared to \$1.6 million for the 2014 year. The additional loan loss provision supported PeoplesBank's substantial commercial loan growth, and reflected the Corporation's ongoing analysis of the adequacy of its allowance for loan losses based upon the size, composition, and risks in the loan portfolio, and the level of specific reserves and net charge-offs.

Noninterest income for the full year of 2015 was \$9.0 million or a 10 percent increase over noninterest income of \$8.2 million for the 2014 year. The primary sources of the year-over-year include increased fees from growth in the volume of deposits and rate schedule changes, higher wealth management fees from growth in assets under management, and a higher volume of mortgage loan sales and related gains.

Noninterest expense for the full year of 2015 was \$37.4 million, or a 15 percent increase over noninterest expense of \$32.5 million for the 2014 year. The increase in overhead includes additional personnel and occupancy expenses necessary to support PeoplesBank's expansion, including the opening of a new financial center in Shrewsbury, PA in 2015, and the net addition of three financial centers after the January 2015 Madison acquisition (as four offices were acquired from Madison, and one former PeoplesBank location was closed and accounts transferred to a former Madison office). The 2015 noninterest expenses also reflected certain nonrecurring costs in the fourth quarter associated with the consolidation of two financial centers into one new location in Center City York, Pennsylvania, and the relocation of a PeoplesBank financial center in South Hanover, Pennsylvania from a leased facility to a newly constructed and more modern bank-owned facility.

Announcements

Related to expanding our Maryland market presence and client base, PeoplesBank has formally applied to bank regulatory agencies seeking approval to open a new banking office in Hereford, Maryland. Subject to receiving regulatory approval and completion of facility renovations, the office should open in the second quarter of 2016.

I am very pleased to report that, effective January 12, 2016, Brian Brunner was appointed as a Class A Director of the Corporation, with an initial term expiring at the 2018 Annual Meeting of Shareholders. In connection with this appointment, Mr. Brunner was also appointed to the Compensation and Corporate Governance and Nominating Committees of the Board of Directors. Mr. Brunner has served as a member of the Board of Directors of PeoplesBank since September 2015. Mr. Brunner has over thirty years of experience in the financial services industry and is currently the Division President of Account and Item Processing within the Global Sales Organization of Fiserv, Inc. Mr. Brunner previously served as an independent director on the board of Madison Bancorp, Inc., which was acquired by the Corporation on January 16, 2015. We look forward to his counsel and leadership as we continue to serve the needs of our clients, neighbors and friends. His experience in financial services technology, as well as his understanding of the Maryland business climate, will be invaluable as PeoplesBank continues its expansion throughout the region and enhances its technological offerings.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Larry J. Miller". The signature is fluid and cursive, written in a professional style.

Larry J. Miller
Chairman, President and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

As of and for the twelve months ended
December 31,

	<u>2015</u>	<u>2014</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,456,334	\$1,213,846	20.0
Shareholders' equity	\$159,141	\$118,440	34.4
Net income available to common shareholders	\$11,015	\$11,595	(5.0)
Common shares outstanding, as adjusted	7,957,145	6,122,459	30.0

Ratios

Return on average assets	0.82%	0.98%	(16.3)
Return on average equity	8.94%	10.22%	(12.5)
Capital leverage	11.73%	10.32%	13.7

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$1.76	\$1.97	(10.7)
Net income per common share, diluted	\$1.75	\$1.93	(9.3)
Book value per common share	\$18.49	\$17.39	6.3

Common stock & dividend information

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

	2015			2014		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	20.00	17.81	0.119	20.27	17.36	0.109
Second quarter	20.78	18.30	0.119	19.88	17.64	0.109
Third quarter	20.95	18.73	0.124	19.82	18.11	0.113
Fourth quarter	21.10	19.29	0.124	22.86	15.51	0.113

Nasdaq market makers

Boening & 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. (www.wellsfargo.com/shareownerservices)	800-468-9716
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Shareholder inquiries

Shareholder contact line	717-747-1519 or 888-846-1970 ext. 519
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Additional financial information is available via the Internet:

www.peoplesbanknet.com

Select Investor Relations, then choose from the menu of options

