



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

Larry J. Miller
Chairman, President and
Chief Executive Officer

November 5, 2015

Dear Shareholder,

The Corporation's net income available to common shareholders (earnings) for the third quarter of 2015 was \$2,981,000 or \$0.48 per share basic and diluted, as compared to earnings of \$3,149,000 or \$0.52 per share basic and \$0.51 per share diluted, for the third quarter of 2014. For the first nine months of 2015, earnings were \$8,275,000 or \$1.34 per share basic and \$1.33 per share diluted, as compared to earnings of \$8,845,000 or \$1.52 per share basic and \$1.49 per share diluted for the first nine months of 2014.

Our third quarter performance reflects our positioning of our Company for the future, as we continue to make strategic investments in personnel and our service facilities to meet the needs of our expanding client base. These have supported growth in our core business banking activities, a higher volume of lower-cost deposits, and an increase in our fee-based services. We remain committed to deepening the relationships we have with our existing clients, including those who joined us after our acquisition of Madison Bancorp, Inc. (Madison) earlier this year, and welcoming new clients to PeoplesBank as a result of the many competitive changes occurring in our market.

As a result of our continued positive operating results, the Board of Directors of the Corporation declared a cash dividend of \$0.13 per share, payable on November 10, 2015 to shareholders of record at the close of business on October 27, 2015. The Corporation's total cash dividends declared during the four quarters of 2015 total \$0.51, representing a \$0.02 per share or 4 percent increase compared to \$0.49 of cash dividends in 2014.

In addition, the Board also declared a 5 percent common stock dividend payable on December 8, 2015, to shareholders of record at the close of business on October 27, 2015. Earnings per share as reported above were adjusted for the 5 percent stock dividend.

If you do not participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your cash dividend check is enclosed with this letter. 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 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.

As of September 30, 2015, the Corporation's total assets were nearly \$1.4 billion, an increase of \$183 million or 15 percent since December 31, 2014. The increase resulted from both the Corporation's acquisition of \$134 million of assets from Madison Bancorp, Inc. (Madison) in January of 2015, and commercial loan growth generated through PeoplesBank during the first nine months of the year.

Net interest income for the third quarter of 2015 was \$12,022,000, an increase of 13 percent compared to \$10,646,000 for the third quarter of 2014. For the first nine months of 2015, net interest income was \$35,529,000 or an increase of 13 percent compared to \$31,356,000 for the first nine months of 2014. The Corporation's net interest margin was 3.82 percent for the first nine months of 2015, a slight decrease compared to the net interest margin of 3.83 percent for the same period in 2014. Interest income increased due to the higher volume of loans, including those acquired in the Madison transaction, as well as commercial loan growth.

Noninterest income for the third quarter of 2015 was \$2,342,000, an increase of 8 percent compared to noninterest income of \$2,162,000 for the third quarter of 2014. For the first nine months of 2015, noninterest income was \$6,833,000, an increase of 18 percent compared to noninterest income of \$5,810,000 for the same period in 2014. Several sources contributed to the rise in noninterest revenues: growth in trust and wealth management assets 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.

The provision for loan losses for the third quarter of 2015 was \$500,000, a \$250,000 increase as compared to a provision of \$250,000 for the third quarter of 2014. For the nine months ended September 30, 2015, the provision for loan losses was \$2,300,000 compared to \$1,100,000 for the first period of 2014. The increased provision for 2015 supported adequate loan loss reserve coverage given the Corporation's commercial loan growth and higher loan balances outstanding through September 30, 2015.

Noninterest expense was \$9,510,000 for the third quarter of 2015, an increase of 19 percent compared to \$8,002,000 for the third quarter of 2014. For the first nine months of 2015, noninterest expenses totaled \$28,067,000, an increase of 19 percent compared to \$23,636,000 for the same period in 2014. Personnel and facility costs accounted for the majority of the increases, reflecting additional compensation, benefits, and occupancy expenses supporting the four acquired Madison financial centers, and the Shrewsbury, PA and Camp Hill, PA financial centers which were opened after the third quarter of 2014. Contributing to the noninterest expenses for the first nine months of 2015 was \$474,000 of nonrecurring acquisition-related expenses, including one-time costs for systems conversion and integration, external legal and professional fees, and severance costs associated with the Madison transaction. For the same period in 2014, acquisition-related expenses were \$211,000.

The third quarter of 2015 also included several important changes to the Board and management of the Corporation and PeoplesBank.

In August, Rodney L. Krebs retired from his role as Chairman of the Boards of both the Corporation and PeoplesBank after reaching the mandatory retirement age as set forth in the Corporation's bylaws. Mr. Krebs had served as a director since December 1988, and was Chairman of both companies since November 2000. In connection with Mr. Krebs' retirement, the Boards of Directors of both companies appointed Larry J. Miller to the position of Chairman in addition to his continued role as President and CEO of the Corporation and Bank. Additionally, the Boards appointed D. Reed Anderson, Esq., a current member of the Boards, as Vice Chairman and Lead Director.

In September, the Corporation announced that Brian Brunner joined the Board of Directors of PeoplesBank. Mr. Brunner has over thirty years of experience in the financial services industry and is currently the Division President of Account and Item Processing Sales within the Global Sales Organization of Fiserv, Inc., a leading provider of financial services technology. Most recently, he served as an independent director on the board of Madison Bancorp, Inc., which was acquired by Codorus Valley Bancorp, Inc. on January 16, 2015.

Also in September, the Corporation welcomed A. Dwight Utz as Executive Vice President and Chief Operating Officer of both PeoplesBank and the Corporation. As Chief Operating Officer and a member of the senior management group, Mr. Utz will assume overall responsibility for PeoplesBank's primary sales and services divisions and administrative support functions. Mr. Utz comes to PeoplesBank from the former East Carolina Bank where he served as President and Chief Executive Officer. Prior to his service at East Carolina Bank, he served in various leadership roles with MidSouth Bank, PNC Bank, and the former Central Pennsylvania-based CCNB Bank.

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

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 more prominent and the last name "Miller" following in a similar style.

Larry J. Miller
Chairman, President, and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

As of and for the nine months ended
September 30,

	<u>2015</u>	<u>2014</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,397,076	\$1,203,640	16.1
Shareholders' equity	\$125,444	\$115,856	8.3
Net income available to common shareholders	\$8,275	\$8,845	(6.4)
Common shares outstanding, as adjusted	6,184,645	6,094,986	1.5

Ratios

Return on average assets	0.83%	1.01%	(17.8)
Return on average equity	9.15%	10.48%	(12.7)
Capital leverage	9.45%	10.25%	(7.8)

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$1.34	\$1.52	(11.8)
Net income per common share, diluted	\$1.33	\$1.49	(10.7)
Book value per common share	\$18.34	\$17.04	7.6

Common stock & dividend information

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

	2015			2014		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	20.00	17.81	0.119	20.27	17.36	0.109
Second quarter	20.78	18.30	0.119	19.88	17.64	0.109
Third quarter	20.95	18.73	0.124	19.82	18.11	0.113
Fourth quarter				22.86	15.51	0.113

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. 800-468-9716
(www.wellsfargo.com/shareownerservices)

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

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