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

August 1, 2016

Dear Shareholder,

The Corporation's net income available to common shareholders (earnings) for the second quarter of 2016 was \$3.0 million or \$0.38 per share basic and diluted, as compared to earnings of \$2.9 million or \$0.47 per share basic and \$0.46 per share diluted, for the second quarter of 2015. While net income available to common shareholders was up 5.2 percent when comparing second quarter 2016 to second 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.

Net interest income for the second quarter of 2016 was \$13.2 million, reflecting a 12 percent increase over the net interest income of \$11.8 million reported for the second 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 for the second quarter of 2016 and 2015 was \$800,000. The provision reflects management's judgment of an appropriate level for the allowance for loan losses and takes into consideration PeoplesBank's continued loan growth. The provision was positively impacted by a slightly lower level of net charge-offs in the second quarter of 2016, as compared to the same period in 2015.

Noninterest income for the second quarter of 2016 was \$2.4 million, an increase of 15 percent compared to noninterest income of \$2.1 million for the second quarter 2015. The increase was attributed primarily to a higher volume of mutual fund, annuity and insurance sales by Codorus Valley Financial Advisors, Inc., a subsidiary of PeoplesBank, additional investments in bank owned life insurance and a greater volume of originations and sales of residential mortgage loans.

Noninterest expense was \$10.4 million for the second quarter of 2016, an increase of \$1.4 million as compared to noninterest expense of \$9.0 million for the second quarter of 2015. Personnel and facility costs accounted for the majority of the increase, reflecting additional compensation, benefits, and/or occupancy expenses to support normal business growth in our existing and newly expanded markets.

As a result of our continued positive financial results, on July 12, 2016, the Board of Directors declared a regular quarterly cash dividend of \$0.13 per common share payable on August 9, 2016, to shareholders of record at the close of business on July 26, 2016. This quarterly cash dividend is the same amount as paid in the previous quarter. 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

In May 2016, Scott R. Campagna joined PeoplesBank as Senior Vice President and Chief Information Officer. Scott has extensive Information Technology experience and most recently held the position of Senior Vice President, IT Business Relationship with Fulton Financial Corporation.

On June 24, 2016, the Corporation's common stock was added to the Russell 2000 index fund due to the Corporation's strong capital levels and profitable performance. We believe this will provide the Corporation with greater exposure in the market and encourage additional investor activity.

PeoplesBank recently announced it will continue its expansion into Lancaster County, Pennsylvania, with the opening of a new Loan Production Office at 3002 Hempland Road in Lancaster. This office will enhance PeoplesBank's ability to generate new client relationships throughout this rapidly-growing market.

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 six months ended
June 30,

	<u>2016</u>	<u>2015</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,504,065	\$1,372,770	9.6
Shareholders' equity	\$153,017	\$122,600	24.8
Net income available to common shareholders	\$5,841	\$5,294	10.3
Common shares outstanding, as adjusted	7,973,876	6,179,528	29.0

Ratios

Return on average assets	0.82%	0.81%	1.2
Return on average equity	7.61%	8.87%	(14.2)
Capital leverage	10.89%	9.62%	13.2

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$0.73	\$0.86	(15.1)
Net income per common share, diluted	\$0.73	\$0.85	(14.1)
Book value per common share	\$19.19	\$17.90	7.2

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	21.83	19.76	0.130	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
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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
Select Investor Relations, then choose from the menu of options

