



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)

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

November 7, 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 September 30, 2017, net income available to common shareholders (earnings) of \$3.4 million or \$0.38 per share basic and diluted, for the quarter ended September 30, 2017, as compared to earnings of \$3.4 million or \$0.39 per share basic and \$0.38 per share diluted, for the third quarter of 2016. For the first nine months of 2017, earnings were \$10.5 million or \$1.19 per share basic and \$1.17 per share diluted, compared to \$9.2 million or \$1.05 per share basic and \$1.04 per share diluted for the same period in 2016. Earnings per share as reported were adjusted for the 5 percent stock dividend described below.

Net interest income for the third quarter of 2017 was \$15.3 million, an increase of \$1.9 million or 14 percent when compared to the net interest income of \$13.4 million for the third quarter of 2016. The growth was driven by an increased volume of interest earning assets, primarily commercial loans. For the first nine months of 2017, net interest income was \$44.0 million, reflecting an increase of \$4.4 million or 11 percent compared to \$39.6 million for the first nine months of 2016. The Corporation's net interest margin was 3.82 percent for the first nine months of 2017, as compared to a net interest margin of 3.88 percent for the same period in 2016.

The provision for loan losses for the third quarter of 2017 was \$2.1 million, a \$1.3 million increase as compared to a provision of \$800,000 for the third quarter of 2016. For the nine months ended September 30, 2017, the provision for loan losses was \$3.6 million compared to \$2.4 million for the nine months ended September 30, 2016. The nonperforming assets ratio was 0.46 percent as of September 30, 2017 as compared to a nonperforming asset ratio of 0.44 percent as of September 30, 2016.

Noninterest income, excluding gain on sales of investment securities, for the third quarter of 2017 was \$2.8 million, an increase of 10 percent compared to noninterest income of \$2.6 million for the third quarter 2016. For the first nine months of 2017, noninterest income, excluding gain on sales of investment securities, was \$8.3 million, an increase of 15 percent compared to \$7.2 million for the first nine months of 2016. The increase in noninterest income was attributed primarily to increases in service charges on deposit accounts, planned gains from sales of loans, income from bank owned life insurance and other income. Gain on sales of investment securities decreased \$115,000 for the first nine months of 2017 as compared to 2016.

Noninterest expense was \$11.0 million for the third quarter of 2017, an increase of 7 percent as compared to noninterest expense of \$10.2 million for the third quarter of 2016. For the first nine months of 2017, noninterest expenses totaled \$33.2 million, an increase of 7 percent compared to \$31.1 million for the first nine months of 2016. Higher personnel, external data processing expenses, professional and legal fees, and other expense accounted for the majority of the increase.

As a result of our continued performance, on October 10, 2017, the Board of Directors also declared a regular quarterly cash dividend of \$0.135 per share, payable on November 14, 2017 to shareholders of record at the close of business on October 24, 2017. The quarterly cash dividend is the same amount paid as in the previous quarter. The total cash dividends paid or declared for 2017 is \$0.54 per share, compared to \$0.495 per share for 2016, as adjusted for the 2016 stock dividend, an increase of 9 percent.

In addition to the cash dividend, the Board of Directors of the Corporation also declared on October 10, 2017, a 5 percent stock dividend payable on December 12, 2017 to shareholders of record at the close of business on October 24, 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, recently released data from the FDIC shows that PeoplesBank continued to post strong gains in deposit market share over last year in its core York County, Pennsylvania market, solidifying its number two position. This is a testament to the commitment our associates display as they diligently work on a daily basis to develop new client relationships and expand the existing.

Along the lines of expansion, you may recall that three years ago we opened a new Business Banking Center in Camp Hill, Pennsylvania. Our efforts in this market have proven to be so successful that we recently decided to evolve this facility into a full-service financial center providing both business and personal banking services. A marketing strategy will be implemented over the coming weeks to enhance both brand and product awareness in this rapidly-growing market.

And finally, as we transform our digital offerings to provide enhanced services and added client conveniences, PeoplesBank will be launching a new Business Online and Mobile Banking platform in early 2018. This new system will offer our business clients many new features and options so that they may customize their online experience to meet their own unique needs. Additional information about this will be shared with our clients in the coming weeks.

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, written over a light blue horizontal line.

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>2017</u>	<u>2016</u>	<u>%chg</u>
<b>Selected financial information</b>			
(dollars in thousands)			
Assets	\$1,664,612	\$1,522,981	9.3
Shareholders' equity	\$164,054	\$155,317	5.6
Net income available to common shareholders	\$10,514	\$9,244	13.7
Common shares outstanding, as adjusted	8,884,122	8,799,898	1.0
<b>Ratios</b>			
Return on average assets	0.85%	0.84%	1.2
Return on average equity	8.72%	8.00%	9.0
Capital leverage	10.32%	10.53%	(2.0)
<b>Per share information</b>			
(adjusted for stock dividend)			
Net income per common share, basic	\$1.19	\$1.05	13.3
Net income per common share, diluted	\$1.17	\$1.04	12.5
Book value per common share	\$18.47	\$17.65	4.6

**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	27.48	23.83	0.129	19.05	17.83	0.118
Second quarter	28.15	24.02	0.129	19.80	17.92	0.118
Third quarter	30.34	22.82	0.129	19.86	18.10	0.118
Fourth quarter				27.94	19.04	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](http://www.peoplesbanknet.com)  
Select Investor Relations, then choose from the menu of options

