



# **CODORUS VALLEY**

**BANCORP, INC.**

**Measuring Progress**

**ANNUAL**

**REVIEW**

**2018**



**Larry J. Miller, Chairman, President and CEO**

**Harry R. Swift, Esq., Vice Chairman and Lead Director**

## Dear Shareholders

Congress passed and the President signed into law the Tax Cuts and Jobs Act (the Act) about fourteen months ago. Almost immediately, overjoyed and overzealous investors pushed the Dow Jones industrial average past 25,000, a new record. Market volatility was low and after a decade-long stock market frenzy, stocks of the S&P 500 index created about \$17 trillion in new wealth. Many wondered if passage of the Act would propel the stock market for another decade, or more. Alas, all good things must come to an end.

And so it did. While the current recovery is the longest on record, it is also one of the weakest ever recorded. Stocks plunged in December, posting their worst monthly loss since 1931 and the Great Depression. And as it is in any business cycle, the longer the expansion, the closer it is to the next downturn.

After the initial euphoria from the tax cuts approved by the Act, the financial services industry saw its market value decline in the fourth quarter of 2018. Booming summertime stock prices experienced a roughly 25-30 percent decline in late 2018, as the market feared recession and a flattening yield curve. Deepening the angst among investors, the recent 35-day Federal Government shutdown was by far the longest ever, eclipsing the previous 21-day record closure that ended in January 1996.

Businesses and bankers will face many tests in the coming months as they determine how their respective companies navigate the near-term. At Codorus Valley Bancorp, Inc. (the "Corporation"), we have assembled a cadre of talented bankers and professionals to lead your Corporation into the future. While the Corporation reported the highest net income in its history in 2018, I have chosen to first discuss the people who have been recruited over the past year, in this Letter to Shareholders.

### **People**

Black swans are events that are highly improbable, difficult to predict and have massive impact. For the Corporation and its financial services subsidiary, PeoplesBank (collectively referred to as the "Company"), our black swan event was the resignation, retirement or departure of five members of the Leadership Team during 2018.

With the departure of PeoplesBank's President/CEO in February 2018, I was called upon to return to the position that I had previously held for 36 years. I stepped in as CEO of the Bank until August, when we were pleased to recruit Craig L. Kauffman. Mr. Kauffman was appointed President/CEO of PeoplesBank and Executive Vice President/COO of Codorus Valley Bancorp, Inc. at that time. A lifelong resident of Lancaster County, PA, Craig received his undergraduate degree from Millersville University and his Master's Degree from the Pennsylvania State University. Most recently, Mr. Kauffman was the Regional President for Central Pennsylvania for BB&T Bank.

Also during the summer, we recruited Larry D. Pickett, CPA, to serve as Executive Vice President and Chief Financial Officer of PeoplesBank and Treasurer of Codorus Valley; and Chad M. Cla-baugh to serve as Senior Vice President/Director of the Retail Sales and Services Division for PeoplesBank.

Mr. Pickett is a long-term resident of Harford County, Maryland. He earned his undergraduate degree in Accounting from Towson University and received his CPA designation the same year. Larry was most recently employed by Bay Bancorp, Inc., located in Baltimore County, Maryland.

Mr. Clabaugh is a lifelong resident of York County, Pennsylvania. He earned his undergraduate associate degree from York College of Pennsylvania. Chad most recently worked for BB&T Bank.

In early fall, we recruited E. Dennis Ginder as Senior Vice President/ Chief Credit Officer. Mr. Ginder is a Lancaster County native and earned his undergraduate degree from the Pennsylvania State University. He is also an Honors Graduate of the Stonier Graduate School of Banking. Dennis was most recently employed by S&T Bank. All of the foregoing have in excess of 30-years of professional experience, respectively, in the financial services industry within the Central Pennsylvania and Central Maryland marketplace.

Finally, we were most pleased to engage Ms. Kristen Heisey as Vice President, Director of Marketing and Client Experience. Ms. Heisey was valedictorian at William Penn High School in York, earned her undergraduate degree from Messiah College and was awarded a Master's Degree from Johns Hopkins University. Kristen has a well-rounded resume that includes non-profit and for profit marketing, client experience and strategic planning.

By definition, black swans are tail-risk events. Some would consider such events "unknown unknowns," and their effects only became clear after the fact. For your Company, we were able to mitigate this black swan event and through a timely and organized approach, we successfully engaged highly qualified individuals with a broad range of financial services and business experience.

## **Retirement**

In August, Ms. Lynn D. Crenshaw retired as Senior Vice President/ Retail Sales and Services Division Leader of PeoplesBank. Ms. Crenshaw joined PeoplesBank in September 2005 and has made lasting contributions to the success of our Company, including: expansion of our full-service Financial Center Network from 12 locations to 25 locations, expanding our limited services delivery channel from 3 locations to 11 locations, consolidating the consumer loan approval and processing center, and other deposit product and service related enhancements too numerous to mention. Lynn was a tireless worker, mentor, confidant, leader and friend. We wish her good health and happiness during the next phase of her life.

## **Profit**

Codorus Valley Bancorp, Inc. realized net income available to common shareholders (earnings) of \$19.5 million for the year ending 2018, compared to \$12.0 million of earnings realized in 2017, which represents an increase of approximately \$7.5 million or 63 percent. The increase in net income for the year was partially the result of a \$2.7 million reduction in the net deferred asset value at December 31, 2017.

Net interest income for 2018 increased \$4.3 million or 7 percent as compared to 2017, due primarily to the increased profit derived from an increase in the volume of commercial loans. Net interest margin (tax-equivalent basis) for 2018 was 3.84 percent, which was the same as in 2017.

Non-interest income for 2018 from all sources increased \$1.8 million or 16 percent above 2017. These results were primarily due to increases in: trust and investment services fees, income from mutual fund, annuity and insurance sales, service charges on deposit accounts, gains on sales of loans held for sale, and other income. Non-interest expense for 2018 increased \$4.8 million or 11 percent above 2017. Higher costs were associated with: personnel, professional and legal fees, debit card processing, external data processing, and charitable donations, which accounted for the

majority of the increase. The primary driver of the aforementioned increase in non-interest expense was the continued expansion of our business and consumer banking in and support services for our Maryland and Pennsylvania markets.

On December 31, 2018, total assets of Codorus Valley Bancorp, Inc. were approximately \$1.81 billion, representing a 6 percent increase compared to December 31, 2017. Total deposits at year-end 2018 were approximately \$1.50 billion, compared to \$1.38 billion at year-end 2017, which represents an increase of \$110 million or 8 percent. Total loans at year-end 2018 were approximately \$1.49 billion, compared to \$1.40 billion at year-end 2017, representing an increase of \$89 million or 6 percent.

Additional 2018 financial performance information for Codorus Valley Bancorp, Inc. is contained in the Corporation's Annual Report on Form 10-K for the year ending December 31, 2018.

## **Operations**

Several strategic initiatives came to fruition in 2018, including: the opening of a new full service financial center at 2343 Oregon Pike, Manheim Township, Lancaster County, Pennsylvania; in Bel Air, Harford County, Maryland, relocation of the previously leased financial center at 126 N. Main Street, to an adjacent property purchased by the Company at 140 N. Main Street and the opening of a Loan Production Office at 139 N. Main Street; and the launch of a new personal Online and Mobile Banking platform. With the New Account Opening solution, clients are able to open and fund a new account online in approximately 4 minutes!

## **Brand Recognition**

Locally for the third year in a row, PeoplesBank was chosen as the Best Bank in York County by voters in the *York Sunday News* 2018 Best of York County Competition. This award recognizes our Associates superior client service and commitment to our community.

## **Closing**

Earlier in this letter I spoke of black swans and "unknown unknowns." I want to close by raising topics that could be considered "known unknowns," or gray rhinos. Gray rhinos are probable, high-impact trends that are clearly observable but often ignored. In the financial services industry today, examples of gray rhinos would include: disruptive technologies and shadow financial services entities, cybersecurity, gathering of sufficient deposits to fund new loans, and on and on. All of the foregoing, and more, are mega-trends that have been clearly observable, with known risks and opportunities. The question is how will financial services companies respond to these, and other, gray rhinos. We believe we have assembled a Leadership Team at Codorus Valley and PeoplesBank who have the experience, skillsets and temperament to continue our hero/caregiver culture and effectively manage the gray rhinos of the future.

Thank you for investing in Codorus Valley Bancorp, Inc. We sincerely appreciate your confidence in our organization and, on behalf of all of our associates, thank you for your support and continued long-term investment in Codorus Valley Bancorp, Inc.



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

# Selected Financial Data

Codorus Valley Bancorp, Inc.

	2018	2017	2016	2015	2014
<b>Summary of operations (in thousands)</b>					
Interest income	\$ 80,321	\$ 70,415	\$ 62,230	\$ 56,002	\$ 50,400
Interest expense	16,401	10,868	8,649	8,174	8,040
Net interest income	63,920	59,547	53,581	47,828	42,360
Provision for loan losses	2,700	4,175	3,000	3,500	1,600
Noninterest income	13,314	11,522	10,030	9,047	8,153
Noninterest expense	49,810	44,986	41,623	37,427	32,476
Income before income taxes	24,724	21,908	18,988	15,948	16,437
Provision for income taxes	5,182	9,904	5,886	4,813	4,668
Net income	19,542	12,004	13,102	11,135	11,769
Preferred stock dividends	0	0	16	120	174
Net income available to common shareholders	\$ 19,542	\$ 12,004	\$ 13,086	\$ 11,015	\$ 11,595
<b>Per common share (adjusted for stock dividends)</b>					
Net income, basic	\$ 2.08	\$ 1.29	\$ 1.42	\$ 1.52	\$ 1.70
Net income, diluted	\$ 2.06	\$ 1.27	\$ 1.41	\$ 1.51	\$ 1.67
Cash dividends paid	\$ 0.592	\$ 0.492	\$ 0.448	\$ 0.420	\$ 0.384
Stock dividends distributed	5%	5%	5%	5%	5%
Book value	\$ 18.91	\$ 17.56	\$ 16.68	\$ 15.97	\$ 15.01
Tangible book value (1)	\$ 18.67	\$ 17.31	\$ 16.43	\$ 15.72	\$ 15.01
Cash dividend payout ratio	28.3%	38.0%	32.0%	27.2%	22.5%
Weighted average shares outstanding	9,388,151	9,314,110	9,233,085	7,227,172	6,821,185
Weighted average diluted shares outstanding	9,479,266	9,423,455	9,312,113	7,305,017	6,940,683
<b>Profitability ratios</b>					
Return on average shareholders' equity (ROE)	11.42%	7.40%	8.47%	8.94%	10.22%
Return on average assets (ROA)	1.11%	0.72%	0.88%	0.82%	0.98%
Net interest margin (tax equivalent basis)	3.84%	3.84%	3.89%	3.79%	3.84%
Efficiency ratio	63.95%	62.07%	64.09%	64.60%	62.83%
Net overhead ratio	2.08%	2.03%	2.15%	2.12%	2.08%
<b>Capital ratios</b>					
Common equity tier 1 ratio	12.15%	11.58%	11.88%	12.56%	n/a
Tier 1 risk-based capital	12.83%	12.29%	12.66%	14.49%	13.24%
Total risk-based capital	14.08%	13.48%	13.81%	15.60%	14.42%
Average shareholders' equity to average assets	9.75%	9.79%	10.44%	9.15%	9.62%
<b>Summary of financial condition at year-end (in thousands)</b>					
Investment securities	\$ 155,515	\$ 164,902	\$ 201,665	\$ 218,498	\$ 216,973
Loans	1,489,807	1,401,479	1,272,319	1,123,775	920,554
Assets	1,807,480	1,709,205	1,611,587	1,456,334	1,213,846
Deposits	1,495,280	1,384,507	1,264,177	1,094,149	954,973
Borrowings	122,332	150,805	181,947	194,820	132,590
Equity	178,746	164,219	154,957	159,141	118,440
<b>Other data</b>					
Full service financial centers	26	26	26	24	21
Number of employees (full-time equivalents)	348	326	306	282	238
Wealth Management assets, market value (in thousands)	\$ 725,087	\$ 711,161	\$ 562,865	\$ 514,728	\$ 307,000

1) A reconciliation of tangible book value, which is a non-GAAP Financial Measure, can be found further in this Annual Review.





*Craig Kauffman visits PeoplesBank's newly relocated Bel Air, MD financial center. This restoration effort has helped transform the entry into the historic downtown.*

Do not measure success by today's harvest.  
Measure success by the seeds you plant today.  
—Robert Louis Stevenson



**Fiscal year 2018** marked another extraordinary year for PeoplesBank. From every measure of success, the Bank realized record results once again confirming that our tireless focus on our Mission, Vision and Values remains the anchor for our clients, Associates, communities and shareholders. Working together to make this mission a reality, PeoplesBank once again recorded solid growth in all business lines, expanded and improved client access and experience, realized significant process improvement and posted record breaking financial performance.

Our relentless focus on client experience is the driving force behind our strategic and tactical priorities. Increasing our technology platforms, introducing and enhancing our digital and mobile capabilities, strategically expanding our physical infrastructure, and integrating the broader PeoplesBank value-proposition to our clients continues to be the roadmap to success. Our investments in these areas have been significant, and will continue to evolve without compromising our longstanding, unparalleled commitment to personal, responsive client service.

Our Associates continue to be a defining strength of our Company, and their commitment to our clients and communities is unprecedented. Associate engagement is a primary focal point of our Leadership Team, and we continue to increase learning and educational opportunities, integrate Associates with process and efficiency improvement, and encourage and facilitate volunteerism and support of our communities. During 2018, several key

professionals joined the PeoplesBank Leadership Team. With this strong Team, we are confident that we are well positioned to successfully execute any opportunities that arise in the future.

PeoplesBank's commitment to our community is longstanding and foundational to our long-term success. We know that the success of our community is connected to the success of our clients and Associates, therefore our commitment remains intentional and unwavering. From all levels of measurement, PeoplesBank's commitment and investment in the community reached record proportions in 2018. This is PeoplesBank: making a difference in the lives of many so our clients and communities may live confidently and fulfill their dreams.

I am honored and humbled to lead such an extraordinary Company and group of dedicated Associates. The commitment and focus of this team are unprecedented, and I believe that from every measure of success our future is bright. Thank you for your commitment and support of PeoplesBank.



**Craig L. Kauffman**  
President and CEO, PeoplesBank



## 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 2,450 holders of record as of February 27, 2019. The closing price per share of Codorus Valley's common stock on February 28, 2018, was \$22.95. 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.

Quarter	2018			2017		
	High	Low	Dividends Per Share	High	Low	Dividends Per Share
First	<b>\$28.31</b>	<b>\$23.65</b>	<b>\$0.148</b>	\$26.17	\$22.70	\$0.123
Second	<b>29.51</b>	<b>26.21</b>	<b>0.148</b>	26.81	22.88	0.123
Third	<b>31.86</b>	<b>28.19</b>	<b>0.148</b>	28.90	21.73	0.123
Fourth	<b>30.48</b>	<b>20.27</b>	<b>0.148</b>	31.87	26.01	0.123

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 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 21, 2019, at 9:00 a.m. Eastern Time, at the Codorus Valley Corporate Center, 105 Leader Heights Road, York, PA 17403.

### Transfer Agent

EQ Shareholder 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.

## Tangible Book Value

	2018	2017	2016	2015	2014
Reconciliation of Tangible Book Value (dollars in thousands)					
Total Shareholders' Equity	<b>\$ 178,746</b>	\$ 164,219	\$ 154,957	\$ 159,141	\$ 118,440
Less: Preferred Stock	<b>0</b>	0	0	(12,000)	(12,000)
Less: Goodwill and Other Intangible Assets	<b>(2,316)</b>	(2,321)	(2,327)	(2,333)	0
Tangible Shareholders' Equity	<b>\$ 176,430</b>	\$ 161,898	\$ 152,630	\$ 144,808	\$ 106,440
Common Shares Outstanding	<b>9,452</b>	9,351	9,290	9,211	7,087
Book Value	<b>\$ 18.91</b>	\$ 17.56	\$ 16.68	\$ 15.97	\$ 15.01
Book Value	<b>\$ 18.91</b>	\$ 17.56	\$ 16.68	\$ 15.97	\$ 15.01
Effect of Intangible Assets	<b>(0.25)</b>	(0.25)	(0.25)	(0.25)	0.00
Tangible Book Value	<b>\$ 18.67</b>	\$ 17.31	\$ 16.43	\$ 15.72	\$ 15.01

*This document contains certain financial information determined by methods other than in accordance with GAAP. This non-GAAP disclosure has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Corporation's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Our management uses this non-GAAP measure in its analysis of our performance because it believes this measure is material and will be used as a measure of our performance by investors.*



## Board of Directors

*Codorus Valley Bancorp, Inc.*

### Larry J. Miller

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

### Harry R. Swift, Esq.

Vice Chairman and Lead Director  
Retired General Counsel and Secretary  
Codorus Valley Bancorp, Inc. and PeoplesBank

### Brian D. Brunner

Division President, Account and Item Processing Sales  
Fiserv, Inc.

### Cynthia A. Dotzel, CPA

Practicing CPA  
Dotzel & Company, Inc.

### John W. Giambalvo, Esq.

President and Chief Executive Officer  
Jack Giambalvo Motor 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.

## PeoplesBank Directors Emeritus

### D. Reed Anderson, Esq.

### M. Carol Druck

### Barry A. Keller

### Rodney L. Krebs

## Corporate Officers

*Codorus Valley Bancorp, Inc.*

### Larry J. Miller

Chairman, President and Chief Executive Officer

### Craig L. Kauffman

Executive Vice President and Chief Operating Officer

### Diane E. Baker, CPA

Vice President, Assistant Secretary and  
Assistant Treasurer

### Larry D. Pickett, CPA

Treasurer

### Timothy J. Nieman, Esq.

General Counsel and Secretary

## Leadership Group

*PeoplesBank*

### Larry J. Miller

Executive Chairman  
717-747-1500

### Craig L. Kauffman

President and Chief Executive Officer  
717-747-1501

### Stephen M. Altland

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

### Diane E. Baker, CPA

Executive Vice President and  
Chief Operating/Risk Officer  
717-747-1550

### Scott R. Campagna

Senior Vice President and  
Chief Information Officer  
717-747-1581

### Chad Clabaugh

Senior Vice President,  
Retail Sales and Services Division  
717-747-1515

### Matthew A. Clemens, SPHR

Senior Vice President and  
Chief Administrative Officer  
717-747-1507

### Amy L. Doll

Senior Vice President and  
Chief Revenue and Lending Officer  
717-747-1580

### E. Dennis Ginder

Senior Vice President and Chief Credit Officer  
717-781-8485

### Kristen M. Heisey

Vice President and Director of Marketing and  
Client Experience  
717-747-1520

### Kent A. Ketterman

Senior Vice President and Director of  
Commercial Real Estate Lending  
717-747-1506

### Timothy J. Nieman, Esq.

General Counsel and Secretary  
717-747-2403

### Larry D. Pickett, CPA

Executive Vice President and  
Chief Financial Officer  
717-747-1502

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

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

### Eric G. Warfel

Senior Vice President and Director of  
Commercial Lending  
717-747-2424

## PeoplesWealth Advisors

*A Subsidiary of PeoplesBank*

### Stephen M. Altland

President and Chief Executive Officer

### Diane E. Baker, CPA

Vice President and Secretary

### Larry D. Pickett, CPA

Treasurer and Assistant Secretary

### Timothy J. Nieman, Esq.

General Counsel

### Victoria A. Schofield

Vice President

## Financial Advisors and Registered Representatives

### Jamie K. Cash, CFP®

### Wendy M. Livingston

### Victoria A. Schofield

### Gregory F. Wolfe

## Contact Information

To contact any Financial Center, the Client Care Center, or any bank associate, 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).

## Company Headquarters

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

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.

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Incorporated in 1986, Codorus Valley Bancorp, Inc. is a 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 issued by Codorus Valley Bancorp, Inc. is traded on the NASDAQ Global Market under the symbol CVLY.

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, Lancaster, and Cumberland Counties in Pennsylvania and in Baltimore and Harford Counties and Baltimore City in Maryland.

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)

