



Codorus Valley Bancorp, Inc.

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

August 1, 2013

Dear Shareholder,

Codorus Valley Bancorp, Inc.'s second quarter 2013 net income available to common shareholders (i.e., earnings) lagged the same quarter of the prior year by 5 percent, as a result of an increase in the provision for loan losses, which can vary significantly from quarter to quarter. However, on a year-to-date basis through June 30, 2013, earnings totaled \$5,182,000, representing a \$372,000 or 8 percent increase when compared to the first six months of 2012. The increase in year-to-date earnings was due primarily to the \$699,000 or 4 percent increase in net interest income, which resulted from a decrease in deposit costs and an increase in loan balances, principally commercial loans. A \$306,000 or 8 percent increase in noninterest income, which resulted from increases in income from trust and investment services fees, service fees on deposits and gains from the sale of residential mortgage loans attributable to normal business growth also contributed to the increase in earnings for the first half of 2013, compared to the same period of 2012.

Second quarter commentary

Items worthy of mention for the quarter ended June 30, 2013, include:

- The Corporation's common stock price continued its upward trend and at June 30, 2013 the NASDAQ close price was \$17.40 per share, compared to \$16.68 per share on March 31, 2013.
- Credit quality continued to improve as evidenced by a nonperforming assets ratio of 1.89 percent on June 30, 2013, compared to a 2.04 percent ratio on March 31, 2013.
- On May 16, 2013, PeoplesBank opened its newest banking office at 118 Carlisle Street in Downtown Hanover, PA.
- Construction began on a new banking office located at 3160 Carlisle Road, Dover, PA with completion anticipated by the end of September.
- Expansion and renovation began on our banking office located at 2 Ballast Lane, Stewartstown, PA (Village Square at Stewartstown) with completion anticipated by the end of September.

Review of financial condition

On June 30, 2013, total assets were approximately \$1.1 billion, representing a \$54 million or 5 percent increase, compared to June 30, 2012. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and was funded by an increase in core deposits. The growth of core deposits, which excludes CD's, 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.

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.

Additional financial information follows this letter.

Other news

On July 9, 2013, Codorus Valley's Board of Directors declared a regular cash dividend of \$0.12 per common share, payable August 13, 2013, to shareholders of record at the close of business on July 23, 2013. This dividend follows a \$0.11 per common share cash dividend paid in May and February. 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 Shareowner 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.

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 six months ended

June 30,

2013 2012 %chg

Selected financial information

(dollars in thousands)

Assets	\$1,099,050	\$1,044,551	5.2
Shareholders' equity	\$103,256	\$98,122	5.2
Net income available to common shareholders	\$5,182	\$4,810	7.7
Common shares outstanding, as adjusted	4,520,123	4,445,539	1.7

Ratios

Return on average assets	0.99%	0.99%	0.0
Return on average equity	10.26%	10.53%	(2.6)
Capital leverage	10.28%	9.87%	4.2

Per share information

(adjusted for stock dividend)

Net income per common share, basic	\$1.15	\$1.09	5.5
Net income per common share, diluted	\$1.13	\$1.08	4.6
Book value per common share	\$17.31	\$16.45	5.2

Common stock & dividend information

NASDAQ Global Market symbol: CVLY

(Cash dividends and stock price are adjusted for the 5% stock dividend distributed December 11, 2012.)

	<u>2013</u>			<u>2012</u>		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	16.90	13.24	0.110	10.67	7.89	0.086
Second quarter	17.59	15.25	0.110	13.22	10.26	0.086
Third quarter				15.39	12.62	0.105
Fourth quarter				16.00	13.52	0.105

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