



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, 2017

Dear Shareholder,

Your Corporation's net income available to common shareholders (earnings) for the first quarter of 2017 was \$3.4 million or \$0.41 per share basic and \$0.40 per share diluted, for the quarter ended March 31, 2017, as compared to earnings of \$2.8 million or \$0.33 per share basic and diluted, for the first quarter of 2016.

Net interest income for the first quarter of 2017 was \$14.1 million, an increase of \$1.1 million or 8 percent when compared to net interest income of \$13.0 million for the first quarter of 2016. The growth was driven by an increased volume of interest earning assets, primarily commercial loans. The Corporation realized a net interest margin of 3.81 percent for the first quarter of 2017, which was down slightly compared to the net interest margin of 3.95 percent for the first quarter of 2016. The margin was impacted by a decline in yields in our fixed rate commercial loan portfolio and an increase in overall funding costs as compared to the first quarter of 2016.

The provision for loan losses for the first quarter of 2017 was \$650,000, a decrease of \$150,000 as compared to a provision of \$800,000 for the first quarter of 2016. The decrease in the provision for the first quarter in 2017 was primarily due to a reduction in net charge-offs as compared to the same period in 2016. The Corporation's nonperforming assets ratio was 0.27% as of March 31, 2017, reflecting a decrease when compared to a nonperforming asset ratio of 0.56% as of March 31, 2016.

Noninterest income, excluding gains on sales of securities, for the first quarter of 2017 was \$2.7 million, an increase of \$490,000 or 22 percent more as compared to \$2.2 million the quarter ended March 31, 2016. The increase in non-interest income, excluding gains on sales of securities, was attributed primarily to increases in gains on sales of loans, service charges on deposit accounts, income from bank owned life insurance and other income. There were no gains on sales of securities for the first quarter of 2017 as compared to \$194,000 for the same period in 2016.

Noninterest expense was \$11.1 million for the first quarter of 2017, an increase of \$605,000 or 6 percent as compared to noninterest expense of \$10.5 million for the first quarter of 2016. Increased personnel costs (which include compensation and benefit expenses) external data processing, telecommunications and Pennsylvania bank shares tax accounted for a majority of the increase. Normal business growth was the primary driver in the aforementioned increases in noninterest expenses. Declines in first quarter marketing expenses, debit card processing costs, charitable donations and costs associated with other real estate owned somewhat offset the rise in other noninterest expenses.

As a result of our continued positive operation results, on April 11, 2017, the Board of Directors declared a regular quarterly cash dividend of \$0.135 per common share payable on May 9, 2017, to shareholders of record at the close of business on April 25, 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, please contact the Corporation's plan administrator, *Wells Fargo Shareowner Services*, at 800-468-9716.

Other News

Members of our Board of Directors and Leadership Team were honored to participate in the closing bell ceremonies of the Nasdaq stock market in New York City on March 20, 2017. Codorus Valley received this invitation in recognition of the 30th anniversary of the formation of our holding company and its 20th anniversary as a Nasdaq-listed company under the symbol CVLY.

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 three months ended
March 31,

	<u>2017</u>	<u>2016</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,670,540	\$1,427,022	17.1
Shareholders' equity	\$157,939	\$150,017	5.3
Net income available to common shareholders	\$3,419	\$2,801	22.1
Common shares outstanding, as adjusted	8,433,701	8,360,791	0.9

Ratios

Return on average assets	0.85%	0.79%	7.6
Return on average equity	8.71%	7.22%	20.6
Capital leverage	10.40%	10.99%	(5.4)

Per share information

(adjusted for stock dividend)			
Net income per common share, basic	\$0.41	\$0.33	24.2
Net income per common share, diluted	\$0.40	\$0.33	21.2
Book value per common share	\$18.73	\$17.94	4.4

Common stock & dividend information

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

	2017			2016		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	28.85	25.02	0.135	20.00	18.72	0.124
Second quarter				20.79	18.82	0.124
Third quarter				20.86	19.00	0.124
Fourth quarter				29.34	19.99	0.124

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
---	--------------

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

