



105 Leader Heights Road • P.O. Box 2887 • York, PA 17405-2887 • 717.846.1970 • 888.846.1970 • [www.peoplesbanknet.com](http://www.peoplesbanknet.com)

---

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

May 1, 2018

Dear Shareholder:

Your Corporation's net income for the first quarter of 2018 was \$4.1 million or \$0.46 per share basic and \$0.45 per share diluted, for the quarter ended March 31, 2018, as compared to earnings of \$3.4 million or \$0.39 per share basic and \$0.38 per share diluted, for the quarter ended March 31, 2017.

Net interest income for the first quarter of 2018 was \$15.3 million, an increase of \$1.2 million or 9 percent when compared to net interest income of \$14.1 million for the first quarter of 2017. The growth was driven by an increased volume of interest earning assets, primarily commercial loans. The Corporation realized a net interest margin of 3.89 percent for the first quarter of 2018, which represented an increase as compared to the net interest margin of 3.81 percent for the first quarter of 2017.

The provision for loan losses for the first quarter of 2018 was \$200,000, a decrease of \$450,000 as compared to a provision of \$650,000 for the first quarter of 2017. The Corporation's nonperforming assets ratio was 0.40 percent as of March 31, 2018, reflecting an increase when compared to a nonperforming asset ratio of 0.38 percent as of December 31, 2017 and 0.27 percent as of March 31, 2017. The allowance for loan losses to total loans at March 31, 2018 was 1.18 percent compared to 1.19 percent at December 31, 2017 and March 31, 2017.

Noninterest income for the first quarter of 2018 was \$3.2 million, an increase of \$536,000 or 20 percent as compared to \$2.7 million for the first quarter of 2017. The increase in non-interest income was primarily attributed to increases in gains on sales of loans, service charges on deposit accounts, trust and investment services fees, and income from mutual fund, annuity and insurance sales.

Noninterest expense was \$13.3 million for the first quarter of 2018, an increase of \$2.2 million or 20 percent as compared to noninterest expense of \$11.1 million for the first quarter of 2017. Higher personnel costs, which include compensation and benefit expenses, furniture and equipment expense, marketing, charitable donations and debit card processing accounted for a majority of the increase. A portion of the increase in personnel costs was a result of discretionary bonuses paid to all of our non-executive associates in recognition of their contribution to the success of the organization. Other noninterest expenses decreased which offset some of the previously mentioned noninterest expense increases. The decrease in other noninterest expenses was due to a decline in Pennsylvania shares tax as a result of an increase in charitable donations eligible for Pennsylvania tax credits.

Income tax expense for the quarter ended March 31, 2018 was \$1.0 million versus \$1.6 million for the same period in 2017. The effective tax rates for the quarters ended March 31, 2018 and 2017 were 20.0 percent and 32.0 percent, respectively. Tax expense and effective tax rate decreased as a result of the new corporate tax rate enacted as part of the Tax Cuts and Jobs Act that became effective January 1, 2018.

As a result of our performance, on April 10, 2018, the Board of Directors declared a regular quarterly cash dividend of \$0.155 per share, payable on May 8, 2018 to shareholders of record at the close of business on April 24, 2018. The dividend declared represents a 15 percent increase as compared to the dividend paid in the same period in the prior year.

If you do not currently participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your cash dividend check is enclosed with this letter. If you wish to enroll in the DRSPP, please contact the Corporation's plan administrator, EQ Shareowner Services, at 800-468-9716.

In other news, we expanded our digital banking platform during the first quarter with the launch of a new business online banking solution to enhance our business client's online and mobile banking experience. We are also in the process of implementing a new personal online banking solution which will provide our retail client's with a true omni-channel experience. We are excited about these new solutions and the additional features and functionality that they will provide to our clients.

In addition, Board of Directors approved the establishment of the PeoplesBank Charitable Foundation with an initial contribution of \$500,000 to further the Corporation's charitable activities in our community.

On behalf of the Board of Directors, our Leadership Team, and all who serve our clients on a daily basis, thank you for your support and 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, with the first name "Larry" being more prominent and the last name "Miller" following in a similar style.

Larry J. Miller  
Chairman, President and CEO

**CODORUS VALLEY BANCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**  
**Unaudited**

As of and for the three months ended  
March 31,

	<u>2018</u>	<u>2017</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,724,938	\$1,670,540	3.3
Shareholders' equity	\$165,681	\$157,939	4.9
Net income	\$4,083	\$3,419	19.4
Shares outstanding, as adjusted	8,924,798	8,855,386	0.8
<b>Ratios</b>			
Return on average assets	0.97%	0.85%	14.1
Return on average equity	9.87%	8.71%	13.3
Capital leverage	10.43%	10.40%	0.3
<b>Per share information</b>			
(adjusted for stock dividend)			
Net income per common share, basic	\$0.46	\$0.39	17.9
Net income per common share, diluted	\$0.45	\$0.38	18.4
Book value per common share	\$18.56	\$17.84	4.0

**Common stock & dividend information**

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

	2018			2017		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	29.73	24.83	0.155	27.48	23.83	0.129
Second quarter				28.15	24.02	0.129
Third quarter				30.34	22.82	0.129
Fourth quarter				33.46	27.31	0.129

**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**

Equiniti Trust Company 800-401-1957  
(www.shareowneronline.com)

**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

