



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*

August 6, 2018

Dear Shareholder:

Your Corporation's net income for the second quarter of 2018 was \$6.1 million or \$0.68 per share basic and \$0.67 per share diluted, for the quarter ended June 30, 2018, as compared to earnings of \$3.7 million or \$0.41 per share basic and diluted, for the quarter ended June 30, 2017. For the first six months of 2018, earnings were \$10.1 million or \$1.14 per share basic and \$1.12 per share diluted, compared to \$7.1 million or \$0.80 per share basic and \$0.79 per share diluted, for the first six months of 2017.

Net interest income for the second quarter of 2018 was \$16.1 million, an increase of \$1.5 million or 10 percent when compared to net interest income of \$14.6 million for the second quarter of 2017. The growth was driven by an increased volume of interest earning assets, primarily commercial loans. For the first six months of 2018, net interest income was \$31.4 million, reflecting an increase of \$2.7 million or 9.4 percent compared to \$28.7 million for the first six months of 2017. The Corporation realized a net interest margin of 3.89 percent for the first half of 2018, which represented an increase as compared to the net interest margin of 3.78 percent for the first half of 2017.

The provision for loan losses for the second quarter of 2018 was \$300,000, a decrease of \$525,000 as compared to a provision of \$825,000 for the second quarter of 2017. For the six months ended June 30, 2018, the provision for loan losses was \$500,000 compared to \$1.5 million for the first six months of 2017. The provision reflects management's judgement of an appropriate level for the allowance for loan losses. The Corporation's nonperforming assets ratio was 0.40 percent as of June 30, 2018, reflecting a decrease when compared to a nonperforming asset ratio of 0.54 percent as of June 30, 2017. The allowance for loan losses to total loans at June 30, 2018 was 1.17 percent compared to 1.19 percent at December 31, 2017 and 1.21 at June 30, 2017.

Noninterest income for the second quarter of 2018, excluding gains on sales of investment securities, was \$3.5 million, an increase of 25 percent compared to noninterest income of \$2.8 million for the second quarter 2017. For the first six months of 2018, noninterest income, excluding gains on sales of investment securities, was \$6.8 million an increase of 24 percent compared to \$5.5 million for the first six months of 2017. The increase in noninterest income, for the three and six months ended June 30, 2018, was attributed primarily to increases in service charges on deposit accounts, other income, and gains on sales of loans. For both the second quarter 2018 and the first six months of 2018, the gain on sales of investment securities decreased from \$63,000 to \$0, as compared to the same periods in 2017.

Noninterest expense was \$11.6 million for the second quarter of 2018, an increase of \$456 thousand as compared to noninterest expense of \$11.2 million for the second quarter of 2017. For the first six months of 2018, noninterest expenses totaled \$24.9 million, an increase of 12 percent compared to \$22.2 million for the first six months of 2017. Higher personnel expenses, charitable donations and external data processing costs accounted for the majority of the increase. The aforementioned higher costs were partially offset by a decline in FDIC insurance premiums and other expenses.

Income tax expense for the quarter ended June 30, 2018 was \$1.6 million versus \$1.8 million for the same period in 2017. Income tax expense for the six months ended June 30, 2018 was \$2.7 million versus \$3.4 million for the same period in 2017. The effective tax rates for the periods ended June 30, 2018 and 2017 were 20.8 percent and 32.4 percent, respectively. Income tax expense and the effective tax rate decreased as a result of the new corporate tax rate enacted as part of the Tax Cuts and Jobs Act that became effective January 1, 2018.

As a result of our performance, on July 10, 2018, the Board of Directors declared a regular quarterly cash dividend of \$0.155 per share, payable on August 14, 2018 to shareholders of record at the close of business on July 24, 2018.

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, EQ Shareowner Services, at 800-468-9716.

A new full-service Financial Center is scheduled to open late summer 2018 at 2343 Oregon Pike in Lancaster, PA. This will be PeoplesBank's first full-service location in the Lancaster County market. While we have been serving the Lancaster market for several years through a Loan Production Office and five Retirement Community Offices, we are excited to open our first full-service Financial Center in Manheim Township to more fully serve residents and businesses in the Lancaster community.

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>2018</u>	<u>2017</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,779,132	\$1,670,331	6.5
Shareholders' equity	\$170,373	\$161,436	5.5
Net income	\$10,137	\$7,104	42.7
Shares outstanding, as adjusted	8,943,966	8,874,330	0.8

Ratios

Return on average assets	1.18%	0.87%	35.6
Return on average equity	12.13%	8.94%	35.7
Capital leverage	10.37%	10.17%	2.0

Per share information

(adjusted for stock dividend)			
Net income per share, basic	\$1.14	\$0.80	42.5
Net income per share, diluted	\$1.12	\$0.79	41.8
Book value per share	\$19.05	\$18.19	4.7

Common stock & dividend information

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

	2018			2017		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	29.73	24.83	0.155	27.48	23.83	0.129
Second quarter	30.99	27.52	0.155	28.15	24.02	0.129
Third quarter				30.34	22.82	0.129
Fourth quarter				33.46	27.31	0.129

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

Equiniti Trust Company (www.shareowneronline.com)	800-401-1957
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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

