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

August 1, 2017

Dear Shareholder:

I am pleased to report yet another quarter of strong performance for Codorus Valley Bancorp, Inc., with significant growth in many key measures.

For the quarter ended June 30, 2017, net income available to common shareholders (earnings) was \$3.7 million, or \$0.43 per share basic and diluted, as compared to earnings of \$3.0 million, or \$0.36 per share basic and diluted, for the second quarter of 2016. For the first six months of 2017, earnings were \$7.1 million, or \$0.84 per share basic and \$0.83 per share diluted, compared to \$5.8 million, or \$0.68 per share basic and diluted, for the first six months of 2016.

Net interest income for the second quarter of 2017 was \$14.6 million, which is an increase of \$1.4 million or 11 percent when compared to the net interest income of \$13.2 million for the second quarter of 2016. This growth was driven by an increased volume of interest earning assets, primarily commercial loans. For the first six months of 2017, net interest income was \$28.7 million, which reflects an increase of \$2.5 million or 10 percent over the \$26.2 million in net interest income earned for the first six months of 2016. The Corporation's net interest margin was 3.78 percent for the first half of 2017, which is a decrease from the net interest margin of 3.95 percent for the same period in 2016 as a result of both a decrease in yields on interest-earning assets and an increase in our cost of funds.

The provision for loan losses for the second quarter of 2017 was \$825,000 compared to \$800,000 for the same period in 2016. For the six months ended June 30, 2017, the provision for loan losses was \$1.5 million compared to \$1.6 million for the first six months of 2016. The Corporation's nonperforming assets ratio was 0.54 percent as of June 30, 2017, a slight increase from the 0.46 percent as of June 30, 2016.

Noninterest income for the second quarter of 2017, excluding gains on the sales of investment securities, was \$2.8 million, or an increase of 14 percent when compared to noninterest income of \$2.4 million for the second quarter of 2016. For the first six months of 2017, noninterest income, excluding gains on the sales of investment securities, was \$5.5 million, or an increase of 18 percent compared to the \$4.6 million for the first six months of 2016. The increase in noninterest income, for both the three and six month periods ended June 30, 2017, was attributed primarily to increases in service charges on deposit accounts, Wealth Management Division, and gains on the sales of loans. The gain on the sales of investment securities increased \$63,000 during the second quarter of 2017 when compared to 2016 and declined \$131,000 for the first six months of 2017 when compared to the same period for 2016.

Noninterest expense was \$11.2 million for the second quarter of 2017, which is an increase of \$754,000 as compared to noninterest expense of \$10.4 million for the second quarter of 2016. For the first six months of 2017, noninterest expenses totaled \$22.2 million, or an increase of 7 percent when compared to the \$20.9 million in noninterest expenses for the first six months of 2016. Higher personnel expenses, charitable donations, and external data processing costs accounted for the majority of the increase. The aforementioned costs were partially offset by a decline in marketing and foreclosed real estate expenses.

As a result of our continued positive results, on July 11, 2017, the Board of Directors declared a regular quarterly cash dividend of \$0.135 per common share, payable on August 8, 2017 to shareholders of record at the close of business on July 25, 2017. If you do not currently 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.

In other news, on July 13, 2017, the Corporation announced that D. Reed Anderson, Esq. retired from his role as Vice Chairman and Lead Director of the Boards of the Corporation and its subsidiary, PeoplesBank, A Codorus Valley Company, as a result of reaching mandatory retirement age as set forth in the Corporation's bylaws. Mr. Anderson served as a director for more than two decades and we will certainly miss his wise counsel and friendly spirit, and we thank him for his service to our Company and our community.

In connection with Mr. Anderson's retirement, the Boards of Directors of both companies appointed Harry R. Swift, Esq., a current member of both Boards, as Vice Chairman and Lead Director. Mr. Swift was employed with the Corporation and Bank as General Counsel from 1997 until his retirement in 2013. Jeffrey R. Hines, P.E., was appointed Chairman of both the Compensation and Corporate Governance/Nominating Committees and John W. Giambalvo, Esq., a member of the PeoplesBank board, was appointed to the Codorus Valley Bancorp, Inc. board to fill the unexpired term of retiring Director Anderson.

From a franchise expansion standpoint, we were pleased to announce the July 12, 2017 opening of our newest Retirement Community Banking Office. Located in Lancaster County, Pennsylvania at the Homestead Village, this is the eleventh facility of this type in our distribution network. We look forward to providing the residents and employees of this community with a full range of personal banking and wealth management services to meet their diverse needs.

And finally, as our digital transformation strategy continues to evolve and we deliver our products and services in new ways, we will be launching a new PeoplesBank website later in August. With a fresh new look and added features and functionality, this website will serve as a strong base for our digital efforts 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 support and 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.

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>2017</u>	<u>2016</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,670,331	\$1,504,065	11.1
Shareholders' equity	\$161,436	\$153,017	5.5
Net income available to common shareholders	\$7,104	\$5,841	21.6
Common shares outstanding, as adjusted	8,451,743	8,372,570	0.9

**Ratios**

Return on average assets	0.87%	0.82%	6.1
Return on average equity	8.94%	7.61%	17.5
Capital leverage	10.17%	10.89%	(6.6)

**Per share information**

(adjusted for stock dividend)			
Net income per common share, basic	\$0.84	\$0.69	21.7
Net income per common share, diluted	\$0.83	\$0.69	20.3
Book value per common share	\$19.10	\$18.28	4.5

**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	29.56	25.22	0.135	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**

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

