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Larry J. Miller
Chairman, President and
Chief Executive Officer

February 1, 2020

Dear Shareholder:

Your Corporation realized net income of \$4.5 million or \$0.46 per share basic and diluted, for the quarter ended December 31, 2019, as compared to net income of \$4.3 million or \$0.44 per share basic and diluted, for the quarter ended December 31, 2018. For the year ended December 31, 2019, the Corporation earned net income of \$18.6 million or \$1.89 per share basic and \$1.88 per share diluted, compared to \$19.5 million or \$1.98 per share basic and \$1.96 per share diluted, for the year ended December 31, 2018. The lower net income was primarily the result of higher noninterest expense in 2019 as compared to 2018. Higher personnel costs in 2019 were due to recruiting previously vacant executive positions and a write down on foreclosed real estate during the fourth quarter 2019 resulted in increased noninterest expense for the year 2019.

Earnings for the fourth quarter 2019 increased slightly compared to the same period in 2018. Net interest income between the three and twelve months ended December 31, 2019 and December 31, 2018 was similar.

The provision for loan losses for the three months ended December 31, 2019 was \$200,000 compared to \$900,000 for the same period in 2018. The decreased provision expense was primarily attributed to a decline in impaired loan balances and related specific reserve allocations for those loans, offset by increased specific reserve allocations on other impaired loans. For the twelve months ended December 31, 2019, the provision for loan losses was \$2.5 million compared to \$2.7 million for the twelve months ended December 31, 2018. The Corporation's nonperforming assets ratio was 1.72 percent as of December 31, 2019, an increase from the nonperforming assets ratio as of December 31, 2018 of 1.67 percent and a decrease from 2.26 percent as of September 30, 2019.

Noninterest income for the fourth quarter of 2019 was \$3.6 million, an increase of \$300,000, or 10.1 percent, as compared to noninterest income of \$3.2 million for the fourth quarter of 2018. All categories of noninterest income for the three months ended December 31, 2019 showed increases compared to the same period in 2018, except for slight decreases in service charges on deposit accounts and gain on sales of securities. For the twelve months ended December 31, 2019, noninterest income was \$13.9 million, an increase of \$600,000, or 4.5 percent compared to \$13.3 million for the twelve months ended December 31, 2018. Higher trust and investment services fees and income from bank owned life insurance were offset by costs associated with the Fallston financial center closure and lower gains on sale of loans held for sale for the year ended December 31, 2019.

Noninterest expense was \$13.8 million for the fourth quarter of 2019, an increase of \$900,000, or 6.8 percent, as compared to noninterest expense of \$12.9 million for the fourth quarter of 2018. For the year ended December 31, 2019, noninterest expenses totaled \$51.7 million, an increase of \$1.9 million, or 3.8 percent, as compared to \$49.8 million for the year ended December 31, 2018. Higher personnel costs and a write down associated with foreclosed real estate accounted for the majority of the increase, which was offset by lower charitable donations and lower FDIC insurance premiums.

Income tax expense for the quarter ended December 31, 2019 was \$1.2 million compared to \$1.1 million for the same period in 2018. Income tax expense for the year ended December 31, 2019 was \$5.0 million compared to \$5.2 million for the same period in 2018. The effective tax rates for the three months ended December 31, 2019 and 2018 were 21.3 percent and 20.8 percent, respectively. The effective tax rates for the twelve months ended December 31, 2019 and 2018 were 21.2 percent and 21.0 percent, respectively.

Other News

On December 6, 2019, PeoplesBank closed the leased Fallston Financial Center located in Fallston, Maryland. Clients who were housed at the Fallston location were reassigned to the Perry Hall Financial Center.

Construction began on a new retail location in Lancaster City at 101 N. Queen Street. This new location, which is scheduled to open in early spring 2020, will be called a Connections Center to better reflect a new approach to the traditional banking experience. The new Connections Center will feature concierge staff, interactive screens to develop personal and business vision boards, self-serve and full serve account opening, non-traditional seating, video conferencing, as well as a small teller area. This storefront location will be part of a newly updated mixed use four story building that includes retail, office and residential living in the heart of downtown Lancaster.

In October, we ended the Share Repurchase Program which began in June. As of December 31, 2019, the Corporation repurchased 222,594 shares in the amount of \$4.9 million. Repurchased shares were retained as treasury shares to be available for future issuance, with all shares reissued as of December 31, 2019.

If you do not currently participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP), your cash dividend check is enclosed with this letter. If you wish to enroll in the DRSPP, please contact the Corporation's plan administrator, EQ Shareowner Services, at 800-468-9716.

On behalf of the Board of Directors, our Leadership Team, and all who serve our clients on a daily basis, thank you for your support and continued long-term investment in Codorus Valley Bancorp, Inc.

Sincerely,



Larry J. Miller
Chairman, President and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

As of and for the years ended
December 31,

	<u>2019</u>	<u>2018</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,886,545	\$1,807,480	4.4
Shareholders' equity	\$191,168	\$178,746	6.9
Net income	\$18,647	\$19,542	(4.6)
Shares outstanding, as adjusted	9,755,976	9,924,124	(1.7)

Ratios

Return on average assets	1.01%	1.11%	(9.0)
Return on average equity	9.98%	11.42%	(12.6)
Capital leverage	10.71%	10.46%	2.4

Per share information

(adjusted for stock dividend)			
Net income per share, basic	\$1.89	\$1.98	(4.5)
Net income per share, diluted	\$1.88	\$1.96	(4.1)
Book value per share	\$19.59	\$18.01	8.8

Common stock & dividend information

NASDAQ Global Market symbol: CVLY

(Cash dividends and stock price are adjusted for stock dividends.)

	2019			2018		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	23.07	18.71	0.152	26.97	22.52	0.141
Second quarter	22.35	19.30	0.152	28.11	24.96	0.141
Third quarter	23.46	19.30	0.152	30.34	26.85	0.141
Fourth quarter	23.60	20.69	0.152	29.03	19.30	0.141

Nasdaq market makers

Boenning & Scattergood, Inc. 800-842-8928 or 610-862-5368

Janney Montgomery Scott LLC 800-999-0503 or 717-779-2720

Piper Sandler (institutional trades only) 800-333-6000

(formerly Sandler O'Neill & Partners, L.P.)

Stock transfer agent

Equiniti Trust Company 800-401-1957

(www.shareowneronline.com)

Shareholder inquiries

Shareholder contact line 717-747-1519 or 888-846-1970 ext. 519

Additional financial information is available via the Internet:

www.peoplesbanknet.com

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