



105 Leader Heights Road • P.O. Box 2887 • York, PA 17405-2887 • 717.846.1970 • 888.846.1970 • www.peoplesbanknet.com

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

August 13, 2019

Dear Shareholder:

Your Corporation realized net income of \$4.9 million or \$0.51 per share basic and diluted, for the quarter ended June 30, 2019, as compared to net income of \$6.1 million or \$0.65 per share basic and \$0.64 per share diluted, for the quarter ended June 30, 2018. For the first six months of 2019, net income was \$8.9 million or \$0.95 per share basic and \$0.94 per share diluted, compared to \$10.1 million or \$1.08 per share basic and \$1.07 per share diluted, for the first six months of 2018.

Earnings for the second quarter 2019 compared to the same period in 2018 were down approximately \$1.2 million. Net interest income between the two periods was similar, however, due to concerns relating to specific non-performing credits, management determined it was prudent to further increase specific allowances to those credits, which required an increase in the Allowance for Loan and Lease Losses.

The provision for loan losses for the three months ended June 30, 2019 was \$1.2 million compared to \$300,000 for the same period in 2018. For the six months ended June 30, 2019, the provision for loan losses was \$2.3 million compared to \$500,000 for the first six months of 2018. The Corporation's nonperforming assets ratio was 1.82 percent as of June 30, 2019, an increase from the nonperforming assets ratio as of December 31, 2018 of 1.67 percent and an increase from the nonperforming assets ratio as of June 30, 2018 of 0.40 percent. It is a decrease from the nonperforming assets ratio as of March 31, 2019 of 1.95 percent.

The Corporation's net interest income for the three months ended June 30, 2019 was \$16.2 million, an increase of \$100,000 or 0.6 percent when compared to the net interest income of \$16.1 million for the same period in 2018. For the six months ended June 30, 2019, net interest income was \$31.8 million, reflecting an increase of \$400,000 or 1.3 percent compared to \$31.4 million for the six months ended June 30, 2018. The growth was driven by an increased volume of interest earning assets, including cash, investment securities and commercial loans, offset by an increased cost of interest bearing deposits. The Corporation's tax-equivalent net interest margin was 3.72 percent for the first half of 2019, a decrease of 4.4 percent when compared to the tax-equivalent net interest margin of 3.89 percent for the same period in 2018. The decrease was attributed to a temporary increase in balance sheet liquidity, an inverted yield curve and an increase in loans identified as nonaccrual.

Noninterest income for the second quarter of 2019 was \$3.6 million, an increase of \$100,000, or 2.9 percent, as compared to noninterest income of \$3.5 million for the second quarter of 2018. For the first six months of 2019, noninterest income was \$6.9 million, an increase of \$100,000, or 1.5 percent compared to \$6.8 million for the first six months of 2018.

Noninterest expense was \$12.5 million for the second quarter of 2019, an increase of \$900,000, or 7.8 percent, as compared to noninterest expense of \$11.6 million for the second quarter of 2018. For the first six months of 2019, noninterest expenses totaled \$25.1 million, or 0.8 percent compared to \$24.9 million for the first six months of 2018. Higher personnel and occupancy costs accounted for the majority of the increase, which was offset by lower charitable donations.

Income tax expense for the quarter ended June 30, 2019 was \$1.3 million compared to \$1.6 million for the same period in 2018. Income tax expense for the six months ended June 30, 2019 was \$2.4 million compared to \$2.7 million for the same period in 2018. The effective tax rates for the six months ended June 30, 2019 and 2018 were 20.9 percent and 20.8 percent, respectively.

While we prefer to invest capital back into the Corporation or the markets we serve, our capital plan provides us with the capability to return excess capital to our shareholders – in this instance, via a Share Repurchase Program (the “Program”). Since institution of the Program in June, the Corporation has repurchased 35,600 shares in the amount of \$762,106. Repurchased shares were retained as treasury shares to be available for future issuance.

During the second quarter 2019, PeoplesBank successfully converted 25,000 debit cardholders to a new processing platform. This migration has resulted in enhanced card delivery turnaround time and implementation of a new Fraud Protection Service, which provides clients with improved communication capabilities. In the first six months of 2019, PeoplesBank experienced a triple digit increase in new bank card activations, an increase in retail core deposits and increases in mobile deposit usage as compared to the same time frame in 2018.

In May, Codorus Valley Bancorp, Inc. was named to the 2019 Top 200 Publicly Traded Community Banks by American Banker based upon return on equity. Also, PeoplesBank was recently voted, for the fourth year in a row, as Best Bank in York County by the readers of the York Sunday News.

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,

A handwritten signature in black ink, appearing to read "Larry J. Miller". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

Larry J. Miller
Chairman, President and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

As of and for the six months ended
June 30,

	<u>2019</u>	<u>2018</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,842,355	\$1,779,132	3.6
Shareholders' equity	\$187,520	\$170,373	10.1
Net income	\$8,950	\$10,137	(11.7)
Shares outstanding, as adjusted	9,437,233	9,391,164	0.5
Ratios			
Return on average assets	0.98%	1.18%	(16.9)
Return on average equity	9.75%	12.13%	(19.6)
Capital leverage	10.58%	10.37%	2.0
Per share information			
(adjusted for stock dividend)			
Net income per share, basic	\$0.95	\$1.08	(12.0)
Net income per share, diluted	\$0.94	\$1.07	(12.1)
Book value per share	\$19.87	\$18.14	9.5

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	24.22	19.65	0.160	28.31	23.65	0.148
Second quarter	23.47	20.27	0.160	29.51	26.21	0.148
Third quarter				31.86	28.19	0.148
Fourth quarter				30.48	20.27	0.148

Nasdaq market makers

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

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

Sandler O'Neill & Partners, L.P.
(institutional trades only) 800-635-6871 or 212-466-8000

Stock transfer agent

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

Select Investor Relations, then choose from the menu of options