



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*

May 2, 2016

Dear Shareholder,

The Corporation's net income available to common shareholders (earnings) for the first quarter of 2016 was \$2,801,000 or \$0.35 per share basic and diluted, as compared to earnings of \$2,404,000 or \$0.39 per share basic and diluted, for the first quarter of 2015. While net income available to common shareholders was up 16.5 percent when comparing first quarter 2016 to first quarter 2015, a decrease in earnings per share was realized primarily as a result of the 1,746,850 common shares issued in the \$34.5 million public offering completed in December 2015. The public offering funded the redemption of all 12,000 remaining shares of preferred stock held by the United States Treasury under its Small Business Lending fund Program, which was finalized and closed on February 18, 2016.

Net interest income for the first quarter of 2016 was \$13.0 million, reflecting an 11 percent increase over the net interest income of \$11.7 million reported for the first quarter 2015. The growth in net interest income was driven by a higher volume of interest-earning assets, primarily commercial loans.

The provision for loan losses was \$800,000 for the first quarter of 2016, a decrease of \$200,000 as compared to a provision of \$1.0 million for the same period in 2015. The decrease was positively impacted by a \$313,000 reduction in net charge-offs in the first quarter of 2016, as compared to the same period in 2015.

Noninterest income for the first quarter of 2016 and 2015 was \$2.4 million, respectively. While noninterest income was flat, there was an increase in both wealth management income and service charges on deposit accounts, which were offset by a decrease in gains from sales of mortgage loans and securities.

Noninterest expense was \$10.5 million for the first quarter of 2016, an increase of \$869,000 as compared to noninterest expense of \$9.6 million for the first quarter of 2015. Personnel costs, which include compensation and benefits, accounted for \$737,000 of the increase. The higher personnel costs were due to a combination of normal business growth and 2016 including a full quarter impact of the Corporation's 2015 acquisition of Madison Bancorp, Inc. Marketing costs increased \$250,000 due to planned initiatives related to the continued expansion of our franchise along with the initial expenses associated with the acquisition of the naming rights to PeoplesBank Park, the facility that houses the York, Pennsylvania based York Revolution independent league baseball team.

As a result of our continued positive operation results, on April 12, 2016, the Board of Directors declared a regular quarterly cash dividend of \$0.13 per common share payable on May 10, 2016, to shareholders of record at the close of business on April 26, 2016. 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 wish to enroll in the DRSPP, you may contact the Corporation's plan administrator, *Wells Fargo Shareowner Services*, at 800-468-9716.

Other News

We continued our expansion of the PeoplesBank franchise by opening a limited services financial center on the Masonic Village campus in Lancaster County, Pennsylvania and a full service financial center in Hereford, Maryland. The Lancaster County facility represents our initial entry into a highly-attractive adjacent market and has proven to be very successful based on the significant number of accounts and deposits generated since opening in January of this year. The Hereford, Maryland financial center represents a continuation of our expansion into the Maryland market in order to serve our client base.

On March 8, 2016, I retired as President and Chief Executive Officer of PeoplesBank, a position I held for over 35 years. On the same date, I was appointed to the position of Executive Chairman of PeoplesBank. In connection with my retirement, A. Dwight Utz was appointed President, Chief Executive Officer and a member of the Board of Directors of PeoplesBank. In addition, Matthew A. Clemens was named Chief Administrative Officer and Diane E. Baker was named Chief Risk Officer of PeoplesBank.

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 written in a cursive, flowing style.

Larry J. Miller
Chairman, President and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

As of and for the three months ended
March 31,

	<u>2016</u>	<u>2015</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,427,022	\$1,323,673	7.8
Shareholders' equity	\$150,017	\$120,678	24.3
Net income available to common shareholders	\$2,801	\$2,404	16.5
Common shares outstanding, as adjusted	7,962,658	6,134,350	29.8

Ratios

Return on average assets	0.79%	0.75%	5.3
Return on average equity	7.22%	8.18%	(11.7)
Capital leverage	10.99%	9.64%	14.0

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$0.35	\$0.39	(10.3)
Net income per common share, diluted	\$0.35	\$0.39	(10.3)
Book value per common share	\$18.84	\$17.72	6.3

Common stock & dividend information

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

	2016			2015		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	21.00	19.65	0.130	20.00	17.81	0.119
Second quarter				20.78	18.30	0.119
Third quarter				20.95	18.73	0.124
Fourth quarter				21.10	19.29	0.124

Nasdaq market makers

Boenning & 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

