



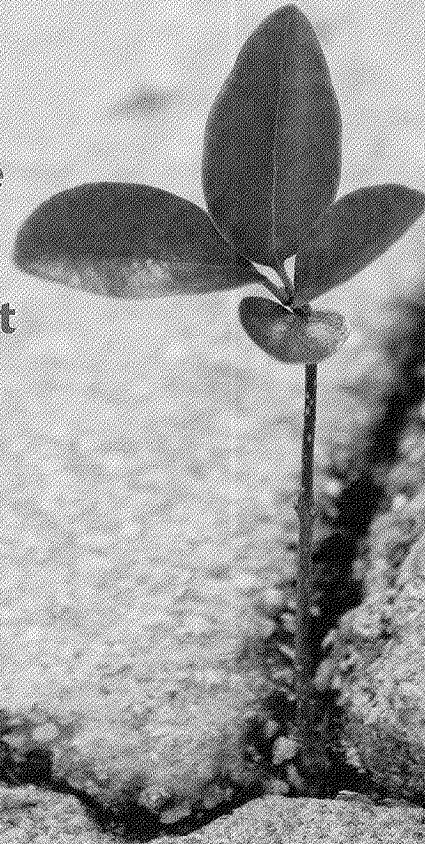
11006665

# Valley Bancorp, Inc.

## 2010 Annual Report



**Perseverance**  
**Determination**  
**Achievement**





## 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 seventeen financial centers located in York County, Pennsylvania and Baltimore and Harford Counties in Maryland.

## Selected Financial Data

|                                                   | 2010       | 2009       | 2008       | 2007       | 2006       |
|---------------------------------------------------|------------|------------|------------|------------|------------|
| <b>Summary of operations (in thousands)</b>       |            |            |            |            |            |
| Interest income                                   | \$ 44,027  | \$ 40,310  | \$ 36,732  | \$ 39,169  | \$ 33,319  |
| Interest expense                                  | 13,154     | 16,358     | 15,809     | 18,489     | 15,077     |
| Net interest income                               | 30,873     | 23,952     | 20,923     | 20,680     | 18,242     |
| Provision for (recovery of) loan losses           | 2,990      | 3,715      | 1,870      | (554)      | 650        |
| Noninterest income                                | 7,574      | 7,497      | 6,665      | 5,688      | 5,465      |
| Noninterest expense                               | 28,116     | 24,491     | 20,044     | 18,368     | 15,890     |
| Income before income taxes                        | 7,341      | 3,243      | 5,674      | 8,554      | 7,167      |
| Provision (benefit) for income taxes              | 1,133      | (191)      | 1,209      | 2,180      | 1,845      |
| Net income                                        | 6,208      | 3,434      | 4,465      | 6,374      | 5,322      |
| Preferred stock dividends and discount accretion  | 980        | 957        | -          | -          | -          |
| Net income available to common shareholders       | \$ 5,228   | \$ 2,477   | \$ 4,465   | \$ 6,374   | \$ 5,322   |
| <b>Per common share</b>                           |            |            |            |            |            |
| <i>(adjusted for stock dividends)</i>             |            |            |            |            |            |
| Net income, basic                                 | \$ 1.28    | \$ 0.61    | \$ 1.13    | \$ 1.64    | \$ 1.38    |
| Net income, diluted                               | \$ 1.28    | \$ 0.61    | \$ 1.12    | \$ 1.61    | \$ 1.35    |
| Cash dividends paid                               | \$ 0.25    | \$ 0.26    | \$ 0.51    | \$ 0.56    | \$ 0.44    |
| Stock dividends distributed                       | -          | -          | 5%         | 5%         | 10%*       |
| Book value                                        | \$ 14.51   | \$ 13.60   | \$ 12.99   | \$ 12.33   | \$ 11.08   |
| Tangible book value                               | \$ 14.44   | \$ 13.52   | \$ 12.90   | \$ 12.23   | \$ 10.96   |
| Cash dividend payout ratio                        | 19.6%      | 42.3%      | 45.1%      | 33.8%      | 32.0%      |
| Weighted average shares outstanding               | 4,093,192  | 4,042,910  | 3,965,996  | 3,881,501  | 3,846,877  |
| Weighted average diluted shares outstanding       | 4,099,475  | 4,042,910  | 3,990,956  | 3,965,980  | 3,937,050  |
| *includes a special 5% stock dividend             |            |            |            |            |            |
| <b>Profitability ratios</b>                       |            |            |            |            |            |
| Return on average shareholders' equity (ROE)      | 8.12%      | 4.88%      | 8.91%      | 13.91%     | 12.99%     |
| Return on average assets (ROA)                    | 0.67%      | 0.41%      | 0.71%      | 1.11%      | 1.05%      |
| Net interest margin                               | 3.72%      | 3.18%      | 3.63%      | 3.94%      | 3.94%      |
| Efficiency ratio                                  | 69.9%      | 74.6%      | 70.6%      | 67.4%      | 65.1%      |
| Net overhead ratio                                | 2.24%      | 2.07%      | 2.14%      | 2.20%      | 2.04%      |
| <b>Capital ratios</b>                             |            |            |            |            |            |
| Tier 1 risk-based capital                         | 12.5%      | 11.8%      | 10.0%      | 12.1%      | 12.0%      |
| Total risk-based capital                          | 13.6%      | 12.9%      | 10.8%      | 12.9%      | 12.7%      |
| Average shareholders' equity to average assets    | 8.3%       | 8.4%       | 7.9%       | 8.0%       | 8.1%       |
| <b>Summary of financial condition at year-end</b> |            |            |            |            |            |
| <i>(in thousands)</i>                             |            |            |            |            |            |
| Investment securities                             | \$ 226,603 | \$ 178,454 | \$ 77,287  | \$ 84,369  | \$ 80,926  |
| Loans                                             | 645,839    | 647,143    | 580,451    | 447,497    | 407,260    |
| Assets                                            | 957,332    | 892,831    | 702,766    | 594,607    | 548,212    |
| Deposits                                          | 806,110    | 722,957    | 598,129    | 511,968    | 456,645    |
| Borrowings                                        | 68,805     | 92,748     | 47,779     | 30,660     | 45,339     |
| Equity                                            | 76,539     | 72,012     | 52,181     | 48,415     | 42,786     |
| <b>Other data</b>                                 |            |            |            |            |            |
| Number of bank offices                            | 17         | 17         | 17         | 14         | 14         |
| Number of employees (full-time equivalents)       | 198        | 201        | 200        | 179        | 168        |
| Wealth Management assets, market value            |            |            |            |            |            |
| <i>(in thousands)</i>                             | \$ 368,985 | \$ 325,482 | \$ 261,153 | \$ 320,655 | \$ 259,453 |





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|---------|--------|--------|---------------------|--------|--------|---------------------|
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| Third   | 8.51   | 7.05   | 0.080               | 7.50   | 5.75   | 0.030               |
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RBC Wealth Management  
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**Annual Shareholders Meeting**

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**Transfer Agent**

Wells Fargo Bank, N.A., Shareowner Services, 161 North Concord Exchange, South St. Paul, MN 55075. Phone 1-800-468-9716.

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Codorus Valley's balance sheet continues to grow as total assets ended 2010 at approximately \$957 million, an increase of \$65 million or 7 percent above year-end 2009. Total deposits, which increased PeoplesBank's market share in York County to approximately 12 percent, ended 2010 at \$806 million, an increase of \$83 million or 11 percent above year-end 2009. Total loans, reflecting the lack of consumer and business confidence that continues to prevail, declined slightly to end the year 2010 at \$646 million.

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We are pleased that two experienced professionals have joined PeoplesBank and will focus their efforts on building and deepening client relationships. Joining the staff are Brian W. Caler, Vice President/Business Banking and Joseph P. Hackett, Vice President/Senior Private Banking Advisor. Mr. Caler will support PeoplesBank's business banking activities in the Hanover area. Mr. Hackett has joined the Wealth Management Division and will assist in developing the Private Banking Group by attracting high net worth clients to PeoplesBank.

Also during 2010, a valuable and engaged member of the Board of Directors of both Codorus Valley and PeoplesBank retired due to reaching mandatory retirement age. Mr. Donald H. Warner served our companies with distinction over his twenty-one years as a member of the Boards. Don's keen insights and executive leadership proved invaluable as the Company expanded its franchise footprint and evaluated business opportunities. We wish Don good health and safe travel in the future.

Last year's passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) marked the most far-reaching reform of the financial services industry since the 1930s Glass-Steagall Act, which separated commercial and investment banking. The Dodd-Frank Act contains regulatory mandates which include: increased focus on investor advocacy; increased regulation of financial instruments and the financial services industry; increased Board of Director fiduciary oversight; and increased guidance on shareholder proxy access, "say-on-pay" votes, executive compensation, adviser independence and incentive compensation "clawback" policies. Each of the foregoing, taken individually, creates substantial work for every financial institution, but collectively, the additional staffing and overhead necessary to fulfill these new mandates will be costly and burdensome.

While there are many aspects of the Dodd-Frank Act that are quite onerous, two that have a direct monetary impact on shareholders are the creation of the Consumer Financial Protection Bureau and the implementation of the so-called "Durbin Amendment." The Durbin Amendment required that the Federal Reserve Bank analyze the costs associated with debit card processing and, thereafter, mandate the inter-change fee that financial institutions earn when a debit card is used to consummate a consumer financial transaction. We have determined that with the implementation of the Durbin Amendment, as currently proposed, the income generated by debit-card transactions could decline by approximately \$1 million and directly impact your Company's financial performance in the future.

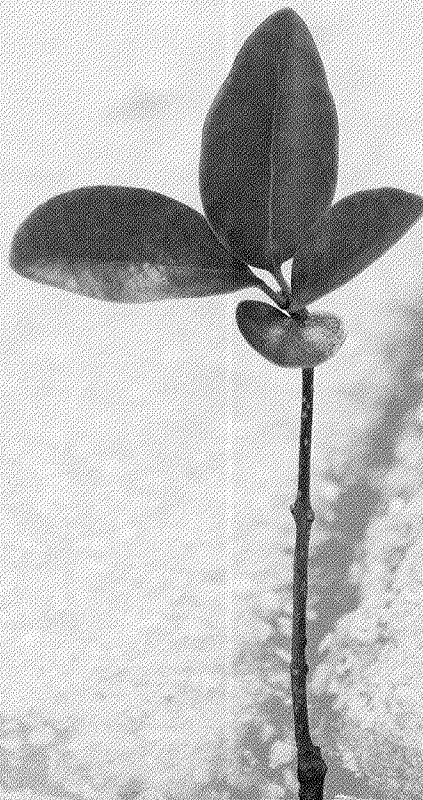
The Dodd-Frank Act also mandates a new, start-up governmental agency entitled the Consumer Financial Protection Bureau. This new agency, with 800 employees headquartered initially in Washington, D.C., will focus its efforts on consumer regulation, consumer advocacy and financial literacy within the banking system.

It is our position that business conditions remain fragile, but have slowly improved from last year. However, the legislative and regulatory environment has shifted from being merely burdensome to financially impactful. The community banking system was not the cause of the financial meltdown or creation of the Great Recession; however, the increased costs of regulatory compliance due to the Dodd-Frank Act will be felt disproportionately among our segment of the industry, versus money-center institutions.

In spite of the foregoing, green shoots are appearing within various areas of our economy, our industry and our community. We hope that these green shoots continue to grow and multiply, not only for our current benefit, but also for future generations. To everyone associated with Codorus Valley Bancorp, Inc., thank you for your efforts on behalf of our Company and the communities we serve. And thank you, our shareholders, for your confidence, financial support and continued long-term investment in Codorus Valley Bancorp, Inc.



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





## PeoplesBank Directors Emeritus

M. Carol Druck  
Barry A. Keller  
Donald H. Warner  
Bernard F. Young

## Bank Officers and Managers

Thomas W. Hodgins  
Senior Vice President,  
Director, Maryland Banking Group

Lorrie A. Schenning  
Senior Vice President, Business Banking

Stephen M. Altland  
Vice President, Senior Trust Advisor

Brian W. Caler  
Vice President, Business Banking

M. Scott Elliott  
Vice President, Business Banking

Jeffrey E. Grove  
Vice President, Business Banking

James B. Hess, III  
Vice President, Business Banking

Dawn C. Paul  
Vice President and Controller

Stephen T. Sherman  
Vice President, Business Banking

Brady J. Barnes  
Assistant Vice President, Business Banking

Rose M. Deter  
Assistant Vice President,  
Retail Client Relationship Manager

Stephen P. Doud  
Assistant Vice President and Manager,  
Information Technology

Tammy L. Ford  
Assistant Vice President,  
Director—Client Relationship Management

Susannah W. Groves  
Assistant Vice President,  
Cash Management Advisor

Steven E. Miller  
Assistant Vice President, Loan Review Officer

Kelly L. Rosenzweig  
Assistant Vice President,  
Senior Financial Analyst

Timothy S. Wise  
Assistant Vice President and Manager  
Loan Services

Mary C. Buck, CBA, CRCM  
Compliance Officer

Phyllis A. Crumley  
Retail Services Officer

Renee K. Eberly  
Senior Settlement Services Officer

Donna A. Massa  
Training Officer

Debra A. Messersmith  
Manager—Retail Support

Stephanie R. Miller  
Manager—Trust Operations

Carol E. Montony  
Manager—Client Care Center

Lindsay M. Pepper  
Human Resources Officer

Mary Anne Seitz  
Training Manager

Natalie L. Thompson  
Human Resources Officer

Tamara L. Wildasin  
Senior Commercial Credit Review Officer

## Financial Center Managers

Christopher M. Aulbach  
Marisa G. Baublitz  
James W. Coombes  
John S. Eaton, Jr., Assistant Vice President  
Nathan D. Fischer  
Michele K. Gowland  
Carol A. Gross, Assistant Vice President  
Wanda M. Harlaub  
Terry R. Kernan  
Connie L. Kiser  
Wendy M. Livingston  
Dawn M. Muir  
Algard P. Shaffer, Assistant Vice President  
Barbara J. Wilson, Assistant Vice President

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<sup>®</sup>  
ATM Network.

## Codorus Valley Financial Advisors, Inc.

### Officers

Harry R. Swift, Esquire  
President

Larry J. Miller  
Vice President and Secretary

Todd A. Tyson, CFSSP  
Vice President

Jann Allen Weaver, CPA  
Treasurer and Assistant Secretary

### Registered Representatives

Steven E. Poff  
Richard B. Shuster  
David J. Tushingham

## SYC Settlement Services, Inc.

### Officers

Harry R. Swift, Esquire  
President

Larry J. Miller  
Vice President and Secretary

Scott T. Weaver  
Vice President

Jann Allen Weaver, CPA  
Treasurer and Assistant Secretary

### 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.

### Electronic Access

Internet Banking and Online Bill  
Payment Services are available at  
[www.peoplesbanknet.com](http://www.peoplesbanknet.com).  
Phoneconnect<sup>®</sup> 24-Hour Telephone  
Banking may be accessed by calling  
717-747-1555 or 1-888-767-1555.

2010  
**Perseverance • Determination • Achievement**





## 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, Esquire**

Stock and Leader  
Attorney at Law

### **MacGregor S. Jones**

Retired Automobile Dealer

### **William H. Simpson**

Vice Chairman, Susquehanna Real Estate LP

### **Dallas L. Smith**

President, Bruce V. Smith, Inc.

### **Hon. Michael L. Waugh**

28th Senatorial District, York County

## Corporate Officers

Codorus Valley Bancorp, Inc.

### **Larry J. Miller**

President and CEO

### **Harry R. Swift, Esquire**

Vice President and Secretary

### **Diane E. Hill, CPA**

Vice President and Auditor

### **Jann Allen Weaver, CPA**

Treasurer and Assistant Secretary

## PeoplesBank Leadership Group

### **Larry J. Miller**

President and Chief Executive Officer  
717-747-1500

### **Jann Allen Weaver, CPA**

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

### **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

### **Kent A. Ketterman**

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

### **Jeffrey A. Snyder**

Senior Vice President,  
Chief Lending Officer  
717-747-1515

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

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

### **Harry R. Swift, Esquire**

Executive Vice President and Secretary  
717-747-1501

### **David R. Kenney**

Senior Vice President,  
Wealth Management Division  
717-747-1557

### **Scott T. Weaver**

Senior Vice President, Cashier,  
and Chief Credit Officer  
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

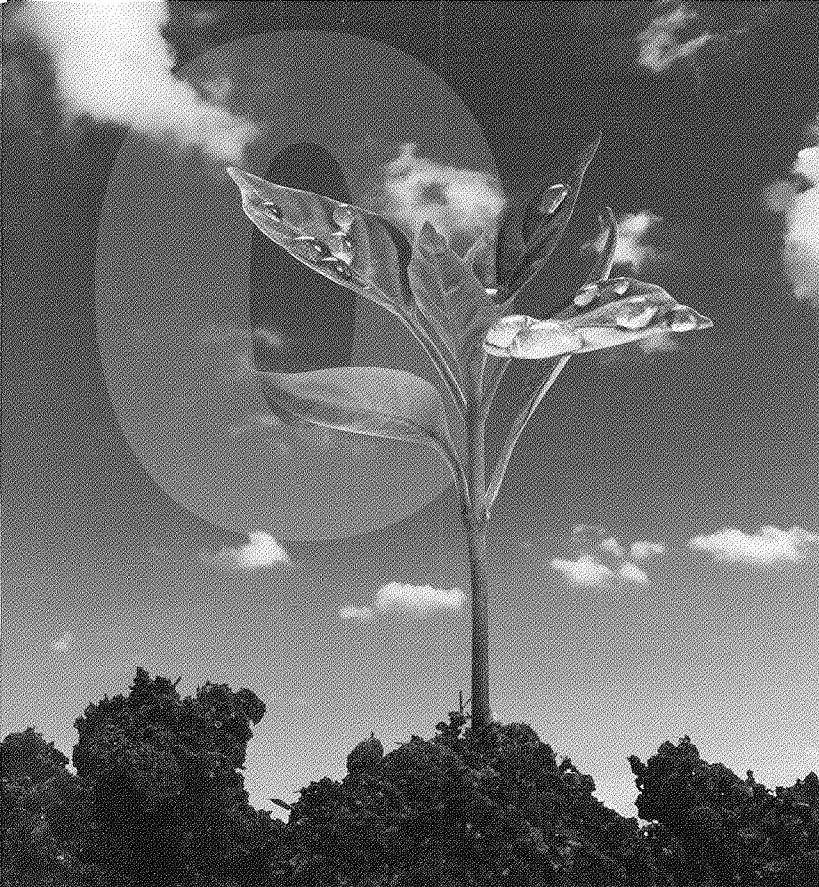
### **Diane E. Hill, CPA**

Vice President,  
Auditor  
717-747-1550

### **Keith L. Sheffer**

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Mortgage Banking Division  
717-747-1540





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Last year's passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) marked the most far-reaching reform of the financial services industry since the 1930s Glass-Steagall Act, which separated commercial and investment banking. The Dodd-Frank Act contains regulatory mandates which include: increased focus on investor advocacy; increased regulation of financial instruments and the financial services industry; increased Board of Director fiduciary oversight; and increased guidance on shareholder proxy access, "say-on-pay" votes, executive compensation, adviser independence and incentive compensation "clawback" policies. Each of the foregoing, taken individually, creates substantial work for every financial institution, but collectively, the additional staffing and overhead necessary to fulfill these new mandates will be costly and burdensome.

While there are many aspects of the Dodd-Frank Act that are quite onerous, two that have a direct monetary impact on shareholders are the creation of the Consumer Financial Protection Bureau and the implementation of the so-called "Durbin Amendment." The Durbin Amendment required that the Federal Reserve Bank analyze the costs associated with debit card processing and, thereafter, mandate the inter-change fee that financial institutions earn when a debit card is used to consummate a consumer financial transaction. We have determined that with the implementation of the Durbin Amendment, as currently proposed, the income generated by debit-card transactions could decline by approximately \$1 million and directly impact your Company's financial performance in the future.

The Dodd-Frank Act also mandates a new, start-up governmental agency entitled the Consumer Financial Protection Bureau. This new agency, with 800 employees headquartered initially in Washington, D.C., will focus its efforts on consumer regulation, consumer advocacy and financial literacy within the banking system.

It is our position that business conditions remain fragile, but have slowly improved from last year. However, the legislative and regulatory environment has shifted from being merely burdensome to financially impactful. The community banking system was not the cause of the financial meltdown or creation of the Great Recession; however, the increased costs of regulatory compliance due to the Dodd-Frank Act will be felt disproportionately among our segment of the industry, versus money-center institutions.

In spite of the foregoing, green shoots are appearing within various areas of our economy, our industry and our community. We hope that these green shoots continue to grow and multiply, not only for our current benefit, but also for future generations. To everyone associated with Codorus Valley Bancorp, Inc., thank you for your efforts on behalf of our Company and the communities we serve. And thank you, our shareholders, for your confidence, financial support and continued long-term investment in Codorus Valley Bancorp, Inc.



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

