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

November 1, 2016

Dear Shareholder,

The Corporation's net income available to common shareholders (earnings) for the third quarter of 2016 was \$3.4 million or \$0.41 per share basic and \$0.40 per share diluted, as compared to earnings of \$3.0 million or \$0.46 per share basic and \$0.45 per share diluted, for the third quarter of 2015. While net income available to common shareholders was up 14 percent when comparing third quarter 2016 to third 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.

As a result of our continued positive operating results, the Board of Directors declared a cash dividend of \$0.13 per share, payable November 8, 2016 to shareholders of record at the close of business October 25, 2016. The Corporation's total cash dividends declared during the four quarters of 2016 total \$0.52, representing a \$0.01 per share or 2 percent increase compared to \$0.51 of cash dividends in 2015. In addition, the Board also declared a 5 percent common stock dividend payable on December 13, 2016, to shareholders of record at the close of business October 25, 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.

Net interest income for the third quarter of 2016 was \$13.4 million, reflecting a 12 percent increase over the net interest income of \$12.0 million reported for the third 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 third quarter of 2016 was \$800,000, a \$300,000 increase as compared to a provision of \$500,000 for the third quarter of 2015. The provision reflects management's judgement of an appropriate level for the allowance for loan losses and takes into consideration PeoplesBank's continued loan growth. The provisions for each period were impacted by net charge-offs of \$133,000 in 2016 and \$86,000 in 2015.

Noninterest income, excluding gain on sales of investment securities, for the third quarter of 2016 was \$2.6 million, an increase of 16 percent compared to noninterest income of \$2.2 million for the third quarter 2015. The increase in noninterest income was attributed primarily to increases in trust and investment service fees, service charges on deposit accounts, income from bank owned life insurance, gains from sales of mortgage loans and real estate settlement services. Gain on sales of investment securities decreased \$121,000 during the third quarter of 2016 in comparison to 2015.

Noninterest expense was \$10.2 million for the third quarter of 2016, an increase of 7 percent as compared to noninterest expense of \$9.5 million for the third quarter of 2015. Higher personnel and marketing costs to support growth in our existing and newly expanded markets contributed to the majority of the increase.

### **Other News**

In August, our dear friend and former member of the Board of Directors, Donald H. Warner passed away. Don served our Company as a member of the Board of Directors for twenty years until he reached mandatory retirement age in 2010. His contributions to our Company are far too numerous to list. Everyone who knew Don will miss his wise counsel, cheerful personality, and friendly spirit. We extend our deepest condolences to his wife, Ruth, their children, and their extended families.

In October, our new Loan Production Office at 3002 Hempland Road in Lancaster opened for business. This office will enhance PeoplesBank's ability to generate new client relationships throughout this rapidly-growing market. This conveniently-located office will house Commercial Relationship Officers and their support staff as they expand existing and establish new relationships with businesses throughout the market. In addition, PeoplesBank has filed appropriate regulatory applications to provide on-site banking services at several Lancaster County retirement communities beginning in late 2016 and early 2017. This unique business niche has allowed PeoplesBank to expand its client base in a low-cost and efficient manner.

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 a prominent loop at the end.

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>2016</u>	<u>2015</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,522,981	\$1,397,076	9.0
Shareholders' equity	\$155,317	\$125,444	23.8
Net income available to common shareholders	\$9,244	\$8,275	11.7
Common shares outstanding, as adjusted	8,380,855	6,493,877	29.1

**Ratios**

Return on average assets	0.84%	0.83%	1.2
Return on average equity	8.00%	9.15%	(12.6)
Capital leverage	10.53%	9.45%	11.4

**Per share information**

(adjusted for stock dividend)			
Net income per common share, basic	\$1.10	\$1.28	(14.1)
Net income per common share, diluted	\$1.09	\$1.27	(14.2)
Book value per common share	\$18.53	\$17.47	6.1

**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	20.00	18.72	0.124	19.05	16.96	0.113
Second quarter	20.79	18.82	0.124	19.79	17.43	0.113
Third quarter	20.86	19.00	0.124	19.95	17.84	0.118
Fourth quarter				20.10	18.37	0.118

**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**

Select Investor Relations, then choose from the menu of options

