



**Expanding Our Horizons**

2014 Annual Review

# Expanding Our Horizons



*Rodney L. Krebs, Chairman of the Board (l)  
and Larry J. Miller, President and Chief  
Executive Officer (r)*

**Expanding our Horizons** is the theme for the 2014 Annual Review of Codorus Valley Bancorp, Inc. The theme could just as easily have been “Achieving Success”, or “Celebrating the Past” or simply “Reflections”. No matter how you look at it, though, 2014 was a year of tremendous accomplishment, significant growth, and preparation for our future.

## **Expanding our Horizons**

Our Company expanded in many directions last year. In late spring 2014 we negotiated the purchase of Madison Bancorp, Inc., the holding company for Madison Square Federal Savings Bank, which had four locations within the Company’s marketplace along the Route 1 corridor through Harford and Baltimore Counties and northeast Baltimore City in Maryland. Madison Bancorp, Inc. had assets of approximately \$135 million. Our Company paid \$14.4 million in cash for Madison Bancorp, Inc. in a transaction that closed on January 16, 2015. By midnight the following day, all operating systems and brand markers were converted from Madison to those of PeoplesBank, the Company’s principal financial services subsidiary. This was truly a team effort as over fifty employees of PeoplesBank assumed additional responsibilities over many months to ensure the successful conversion and integration of Madison into PeoplesBank. We applaud their outstanding efforts and their spirit in welcoming 22 new associates and all of Madison’s clients to the PeoplesBank family.

In October, local officials and dignitaries gathered as we opened our first location in Cumberland County, at 3100 Market Street in Camp Hill, Pennsylvania. This location is strategically positioned within a central business district directly across the Susquehanna River from our state capital, Harrisburg. We expect this office to primarily generate business banking and mortgage banking client relationships in the rapidly-growing West Shore market.

Also during 2014, we continued to expand our York County footprint with the construction of a full-service financial center at 97 Sofia Drive in Shrewsbury, Pennsylvania. This facility, which is located in a heavily-traveled commercial area directly across from Walmart, officially opened in January 2015 and reflects a new prototype design that will be utilized in the future expansion of our retail franchise.

With the addition of Madison Bancorp, Inc. and the Camp Hill and Shrewsbury offices, PeoplesBank now operates twenty-six banking locations in York and Cumberland Counties in Pennsylvania and in Baltimore, Carroll and Harford Counties in Maryland.

## **Achieving Success**

We are pleased to report that Codorus Valley Bancorp, Inc. realized another year of improved financial performance, with net income available to common shareholders reaching record levels. For 2014, net income available to common shareholders was \$11.6 million, up 12 percent from the \$10.3 million earned in 2013. Earnings were \$2.07 per share basic and \$2.03 per share diluted for both 2014 and 2013. We are equally pleased to report that the increase in net income for 2014 neutralized the dilutive impact of the Corporation’s \$13 million private placement common capital stock raise which was completed in the first half of 2014 – resulting in 650,000 additional shares of common stock being issued to institutional purchasers. Thereafter, the Company redeemed \$13 million of the \$25 million in outstanding shares of preferred stock issued under the U. S. Treasury’s Small Business Lending Fund Program (SBLF Program). In spite of this apparent dilution of common shares outstanding, due to the increase in net income realized in 2014, the earnings per share were the same year-over-year, 2014 compared to 2013.

Total assets of the Company, prior to the Madison acquisition, grew to \$1.2 billion at year-end 2014, up 5 percent from the \$1.15 billion reported in 2013. Loan





volume generated through PeoplesBank continued to be strong during 2014, with total loans reaching \$920 million at year-end, compared to the \$860 million reported for 2013, or an increase of 7 percent. Total deposits grew to close 2014 at \$955 million, an increase of 3 percent over the total at year-end 2013.

The Company's net interest margin (tax-equivalent basis) for 2014 was 3.84 percent, comparing favorably to the 3.83 percent realized in 2013. The Company's capital levels remained sound as evidenced by capital ratios that exceed current regulatory requirements for well capitalized financial institutions.

For the third year in a row, the Company paid a 5 percent common stock dividend. Adjusting for stock dividends, cash dividends paid on common shares for 2014 totaled \$0.466 per share, an increase of \$0.049 or 12 percent above the cash dividends of \$0.417, as adjusted, paid in 2013.

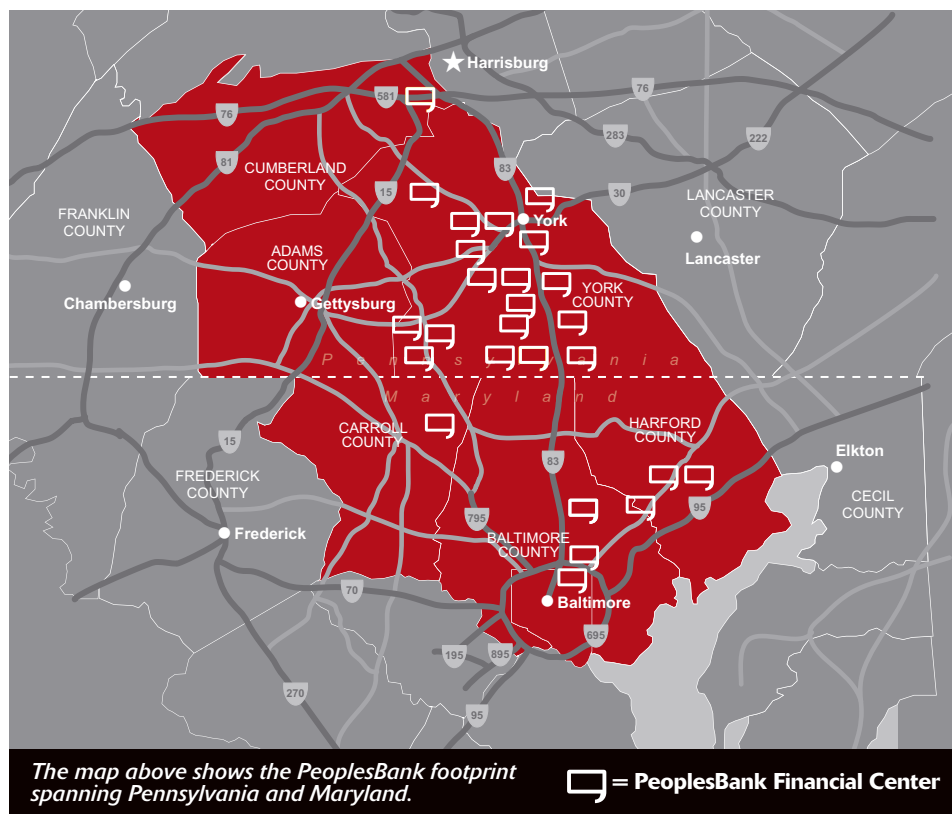
And finally, assets held in PeoplesBank's Wealth Management Division closed 2014 at \$307 million, up 17 percent from the \$261 million held by the Division at year-end 2013. The accumulation of assets and generation of income from the Wealth Management Division is extremely important to the long-term success of the Company.

### Celebrating the Past

2014 was a momentous year in the history of our Company, as we commemorated and celebrated the 150th anniversary of our founding in 1864. Originally known as the First National Bank of Glen Rock, the bank later became, in 1919, the Trust Company of Glen Rock. As history unfolded and times changed, the bank was renamed again in 1934 to become Peoples Bank of Glen Rock, leading us to the present day PeoplesBank, A Codorus Valley Company, in 1997.

We are very proud of our past, yet we are also focused on our future and the future of our clients. This message was delivered throughout the region with a year-long 150th anniversary awareness campaign and special community sponsorships and activities. Thousands of area residents enjoyed PeoplesBank Day at the York Fair, which will be celebrating its own 250th anniversary this year! We stood at the crossroads of the world in Times Square, New York City, to ring the closing bell of the NASDAQ market. Our clients enjoyed special

*L to R: Benjamin F. Riggs, Jr., Esq., Secretary; Michael F. Allen, Vice President and Chief Operating Officer; and Michael D. Peduzzi, CPA, Treasurer.*



celebrations and the opportunity to see a traveling road show of bank memorabilia on loan from the Glen Rock Historic Preservation Society. And we randomly gave 15 individuals the opportunity to pay \$150 forward to others in our community – an award-winning activity – videos of which you can view on our YouTube channel.

The excitement and pride our associates and clients demonstrated throughout the year, along with the support shown to us by the community, reinforced the importance of maintaining a strong, local community bank devoted to serving generations of families throughout our market area.

### Reflections

While we have much good news to report, we also experienced our share of sadness in 2014. Michael L. Waugh, a director of the Company and Bank since 2002, passed away in October after a period of illness, leaving behind his wife, son, granddaughter, and a community he admirably served as a member of the legislature of the Commonwealth of Pennsylvania. In everything he did, Mike was a true gentleman, a man of integrity, and a genuine, sincere human being. We will miss his guidance, wisdom, and, most importantly, his friendship.

At the end of 2014, we bid farewell but extended warm wishes to Jann Allen Weaver, CPA, as he retired from his position as Treasurer of the Company and Executive Vice President and Chief Financial Officer of the Bank. For 27 years, Jann helped navigate our way through the financial and regulatory world and was instrumental in our strategic planning processes. We thank Jann for his service and wish he and his wife a long, happy retirement filled with new adventures and valuable time with their children and grandchildren.

Looking to the future, we were pleased to welcome Michael D. Peduzzi, CPA, as Treasurer of Codorus Valley Bancorp, Inc. and Senior Vice President and Chief Financial Officer of PeoplesBank in March 2014. Mike has extensive experience in the financial services industry, having served in senior positions with several regional financial institutions. We look forward to his guidance and expertise as our leadership team continues to execute our strategic initiatives and move the Company forward.

This is certainly an exciting time for Codorus Valley Bancorp, Inc., albeit a challenging one in today's regulatory environment. That said, we have a strong team in place, a strategically-positioned franchise, and a market full of opportunities for growth. We look with confidence to the future while remaining proud of all we have accomplished in our 150 years.

Thank you to our Board of Directors for their guidance, our leadership team and associates who are so strongly devoted to meeting the needs of our clients, and thank you to you, our shareholders, for your continued support and long-term investment in Codorus Valley Bancorp, Inc.

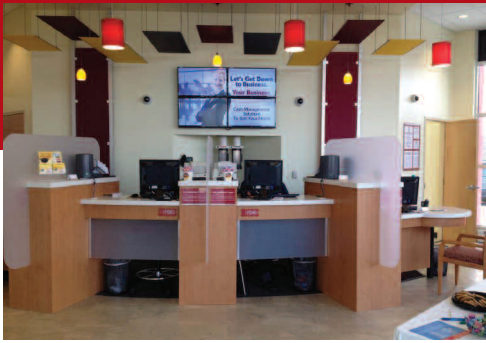
**Rodney L. Krebs**  
Chairman of the Board  
Codorus Valley Bancorp, Inc. and PeoplesBank

**Larry J. Miller**  
President and Chief Executive Officer  
Codorus Valley Bancorp, Inc. and PeoplesBank

## Selected Financial Data

	2014	2013	2012	2011	2010
<b>Summary of operations</b> <i>(in thousands)</i>					
Interest income	\$ 50,400	\$ 46,972	\$ 46,512	\$ 45,411	\$ 44,027
Interest expense	8,040	8,619	10,527	12,359	13,154
Net interest income	42,360	38,353	35,985	33,052	30,873
Provision for loan losses	1,600	1,470	1,750	4,935	2,990
Noninterest income	8,153	7,754	8,190	7,358	7,574
Noninterest expense	32,476	30,154	29,928	27,079	28,116
Income before income taxes	16,437	14,483	12,497	8,396	7,341
Provision for income taxes	4,668	3,917	3,103	1,617	1,133
Net income	11,769	10,566	9,394	6,779	6,208
Preferred stock dividends and discount accretion	174	250	384	1,460	980
Net income available to common shareholders	\$ 11,595	\$ 10,316	\$ 9,010	\$ 5,319	\$ 5,228
<b>Per common share</b> <i>(adjusted for stock dividends)</i>					
Net income, basic	\$ 2.07	\$ 2.07	\$ 1.84	\$ 1.10	\$ 1.10
Net income, diluted	\$ 2.03	\$ 2.03	\$ 1.82	\$ 1.10	\$ 1.10
Cash dividends paid	\$ 0.466	\$ 0.417	\$ 0.347	\$ 0.304	\$ 0.216
Stock dividends distributed	5%	5%	5%	-	-
Book value	\$ 18.25	\$ 16.40	\$ 15.45	\$ 14.03	\$ 12.53
Tangible book value	\$ 18.25	\$ 16.40	\$ 15.45	\$ 13.99	\$ 12.47
Cash dividend payout ratio	22.5%	20.1%	18.8%	27.3%	19.6%
Weighted average shares outstanding	5,611,806	4,981,789	4,896,752	4,814,041	4,738,381
Weighted average diluted shares outstanding	5,710,117	5,081,307	4,963,624	4,844,670	4,745,655
<b>Profitability ratios</b>					
Return on average shareholders' equity (ROE)	10.22%	10.08%	9.55%	8.04%	8.12%
Return on average assets (ROA)	0.98%	0.96%	0.90%	0.69%	0.67%
Net interest margin	3.84%	3.83%	3.81%	3.73%	3.72%
Efficiency ratio	62.83%	63.01%	65.65%	64.20%	69.87%
Net overhead ratio	2.08%	2.05%	2.13%	2.02%	2.24%
<b>Capital ratios</b>					
Tier 1 risk-based capital	13.24%	12.79%	13.59%	13.35%	12.51%
Total risk-based capital	14.42%	13.89%	14.79%	14.55%	13.64%
Average shareholders' equity to average assets	9.62%	9.57%	9.45%	8.56%	8.29%
<b>Summary of financial condition at year-end</b> <i>(in thousands)</i>					
Investment securities	\$ 216,973	\$ 233,483	\$ 236,925	\$ 237,496	\$ 226,603
Loans	920,554	859,898	740,225	696,384	645,839
Assets	1,213,846	1,150,641	1,059,737	1,012,132	957,332
Deposits	954,973	925,303	901,307	854,399	806,110
Borrowings	132,590	110,856	50,171	56,885	68,805
Equity	118,440	107,649	101,331	93,242	76,539
<b>Other data</b>					
Number of bank offices	21	20	18	18	17
Number of employees <i>(full-time equivalents)</i>	238	229	219	203	198
Wealth Management assets, market value <i>(in thousands)</i>	\$ 307,000	\$ 261,044	\$ 329,626	\$ 277,505	\$ 368,985





*Opened in January 2015, the Shrewsbury Financial Center represents a new prototype that will be used in the future expansion of our retail franchise.*

## About Our Company

Incorporated in 1986, Codorus Valley Bancorp, Inc. is a one-bank holding company that provides a full range of financial services through its principal subsidiary, PeoplesBank, A Codorus Valley Company. As a publicly-held corporation, common stock in Codorus Valley Bancorp, Inc. is traded on the NASDAQ Global Market under the symbol CVLY. Codorus Valley Bancorp, Inc. is headquartered at the Codorus Valley Corporate Center, located at 105 Leader Heights Road, York, Pennsylvania 17403.

PeoplesBank, with origins dating back to 1864, is the largest independent community bank headquartered and managed in York County, Pennsylvania. Focused on acquiring and nurturing financial relationships with small and mid-sized businesses and consumers, PeoplesBank provides business, personal, and mortgage banking services as well as wealth management and real estate settlement services throughout its network of financial centers located in York and Cumberland Counties in Pennsylvania and in Baltimore, Harford, and Carroll Counties and Baltimore City in Maryland.

### Common Stock, Dividend, and Broker Information

Codorus Valley Bancorp, Inc. common stock is listed on the NASDAQ Global Market under the symbol CVLY. Codorus Valley had approximately 2,036 holders of record as of March 4, 2015. The closing price per share of Codorus Valley's common stock on March 4, 2015, was \$20.36. The following table sets forth high and low sales prices and dividends paid per common share for Codorus Valley as reported by NASDAQ during the periods indicated. All amounts reflect the impact of the common stock dividends distributed by the Corporation.

	2014			2013		
Quarter	High	Low	Dividends Per Share	High	Low	Dividends Per Share
First	\$21.29	\$ 18.23	\$0.114	\$15.33	\$12.01	\$0.100
Second	20.88	18.52	0.114	15.95	13.83	0.100
Third	20.81	19.02	0.119	17.32	15.65	0.109
Fourth	24.00	16.29	0.119	20.93	15.93	0.109

For further information, we refer you to the following market makers in our common stock:

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

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

Sandler O'Neill & Partners, L.P.  
(Institutional Trades Only)  
212-466-8000  
800-635-6871

### Internet Information

Information about products and services that are offered by Codorus Valley and its subsidiaries is available on the Internet at [www.peoplesbanknet.com](http://www.peoplesbanknet.com).

### Financial Information

The Annual Report on Form 10-K is filed with the Securities and Exchange Commission (SEC). Copies of this document and other SEC filings by Codorus Valley Bancorp, Inc. may be obtained electronically at PeoplesBank's website at [www.peoplesbanknet.com](http://www.peoplesbanknet.com) (select Investor Relations, then SEC filings, then documents), or the SEC's website at [www.sec.gov/edgarhp.htm](http://www.sec.gov/edgarhp.htm). Copies can also be obtained without charge by writing to: Treasurer, Codorus Valley Bancorp, Inc., P.O. Box 2887, York, PA 17405-2887.

### Annual Shareholders Meeting

The Annual Meeting of Shareholders will be held on Tuesday, May 19, 2015, at 9:00 a.m. Eastern Time, at the Codorus Valley Corporate Center, 105 Leader Heights Road, York, PA 17403.

### Transfer Agent

Wells Fargo Shareowner Services, 1110 Centre Point Curve, Suite 101, MAC N9173-010, Mendota Heights, MN 55120. Phone: 800-468-9716.

### Dividend Reinvestment and Stock Purchase Plan

Information regarding the Corporation's Dividend Reinvestment and Stock Purchase Plan may be obtained by contacting the transfer agent above.

### Codorus Valley Financial Advisors, Inc.

Stephen M. Altland, President and CEO  
Larry J. Miller, Vice President and Secretary  
Victoria A. Schofield, Vice President  
Michael D. Peduzzi, CPA, Treasurer and  
Assistant Secretary

### SYC Settlement Services, Inc.

Benjamin F. Riggs, Jr., Esq., President and CEO  
Larry J. Miller, Vice President and Secretary  
Scott T. Weaver, Vice President  
Michael D. Peduzzi, CPA, Treasurer and  
Assistant Secretary

### Company Headquarters

Codorus Valley Bancorp, Inc.  
Codorus Valley Corporate Center  
105 Leader Heights Road  
York, Pennsylvania 17403-5137  
717-747-1519

### Financial Advisors and Registered Representatives

Jamie K. Cash, CFP®  
Wendy M. Livingston  
Victoria A. Schofield

### Contact Information

To contact any Financial Center, the Client Care Center, or any bank employee, please call us at 717-846-1970 or 1-888-846-1970.

Information regarding our products, services, and locations may be found at our website at [www.peoplesbanknet.com](http://www.peoplesbanknet.com).

For location information and hours, visit [www.peoplesbanknet.com](http://www.peoplesbanknet.com). All Financial Centers have a 24-Hour ATM on-site for client convenience and are members of the MoneyPass® and Allpoint ATM Networks.

## Board of Directors

*Codorus Valley Bancorp, Inc. and PeoplesBank*

### Rodney L. Krebs

Chairman, Codorus Valley Bancorp, Inc. and PeoplesBank  
President, Springfield Contractors, Inc.

### Larry J. Miller

Vice Chairman, President, and Chief Executive Officer  
Codorus Valley Bancorp, Inc. and PeoplesBank

### D. Reed Anderson, Esq.

Stock and Leader  
Attorney at Law

### Cynthia A. Dotzel, CPA

Principal and Practicing CPA  
SF & Company

### Jeffrey R. Hines, P.E.

President and Chief Executive Officer  
The York Water Company

### MacGregor S. Jones

Retired Automobile Dealer

### Dallas L. Smith

President  
Bruce V. Smith, Inc.

### Harry R. Swift, Esq.

Retired General Counsel and Secretary  
Codorus Valley Bancorp, Inc. and PeoplesBank

## PeoplesBank Directors Emeritus

### M. Carol Druck

Barry A. Keller  
Donald H. Warner

## Corporate Officers

*Codorus Valley Bancorp, Inc.*

### Larry J. Miller

President and Chief Executive Officer

### Michael F. Allen

Vice President and Chief Operating Officer

### Diane E. Baker, CPA

Vice President and Auditor

### Michael D. Peduzzi, CPA

Treasurer and Assistant Secretary

### Benjamin F. Riggs, Jr., Esq.

General Counsel and Secretary

## Leadership Group

*PeoplesBank*

### Larry J. Miller

Vice Chairman, President, and Chief Executive Officer  
717-747-1500

### Michael F. Allen

Executive Vice President and Chief Operating Officer  
717-747-1581

### Michael D. Peduzzi, CPA

Senior Vice President and Chief Financial Officer  
717-747-2428

### Benjamin F. Riggs, Jr., Esq.

General Counsel and Secretary  
717-747-2403

### Stephen M. Altland

Senior Vice President, Wealth Management Division  
717-747-1585

### Diane E. Baker, CPA

Senior Vice President, Enterprise Risk Management Officer  
717-747-1550

### Matthew A. Clemens, SPHR

Senior Vice President, Human Resources Division  
717-747-1507

### Lynn D. Crenshaw

Senior Vice President, Retail Sales and Services Division  
717-747-1509

### Amy L. Doll

Senior Vice President, Senior Business Advisor  
717-747-1580

### Kent A. Ketterman

Senior Vice President, Senior Business Advisor  
717-747-1506

### Lorrie A. Schenning

Senior Vice President, Senior Business Advisor  
410-527-3886

### Shawn A. Stine

Senior Vice President, Senior Business Advisor  
717-747-1588

### Todd A. Tyson, CFSSP, CCBSP, CBAP

Senior Vice President, General Services and  
Security Officer  
717-747-1510

### Scott T. Weaver

Senior Vice President, Chief Credit Officer  
and Cashier  
717-747-1508

### Nathan A. Eifert

Vice President, Director of Marketing  
717-747-1520

### Gregg A. Elicker

Vice President, Chief Information Officer  
717-747-1586



IN MEMORY OF

*Michael L. Waugh*

1955-2014

*The PeoplesBank family mourns the loss  
of Michael L. Waugh.*

*A loving husband, devoted father  
and grandfather.*

*A public servant, horseman and farmer.*

*A leader and colleague.*

*A dear friend.*

Codorus Valley Bancorp, Inc. • Codorus Valley Corporate Center • 105 Leader Heights Road • York, PA 17403-5137 • (717) 747-1519

**[www.peoplesbanknet.com](http://www.peoplesbanknet.com)**

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