



Codus Valley Bancorp, Inc.

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

November 1, 2012

Dear Shareholder,

I am pleased to report that Codorus Valley Bancorp, Inc. earned \$1,809,000 or \$0.41 per share basic, \$0.40 per share diluted, for the quarter ended September 30, 2012, compared to the \$4,000 or \$0.00 per share, basic and diluted, for the quarter ended September 30, 2011. For the first nine months of 2012, net income available to common shareholders was \$6,619,000 or \$1.49 per share basic, \$1.47 per share diluted, compared to \$2,896,000 or \$0.66 per share, basic and diluted, for the first nine months of 2011. All per share amounts were adjusted for the 5% common stock dividend that was declared on October 9, 2012, by the Board of Directors.

The increase in earnings for both periods was due primarily to a decrease in the provision for loan losses, which reflected adequacy of the allowance for loan losses and improving credit quality. 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, due primarily to lower interest rates, also contributed to the increase in earnings. Other factors that favorably impacted current period earnings was the infrequent recognition of pretax gains totaling \$382,000 from the sale of investment securities in the third quarter, and a decrease in preferred stock dividends and discount accretion. U.S. agency mortgage-backed securities (MBS) were selectively sold at a gain to remove relatively low yielding instruments that were prepaying principal faster than anticipated and small odd-lot pieces from the MBS portfolio. The decrease in preferred stock dividends and discount accretion reflects a decrease in the dividend rate and the redemption of preferred stock under the U.S. Treasury's Capital Purchase Program in the prior year.

On September 30, 2012, total assets were approximately \$1,064,000,000, representing a \$51,000,000 or 5 percent increase above September 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 October 9, 2012, Codorus Valley's Board of Directors declared a regular quarterly cash dividend of \$0.11 per common share, payable on November 13, 2012, to shareholders of record at the close of business on October 23, 2012. Including the dividend that was just declared, cash dividends for 2012 will total \$0.40 per common share, representing an increase of \$0.05 or 14 percent above 2011. As I mentioned previously and also on October 9, 2012, a 5% common stock dividend was declared, payable on December 11, 2012, to shareholders of record at the close of business on October 23, 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 plan administrator Wells Fargo Shareholder Services 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.

Your Company recently received two noteworthy designations. For the third consecutive year, Codorus Valley Bancorp, Inc. was recognized as one of the Top Fifty Fastest Growing Companies in Central Pennsylvania, as determined by the Central Penn Business Journal. And PeoplesBank was recognized as one of the Best Places to Work in Pennsylvania, as determined by a third-party survey of all of the Company's employees. We appreciate the acknowledgement and fully recognize that the Company's growth is the direct result of the efforts of a very talented, dedicated workforce.

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,

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 nine months ended
September 30,

	<u>2012</u>	<u>2011</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,064,358	\$1,013,850	5.0
Shareholders' equity	\$100,225	\$91,166	9.9
Net income available to common shareholders	\$6,619	\$2,896	128.6
Common shares outstanding, as adjusted	4,452,160	4,379,660	1.7

Ratios

Return on average assets	0.89%	0.55%	61.8
Return on average equity	9.50%	6.60%	43.9
Capital leverage	9.83%	9.53%	3.1

Per share information

(adjusted for stock dividend)

Net income per common share, basic	\$1.49	\$0.66	125.8
Net income per common share, diluted	\$1.47	\$0.66	122.7
Book value per common share	\$16.90	\$15.11	11.8

Common stock & dividend information

NASDAQ Global Market symbol: CVLY

(Cash dividends and stock price are adjusted for the common stock dividend declared October 9, 2012.)

	<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	10.67	7.89	0.086	10.70	8.86	0.076
Second quarter	13.22	10.26	0.086	10.71	9.54	0.086
Third quarter	15.39	12.62	0.105	10.48	8.33	0.086
Fourth quarter				9.29	7.84	0.086

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