Section 1: 10-Q (FORM 10-Q)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2020

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from____________to______________

Commission file number: 0-15536

CODORUS VALLEY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2428543**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Leader Heights Road, P.O. Box 2887, York, Pennsylvania 17405
(Address of principal executive offices)(Zip code)

717-747-1519
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since the last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $2.50 par value	CVLY	NASDAQ Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On April 24, 2020, 9,763,713 shares of common stock, par value $2.50, were outstanding.

Codorus Valley Bancorp, Inc.
Form 10-Q Index

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Codorus Valley Bancorp, Inc.
Consolidated Balance Sheets
Unaudited

(dollars in thousands, except per share data)	March 31, 2020	December 31, 2019
Assets		
Interest bearing deposits with banks	$ 169,689	$ 110,742
Cash and due from banks	15,569	20,849
Total cash and cash equivalents	185,258	131,591
Securities, available-for-sale	171,738	159,675
Restricted investment in bank stocks, at cost	3,951	4,551
Loans held for sale	10,858	11,803
Loans (net of deferred fees of $3,266 - 2020 and $3,463 - 2019)	1,476,661	1,505,135
Less-allowance for loan losses	(22,838)	(21,066)
Net loans	1,453,823	1,484,069
Premises and equipment, net	26,637	25,967
Operating leases right-of-use assets	3,030	3,021
Goodwill	2,301	2,301
Other assets	64,363	63,567
Total assets	$ 1,921,959	$ 1,886,545
Liabilities		
Deposits		
Noninterest bearing	$ 274,382	$ 273,968
Interest bearing	1,364,965	1,316,596
Total deposits	1,639,347	1,590,564
Short-term borrowings	6,196	7,925
Long-term debt	71,627	81,632
Operating leases liabilities	3,187	3,184
Other liabilities	12,006	12,072
Total liabilities	1,732,363	1,695,377
Shareholders' equity		
Preferred stock, par value $2.50 per share; 1,000,000 shares authorized; shares issued and outstanding: 0 at March 31, 2020 and 0 at December 31, 2019	0	0
Common stock, par value $2.50 per share; 30,000,000 shares authorized; Shares issued: 9,769,150 at March 31, 2020 and 9,755,976 at December 31, 2019; and shares outstanding: 9,763,713 at March 31, 2020 and 9,755,976 at December 31, 2019.	24,423	24,390
Additional paid-in capital	140,686	140,450
Retained earnings	20,469	25,019
Accumulated other comprehensive income	4,107	1,309
Treasury stock, at cost; 5,437 shares at March 31, 2020	(89)	0
Total shareholders' equity	189,596	191,168
Total liabilities and shareholders' equity	$ 1,921,959	$ 1,886,545

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Income
Unaudited

(dollars in thousands, except per share data)	Three months ended March 31, 2020	2019
Interest income		
Loans, including fees	$ 18,764	$ 19,510
Investment securities:		
Taxable	820	676
Tax-exempt	141	209
Dividends	72	119
Other	392	362
Total interest income	20,189	20,876
Interest expense		
Deposits	4,276	4,620
Federal funds purchased and other short-term borrowings	9	9
Long-term debt	537	716
Total interest expense	4,822	5,345
Net interest income	15,367	15,531
Provision for loan losses	9,435	1,050
Net interest income after provision for loan losses	5,932	14,481
Noninterest income		
Trust and investment services fees	994	840
Income from mutual fund, annuity and insurance sales	261	235
Service charges on deposit accounts	1,130	1,158
Income from bank owned life insurance	286	367
Other income	439	409
Gain on sales of loans held for sale	298	218
Gain (loss) on sales of securities	15	(4)
Total noninterest income	3,423	3,223
Noninterest expense		
Personnel	7,805	7,706
Occupancy of premises, net	926	963
Furniture and equipment	853	772
Postage, stationery and supplies	217	184
Professional and legal	205	109
Marketing	325	349
FDIC insurance	167	237
Debit card processing	389	323
Charitable donations	872	845
Telecommunications	121	126
External data processing	704	556
Foreclosed real estate including provision for losses	20	87
Other	715	304
Total noninterest expense	13,319	12,561
(Loss) income before income taxes	(3,964)	5,143
(Benefit) provision for income taxes	(975)	1,052
Net (loss) income	$ (2,989)	$ 4,091
Net (loss) income per share, basic	$ (0.31)	$ 0.41
Net (loss) income per share, diluted	$ (0.31)	$ 0.41

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Comprehensive Income
Unaudited

(dollars in thousands)	Three months ended March 31, 2020	2019
Net (loss) income	$ (2,989)	$ 4,091
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding gains arising during the period (net of tax expense of $747 and $370, respectively)	2,810	1,396
Reclassification adjustment for (gains) losses included in net income (net of tax expense (benefit) of $3 and ($1), respectively) (a) (b)	(12)	3
Net unrealized gains	2,798	1,399
Comprehensive (loss) income	$ (191)	$ 5,490

(a) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income within noninterest income.
(b) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Cash Flows
Unaudited

(dollars in thousands)	Three months ended March 31, 2020	2019
Cash flows from operating activities		
Net (loss) income	$ (2,989)	$ 4,091
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation/amortization	684	651
Net amortization of premiums on securities	151	65
Amortization of deferred loan origination fees and costs	(403)	(229)
Net amortization of operating lease right of use assets	178	166
Net amortization of finance lease right of use assets	12	0
Repayment of lease obligations	(189)	0
Provision for loan losses	9,435	1,050
Increase in bank owned life insurance	(286)	(367)
Originations of mortgage loans held for sale	(9,797)	(7,627)
Originations of SBA loans held for sale	(4,431)	(1,595)
Proceeds from sales of mortgage loans held for sale	11,625	7,948
Proceeds from sales of SBA loans held for sale	3,833	791
Net gain on sales of mortgage loans held for sale	(290)	(165)
Gain on sales of SBA loans held for sale	(9)	(53)
Gain on disposal of premises and equipment	0	(11)
(Gain) loss on sales of securities, available-for-sale	(15)	4
Stock-based compensation	120	135
Decrease in interest receivable	144	370
(Increase) in other assets	(1,156)	(647)
(Decrease) increase in interest payable	(55)	142
(Decrease) increase in other liabilities	(11)	539
Net cash provided by operating activities	6,551	5,258
Cash flows from investing activities		
Purchases of securities, available-for-sale	(38,070)	(8,448)
Maturities, repayments and calls of securities, available-for-sale	9,561	5,561
Sales of securities, available-for-sale	19,852	6,017
Net decrease in restricted investment in bank stock	600	600
Net decrease (increase) in loans made to customers	21,093	(9,166)
Purchases of premises and equipment	(1,352)	(1,759)
Investment in bank owned life insurance	0	(6,600)
Investment in foreclosed real estate	(121)	0
Net cash provided by (used in) investing activities	11,563	(13,795)
Cash flows from financing activities		
Net increase (decrease) in demand and savings deposits	31,479	(20,669)
Net increase in time deposits	17,304	28,266
Net (decrease) in short-term borrowings	(1,729)	(192)
Repayment of long-term debt	(10,000)	0
Cash dividends paid to shareholders	(1,561)	(1,512)
Treasury stock purchased	(89)	0
Issuance of stock	149	147
Net cash provided by financing activities	35,553	6,040
Net increase (decrease) in cash and cash equivalents	53,667	(2,497)
Cash and cash equivalents at beginning of year	131,591	96,782
Cash and cash equivalents at end of period	$ 185,258	$ 94,285

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Unaudited

(dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2020	$ 24,390	$ 140,450	$ 25,019	$ 1,309	$ 0	$ 191,168
Net loss			(2,989)			(2,989)
Other comprehensive income, net of tax				2,798		2,798
Cash dividends ($0.160 per share)			(1,561)			(1,561)
Stock-based compensation		120				120
Repurchased stock - 5,335 shares					(87)	(87)
Withheld stock - 102 shares					(2)	(2)
Issuance and reissuance of stock:						
6,706 shares under the dividend reinvestment and stock purchase plan	17	132				149
6,468 shares of stock-based compensation awards	16	(16)				0
Balance, March 31, 2020	$ 24,423	$ 140,686	$ 20,469	$ 4,107	$ (89)	$ 189,596
Balance, January 1, 2019	$ 23,629	$ 134,506	$ 22,837	$ (2,226)	$ 0	$ 178,746
Adoption of ASC topic 842 (leases)			(199)			(199)
Net income			4,091			4,091
Other comprehensive income, net of tax				1,399		1,399
Cash dividends ($0.152 per share, adjusted)			(1,512)			(1,512)
Stock-based compensation		135				135
Forfeiture and withheld shares of restricted stock		2			(4)	(2)
Issuance and reissuance of stock:						
6,646 shares under the dividend reinvestment and stock purchase plan	17	132				149
Balance, March 31, 2019	$ 23,646	$ 134,775	$ 25,217	$ (827)	$ (4)	$ 182,807

See accompanying notes.

Note 1—Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation
The accompanying consolidated balance sheet at December 31, 2019 has been derived from audited financial statements, and the unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q, and FASB Accounting Standards Codification (ASC) 270. Accordingly, the interim financial statements do not include all of the financial information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim consolidated financial statements include all adjustments necessary to present fairly the financial condition and results of operations for the reported periods, and all such adjustments are of a normal and recurring nature.

Codorus Valley Bancorp, Inc. (“Corporation” or “Codorus Valley”) is a one-bank holding company headquartered in York, Pennsylvania that provides a full range of banking services through its subsidiary, PeoplesBank, A Codorus Valley Company (“PeoplesBank” or “Bank”). As of March 31, 2020, PeoplesBank operates one wholly-owned subsidiary, Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors, which sells nondeposit products. In addition, PeoplesBank may periodically create nonbank subsidiaries for the purpose of temporarily holding foreclosed properties pending the liquidation of these properties. PeoplesBank operates under a state charter and is subject to regulation by the Pennsylvania Department of Banking and Securities, and the Federal Deposit Insurance Corporation. The Corporation is subject to regulation by the Federal Reserve Board and the Pennsylvania Department of Banking and Securities.

The consolidated financial statements include the accounts of Codorus Valley and its wholly-owned bank subsidiary, PeoplesBank, and a wholly-owned nonbank subsidiary, SYC Realty Company, Inc. SYC Realty was inactive during the period ended March 31, 2020. The accounts of CVB Statutory Trust No. 1 and No. 2 are not included in the consolidated financial statements as discussed in Note 7—Short-Term Borrowings and Long-Term Debt. All significant intercompany account balances and transactions have been eliminated in consolidation. The accounting and reporting policies of Codorus Valley and subsidiaries conform to accounting principles generally accepted in the United States of America and have been followed on a consistent basis.

These consolidated statements should be read in conjunction with the notes to the audited consolidated financial statements contained in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2019.

The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the full year.

In accordance with FASB ASC 855, the Corporation evaluated the events and transactions that occurred after the balance sheet date of March 31, 2020 and through the date these consolidated financial statements were issued, for items of potential recognition or disclosure.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Corporation is not able to estimate the effects of the coronavirus on its results of operations, financial condition, or liquidity for fiscal year 2020.

In addition, the adverse economic effects of the coronavirus may lead to an increase in credit risk on the Corporation's commercial and residential loan portfolios. Likewise, the Corporation is also monitoring the fluctuations in the markets as it pertains to interest rates and fair value of our investments for OTTI. To curtail the spread of the virus, we are currently restricting branch access to the drive-through window or appointment-only at all locations.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the coronavirus pandemic. This legislation aims at providing relief for individuals and businesses that have been negatively impacted by the coronavirus pandemic.

The CARES Act includes a provision for the Corporation to opt out of applying the TDR accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are eligible for this relief if the related loans were not more than 30 days past due as of December 31, 2019.

While the Corporation continues to evaluate the disruption caused by the pandemic and impact of the CARES Act, these events may have a material adverse impact on the Corporation's results of future operations, financial position, capital, and liquidity in fiscal year 2020. Further, a decrease in results of future operations may place a strain on the Corporation's capital reserve ratios.

Loans
Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances less amounts charged off, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Generally, loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) over the contractual life of the loan. The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following industry classes: builder & developer, commercial real estate investor, residential real estate investor, hotel/motel, wholesale & retail, agriculture, manufacturing and all other. Consumer loans consist of the following classes: residential mortgage, home equity and all other.

Generally, for all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A past due loan may remain on accrual status if it is in the process of collection and well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to the Corporation's judgment as to the collectability of principal. Generally, nonaccrual loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses
The allowance for loan losses represents the Corporation's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. While the Corporation attributes a portion of the allowance to individual loans and groups of loans that it evaluates and determines to be impaired, the allowance is available to cover all charge-offs that arise from the loan portfolio.

The allowance for loan losses is maintained at a level considered by management to be adequate to provide for probable incurred losses. The Corporation performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, generally nonaccrual loans and troubled debt restructurings. For loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative (environmental) risk factors. Historical loss rates are based on a two year rolling average of net charge-offs. Qualitative risk factors that supplement historical losses in the evaluation of loan pools are shown below. Each factor is assigned a value to reflect improving, stable or declining conditions based on the Corporation's best judgment using relevant information available at the time of the evaluation.

- Changes in international, US and local economies and business conditions
- Changes in the value of collateral for collateral dependent loans
- Changes in the level of concentrations of credit
- Changes in the volume and severity of classified and past due loans
- Changes in the nature and volume of the portfolio
- Changes in collection, charge-off, and recovery procedures
- Changes in underwriting standards and loan terms
- Changes in the quality of the loan review system
- Changes in the experience/ability of lending management and key lending staff
- Regulatory and legal regulations that could affect the level of credit losses
- Other pertinent environmental factors
- Impact of imposed tariffs
- Impact of COVID-19 pandemic

As disclosed in Note 4—Loans, the Corporation engages in commercial and consumer lending. Loans are made within the Corporation's primary market area and surrounding areas, and include the purchase of whole loan or participation interests in loans from other financial institutions. Commercial loans, which pose the greatest risk of loss to the Corporation, whether originated or purchased, are generally secured by real estate. Within the broad commercial loan segment, the builder & developer and commercial real estate investor loan classes generally present a higher level of risk than other commercial loan classifications. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, unstable real estate prices and the dependency upon successful construction and sale or operation of the real estate project. Within the consumer loan segment, junior (i.e., second) liens present a higher risk to the Corporation because economic and housing market conditions can adversely affect the underlying value of the collateral, which could render the Corporation under-secured or unsecured. In addition, economic and housing market conditions can adversely affect the ability of some borrowers to service their debt.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Corporation determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Loans that are deemed impaired are evaluated for impairment loss based on the net realizable value of the collateral, as applicable. Loans that are not collateral dependent will rely on the present value of expected future cash flows discounted at the loan’s effective interest rate to determine impairment loss. Large groups of smaller balance homogeneous loans such as residential mortgage loans, home equity loans and other consumer loans are collectively evaluated for impairment, unless they are classified as impaired.

An allowance for loan losses is established for an impaired commercial loan if its carrying value exceeds its estimated fair value. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals of the underlying collateral. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the most recent appraisal and the condition of the property. Appraisals are generally discounted to provide for selling costs and other factors to determine an estimate of the net realizable value of the property. For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower’s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In instances when specific consumer related loans become impaired, they may be partially or fully charged off, which eliminates the need for a specific allowance.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted under a troubled debt restructuring may involve an interest rate that is below the market rate given the associated credit risk of the loan or an extension of a loan’s stated maturity date. Loans classified as troubled debt restructurings are designated as impaired. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a reasonable period of time, generally six consecutive months after modification and future payments are reasonably assured.

Foreclosed Real Estate

Foreclosed real estate, included in other assets, is comprised of property acquired through a foreclosure proceeding or property that is acquired through in-substance foreclosure. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any difference between the carrying value and the new cost basis is charged against the allowance for loan losses. Appraisals, obtained from an independent third party, are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell through a valuation allowance or a write-down. Costs related to the improvement of foreclosed real estate are generally capitalized until the real estate reaches a saleable condition subject to fair value limitations. Revenue and expense from operations and changes in the valuation allowance are included in noninterest expense. When a foreclosed real estate asset is ultimately sold, any gain or loss on the sale is included in the income statement as a component of noninterest expense. At March 31, 2020 there was $918,000 of foreclosed real estate, $121,000 of which was residential real estate. Included within loans receivable as of March 31, 2020 was a recorded investment of $348,000 of consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Mortgage Servicing Rights

The mortgage servicing rights (MSRs) associated with the sold loans are included in other assets on the consolidated balance sheets at an amount equal to the estimated fair value of the contractual rights to service the mortgage loans. The MSR asset is amortized as a reduction to servicing income. The MSR asset is evaluated periodically for impairment and carried at the lower of amortized cost or fair value. A third party calculates fair value by discounting the estimated cash flows from servicing income using a rate consistent with the risk associated with these assets and an estimate of future net servicing income of the underlying loans. In the event that the amortized cost of the MSR asset exceeds the fair value of the asset, a valuation allowance would be established through a charge against servicing income. Subsequent fair value evaluations may determine that impairment has been reduced or eliminated, in which case the valuation allowance would be reduced through a credit to earnings. At March 31, 2020, the balance of residential mortgage loans serviced for third parties was $114,169,000 compared to $115,620,000 at December 31, 2019.

(dollars in thousands)	**Three months ended March 31, 2020**	**2019**
Amortized cost:		
Balance at beginning of period	$ 965	$ 925
Originations of mortgage servicing rights	13	50
Amortization expense	(66)	(36)
Valuation allowance	(173)	(17)
Balance at end of period	$ 739	$ 922

Goodwill and Core Deposit Intangible Assets

Goodwill arising from acquisitions is not amortized, but is subject to an annual impairment test. This test consists of a qualitative analysis. If the Corporation determines events or circumstances indicate that it is more likely than not that goodwill is impaired, a quantitative analysis must be completed. Analyses may also be performed between annual tests. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The Corporation completes its annual goodwill impairment test on October 1st of each year. Based upon a qualitative analysis of goodwill, the Corporation concluded that the amount of recorded goodwill was not impaired as of October 1, 2019.

Core deposit intangibles represent the value assigned to demand, interest checking, money market, and savings accounts acquired as part of an acquisition. The core deposit intangible value represents the future economic benefit of potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and the alternative cost to grow a similar core deposit base. The core deposit intangible asset resulting from the merger with Madison Bancorp, Inc. was determined to have a definite life and is being amortized using the sum of the years' digits method over ten years. All intangible assets must be evaluated for impairment if certain events or changes in circumstances occur. Any impairment write-downs would be recognized as expense on the consolidated statements of income.

At March 31, 2020, the Corporation does not have any indicators of potential impairment of either goodwill or core deposit intangibles.

Revenue from Contracts with Customers

Revenue from contracts with customers that are required to be recognized under FASB ASC Topic 606 - Revenue from Contracts with Customers (ASC 606) is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Corporation recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The majority of the Corporation's revenue-generating transactions are not within the scope of ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other U.S. Generally Accepted Accounting Principles (GAAP) discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

Trust and investment service fees – The Corporation provides trust, investment management custody and irrevocable life insurance trust services to customers. Such services are rendered in accordance with the underlying contracts for which fees are earned. The Corporation's performance obligations are generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for services rendered is primarily received in the following month.

Income from mutual fund, annuity and insurance sales – The Corporation sells mutual funds, annuity and insurance products to its customers. The Corporation's performance obligation is met upon the signing of the product agreement and, in certain cases, a time component may exist when the customer has the right to rescind the agreement with or without penalty. The Corporation recognizes revenues upon delivery of the product or service unless there is a time component in which case revenues are recognized utilizing the expected value method. Payment for services rendered is primarily received in the following month.

Service charges on deposits accounts – These represent general service fees for monthly account maintenance and activity- or transaction based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Other service charges include revenue from processing wire transfers, cashier's checks and other services. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to the customers' accounts.

Other noninterest income – The Corporation evaluated individual components of other noninterest income, such as credit card merchant fees, credit and gift card fees and ATM fees. Debit card income is primarily comprised of interchange fees earned whenever the Corporation's debit cards are processed through payment networks, such as Visa. Credit and gift card income is realized through a third party provider who issues cards as private label in the Corporation's name. ATM fees are primarily generated when a non-Corporation cardholder uses a Corporation ATM. The income is primarily comprised as a percentage of interchange fees earned whenever the issuer's card is processed through card payment networks, such as Visa or Pulse. Merchant services income is realized through a third party service provider who is contracted by the Corporation under a referral arrangement. Such fees represent fees charged to merchants to process their debit card transactions. The Corporation's performance obligation for these fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received within a one to three day lag or in the following month.

Per Share Data
All per share computations include the effect of stock dividends distributed. The computation of net income per share is provided in the table below.

(in thousands, except per share data)	Three months ended March 31, 2020		Three months ended March 31, 2019	
Net (loss) income	$	(2,989)	$	4,091
Weighted average shares outstanding (basic)		9,759		9,927
Effect of dilutive stock options		53		70
Weighted average shares outstanding (diluted)		9,812		9,997
Basic (loss) earnings per share	$	(0.31)	$	0.41
Diluted (loss)earnings per share	$	(0.31)	$	0.41

Comprehensive Income
Accounting principles generally accepted in the United States require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Cash Flow Information
For purposes of the statements of cash flows, the Corporation considers interest bearing deposits with banks, cash and due from banks, and federal funds sold to be cash and cash equivalents.

Supplemental cash flow information is provided in the table below.

(dollars in thousands)	**Three months ended March 31, 2020**		**Three months ended March 31, 2019**	
Cash paid during the period for:				
Income taxes	$	0	$	300
Interest	$	4,877	$	5,203
Noncash investing and financing activities:				
Transfer of loans to foreclosed real estate	$	121	$	0
Initial recognition of financing lease right-of-use assets	$	0	$	1,358
Initial recognition of financing lease liabilities	$	0	$	1,480
Initial recognition of operating lease right-of-use assets	$	186	$	2,958
Initial recognition of operating lease liabilities	$	186	$	3,035
Increase in other liabilities for purchase of securities settling after quarter end	$	0	$	1,004

Recent Accounting Pronouncements

Pronouncements Adopted in 2020

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). This standard simplifies the test for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill, which currently is Step 2 of the goodwill impairment test. Instead, the goodwill impairment test will consist of a single quantitative step comparing the fair value of the reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new standard is effective for annual and any interim goodwill impairment tests in reporting periods beginning after December 15, 2019. The Corporation adopted this standard effective with its January 1, 2020 goodwill impairment test. The adoption of this standard did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement. The amendments in this update modify the disclosure requirements in Topic 820, Fair Value Measurement. The following disclosure requirements were removed: the amount of and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The following disclosure requirements were modified: for investments in certain entities that calculate net asset value, and entity is required to disclose the timing of liquidation of investee’s assets and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The update is effective for fiscal years beginning after December 15, 2019. The adoption of this update did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those incurred to develop or obtain internal-use software. This standard requires application of Subtopic 350-40 to determine which costs to implement the service contract would be capitalized as an asset and which costs would be expensed. The amendments in the update are effective for the years beginning after December 15, 2019. The adoption of this update did not have a material impact on its consolidated financial statements.

Pronouncements Not Yet Effective

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). This standard adds a new Topic 326 which requires companies to measure and record impairment on financial instruments at the time of origination using the expected credit loss (CECL) model. The CECL model calculates impairment based on historical experience, current conditions, and reasonable and supportable forecasts, and reflects the organization’s current estimate of all expected credit losses over the contractual term of its financial assets. The new standard was delayed and is now effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation expects the provisions of ASU No. 2016-13 to impact the Corporation’s consolidated financial statements, in particular, the level of the reserve for credit losses. The Corporation is continuing to evaluate the extent of the potential impact and expects that portfolio composition and economic conditions at the time of adoption will be a factor.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20). The amendments in this update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The update is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Corporation is currently evaluating the impact of the adoption of this update on its disclosures.

Note 2 – Securities

A summary of securities available-for-sale at March 31, 2020 and December 31, 2019 is provided below. The securities available-for-sale portfolio is generally comprised of high quality debt instruments, principally obligations of the United States government or agencies thereof and investments in the obligations of states and municipalities. The majority of municipal bonds in the portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but they are for critical services such as water and sewer. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific loss reserves. At March 31, 2020, while 90 percent of the fair value of the municipal bond portfolio was concentrated in the Commonwealth of Pennsylvania, the portfolio was intentionally distributed to limit exposure with the largest issuer at $2.3 million.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2020				
Debt securities:				
U.S. Treasury notes	$ 4,998	$ 88	$ 0	$ 5,086
U.S. agency mortgage-backed, residential	135,895	4,809	(2)	140,702
State and municipal	24,656	256	0	24,912
Corporate debt	990	48	0	1,038
Total debt securities	$ 166,539	$ 5,201	$ (2)	$ 171,738
December 31, 2019				
Debt securities:				
U.S. Treasury notes	$ 9,834	$ 119	$ 0	$ 9,953
U.S. agency	15,000	0	(77)	14,923
U.S. agency mortgage-backed, residential	106,799	1,443	(87)	108,155
State and municipal	26,385	260	(1)	26,644
Total debt securities	$ 158,018	$ 1,822	$ (165)	$ 159,675

The amortized cost and estimated fair value of debt securities at March 31, 2020 by contractual maturity are shown below. Actual maturities may differ from contractual maturities if call options on select debt issues are exercised in the future. Mortgage-backed securities are included in the maturity categories based on average expected life.

(dollars in thousands)	Available-for-sale Amortized Cost	Available-for-sale Fair Value
Due in one year or less	$ 6,671	$ 6,761
Due after one year through five years	102,796	105,798
Due after five years through ten years	34,313	35,189
Due after ten years	22,759	23,990
Total debt securities	$ 166,539	$ 171,738

Gross realized gains and losses on sales of securities available-for-sale are shown below. Realized gains and losses are computed on the basis of specific identification of the adjusted cost of each security and are shown net as a separate line item in the income statement. Proceeds from the sale of securities were $19,852,000, with a related tax expense of $3,000 for the three months ended March 31, 2020. Proceeds from the sale of securities were $6,017,000, with a related tax benefit of $1,000 for the three months ended March 31, 2019.

(dollars in thousands)	Three months ended March 31, 2020	2019
Realized gains	$ 74	$ 3
Realized losses	(59)	(7)
Net gains (losses)	$ 15	$ (4)

Investment securities having a carrying value of $126,161,000 and $128,427,000 on March 31, 2020 and December 31, 2019, respectively, were pledged to secure public and trust deposits, repurchase agreements and other short-term borrowings.

The table below shows gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position, at March 31, 2020 and December 31, 2019.

	Less than 12 months			12 months or more			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
March 31, 2020									
Debt securities:									
U.S. agency mortgage-backed, residential	2	773	(2)	0	0	0	2	773	(2)
Total temporarily impaired debt securities, available-for-sale	2	$ 773	$ (2)	0	$ 0	$ 0	2	$ 773	$ (2)
December 31, 2019									
Debt securities:									
U.S. agency	1	4,983	(17)	2	9,940	(60)	3	14,923	(77)
U.S. agency mortgage-backed, residential	12	21,821	(82)	2	1,163	(5)	14	22,984	(87)
State and municipal	1	466	(1)	0	0	0	1	466	(1)
Total temporarily impaired debt securities, available-for-sale	14	$27,270	$ (100)	4	$11,103	$ (65)	18	$38,373	$ (165)

Securities available-for-sale are analyzed quarterly for possible other-than-temporary impairment. The analysis considers, among other factors: 1) whether the Corporation has the intent to sell its securities prior to market recovery or maturity; 2) whether it is more likely than not that the Corporation will be required to sell its securities prior to market recovery or maturity; 3) default rates/history by security type; 4) third-party securities ratings; 5) third-party guarantees; 6) subordination; 7) payment delinquencies; 8) nature of the issuer; and 9) current financial news.

The Corporation believes that unrealized losses at March 31, 2020 were primarily the result of changes in market interest rates and that the Corporation has the ability to hold these investments for a time necessary to recover the amortized cost. Through March 31, 2020 the Corporation has collected all interest and principal on its investment securities as scheduled. The Corporation believes that collection of the contractual principal and interest is probable and, therefore, all impairment is considered to be temporary.

Note 3—Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and, as of March 31, 2020 and December 31, 2019, consisted primarily of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLBP") and, to a lesser degree, Atlantic Community Bancshares, Inc. ("ACBI"), the parent company of Atlantic Community Bankers Bank ("ACBB"). Under the FHLBP's Capital Plan member banks, including PeoplesBank, are required to maintain a minimum stock investment. The FHLBP uses a formula to determine the minimum stock investment, which is based on the volume of loans outstanding, unused borrowing capacity and other factors.

The FHLBP paid dividends during the periods ended March 31, 2020 and 2019. The FHLBP restricts the repurchase of the excess capital stock of member banks. The amount of excess capital stock that can be repurchased from any member is currently the lesser of five percent of the member's total capital stock outstanding or its excess capital stock outstanding.

Management evaluates the restricted stock for impairment in accordance with FASB ASC Topic 942. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Using the FHLBP as an example, the determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLBP as compared to the capital stock amount for the FHLBP and the length of time this situation has persisted; (2) commitments by the FHLBP to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLBP; and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLBP. Management believes no impairment charge was necessary related to the restricted stock during the periods ended March 31, 2020 and 2019.

Note 4—Loans

Loan Portfolio Composition

The table below provides the composition of the loan portfolio at March 31, 2020 and December 31, 2019. The portfolio is comprised of two segments, commercial and consumer loans. The commercial loan segment is disaggregated by industry class which allows the Corporation to monitor risk and performance. Those industries representing the largest dollar investment and most risk are listed separately. The "Other" commercial loans category is comprised of various industries. The consumer related segment is comprised of residential mortgages, home equity and other consumer loans. The Corporation has not engaged in sub-prime residential mortgage originations.

(dollars in thousands)	March 31, 2020	% Total Loans	December 31, 2019	% Total Loans
Builder & developer	$ 152,432	10.3	$ 159,312	10.6
Commercial real estate investor	207,397	14.0	207,227	13.8
Residential real estate investor	254,817	17.3	247,969	16.5
Hotel/Motel	79,729	5.4	80,260	5.3
Wholesale & retail	99,484	6.7	109,238	7.3
Manufacturing	82,351	5.6	86,511	5.7
Agriculture	78,792	5.3	80,719	5.4
Other	303,120	20.5	313,371	20.7
Total commercial related loans	1,258,122	85.1	1,284,607	85.3
Residential mortgages	92,624	6.3	94,868	6.3
Home equity	101,547	6.9	100,827	6.7
Other	24,368	1.7	24,833	1.7
Total consumer related loans	218,539	14.9	220,528	14.7
Total loans	$ 1,476,661	100.0	$ 1,505,135	100.0

Loan Risk Ratings

The Corporation's internal risk rating system follows regulatory guidance as to risk classifications and definitions. Every approved loan is assigned a risk rating. Generally, risk ratings for commercial related loans and residential mortgages held for investment are determined by a formal evaluation of risk factors performed by the Corporation's underwriting staff. For consumer loans, and commercial loans up to $500,000, the Corporation uses third-party credit scoring software models for risk rating purposes. The loan portfolio is monitored on a continuous basis by loan officers, loan review personnel and senior management. Adjustments of loan risk ratings are generally performed by the Special Asset Committee (the 'Committee'), which includes senior management. The Committee, which typically meets at least quarterly, makes changes, as appropriate, to risk ratings when it becomes aware of credit events such as payment delinquency, cessation of a business or project, bankruptcy or death of the borrower, or changes in collateral value. In addition to review by the Committee, existing loans are monitored by the primary loan officer and loan review to determine if any changes, upward or downward, in risk ratings are appropriate. An external consultant is also used to review a portion of the existing portfolio and recommend rating changes as appropriate. Primary loan officers and internal loan review may downgrade existing loans, except to nonaccrual status. Only the Committee, Executive Chairman or President/CEO may upgrade a loan that is classified.

The Corporation uses ten risk ratings to grade commercial loans. The first seven ratings, representing the lowest risk, are combined and given a "pass" rating. A pass rating is a satisfactory credit rating, which applies to a loan that is expected to perform in accordance with the loan agreement and has a low probability of loss. A loan rated "special mention" has a potential weakness which may, if not corrected, weaken the loan or inadequately protect the Corporation's position at some future date. A loan rated "substandard" is inadequately protected by the current net worth or paying capacity of the borrower, or of the collateral pledged. A "substandard" loan has a well-defined weakness or weaknesses that could jeopardize liquidation of the loan, which exposes the Corporation to loss if the deficiencies are not corrected. When circumstances indicate that collection of the loan is doubtful, the loan is risk-rated "nonaccrual," the accrual of interest income is discontinued, and any unpaid interest previously credited to income is reversed. The table below does not include the regulatory classification of "doubtful," nor does it include the regulatory classification of "loss", because the Corporation promptly charges off loan losses.

The table below presents a summary of loan risk ratings by loan class at March 31, 2020 and December 31, 2019.

(dollars in thousands)	Pass	Special Mention	Substandard	Nonaccrual	Total
March 31, 2020					
Builder & developer	$ 145,847	$ 5,063	$ 293	$ 1,229	$ 152,432
Commercial real estate investor	201,223	4,849	1,100	225	207,397
Residential real estate investor	245,249	3,418	194	5,956	254,817
Hotel/Motel	67,219	12,510	0	0	79,729
Wholesale & retail	80,750	9,813	1,821	7,100	99,484
Manufacturing	75,673	988	4,653	1,037	82,351
Agriculture	71,321	3,690	403	3,378	78,792
Other	275,555	6,383	13,777	7,405	303,120
Total commercial related loans	1,162,837	46,714	22,241	26,330	1,258,122
Residential mortgage	92,268	129	74	153	92,624
Home equity	100,820	60	0	667	101,547
Other	24,142	0	7	219	24,368
Total consumer related loans	217,230	189	81	1,039	218,539
Total loans	$ 1,380,067	$ 46,903	$ 22,322	$ 27,369	$ 1,476,661
December 31, 2019					
Builder & developer	$ 151,672	$ 6,503	$ 252	$ 885	$ 159,312
Commercial real estate investor	201,967	3,890	1,145	225	207,227
Residential real estate investor	238,216	3,780	202	5,771	247,969
Hotel/Motel	67,732	12,528	0	0	80,260
Wholesale & retail	89,556	10,513	1,954	7,215	109,238
Manufacturing	76,721	1,058	7,597	1,135	86,511
Agriculture	76,350	1,123	404	2,842	80,719
Other	277,634	16,490	13,748	5,499	313,371
Total commercial related loans	1,179,848	55,885	25,302	23,572	1,284,607
Residential mortgage	94,388	131	74	275	94,868
Home equity	100,089	61	0	677	100,827
Other	24,600	0	7	226	24,833
Total consumer related loans	219,077	192	81	1,178	220,528
Total loans	$ 1,398,925	$ 56,077	$ 25,383	$ 24,750	$ 1,505,135

Impaired Loans

The table below presents a summary of impaired loans at March 31, 2020 and December 31, 2019. Generally, impaired loans are all loans risk rated nonaccrual or classified troubled debt restructuring. An allowance is established for individual loans that are commercial related where the Corporation has doubt as to the full recovery of the outstanding principal balance. Typically, impaired consumer related loans are partially or fully charged-off eliminating the need for specific allowance. The recorded investment represents outstanding unpaid principal loan balances adjusted for payments collected on a non-cash basis and charge-offs.

	With No Allowance		With A Related Allowance			Total	
(dollars in thousands)	Recorded Investment	Unpaid Principal	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
March 31, 2020							
Builder & developer	$ 1,293	$ 1,332	$ 142	$ 143	$ 52	$ 1,435	$ 1,475
Commercial real estate investor	1,325	1,325	0	0	0	1,325	1,325
Residential real estate investor	953	975	5,003	5,124	1,906	5,956	6,099
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	271	271	7,069	7,760	3,363	7,340	8,031
Manufacturing	12	12	1,025	1,170	487	1,037	1,182
Agriculture	2,412	2,439	966	966	537	3,378	3,405
Other commercial	3,771	11,413	3,634	3,789	1,506	7,405	15,202
Total impaired commercial related loans	10,037	17,767	17,839	18,952	7,851	27,876	36,719
Residential mortgage	153	153	0	0	0	153	153
Home equity	667	667	0	0	0	667	667
Other consumer	219	225	0	0	0	219	225
Total impaired consumer related loans	1,039	1,045	0	0	0	1,039	1,045
Total impaired loans	$ 11,076	$ 18,812	$ 17,839	$ 18,952	$ 7,851	$ 28,915	$ 37,764
December 31, 2019							
Builder & developer	$ 621	$ 651	$ 473	$ 474	$ 238	$ 1,094	$ 1,125
Commercial real estate investor	1,370	1,371	0	0	0	1,370	1,371
Residential real estate investor	734	753	5,037	5,137	1,873	5,771	5,890
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	273	273	7,184	7,811	2,537	7,457	8,084
Manufacturing	13	13	1,122	1,220	463	1,135	1,233
Agriculture	1,784	1,791	1,058	1,058	701	2,842	2,849
Other commercial	1,864	1,974	3,635	3,888	1,608	5,499	5,862
Total impaired commercial related loans	6,659	6,826	18,509	19,588	7,420	25,168	26,414
Residential mortgage	275	277	0	0	0	275	277
Home equity	677	677	0	0	0	677	677
Other consumer	226	231	0	0	0	226	231
Total impaired consumer related loans	1,178	1,185	0	0	0	1,178	1,185
Total impaired loans	$ 7,837	$ 8,011	$ 18,509	$ 19,588	$ 7,420	$ 26,346	$ 27,599

The table below presents a summary of average impaired loans and related interest income that was included in net income for the three months ended March 31, 2020 and 2019.

	With No Related Allowance		With A Related Allowance		Total	
(dollars in thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Three months ended March 31, 2020						
Builder & developer	$ 957	12	308	0	$ 1,265	$ 12
Commercial real estate investor	1,347	22	0	0	1,347	22
Residential real estate investor	844	6	5,020	0	5,864	6
Hotel/Motel	0	0	0	0	0	0
Wholesale & retail	272	2	7,127	0	7,399	2
Manufacturing	13	3	1,073	0	1,086	3
Agriculture	2,098	19	1,012	0	3,110	19
Other commercial	2,817	31	3,634	0	6,451	31
Total impaired commercial related loans	8,348	95	18,174	0	26,522	95
Residential mortgage	214	3	0	0	214	3
Home equity	672	21	0	0	672	21
Other consumer	223	3	0	0	223	3
Total impaired consumer related loans	1,109	27	0	0	1,109	27
Total impaired loans	$ 9,457	$ 122	$ 18,174	$ 0	$ 27,631	$ 122
Three months ended March 31, 2019						
Builder & developer	$ 1,124	$ 14	$ 69	$ 0	$ 1,193	$ 14
Commercial real estate investor	3,610	34	0	0	3,610	34
Residential real estate investor	615	5	4,346	0	4,961	5
Hotel/Motel	0	0	0	0	0	0
Wholesale & retail	2,723	3	7,402	0	10,125	3
Manufacturing	669	5	1,642	0	2,311	5
Agriculture	658	13	0	0	658	13
Other commercial	7,601	0	4,870	0	12,471	0
Total impaired commercial related loans	17,000	74	18,329	0	35,329	74
Residential mortgage	548	6	0	0	548	6
Home equity	604	6	0	0	604	6
Other consumer	277	4	0	0	277	4
Total impaired consumer related loans	1,429	16	0	0	1,429	16
Total impaired loans	$ 18,429	$ 90	$ 18,329	$ 0	$ 36,758	$ 90

Past Due and Nonaccrual

The performance and credit quality of the loan portfolio is also monitored by using an aging schedule that shows the length of time a loan is past due. The table below presents a summary of past due loans, nonaccrual loans and current loans by loan segment and class at March 31, 2020 and December 31, 2019.

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
March 31, 2020							
Builder & developer	$ 775	$ 0	$ 40	$ 1,229	$ 2,044	$ 150,388	$ 152,432
Commercial real estate investor	0	0	0	225	225	207,172	207,397
Residential real estate investor	0	0	0	5,956	5,956	248,861	254,817
Hotel/Motel	0	0	0	0	0	79,729	79,729
Wholesale & retail	200	0	0	7,100	7,300	92,184	99,484
Manufacturing	394	0	0	1,037	1,431	80,920	82,351
Agriculture	403	0	0	3,378	3,781	75,011	78,792
Other	123	0	680	7,405	8,208	294,912	303,120
Total commercial related loans	1,895	0	720	26,330	28,945	1,229,177	1,258,122
Residential mortgage	1,494	0	103	153	1,750	90,874	92,624
Home equity	601	10	0	667	1,278	100,269	101,547
Other	1,404	6	7	219	1,636	22,732	24,368
Total consumer related loans	3,499	16	110	1,039	4,664	213,875	218,539
Total loans	$ 5,394	$ 16	$ 830	$ 27,369	$ 33,609	$ 1,443,052	$ 1,476,661
December 31, 2019							
Builder & developer	$ 0	$ 0	$ 43	$ 885	$ 928	$ 158,384	$ 159,312
Commercial real estate investor	0	0	0	225	225	207,002	207,227
Residential real estate investor	295	0	0	5,771	6,066	241,903	247,969
Hotel/Motel	0	0	0	0	0	80,260	80,260
Wholesale & retail	0	0	0	7,215	7,215	102,023	109,238
Manufacturing	409	0	0	1,135	1,544	84,967	86,511
Agriculture	14	0	0	2,842	2,856	77,863	80,719
Other	463	1,865	120	5,499	7,947	305,424	313,371
Total commercial related loans	1,181	1,865	163	23,572	26,781	1,257,826	1,284,607
Residential mortgage	0	70	104	275	449	94,419	94,868
Home equity	249	276	0	677	1,202	99,625	100,827
Other	750	68	13	226	1,057	23,776	24,833
Total consumer related loans	999	414	117	1,178	2,708	217,820	220,528
Total loans	$ 2,180	$ 2,279	$ 280	$ 24,750	$ 29,489	$ 1,475,646	$ 1,505,135

Troubled Debt Restructurings

Loans classified as troubled debt restructurings (TDRs) are designated impaired and arise when the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted with respect to these loans generally involve an extension of the maturity date or a below market interest rate relative to new debt with similar credit risk. Generally, these loans are secured by real estate. If repayment of the loan is determined to be collateral dependent, the loan is evaluated for impairment loss based on the fair value of the collateral. For loans that are not collateral dependent, the present value of expected future cash flows, discounted at the loan's original effective interest rate, is used to determine any impairment loss. A nonaccrual TDR represents a nonaccrual loan, as previously defined, which includes an economic concession. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive payments after the modification and future principal and interest payments are reasonably assured. In contrast, an accruing TDR represents a loan that, at the time of the modification, has a demonstrated history of payments and management believes that future loan payments are reasonably assured under the modified terms. TDRs included as impaired loans totaled $1,598,000 and $1,650,000 as of March 31, 2020 and March 31, 2019, respectively. There are no commitments to lend additional amounts to these TDRs as of March 31, 2020 and March 31, 2019.

The table below shows loans whose terms have been modified under TDRs during the three months ended March 31, 2020 and 2019. There were no impairment losses recognized on these TDRs. There were no defaults during the three months ended March 31, 2020 and March 31, 2019 for TDRs entered into during the previous 12 month period. As of March 31, 2020, there were no modifications completed under the CARES Act. As of April 30, 2020, there have been modifications to 35 consumer loans totaling approximately $2,000,000 and 13 commercial loans totaling approximately $41,000,000 under the CARES Act, which are not considered TDRs.

	Modifications			
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments	Recorded Investment at Period End
Three months ended:				
March 31, 2020				
None				
March 31, 2019				
Commercial related loans accruing	1	$ 63	$ 63	$ 61

NOTE 5 – Allowance for Loan Losses

The table below shows the activity in and the composition of the allowance for loan losses by loan segment and class detail as of and for the three months ended March 31, 2020 and 2019.

	Allowance for Loan Losses				
(dollars in thousands)	January 1, 2020 Balance	Charge-offs	Recoveries	Provision	March 31, 2020 Balance
Builder & developer	$ 2,263	$ (170)	$ 0	$ 133	$ 2,226
Commercial real estate investor	2,565	0	0	117	2,682
Residential real estate investor	4,632	0	3	124	4,759
Hotel/Motel	742	0	0	314	1,056
Wholesale & retail	3,575	0	7	976	4,558
Manufacturing	1,252	0	0	64	1,316
Agriculture	1,304	0	0	(164)	1,140
Other commercial	4,204	(7,511)	0	7,772	4,465
Total commercial related loans	20,537	(7,681)	10	9,336	22,202
Residential mortgage	158	0	0	77	235
Home equity	203	0	0	101	304
Other consumer	167	(5)	13	(78)	97
Total consumer related loans	528	(5)	13	100	636
Unallocated	1	0	0	(1)	0
Total	$ 21,066	$ (7,686)	$ 23	$ 9,435	$ 22,838

	Allowance for Loan Losses				
(dollars in thousands)	January 1, 2019 Balance	Charge-offs	Recoveries	Provision	March 31, 2019 Balance
Builder & developer	$ 2,835	$ 0	$ 0	$ 132	$ 2,967
Commercial real estate investor	2,636	0	0	16	2,652
Residential real estate investor	3,945	0	3	62	4,010
Hotel/Motel	732	0	0	67	799
Wholesale & retail	1,813	0	0	(12)	1,801
Manufacturing	1,287	0	0	(21)	1,266
Agriculture	579	0	0	(1)	578
Other commercial	4,063	(46)	0	1,168	5,185
Total commercial related loans	17,890	(46)	3	1,411	19,258
Residential mortgage	126	0	0	6	132
Home equity	265	(20)	1	(51)	195
Other consumer	144	(60)	9	106	199
Total consumer related loans	535	(80)	10	61	526
Unallocated	719	0	0	(422)	297
Total	$ 19,144	$ (126)	$ 13	$ 1,050	$ 20,081

The table below shows the allowance amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for March 31, 2020, December 31, 2019 and March 31, 2019.

	Allowance for Loan Losses			Loans		
(dollars in thousands)	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Balance	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Balance
March 31, 2020						
Builder & developer	$ 52	$ 2,174	$ 2,226	$ 1,435	$ 150,997	$ 152,432
Commercial real estate investor	0	2,682	2,682	1,325	206,072	207,397
Residential real estate investor	1,906	2,853	4,759	5,956	248,861	254,817
Hotel/Motel	0	1,056	1,056	0	79,729	79,729
Wholesale & retail	3,363	1,195	4,558	7,340	92,144	99,484
Manufacturing	487	829	1,316	1,037	81,314	82,351
Agriculture	537	603	1,140	3,378	75,414	78,792
Other commercial	1,506	2,959	4,465	7,405	295,715	303,120
Total commercial related	7,851	14,351	22,202	27,876	1,230,246	1,258,122
Residential mortgage	0	235	235	153	92,471	92,624
Home equity	0	304	304	667	100,880	101,547
Other consumer	0	97	97	219	24,149	24,368
Total consumer related	0	636	636	1,039	217,500	218,539
Unallocated	0	0	0	0	0	0
Total	$ 7,851	$ 14,987	$ 22,838	$ 28,915	$ 1,447,746	$ 1,476,661
December 31, 2019						
Builder & developer	$ 238	$ 2,025	$ 2,263	$ 1,094	$ 158,218	$ 159,312
Commercial real estate investor	0	2,565	2,565	1,370	205,857	207,227
Residential real estate investor	1,873	2,759	4,632	5,771	242,198	247,969
Hotel/Motel	0	742	742	0	80,260	80,260
Wholesale & retail	2,537	1,038	3,575	7,457	101,781	109,238
Manufacturing	463	789	1,252	1,135	85,376	86,511
Agriculture	701	603	1,304	2,842	77,877	80,719
Other commercial	1,608	2,596	4,204	5,499	307,872	313,371
Total commercial related	7,420	13,117	20,537	25,168	1,259,439	1,284,607
Residential mortgage	0	158	158	275	94,593	94,868
Home equity	0	203	203	677	100,150	100,827
Other consumer	0	167	167	226	24,607	24,833
Total consumer related	0	528	528	1,178	219,350	220,528
Unallocated	0	1	1	0	0	0
Total	$ 7,420	$ 13,646	$ 21,066	$ 26,346	$ 1,478,789	$ 1,505,135

Note 6—Deposits

The composition of deposits as of March 31, 2020 and December 31, 2019 is shown below. The aggregate amount of demand deposit overdrafts that were reclassified as loans is $68,000 at March 31, 2020, compared to $86,000 at December 31, 2019.

(dollars in thousands)	March 31, 2020	December 31, 2019
Noninterest bearing demand	$ 274,382	$ 273,968
Interest bearing demand	182,414	174,248
Money market	531,925	513,948
Savings	90,411	85,489
Time deposits less than $100	309,597	303,527
Time deposits $100 to $250	183,820	175,477
Time deposits $250 or more	66,798	63,907
Total deposits	$ 1,639,347	$ 1,590,564

Note 7—Short-Term Borrowings and Long-Term Debt

Short-term borrowings consist of securities sold under agreements to repurchase, federal funds purchased and other borrowings. At March 31, 2020, the balance of securities sold under agreements to repurchase was $6,196,000 compared to $7,925,000 at December 31, 2019. At March 31, 2020 and December 31, 2019, there were no other short-term borrowings.

The following table presents a summary of long-term debt as of March 31, 2020 and December 31, 2019. PeoplesBank's long-term debt obligations to the FHLBP are fixed rate instruments. Under terms of a blanket collateral agreement with the FHLBP, the obligations are secured by FHLBP stock and PeoplesBank qualifying loan receivables, principally real estate secured loans.

(dollars in thousands)	March 31, 2020	December 31, 2019
PeoplesBank's obligations:		
Federal Home Loan Bank of Pittsburgh (FHLBP)		
Due March 2020, 1.86%	0	10,000
Due June 2020, 1.87%	15,000	15,000
Due June 2020, 2.70%	10,000	10,000
Due June 2021, 2.81%	10,000	10,000
Due June 2021, 2.14%	15,000	15,000
Due May 2022, 2.93%	10,000	10,000
Total FHLBP	60,000	70,000
Codorus Valley Bancorp, Inc. obligations:		
Junior subordinated debt		
Due 2034, 2.76%, floating rate based on 3 month		
LIBOR plus 2.02%, callable quarterly	3,093	3,093
Due 2036, 3.37% floating rate based on 3 month		
LIBOR plus 1.54%, callable quarterly	7,217	7,217
Total junior subordinated debt	10,310	10,310
Lease obligations included in long-term debt:		
Finance lease liabilities	1,317	1,322
Total long-term debt	$ 71,627	$ 81,632

At March 31, 2020 and December 31, 2019, municipal deposit letters of credit issued by the FHLBP on behalf of PeoplesBank naming applicable municipalities as beneficiaries were $42,000,000. The letters of credit took the place of securities pledged to the municipalities for their deposits maintained at PeoplesBank.

In June 2006, Codorus Valley formed CVB Statutory Trust No. 2, a wholly-owned special purpose subsidiary whose sole purpose was to facilitate a pooled trust preferred debt issuance of $7,217,000. In November 2004, Codorus Valley formed CVB Statutory Trust No. 1 to facilitate a pooled trust preferred debt issuance of $3,093,000. The Corporation owns all of the common stock of these nonbank subsidiaries, and the debentures are the sole assets of the Trusts. The accounts of both Trusts are not consolidated for financial reporting purposes in accordance with FASB ASC 810. For regulatory capital purposes, all of the Corporation's trust preferred securities qualified as Tier 1 capital for all reported periods. Trust preferred securities are subject to capital limitations under the FDIC's risk-based capital guidelines. The Corporation used the net proceeds from these offerings to fund its operations.

Note 8—Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Corporation adopted ASU 2016-02 "*Leases" (Topic 842)* and all subsequent ASUs that modified Topic 842. For the Corporation, Topic 842 affected the accounting treatment for operating lease agreements in which the Corporation is the lessee.

Substantially all of the leases in which the Corporation is the lessee are comprised of real estate property, ATM locations, and office space. Substantially all of our leases are classified as operating leases, and therefore, were previously not recognized on the Corporation's consolidated statements of condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated statements of condition as a right-of-use ("ROU") asset and a corresponding lease liability. The Corporation has one finance lease for one financial center.

Leases with an initial term of 12 months or less are not recorded on the consolidated statement of condition. All other leases have remaining lease terms of 1 year to 25 years, some of which include options to extend. Upon opening a new financial center, we typically install brand-specific leasehold improvements which are depreciated over the shorter of the useful life or length of the lease. To the extent that the initial lease term of the related lease is less than the useful life of the leasehold improvements and, taking into consideration the dollar amount of the improvements, we conclude that it is reasonably certain that a renewal option will be exercised, the renewal period is included in the lease term, and the related payments are reflected in the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Corporation utilizes its incremental borrowing rate at lease inception, on an amortizing and collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used. For the Corporation's financing leases, the Corporation utilized its incremental borrowing rate at lease inception.

All of our leases include fixed rental payments. We commonly enter into leases under which the lease payments increase at pre-determined dates based on the change in the consumer price index. While the majority of our leases are gross leases, we also have a number of leases in which we make separate payments to the lessor based on the lessor's property and casualty insurance cost and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and nonlease components for all of our building leases.

The components of lease expense were as follows:

(dollars in thousands)	Three Months Ended March 31, 2020	2019
Operating lease cost	$ 203	$ 188
Finance lease cost:		
Amortization of right-of-use assets	$ 12	$ 17
Interest on lease liability	12	13
Total finance lease cost	$ 24	$ 30
Total lease cost	$ 227	$ 218

Supplemental cash flow information related to leases was as follows:

	Three Months Ended March 31, 2020	2019
Operating cash flows from operating leases	$ 208	$ 193
Operating cash flows from financing leases	12	13
Financing cash flows from financing leases	6	11
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	186	0
Finance leases	0	0

Amounts recognized as right-of-use assets related to finance leases are included in fixed assets in the accompanying statement of financial position, while related lease liabilities are included in long-term debt. Supplemental balance sheet information related to leases was as follows:

	March 31, 2020	December 31, 2019
Assets:		
Operating leases right-of-use assets	$ 3,030	$ 3,021
Finance leases assets	1,123	1,134
Total lease assets	$ 4,153	$ 4,155
Liabilities:		
Operating	$ 3,187	$ 3,184
Financing	1,317	1,322
Total lease liabilities	$ 4,504	$ 4,506
Weighted Average Remaining Lease Term (years)		
Operating leases	5.5	5.6
Finance leases	23.9	24.2
Weighted Average Discount Rate		
Operating leases	2.71%	2.72%
Finance leases	3.69%	3.69%

Future minimum payments for financing leases and operating leases as of March 31, 2020 and December 31, 2019 were as follows:

(dollars in thousands:)	March 31, 2020	
Year Ending December 31,	**Operating Leases**	**Finance Leases**
2020	$ 622	$ 56
2021	768	75
2022	609	75
2023	491	75
2024	413	75
Thereafter	508	1,669
Total lease payments	3,411	2,025
Less imputed interest	(224)	(708)
Total	$ 3,187	$ 1,317

(dollars in thousands:)	December 31, 2019	
Year Ending December 31,	**Operating Leases**	**Finance Leases**
2020	$ 767	$ 74
2021	706	75
2022	545	75
2023	491	75
2024	413	75
Thereafter	507	1,668
Total lease payments	3,429	2,042
Less imputed interest	(245)	(720)
Total	$ 3,184	$ 1,322

Note 9—Regulatory Matters

The Corporation and PeoplesBank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action that, if imposed, could have a material adverse effect on the Corporation’s financial statements. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of March 31, 2020, the Corporation and PeoplesBank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of March 31, 2020 and December 31, 2019, the most recent regulatory notifications categorized PeoplesBank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

The table below provides a comparison of the Corporation's and PeoplesBank's risk-based capital ratios and leverage ratios to the minimum regulatory requirement for the periods indicated.

	Actual			Minimum for Basel III Capital Adequacy			Well Capitalized Minimum (1)	
(dollars in thousands)		Amount	Ratio		Amount	Ratio		Amount	Ratio
Codorus Valley Bancorp, Inc. *(consolidated)*									
at March 31, 2020									
Capital ratios:									
Common equity Tier 1	$	182,956	12.24%	$	104,598	7.00%		n/a	n/a
Tier 1 risk based		192,956	12.91		127,012	8.50		n/a	n/a
Total risk based		211,686	14.17		156,867	10.50		n/a	n/a
Leverage		192,956	10.18		75,787	4.00		n/a	n/a
at December 31, 2019									
Capital ratios:									
Common equity Tier 1	$	187,312	12.45%	$	105,359	7.00%		n/a	n/a
Tier 1 risk based		197,312	13.11		127,936	8.50		n/a	n/a
Total risk based		216,154	14.36		158,039	10.50		n/a	n/a
Leverage		197,312	10.55		74,820	4.00		n/a	n/a
PeoplesBank, A Codorus Valley Company									
at March 31, 2020									
Capital ratios:									
Common equity Tier 1	$	189,263	12.70%	$	104,356	7.00%	$	96,974	6.50%
Tier 1 risk based		189,263	12.70		126,717	8.50		119,352	8.00
Total risk based		207,950	13.95		156,533	10.50		149,191	10.00
Leverage		189,263	10.01		75,648	4.00		94,561	5.00
at December 31, 2019									
Capital ratios:									
Common equity Tier 1	$	193,421	12.88%	$	105,118	7.00%	$	97,610	6.50%
Tier 1 risk based		193,421	12.88		127,643	8.50		120,135	8.00
Total risk based		212,220	14.13		157,677	10.50		150,169	10.00
Leverage		193,421	10.36		74,673	4.00		93,341	5.00

(1) To be "well capitalized" under the prompt corrective action provisions in the Basel III framework. "Well capitalized" applies to PeoplesBank only.

Note 10—Shareholders' Equity

Stock Dividend

Periodically, the Corporation distributes stock dividends on its common stock. The Corporation distributed 5 percent stock dividends on December 10, 2019 and December 11, 2018, which resulted in the issuance of 463,193 and 447,092 additional shares, respectively.

Share Repurchase

The Corporation's Board of Directors approved a new Share Repurchase Program ("Program") in March 2020. Under the newly approved Program, the Corporation is authorized to repurchase up to $5 million of the Corporation's issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation's Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. During the first quarter of 2020 the Corporation repurchased 5,335 shares at an average price of $16.37. Shortly after the Program began, and in response to COVID-19, the Corporation suspended the Program.

Note 11—Contingent Liabilities

There are no legal proceedings pending against Codorus Valley Bancorp, Inc. or any of its subsidiaries which are expected to have a material impact upon the consolidated financial position and/or operating results of the Corporation, other than routine litigation incidental to the business. Management is not aware of any proceedings known or contemplated by government authorities.

Note 12—Guarantees

Codorus Valley does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by PeoplesBank to guarantee the performance of a client to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to clients. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had $20,059,000 of standby letters of credit outstanding on March 31, 2020, compared to $17,253,000 on December 31, 2019. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding letters of credit. The amount of the liability as of March 31, 2020 and December 31, 2019, for guarantees under standby letters of credit issued, was not material. Many of the commitments are expected to expire without being drawn upon and, therefore, generally do not present significant liquidity risk to the Corporation or PeoplesBank.

Note 13—Fair Value of Assets and Liabilities

The Corporation uses its best judgment in estimating the fair value of the Corporation's assets and liabilities; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values subsequent to the respective reporting dates may be different than the amounts reported at each period end.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. GAAP establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

> Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
>
> Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.
>
> Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

Since management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications on a quarterly basis.

Assets Measured at Fair Value on a Recurring Basis

Securities available-for-sale

The fair values of investment securities were measured using information from a third-party pricing service. The pricing service uses quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather, by relying on the securities' relationship to other benchmark quoted prices.

		Fair Value Measurements		
(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
March 31, 2020				
Securities available-for-sale:				
U.S. Treasury notes	$ 5,086	$ 5,086	$ 0	$ 0
U.S. agency mortgage-backed, residential	140,702	0	140,702	0
State and municipal	24,912	0	24,912	0
Corporate debt	1,038	0	1,038	0
December 31, 2019				
Securities available-for-sale:				
U.S. Treasury notes	$ 9,953	$ 9,953	$ 0	$ 0
U.S. agency	14,923	0	14,923	0
U.S. agency mortgage-backed, residential	108,155	0	108,155	0
State and municipal	26,644	0	26,644	0

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired loans

Impaired loans are those that are accounted for under FASB ASC Topic 310, in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These loans are included as Level 3 fair values, based on the lowest level of input that is significant to the fair value measurements. At March 31, 2020, the fair value of impaired loans with a valuation allowance or partial charge-off was $10,672,000, net of valuation allowances of $7,851,000 and partial charge-offs of $7,634,000. At December 31, 2019 the fair value of impaired loans with a valuation allowance or charge-off was $11,297,000, net of valuation allowances of $7,420,000 and charge-offs of $134,000.

Foreclosed Real Estate

Other real estate property acquired through foreclosure is initially recorded at fair value of the property at the transfer date less estimated selling cost. Subsequently, other real estate owned is carried at the lower of its carrying value or the fair value less estimated selling cost. Fair value is usually determined based on an independent third-party appraisal of the property or occasionally on a recent sales offer. At March 31, 2020 and December 31, 2019, the fair value of foreclosed real estate with a valuation allowance or write-down was $797,000 which is net of write-downs of $617,000.

Mortgage Servicing Rights

Mortgage servicing rights are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. The fair value of servicing rights is based on the present value of estimated future cash flows on pools of mortgages stratified by rate and original time to maturity. Mortgage servicing rights are subsequently evaluated for impairment on a quarterly basis. Significant inputs to the valuation include expected cash flow, expected net servicing income, a cash flow discount rate and the expected life of the underlying loans. At March 31, 2020, the fair value of the mortgage servicing rights asset was $740,000. At December 31, 2019, the fair value of the mortgage servicing asset was $1,047,000.

		Fair Value Measurements		
(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
March 31, 2020				
Impaired loans	$ 10,672	$ 0	$ 0	$ 10,672
Foreclosed real estate	797	0	0	797
Mortgage servicing rights	740	0	0	740
December 31, 2019				
Impaired loans	$ 11,297	$ 0	$ 0	$ 11,297
Foreclosed real estate	797	0	0	797
Mortgage Servicing rights	1,047	0	0	1,047

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Corporation has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements				
(dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
March 31, 2020					
Impaired loans	$ 6,428	Appraisal (1)	Appraisal adjustments (2)	15% -50%	41%
Impaired loans	4,244	Business asset valuation (3)	Business asset valuation adjustments (4)	10% -68%	64%
Foreclosed real estate	797	Appraisal (1)	Appraisal adjustments (2)	22% - 22%	22%
Mortgage servicing rights	740	Multiple of annual service fee	Estimated prepayment speed based on rate and term	12.9% - 17.7%	16.7%
December 31, 2019					
Impaired loans	$ 5,991	Appraisal (1)	Appraisal adjustments (2)	15% - 55%	44%
Impaired loans	5,306	Business asset valuation (3)	Business asset valuation adjustments (4)	10% - 73%	70%
Foreclosed real estate	797	Appraisal (1)	Appraisal adjustments (2)	22% - 22%	22%
Mortgage servicing rights	1,047	Multiple of annual service fee	Estimated prepayment speed based on rate and term	7.9% - 8.9%	8.7%

(1) Fair value is generally determined through independent appraisals, which generally include various level 3 inputs that are not identifiable.
(2) Appraisal amounts may be adjusted downward by the Corporation's management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expense adjustments are presented as a percent of the appraisal.
(3) Fair value is generally determined through customer-provided financial statements and bankruptcy court documents.
(4) Business asset valuation may be adjusted downward by the corporation's management qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses adjustments are presented as a percent of the financial statement book value.

The following presents the carrying amounts and estimated fair values of the Corporation's financial instruments as of March 31, 2020 and December 31, 2019.

			Fair Value Estimates		
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Other Unobservable Inputs**
March 31, 2020					
Financial assets					
Cash and cash equivalents	$ 185,258	$ 185,258	$ 185,258	$ 0	$ 0
Securities available-for-sale	171,738	171,738	5,086	166,652	0
Loans held for sale	10,858	11,366	0	11,366	0
Loans, net	1,453,823	1,469,994	0	0	1,469,994
Interest receivable	4,872	4,872	0	4,872	0
Financial liabilities					
Deposits	$ 1,639,347	$ 1,636,607	$ 0	$ 1,636,607	$ 0
Short-term borrowings	6,196	6,196	0	6,196	0
Long-term debt (1)	70,310	70,494	0	61,026	9,468
Interest payable	787	787	0	787	0
Off-balance sheet instruments	0	0	0	0	0
December 31, 2019					
Financial assets					
Cash and cash equivalents	$ 131,591	$ 131,591	$ 131,591	$ 0	$ 0
Securities available-for-sale	159,675	159,675	9,953	149,722	0
Restricted investment in bank stocks	4,551	4,551	0	4,551	0
Loans held for sale	11,803	12,460	0	12,460	0
Loans, net	1,484,069	1,472,772	0	0	1,472,772
Interest receivable	5,016	5,016	0	5,016	0
Financial liabilities					
Deposits	$ 1,590,564	$ 1,582,179	$ 0	$ 1,582,179	$ 0
Short-term borrowings	7,925	7,925	0	7,925	0
Long-term debt (1)	80,310	79,579	0	70,486	9,093
Interest payable	842	842	0	842	0
Off-balance sheet instruments	0	0	0	0	0

(1) Exclude leases included in Long-term debt

Note 14—Assets and Liabilities Subject to Offsetting

Securities Sold Under Agreements to Repurchase

PeoplesBank enters into agreements with clients in which it sells securities subject to an obligation to repurchase the same securities ("repurchase agreements"). The contractual maturity of the repurchase agreement is overnight and continues until either party terminates the agreement. These repurchase agreements are accounted for as a collateralized financing arrangement (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability (short-term borrowings) in the Corporation's consolidated financial statements of condition, while the securities underlying the repurchase agreements are appropriately segregated for safekeeping purposes and remain in the respective securities asset accounts. Thus, there is no offsetting or netting of the securities with the repurchase agreement liabilities.

				Gross amounts Not Offset in the Statements of Condition			
				Financial Instruments			
(dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	U.S. agency mortgage-backed, residential	U.S. agency	Cash Collateral Pledged	Net Amount
March 31, 2020							
Repurchase Agreements	$ 6,196	$ 0	$6,196	$(9,479)	$ 0	$ 0	$ (3,283)
December 31, 2019							
Repurchase Agreements	$ 7,925	$ 0	$7,925	$(9,601)	$ 0	$ 0	$ (1,676)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements for Codorus Valley Bancorp, Inc. ("Codorus Valley" or "the Corporation"), a bank holding company, and its wholly-owned subsidiary, PeoplesBank, A Codorus Valley Company ("PeoplesBank"), are provided below. Codorus Valley's consolidated financial condition and results of operations consist almost entirely of PeoplesBank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future.

Forward-looking Statements

Management of the Corporation has made forward-looking statements in this Form 10-Q. These forward-looking statements may be subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations of the Corporation and its subsidiaries. When words such as "believes," "expects," "anticipates" or similar expressions occur in the Form 10-Q, management is making forward-looking statements.

Note that many factors, some of which are discussed elsewhere in this report and in the documents that are incorporated by reference, could affect the future financial results of the Corporation and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this Form 10-Q. These factors include, but are not limited to, the following:

- Operating, legal and regulatory risks;
- Credit risk, including an increase in nonperforming assets requiring loss provisions and the incurrence of carrying costs related to nonperforming assets;
- Interest rate fluctuations which could increase our cost of funds or decrease our yield on earning assets and therefore reduce our net interest income;
- Declines in the market value of investment securities considered to be other-than-temporary;
- Unavailability of capital when needed, or availability at less than favorable terms;
- Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, which may adversely affect the Corporation's operations, net income or reputation;
- Inability to achieve merger-related synergies, and difficulties in integrating the business and operations of acquired institutions;
- A prolonged economic downturn or excessive inflation;
- Political and competitive forces affecting banking, securities, asset management and credit services businesses;
- Occurrence of natural or man-made disasters or calamities, including health emergencies, the spread of infectious diseases, or pandemics;
- The effects of and changes in the rate of FDIC premiums, including special assessments;
- Future legislative or administrative changes to U.S. governmental capital programs;
- Future changes in federal or state tax laws or tax rates;
- Enacted financial reform legislation, e.g., Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant impact on the Corporation's business and results of operations; and
- The risk that management's analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

COVID – 19 Pandemic

Community-based financial services companies like Codorus Valley Bancorp, Inc. are in the risk business. We carefully analyze those financial opportunities to which we are presented and determine what level of risk the balance sheet can accept. When we accept a balance sheet risk, we also determine pricing of that risk for both known and unknown events. COVID-19 is an unknown event that no community-based financial institution had the ability to decline, and financial institutions have not risk-priced the effects of COVID-19 on their companies.

During the initial public awareness of the coronavirus, the Corporation's Pandemic Preparedness and Response Planning Committee (the Committee) convened and began preparing for the health impact of the coronavirus. The Committee, chartered in 2006 in response to the avian flu epidemic, determined its first concern was the well-being of our associates and clients. Prior to the CDC declaring the coronavirus a pandemic, the Corporation's Crisis Management Team (the Team) convened on March 2nd and have since conducted numerous meetings.

Associates

The Team, in tandem with Executive Management, drafted and implemented plans to relocate and disperse approximately 50 percent of the Corporation's staff off-premise, as well as, eliminate lobby service hours at 90 percent of our retail locations. Conversely, for those locations with drive-up facilities, extended service hours were provided. In addition, all of the Corporation's limited services facilities, located in retirement homes, were closed.

Providing additional support for our associates, enhancements made to the PeoplesBank Medical Plan include: waiving copayments for telemedicine visits, as well as waiving cost sharing for in-network, inpatient hospital care for COVID-19 treatment to include deductibles, co-insurance and co-pays for any inpatient care related to COVID-19. For those associates at home due to potential exposure to the virus or who are at a higher health risk, the Corporation continues to provide their regular pay.

Finally, the Committee instituted a regimented process whereby every Corporate facility housing its associates undergoes electrostatic disinfection by a third-party vendor, as appropriate and necessary. To date, those associates who have exhibited symptoms of the coronavirus, have all tested negative.

Clients

The vast majority of our financial centers remain open (for drive-up service) and all or our ATMs remain accessible and in service. We continue to waive all PeoplesBank foreign ATM fees, overdraft fees on personal and business accounts, transfer fees for overdraft protection and early withdrawal on CDs opened greater than seven days for those clients specifically experiencing financial hardship due to the coronavirus pandemic.

Clients may request to defer interest only or full loan payments, with payments added to the end of the loan. We continue to responsibly and prudently extend credit to qualified borrowers. In addition, we were active participants in the SBA Paycheck Protection Program. As of April 15th when the first round of the Program ended, PeoplesBank had processed 670 applications for approximately $133 million with about $4.2 million in fee income expected for the Corporation.

Operations

During the past two years, the Corporation implemented an aggressive schedule of equipment/system enhancements and personnel additions to its Information Technology Division. As a result, the Corporation's associates were able to quickly and efficiently move to an off-premise working environment with little client or associate disruption. During this unusual period, deposit balances continued to grow and the active users on online banking have increased about 60 percent over December 2019. While not optimum, the Corporation is prepared to operate in the foregoing fashion unless and until we feel it is safe for our associates and clients to once again conduct face-to-face financial services transactions.

The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report.

Critical Accounting Policies

The Corporation's critical accounting policies, as summarized in Note 1—Summary of Significant Accounting Policies, include those related to the allowance for loan losses, valuation of foreclosed real estate, evaluation of other-than-temporary impairment of securities, and determination of acquisition-related goodwill and fair value adjustments, which require management to make significant judgments, estimates and assumptions that have a material impact on the carrying value of the respective assets and liabilities. For this Form 10-Q, there were no material changes made to the Corporation's critical accounting policies, which are more fully disclosed in Item 7 of the Corporation's previously filed Annual Report on Form 10-K for the year ended December 31, 2019.

Three Months Ended March 31, 2020 vs. Three Months Ended March 31, 2019

FINANCIAL HIGHLIGHTS

The Corporation's net loss was $(2,989,000) for the quarter ended March 31, 2020, as compared to net income of $4,091,000 for the quarter ended March 31, 2019, a decrease of $7,080,000 or 173 percent.

- Net interest income for the first quarter of 2020 decreased $164,000 or 1 percent below the same period in 2019, primarily due to lower rates of interest on loans and by higher volume and rates of interest on time deposits, partially offset by lower rates on interest bearing demand deposits in the first quarter of 2020 as compared to the first quarter of 2019.

- The Corporation's net interest margin (tax-equivalent basis) for the first quarter of 2020 was 3.44 percent, compared to 3.69 percent for the first quarter 2019. The net interest margin contraction was a result of lower rates on interest bearing deposits with banks, lower rates on loans and higher volume and rates on time deposits, partially offset by higher volume and rates on interest bearing deposits.

- The provision for loan losses for the first quarter of 2020 was $9,435,000, as compared to a provision of $1,050,000 for the first quarter of 2019. The increased provision expense in the first quarter of 2020 was attributed primarily to a partial charge off arising from a single, large commercial lending relationship. Total outstanding credit exposure to this borrower was approximately $8 million, which was reduced by the expected loss of $7.5 million recognized during the quarter after an evaluation of COVID-19's negative impact to both the creditor's net asset valuation and the timing of potential distributions. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in an additional $1.5 million in provision for loan losses in the quarter. Both periods supported adequate allowance for loan loss coverage, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments. The allowance as a percentage of total loans was 1.55 percent at March 31, 2020 as compared to 1.40 percent at December 31, 2019 and 1.34 percent at March 31, 2019.

- Noninterest income for the first quarter of 2020 increased $200,000 or 6 percent compared to the first quarter of 2019. Trust and investment service fees and gain on sales from loans held for sale increased in 2020. The increase was offset by a decrease in income from bank owned life insurance.

- Noninterest expense in the first quarter of 2020 was $758,000 or 6 percent higher than the first quarter of 2019. Higher personnel costs, professional and legal, external data processing and other expense accounted for a majority of the increase. The increase was partially offset by a decrease in FDIC insurance attributable to a lower assessment factor.

- The provision for income taxes for the first quarter of 2020 decreased by $2,027,000 or 193 percent as compared to the first quarter of 2019 as a result of the lower income before taxes in the first quarter of 2020 as compared to the first quarter of 2019.

The schedule below presents selected performance metrics for the first quarter of both 2020 and 2019. Per share computations include the effect of stock dividends, including the most recent, a 5 percent stock dividend distributed in the fourth quarter of 2019.

	Three months ended March 31, 2020	Three months ended March 31, 2019
Basic (loss) earnings per share	$ (0.31)	$ 0.41
Diluted (loss) earnings per share	$ (0.31)	$ 0.41
Cash dividend payout ratio	(52.30)%	36.96%
(Loss) return on average assets	(0.63)%	0.91%
(Loss) return on average equity	(6.15)%	9.04%
Net interest margin (tax equivalent basis)	3.44%	3.69%
Net overhead ratio	2.09%	2.07%
Efficiency ratio	70.42%	66.35%
Average equity to average assets	10.23%	10.02%

A more detailed analysis of the factors and trends affecting the Corporation’s earnings and financial position follows.

INCOME STATEMENT ANALYSIS

Net Interest Income

Unless otherwise noted, this section discusses interest income and interest expense amounts as reported in the Consolidated Statements of Income, which are not presented on a tax equivalent basis.

Net interest income for the quarter ended March 31, 2020 was $15,367,000, a decrease of $164,000 or 1 percent compared to net interest income of $15,531,000 for the first quarter of 2019. The decrease was primarily attributable to lower rates of interest on loans and higher volume and rates of interest on time deposits, partially offset by lower rates of interest bearing demand deposits in the first quarter of 2020 as compared to the first quarter of 2019.

The Corporation’s net interest margin, computed as interest income (tax-equivalent basis) annualized as a percentage of average interest earning assets, was 3.44 percent for the first quarter of 2020 compared to the 3.69 percent for the first quarter of 2019. The net interest margin contraction was a result of lower interest rates on interest bearing deposits with banks and lower interest rates on loans, partially offset by a higher volume and higher rates of interest on time deposits.

Total interest income for the first quarter of 2020 totaled $20,189,000, a decrease of $687,000 or 3 percent below the amount of total interest income for the first quarter of 2019. The change was primarily a result of lower rates of interest on interest bearing deposits with banks and commercial loans.

Interest and dividend income on investments increased $29,000 or 3 percent in the first quarter of 2020 compared to the same period in 2019. The average balance of the investment securities portfolio increased $8,045,000 or 5 percent when comparing the first quarter of 2020 to the same period in 2019. The tax-equivalent yield on investments for the first quarter of 2020 was 2.63 percent or 12 basis points lower than the 2.75 percent experienced in the first quarter of 2019.

Interest income on loans decreased $746,000 or 4 percent in the first quarter of 2020 compared to the same period in 2019. The average balance of outstanding loans, primarily commercial loans, increased approximately $4,455,000 or less than 1 percent comparing the first quarter of 2020 to the same period in 2019. Lower rates on the loan portfolio were the primary driver of the decrease in interest income on loans. The tax-equivalent yield on loans for the first quarter 2020 was 5.02 percent or 26 basis points less than the 5.28 percent experienced in the first quarter of 2019.

Total interest expense for the first quarter of 2020 was $4,822,000, a decrease of $523,000 or 10 percent as compared to total interest expense of $5,345,000 for the first quarter of 2019. The change was primarily the result of a decrease in the cost of interest bearing demand deposits.

Interest expense on deposits decreased $344,000 or 7 percent in the first quarter of 2020 compared to the same period in 2019. The average rate paid on interest bearing deposits was 1.29 percent in the first quarter of 2020 or 22 basis points lower than the average rate paid of 1.51 percent in the first quarter of 2019. The average balance of interest bearing deposits for the first quarter of 2020 increased by $90,462,000 or 7 percent compared to the first quarter of 2019. Also, the Corporation experienced favorable growth in noninterest-bearing deposits, with the average volume for the first quarter of 2020 increasing 9 percent to $267,366,000 as compared to $244,847,000 for the first quarter of 2019.

For the first quarter of 2020 interest expense on borrowings decreased $179,000 or 25 percent compared to the first quarter of 2019. Short-term borrowings consisting of repurchase agreements and other short-term borrowings averaged $7,040,000 for the first quarter of 2020, compared to an average balance of $6,434,000 for the first quarter of 2019. The rate on average short-term borrowings for the first quarter of 2020 was 0.51 percent, a decrease as compared to a rate of 0.57 percent for the first quarter of 2019. Long-term debt, primarily from the Federal Home Loan Bank of Pittsburgh (FHLBP), averaged $84,669,000 for the first quarter of 2020 and $119,759,000 for the first quarter of 2019. For the first quarter of 2020, the rate on average long-term borrowings was 2.55 percent, an increase as compared to a rate of 2.42 percent for the first quarter of 2019.

Table 1-Average Balances and Interest Rates (tax equivalent basis)

	Three months ended March 31,					
	2020			2019		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest bearing deposits with banks	$ 132,346	$ 392	1.19%	$ 60,397	$ 362	2.43%
Investment securities:						
Taxable	139,897	892	2.56	118,751	795	2.72
Tax-exempt	23,572	175	2.99	36,673	259	2.86
Total investment securities	163,469	1,067	2.63	155,424	1,054	2.75
Loans:						
Taxable (1)	1,493,590	18,668	5.03	1,490,231	19,425	5.29
Tax-exempt	11,826	120	4.09	10,730	106	4.01
Total loans	1,505,416	18,788	5.02	1,500,961	19,531	5.28
Total earning assets	1,801,231	20,247	4.52	1,716,782	20,947	4.95
Other assets (2)	98,372			89,249		
Total assets	$ 1,899,603			$ 1,806,031		
Liabilities and Shareholders' Equity						
Deposits:						
Interest bearing demand	$ 694,589	$ 1,297	0.75%	$ 682,155	$ 2,384	1.42%
Savings	87,549	20	0.09	86,644	21	0.10
Time	550,335	2,959	2.16	473,212	2,215	1.90
Total interest bearing deposits	1,332,473	4,276	1.29	1,242,011	4,620	1.51
Short-term borrowings	7,040	9	0.51	6,434	9	0.57
Long-term debt	84,669	537	2.55	119,759	716	2.42
Total interest bearing liabilities	1,424,182	4,822	1.36	1,368,204	5,345	1.58
Noninterest bearing deposits	267,366			244,847		
Other liabilities	13,688			11,960		
Shareholders' equity	194,367			181,020		
Total liabilities and shareholders' equity	$ 1,899,603			$ 1,806,031		
Net interest income (tax equivalent basis)		$ 15,425			$ 15,602	
Net interest margin (3)			3.44%			3.69%
Tax equivalent adjustment		(58)			(71)	
Net interest income		$ 15,367			$ 15,531	

(1) Average balance includes average nonaccrual loans of $26,630,000 for 2020 and $21,237,000 for 2019. Interest includes net loan fees of $819,000 for 2020 and $512,000 for 2019.

(2) Average balance includes average bank owned life insurance, foreclosed real estate and unrealized holding gains (losses) on investment securities.

(3) Net interest income (tax equivalent basis) annualized as a percentage of average earning assets.

Table 2-Rate/Volume Analysis of Changes in Net Interest Income (tax equivalent basis)

	Three months ended March 31, 2020 vs. 2019		
	Increase (decrease) due to change in*		
(dollars in thousands)	Volume	Rate	Net
Interest Income			
Interest bearing deposits with banks	$ 432	$ (402)	$ 30
Investment securities:			
Taxable	125	(28)	97
Tax-exempt	(93)	9	(84)
Loans:			
Taxable	272	(1,029)	(757)
Tax-exempt	11	3	14
Total interest income	747	(1,447)	(700)
Interest Expense			
Deposits:			
Interest bearing demand	(24)	(1,063)	(1,087)
Savings	0	(1)	(1)
Time	361	383	744
Short-term borrowings	0	0	0
Long-term debt	(192)	13	(179)
Total interest expense	145	(668)	(523)
Net interest income (tax equivalent basis)	$ 602	$ (779)	$ (177)

*Changes which are due to both volume and rate are allocated in proportion to their relationship to the amount of change attributed directly to volume or rate.

Provision for Loan Losses

The provision for loan losses is an expense charged to earnings to cover the estimated losses attributable to uncollected loans. The provision reflects management's judgment of an appropriate level for the allowance for loan losses. Provision for loan losses for the first quarter of 2020 was $9,435,000, an $8,385,000 increase as compared to a provision of $1,050,000 for the first quarter of 2019. The increased provision expense in the first quarter of 2020 was attributed primarily to a partial charge off arising from a single, large commercial lending relationship. Total outstanding credit exposure to this borrower was approximately $8 million, which was reduced by the expected loss of $7.5 million recognized during the quarter after an evaluation of COVID-19's negative impact to both the creditor's net asset valuation and the timing of potential distributions. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in an additional $1.5 million in provision for loan losses in the quarter. Both periods supported adequate allowance for loan loss coverage, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments. The allowance as a percentage of total loans was 1.55 percent at March 31, 2020, as compared to 1.40 percent at December 31, 2019 and 1.34 percent at March 31, 2019.

More information about the allowance for loan losses can be found in this report under the caption Allowance for Loan Losses on page 52.

Noninterest Income

The following table presents the components of total noninterest income for the first quarter of 2020, compared to the first quarter of 2019.

Table 3 - Noninterest income

(dollars in thousands)	Three months ended March 31, 2020	Three months ended March 31, 2019	Change Increase (Decrease) $	Change Increase (Decrease) %
Trust and investment services fees	$ 994	$ 840	$ 154	18%
Income from mutual fund, annuity and insurance sales	261	235	26	11
Service charges on deposit accounts	1,130	1,158	(28)	(2)
Income from bank owned life insurance	286	367	(81)	(22)
Other income	439	409	30	7
Gain on sales of loans held for sale	298	218	80	37
Gain (loss) on sales of securities	15	(4)	19	475
Total noninterest income	$ 3,423	$ 3,223	$ 200	6%

The discussion that follows addresses changes in selected categories of noninterest income.

Trust and investment services fees—The $154,000 or 18 percent increase in trust and investment services fees is due to growth of new business.

Income from bank owned life insurance—The $81,000 or 22 percent decrease in income from bank owned life insurance is due to the prior year $6.6 million purchase of bank owned life insurance which increased income for the first quarter 2019 with a one-time front loaded interest payment.

Gain on sales of loans held for sale—The $80,000 or 37 percent increase in gain on sales of loans was due to the sale of a larger volume of the mortgage loans to the secondary market during the first quarter 2020 compared to the first quarter 2019.

Noninterest Expense

The following table presents the components of total noninterest expense for the first quarter of 2020, compared to the first quarter of 2019.

Table 4 - Noninterest expense

(dollars in thousands)	Three months ended March 31, 2020	2019	Change Increase (Decrease) $	%
Personnel	$ 7,805	$ 7,706	$ 99	1%
Occupancy of premises, net	926	963	(37)	(4)
Furniture and equipment	853	772	81	10
Postage, stationery and supplies	217	184	33	18
Professional and legal	205	109	96	88
Marketing	325	349	(24)	(7)
FDIC insurance	167	237	(70)	(30)
Debit card processing	389	323	66	20
Charitable donations	872	845	27	3
Telecommunications	121	126	(5)	(4)
External data processing	704	556	148	27
Foreclosed real estate including provision for losses	20	87	(67)	(77)
Other	715	304	411	135
Total noninterest expense	$ 13,319	$ 12,561	$ 758	6%

The discussion that follows addresses changes in selected categories of noninterest expense.

Personnel—The $99,000 or 1 percent increase in personnel is primarily the result of a slightly higher number of full time equivalent employees.

Professional and legal—The $96,000 or 88 percent increase in professional and legal expense is attributed to an increase in consulting and legal fees.

FDIC insurance—The $70,000 or 30 percent decrease in FDIC insurance expense is attributed to a lower assessment factor.

External data processing—The $148,000 or 27 percent increase in external data processing expense is attributed to increased reliance on outsourcing transaction processing to specialized vendors as well as expansion in the electronic banking services offered to our client base and charges for higher transaction volume from normal business growth.

Other—The $411,000 or 135 percent increase in other expense is primarily attributed to higher impaired loan carrying costs.

Provision for Income Taxes

The provision for income taxes for the first quarter of 2020 was $ (975,000), a decrease of $2,027,000 or 193 percent as compared to the first quarter of 2019. The decrease was attributed to the pre-tax net loss for the first quarter of 2020 compared to the pre-tax net income for the first quarter of 2019. The effective tax benefit for the three months ended March 31, 2020 was 24.6 percent and the effective tax rate for the three months ended March 31, 2019 was 20.5 percent. The effective tax rate differs from the statutory tax rate primarily due to the impact of certain elements with specific tax benefits, including tax-exempt income, such as income from tax-exempt investments, tax-exempt loans, and bank-owned life insurance.

BALANCE SHEET REVIEW

Interest Bearing Deposits with Banks

On March 31, 2020, interest bearing deposits with banks totaled $169,689,000, an increase of $58,947,000 or 53 percent, compared to the level at year-end 2019. The increase is primarily the result of the growth in client deposits and a decrease in loans, offset by a decrease in long-term debt.

Investment Securities (Available-for-Sale)

The Corporation's entire investment securities portfolio is classified available-for-sale, and is comprised primarily of interest-earning debt securities. The overall composition of the Corporation's investment securities portfolio is provided in Note 2—Securities. On March 31, 2020, the fair value of investment securities available-for-sale totaled $171,738,000, which represented an increase of $12,063,000 as compared to the fair value of investment securities at year-end 2019. New investments during the first three months of 2020 exceeded principal reductions from investment maturities, mortgage-backed security payments, and sales.

Loans

On March 31, 2020, total loans, net of deferred fees, were $1.48 billion, which was $28,474,000 or 2 percent lower than the level at year-end 2019. This change in volume was due primarily to a decrease in commercial loans, particularly within the builder and developer and wholesale & retail sectors, partially offset by increases in commercial real estate investor and residential real estate investor sectors. Commercial loans within the builder and developer, commercial real estate investor and residential real estate investor sectors each represented more than 10 percent of the total portfolio. The composition of the Corporation's loan portfolio is provided in Note 4—Loans.

Deposits

Deposits are the Corporation's principal source of funding for earning assets. On March 31, 2020, deposits totaled $1.64 billion, which reflected a $48,783,000 or 3 percent increase compared to the level at year-end 2019. Of the increase in total deposits, $414,000 is attributable to noninterest bearing deposits and $48,369,000 related to growth in interest bearing deposits. The composition of the Corporation's total deposit portfolio is provided in Note 6—Deposits.

Short-term Borrowings

Short-term borrowings, which consist of securities sold under agreements to repurchase (repurchase agreements), federal funds purchased, and other short-term borrowings, totaled $6,196,000 at March 31, 2020, which reflected a $1,729,000 or 22 percent decrease compared to the level at year-end 2019.

Long-term Debt

The Corporation uses long-term borrowings as a secondary funding source for asset growth and to manage interest rate risk. On March 31, 2020, long-term debt totaled $71,627,000 compared to $81,632,000 at year-end 2019. The $10,005,000 decrease is primarily the result of $10,000,000 in FHLBP borrowings that were repaid at maturity during the first quarter. A listing of outstanding long-term debt obligations is provided in Note 7—Short-Term Borrowings and Long-Term Debt. The composition of the Corporation's leases is provided in Note 8—Leases.

Shareholders’ Equity and Capital Adequacy

Shareholders’ equity, or capital, enables Codorus Valley to maintain asset growth and absorb losses. Capital adequacy can be affected by a multitude of factors, including profitability, new stock issuances, corporate expansion and acquisitions, dividend policy and distributions, and regulatory mandates. The Corporation’s total shareholders’ equity was approximately $189,596,000 on March 31, 2020, a decrease of approximately $1,572,000 or 1 percent, compared to the level at year-end 2019.

Cash Dividends on Stock

The Corporation has historically paid cash dividends on its stock on a quarterly basis. The Board of Directors determines the dividend rate after considering the Corporation's capital requirements, current and projected net income, and other relevant factors. As recently announced, the Board of Directors declared a quarterly cash dividend of $0.16 per share on April 14, 2020, payable on May 12, 2020, to shareholders of record at the close of business on April 28, 2020. This cash dividend follows the $0.16 cash dividend distributed in February 2020.

Capital Adequacy

The Corporation and PeoplesBank are subject to various regulatory capital requirements administered by banking regulators that involve quantitative guidelines and qualitative judgments. The regulatory capital measures for the Corporation and PeoplesBank as of March 31, 2020 and the minimum capital ratios established by regulators are set forth in Note 8—Regulatory Matters to the financial statements. We believe that both Codorus Valley and PeoplesBank were well capitalized on March 31, 2020 and had no regulatory dividend restrictions (see Note 9—Regulatory Matters to the financial statements).

RISK MANAGEMENT

Credit Risk Management

Credit risk represents the possibility that a loan client, counterparty or issuer may not perform in accordance with contractual terms, posing one of the most significant risks of loss to the Corporation. Accordingly, the Corporation emphasizes the management of credit risk, and has established a lending policy which management believes is sound given the nature and scope of our operations. The Credit Risk Management section included in Item 7 of the Corporation’s previously filed Annual Report on Form 10-K for the year ended December 31, 2019, provides a more detailed overview of the Corporation’s credit risk management process.

Nonperforming Assets

Nonperforming assets, as shown in the table below, are asset categories that pose the greatest risk of loss. The level of nonperforming assets at March 31, 2020 has increased by approximately $3,290,000 or 13 percent when compared to year-end 2019. The increase was primarily the result of a net increase in nonaccrual loans.

The Corporation regularly monitors large and criticized assets in its commercial loan portfolio recognizing that prolonged low economic growth, or a weakening economy, could have negative effects on these commercial borrowers. Nonperforming assets are monitored and managed for collection of these accounts. Collection efforts, including modification of contractual terms for individual accounts based on prevailing market conditions and liquidation of collateral assets, are employed to maximize recovery. A special assets committee meets regularly, at a minimum quarterly, to review nonperforming assets. We generally rely on appraisals performed by independent licensed appraisers to determine the value of real estate collateral for impaired collateral-dependent loans. Generally, an appraisal is performed when: an account reaches 90 days past due, unless a certified appraisal was completed within the past twelve months; market values have changed significantly; the condition of the property has changed significantly; or the existing appraisal is outdated based upon regulatory or policy requirements. In instances where the value of the collateral, net of costs to sell, is less than the net carrying amount for impaired commercial related loans, a specific loss allowance is established for the difference. Further provisions for loan losses may be required for nonaccrual loans as additional information becomes available or conditions change. When it is probable that some portion or an entire loan balance will not be collected, that amount is charged off as loss against the allowance.

The paragraphs and table below address significant changes in the nonperforming asset categories as of March 31, 2020 compared to December 31, 2019.

Table 5 - Nonperforming Assets

(dollars in thousands)		March 31, 2020		December 31, 2019
Nonaccrual loans	$	27,317	$	24,696
Nonaccrual loans, troubled debt restructurings		52		54
Accruing loans 90 days or more past due		830		280
Total nonperforming loans		28,199		25,030
Foreclosed real estate, net of allowance		918		797
Total nonperforming assets	$	29,117	$	25,827
Accruing troubled debt restructurings	$	1,546	$	1,596
Total period-end loans, net of deferred fees	$	1,476,661	$	1,505,135
Allowance for loan losses (ALL)	$	22,838	$	21,066
ALL as a % of total period-end loans		1.55%		1.40%
Net charge-offs year-to-date, annualized as a % of average total loans		2.04%		0.04%
ALL as a % of nonperforming loans		80.99%		84.16%
Nonperforming loans as a % of total period-end loans		1.91%		1.66%
Nonperforming assets as a % of total period-end loans and net foreclosed real estate		1.97%		1.72%
Nonperforming assets as a % of total period-end assets		1.51%		1.37%
Nonperforming assets as a % of total period-end shareholders' equity		15.36%		13.51%

Nonperforming loans

Nonperforming loans consist of nonaccrual loans and accruing loans 90 days or more past due. We generally place a loan on nonaccrual status and cease accruing interest income (i.e., recognize interest income on a cash basis, as long as the loan is sufficiently collateralized) when loan payment performance is unsatisfactory and the loan is past due 90 days or more. A loan is returned to interest accruing status when we determine that circumstances have improved to the extent that all of the principal and interest amounts contractually due are current for at least six consecutive payments and future payments are reasonably assured. Loans past due 90 days or more and still accruing interest represent loans that are contractually past due, but are well collateralized and in the process of collection. As of March 31, 2020, the nonperforming loan portfolio balance totaled $28,199,000, compared to $25,030,000 at year-end 2019. During the first three months of 2020, loans totaling $11,237,000 were transferred to nonaccrual status, offset by the transfer of loans out of nonaccrual status and payments to loans in nonaccrual status totaling approximately $932,000 and charge offs totaling $7,686,000. There was a $550,000 increase in 90 day past due loans, resulting in the net increase of $3,169,000. For both periods, the nonperforming portfolio balance was comprised primarily of collateralized commercial loans.

Foreclosed Real Estate

Foreclosed real estate represents real estate acquired to satisfy debts owed to PeoplesBank and is included in the Other Assets category on the Corporation’s balance sheet. The carrying amount of foreclosed real estate as of March 31, 2020, net of allowance, totaled $918,000 compared to $797,000 at year-end 2019. The $121,000 increase was the result of the addition of one property totaling $121,000.

Troubled Debt Restructurings

Troubled debt restructurings pertain to loans whose terms have been modified to include a concession that we would not ordinarily consider due to the debtor's financial difficulties. Concessions granted under a troubled debt restructuring typically involve a reduction of interest rate lower than the current market rate for new debt with similar risk, the deferral of payments or extension of the stated maturity date. Troubled debt restructurings are evaluated for impairment if they have been restructured during the most recent calendar year, or if they cease to perform in accordance with the modified terms. As of March 31, 2020, the accruing troubled debt restructuring portfolio balance totaled $1,546,000, compared to $1,596,000 at year-end 2019. The $50,000 decrease was the result of principal repayments of $50,000.

Allowance for Loan Losses

Although the Corporation believes that it maintains sound credit policies, certain loans deteriorate and must be charged off as losses. The allowance for loan losses is maintained to absorb losses inherent in the portfolio. The allowance is increased by provisions charged to expense and is reduced by loan charge-offs, net of recoveries. The allowance is based upon management's continuous evaluation of the loan portfolio coupled with a formal review of adequacy on a quarterly basis, which is subject to review and approval by the Board.

The allowance for loan losses consists primarily of three components: specific allowances for individually impaired commercial loans; allowances calculated for pools of loans; and an unallocated component, which reflects the margin of imprecision inherent in the assumptions that underlie the evaluation of the adequacy of the allowance. The Corporation uses an internal risk rating system to evaluate individual loans. Loans are segmented into industry groups or pools with similar characteristics, and an allowance for loan losses is allocated to each segment based on quantitative factors such as recent loss history (two-year rolling average of net charge-offs) and qualitative factors, such as the results of internal and external credit reviews, changes in the size and composition of the loan portfolio, adequacy of collateral, and general economic conditions. Determining the level of the allowance for probable loan losses at any given period is subjective, particularly during deteriorating or uncertain economic periods, and requires that we make estimates using assumptions. There is also the potential for adjustment to the allowance as a result of regulatory examinations.

The following table presents an analysis of the activity in the allowance for loan losses for the three months ended March 31, 2020 and 2019:

Table 6 - Analysis of Allowance for Loan Losses

(dollars in thousands)	**2020**	**2019**
Balance-January 1,	$ 21,066	$ 19,144
Provision charged to operating expense	9,435	1,050
Loans charged off:		
Commercial, financial and agricultural	7,585	46
Real estate - construction and land development	97	0
Consumer and home equity	4	80
Total loans charged off	7,686	126
Recoveries:		
Commercial, financial and agricultural	10	3
Consumer and home equity	13	10
Total recoveries	23	13
Net charge-offs	7,663	113
Balance-March 31,	$ 22,838	$ 20,081
Ratios:		
Annualized net charge-offs as a % of average total loans	2.04%	0.03%
Allowance for loan losses as a % of total period-end loans	1.55%	1.34%
Allowance for loan losses as a % of nonperforming loans	80.99%	73.36%

The provision for loan losses increased $8,385,000 from March 31, 2019 to March 31, 2020. The increased provision expense in the first quarter of 2020 was attributed primarily to a partial charge off arising from a single, large commercial lending relationship. Total outstanding credit exposure to this borrower was approximately $8 million, which was reduced by the expected loss of $7.5 million recognized during the quarter after an evaluation of COVID-19's negative impact to both the creditor's net asset valuation and the timing of potential distributions. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in an additional $1.5 million in provision for loan losses in the quarter. Both periods supported adequate allowance for loan loss coverage, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments.

Net charge-offs for the first three months of 2020 were $7,663,000 compared to $113,000 for the same period in 2019. During the first three months of 2020, there were $7,686,000 of charge-offs as compared to $126,000 during the same period in 2019. The risks and uncertainties associated with the COVID-19 pandemic, weak economic and business conditions, or the erosion of real estate values may adversely affect our borrowers' ability to service their loans, causing significant fluctuations in the level of charge-offs and provision expense from one period to another. The allowance as a percentage of total loans was 1.55 percent at March 31, 2020, as compared to 1.40 percent at December 31, 2019 and 1.34 percent at March 31, 2019. There was no unallocated portion of the allowance as of March 31, 2020, as compared to $297,000 or 1 percent of the total allowance as of March 31, 2019.

Liquidity Risk Management

Maintaining adequate liquidity provides the Corporation with the ability to meet financial obligations to depositors, loan clients, employees, and shareholders on a timely and cost effective basis in the normal course of business. Additionally, adequate liquidity provides funds for growth and business opportunities as they arise. Liquidity is generated from transactions relating to both the Corporation's assets and liabilities. The primary sources of asset liquidity are funds received from client loan payments, investment maturities and cash inflows from mortgage-backed securities, and the net proceeds of asset sales. The primary sources of liability liquidity are deposit growth, and funds obtained from short-term borrowings and long-term debt. The Consolidated Statements of Cash Flows, included in this report, present the changes in cash from operating, investing and financing activities. At March 31, 2020, we believe that liquidity was adequate based upon the potential liquidation of unpledged available-for-sale securities with a fair value totaling approximately $45,577,000 and available credit from the Federal Home Loan Bank of Pittsburgh totaling approximately $460,023,000. The Corporation’s loan-to-deposit ratio was approximately 90 percent as of March 31, 2020, 95 percent as of December 31, 2019 and 98 percent as of March 31, 2019.

Off-Balance Sheet Arrangements

The Corporation’s financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist primarily of commitments to grant new loans, unfunded commitments under existing loan facilities, and letters of credit issued under the same standards as on-balance sheet instruments. Unused commitments on March 31, 2020, totaled $561,983,000 and consisted of $450,181,000 in unfunded commitments under existing loan facilities, $91,743,000 to grant new loans and $20,059,000 in letters of credit. Generally these commitments have fixed expiration dates or termination clauses and are for specific purposes. Accordingly, many of the commitments are expected to expire without being drawn upon and, therefore, generally do not present significant liquidity risk to the Corporation or PeoplesBank.

Recent Legislative Developments

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. Since that time banking regulators, the SEC and FASB have all issued additional guidance and clarification on various sections of the CARES Act. Section 4013 of the CARES Act provides the option to not apply ASC 310-40 (TDRs) to a loan modification, related specifically to COVID-19 hardships, including the flexibility to not classify the loan as impaired for accounting purposes. Regulators have encouraged financial institutions to work constructively with borrowers in communities and industries affected by COVID-19 using prudent and proactive actions which are in the best interests of the financial institution, the borrower and the economy. The Corporation’s Board of Directors approved a number of options for loan modifications, including interest deferral, full payment deferral, additional extensions of credit, and SBA loan programs (i.e., Economic Injury Disaster Loans, Paycheck Protection Program). As of April 20, 2020, the Corporation has processed requests for loan modifications totaling approximately $36 million. The Corporation has been an active participant in the SBA Paycheck Protection Program. As of April 15th when the first round of the Program ended, PeoplesBank had processed 670 applications for approximately $133 million with about $4.2 million in fee income expected for the Corporation.

At its October 16, 2019 meeting, the FASB approved a deferral of the effective date for several of its recent standards. The proposal creates two new “buckets”: (1) SEC filers other than smaller reporting companies (SRCs, as defined by the SEC) and (2) all other entities. For the Corporation, this would apply to ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“CECL”), which has not yet been adopted by the Corporation. The effective date of the CECL standard would be for fiscal years beginning after December 15, 2022. The Corporation plans to delay CECL implementation, but to continue moving forward with the project.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act"), amended certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as certain other statutes administered by the federal banking agencies Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which requires higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

Section 201 of the Regulatory Relief Act directed the federal banking agencies to develop a community bank leverage ratio ("CBLR") of not less than 8% and not more than 10% for qualifying community banks and bank holding companies with total consolidated assets of less than $10 billion. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules; (ii) the capital ratio requirements necessary to be considered "well capitalized" under the banking agencies' prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements.

On September 17, 2019, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve Board, and the FDIC adopted a rule to implement the provisions of Section 201 of the Regulatory Relief Act. Under the rule, a qualifying community banking organization would be defined as a deposit institution or depository institution holding company with less than $10 billion in assets and specified limited amounts of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets, and certain temporary difference deferred tax assets. A qualifying community banking organization would be permitted to elect the CBLR framework if its CBLR is greater than 9%. The rule also addresses opting in and opting out of the CBLR framework by a community banking organization, the treatment of a community banking organization that falls below the CBLR requirements, and the effect of various CBLR levels for purposes of the prompt corrective action categories applicable to insured depository institutions. Advanced approaches banking organizations (generally, institutions with $250 billion or more in consolidated assets) are not eligible to use the CBLR framework.

The Corporation continues to analyze the changes implemented by the Regulatory Relief Act, including the CBLR framework included in the recently proposed rulemaking. The Corporation does not believe, however, that such changes will materially impact the Corporation's business, operations, or financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The most significant market risk to which the Corporation is exposed is interest rate risk. The primary business of the Corporation and the composition of its balance sheet consist of investments in interest earning assets (primarily loans and securities), which are funded by interest bearing liabilities (deposits and borrowings), all of which have varying levels of sensitivity to changes in market interest rates. Changes in rates also have an impact on the Corporation’s liquidity position and could affect its ability to meet obligations and continue to grow.

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset Liability Management Committee, consisting of key financial and senior management personnel, meets on a regular basis. The Committee is responsible for reviewing the interest rate sensitivity and liquidity positions of the Corporation, reviewing projected sources and uses of funds, approving asset and liability management policies, monitoring economic conditions, and overseeing the formulation and implementation of strategies regarding balance sheet positions.

Simulation of net interest income is performed for the next twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of net interest income is used primarily to measure the Corporation’s short-term earnings exposure to rate movements. A "shock" is an immediate upward or downward movement of interest rates. The shocks do not take into account changes in client behavior that could result in changes to mix and/or volumes in the balance sheet, nor do they account for competitive pricing over the forward 12-month period. The Corporation applies these interest rate “shocks” to its financial instruments up and down 100, 200, 300, and 400 basis points. A 300 and 400 basis point decrease in interest rates cannot be simulated at this time due to the historically low interest rate environment.

The following table summarizes the expected impact of interest rate shocks on net interest income as well as the Corporation’s policy limits at each level. All scenarios with the exception of a decrease of 100 basis points were within policy limits at March 31, 2020. The -100 scenario is expected to return within policy limits during 2020.

Change in Interest Rates (basis points)	Annual Change in Net Interest Income (in thousands)		% Change in Net Interest Income	% Change Policy Limit
+100	$	3,011	5.33%	(5.00)%
-100	$	(3,153)	(5.58)%	(5.00)%
+200	$	7,046	12.47%	(15.00)%
-200	$	(5,537)	(9.80)%	(15.00)%
+300	$	10,966	19.41%	(25.00)%
+400	$	14,770	26.14%	(35.00)%

Item 4. Controls and Procedures

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation’s management, including the Corporation’s Chief Executive Officer and Treasurer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation’s Chief Executive and Chief Financial Officers concluded that, as of March 31, 2020, the Corporation’s disclosure controls and procedures were effective. The Corporation’s disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that information required to be disclosed in the Corporation’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. A control system, no matter how well conceived and operated, must reflect the fact that there are resource constraints and that the benefits of controls must be considered relative to their costs, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There has been no change in the Corporation’s internal control over financial reporting that occurred during the three months ended March 31, 2020, that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Part II—OTHER INFORMATION

Item 1. Legal Proceedings
The Corporation and PeoplesBank are involved in routine litigation incidental to their business. In the opinion of management, there are no legal proceedings pending against the Corporation or any of its subsidiaries which are expected to have a material impact upon the consolidated financial position and/or operating results of the Corporation. Management is not aware of any adverse proceedings known or contemplated by government authorities.

Item 1A. Risk Factors
Except for the risk factor described immediately below, there have been no material changes to the risk factors as previously disclosed in Item 1A – Risk Factors – in our Annual Report on Form 10-K for the year ended December 31, 2019.

Coronavirus Outbreak – In December 2019, a coronavirus (COVID-19) was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. Since first being reported in China, the coronavirus has spread to additional countries including the United States.

In response, many state and local governments, including the Commonwealth of Pennsylvania and the State of Maryland, have instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. It has been widely reported that these restrictions have resulted in significant adverse effects for many different types of businesses, particularly those in the travel, hospitality and food and beverage industries, among many others, and has resulted in a significant number of layoffs and furloughs of employees nationwide and in the regions in which the Corporation operates. The ultimate effect of COVID-19 on the local or broader economy is not known nor is the ultimate length of the restrictions described and any accompanying effects. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate, which may negatively affect interest income and, therefore, earnings. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the coronavirus outbreak, and there is no guarantee that the Corporation's efforts to address the adverse impacts of the coronavirus will be effective. The extent of such impact will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

The effect of COVID-19 and related events, including those described above and those not yet known or knowable, could have a negative effect on the Corporation's business prospects, financial condition and results of operations, as a result of quarantines; market volatility; market downturns; changes in consumer behavior; business closures; deterioration in the credit quality of borrowers or the inability of borrowers to satisfy their obligations (and any related forbearances or restructurings that may be implemented); changes in the value of collateral securing outstanding loans; changes in the value of the investment securities portfolio; effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating the Corporation's financial reporting and internal controls; declines in the demand for loans and other banking services and products; declines in demand resulting from adverse impacts of the disease on businesses deemed to be "non-essential" by governments; and branch or office closures and business interruptions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The Corporation relies on its subsidiary PeoplesBank, A Codorus Valley Company, for dividend distributions, which are subject to restrictions as reported in Note 9—Regulatory Matters of the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
March 1 - 31, 2020	5,335	$ 16.37	5,335	$ 4,912,660

The Corporation’s Board of Directors approved a new Share Repurchase Program (“Program”) in March 2020. Under the newly approved Program, the Corporation is authorized to repurchase up to $5 million of the Corporation’s issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation’s Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. During the first quarter of 2020 the Corporation repurchased 5,335 shares at an average price of $16.37. Shortly after the Program began, and in response to COVID-19, the Corporation suspended the Program.

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
This Item 4 is not applicable to the Corporation.

Item 5. Other Information
None

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	Amended Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for June 30, 2018, filed with the Commission on August 6, 2018)
3.2	Amended By-laws – filed herewith.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – filed herewith.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – filed herewith.
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
101	Financial statements from the Quarterly Report on Form 10-Q of Codorus Valley Bancorp, Inc. for the quarter ended March 31, 2020, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Changes in Shareholder’s Equity, and (vi) the Notes to Consolidated Financial Statements – filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Codorus Valley Bancorp, Inc. (Registrant)
May 8, 2020 Date	/s/ Larry J. Miller Larry J. Miller Chairman, President and Chief Executive Officer (Principal Executive Officer)
May 8, 2020 Date	/s/ Larry D. Pickett Larry D. Pickett, CPA Treasurer (Principal Financial and Accounting Officer)

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Section 2: EX-3.2 (AMENDED BY-LAWS)

Exhibit 3.2

AMENDED BY-LAWS
of
CODORUS VALLEY BANCORP, INC.

Article 1

CORPORATION OFFICE

Section 1.1. The Corporation shall have and continuously maintain in Pennsylvania a registered office which may, but need not, be the same as its place of business and at an address to be designated from time to time by the Board of Directors.

Section 1.2. The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may require.

Article 2

SHAREHOLDERS MEETINGS

Section 2.1. All meetings of the shareholders shall be held at such time and place as may be fixed from time to time by the Board of Directors. Notwithstanding the preceding sentence, if a meeting of the shareholders is held by means of the internet or other electronic communications technology in a fashion pursuant to which the shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders, pose questions to the directors, make appropriate motions and comment on the business of the meeting, the meeting need not be held at a particular geographic location.

Section 2.2 The annual meeting of the shareholders shall be held no later than May 31 each year, at such time, date, and place as may be fixed by the Board of Directors, when they shall elect a Board of Directors and transact such other business as may properly be brought before the meeting.

Section 2.3 Special Meetings of Shareholders may be called at any time by the chairman of the Board, the President, the Executive Vice President, if any, or a majority of the Board of Directors, or by its Executive Committee (if any).

Section 2.4. Written notice of all meetings other than adjourned meetings of shareholders, stating the place, date and hour, and, in case of special meetings of shareholders, the purpose thereof, shall be served upon, or mailed, postage prepaid, or telegraphed, charges prepaid, at least ten days before such meeting, unless a greater period of notice is required by statute or by these By-laws, to each shareholder entitled to vote thereat at such address as appears on the transfer books of the Company.

Section 2.5 The shareholders of this Corporation shall not be entitled to propose an amendment to the Corporation's Articles of Incorporation, except if otherwise specifically provided by statutes.

Article 3

QUORUM OF SHAREHOLDERS

Section 3.1. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the vote which all shareholders are entitled to cast on the particular matter shall constitute a quorum for the purposes of considering such matter, and unless otherwise provided by statute, the acts of such shareholders at a duly organized meeting shall be the acts of the shareholders. The presence or participation, including voting and taking other action, at a meeting of shareholders or the expression of consent or dissent to corporate action by a shareholder by conference telephone or other electronic means, including, without limitation, the internet, shall constitute the presence of, or vote or action by, or consent or dissent of the shareholder for purposes of these bylaws. If, however, any meeting of shareholders cannot be organized because of lack of a quorum, those present, in person or by proxy, shall have the power, except as otherwise provided by statute, to adjourn the meeting to such time and place as they may determine, without notice other than an announcement at the meeting, until the requisite number of shareholders for a quorum shall be present, in person or by proxy, except that in the case of any meeting called for the election of directors such meeting may be adjourned only for periods not exceeding 15 days as the holders of a majority of the shares present, in person or by proxy, shall direct, and those who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors. At any adjourned meeting at which a quorum shall be present or so represented, any business may be transacted which might have been transacted at the original meeting if a quorum had been present. The shareholders present, in person or by proxy, at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Article 4

VOTING RIGHTS

Section 4.1. Except as may be otherwise provided by statute or by the Articles of Incorporation, at every shareholders meeting, every shareholder entitled to vote thereat shall have the right to one vote for every share having voting power standing in his name on the books of the Corporation on the record date fixed for the meeting. No share shall be voted at any meeting if any installment is due and unpaid thereon.

Section 4.2. When a quorum is present at any meeting the voice vote of the holders of a majority of the stock having voting power, present, in person or by proxy, shall decide any question brought before such meeting except as provided differently by statute or by the Articles of Incorporation.

Section 4.3. Upon demand made by a shareholder entitled to vote at any election for directors before the voting begins, the election shall be by ballot.

Article 5

PROXIES

Section 5.1. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder or his duly authorized attorney in fact and filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Corporation. No unrevoked proxy shall be valid after 11 months from the date of its execution, unless a longer time is expressly provided therein, but in no event shall a proxy, unless coupled with an interest, be voted after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker, unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation.

Article 6

RECORD DATE

Article 6.1. The Board of Directors may fix a time, not more than 90 days prior to the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares. In such case, only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid. The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of such period, and in such case written or printed notice thereof shall be mailed at least ten days before closing thereof to each shareholder of record at the address appearing on the records of the Corporation or supplied by him to the Corporation for the purpose of notice. While the stock transfer books of the Corporation are closed, no transfer of shares shall be made thereon. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to receive notice of, and vote at, a shareholders meeting, transferees of shares which are transferred on the books of the Corporation within ten days next preceding the date of such meeting shall not be entitled to notice of or to vote at such meeting.

Article 7

VOTING LISTS

Section 7.1. The officer or agent having charge of the transfer books for shares of the Corporation shall make, at least five days before each meeting of shareholders, a complete alphabetical list of the shareholders entitled to vote at the meeting, with their addresses and the number of shares held by each, which list shall be kept on file at the registered office or principal place of business of the Corporation and shall be subject to inspection by any shareholder during the entire meeting. The original transfer books for shares of the Corporation, or a duplicate thereof kept in this Commonwealth, shall be prima facie evidence as to who are the shareholders entitled to exercise the rights of a shareholder.

Article 8

JUDGES OF ELECTION

Section 8.1. In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the Chairman of any such meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the majority or shares present and entitled to vote shall determine whether one or three judges are to be appointed. No person who is a candidate for office shall act as a judge. The judges of election shall do all such acts as may be proper to conduct the election or vote, and such other duties as may be prescribed by statute, with fairness to all shareholders, and if requested by the Chairman of the meeting or any shareholder or his proxy, shall make a written report of any matter determined by them and execute a certificate of any fact found by them. If there are three judges of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

Article 9

CONSENT OF SHAREHOLDERS IN LIEU OF MEETING

Section 9.1. Any action required to be taken at a meeting of the shareholders, or of a class of shareholder, may be taken without a meeting, if a consent or consents in writing setting forth the action so taken shall be signed by all of the shareholders who would be entitled to vote at a meeting for such purpose and shall be filed with the Secretary of the Corporation.

Article 10

DIRECTORS

Section 10.1. Only persons who are nominated in accordance with the procedures set forth in this Section 10.1 shall be eligible for election as directors. The Board of Directors, or a duly appointed committee thereof, shall act as a nominating committee for selecting nominees for election as directors. Except in the case of a nominee substituted as a result of the death or other incapacity of a nominee of the nominating committee, the nominating committee shall deliver written nominations to the Secretary at least 90 days prior to the one year anniversary date of the previous meeting of shareholders called for election of directors. Provided such nominating committee makes such nominations, no nominations for directors except those made by the nominating committee shall be voted upon at the annual meeting unless other nominations by shareholders are made in accordance with the provisions of this Section 10.1. No person shall be elected as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 10.1. Ballots bearing the names of all persons nominated by the nominating committee and by shareholders shall be provided for use at the annual meeting.

Nominations of individuals for election to the Board of Directors of the Corporation at an annual meeting of shareholders may be made by any shareholder of the Corporation entitled to vote for the election of directors at that meeting who complies with the procedures set forth in this Section 10.1. Such nominations, other than those made by the Board of Directors or a nominating committee thereof, shall be made pursuant to timely notice in writing to the Secretary of the Corporation as set forth in this Section 10.1. To be timely, a shareholder's notice shall be delivered to or received at the principal executive offices of the Corporation not less than 90 days prior to the anniversary date of the immediately preceding meeting of shareholders of the Corporation called for the election of directors. Each such shareholder's notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b)a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be disclosed in solicitations of proxies with respect to nominees for election as directors, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including, but not limited to, information required to be disclosed by Items 4, 5, 6 and 7 of Schedule 14A and information which would be required to be filed on Schedule 14B with the Securities and Exchange Commission (or any successors of such items or schedules); (e) the consent of each nominee to serve as a director of the Corporation if so elected; and (f) the class and number of shares of stock of the Corporation which are beneficially owned by such shareholder on the date of such shareholder notice and, to the extent known, by any other shareholders known by such shareholder to be supporting such nominees on the date of such shareholder notice. At the request of the Board of Directors, any person nominated by the Board of Directors, or a nominating committee thereof, for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee together with the required written consents, each as described herein.

The Board of Directors may reject any nomination by a shareholder not timely made in accordance with the requirements of this Section 10.1. If the Board of Directors, or a designated committee thereof, determines that the information provided in a shareholder's notice does not satisfy the informational requirements of this Section in any material aspect, the Secretary of the Corporation shall notify such shareholder of the deficiency in the notice. The shareholder shall have an opportunity to cure the deficiency by providing additional information to the Secretary within such period of time, not to exceed five days from the date such deficiency notice is given to the shareholder, as the Board of Directors or such committee shall reasonably determine. If the deficiency is not cured within such period, or if the Board of Directors or such committee reasonably determines that the additional information provided by the shareholder, together with information previously provided, does not satisfy the requirements of this Section 10.1 in any material respect, then the Board of Directors may reject such shareholder's nomination. The Secretary of the Corporation shall notify a shareholder in writing whether his nomination has been made in accordance with the time and informational requirements of this Section 10.1. Notwithstanding the procedures set forth in this paragraph, if neither the Board of Directors nor such committee makes a determination as to the validity of any nominations by a shareholder, the presiding officer of the annual meeting shall determine and declare at the annual meeting whether the nomination was made in accordance with the terms of this Section 10.1. If the presiding officer determines that a nomination was made in accordance with the terms of this Section 10.1, he shall so declare at the annual meeting and ballots shall be provided for use at the meeting with respect to such nominee. If the presiding officer determines that a nomination was not made in accordance with the terms of this Section 10.1, he shall so declare at the annual meeting and the defective nomination shall be disregarded.

Section 10.2. The number of directors that shall constitute the whole Board of Directors shall be not less than five nor more than twenty-five. The Board of Directors shall be classified into three classes, each class to be elected for a term of three years. The terms of the respective classes shall expire in successive years as provided in Section 10.3 hereof. Within the foregoing limits, the Board of Directors may from time to time fix the number of directors and their respective classifications. No person shall be elected as a director who has not attained the age of twenty-one (21) years. No person shall serve as a director after he has attained the age of seventy-five (75) years. Each director shall own and hold solely in his name at least one hundred (100) shares of the common stock of the Corporation, which shares shall be free of any liens or other forms of encumbrances.

Section 10.3. At the 1987 annual meeting of shareholders of the Corporation, the shareholders shall elect nine directors as follows: three Class A directors to serve until the 1988 annual meeting of shareholders, three Class B directors to serve until the 1989 annual meeting of shareholders, and three Class C directors to serve until the 1990 annual meeting of shareholders. Each class shall be elected in a separate election. At each annual meeting of shareholders thereafter, successors to the class of directors whose term shall then expire shall be elected to hold office for a term of three years, so that the term of office of one class of directors shall expire in each year.

Section 10.4. The Board of Directors may declare vacant the office of a director if:

(a) he is declared of unsound mind by an order of the court,

(b) he is convicted of a felony,

(c) he fails to attend during any fiscal year of the Corporation at least two-thirds of the regular and special meetings of the Board of Directors without good cause,

(d) within thirty days after notice of electing, he does not accept such office either in writing or by attending a meeting of the Board of Directors, or

(e) the Board of Directors determines for any other proper cause such declaration of vacancy is in the best interests of the Corporation.

Article 11

VACANCIES ON BOARD OF DIRECTORS

Section 11.1. Vacancies on the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled by a majority of the remaining members of the Board of Directors, though less than a quorum, and each person so appointed shall be a director until the expiration of the term of office of the class of directors to which he was appointed.

Article 12

POWERS OF BOARD OF DIRECTORS

Section 12.1. The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-laws directed or required to be exercised and done by the shareholders.

Section 12.2. The Board of Directors shall have the power and authority to appoint an Executive Committee and such other committees as may be deemed necessary by the Board of Directors for the efficient operation of the Corporation. The Executive Committee shall consist of the Chairman of the Board, if any, the President and not less than one nor more than two other directors (which other directors shall not be employees of the Corporation or any of its subsidiaries). The Executive Committee shall meet at such time as may be fixed by the Board of Directors, or upon call of the Chairman of the Board or the President. A majority of members of the Executive Committee shall constitute a quorum. The Executive Committee shall have and exercise the authority of the Board of Directors in the intervals between the meetings of the Board of Directors as may be permitted by law.

Article 13

MEETINGS OF THE BOARD OF DIRECTORS

Section 13.1. An organization meeting may be held immediately following the annual shareholders meeting without the necessity of notice to the directors to constitute a legally convened meeting, or the directors may meet at such time and place as may be fixed by either a notice or waiver of notice or consent signed by all of such directors.

Section 13.2. Regular meetings of the Board of Directors shall be held not less often than semi-annually at a time and place determined by the Board of Directors at the preceding meeting. One or more directors may participate in any meeting of the Board of directors, or of any committee thereof, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another.

Section 13.3. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President on one day's notice to each director, either personally or by mail, telegram or telephone; special meetings shall be called by the Chairman of the Board or the President in like manner and on like notice upon the written request of three directors.

Section 13.4. At all meetings of the Board of Directors, a majority of the directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at a meeting in person or by conference telephone or similar communications equipment at which a quorum is present in person or by such communications equipment shall be the acts of the Board of Directors, except as may be otherwise specifically provided by statute or by the Articles of Incorporation or by these By-laws. If a quorum shall not be present in person or by communications equipment at any meeting of the directors, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or as permitted herein.

Article 14

INFORMAL ACTION BY THE BOARD OF DIRECTORS

Section 14.1. If all the directors shall severally or collectively consent in writing, including but not limited to telegrams and radiograms, to any action to be taken by the Corporation, such action shall be as valid a corporation action as though it had been authorized at a meeting of the Board of Directors.

Article 15

COMPENSATION OF DIRECTORS

Section 15.1. Directors, as such, may receive a stated salary for their services or a fixed sum and expenses for attendance at regular and special meetings, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Article 16

OFFICERS

Section 16.1. The officers of Corporation shall be elected by the Board of Directors at its organization meeting and shall be a President, a Secretary and a Treasurer. At its option, the Board of Directors may elect a Chairman of the Board. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary, who shall hold their offices for such terms, have such authority and perform such duties as may from time to time be prescribed by the Board of Directors. Any two or more offices may be held by the same person.

Section 16.2. The compensation of all officers of the Corporation shall be fixed by the Board of Directors.

Section 16.3. The Board of Directors may remove any officer or agent elected or appointed, at any time and within the period, if any, for which such person was elected or employed whenever in the Board of Directors' judgment it is in the best interests of the Corporation, and all persons shall be elected and employed subject to the provisions thereof. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

Article 17

THE CHAIRMAN AND VICE-CHAIRMAN OF THE BOARD

Section 17.1. The Chairman of the Board shall preside at all meetings of the shareholders and directors. He shall supervise the carrying out of the policies adopted or approved by the Board of Directors. He shall have the specific powers conferred by these By-laws, as well as such further powers and duties as from time to time may be conferred upon or assigned to him by the Board of Directors.

Section 17.2. The Vice-Chairman of the Board shall preside, in the absence of the Chairman of the Board, at all meetings of the shareholders and directors. He shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to him by the Board of Directors.

Article 18

THE PRESIDENT

Section 18.1. The President shall be the chief executive officer of the Corporation; shall have general and active management of the business of the Corporation; shall see that all orders and resolutions of the Board of Directors are put into effect subject, however, to the right of the Board of Directors to delegate any specific powers, except such as may be by the statute exclusively conferred on the President, to any other officer or officers of the Corporation shall execute bonds, mortgages and other contracts requiring a seal under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. In the absence or incapacity of the Chairman and Vice-Chairman of the Board, the President shall preside at meetings of the shareholders and the directors. If there is no Chairman of the Board, the President shall have and exercise all powers conferred by these By-laws or otherwise on the Chairman of the Board. The President may delegate some or all of his responsibilities to a chief executive officer of the Corporation subject to the approval of the Board of Directors.

Article 19

THE VICE PRESIDENT

Section 19.1. The Vice President or, if more than one, the Vice Presidents in the order established by the Board of Directors shall, in the absence or incapacity of the President, exercise all powers and perform the duties of the President. The Vice Presidents, respectively, shall also have such other authority and perform such other duties as may be provided in these By-laws or as shall be determined by the Board of Directors or the President. Any Vice President may, in the discretion of the Board of Directors, be designated as "executive", "senior", or by departmental or functional classification.

Article 20

THE SECRETARY

Section 20.1. The Secretary shall attend all meetings of the Board of Directors and of the shareholders and keep accurate records thereof in one or more minute books kept for that purpose and shall perform the duties customarily performed by the secretary of a corporation and such other duties as may be assigned to him by the Board of Directors or the President.

Article 21

THE TREASURER

Section 21.1. The Treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall perform such other duties as may be assigned to him by the Board of Directors or the President. He shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

Article 22

ASSISTANT OFFICERS

Section 22.1. Each assistant officer shall assist in the performance of the duties of the officer to whom he is assistant and shall perform such duties in the absence of the officer. He shall perform such additional duties as the Board of Directors, the President or the officer to whom he is assistant may from time to time assign him. Such officers may be given such functional titles as the Board of Directors shall from time to time determine.

Article 23

INDEMNIFICATION OF OFFICERS AND EMPLOYEES

Section 23.1. The corporation shall indemnify any officer and/or employee, or any former officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was an officer and/or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful.

Section 23.2. The corporation shall indemnify any officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called as a witness in connection with, any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, and/or employee or agent of another corporation, partnership, joint venture, trust or other enterprise against amounts paid in settlement and expenses (including attorneys' fees) actually and reasonable incurred by him in connection with the defense or settlement of, or serving as a witness in, such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and except that no indemnification shall be made in respect of any such claim, issue or matter as to which such person shall have been adjudged to be liable for misconduct in the performance of his duty to the Corporation.

Section 23.3. Except as may be otherwise ordered by a court, there shall be a presumption that any officer and/or employee is entitled to indemnification as provided in Sections 23.1 and 23.2 of this Article unless either a majority of the directors who are not involved in such proceedings ("disinterested directors") or, if there are less than three disinterested directors, then the holders of one-third of the outstanding shares of the Corporation determine that the person is not entitled to such presumption by certifying such determination in writing to the Secretary of the Corporation. In such event the disinterested director(s) or, in the event of certification by shareholders, the secretary of the Corporation shall request of independent counsel, who may be the outside general counsel of the Corporation, a written opinion as to whether or not the parties involved are entitled to indemnification under sections 23.1 and 23.2 of this Article.

Section 23.4. Expenses incurred by an officer and/or employee in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided under Section 23.3 of this Article upon receipt of an undertaking by or on behalf of the officer and/or employee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation.

Section 23.5. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity while serving as an officer and/or employee and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be an officer and/or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 23.6. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations arising under this Article.

Section 23.7. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was an officer and/or employee of the Corporation, or is or was serving at the request of the Corporation as an officer and/or employee of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

Section 23.8. Indemnification under this Article shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

Article 24

INDEMNIFICATION OF DIRECTORS

Section 24.1. A director of this Corporation shall stand in a fiduciary relation to the Corporation and shall perform his duties as a director, including his duties as a member of any committee of the board upon which he may serve, in good faith, in a manner he reasonable believes to be in the best interests of the Corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his duties, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(a) One or more officers or employees of the Corporation whom the director reasonably believes to be reliable and competent in the matters presented.

(b) Counsel, public accountants or other persons as to matters which the director reasonably believes to be within the professional or expert competence of such person.

(c) A committee of the board upon which he does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonable believes to merit confidence.

A director shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

Section 24.2. In discharging the duties of their respective positions, the board of directors, committees of the board, and individual directors may, in considering the best interests of the Corporation, consider the effects of any action upon employees, upon suppliers and customers of the Corporation and upon communities in which offices or other establishments of the Corporation are located, and all other pertinent factors. The consideration of those factors shall not constitute a violation of Section 24.1.

Section 24.3. Absent a breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the Corporation.

Section 24.4. A director of this Corporation shall not be personally liable for monetary damages as such for any action taken or for any failure to take any action, unless:

(a) the director has breached or failed to perform the duties of his office under the provisions of Section 24.1 and 24.2, and

(b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

Section 24.5. The provisions of Section 24.4. shall not apply to:

(a) the responsibility or liability of a director pursuant to a criminal statute, or

(b) the liability of a director for the payment of taxes pursuant to local, state or federal law.

Section 24.6. The Corporation shall indemnify any director, or any former director who was or is a party to, or is threatened to be made a party to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful.

Section 24.7. The Corporation shall indemnify any director who was or is a party to, or is threatened to be made a party to, or who is called as a witness in connection with, any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer and/or employee or agent of another corporation, partnership, joint venture, trust or other enterprise against amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of, or serving as a witness in, such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and except that no indemnification shall be made in respect of any such claim, issue or matter as to which such person shall have been adjudged to be liable for misconduct in the performance of his duty to the Corporation.

Section 24.8. Except as may be otherwise ordered by a court, there shall be a presumption that any director is entitled to indemnification as provided in Sections 24.6 and 24.7 of this Article unless either a majority of the directors who are not involved in such proceedings ("disinterested directors"), or, if there are less than three disinterested directors, then the holders of one-third of the outstanding shares of the Corporation determine that the person is not entitled to such presumption by certifying such determination in writing to the Secretary of the Corporation. In such event the disinterested director(s) or, in the event of certification by shareholders, the Secretary of the Corporation shall request of independent counsel, who may be the outside general counsel of the Corporation, a written opinion as to whether or not the parties involved are entitled to indemnification under Sections 24.6 and 24.7 of this Article.

Section 24.9. Expenses incurred by a director in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided under Section 24.8 of this Article upon receipt of an undertaking by or on behalf of the director, officer and/or employee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article.

Section 24.10. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity while serving as a director and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director and shall inure to the benefit of the heirs, executors and administrators or such a person.

Section 24.11. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations arising under this article.

Section 24.12. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

Section 24.13. Indemnification under this Article shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

Section 24.14. For purposes of Article 24, the term director shall be interpreted to include individuals who are members of the Corporation’s Board of Directors (including directors and directors emeritus), members of committees created by the Board of Directors and members of any advisory boards or committees thereof. All such persons meeting the requirements of the term director, as defined in this Section 24.14, shall be afforded the maximum indemnification allowable under Pennsylvania Law.

Article 25

CERTIFIED AND UNCERTIFIED SHARES

Section 25.1. Shares of the Corporation’s stock may be certified or uncertified as provided under Pennsylvania law. All certificates of stock of the Corporation shall be numbered and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder’s name, the number and class of shares, the par value of such shares or a statement that such shares are without par value. They shall be signed by the President or a Vice President and by the Secretary or the Treasurer or by any other person properly authorized by the Board of Directors. Any or all of the signatures on the certificated may be a facsimile. If any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall cease to be such officer because of death, resignation or otherwise before that certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of issue.

Article 26

TRANSFER OF SHARES

Section 26.1. Transfer of stock shall be made on the books of the Corporation only by the record holder of such stock, or by an attorney lawfully constituted in writing, and, in the case of stock represented by a certificate, upon surrender of the certificate.

Article 27

LOST CERTIFICATES

Section 27.1. Where a shareholder of the Corporation alleges the loss, theft or destruction of one or more certificates for shares of the Corporation and requests the issuance of a substitute certificate therefor, the Board of Directors may direct a new certificate of the same tenor and for the same number of shares to be issued to such person upon such person's making of an affidavit in form satisfactory to the Board of Directors setting forth the facts in connection therewith, provided that prior to the receipt of such request the Corporation shall not have either registered a transfer of such certificate or received notice that such certificate has been acquired by a bona fide purchaser. When authorizing such issue of a new certificate the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his heirs or legal representatives, as the case may be, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such form and with surety or sureties, with fixed or open penalty, as shall be satisfactory to the Board f Directors, as indemnity for any liability or expense which it may incur by reason of the original certificate outstanding.

Article 28

DIVIDENDS

Section 28.1. The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of the Corporation in cash, property or shares of the Corporation, as long as any dividend shall not be in violation of law or the Articles of Incorporation.

Section 28.2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purposes as the Board of Directors shall believe to be for the best interests of the Corporation, and the Board of Directors may reduce or abolish any reserve in the manner in which it was created.

Article 29

FINANCIAL REPORT TO SHAREHOLDERS

Section 29.1. The President and the Board of Directors shall present at each annual meeting of the shareholders a full and complete statement of the business and affairs of the corporation for the preceding year.

Article 30

INSTRUMENTS

Section 30.1. All checks or demands for money and notes of the Corporation shall be signed by such officer of officers or such other person or persons as the President or the Board of Directors may from time to time designate.

Section 30.2. All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies and other instruments and documents may be signed, executed, acknowledged, verified, delivered or accepted, including those in connection with the fiduciary powers of the Corporation, on behalf of the Corporation by the President or other persons as may be designated by him.

Article 31

FISCAL YEAR

Section 31.1. The fiscal year of the Corporation shall be the calendar year.

Article 32

SEAL

Section 32.1. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Pennsylvania". Said seal may be used by causing it or a facsimile thereof to be impressed or affixed in any manner reproduced.

Article 33

NOTICES AND WAIVERS THEREOF

Section 33.1. Whenever, under the provisions of applicable law or of the Articles of Incorporation or of these By-laws, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof through the mail or by telegram, charges prepaid, to his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice. If the notice is sent by mail or telegraph, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office for transmission to such person. Such notice shall specify the place, day and hour of the meeting and, in the case of a special meeting of shareholders, the general nature of the business to be transacted.

Section 33.2. Any written notice required to be given to any person may be waived in writing signed by the person entitled to such notice whether before or after the time stated therein. Attendance of any person entitled to notice whether in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Where written notice is required of any meeting, the waiver thereof must specify the purpose only if it is for a special meeting of shareholders.

Article 34

AMENDMENTS

Section 34.1. These By-laws may be altered, amended or repealed by the affirmative vote of the holders of seventy-five percent (75%) of the outstanding shares of Common Stock at any regular or special meeting duly convened after notice to the shareholders of that purpose, or by a majority vote of the members of the Board of Directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, subject always to the power of the shareholders to change such action of the Board of Directors by the affirmative vote of the holders of seventy-five percent (75%) of the outstanding shares of Common Stock.

Article 35

OPT OUT AND NONAPPLICABILITY OF SUBCHAPTER G
AND SUBCHAPTER H OF CHAPTER 25 OF THE BUSINESS
CORPORATION LAW OF 1988, AS ADDED AND AMENDED BY
ACT 36 OF 1990

Section 35.1. Opt Out and Nonapplicability of Subchapter G. This Corporation specifically opts out and shall not be governed by Subchapter G, Control-share Acquisitions, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990. Subchapter G, Control-share Acquisitions, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990, shall not be applicable to the Corporation.

Section 35.2. Opt Out and Nonapplicability of Subchapter H. This Corporation specifically opts out and shall not be governed by Subchapter H, Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990. Subchapter H, Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control, of Chapter 25 of the Business Corporation Law of 1988, as added and amended by Act 36 of 1990, shall not be applicable to the Corporation.

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Section 3: EX-31.1 (CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER TO SECTION 302)

EXHIBIT 31.1
Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Codorus Valley Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 8, 2020

/s/ Larry J. Miller
Larry J. Miller, Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

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Section 4: EX-31.2 (CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER TO SECTION 302)

EXHIBIT 31.2
Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry D. Pickett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Codorus Valley Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Larry D. Pickett
Larry D. Pickett, CPA
Treasurer
(Principal Financial and Accounting Officer)

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Section 5: EX-32 (CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER TO SECTION 906)

EXHIBIT 32
Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the Quarterly Report of Codorus Valley Bancorp, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Larry J. Miller, the Chief Executive Officer, and Larry D. Pickett, the Principal Financial Officer, of the Company, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2020

/s/ Larry J. Miller
Larry J. Miller, Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Larry D. Pickett
Larry D. Pickett, CPA
Treasurer
(Principal Financial and Accounting Officer)

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