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

February 2, 2015

Dear Shareholder,

I am pleased to report Codorus Valley Bancorp, Inc.'s financial performance for the year ended December 31, 2014. Net income available to common shareholders (i.e., earnings) for the year 2014 was \$11,595,000 or \$2.07 per share basic and \$2.03 per share diluted, compared to \$10,316,000 or \$2.07 per share basic and \$2.03 per share diluted, earned in the year 2013. During 2014, we were pleased to distribute cash dividends to our shareholders totaling \$0.47 per common share, and we also distributed a 5 percent stock dividend in December 2014.

In addition to increasing our profitability during 2014, we also successfully expanded our banking franchise. In the fourth quarter, PeoplesBank opened a full-service financial center in Shrewsbury, Pennsylvania, and a business and mortgage banking financial center in Camp Hill, Pennsylvania. On January 16, 2015, we significantly expanded our Maryland banking presence by completing our acquisition of Madison Bancorp, Inc., which added four additional financial centers in Baltimore and Harford Counties. As a result of the Madison acquisition and the addition of our new Shrewsbury and Camp Hill locations, the Corporation now has approximately \$1.4 billion in assets, and PeoplesBank has approximately \$1.1 billion in deposits and \$1.0 billion in loans, operating twenty-six financial centers in Pennsylvania and Maryland.

After finalizing the legal acquisition process, we successfully converted Madison's systems and data to PeoplesBank's platform on January 17, 2015, allowing us to provide our full range of products and services to our expanded customer base. We are very excited to welcome the clients of the former Madison Square Federal Savings Bank into the PeoplesBank family, along with the fine staff those clients have come to know over the years in Madison's financial centers.

On January 13, 2015, the Board of Directors of Codorus Valley declared a regular quarterly cash dividend of \$0.125 per common share, payable on February 10, 2015, to shareholders of record at the close of business on January 27, 2015. If you do not participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your dividend check is enclosed with this letter. If you wish to enroll in the DRSPP for future dividend distributions, you may contact the Company's plan advisor, *Wells Fargo Shareowner Services*, at 800-468-9716.

## **Review of Operations**

The full year 2014 net income available to common shareholders represents a 12 percent increase as compared to the year 2013. The increase in earnings was due primarily to a substantial increase in net interest income, reflecting the increased volume of commercial loans, and decreases in both the volume of time deposits and the rates paid on all deposits.

The earnings per share remained the same for both 2014 and 2013, at \$2.07 basic and \$2.03 diluted, as the increase in net income for 2014 neutralized the dilutive impact of the issuance of 650,000 common shares during the first quarter of 2014 from a private placement capital raise by the Corporation. The funds from the private placement transaction were used to redeem \$13,000,000 of the \$25,000,000 in outstanding shares of preferred stock held by the United States Department of the Treasury under its Small Business Lending Fund Program.

Noninterest income for the year ended December 31, 2014, increased 5 percent compared to the 2013 year. Increases in noninterest income included trust fees, due to growth in trust assets under management; increases in service fees on deposits and a gain on sales of investment securities. The Corporation realized securities gains to partially offset pre-acquisition costs associated with the Madison acquisition. The aforementioned increases in noninterest income components offset a decrease in gains from the sale of residential mortgages, due to reduced mortgage loan demand and production.

Noninterest expense for the year ended December 31, 2014, increased 8 percent above noninterest expenses for the 2013 year. Wage expense increased due to new franchise expansion (Camp Hill and Shrewsbury financial centers in 2014; the Dover financial center in late 2013), and planned staff additions necessary given the Corporation's overall business growth. The overall noninterest expense increase also reflected the Corporation incurring certain Madison acquisition-related expenses in 2014, including investment banking fees, acquisition-related legal expenses, and external data processing conversion costs.

The loan loss provision for 2014 increased when compared to 2013, reflective of both overall loan growth for 2014, and the Corporation's analysis of the adequacy of the allowance based upon the size, composition, and risks inherent in the loan portfolio.

Income tax expense for the year-ended 2014 increased when compared to 2013. The increased tax expense is directionally in alignment with the increased pretax income for 2014 compared to 2013, and also reflects a relative tax expense increase due to certain acquisition-related expenses being permanently nondeductible.

For the quarter ended December 31, 2014, the Corporation earned \$2,750,000 or \$0.47 per share basic and \$0.46 per share diluted, compared to \$2,519,000 or \$0.50 per share basic and \$0.49 per share diluted, for the quarter ended December 31, 2013.

## **Review of Financial Condition**

On December 31, 2014, total assets were approximately \$1.2 billion, representing a \$63 million or 5 percent increase, compared to total assets as of December 31, 2013. Asset growth for 2014 occurred primarily in the commercial loan portfolio and was funded primarily by an increase in core deposits. 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.

Additional financial information for the Corporation follows this letter.

On behalf of the Board of Directors, our Leadership Team, and all who serve our clients on a daily basis, I wish to 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 year ended  
December 31,

	<u>2014</u>	<u>2013</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,213,846	\$1,150,641	5.5
Shareholders' equity	\$118,440	\$107,649	10.0
Net income available to common shareholders	\$11,595	\$10,316	12.4
Common shares outstanding, as adjusted	5,830,913	5,040,334	15.7

**Ratios**

Return on average assets	0.98%	0.96%	2.1
Return on average equity	10.22%	10.08%	1.4
Capital leverage	10.32%	10.18%	1.4

**Per share information**

(adjusted for stock dividend)			
Net income per common share, basic	\$2.07	\$2.07	0.0
Net income per common share, diluted	\$2.03	\$2.03	0.0
Book value per common share	\$18.25	\$16.40	11.3

**Common stock & dividend information**

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

	2014			2013		
	\$high	\$low	\$div	\$high	\$low	\$div
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	24.00	16.29	0.119	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](http://www.peoplesbanknet.com)**

Select Investor Relations, then choose from the menu of options

