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

July 31, 2015

Dear Shareholder,

The second quarter performance for Codorus Valley Bancorp, Inc. (the Corporation) reflected continued growth and profitability of our core commercial, retail and wealth management businesses, and the positive impact of our recent franchise expansion activities. We increased loan volume and maintained reasonable yields on interest-earning assets, while we decreased the cost of deposits. Our fee-based services and wealth management activities continue to grow, and we remain focused on controlling costs while expanding our business to new markets and clients.

The Corporation's net income available to common shareholders (earnings) for the quarter ended June 30, 2015, was \$2,890,000 or \$0.49 per share basic and diluted, an increase when compared to earnings of \$2,755,000 or \$0.48 per share basic and \$0.47 per share diluted, for the second quarter of 2014. For the first six months of 2015, earnings were \$5,294,000 or \$0.90 per share basic and diluted, compared to \$5,696,000 or \$1.06 per share basic and \$1.03 per share diluted for the first six months of 2014.

Net interest income for the second quarter of 2015 increased 15 percent when compared to the second quarter of 2014. For the first six months of 2015, net interest income increased 14 percent compared to the same period last year. The favorable increase in net interest income was due to the Corporation's higher volume of loans, including those from the acquisition of Madison Bancorp, Inc. in the first quarter. Also, we benefited from continued commercial loan growth through the first six months of the year. While we increased interest income, the cost of deposits decreased in the first half of 2015 compared to the same period in 2014, as we successfully acquired lower-cost demand deposits to replace maturing time deposits. The Corporation's net interest margin was 3.88 percent for the first half of 2015, which was favorably comparable to our net interest margin of 3.85 percent for the same period in 2014.

Noninterest income for the second quarter of 2015 increased 11 percent compared to the same period last year. For the first six months of 2015, noninterest income increased 23 percent compared to the first half of 2014. Several sources contributed to this favorable rise in noninterest revenues, including growth in trust assets under management and related fees, a greater volume of mortgage originations and gains on loans sold, and increased deposit account service fees generated by higher transaction volumes and fee schedule changes.

We increased the provision for loan losses for the second quarter of 2015, and for the first half of 2015, as compared to the same periods in 2014. The increased loan loss provision for 2015 supported adequate loan loss reserve coverage given the Corporation's commercial loan growth and higher loan balances outstanding through June 30, 2015.

Noninterest expenses increased 12 percent in the second quarter of 2015 when compared to the second quarter of 2014. For the first half of 2015, noninterest expenses increased 19 percent compared to same period last year. Personnel and facility costs accounted for the majority of the increases, reflecting additional compensation, benefits, and occupancy costs for the four acquired Madison financial centers, and the recently opened Shrewsbury, PA and Camp Hill, PA financial centers. Noninterest expenses for the first six months of 2015 also included \$474,000 of nonrecurring acquisition-related expenses, including one-time costs for systems conversion and integration, legal and professional fees, and severance costs associated with the Madison transaction.

During the recent quarter, PeoplesBank consolidated its financial center formerly at 124 North Main Street in Bel Air, Maryland, into the adjacent financial center located at 126 North Main Street, which was acquired as part of the Madison transaction. With this consolidation, PeoplesBank will continue to provide the Bel Air community with the full range of business, retail and wealth management products and services, while providing a reduction in future occupancy expenses resulting from the elimination of costs to operate the second facility.

As a result of our continued positive operating results, the Board of Directors was pleased to declare an increased cash dividend for this quarter of \$0.13 per common share, payable on August 11, 2015, to shareholders of record at the close of business on July 28, 2015. This quarterly cash dividend is one half cent more than the dividend paid in the previous quarter. 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, please contact the Company's plan advisor, *Wells Fargo Shareowner Services*, at 800-468-9716.

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 written in a cursive, flowing style.

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,

	<u>2015</u>	<u>2014</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,372,770	\$1,200,638	14.3
Shareholders' equity	\$122,600	\$113,681	7.8
Net income available to common shareholders	\$5,294	\$5,696	(7.1)
Common shares outstanding, as adjusted	5,885,265	5,764,273	2.1

**Ratios**

Return on average assets	0.81%	0.99%	(18.2)
Return on average equity	8.87%	10.21%	(13.1)
Capital leverage	9.62%	10.04%	(4.2)

**Per share information**

(adjusted for stock dividend)			
Net income per common share, basic	\$0.90	\$1.06	(15.1)
Net income per common share, diluted	\$0.90	\$1.03	(12.6)
Book value per common share	\$18.79	\$17.64	6.5

**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	21.82	19.22	0.125	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
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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

