



105 Leader Heights Road • P.O. Box 2887 • York, PA 17405-2887 • 717.846.1970 • 888.846.1970 • www.peoplesbanknet.com

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

May 4, 2015

Dear Shareholder,

The first quarter of 2015 marked a significant period of expansion for Codorus Valley Bancorp, Inc., beginning with our acquisition of Madison Bancorp, Inc. on January 16, 2015. Through this event, we added four additional financial centers to our Maryland footprint in the highly-desirable markets of Baltimore and Harford Counties. Our first quarter financial results reflect the necessary expenditures and infrastructure investments we made to successfully convert Madison Bancorp's systems and facilities to PeoplesBank's platform.

As of March 31, 2015, the Corporation's total assets were over \$1.3 billion, with total loans over \$1.0 billion, and total deposits of nearly \$1.1 billion, reflecting both the impact of the Madison acquisition and continued core business growth. Net income available to common shareholders (i.e., earnings) for the first quarter of 2015 was \$2.4 million or \$0.41 per share basic and diluted, compared to earnings of \$2.9 million or \$0.58 per share basic and \$0.56 per share diluted, for the first quarter of 2014.

The Corporation's net interest income for the first quarter of 2015 increased \$1.2 million or 12 percent when compared to the first quarter of 2014. The growth was driven by an increased volume of mortgage loan assets related to the Madison acquisition, as well as continued core growth in commercial loans. The Corporation's net interest margin was 3.93 percent for the first quarter of 2015, which was comparable to the net interest margin of 3.97 percent for the first quarter of 2014. PeoplesBank continues to have success in growing low cost core deposits, while maintaining reasonable loan yields in a highly competitive pricing environment.

The loan loss provision for the first quarter of 2015 increased \$450,000 when compared to the same period in 2014, reflective of the overall commercial loan growth, as well as the impact of some larger impaired loan charge-offs recorded during the first quarter.

Noninterest income for the first quarter of 2015 increased \$627,000 compared to the first quarter of 2014. The increase reflected favorable growth in wealth management assets and fees, greater service fees realized on deposit accounts, and a higher volume of gains from mortgages sold. The noninterest income increase also included \$371,000 of realized gains on the sales of two investment securities in the first quarter of 2015.

Noninterest expense for the first quarter of 2015 increased \$1.9 million compared to the first quarter of 2014. This increase included \$425,000 of nonrecurring costs for systems and data conversion, external legal support, and severance payments related to the Madison acquisition. Additional personnel costs accounted for \$944,000 of the increase, reflecting the incremental compensation and benefit expenses for (i) new associates to the Corporation through the acquisition of the four new Maryland financial centers, and (ii) personnel added from the recently opened Shrewsbury, PA and Camp Hill, PA financial centers. The additional six financial centers also contributed to a \$369,000 increase in occupancy and equipment costs for the first quarter of 2015.

As previously announced, on April 14, 2015, the Board of Directors of Codorus Valley declared a regular quarterly cash dividend of \$0.125 per common share, payable on May 12, 2015, to shareholders of record at the close of business on April 28, 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 dividends, you may contact the Company's plan advisor, *Wells Fargo Shareowner Services*, at 800-468-9716.

Additional financial information for the Corporation follows this letter.

Going forward, regulatory notices have been filed in order for PeoplesBank to close its legacy office at 124 N. Main Street, Bel Air, by merging it with and into the former Madison office at 126 N. Main Street, Bel Air. The closing of 124 N. Main Street, Bel Air will occur on or before June 30, 2015. Also, regulatory filings have been made to close the limited services facility at Country Meadows of York – West, 1920 Trolley Road, York, PA; and to open a limited services facility at Homewood at Plum Creek, 425 Westminster Avenue, Hanover, PA.

On behalf of the Board of Directors, our 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 three months ended
March 31,

	<u>2015</u>	<u>2014</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,323,673	\$1,185,168	11.7
Shareholders' equity	\$120,678	\$123,362	(2.2)
Net income available to common shareholders	\$2,404	\$2,941	(18.3)
Common shares outstanding, as adjusted	5,842,238	5,744,503	1.7

Ratios

Return on average assets	0.75%	1.04%	(27.9)
Return on average equity	8.18%	10.82%	(24.4)
Capital leverage	9.64%	11.34%	(15.0)

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$0.41	\$0.58	(29.3)
Net income per common share, diluted	\$0.41	\$0.56	(26.8)
Book value per common share	\$18.60	\$17.12	8.6

Common stock & dividend information

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

	2015			2014		
	\$high	\$low	\$div	\$high	\$low	\$div
First quarter	21.00	18.70	0.125	21.29	18.23	0.114
Second quarter				20.88	18.52	0.114
Third quarter				20.81	19.02	0.119
Fourth quarter				24.00	16.29	0.119

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
---	--------------

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

