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

November 3, 2014

Dear Shareholder,

We are pleased to report that Codorus Valley Bancorp, Inc.'s third quarter 2014 net income available to common shareholders (i.e., earnings) was \$3,149,000 or \$0.54 per share basic and diluted, compared to earnings of \$2,615,000 or \$0.52 per share basic, \$0.51 per share diluted, for the third quarter of 2013. Earnings for the current quarter increased \$534,000 or 20 percent above the third quarter of 2013, due to an increase in net interest income from both a higher volume of interest earning assets and a decrease in the cost of deposits.

For the first nine months of 2014, earnings totaled \$8,845,000 or \$1.60 per share basic, \$1.57 per share diluted. Comparatively, the Corporation earned \$7,797,000 or \$1.57 per share basic, \$1.54 per share diluted, for the first nine months of 2013.

Review of operations

For the nine month period ending September 30, 2014, earnings increased \$1,048,000 or 13 percent compared to the first nine months of 2013. The increase in earnings was due primarily to an increase in net interest income, which more than offset increases in noninterest expense, provision for loan losses, and income taxes.

Net interest income increased \$3,208,000 or 11 percent when comparing the first nine months of 2014 to the same period in 2013. The increase was due primarily to a higher volume of interest earning assets, principally commercial loans. Also, the Corporation experienced a decrease in overall deposit costs resulting from both an increase in the volume of noninterest bearing accounts, and continued low market deposit interest rates.

Noninterest expenses increased \$1,494,000 or 7 percent when comparing the first nine months of 2014 to the same period in 2013. The increase was due largely to higher personnel expenses resulting from staff additions due to franchise expansion, and continued commercial and retail business growth. Additionally, the Corporation incurred certain professional fees associated with pre-merger legal and investment banking activities, and incurred nonrecurring marketing costs in promoting the PeoplesBank 150th anniversary in banking.

The provision for loan losses for the first nine months of 2014 increased \$130,000 or 13 percent, compared to the same period in 2013, in order to support growth in the commercial loan portfolio and maintain the adequacy of the allowance for loan losses.

The provision for income taxes increased \$490,000 or 17 percent increase, due primarily to the 14 percent increase in income before income taxes, and to a lesser degree, a decrease in the Corporation's amount of tax-exempt income.

Review of financial condition

On September 30, 2014, total assets were approximately \$1.20 billion, representing an 8 percent increase compared to the \$1.12 billion of assets as of September 30, 2013. 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 Corporation's nonperforming assets ratio at September 30, 2014, favorably decreased to 1.27 percent, as compared to September 30, 2013, when the ratio was 1.67 percent.

As a result of profitable operations and balanced growth, the Corporation's capital level remained sound as evidenced by capital ratios that exceed current regulatory requirements for well capitalized institutions.

Additional financial information for the Corporation follows this letter.

Franchise expansion

As previously announced, the Corporation and Madison Bancorp, Inc. (Madison) jointly announced the signing of a definitive merger agreement on July 22, 2014, pursuant to which the Corporation will acquire Madison in an all-cash transaction valued at approximately \$14.4 million. We are happy to report that, in October, the merger transaction was overwhelmingly approved by Madison's shareholders. The acquisition is still subject to other terms and conditions including, but not limited to, receipt of various regulatory agency approvals. This acquisition will serve to strengthen the Corporation's presence in the demographically attractive Harford and Baltimore Counties in Maryland with four additional financial center locations, approximately \$137 million in assets, and \$122 million in deposits. It is expected that the transaction will be completed in the first quarter of 2015.

In addition to the foregoing, PeoplesBank anticipates opening two new banking offices in Pennsylvania during the fourth quarter of 2014. A business and mortgage banking financial center is expected to open at 3100 Market Street, Camp Hill, Pennsylvania in November, and a full-service financial center is expected to open in Shrewsbury, Pennsylvania in December.

Dividends declared

On October 14, 2014, the Corporation declared a regular quarterly cash dividend of \$0.125 per common share, payable on November 11, 2014, to shareholders of record at the close of business on October 28, 2014. Including this dividend, cash dividends for the year 2014 will total \$0.49 per share, representing a \$0.03 or 6.5 percent increase compared to the year 2013.

Also on October 14, 2014, the Corporation declared a 5 percent common stock dividend, distributable on December 9, 2014, to shareholders of record at the close of business on October 28, 2014.

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.

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

On a final note, I am saddened to report that Director Michael L. Waugh died on October 8, 2014. Since 2002, Mr. Waugh served as a member of the Board of Directors of both the Corporation and its primary operating subsidiary, PeoplesBank, A Codorus Valley Company, providing unique insight and leadership. In addition, Mr. Waugh served the citizens of York County for 21 years as a member of the Commonwealth of Pennsylvania legislature and, more recently as Executive Director of the Pennsylvania Farm Show Complex. Mike was a loving husband, a devoted father and grandfather, a public servant, horseman and farmer. We will greatly miss our colleague and dear friend.

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>2014</u>	<u>2013</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,203,640	\$1,116,779	7.8
Shareholders' equity	\$115,856	\$105,733	9.6
Net income available to common shareholders	\$8,845	\$7,797	13.4
Common shares outstanding, as adjusted	5,804,749	4,993,250	16.3

Ratios

Return on average assets	1.01%	0.98%	3.1
Return on average equity	10.48%	10.26%	2.1
Capital leverage	10.25%	10.19%	0.6

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$1.60	\$1.57	2.0
Net income per common share, diluted	\$1.57	\$1.54	1.8
Book value per common share	\$17.89	\$16.17	10.6

Common stock & dividend information

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

	2014			2013		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	21.29	18.23	0.114	15.33	12.01	0.100
Second quarter	20.88	18.52	0.114	15.95	13.83	0.100
Third quarter	20.81	19.02	0.119	17.32	15.65	0.109
Fourth quarter				20.93	15.93	0.109

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

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