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

February 2, 2018

Dear Shareholder,

As you have probably noticed, recent earnings releases throughout the financial services industry have reflected the impact of the signing into law by President Trump of the Tax Cuts and Jobs Act (the “Act”). While Codorus Valley Bancorp, Inc.’s net income and earnings per share were reduced for the fourth quarter and full-year as a result of a \$2.8 million reduction in net deferred tax asset value due to the new corporate tax rate of 21 percent provided in the Act, we believe that this new law will ultimately have a positive impact on business activity, the economy, and our Company in the years to come.

When you exclude the overall impact of the net deferred tax asset revaluation, Codorus Valley Bancorp, Inc. experienced another year of record earnings in 2017, with core earnings of \$14.8 million, which represents a 13 percent increase year over year.

The Corporation’s net income available to common shareholders (earnings) of \$1.5 million or \$0.17 per share basic and diluted, for the three months ended December 31, 2017, as compared to earnings of \$3.8 million or \$0.44 per share basic and \$.43 per share diluted, for the three months ended December 31, 2016. For the year ended December 31, 2017, the Corporation earned \$12.0 million or \$1.35 per share basic and \$1.34 per share diluted, compared to \$13.1 million or \$1.49 per share basic and \$1.48 per share diluted for the year ended December 31, 2016; reflecting the aforesaid impact of the Act.

We were pleased to distribute cash dividends to our shareholders totaling \$0.54 per common share during 2017, and we also distributed a 5 percent stock dividend in December 2017. Also, on January 9, 2018, the Board of Directors declared a regular quarterly cash dividend of \$0.155 per common share payable on February 13, 2018, to shareholders of record at the close of business on January 23, 2018. The payment of this dividend is \$0.02, or 15 percent more per common share, than the amount that was paid in January 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, Shareowner Services, at 800-468-9716.

Net interest income for the three months ended December 31, 2017 was \$15.6 million, an increase of \$1.6 million or 11 percent when compared to the net interest income of \$14.0 million for the same period in 2016. For the full year of 2017, net interest income was \$59.5 million, reflecting an increase of \$6.0 million or 11 percent compared to \$53.6 million for 2016. The Corporation’s net interest margin was 3.84 percent for the full year 2017, a decrease from the net interest margin of 3.89 percent for the same period in 2016.

The provision for loan losses for the three months ended December 31, 2017 and 2016 was \$600,000. For the full year of 2017, the provision for loan losses was \$4.2 million compared to \$3.0 million for the same period in 2016. The increased provision for 2017 was a result of an increase in net-charge-offs in the Corporation's builder and developer portfolio and due to the substantial commercial loan growth produced for the year. The allowance for loan losses to total loans at December 31, 2017 was 1.19 percent compared to 1.18 percent as of December 31, 2016.

Noninterest income, excluding gain on sales of investment securities, for the three months ended December 31, 2017 was \$3.2 million, an increase of 21 percent compared to noninterest income of \$2.6 million during the same period of 2016. For the full year of 2017, noninterest income, excluding gain on sales of investment securities, was \$11.4 million, an increase of 16 percent compared to \$9.8 million for the same period in 2016. 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 2017 or 2016. Gain on sales of investment securities decreased \$115,000 for the full year of 2017 in comparison to 2016.

Noninterest expense was \$11.8 million for the fourth quarter of 2017, an increase of 12 percent as compared to noninterest expense of \$10.5 million for the fourth quarter of 2016. For the full year of 2017, noninterest expenses totaled \$45.0 million, an increase of 8 percent compared to \$41.6 million for 2016. A majority of the increase in noninterest expenses were attributable to personnel costs, charitable donations, external data processing and FDIC insurance premiums. The primary driver of the aforementioned increase in noninterest expense was our continued investment in our associates, our community, and expansion of our business and consumer banking services in our central Maryland and Pennsylvania markets.

Income tax expense for the quarter and year to date periods ended December 31, 2017 were \$4.9 million and \$9.9 million, respectively, compared to \$1.7 million and \$5.9 million for the same periods in 2016, respectively. The increase in income tax expense was primarily a result of a \$2.8 million reduction in the net deferred tax assets value due to the new corporate tax rate.

Other News

In January, we were pleased to welcome Timothy J. Neiman, Esq. as General Counsel for Codorus Valley Bancorp, Inc. and its related subsidiaries. Tim brings more than 25 years of legal experience, including commercial litigation, banking litigation, and business counseling to us. Most recently, he served as a Partner in the Rhoads & Sinon, LLP law firm in Harrisburg, Pennsylvania. We look forward to Tim's advice and counsel as we continue to execute our strategic initiatives and increase franchise value.

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,



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>2017</u>	<u>2016</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,709,205	\$1,611,587	6.1
Shareholders' equity	\$164,219	\$154,957	6.0
Net income available to common shareholders	\$12,004	\$13,086	(8.3)
Common shares outstanding, as adjusted	8,905,998	8,848,217	0.7
Ratios			
Return on average assets	0.72%	0.88%	(18.2)
Return on average equity	7.40%	8.47%	(12.6)
Capital leverage	10.25%	10.76%	(4.7)
Per share information			
(adjusted for stock dividend)			
Net income per common share, basic	\$1.35	\$1.49	(9.4)
Net income per common share, diluted	\$1.34	\$1.48	(9.5)
Book value per common share	\$18.44	\$17.51	5.3

Reconciliation of Non-GAAP Selected Financial Data (Unaudited)
(in thousands of dollars)

U.S. securities laws require that when we publish any non-GAAP financial measure, we disclose the reason for using the non-GAAP measure and provide reconciliation to the most directly comparable GAAP measure. The presentation of adjusted net income is a non-GAAP measure. Adjusted net income represents net income calculated in accordance with U.S. GAAP as adjusted for the impact of the Tax Cuts and Jobs Act on deferred tax assets representing a one-time non-cash charge.

	Twelve months ended December 31,	
	<u>2017</u>	<u>2016</u>
Net income available to common shareholders Reported (GAAP)	\$12,004	\$13,086
Items impacting comparability:		
Revaluation of net deferred tax asset due to corporate rate change	<u>2,755</u>	<u>0</u>
Net income available to common shareholders Comparable (Non-GAAP)	<u>\$14,759</u>	<u>\$13,086</u>

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	33.46	27.31	0.129	27.94	19.04	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.

800-468-9716

(www.wellsfargo.com/shareownerservices)

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

