



Codorus Valley Bancorp, Inc.

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

November 1, 2013

Dear Shareholder,

Codorus Valley Bancorp, Inc.'s net income available to common shareholders, i.e., earnings, for the third quarter of 2013 was \$2,615,000 or \$0.55 per share basic, \$0.54 per share diluted, compared to earnings of \$1,809,000 or \$0.39 per share basic, \$0.38 per share diluted, for the third quarter of 2012. For the first nine months of 2013, net income available to common shareholders was \$7,797,000 or \$1.65 per share basic, \$1.62 per share diluted, compared to \$6,619,000 or \$1.42 per share basic, \$1.40 per share diluted, earned in the first nine months of 2012. Earnings per share for all periods reported were adjusted for a recently declared 5% common stock dividend, discussed below under the caption Other News.

Third quarter commentary

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

- Net income available to common shareholders for the third quarter of 2013 increased \$806,000 or 45 percent compared to the third quarter of 2012. Current quarter performance reflected an increase in net interest income from an increase in interest earning assets and a decrease in the cost of deposits. A decrease in the provision for loan losses, as a result of improved credit quality, also contributed to the increase in earnings.
- On September 25, 2013, PeoplesBank opened its newest banking office at 3160 Carlisle Road in Dover, Pennsylvania. With this addition, PeoplesBank's banking franchise now numbers twenty financial center locations.
- At September 30, 2013, the Corporation's nonperforming assets ratio was 1.67 percent, an improvement from the 2.14 percent at September 30, 2012.

Review of year-to-date operations

For the nine month period ending September 30, 2013, net income available to common shareholders increased \$1,178,000 or 18 percent compared to the first nine months of 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, noninterest expense and preferred stock dividends, which more than offset a decrease in noninterest income and an increase in the provision for income taxes, as described below.

The \$1,463,000 or 5 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 paid on time deposits, which reflected unusually low market interest rates. The average balance of interest earning assets, principally commercial loans, increased approximately \$51 million or 5 percent for the first nine months of 2013, compared to the same period of 2012. While the volume of earning assets increased, its effect on interest income was largely offset by lower yields, a reflection of the low interest rate environment.

The \$180,000 or 16 percent decrease in the provision for loan losses was due primarily to improving credit quality and adequacy of the allowance for loan losses.

The \$135,000 or 2 percent decrease in noninterest income was primarily the result of a decrease in gains from the periodic sale of investment securities. Gains from the sale of U.S. agency mortgage-backed securities were greater in the first nine months of 2012 as selected instruments that no longer met the Corporation's investment standards were liquidated. Core noninterest income, which excludes gains or losses from the sale of securities increased \$252,000 or 4 percent, representing normal business growth.

The \$274,000 or 1 percent decrease in noninterest expense was primarily the result of the \$1,888,000 or 82 percent decrease in impairment costs associated with foreclosed real estate. The decrease in impairment costs more than offset the \$1,241,000 or 11 percent increase in personnel expense, which resulted from expanding the banking franchise and normal business growth.

The \$738,000 or 33 percent increase in the provision for income taxes was due to the 19 percent increase in income before income taxes.

The \$134,000 or 42 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 are expected to average 1 percent this year, compared to approximately 1.5 percent for the year 2012.

Review of financial condition

On September 30, 2013, total assets were approximately \$1.12 billion, representing a \$52 million or 5 percent increase, compared to September 30, 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, to a lesser degree, 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.

Additional financial information follows this letter.

Other news

On October 8, 2013, the Corporation declared a regular quarterly cash dividend of \$0.12 per common share, payable on November 12, 2013, to shareholders of record at the close of business on October 22, 2013. Including the dividend that was just declared, cash dividends for the year 2013 will total \$0.46 per share, representing a \$0.06 or 15 percent increase compared to the year 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 Shareowner Services at 800-468-9716.

Also on October 8, 2013, the Corporation declared a 5% common stock dividend, payable on December 10, 2013, to shareholders of record at the close of business on October 22, 2013.

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,



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>2013</u>	<u>2012</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,116,779	\$1,064,358	4.9
Shareholders' equity	\$105,733	\$100,225	5.5
Net income available to common shareholders	\$7,797	\$6,619	17.8
Common shares outstanding, as adjusted	4,755,476	4,674,768	1.7
Ratios			
Return on average assets	0.98%	0.89%	10.1
Return on average equity	10.26%	9.50%	8.0
Capital leverage	10.19%	9.83%	3.7
Per share information			
(adjusted for stock dividend)			
Net income per common share, basic	\$1.65	\$1.42	16.1
Net income per common share, diluted	\$1.62	\$1.40	15.6
Book value per common share	\$16.98	\$16.09	5.5

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

	<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	16.10	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				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. (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