



105 Leader Heights Road • P.O. Box 2887 • York, PA 17405-2887 • 717.846.1970 • 888.846.1970 • [www.peoplesbanknet.com](http://www.peoplesbanknet.com)

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

February 3, 2017

Dear Shareholder,

I am pleased to report that Codorus Valley Bancorp, Inc. and PeoplesBank realized record loan and deposit levels, and net income, in 2016. Gross loans grew by more than 13 percent in 2016 while total deposits grew more than 15 percent. Our success is a direct result of the hard work and dedication of our associates. We will continue to execute on our long-term strategic initiatives, maximize the investments we have made in the expansion of our franchise, and seize upon the opportunities presented as a result of market disruptions.

The Corporation's net income available to common shareholders (earnings) for the fourth quarter of 2016 was \$3.8 million or \$0.46 per share basic and diluted, as compared to earnings of \$2.7 million or \$0.40 per share basic per share diluted, for the fourth quarter of 2015. For the year ended December 31, 2016, the Corporation earned \$13.1 million or \$1.56 per share basic and \$1.55 per share diluted, compared to \$11.0 million or \$1.68 per share basic and \$1.67 per share diluted for the year ended December 31, 2015. The decrease in earnings per share was primarily a result of the 1,746,850 common shares issued in the \$34.5 million public offering completed in December 2015.

We were pleased to distribute cash dividends to our shareholders totaling \$0.495 per common share during 2016, and we also distributed a 5 percent stock dividend in December 2016. Also, on January 11, 2017, the Board of Directors declared a regular quarterly cash dividend of \$0.135 per common share payable on February 14, 2017, to shareholders of record at the close of business on January 24, 2017.

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 fourth quarter of 2016 was \$14.0 million, reflecting a 14 percent increase over the net interest income of \$12.3 million reported for the fourth 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 fourth quarter of 2016 was \$600,000, a \$600,000 decrease as compared to the fourth quarter of 2015. The decrease in the provision for the fourth quarter and full year was primarily due to a reduction in net charge-offs in 2016 as compared to 2015. The provision reflects management's judgement of the appropriate level for the allowance for loan losses and takes into consideration PeoplesBank's continued loan growth.

Noninterest income, excluding gain on sales of investment securities, for the three months ended December 31, 2016 was \$2.6 million, an increase of 19 percent compared to noninterest income of \$2.2 million during the same period of 2015. For the full year of 2016, noninterest income, excluding gain on sales of investment securities, was \$9.8 million, an increase of 15 percent compared to \$8.6 million for the same period in 2015. The increase in noninterest income, excluding gain on sales of investment securities, was attributed primarily to increases in gains on sales of loans, service charges on deposit accounts, wealth management income, and income from bank owned life insurance. There were no gains on sales of investment securities for the fourth quarter of 2016 or 2015. Gain on sales of investment securities decreased \$298,000 for the full year of 2016 in comparison to 2015.

Noninterest expense was \$10.5 million for the fourth quarter of 2016, an increase of 13 percent as compared to noninterest expense of \$9.4 million for the fourth quarter of 2015. For the full year of 2016, noninterest expenses totaled \$41.6 million, an increase of 11 percent compared to \$37.4 million for 2015. Higher costs associated with: personnel, other real estate owned, external data processing, debit card processing and marketing expenses, accounted for the majority of the increase. The primary driver of the aforementioned increase in noninterest expense was the expansion of our business and consumer banking services in our Central Pennsylvania and Maryland markets.

In 2017 we will be expanding our Small Business Administration activities as we deliver the products and services needed by area businesses that drive economic and job growth throughout our community. This, along with many other planned initiatives throughout our core Central Pennsylvania and Maryland markets, will provide us with the opportunity to continue to grow our franchise.

#### **Other News**

In January we welcomed John W. Giambalvo, Esq. to the Board of Directors of PeoplesBank. Mr. Giambalvo is President and CEO of Jack Giambalvo Motor Co. and has over 20 years of experience in the automotive industry. Mr. Giambalvo started his professional career as a law clerk for the Honorable John C. Uhler and then became an Assistant District Attorney in York, PA. We look forward to Mr. Giambalvo's advice and counsel in the future.

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 the most prominent part.

Larry J. Miller  
Chairman, President and CEO

**CODORUS VALLEY BANCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**  
**Unaudited**

As of and for the twelve months ended  
December 31,

	<u>2016</u>	<u>2015</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,611,587	\$1,456,334	10.7
Shareholders' equity	\$154,957	\$159,141	(2.6)
Net income available to common shareholders	\$13,086	\$11,015	18.8
Common shares outstanding, as adjusted	8,426,873	8,355,002	0.9

**Ratios**

Return on average assets	0.88%	0.82%	7.3
Return on average equity	8.47%	8.94%	(5.3)
Capital leverage	10.76%	11.73%	(8.3)

**Per share information**

(adjusted for stock dividend)			
Net income per common share, basic	\$1.56	\$1.68	(7.1)
Net income per common share, diluted	\$1.55	\$1.67	(7.2)
Book value per common share	\$18.39	\$17.61	4.4

**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	29.34	19.99	0.124	20.10	18.37	0.118

**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

