

CODORUS VALLEY BANCORP INC  
Form 10-K  
March 25, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2013

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file Number 0-15536

**CODORUS VALLEY BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-2428543**  
(I.R.S. Employer  
Identification No.)

**105 Leader Heights Road, P.O. Box 2887, York, Pennsylvania 17405**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(717) 747-1519**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
**Common Stock, \$2.50 par value**

Name of each exchange on which registered  
**NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.  
 Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.  
 Yes  No

The aggregate market value of Codorus Valley Bancorp, Inc.'s voting stock held by non-affiliates was approximately \$72,201,961 as of June 30, 2013.

As of March 5, 2014, Codorus Valley Bancorp, Inc. had 4,817,647 shares of common stock outstanding, par value \$2.50 per share.

### DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference to the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2014.

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**PART I**

**Item 1: Business**

Codorus Valley Bancorp, Inc. (Codorus Valley or the Corporation) is a Pennsylvania business corporation, incorporated on October 7, 1986. On March 2, 1987, Codorus Valley became a bank holding company under the Bank Holding Company Act of 1956. PeoplesBank, A Codorus Valley Company (PeoplesBank) is its wholly owned bank subsidiary. SYC Realty Co., Inc. is its wholly owned nonbank subsidiary. Codorus Valley's business consists primarily of managing PeoplesBank, and its principal source of income is dividends received from PeoplesBank. On December 31, 2013, Codorus Valley had total consolidated assets of \$1.15 billion, total deposits and other liabilities of \$1.04 billion, and total shareholders' equity of \$107.6 million.

**Bank subsidiary**

PeoplesBank, organized in 1934, is a Pennsylvania chartered bank that offers a full range of business and consumer banking services through twenty financial centers located throughout York County, Pennsylvania and in Hunt Valley, Bel Air and Westminster, Maryland. PeoplesBank, with origins dating back to 1864, is focused on acquiring and nurturing financial relationships with small and mid-sized businesses. It also provides personal banking, mortgage banking, wealth management and real estate settlement services. The Federal Deposit Insurance Corporation insures the deposits of PeoplesBank to the maximum extent provided by law. On December 31, 2013, PeoplesBank had total gross loans of \$860 million, excluding loans held for sale, and total deposits of \$926 million. PeoplesBank had the second largest share of deposits in York County, PA with deposits totaling 13.5 percent of the market as of June 30, 2013, the latest available measurement date.

PeoplesBank is not dependent on deposits of, or exposed to a loan concentration to, a single customer, or a small group of customers. Therefore, the loss of a single customer, or a small customer group, would not have a material adverse effect on the financial condition of PeoplesBank. At year-end 2013, the largest indebtedness of a single PeoplesBank customer was approximately \$13.2 million or 1.5 percent of the total loan portfolio, which was within PeoplesBank's regulatory lending limit of approximately \$18 million.

Most of the Corporation's business is with customers in York County, Pennsylvania and northern Maryland. Although this limited market area may pose a concentration risk geographically, we believe that the diverse local economy and our detailed knowledge of the customer base lessens this risk. At year-end 2013 and 2012, the Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: builder and developer were 12.4 percent and 13.2 percent of the portfolio at December 31, 2013 and 2012, respectively; and commercial real estate investor was 16.5 percent and 16.6 percent of the portfolio, respectively. Loans to borrowers within these industries are usually collateralized by real estate.

**Nonbank subsidiaries of PeoplesBank**

Codorus Valley Financial Advisors, Inc. is a wholly owned subsidiary of PeoplesBank that sells non-deposit investment products. This subsidiary began operations in January 2000 and, prior to a name change in December 2005, operated under the name SYC Insurance Services, Inc. SYC Settlement Services, Inc. is a wholly owned subsidiary of PeoplesBank that has provided real estate settlement services since January 1999. Periodically, PeoplesBank creates nonbank subsidiaries for the purpose of temporarily holding foreclosed properties pending liquidation. On December 31, 2013, two of these subsidiaries were active. The operations of nonbank subsidiaries are consolidated for financial reporting purposes.

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**Nonbank subsidiaries of Codorus Valley Bancorp, Inc.**

In June 2006, Codorus Valley formed CVB Statutory Trust No. 2, a wholly-owned special purpose subsidiary whose sole purpose was to facilitate a pooled trust preferred debt issuance of \$7,217,000. In November 2004, Codorus Valley formed CVB Statutory Trust No. 1 to facilitate a pooled trust preferred debt issuance of \$3,093,000. The Corporation owns 100 percent of the common stock of these nonbank subsidiaries, which are not consolidated for financial reporting purposes. These obligations are reported as junior subordinated debt on the Corporation's balance sheet.

On June 20, 1991, SYC Realty was incorporated as a wholly owned subsidiary of Codorus Valley. Codorus Valley created this nonbank subsidiary primarily for the purpose of holding foreclosed properties obtained by PeoplesBank pending liquidation of those properties. SYC Realty commenced business operations in October 1995.

**Employees**

At year-end 2013, PeoplesBank employed 214 full-time employees and 34 part-time employees, which equated to approximately 229 full-time equivalent employees. Employees are not covered by a collective bargaining agreement, and PeoplesBank considers its relations with employees to be satisfactory.

**Segment reporting**

Management has determined that it operates in only one segment, community banking. The Corporation's non-banking activities are insignificant to the consolidated financial statements.

**Competition**

The banking industry in PeoplesBank's service area, principally York County, Pennsylvania, and northern Maryland, specifically, Baltimore, Harford and Carroll counties, is extremely competitive. PeoplesBank competes through service and price and by leveraging its hometown image. It competes with commercial banks and other financial service providers, such as thrifts, credit unions, consumer finance companies, investment firms and mortgage companies. Some financial service providers operating in PeoplesBank's service area operate on a national and regional scale and possess resources that are greater than PeoplesBank's.

**Supervision and regulation**

*Federal Reserve System*

Codorus Valley is registered as a bank holding company, and is subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve), under the Bank Holding Company Act of 1956, as amended. The Bank Holding Company Act requires bank holding companies to file periodic reports with, and subjects them to examination by, the Federal Reserve. The Federal Reserve has issued regulations under the Bank Holding Company Act that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve may require Codorus Valley to use its resources to provide adequate capital funds to PeoplesBank during periods of financial stress or adversity.

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The Bank Holding Company Act prohibits Codorus Valley from acquiring direct or indirect control of more than 5 percent of the outstanding voting stock of any bank, or substantially all of the assets of any bank, or merging with another bank holding company, without the prior approval of the Federal Reserve. The Pennsylvania Department of Banking and Securities must also approve certain similar transactions. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

The Bank Holding Company Act restricts Codorus Valley to activities that the Federal Reserve has found to be closely related to banking, and which are expected to produce benefits for the public that will outweigh any potentially adverse effects. Therefore, the Bank Holding Company Act prohibits Codorus Valley from engaging in most nonbanking businesses, or acquiring ownership or control of more than 5 percent of the outstanding voting stock of any company engaged in a nonbanking business, unless the Federal Reserve has determined that the nonbanking business is closely related to banking. Under the Bank Holding Company Act, the Federal Reserve may require a bank holding company to end a nonbanking business if it constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

The Federal Reserve Act imposes restrictions on a subsidiary bank of a bank holding company, such as PeoplesBank. The restrictions affect extensions of credit to the bank holding company and its subsidiaries, investments in the stock or other securities of the bank holding company and its subsidiaries, and taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve regulations also place limitations and reporting requirements on extensions of credit by a bank to the principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulation may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

PeoplesBank and the banking industry, in general, are affected by the monetary and fiscal policies of the U.S. Treasury and government agencies, including the Federal Reserve. Through open market securities transactions, changes in its federal funds and discount rates and reserve requirements, the Federal Reserve exerts considerable influence over the cost and availability of funds for lending and investment.

*U.S. Department of the Treasury*

The U.S. Department of the Treasury (Treasury) has a capital investment in the Corporation pursuant to the Corporation's participation in the Treasury's Small Business Lending Funding Program (SBLF Program). In August 2011, the Corporation sold to the Treasury, for an aggregate purchase price of \$25 million, 25,000 shares of non-cumulative, perpetual preferred stock, Series B, \$1,000 liquidation value, \$2.50 par value. Proceeds from the SBLF Program were used in part to redeem \$16.5 million of outstanding Series A preferred stock previously issued to the Treasury under its Capital Purchase Program (CPP) and to repurchase a related CPP common stock warrant. These transactions were previously disclosed in filings with the SEC. The terms of the SBLF Preferred Stock Agreement impose limits on the ability of the Corporation to pay dividends and repurchase shares of common stock, as disclosed within Note 10 Shareholders' Equity to the consolidated financial statements.

*Pennsylvania Department of Banking and Securities*

The operations of PeoplesBank are subject to state statutes applicable to banks chartered under the banking laws of the Commonwealth of Pennsylvania. Pennsylvania business and banking laws restrict dividend payments if such payment would render the Corporation insolvent or result in negative net worth, and the Corporation and PeoplesBank are subject to regulatory capital requirements. More information about dividend restrictions and capital requirements can be found in Note 9 Regulatory Matters in the notes to the consolidated financial statements.

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State and federal banking laws and regulations govern such things as: the scope of a bank's business; permissible investments; the reserves against deposits a bank must maintain; the types and terms of loans a bank may make and the collateral it may take; the activities of a bank with respect to mergers and consolidations; the establishment of branches; and the sale of non-deposit investment products by the bank and its insurance subsidiary. The Pennsylvania Insurance Department, the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) control and supervise the licensing and activities of employees engaged in the sale of non-deposit investment products.

*Federal Deposit Insurance Corporation (FDIC)*

The FDIC is the primary federal regulator of PeoplesBank. It regularly examines banks in such areas as capital, asset quality, management, earnings, liquidity and sensitivity to market risk and other aspects of operations and requires that PeoplesBank furnish annual and quarterly reports. Examinations by the FDIC are designed for the protection of PeoplesBank's depositors rather than Codorus Valley's shareholders. The FDIC provides deposit insurance to banks, which covers all deposit accounts. The standard maximum insurance amount is \$250,000 per depositor.

PeoplesBank pays deposit insurance premiums to the FDIC based on a risk-based assessment formula established by the FDIC for Deposit Insurance Fund (DIF) member institutions. Institutions are classified into one of four risk categories and pay premiums according to perceived risk to the FDIC's DIF. PeoplesBank has consistently been a risk category I institution, the least risky category. Institutions in risk categories II, III and IV are assessed premiums at progressively higher rates.

As a means of funding the FDIC's DIF, banks were required to prepay several years of deposit insurance premiums. In accordance with the FDIC's final rule in November 2009 pertaining to prepaid assessments for the banking industry, PeoplesBank prepaid approximately \$4.4 million to the FDIC on December 30, 2009. This prepaid amount represented an accumulation of regular quarterly assessments projected by the FDIC through the year 2012. Insured institutions recorded the entire prepaid assessment as a prepaid asset subject to amortization of an appropriate amount to expense each quarter to coincide with quarterly FDIC assessment notices. At December 31, 2012, the Corporation had a prepaid asset balance of approximately \$1.3 million, which was returned to the Corporation by the FDIC in June 2013. Beginning in the year 2013, the Corporation began to accrue the cost of FDIC premiums in anticipation of quarterly assessments by the FDIC.

In February 2011, the FDIC announced its final rule pertaining to, among other things, changes in the computation of risk-based insurance premiums as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rule, which took effect April 1, 2011, changed the assessment base from domestic deposits to average assets minus average tangible equity, i.e., Tier 1 capital, and lowered assessment rates. For insured member institutions below \$10 billion in total assets, the four risk categories framework mentioned earlier continues to apply. For the least risky category I institutions, such as PeoplesBank, the assessment rate range of 7 to 24 basis points on domestic deposits decreased to 2.5 to 9 basis points on total average assets minus average tangible equity. The final rule eliminated risk categories for large institutions with total assets of \$10 billion or more. Instead, their assessment rates are now calculated using a scorecard that combines regulatory ratings and certain forward financial measures to assess the risk a large institution poses to the DIF. Generally, the change in the assessment methodology by the FDIC lowered deposit insurance premiums for community banks like PeoplesBank.

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Effective January 1, 2012, PeoplesBank became subject to FDIC regulation 363.3(b), which requires depository institutions with total assets of \$1 billion or more to engage an independent public accountant to examine, attest to, and report on the assertion of management concerning the institution's internal control structure and procedures for financial reporting.

*Requirements of federal agencies that affect the Corporation and PeoplesBank*

**Small Business Jobs and Credit Act of 2010** In September 2010, President Obama signed into law the Small Business Jobs and Credit Act of 2010, which created the Small Business Lending Fund (SBLF). Under the SBLF the U.S. Treasury (Treasury) was authorized to make a capital investment of up to \$30 billion by purchasing securities in participating community banks, principally in the form of senior preferred stock, that agree to use the funds to increase small-business lending. The SBLF limits the investment by the Treasury to 5 percent of risk-weighted assets for participating banks with total assets of \$1 billion or less, and to 3 percent of risk-weighted assets for participating banks with more than \$1 billion but less than \$10 billion of total assets. Although the dividend rate was initially set at 5 percent, a participating community bank can decrease the dividend rate to as low as 1 percent by increasing its qualifying small business lending portfolio balance by at least 10 percent above a baseline portfolio balance. However, four and a half years after issuance, the dividend rate on SBLF securities will increase to 9 percent regardless of the level of small business lending. The SBLF provides community banks with a relatively inexpensive form of Tier 1 capital and also provides an attractive option for community banks to refinance preferred stock issued to the Treasury pursuant to its Capital Purchase Program. Accordingly, the Corporation participated in the SBLF program during the year 2011 and continues to participate in this program as discussed within the Shareholders' Equity and Capital Adequacy section of this report.

**Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)** In July 2010, the Dodd-Frank Act was enacted to improve accountability and transparency in the financial system, to attempt to end "too big to fail" pertaining to large, troubled financial institutions, to protect the American taxpayer by ending governmental bailouts, to protect consumers from abusive financial services practices and for other purposes. The Dodd-Frank Act is broad and complex legislation that puts in place a sweeping new financial services regime that will have significant regulatory and legal consequences for banks now and for years to come. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to the potential for additional legislative changes to the Dodd-Frank Act. The Corporation, as well as the broader financial services industry, is continuing to assess the potential impact of the Dodd-Frank Act on its business and operations, but at this stage, the extent of the impact cannot be determined with any degree of certainty. However, the Corporation is likely to be impacted by the Dodd-Frank Act in the areas of corporate governance, deposit insurance assessments, capital requirements, risk management, stress testing, and regulation under consumer protection laws. The Dodd-Frank Act:

Provides extensive authorities to the federal bank regulatory agencies and, in particular, the Board of Governors of the Federal Reserve, to take proactive steps to reduce or eliminate threats to the safety of the financial system, impose strict controls on large bank holding companies (\$50 billion or more) and nonbank financial companies to limit their risk, and take direct control of troubled financial companies considered systemically significant;

Increases bank supervision by restructuring the supervision of holding companies and depository institutions. Establishes the equivalent of a prompt corrective action program for large bank holding companies. Requires that capital requirements for holding companies be at least as strict as capital requirements for depository institutions. Disallows new issuances of preferred securities to qualify for Tier 1 capital treatment. Directs federal bank regulators to develop specific capital requirements for holding companies and depository institutions that address activities that pose risk to the financial system, such as significant activities in higher risk areas, or concentrations in assets whose reported values are based on models;



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Establishes the Bureau of Consumer Financial Protection (Bureau) as an independent entity within the Federal Reserve System that will assume responsibility for most consumer protection laws. The Bureau will have authority to supervise, examine and take enforcement action with respect to depository institutions with more than \$10 billion in assets and nonbank mortgage industry participants and other designated nonbank providers of consumer financial services;

Places certain limitations on investment and other activities by depository institutions, holding companies and their affiliates. Banks and their affiliates face strict limits on investment in, and sponsoring of, hedge funds and private equity funds. The coverage of Section 23A of the Federal Reserve Act is expanded to include the credit exposure related to additional transactions, including derivatives. New restrictions are imposed on acquisitions that would result in a financial services company controlling more than 10 percent of the consolidated aggregate liabilities of all financial companies; and

Significantly increases the regulation of mortgage lending and servicing by banks and nonbanks. Requires mortgage originators to ensure that the consumer will have the capacity to repay the loan and mandates loan related disclosures. Requires mortgage loan securitizers to retain a certain amount of risk, unless the mortgages conform to the new regulatory standards as qualified residential mortgages.

**Emergency Economic Stabilization Act of 2008 (EESA)** In October of 2008, the EESA, also known as the Troubled Asset Relief Act (TARP), was enacted. Under TARP, the U.S. Department of the Treasury initiated a Capital Purchase Program (CPP), which allowed qualified financial institutions to issue preferred stock to the Treasury, subject to certain limitations and terms. The EESA was developed to attract broad participation by strong financial institutions to stabilize the financial system and increase lending to benefit the national economy and U.S. citizens. As previously reported, in January 2009, the Corporation sold 16,500 shares of nonvoting Series A perpetual preferred stock and a common stock warrant to the Treasury and received \$16.5 million in capital funds. Also as previously reported in August 2011 the Corporation redeemed all outstanding shares of Series A CPP preferred stock, and in September 2011 it repurchased the outstanding CPP common stock warrant. More information about this capital transaction is provided within the Shareholders' Equity and Capital Adequacy section of this report.

**Sarbanes-Oxley Act of 2002** The Sarbanes-Oxley Act (SOA) was signed into law in July 2002 and applies to all companies, both U.S. and non-U.S., that file periodic reports under the Securities Exchange Act of 1934. The stated goals of the SOA were to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SEC is responsible for establishing rules to implement various provisions of the SOA. The SOA includes specific disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC. The SOA represents significant regulation of the accounting profession and corporate governance practices, such as the relationship between a board of directors and management and between a board of directors and its committees. Section 404 of the SOA became effective for the year ended December 31, 2004, for companies whose public float (i.e., the product of outstanding common shares held by non-affiliates times the share price as of the last business day of the registrant's most recently completed second fiscal quarter) was above \$75 million. For smaller companies (non-accelerated and smaller reporting company filers), including Codorus Valley, the effective date was the fiscal year ending on or after December 15, 2007. Section 404 requires publicly held companies to document, test and certify that their internal control systems over financial reporting are effective. During 2010, the Dodd-Frank Act permanently exempted public companies with common stock capitalization of less than \$75 million from the independent auditor attestation requirements of the SOA. Effective December 31, 2012, PeoplesBank became subject to independent auditor attestation under FDIC regulation 363.3(b) due to its asset size, which is essentially equivalent to the SEC's independent attestation requirement under Section 404 of the SOA.

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**USA Patriot Act of 2001** In October of 2001, the USA Patriot Act of 2001 was enacted to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations on financial institutions, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Periodically, various types of federal and state legislation are proposed that could result in additional regulation of, and restrictions on, the business of Codorus Valley and PeoplesBank. It cannot be predicted whether such legislation will be adopted or, if adopted, how such legislation would affect the business of Codorus Valley and its subsidiaries. As a consequence of the extensive regulation of commercial banking activities in the United States of America, Codorus Valley and PeoplesBank's business is particularly susceptible to being affected by federal legislation and regulations. The general cost of compliance with numerous and multiple federal and state laws and regulations does have, and in the future may have, a negative impact on Codorus Valley's results of operations.

**Other information**

This Annual Report on Form 10-K is filed with the Securities and Exchange Commission (SEC). Copies of this document, the Quarterly Report on Form 10-Q, Current Reports on Form 8-K, amendments to those reports 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 select SEC filings, then select 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., 105 Leader Heights Road, York, PA 17403.

**Item 1A: Risk factors**

Not applicable to smaller reporting companies.

**Item 1B: Unresolved staff comments**

Not applicable.

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**Item 2: Properties**

Codorus Valley Bancorp, Inc. owns the Codorus Valley Corporate Center (Corporate Center), subject to a first lien held by ACNB Bank and a second lien held by its wholly owned subsidiary, PeoplesBank. The first lien held by ACNB Bank supports a \$3 million line of credit. No draws have been made on the line and on December 31, 2013, the balance was zero. The second lien held by PeoplesBank totaled \$1.05 million on December 31, 2013. The Corporate Center is located at 105 Leader Heights Road, York Township, York, PA. This facility serves as the corporate headquarters and is approximately 40,000 square feet, a portion of which is leased to third-parties. The Corporate Center is adjacent to PeoplesBank's Data Operations Center and the Leader Heights banking office.

On December 31, 2013, PeoplesBank operated 20 branch banking offices. Of this total, 8 are owned by PeoplesBank without liens and located in York County, PA, and 12 are leased by PeoplesBank and are located in York County, PA, and in Baltimore, Carroll and Harford Counties in Maryland.

We believe that the above properties owned and leased by the Corporation and its subsidiary are adequate for present levels of operation.

**Item 3: Legal proceedings**

There are no legal proceedings pending against Codorus Valley Bancorp, Inc. or any of its subsidiaries which are expected to have a material impact upon the financial position and/or operating results of the Corporation. Management is not aware of any proceedings known or contemplated by governmental authorities.

**Item 4: Mine safety disclosures**

Not applicable.

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The common shares of Codorus Valley Bancorp, Inc. are traded on the NASDAQ Global Market under the symbol CVLY. Codorus Valley had approximately 2,060 holders of record as of March 5, 2014. The closing price per share of Codorus Valley's common stock on March 5, 2014, was \$20.26. 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	2013			2012		
	High	Low	Dividends Per Share	High	Low	Dividends Per Share
First	\$ 16.10	\$ 12.61	\$ 0.105	\$ 10.16	\$ 7.51	\$ 0.082
Second	16.75	14.52	\$ 0.105	12.59	9.77	0.082
Third	18.19	16.43	\$ 0.114	14.66	12.02	0.100
Fourth	21.98	16.73	\$ 0.114	15.24	12.88	0.100

**Dividend policy**

Codorus Valley has a long history of paying quarterly cash dividends on its common stock. Codorus Valley presently expects to pay future cash dividends; however, the payment of such dividends will depend primarily upon the earnings of its subsidiary, PeoplesBank. Management anticipates that substantially all of the funds available for the payment of cash dividends by Codorus Valley will be derived from dividends paid to it by PeoplesBank. The payment of cash dividends is also subject to restrictions on dividends and capital requirements as reported in Note 9-Regulatory Matters in the notes to the consolidated financial statements.

The annualized dividend rate on the \$25 million of preferred stock issued under the U.S. Treasury's Small Business Lending Fund Program (SBLF Program) for the years ended December 31, 2013, 2012 and 2011, was 1 percent, 1.54 percent and 5 percent, respectively. Based on the increase in the qualified small business lending portfolio balance over the baseline level at September 30, 2013, the dividend rate will remain at 1 percent through February 18, 2016. Thereafter, under the provisions of the SBLF Program the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%). Additional information about SBLF preferred stock is disclosed in Note 10 Shareholders' Equity in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012.

Prior to August 18, 2011, the Corporation paid quarterly cash dividends of 5 percent per annum on \$16.5 million of Series A preferred stock that it sold to the Treasury on January 9, 2009, under Treasury's Capital Purchase Program. The Series A preferred stock was subsequently redeemed on August 18, 2011 to coincide with the issuance of Series B preferred stock under the SBLF Program, as required by the Treasury.

**Securities authorized for issuance under equity compensation plans**

The following table provides information about options outstanding and securities available for future issuance under the Corporation's 2000 Stock Incentive Plan, 2001 Employee Stock Bonus Plan, 2007 Long Term Incentive Plan and 2007 Employee Stock Purchase Plan.

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Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	223,316	\$ 10.62	381,945(1)
Equity compensation plans not approved by security holders	0	0	15,757(2)
Total	223,316	\$ 10.62	397,702

(1) Includes 172,670 shares available for issuance under the 2007 Employee Stock Purchase Plan.

(2) Shares available for issuance under the 2001 Employee Stock Bonus Plan that provides for shares of common stock to employees as performance-based compensation.

**Purchases of equity securities by the issuer and affiliated purchasers**

For the years ended December 31, 2013 and 2012, the Corporation did not acquire any of its common stock under the current repurchase program.

Table of Contents**Item 6: Selected financial data**

Codorus Valley Bancorp, Inc.

	2013	2012	2011	2010	2009
<b>Summary of operations</b> (in thousands)					
Interest income	\$ 46,972	\$ 46,512	\$ 45,411	\$ 44,027	\$ 40,310
Interest expense	8,619	10,527	12,359	13,154	16,358
Net interest income	38,353	35,985	33,052	30,873	23,952
Provision for loan losses	1,470	1,750	4,935	2,990	3,715
Noninterest income	7,754	8,190	7,358	7,574	7,497
Noninterest expense	30,154	29,928	27,079	28,116	24,491
Income before income taxes	14,483	12,497	8,396	7,341	3,243
Provision (benefit) for income taxes	3,917	3,103	1,617	1,133	(191)
Net income	10,566	9,394	6,779	6,208	3,434
Preferred stock dividends and discount accretion	250	384	1,460	980	957
Net income available to common shareholders	\$ 10,316	\$ 9,010	\$ 5,319	\$ 5,228	\$ 2,477
<b>Per common share</b>					
(adjusted for stock dividends)					
Net income, basic	\$ 2.17	\$ 1.93	\$ 1.16	\$ 1.16	\$ 0.56
Net income, diluted	\$ 2.13	\$ 1.91	\$ 1.15	\$ 1.16	\$ 0.56
Cash dividends paid	\$ 0.438	\$ 0.364	\$ 0.319	\$ 0.227	\$ 0.236
Stock dividends distributed	5%	5%			
Book value	\$ 17.22	\$ 16.22	\$ 14.73	\$ 13.16	\$ 12.33
Tangible book value	\$ 17.22	\$ 16.22	\$ 14.69	\$ 13.09	\$ 12.26
Cash dividend payout ratio	20.1%	18.8%	27.3%	19.6%	42.3%
Weighted average shares outstanding	4,744,561	4,663,573	4,584,801	4,512,744	4,457,308
Weighted average diluted shares outstanding	4,839,340	4,727,261	4,613,971	4,519,671	4,457,308
<b>Profitability ratios</b>					
Return on average shareholders' equity (ROE)	10.08%	9.55%	8.04%	8.12%	4.88%
Return on average assets (ROA)	0.96%	0.90%	0.69%	0.67%	0.41%
Net interest margin	3.83%	3.81%	3.73%	3.72%	3.18%
Efficiency ratio	63.01%	65.65%	64.20%	69.87%	74.63%
Net overhead ratio	2.05%	2.13%	2.02%	2.24%	2.07%
<b>Capital ratios</b>					
Tier 1 risk-based capital	12.79%	13.59%	13.35%	12.51%	11.83%
Total risk-based capital	13.89%	14.79%	14.55%	13.64%	12.90%
Average shareholders' equity to average assets	9.57%	9.45%	8.56%	8.29%	8.43%
<b>Summary of financial condition at year-end</b> (in thousands)					
Investment securities	\$ 233,483	\$ 236,925	\$ 237,496	\$ 226,603	\$ 178,454
Loans	859,898	740,225	696,384	645,839	647,143
Assets	1,150,641	1,059,737	1,012,132	957,332	892,831
Deposits	925,303	901,307	854,399	806,110	722,957
Borrowings	110,856	50,171	56,885	68,805	92,748
Equity	107,649	101,331	93,242	76,539	72,012
<b>Other data</b>					
Number of bank offices	20	18	18	17	17
Number of employees (full-time equivalents)	229	219	203	198	201
Wealth Management assets, market value (in thousands)	\$ 261,044	\$ 329,626	\$ 277,505	\$ 368,985	\$ 325,482



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**Item 7: Management's discussion and analysis of financial condition and results of operations**

Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements for Codorus Valley Bancorp, Inc. (Codorus Valley or the Corporation), a bank holding company, and its wholly owned subsidiary, PeoplesBank, A Codorus Valley Company (PeoplesBank), are provided below. Codorus Valley's consolidated financial condition and results of operations consist almost entirely of PeoplesBank's financial condition and results of operations. Current performance does not guarantee and may not be indicative of similar performance in the future.

**Forward-looking statements**

Management of the Corporation has made forward-looking statements in this Annual Report on Form 10-K. These forward-looking statements may be subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations of the Corporation and its subsidiaries. When words such as believes, expects, anticipates or similar expressions are used in this Form 10-K, management is making forward-looking statements.

Note that many factors, some of which are discussed elsewhere in this report and in the documents that are incorporated by reference, could affect the future financial results of the Corporation and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this Form 10-K. These factors include, but are not limited to, the following:

- operating, legal and regulatory risks;
- enacted financial reform legislation, e.g., Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant impact on the Corporation's business and results of operations;
- a prolonged economic downturn;
- an increase in nonperforming assets requiring loss provisions and the incurrence of carrying costs related to nonperforming assets;
- declines in the market value of investment securities considered to be other-than-temporary;
- the effects of and changes in the rate of FDIC premiums, including special assessments;
- interest rate fluctuations which could increase our cost of funds or decrease our yield on earning assets and therefore reduce our net interest income;
- future legislative or administrative changes to U.S. governmental capital programs;
- unavailability of capital when needed or availability at less than favorable terms;
- political and competitive forces affecting banking, securities, asset management and credit services businesses;
- unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, may adversely affect the Corporation's operations, net income or reputation, and
- the risk that management's analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report.



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**Critical accounting estimates**

Disclosure of Codorus Valley's significant accounting policies is included in Note 1 in the notes to the consolidated financial statements of this Form 10-K. Some of these policies require management to make significant judgments, estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities.

Management makes significant estimates in determining the allowance for loan losses, valuation of foreclosed real estate, and evaluation of other-than-temporary impairment losses of securities. Management considers a variety of factors in establishing allowance for loan losses such as current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, financial and managerial strength of borrowers, adequacy of collateral, (if collateral dependent, or present value of future cash flows) and other relevant factors. There is also the potential for adjustment to the allowance for loan losses as a result of regulatory examinations. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Appraisals are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell. Estimates related to the value of collateral can have a significant impact on whether or not management continues to accrue income on delinquent and impaired loans and on the amounts at which foreclosed real estate is recorded on the statement of financial condition.

The Corporation records its available-for-sale securities portfolio at fair value. Fair values for these securities are determined based on methodologies in accordance with FASB Accounting Standards Codification (ASC) Topic 820. Fair values for debt securities are volatile and may be influenced by any number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for debt securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security. When the fair value of a debt security is below its amortized cost and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Debt securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers whether the Corporation has the intent to sell its debt securities prior to market recovery or maturity and whether it is more likely than not that the Corporation will be required to sell its debt securities prior to market recovery or maturity. Often, information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the debt security may be different than previously estimated, which could have a material effect on the Corporation's results of operations and financial condition.

Management discussed the development and selection of critical accounting estimates and related Management Discussion and Analysis disclosure with the Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within this report. Additional information is contained in Management's Discussion and Analysis regarding critical accounting estimates, including the provision and allowance for loan losses, located on pages 22 and 39 of this report.

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**OVERVIEW**

**Executive summary**

In spite of sluggish economic growth, the Corporation increased total assets by \$91 million or 9 percent for the year ended December 31, 2013, compared to December 31, 2012. The increase was due primarily to the 18 percent increase in commercial loans, which reflected increased demand and our ability to acquire business from competitors based on our reputation for client service and competitive prices and terms. During the year 2013, commercial borrowers exhibited a clear preference for fixed rate loans with maturities ranging from 5 to 10 years. Meeting this demand increased the commercial loan portfolio's duration, which resulted in better pricing but also increased interest rate risk. Strategies to manage interest rate risk included reducing the duration of the Corporation's investment securities portfolio and lengthening fixed rate liabilities, principally borrowing from the Federal Home Loan Bank of Pittsburgh. A 23 percent increase in home equity loans for the year 2013, compared to the year 2012, as a result of low rate promotions also contributed to the overall increase in earning assets.

In addition to the growth of earning assets for the year 2013, the Corporation also decreased its funding costs. For the year 2013, the low interest rate environment continued to depress deposit rates while the Corporation increased the level of low cost core deposits. For internal purposes core deposits include repurchase agreements but exclude certificates of deposit.

For the year 2013, earnings increased \$1,306,000 or 14 percent above the year 2012. The increase in earnings was primarily driven by the increase in net interest income, which resulted from the growth in earnings assets and lower funding costs. The net interest margin was 3.83 percent for 2013, compared to 3.81 percent for 2012. A decrease in the provision for loan losses, due to improved credit quality as evidenced by a decrease in net charge-offs, also contributed to the increase in earnings for the year 2013.

For the year 2013, noninterest income decreased 5 percent, compared to the year 2012, due largely to the decrease in net gain from the sale of residential mortgages, which was adversely affected by a sharp decrease in refinancing demand as a result of saturation and an increase in market interest rates. The decrease in income from mutual fund, annuity and insurance sales by our financial advisory subsidiary also contributed to the decrease in noninterest income, which resulted from a decrease in sales volume and loss of accounts due to staff resignations. Our financial advisory operation has since been stabilized and re-staffed and is operating under a new business model. So far, the results have been positive. Core noninterest income, which excludes gains or losses from the sale of securities, decreased \$92,000 or 1 percent for the year 2013, compared to the year 2012. The 1 percent increase in total noninterest expense for the year 2013 was driven primarily by a 10 percent increase in personnel expense, which resulted from expanding the banking franchise and normal business growth. A significant reduction in impairment costs associated with foreclosed real estate more than offset the increase in personnel expense, which kept the overall increase in noninterest expense to a minimum.

Based on the financial performance for the year 2013, the Corporation paid cash dividends totaling \$0.438 per common share, as adjusted, an increase of \$0.074 or 20 percent per share, and distributed a 5 percent stock dividend. We believe that our financial performance had a positive influence on the price of the Corporation's stock. The Nasdaq closing stock price, as adjusted, was \$19.53 per share on December 31, 2013, compared to \$14.33 per share on December 31, 2012.

In addition to our focus on profitable operations, we also concentrated on expanding the banking franchise. During the year 2013, PeoplesBank opened two banking offices, one in downtown Hanover, PA in May and the other in Dover, PA in September. To date, both offices have contributed to the growth of loans and deposits.

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In the periods ahead, we will remain focused on profitable balance sheet growth, acquiring and nurturing client relationships, instilling a client centric culture, managing risk and expanding the banking franchise. We anticipate a continuation of economic weakness, both nationally and locally, for the year 2014 and possibly beyond. Risks and uncertainties include prolonged weakness in economic and business conditions, which could increase credit-related losses, possible declines in the market value of investment securities considered to be other-than-temporary, a relatively high level of unemployment and underemployment, stagnation of commercial real estate values and possible adverse economic impacts caused by global events. Challenges for the financial services industry also include net interest margin compression, retention of low-cost core deposits when market interest rates eventually ramp up and managing the increasing cost of regulatory compliance.

**Financial highlights**

The Selected Financial Data schedule, located on page 13 of this report, provides a summary of operations and performance metrics for the past five years in a comparative format.

**2013 vs. 2012**

The Corporation earned net income available to common shareholders (earnings) for the year 2013 totaling \$10,316,000 or \$2.17 per share basic, \$2.13 per share diluted, compared to \$9,010,000 or \$1.93 per share basic, \$1.91 per share diluted, earned for the year 2012. Per share amounts, for all periods, were adjusted for the 5 percent common stock dividend distributed in December 2013. The \$1,306,000 or 14 percent increase in earnings was due primarily to an increase in net interest income and, to a lesser degree, decreases in the provision for loan losses and preferred stock dividends, which more than offset a decrease in noninterest income and increases in noninterest expense and provision for income taxes, as described below.

The \$2,368,000 or 7 percent increase in net interest income for the year 2013, compared to the year 2012, was due primarily to a decrease in funding costs resulting from a larger proportion of low cost core deposits to total deposits and lower rates generally paid on all deposit products, which reflected unusually low market interest rates. The average balance of interest earning assets, principally commercial loans, increased approximately \$57 million or 6 percent for the year 2013, compared to the year 2012. While the volume of earning assets increased, its effect on interest income was largely offset by lower yields, a reflection of the low interest rate environment. Net interest income (tax equivalent basis) annualized as a percentage of average interest earning assets, i.e., net interest margin, was 3.83 percent for the year 2013, compared to 3.81 percent for the year 2012.

The \$280,000 or 16 percent decrease in the provision for loan losses for the year 2013, compared to the the year 2012, was due primarily to improving credit quality, including a decrease in net loan charge-offs, and adequacy of the allowance for loan losses.

The \$436,000 or 5 percent decrease in total noninterest income for the year 2013, compared to the year 2012, was primarily the result of decreases in net gain from the periodic sale of investment securities, net gain from the sale of loans held for sale and income from mutual fund, annuity and insurance sales. Gains from the sale of U.S. agency mortgage-back securities were greater in the year 2012 as selected instruments that no longer met the Corporation's investment standards were liquidated. Net gain from the sale of loans held for sale, principally residential mortgages, for the year 2013 was adversely affected by a sharp decrease in refinancing demand as a result of saturation and an increase in market interest rates. The decrease in income from mutual fund, annuity and insurance sales for the year 2013 reflected a decrease in sales volume and loss of accounts as a result of staff resignations. Core noninterest income, which excludes gains or losses from the sale of securities, decreased \$92,000 or 1 percent for the year 2013, compared to the year 2012.

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The \$226,000 or 1 percent increase in total noninterest expense for the year 2013 was driven primarily by a 10 percent increase in personnel expense, which resulted from expanding the banking franchise and normal business growth. A significant reduction in impairment costs associated with foreclosed real estate more than offset the increase in personnel expense, which kept the overall increase in noninterest expense to a minimum.

The \$814,000 or 26 percent increase in the provision for income taxes for the year 2013, compared to the year 2012, was due to the 16 percent increase in income before income taxes.

The \$134,000 or 35 percent decrease in preferred stock dividends was the result of a decrease in the dividend rate caused by the addition of loans that qualified for the U.S. Treasury's Small Business Lending Fund Program (SBLF Program). The annualized dividend rate on the \$25 million of preferred stock issued under the U.S. Treasury's Small Business Lending Fund Program (SBLF Program) for the years ended December 31, 2013 and 2012, was 1 percent and 1.54 percent, respectively.

On December 31, 2013, total assets were approximately \$1.15 billion representing a \$91 million or 9 percent increase above December 31, 2012. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and was funded primarily by an increase in core deposits (i.e., all deposits excluding CDs) and low-rate advances from the Federal Home Loan Bank of Pittsburgh.

Cash dividends on common shares for the year 2013 totaled \$0.438 per share, as adjusted, representing an increase of \$0.074 or 20 percent above the year 2012. Additionally, a 5% common stock dividend was distributed on December 10, 2013, the same percentage that was distributed in December 2012.

The Corporation has traditionally maintained a capital level well above minimum regulatory quantitative requirements. Currently, there are three federal regulatory definitions of capital that take the form of minimum ratios. Table 9 Capital Ratios, shows that the Corporation and PeoplesBank were well capitalized for all three years presented.

**2012 vs. 2011**

The Corporation earned net income available to common shareholders (earnings) totaling \$9,010,000 or \$1.93 per share basic, \$1.91 per share diluted, compared to \$5,319,000 or \$1.16 per share basic, \$1.15 per share diluted for the year 2011. The \$3,691,000 or 69 percent increase in earnings was primarily the result of increases in interest and noninterest income and decreases in the provision for loan losses and preferred stock dividends, which more than offset increases in noninterest expense and provision for income taxes.

The \$2,933,000 or 9 percent increase in net interest income for the year 2012, compared to the year 2011, resulted from an increase in the average volume of earning assets, principally commercial loans, and a decrease in funding costs. The decrease in funding costs resulted from a larger proportion of low cost core deposits to total deposits and lower rates generally paid on all deposit products, which reflected historically low market interest rates. Net interest income (tax equivalent basis) as a percentage of interest earning assets, i.e., net interest margin, was 3.81 percent for the year 2012, compared to 3.73 percent for the year 2011.

The \$3,185,000 or 65 percent decrease in the provision for loan losses for the year 2012 reflected improved credit quality and a decrease in loan impairment charges compared to the year 2011.

The \$832,000 or 11 percent increase in noninterest income for the year 2012, compared to the year 2011, resulted primarily from a \$550,000 or 71 percent increase in net gains from the sale of loans held for sale (i.e., residential mortgage loans). Market interest rates decreased to record low levels during the year 2012, leading to an increase in residential mortgage loan refinancings. A \$302,000 or 242 percent increase in pretax net gains from the sale of investment securities also contributed to the increase in noninterest income. U.S. agency mortgage-backed securities (MBS) were selectively sold at a gain to remove relatively low yielding instruments that were prepaying principal faster than anticipated and small odd-lot securities from the MBS portfolio.

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The \$2,849,000 or 11 percent increase in noninterest expense for the year 2012, compared to the year 2011, was due primarily to increases in personnel expenses and foreclosed real estate costs. The \$1,564,000 or 11 percent increase in personnel expense was due to normal business growth, which included the impact of franchise expansion in September 2011, and the recognition of annual performance incentives. The \$1,129,000 or 66 percent increase in foreclosed real estate costs reflected increased provisioning for impairment losses, including a \$1,027,000 provision relating to a foreclosed property, as previously reported on Form 8-K filed on August 30, 2012.

The \$1,486,000 or 92 percent increase in the provision for income taxes for the year 2012, compared to the year 2011, was a result of the 49 percent increase in income before income taxes.

The \$1,076,000 or 74 percent decrease in preferred stock dividends and discount accretion for the year 2012, compared to the year 2011, reflected a decrease in the dividend rate and the redemption of preferred stock and a related warrant under the U.S. Treasury's Capital Purchase Program in the third quarter of 2011.

On December 31, 2012, total assets were approximately \$1.06 billion representing a \$48 million or 5 percent increase above December 31, 2011. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and was funded primarily by an increase in core deposits.

Cash dividends on common shares for the year 2012 totaled \$0.364 per share, as adjusted, representing an increase of \$0.045 or 14 percent above 2011. Additionally, a 5% common stock dividend was distributed on December 11, 2012. Comparatively, no stock dividend on the Corporation's common stock was distributed in the year 2011.

A more detailed analysis of the factors and trends affecting earnings follows.

**INCOME STATEMENT ANALYSIS**

**Net Interest Income**

The Corporation's principal source of revenue is net interest income, which is the difference between interest income earned on loans and investment securities, and interest expense incurred on deposits and borrowed funds. Fluctuations in net interest income are caused by changes in interest rates, volumes and the composition or mix of interest rate sensitive assets and liabilities. Unless otherwise noted, the discussion that follows is based on interest income and interest expense as reported in the consolidated statements of income, not on a tax equivalent basis.

Net interest income for the year 2013 totaled \$38,353,000, an increase of \$2,368,000 or approximately 7 percent above the year 2012. The increase in net interest income was due primarily to a decrease in funding costs resulting from a larger proportion of low cost core deposits to total deposits and lower rates generally paid on all deposit products, which reflected unusually low market interest rates. Net interest income (tax equivalent basis) annualized as a percentage of average interest earning assets, i.e., net interest margin, was 3.83 percent for the year 2013, compared to 3.81 percent for the year 2012.

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Interest income for the year 2013 totaled \$46,972,000, an increase of \$460,000 or 1 percent above the year 2012. The increase was driven primarily by an increase in the average volume of earning assets, principally commercial loans, although the volume effect was muted by lower yields, a reflection of the low interest rate environment. Interest earning assets for the year 2013 averaged \$1.04 billion and yielded 4.66 percent (tax equivalent basis), compared to \$981 million and 4.89 percent, respectively, for the year 2012.

Interest expense for the year 2013 totaled \$8,619,000, a decrease of \$1,908,000 or 18 percent below the year 2012. The decrease was driven primarily by a general decrease in rates, due to the low interest rate environment, and from a larger proportion of low cost core deposits to total deposits. Interest bearing liabilities for the year 2013 averaged \$887 million at an average rate of 0.97 percent, compared to \$854 million and 1.23 percent, respectively, for the year 2012. The growth of core deposits is a particular focus of the Corporation because the interest rates are relatively low, are a source of fee income and provide the opportunity to cross-sell other financial products and services. The Corporation excludes time deposits in its definition of core deposits. While average core deposits grew by approximately \$54 million or 12 percent for the year 2013, compared to the year 2012, the average volume of time deposits decreased approximately \$19 million or 5 percent due most likely to depositor preference for liquidity given the small interest rate spread between core and time deposits.

Comparatively, net interest income for the year 2012 totaled \$35,985,000, an increase of \$2,933,000 or 9 percent above the year 2011. The increase was primarily the result of an increase in the average volume of interest earning assets and a decrease in the average rate paid on deposits. Net interest income (tax equivalent basis) as a percentage of interest earning assets, i.e., net interest margin, was 3.81 percent for the year 2012, compared to 3.73 percent for the year 2011. Interest earning assets averaged \$981 million and yielded 4.89 percent (tax equivalent basis) for 2012, compared to \$925 million and 5.07 percent, respectively, for the year 2011. The \$56 million or 6 percent increase in the average volume of interest earning assets, which more than offset the decrease in the average yield, was due primarily to an increase in commercial loans. Interest bearing liabilities averaged \$854 million at an average rate of 1.23 percent for the year 2012, compared to \$824 million and 1.50 percent, respectively, for the year 2011. The \$30 million or 4 percent increase in the average volume of interest bearing liabilities reflected growth in core deposits, principally money market and noninterest bearing demand deposits.

Tables 1 and 2 are presented on a tax equivalent basis to make it easier to compare taxable and tax-exempt assets. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is increased by the amount of federal income taxes which would have been incurred if the income was taxable at the rate of 34 percent.

Table of Contents**Table 1-Average Balances and Interest Rates (tax equivalent basis)**

<i>(dollars in thousands)</i>	2013			2012			2011		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets</b>									
Interest bearing deposits with banks	\$ 25,674	\$ 65	0.25%	\$ 37,101	\$ 94	0.25%	\$ 27,297	\$ 66	0.24%
Federal funds sold	0	0	0.00	0	0	0.00	674	2	0.00
<b>Investment securities:</b>									
Taxable	134,573	2,916	2.17	145,357	3,381	2.33	150,529	3,830	2.54
Tax-exempt	90,850	3,561	3.92	84,357	3,587	4.25	79,577	3,581	4.50
Total investment securities	225,423	6,477	2.87	229,714	6,968	3.03	230,106	7,411	3.22
<b>Loans:</b>									
Taxable (1)	774,683	41,163	5.31	700,915	40,096	5.72	651,604	38,485	5.91
Tax-exempt	11,716	643	5.49	13,150	770	5.86	14,891	887	5.96
Total loans	786,399	41,806	5.32	714,065	40,866	5.72	666,495	39,372	5.91
Total earning assets	1,037,496	48,348	4.66	980,880	47,928	4.89	924,572	46,851	5.07
Other assets (2)	57,720			60,431			60,143		
Total assets	\$ 1,095,216			\$ 1,041,311			\$ 984,715		
<b>Liabilities and Shareholders' Equity</b>									
<b>Deposits:</b>									
Interest bearing demand	\$ 371,503	\$ 1,402	0.38%	\$ 336,077	\$ 1,335	0.40%	\$ 305,982	\$ 1,937	0.63%
Savings	37,906	94	0.25	33,516	84	0.25	29,442	108	0.37
Time	408,229	6,159	1.51	427,536	8,196	1.92	429,213	9,111	2.12
Total interest bearing deposits	817,638	7,655	0.94	797,129	9,615	1.21	764,637	11,156	1.46
Short-term borrowings	22,724	125	0.55	20,843	122	0.59	11,553	114	0.99
Long-term debt	47,018	839	1.78	36,212	790	2.18	47,459	1,089	2.29
Total interest bearing liabilities	887,380	8,619	0.97	854,184	10,527	1.23	823,649	12,359	1.50
Noninterest bearing deposits	95,738			82,008			71,621		
Other liabilities	7,268			6,727			5,137		
Shareholders' equity	104,830			98,392			84,308		
Total liabilities and shareholders' equity	\$ 1,095,216			\$ 1,041,311			\$ 984,715		
<b>Net interest income (tax equivalent basis)</b>									
Net interest income (tax equivalent basis)		\$ 39,729			\$ 37,401			\$ 34,492	
Net interest margin (3)			3.83%			3.81%			3.73%
Tax equivalent adjustment		(1,376)			(1,416)			(1,440)	
Net interest income		\$ 38,353			\$ 35,985			\$ 33,052	

- (1) Average balance includes average nonaccrual loans of \$10,588,000 in 2013, \$11,538,000 in 2012, and \$16,550,000 in 2011. Interest includes net loan fees of \$1,458,000 in 2013, \$1,060,000 in 2012, and \$941,000 in 2011.
- (2) Average balance includes average bank owned life insurance, foreclosed real estate and unrealized holding gains (losses) on investment securities.
- (3) Net interest income (tax equivalent basis) annualized as a percent of average interest earning assets.

Table of Contents**Table 2-Rate/Volume Analysis of Changes in Net Interest Income (tax equivalent basis)**

(dollars in thousands)	2013 vs. 2012 Increase (decrease) due to change in			2012 vs. 2011 Increase (decrease) due to change in		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest Income</b>						
Interest bearing deposits with banks	\$ (29)	\$ 0	\$ (29)	\$ 23	\$ 5	\$ 28
Federal funds sold	0	0	0	(2)	0	(2)
Investment securities:						
Taxable	(201)	(264)	(465)	(118)	(331)	(449)
Tax-exempt	278	(304)	(26)	215	(209)	6
Loans:						
Taxable	4,809	(3,742)	1,067	3,455	(1,844)	1,611
Tax-exempt	(84)	(43)	(127)	(104)	(13)	(117)
Total interest income	4,773	(4,353)	420	3,469	(2,392)	1,077
<b>Interest Expense</b>						
Deposits:						
Interest bearing demand	127	(60)	67	188	(790)	(602)
Savings	11	(1)	10	15	(39)	(24)
Time	(370)	(1,667)	(2,037)	(36)	(879)	(915)
Short-term borrowings	7	(4)	3	92	(84)	8
Long-term debt	236	(187)	49	(267)	(32)	(299)
Total interest expense	11	(1,919)	(1,908)	(8)	(1,824)	(1,832)
Net interest income	\$ 4,762	\$ (2,434)	\$ 2,328	\$ 3,477	\$ (568)	\$ 2,909

Changes which are due to both volume and rate are allocated in proportion to their relationship to the amount of change attributed directly to volume or rate.

**Provision for loan losses**

The provision for loan losses is an expense charged to earnings to cover estimated losses attributable to uncollectable loans. The provision reflects management's judgment of an appropriate level for the allowance for loan and lease losses. The Risk Management section of this report, including Tables 10 Nonperforming Assets, 11 Analysis of Allowance for Loan and Lease Losses, and 12 Allocation of Allowance for Loan and Lease Losses, provides detailed information about the allowance, provision and credit risk.

For the year 2013, the provision for loan losses was \$1,470,000, the level needed to support a larger loan portfolio, replenish net charge-offs totaling \$797,000 and to maintain the adequacy of the allowance for loan losses. Comparatively, the provision for loan losses for the year 2012 totaled \$1,750,000, which in part also supported loan growth in addition to replenishing a higher level of net charge-offs totaling \$1,150,000. The provision for the year 2011 totaling \$4,935,000 was unusually high, the result of two unrelated partial loan charge-offs totaling \$3,175,000 as reported on a Form 8-K filed October 3, 2011 and a Form 8-K/A filed on November 10, 2011. The downward trend in the provision generally reflects improving credit quality, which correlates with the gradually improving economy including a decline in the rate of unemployment and increasing stability in real estate values.



Table of Contents**Noninterest income**

The following table presents the components of total noninterest income for each of the past three years.

**Table 3 - Noninterest income**

<i>(dollars in thousands)</i>	2013	2012	2011
Trust and investment services fees	\$ 1,922	\$ 1,702	\$ 1,510
Income from mutual fund, annuity and insurance sales	614	896	1,103
Service charges on deposit accounts	2,727	2,560	2,583
Income from bank owned life insurance	727	633	647
Other income	662	645	613
Net gain on sales of loans held for sale	1,019	1,327	777
Net gain on sales of securities	83	427	125
Total noninterest income	\$ 7,754	\$ 8,190	\$ 7,358

For the year 2013, the overall \$436,000 or 5 percent decrease in total noninterest income, compared to the year 2012, was primarily the result of decreases in income from mutual fund, annuity and insurance sales, net gain on sales of loans held for sale and net gain on sales of securities. Core noninterest income, which excludes the net gain on sales of securities, was basically the same for both years. The discussion that follows addresses changes in selected categories of noninterest income.

**Trust and investment services fees** The upward trend in trust and investment service fees over the three year period presented was primarily the result of new business development and appreciation in the market value of managed accounts, upon which some fees are based.

**Income from mutual fund, annuity and insurance sales** For the year 2013, the \$282,000 or 31 percent decrease in income from the sale of mutual fund, annuity and insurance products by Codorus Valley Financial Advisors (CVFA), a subsidiary of PeoplesBank, was the result of a decrease in sales and loss of accounts due to the resignation of three registered representatives who left CVFA in April 2013. The operation has since been stabilized and re-staffed and is operating under a new business model. Comparatively, the \$207,000 or 19 percent decrease in income for the year 2012 vs. 2011 was also the result of a decrease in sales, which reflected market uncertainty and the relative unattractiveness of variable annuities due to low rates and less favorable structures.

**Service charges on deposit accounts** For the year 2013, the \$167,000 or 7 percent increase in service charges on deposit accounts was due primarily to an increase in debit card revenue, which reflected an increase in the volume of transactions from normal business growth. Increases in account analysis fees and overdraft fees also contributed to the overall increase in service charges. For 2012, service charges on deposit accounts decreased slightly compared to the year 2011 due primarily to a decrease in overdraft fees. Overdraft fee income on consumer accounts enrolled in PeoplesBank's automated overdraft payment program, which is a significant component of service charges, decreased in response to the implementation of FDIC guidance on July 1, 2011, which effectively restricted overdraft pricing policies.

**Income from bank owned life insurance (BOLI)** For the year 2013, the \$94,000 or 15 percent increase in income from BOLI was due to an additional investment totaling \$5.3 million in February 2013. Of this total \$4.7 million was invested with Massachusetts Mutual Life Insurance Company and \$0.6 million was invested with Midland National Life Insurance Company. The initial tax-exempt yield on this investment was approximately 3.77 percent or 5.71 percent on a tax equivalent basis.

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Income from BOLI for the years 2012 and 2011 was basically flat as low market interest rates depressed yields. This investment provides a competitive tax-free return to the Corporation while providing a life insurance benefit to the management team and directors.

**Other income** Other income, comprised of many underlying fees, increased as a result of normal business growth over the three year period presented. The increase in 2012, compared to 2011, also reflected a \$53,000 increase in revenue from loan settlement services provided by SYC Settlement Services, Inc., a PeoplesBank subsidiary. The other income category includes wire transfer fees, credit card merchant fees, automated teller machine fees, safe deposit box fees and miscellaneous fees, among others.

**Net gain on sales of loans held for sale** For the year 2013, the \$308,000 or 23 percent decrease in net gain on sales of loans held for sale resulted from a decrease in production, which was demand driven. Refinancing demand and gains therefrom have declined as a consequence of saturation and the higher level of market interest rates. For 2012, the \$550,000 or 71 percent increase in net gain on sales of loans, compared to the year 2011, was due primarily to an increase in the volume of residential mortgage loan sales. The unusually low level of market interest rates that prevailed throughout the year 2012, which were influenced by the Federal Reserve Bank to stimulate the U.S. economy, resulted in a sharp increase in residential mortgage loan refinancings.

**Net gain on sales of securities** For the year 2013, the \$344,000 or 81 percent decrease in gains from the sale of securities reflected a higher level of sales in the prior year. During the year 2012, PeoplesBank selectively sold U.S. agency mortgage-backed securities (MBS) to remove relatively low yielding instruments that were prepaying principal faster than anticipated from the MBS portfolio.

**Noninterest expense**

The following table presents the components of total noninterest expense for each of the past three years.

**Table 4 - Noninterest expense**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Personnel	\$ 16,827	\$ 15,312	\$ 13,748
Occupancy of premises, net	2,049	1,977	2,004
Furniture and equipment	2,045	1,851	1,695
Postage, stationery and supplies	586	508	519
Professional and legal	667	534	586
Marketing and advertising	1,074	907	840
FDIC insurance	622	733	1,004
Debit card processing	773	707	655
Charitable donations	685	640	396
External data processing	693	605	497
Foreclosed real estate including (gains) losses on sales	713	2,830	1,701
Impaired loan carrying costs	345	299	620
Other	3,075	3,025	2,814
Total noninterest expense	\$ 30,154	\$ 29,928	\$ 27,079

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Total noninterest expense for the year 2013 increased \$226,000 or 1 percent above the year 2012 due primarily to the 10 percent increase in personnel expense, which resulted from expanding the banking franchise and normal business growth. A significant reduction in impairment costs associated with foreclosed real estate more than offset the increase in personnel expense, which kept the overall increase in noninterest expense to a minimum.

**Expansion of the banking franchise** During the year 2013, PeoplesBank established a full-service financial center in Hanover, PA. The new office, known as Young Manor, which opened for business in May 2013, operates out of leased space and is presently staffed by three persons. Additionally, PeoplesBank constructed a full-service financial center in Dover, PA on a building lot it purchased in October 2012. The new office with a staff of five people opened for business in September 2013. To date, both offices have contributed to the growth in loans and deposits. Franchise expansion is a driver of noninterest expense, particularly within the categories of personnel, occupancy, furniture and equipment, and marketing.

The discussion that follows addresses changes in selected noninterest expense categories.

**Personnel** Personnel expense is comprised of wages, sales commissions, payroll taxes and employee benefits, such as medical insurance and 401K plans. The \$1,515,000 or 10 percent increase in personnel expense for the year 2013, compared to the year 2012, was attributable to expansion of the banking franchise, as discussed above, and normal business growth. An increase in employee benefit expenses also contributed to the increase in personnel expense, including increases in medical insurance, due to a greater level of claims, and employer paid 401K Plan costs. Effective January 1, 2013, PeoplesBank increased 401K Plan matching contributions to 100 percent up to the first 4 percent of an employee's compensation contributed to the Plan, compared to a 50 percent match up to the first 6 percent contributed, for the year 2012. Comparatively, the \$1,564,000 or 11 percent increase in personnel expense for the year 2012, compared to the year 2011, was also attributable to normal business growth, which included the full year's impact of a financial center addition in September 2011, increased sales commissions for mortgage originators which resulted from increased production, and the accrual of annual performance incentives.

**Occupancy of premises, net** Occupancy of premises expense is comprised of rent, depreciation, maintenance, insurance, real estate taxes and utilities. The level of expense can vary annually based upon franchise expansion, repairs and maintenance, and normal business growth. Examples of franchise expansion include the addition of two banking offices in the year 2013 and one banking office in the year 2011.

**Furniture and equipment** This category includes depreciation expense on furniture and equipment, including IT-related equipment, and the cost of computer hardware and software maintenance contracts among other expenses. The upward trend in this expense category reflects normal business growth, including price increases, IT related initiatives to improve service and processing efficiency, small equipment purchases and expansion of the banking franchise.

**Professional and legal** The level of professional and legal expense can vary annually based on the varying needs for legal, accounting and consulting services, which is driven in part by the level of routine lawsuits in the ordinary course of business, the number and complexity of corporate initiatives, including IT security, and changes in regulatory compliance requirements.

**Marketing and advertising** Expense for the three years presented shows an upward trend that reflects an increased operating budget to support normal business growth and increased corporate initiatives such as branding, product advertising and internal promotions. Looking ahead to the year 2014, an increase in the marketing budget is anticipated to promote PeoplesBank's 150<sup>th</sup> year anniversary.

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**FDIC insurance** Expense for the three years presented shows a downward trend, which reflects a decrease in the assessment rate. The decrease in the assessment rate was due to PeoplesBank's improved financial performance and credit quality, and a change in the methodology for calculating insurance premiums by the FDIC. Effective April 1, 2011, the FDIC lowered assessment rates and applied them against average assets minus average tangible capital, instead of domestic deposits. More information about FDIC insurance assessments is available under the Supervision and Regulation section of this report (reference the subheading-FDIC).

**Debit card processing** Expense for the three years presented shows an upward trend, which reflects increases in the number of new accounts and transaction volume. This expense category also includes the cost of operating automated teller machines, which presently total twenty-four in number.

**Charitable donations** Charitable donations show an upward trend for the three year period presented, which represents an increase in donations to nonprofit organizations that qualify for related state tax credits. PeoplesBank uses state tax credits from donations to reduce its Pennsylvania Shares Tax expense, included below in other expenses. State tax credits typically range from 55 to 90 percent of the amount donated, effectively lowering the cost of the donation.

**External data processing** The upward trend in external data processing expense reflects increased reliance on outsourcing transaction processing to specialized vendors. Typically this is performed on their hosted and secure websites thereby increasing our processing efficiency. Increases in the services offered to our client base and increases in transaction volume from normal business growth also contribute to the increase in this expense category.

**Foreclosed real estate including (gains) losses on sales** Net foreclosed real estate expense is comprised of impairment losses, including losses on sales, and carrying costs, net of gains from sales and income generated by the real estate. Typical carrying costs include insurance, maintenance and repairs, real estate taxes, appraisals and legal fees. For the year 2013, foreclosed real estate expense decreased \$2,117,000 or 75 percent, compared to the year 2012, which was unusually high. The year 2012 included a \$1,027,000 provision related to a single foreclosed property, as previously reported on Form 8-K dated August 30, 2012 and filed with the SEC. Losses totaling \$816,000 on two additional and unrelated properties during the year 2012 contributed as well.

**Impaired loan carrying costs** Weakness in economic and business conditions can cause fluctuations in impaired loan carrying costs. Factors such as the number and size of the loans in the impaired loan portfolio, financial capacity of the borrower or guarantor, value and liquidity of underlying collateral and the timing of when and for how long loans are classified as impaired, among other factors, contribute to the variability of this expense from period to period. Carrying costs are the same as those described for foreclosed real estate.

**Other** Other expense is comprised of many underlying expenses, including, but not limited to: Pennsylvania shares tax, memberships and subscriptions, director fees, liability insurance, third-party courier, correspondent banking expenses and miscellaneous operating losses. For the year 2013, the \$50,000 or 2 percent increase in other expense was primarily attributable to an increase in Pennsylvania shares tax expense. Growth in bank equity, the assessment base for the tax, increases shares tax although the tax can fluctuate annually based on the amount of available state tax credits that are deducted from the tax, which originated from qualifying charitable donations described earlier. For example, shares tax, net of credits, totaled \$404,000 for 2013, compared to 306,000 for 2012 and \$392,000 for 2011. For the year 2012, the \$211,000 or 7 percent increase in the other expense category above the year 2011 included a nonrecurring charge-off of the unamortized balance of an intangible asset totaling \$163,000. The upward trend in the other expense category for the three year period presented also reflects normal business growth.

Table of Contents**Provision for income taxes**

The provision for income tax for year 2013 was \$3,917,000, compared to a \$3,103,000 for 2012. The increase in income tax was primarily the result of an increase in pretax income. The Corporation's statutory federal income tax rate for the years 2013 and 2012 was 35 percent and 34 percent, respectively. The Corporation's effective income tax rate was approximately 27 percent for 2013, compared to 24.8 percent for 2012. The effective tax rate differs from the statutory tax rate due to the impact of low-income housing credits and tax-exempt income, including income from bank owned life insurance.

**Preferred stock dividends and discount accretion**

Preferred stock dividends for the year 2013 totaled \$250,000, compared to \$384,000 for the year 2012. The \$134,000 or 35 percent decrease was a result of a decrease in the dividend rate on preferred stock caused by the addition of loans above a predetermined baseline portfolio balance that qualified for the U.S. Treasury's Small Business Lending Fund Program (SBLF Program). Information about the U.S. Treasury's SBLF Program is provided in Note 10 Shareholders' Equity of this report.

**BALANCE SHEET REVIEW****Interest bearing deposits with banks**

Interest bearing deposits with banks totaled \$2 million on December 31, 2013, compared to \$35 million on December 31, 2012. Throughout the last half of the year 2013 bank balances were drawn down to meet the strong demand for commercial loans.

**Securities, available-for-sale**

The investment securities portfolio is an interest earning asset, second in size to the loan portfolio. Investment securities serve as an important source of revenue and liquidity. They also serve as collateral for public and trust deposits, securities sold under agreements to repurchase and to support borrowings. The investment securities portfolio is managed to comply with the Corporation's Investment Securities Policy, and accounted for in accordance with FASB ASC Topic 320. Decisions to purchase or sell securities are based on an assessment of current economic and financial conditions, including the interest rate environment, the demand for loans, and liquidity and income requirements. Table 5 Investment Securities, shows the amortized cost and fair value by type of security for three year-end periods.

**Table 5-Investment Securities**

	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(dollars in thousands)</i>						
<b>Available-for-sale</b>						
Debt securities:						
U.S. Treasury notes	\$ 0	\$ 0	\$ 5,001	\$ 5,032	\$ 10,003	\$ 10,134
U.S. agency	33,265	33,499	37,000	38,058	29,593	30,673
U.S. agency mortgage-backed, residential	105,181	105,919	84,630	88,233	103,017	106,444
State and municipal	87,004	89,323	98,744	102,739	82,272	86,610
Total debt securities	\$ 225,450	\$ 228,741	\$ 225,375	\$ 234,062	\$ 224,885	\$ 233,861

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At December 31, 2013, the fair value of securities, available-for-sale, totaled \$229 million, slightly below the \$234 million value at December 31, 2012. For the year 2013, cash inflows from maturities and repayments, and the proceeds from sales of securities were reinvested in U.S. agency mortgage-backed bonds to take advantage of improved yield opportunities and to provide cash flow, which could be re-priced at higher yields should market interest rates trend upward in the future.

Securities, available-for-sale are generally comprised of high quality debt instruments. On January 1, 2013, provision 939(a) of the Dodd-Frank Act became effective changing the definition of investment grade by removing reliance on credit ratings by national statistical rating organizations. Investment grade under the revised definition requires an active review ( i.e., pre-purchase and post-purchase credit risk analysis) of the obligor to determine that the obligor has an adequate capacity to meet its financial commitments and more specifically that the risk of default is low and that full and timely repayment of principal and interest is expected. Obligations of the U.S. government and U.S. government sponsored enterprises are not subject to the due diligence requirement; however, municipal and corporate obligations are subject to the new requirement.

Included in Table 5 are investments in the obligations of states and municipalities, which we believe are sound investments. Municipalities have many options for meeting their debt obligations, including decreasing costs and service levels, imposing taxes and fees and selling assets. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific reserves, which provide a layer of protection to the investor. Access to the credit market and a good credit rating are high priorities of municipal management enabling it to meet its current and future funding needs at a reasonable interest cost. For these reasons, defaults on municipal bonds are very low, well below 1 percent. The majority of bonds in the Bank's portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but they are for critical services such as water and sewer. Many of the municipal holdings are also insured or backed by specific school district loss reserves. Based on the results of an independent credit review of the Bank's municipal bond portfolio in the fourth quarter of 2013 and recent bond ratings by national statistical rating organizations we believe that the investments held by the Bank are investment grade.

Table 6 Securities Maturity Schedule, shows that the available-for-sale portfolio had a yield of 3.10 percent on December 31, 2013. Comparatively, the portfolio yield was 3.14 percent on December 31, 2012. The decrease in portfolio yield for 2013 was the result of security additions, including the reinvestment of cash inflows from scheduled maturities and repayments of mortgage-backed bonds, during a period of unusually low market interest rates and asset yields. More information about investment securities is provided in Note 3-Securities in the notes to the consolidated financial statements.

Table of Contents**Table 6-Securities Maturity Schedule (amortized cost basis)**

	December 31, 2013 Maturity Distribution					Total Amount	Total Yield(1)
	One year or less	One through five years	Five through ten years	After ten years			
<i>(dollars in thousands)</i>							
<b>Available-for-sale</b>							
Debt securities:							
U.S. agency	\$ 3,027	\$ 25,576	\$ 4,662	\$ 0	\$ 33,265		1.97%
U.S. agency mortgage-backed, residential (2)	0	79,320	25,861	0	105,181		2.70%
State and municipal	10,968	65,726	6,490	3,820	87,004		4.02%
Total debt securities	\$ 13,995	\$ 170,622	\$ 37,013	\$ 3,820	\$ 225,450		3.10%
Yield (1)	3.53%	3.03%	2.92%	6.18%	3.10%		

(1) Weighted average yields (tax equivalent basis) were calculated on the amortized cost basis.

(2) U.S. agency mortgage-backed securities are included in the maturity categories based on average expected life.

**Restricted investment in bank stocks**

At December 31, 2013, PeoplesBank held approximately \$4.7 million in restricted common stock, compared to \$2.9 million at year-end 2012. Investment in restricted stock is a condition of obtaining credit from the Federal Home Loan Bank of Pittsburgh (FHLBP) and the Atlantic Community Bankers Bank (ACBB) organizations. Accordingly, the increase in the level of restricted stock was the result of borrowing from the FHLBP as described within the Long-term Debt section of this report. Of the total investment, approximately \$4.67 million consisted of stock issued by the FHLBP and approximately \$0.08 million issued by the ACBB. Information about restricted investment in bank stocks, including impairment considerations, is provided in Note 1 Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

**Loans held for sale**

On December 31, 2013, loans held for sale were approximately \$0.5 million, compared to \$3.1 million at year-end 2012. For both years PeoplesBank's mortgage banking staff remained focused on originating and selling residential mortgages without retaining servicing rights. Unlike the year 2012, when market interest rates were unusually low and refinancing activity was robust, the year 2013 experienced an increase in rates that began in May. As a result of the increase in market interest rates, the level of mortgage refinancing decreased significantly for the second half of the year 2013 causing a sharp drop in mortgage production and income therefrom.

**Loans**

On December 31, 2013, total loans, net of deferred fees, totaled approximately \$859 million, an increase of \$122 million or 17 percent above year-end 2012. Most of the increase was due to a \$107 million or 18 percent increase in commercial loans, which reflected increased demand, in spite of a continuation of sluggish economic conditions, and our ability to acquire business from competitors based on our reputation for client service and competitive prices and terms. A \$15 million or 23 percent increase in home equity loans for the year 2013, compared to the year 2012, as a result of low rate promotions also contributed to the overall increase in total loans. The composition of the Corporation's loan portfolio, by industry class, at December 31, 2013 and 2012 is provided in Note 4 Loans in the notes to the consolidated financial statements. The average yield (tax equivalent basis) earned on total loans was 5.32 percent for the year 2013, compared to 5.72 percent for the year 2012. Table 7 presents the general composition of total loans for five year-end periods.

Table of Contents**Table 7-Loan Portfolio Composition**

<i>(dollars in thousands)</i>	December 31,									
	2013	%	2012	%	2011	%	2010	%	2009	%
Commercial, financial and agricultural	\$ 607,779	70.7	\$ 510,544	69.2	\$ 462,061	66.6	\$ 419,649	65.5	\$ 415,404	64.3
Real estate-construction and land development	106,436	12.4	96,936	13.2	103,514	14.9	95,735	14.9	104,986	16.3
Total commercial related loans	714,215	83.1	607,480	82.4	565,575	81.5	515,384	80.4	520,390	80.6
Real estate - residential mortgages	25,695	3.0	23,511	3.2	21,324	3.1	20,357	3.2	22,270	3.4
Consumer and home equity	119,474	13.9	106,143	14.4	106,616	15.4	105,108	16.4	103,217	16.0
Total consumer related loans	145,169	16.9	129,654	17.6	127,940	18.5	125,465	19.6	125,487	19.4
Total loans	\$ 859,384	100.0	\$ 737,134	100.0	\$ 693,515	100.0	\$ 640,849	100.0	\$ 645,877	100.0

Table 8 shows that, at December 31, 2013, the commercial loan portfolio was comprised of approximately \$486 million or 68 percent in fixed rate loans and \$229 million or 32 percent in floating rate loans, compared to 59 percent in fixed rate loans and 41 percent in floating rate loans for the year ended December 31, 2012. During the year 2013, commercial borrowers exhibited a clear preference for fixed rate loans with maturities ranging from 5 to 10 years. Increasing the commercial loan portfolio's duration achieved better pricing but also increased interest rate risk. Interest rate risk mitigation strategies included reducing the duration of the Corporation's investment portfolio and lengthening fixed rate liabilities, principally borrowings from the Federal Home Loan Bank of Pittsburgh. Floating rate loans reprice periodically with changes in the Wall Street Journal (WSJ) prime rate or LIBOR. Additional loan information can be found in Note 4 Loans in the notes to the consolidated financial statements and within the Risk Management section of this report.

**Table 8-Selected Loan Maturities and Interest Rate Sensitivity**

<i>(dollars in thousands)</i>	December 31, 2013 Maturity Distribution			
	One year or less	One through five years	After five years	Total
Commercial, financial and agricultural	\$ 90,471	\$ 119,976	\$ 397,332	\$ 607,779
Real estate-construction and land development	49,901	40,497	16,038	106,436
Total commercial related loans	\$ 140,372	\$ 160,473	\$ 413,370	\$ 714,215
Fixed interest rates	\$ 27,698	\$ 107,342	\$ 350,478	\$ 485,518
Floating interest rates	112,674	53,131	62,892	228,697
Total commercial related loans	\$ 140,372	\$ 160,473	\$ 413,370	\$ 714,215
<b>Premises and equipment, net</b>				

On December 31, 2013, premises and equipment totaled approximately \$14.6 million, compared to \$11.5 million on December 31, 2012. The increase was primarily the result of planned capital expenditures associated with branch office additions and secondarily to IT related initiatives pertaining to the replacement of older technology, the addition of new client services and improvements to operating efficiency.



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**Other assets**

On December 31, 2013, other assets totaled approximately \$38 million, compared to \$31 million on December 31, 2012. Other assets were primarily comprised of foreclosed real estate and investments in bank owned life insurance (BOLI). Foreclosed real estate, net of allowance, totaled \$4.1 million at year-end 2013, compared to \$3.6 million at year-end 2012. Foreclosed real estate is discussed in the Nonperforming Assets section of this report. Investments in life insurance relates to a select group of employees and directors whereby PeoplesBank is the owner and beneficiary of the policies. These investments, carried at the cash surrender value of the underlying policies, totaled \$21.5 million at year-end 2013, compared to \$15.5 million at year-end 2012. As a revenue raising strategy, PeoplesBank purchased \$5.3 million of BOLI on February 6, 2013. Of this total, \$4.7 million was invested with Massachusetts Mutual Life Insurance Company and \$0.6 million was invested with Midland National Life Insurance Company. The selection of these insurers was based on their high credit rating and reputation, competitive tax-exempt yield and to accomplish diversification among insurers for the BOLI portfolio. The level of BOLI investment, including the \$5.3 million addition, is estimated at 19 percent of PeoplesBank's Tier 1 capital, excluding unrealized gains (losses) on available-for-sale securities, at December 31, 2013, which is well within PeoplesBank's investment limitation of 25 percent of Tier 1 capital. Other assets also include lesser amounts for interest receivable on loans and investment securities, and net deferred tax assets. Additional information about these assets can be found in Note 1 Summary of Significant Accounting Policies in the notes to the consolidated financial statements under the appropriate subheadings.

**Funding**

**Deposits**

Deposits are the principal source of funding for earning assets. On December 31, 2013, deposits totaled \$925 million, which represented a 24 million or 3 percent increase compared to the level at year-end 2012. The increase in total deposits occurred primarily within the demand (both interest and non-interest bearing), money market and saving categories. In contrast, total time deposits (i.e, CDs) decreased \$11 million or 3 percent in response to our clients' apparent preference for liquidity. The average rate paid on interest bearing deposits was 0.94 percent for the year 2013, compared to 1.21 percent for the year 2012, which reflected the low level of market interest rates. The composition of the Corporation's deposit portfolio at December 31, 2013 is provided in Note 7-Deposits in the notes to the consolidated financial statements. On December 31, 2013, the balance of certificates of deposit with a balance of \$100,000 and above was \$170 million. Of this total, \$17 million mature within three months, \$15 million mature after three months but within six months, \$49 million mature after six months but within twelve months, and the remaining \$89 million mature beyond twelve months.

**Short-term borrowings**

Short-term borrowings consist of securities sold under agreements to repurchase (repo agreements), federal funds purchased and other borrowings as described more fully in Note 8-Short-term borrowings and Long-term Debt to the consolidated financial statements. On December 31, 2013, short-term borrowings totaled \$40.4 million, compared to \$19.4 million on December 31, 2012. The \$21 million increase was due primarily to an increase in overnight borrowing with a very low rate of interest (25 basis points) from the Federal Home Loan Bank of Pittsburgh used to temporarily fund commercial loan demand in the second half of the year 2013.

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**Long-term debt**

Long-term debt is a secondary funding source for asset growth. On December 31, 2013, long-term debt totaled \$70.5 million, compared to \$30.8 million at year-end 2012. The increase was the result of four \$10 million advances from the Federal Home Loan Bank of Pittsburgh (FHLBP), which were used to help fund loan demand and to provide a hedge against rising market interest rates. All four advances had low fixed rates of interest with three to five year maturities. Generally, funds for the payment of long-term debt come from operations. On December 31, 2013, total unused credit with the FHLBP was approximately \$217 million. Obligations to the FHLBP are secured by FHLBP stock and qualifying collateral, principally real estate secured loans. A listing of outstanding long-term debt obligations is provided in Note 8-Short-term Borrowings and Long-term Debt in the notes to the consolidated financial statements.

**Shareholders' equity and capital adequacy**

Shareholders' equity or capital enables the Corporation to maintain asset growth and absorb losses. Capital adequacy can be affected by a multitude of factors, including profitability, corporate expansion, balance sheet growth, dividend policy and regulatory mandates, among others. Total shareholders' equity was \$107.6 million on December 31, 2013, compared to \$101.3 million at year-end 2012. The increase in equity was the result of an increase in retained earnings from profitable operations.

*Dividends on preferred stock*

As previously disclosed, the Corporation participates in the U.S. Department of the Treasury's (Treasury) Small Business Lending Fund Program (SBLF Program). Under this program, the Corporation issued \$25 million, or 25,000 shares of non-cumulative, perpetual preferred stock, Series B, \$1,000 liquidation value, \$2.50 par value to the Treasury. The SBLF preferred stock qualifies as Tier 1 regulatory capital and requires the payment of non-cumulative cash dividends quarterly on each January 1, April 1, July 1 and October 1. Preferred dividends totaled \$250,000 for the year 2013, which equated to a 1 percent dividend rate. Comparatively, preferred dividends totaled \$384,000 for the year 2012, which equated to a 1.54 percent dividend rate. The decrease in the amount of dividends and dividend rate for the year 2013 was the result of the addition of SBLF qualifying loans that exceeded a predetermined SBLF portfolio baseline. More information about the SBLF Program is provided in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012.

*Dividends on common stock*

The Corporation typically pays cash dividends on its common stock on a quarterly basis. The Board of Directors determines the dividend rate after considering the Corporation's capital requirements, current and projected net income, and other factors. Annual cash dividends per common share totaled \$0.46 (\$0.438 adjusted) for the year 2013, compared to \$0.40 (\$0.364 adjusted) for the year 2012. The adjusted amount reflects the effect of the 5 percent common stock dividend described below. On January 14, 2014, the Board declared a regular cash dividend of \$0.12 per common share, payable on February 11, 2014, to shareholders of record on January 28, 2014.

Periodically, the Corporation distributes stock dividends on its common stock. On October 8, 2013, the Corporation declared a 5 percent common stock dividend that was distributed on December 10, 2013, to shareholders of record at the close of business on October 22, 2013. Distribution of this common stock dividend resulted in the issuance of 225,937 additional common shares.

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*Compensation plans*

As disclosed in this report, the Corporation maintains various employee and director benefit plans that could result in the issuance of its common stock or affect its earnings. Information regarding these plans can be found in Note 11-Benefit Plans and Note 12-Stock-Based Compensation in the notes to the consolidated financial statements.

*Preferred and common stock*

Information pertaining to preferred and common stock issued by the Corporation is disclosed in Note 10 Shareholders' Equity in the notes to the consolidated financial statements.

*Shelf Registration*

During November 2013, the Corporation filed a Form S-3 and prospectus using a shelf registration process. Under the shelf registration process, the Corporation may sell any combination of the following securities: common stock, preferred stock, warrants and units, from time to time in one or more offerings, up to a total dollar amount of \$35 million. The Corporation expects to use the net proceeds of its sale of securities for general corporate purposes, unless specified otherwise in an applicable prospectus supplement.

*Capital ratios*

The Corporation and PeoplesBank are subject to various regulatory capital requirements administered by banking regulators that involve quantitative guidelines and qualitative judgments. Quantitative measures established by regulators pertain to minimum capital ratios, as set forth in Table 9. The table provides a comparison of the Corporation's and PeoplesBank's risk-based capital ratios and leverage ratios to the minimum regulatory requirement for the periods indicated.

On July 2, 2013, the Board of Governors of the Federal Reserve System finalized its rule implementing the Basel III regulatory capital framework, which the FDIC adopted on July 9, 2013. Under the rule, minimum requirements will increase both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent and a common equity Tier 1 conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations. The new rule increases the risk weights for past-due loans, certain commercial real estate loans and some equity exposures, and makes selected other changes in risk weights and credit conversion factors. The rule for smaller, less complex institutions, which includes the Corporation, takes effect January 1, 2015.

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The new rule provides that, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold the 2.5 percent capital conservation buffer, which is to be phased in over a four year period beginning January 1, 2016, with the full 2.5 percent required as of January 1, 2019. The transition schedule for new ratios, including the capital conservation buffer, is as follows:

	As of January 1:				
	2015	2016	2017	2018	2019
Minimum common equity Tier 1 capital ratio	4.5%	4.5%	4.5%	4.5%	4.5%
Common equity Tier 1 capital conservation buffer	N/A	0.625%	1.25%	1.875%	2.5%
Minimum common equity Tier 1 capital ratio plus capital conservation buffer	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of most deductions from common equity Tier 1 capital	40%	60%	80%	100%	100%
Minimum Tier 1 capital ratio	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Tier 1 capital ratio plus capital conservation buffer	N/A	6.625%	7.25%	7.875%	8.5%
Minimum total capital ratio	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital ratio plus capital conservation buffer	N/A	8.625%	9.25%	9.875%	10.5%

As fully phased in, a banking organization with a buffer greater than 2.5% would not be subject to limits on dividend payments or discretionary bonus payments; however, a banking organization with a buffer less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making dividend payments or discretionary bonus payments if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% as of the beginning of that quarter. Eligible net income is defined as net income for the 4 calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income. A summary of payout restrictions based on the capital conservation buffer is as follows:

Capital Conservation Buffer (as a % of risk-weighted assets)	Maximum Payout (as a % of eligible retained income)
Greater than 2.5%	No payout limitation applies
≤2.5% and >1.875%	60%
≤1.875% and >1.25%	40%
≤1.25% and >0.625%	20%
≤0.625%	0%

The Corporation plans to manage its capital to ensure compliance with the Basel III capital rules.

**Table 9-Capital Ratios**

(dollars in thousands)	Ratios at December 31,		Federal Minimum Required	Federal Well Capitalized	Capital *	
	2013	2012			at December 31, 2013	2012
<b>Tier 1 risk-based capital</b>						
(as a percentage of risk weighted assets)						
Codorus Valley Bancorp, Inc. (consolidated)	12.79%	13.59%	4.00%	n/a%	\$ 115,477	\$ 105,597
PeoplesBank	12.42	13.20	4.00	6.00	111,713	102,120
<b>Total risk-based capital</b>						
(as a percentage of risk weighted assets)						
Codorus Valley Bancorp, Inc. (consolidated)	13.89%	14.79%	8.00%	n/a%	\$ 125,452	\$ 114,899
PeoplesBank	13.53	14.40	8.00	10.00	121,688	111,422
<b>Leverage</b>						
(Tier 1 capital as a percentage of average total assets)						
Codorus Valley Bancorp, Inc. (consolidated)	10.18%	10.02%	4.00%	n/a%	\$ 115,477	\$ 105,597

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PeoplesBank	9.88	9.72	4.00	5.00	111,713	102,120
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\* Net unrealized gains and losses on securities available-for-sale, net of taxes, are disregarded for capital ratio computation purposes in accordance with federal regulatory banking guidelines.

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The Corporation's Risk Management Committee (Committee) meets at least quarterly and includes members of senior management and an independent director. The objective of the Committee is to identify and manage risk inherent in the operations of the Corporation and its affiliates. While the Committee's risk review is broad in scope, its primary responsibility is to develop, implement and monitor compliance with formal risk management policies and procedures.

**Credit risk management**

Credit risk represents the possibility that a loan client, counterparty or issuer may not perform in accordance with contractual terms, posing one of the most significant risks of loss to the Corporation. Accordingly, the Corporation emphasizes the management of credit risk. To support this objective a sound lending policy framework has been established. This framework includes seven basic policies that guide the lending process and minimize risk. First, the Corporation follows detailed written lending policies and procedures. Second, lending authority is granted commensurate with dollar amount, loan type, level of risk, and loan officer experience. Third, loan review committees function at both the senior lending officer level and the Board level to review and approve loans that exceed pre-established dollar thresholds and/or meet other criteria. Fourth, the Corporation lends mainly within its primary geographical market area, York County, Pennsylvania and northern-central Maryland. Although this focus may pose a geographical concentration risk, the diverse local economy and employee knowledge of customers lessens this risk. Fifth, the loan portfolio is diversified to prevent dependency upon a single customer or small group of related customers. Sixth, the Corporation does not participate in the subprime lending market, nor does it invest in securities backed by subprime mortgages. And seventh, the Corporation does not lend to foreign countries or persons residing therein.

The Corporation uses loan-to-value ratios (LTV ratios), establishing generally acceptable ratios of the loan amount to the value of the collateral securing the loan, to minimize the risk of loss from the loan portfolio. At December 31, 2013, the LTV ratios listed below were in effect.

Loan type	LTV ratio %
Residential, owner occupied 1-4 units, tax assessment (MD)	90
Residential, owner occupied 1-4 units, tax assessment (PA)	80
Residential, owner occupied 1-4 units, certified appraisal	80
Residential, non-owner occupied 1-4 units, certified appraisal	75
Residential, 5 or more units	75
Agricultural	75
Commercial	70
Industrial	65
Vacant land (depending on improvements, approvals)	60-70
Special/limited use properties	50

An acceptable valuation is required on all real estate secured loans. Generally, an appraisal performed by an independent licensed appraiser is required for real estate secured loans where the amount is above \$250,000, or is non-owner occupied, or if the LTV ratio is above 70 percent for commercial property or above the limits shown in the above schedule for valuations based on tax assessments for owner occupied residential property, or if an existing appraisal is more than two years old (unless there was a material change in market conditions or the physical aspects of the property). Exceptions to LTV ratios and the use of a licensed appraiser are sometimes made by management or the Board of Directors when there are compensating factors.

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One component of the internal credit risk review is the identification and management of industry concentrations, defined as greater than 10 percent of the total loan portfolio. The Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: builder & developer were 12.4 percent and 13.2 of the portfolio at December 31, 2013 and 2012, respectively; and commercial real estate investor was 16.5 and 16.6 percent of the portfolio, respectively. Loans to borrowers within these industries are usually collateralized by real estate.

In addition to a comprehensive lending policy, numerous internal reviews of loan and foreclosed real estate portfolios occur throughout the year. These portfolios or selected accounts therein are also examined periodically by bank regulators.

**Nonperforming assets**

The following table presents a five-year history of asset categories posing the greatest risk of loss and related ratios. We generally place a loan on nonaccrual status and cease accruing interest income, i.e., recognize interest income on a cash basis as long as the loan is sufficiently collateralized, when loan payment performance is unsatisfactory and the loan is past due 90 days or more. Loans past due 90 days or more and still accruing interest represent loans that are contractually past due, but are well collateralized and in the process of collection. Foreclosed real estate represents real estate acquired to satisfy debts owed to PeoplesBank. The final category, troubled debt restructurings, pertains to loans whose terms have been modified to include a concession that we would not ordinarily consider due to the debtor's financial difficulties. Concessions granted under a troubled debt restructuring typically involve a reduction of interest rate lower than the current market rate for new debt with similar risk, the deferral of payments or extension of the stated maturity date. Troubled debt restructurings are evaluated for impairment if they have been restructured during the most recent calendar year, or if they cease to perform in accordance with the modified terms. The paragraphs below explain significant changes in the aforementioned categories for December 31, 2013, compared to December 31, 2012.

Nonperforming assets are reviewed by management on a monthly basis. We generally rely on appraisals performed by independent licensed appraisers to determine the value of collateral for impaired collateral-dependent loans. Generally, an appraisal is performed when: an account reaches 90 days past due, unless a certified appraisal was completed within the past twelve months; market values have changed significantly; the condition of the property has changed significantly; or the existing appraisal is outdated. In instances where the value of the collateral is less than the net carrying amount of the loan, a specific loss allowance is established for the difference by recording a loss provision to the income statement. When it is probable that some portion or all of the loan balance will not be collected, that amount is charged off as loss against the allowance.

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(dollars in thousands)

	2013	2012	2011	2010	2009
Nonaccrual loans	\$ 13,231	\$ 6,232	\$ 5,931	\$ 14,844	\$ 25,558
Nonaccrual loans, troubled debt restructurings	2,069	2,110	5,770	3,680	0
Accruing loans that are contractually past due 90 days or more as to principal and interest	0	186	0	197	40
Total nonperforming loans	15,300	8,528	11,701	18,721	25,598
Foreclosed real estate, net of allowance	4,068	3,633	16,243	10,572	9,314
Total nonperforming assets	\$ 19,368	\$ 12,161	\$ 27,944	\$ 29,293	\$ 34,912
Accruing troubled debt restructurings	\$ 3,342	\$ 3,550	\$ 3,272	\$ 0	\$ 0
Total period-end loans, net of deferred fees	\$ 859,384	\$ 737,134	\$ 693,515	\$ 640,849	\$ 645,877
Allowance for loan losses (ALL)	\$ 9,975	\$ 9,302	\$ 8,702	\$ 7,626	\$ 7,175
ALL as a % of total period-end loans	1.16%	1.26%	1.25%	1.19%	1.11%
Annualized net charge-offs as a % of average total loans	0.10%	0.16%	0.58%	0.39%	0.20%
ALL as a % of nonperforming loans	65.20%	109.08%	74.38%	40.74%	28.03%
Nonperforming loans as a % of total period-end loans	1.78%	1.16%	1.69%	2.92%	3.96%
Nonperforming assets as a % of total period-end loans and net foreclosed real estate	2.24%	1.64%	3.94%	4.50%	5.33%
Nonperforming assets as a % of total period-end assets	1.68%	1.15%	2.76%	3.06%	3.91%
Nonperforming assets as a % of total period-end shareholders equity	17.99%	12.00%	29.97%	38.27%	48.48%

As the loan portfolio has experienced strong growth over the years, we have made notable progress in managing the level of nonperforming assets. This has been accomplished through recoveries from borrower payments and foreclosed real estate sales, loan charge-offs and the establishment of valuation allowances for selective accounts. While progress has been made in managing nonperforming assets, we remain concerned about prolonged weak economic conditions and the corresponding effects it has on our commercial borrowers.

*Nonaccrual loans*

We evaluate the adequacy of the allowance for loan losses at least quarterly and have established a loss allowance for selected loan relationships where the net realizable value of the collateral is insufficient to repay the loan. In this regard, allowances, if applicable, are noted below within the description of the loan. Collection efforts, including modification of contractual terms for individual accounts based on prevailing market conditions and liquidation of collateral assets, are being employed to maximize recovery. Further provisions for loan losses may be required for nonaccrual loans as additional information becomes available or conditions change. There is also the potential for adjustment to the allowance as a result of regulatory examinations. A loan is returned to interest accruing status when we determine that circumstances have improved to the extent that all of the principal and interest amounts contractually due are current for at least six consecutive payments and future payments are reasonably assured.

On December 31, 2013, the nonaccrual loan portfolio balance totaled \$15,300,000, compared to \$8,342,000 at year-end 2012. The increase in nonaccrual loans was primarily the result of the reclassification of a \$5.5 million commercial loan to nonaccrual status described as loan no. 1, below. On December 31, 2013, the nonaccrual loan portfolio was comprised of thirty unrelated loan relationships, principally collateralized commercial loans, with outstanding principal balances ranging in size from \$14,000 to \$5,500,000. Five unrelated commercial relationships, which represent the majority of the nonaccrual loan portfolio balance, are described below.



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Loan no. 1 At December 31, 2013, the outstanding principal balance of the loan relationship was \$5,500,000, collateralized by various commercial properties. A \$750,000 allowance for loan losses was established for this relationship. Management is pursuing its legal remedies to recover the amount due.

Loan no. 2 At December 31, 2013, the outstanding principal balance of the loan relationship was \$2,069,000, collateralized by commercial rental properties whose rents are assigned to PeoplesBank. Based on a recent appraisal of the primary real estate collateralizing the relationship, we believe that the loans are adequately collateralized. The borrower is presently operating under a troubled debt restructuring agreement.

Loan no. 3 At December 31, 2013, the outstanding principal balance of the loan relationship was \$1,407,000, collateralized by various residential rental properties. A \$500,000 allowance for loan losses was established for this relationship. A bulk sale of the properties is anticipated in the future.

Loan no.4 At December 31, 2013, the outstanding principal balance of the loan relationship was \$1,349,000, collateralized by two commercial properties. Based on an independent appraisal of the real estate collateralizing the relationship, we believe that the loans are adequately collateralized. The Bank is presently pursuing its legal remedies to recover the amount due.

Loan no. 5 At December 31, 2013, the outstanding principal balance of the loan relationship was \$1,183,000, collateralized by residential and commercial properties. Subsequent to December 31, 2013, all properties were sold and the proceeds from the sales paid off the loan balance in full, including interest and costs.

For 2013, the gross interest income that would have been recorded if the nonaccrual loans had been current in accordance with their original terms and current throughout the period was approximately \$1,004,000. The amount of interest income on those nonaccrual loans that was included in net income for 2013 was approximately \$403,000. The interest income recognized on impaired loans, which includes nonaccrual loans, in Note 5 Loans in the notes to the consolidated financial statements, is a lesser amount because it includes interest income only from the time the loan was impaired.

At December 31, 2013, there were approximately \$10 million in potential problem loans being closely monitored by management. Potential problem loans consist of loans classified as substandard where we have doubts as to the ability of the borrower to comply with present repayment terms, and which are not disclosed in Table 10. A loss allowance totaling \$200,000 was established at December 31, 2013, for those potential problem commercial loans that, in our judgment, were under collateralized. Comparatively, we were monitoring approximately \$19 million of potential problem loans at December 31, 2012.

*Foreclosed real estate*

On December 31, 2013, foreclosed real estate, net of allowance, totaled \$4,068,000, compared to \$3,633,000 at December 31, 2012. On December 31, 2013, the portfolio was comprised of seven unrelated accounts ranging in size from \$134,000 to \$1,179,000. If a valuation allowance for probable loss has been established for a particular property it is so noted in the property description below. Further valuation allowances may be required on any foreclosed property as additional information becomes available or conditions change. Foreclosed real estate is included in the other assets category on the Corporation's balance sheet. Three unrelated foreclosed real estate properties, which represent the majority of the foreclosed real estate portfolio balance, are described below.

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Property no. 1 The carrying amount of this property at December 31, 2013 was \$1,179,000, which is net of a \$2,119,000 allowance for probable loss based on an independent appraisal, as adjusted for improvements, less estimated selling costs. This account is collateralized by 266 acres of unimproved land that is zoned for residential development. Plans to obtain a formal development plan were suspended with the intent to temporarily retain the property and investigate other development, disposition or income generating options. Impairment loss for this property totaled \$135,000 for the year 2013, which is reflected in the allowance.

Property no. 2 The carrying amount of this property at December 31, 2013 was \$1,088,000, which is net of a \$1,627,000 allowance for probable loss. The property is comprised of 134 approved residential building lots. Of this total, 28 lots are improved. Management is evaluating its disposition options with regard to this property.

Property no. 3 The carrying amount of this residential real estate property at December 31, 2013 was \$698,000, which is net of a \$82,000 allowance for probable loss. The property is presently listed for sale.

**Allowance for loan losses**

Although the Corporation maintains sound credit policies, certain loans deteriorate and must be charged off as losses. The allowance for loan losses is maintained to absorb losses inherent in the portfolio. The allowance is increased by provisions charged to expense and is reduced by loan charge-offs, net of recoveries. The allowance is based upon management's continuous evaluation of the loan portfolio coupled with a formal review of adequacy on a quarterly basis, which is subject to review and approval by the Board. An overview of the methodology and key factors that we use in evaluating the adequacy of the allowance and loan impairment is provided in Note 1-Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

The allowance for loan losses consists primarily of three components: specific allowances for individually impaired commercial loans; allowances calculated for pools of loans; and an unallocated component, which reflects the margin of imprecision inherent in the assumptions that underlie the evaluation of the adequacy of the allowance. The Corporation uses an internal risk rating system to evaluate individual loans. Loans are segmented into industry groups or pools with similar characteristics, and an allowance for loan losses is allocated to each segment based on quantitative factors such as recent loss history (two-year rolling average of net charge-offs) and qualitative factors, such as the results of internal and external credit reviews, changes in the size and composition of the loan portfolio, adequacy of collateral, general economic conditions and the local business outlook. Determining the level of the allowance for probable loan losses at any given period is difficult, particularly during deteriorating or uncertain economic periods. We must make estimates using assumptions and information that is often subjective and fluid. There is also the potential for adjustment to the allowance as a result of regulatory examinations.

Table 11 Analysis of Allowance for Loan Losses presents an analysis of the activity in the allowance for loan losses over a five-year period. A more detailed analysis of the allowance for the current year is provided in Note 5 Allowance for Loan Losses in the notes to the consolidated financial statements.

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The allowance was \$9,975,000 or 1.16 percent of total loans, on December 31, 2013, compared to \$9,302,000 and 1.26 percent, respectively, on December 31, 2012. The \$673,000 increase in the allowance for the year 2013 generally supported growth in the loan portfolio. The downward trend in the provision for loan losses since the year 2011 reflected a corresponding decrease in net charge-offs over that three year period. The level of charge-offs in the year 2011 were unusually high due to the inclusion of partial charge-offs for two unrelated commercial loans totaling \$3,175,000. The risks and uncertainties associated with prolonged weakness in economic and business conditions, the level of unemployment and erosion of real estate values can adversely affect our borrowers' ability to service their loans causing significant fluctuations in the level of charge-offs and provision expense from one period to another. Based on a comprehensive analysis of the loan portfolio, we believe that the allowance for loan losses was adequate at December 31, 2013.

**Table 11 -Analysis of Allowance for Loan Losses**

<i>(dollars in thousands)</i>	2013	2012	2011	2010	2009
Balance - beginning of year	\$ 9,302	\$ 8,702	\$ 7,626	\$ 7,175	\$ 4,690
Provision charged to operating expense	1,470	1,750	4,935	2,990	3,715
Loans charged off:					
Commercial, financial and agricultural	591	607	3,444	1,519	750
Real estate - construction and land development	0	2	0	789	310
Real estate - residential mortgages	27	115	141	31	0
Consumer and home equity	380	501	371	298	244
Total loans charged off	998	1,225	3,956	2,637	1,304
Recoveries:					
Commercial, financial and agricultural	102	17	9	24	16
Real estate - residential mortgages	2	41	0	0	6
Consumer and home equity	97	17	88	74	52
Total recoveries	201	75	97	98	74
Net charge-offs	797	1,150	3,859	2,539	1,230
Balance - end of year	\$ 9,975	\$ 9,302	\$ 8,702	\$ 7,626	\$ 7,175
<b>Ratios:</b>					
Net charge offs as a % of average total loans	0.10%	0.16%	0.58%	0.39%	0.20%
Allowance for loan losses as a % of total period-end loans	1.16%	1.26%	1.25%	1.19%	1.11%
Allowance for loan losses as a % of nonperforming loans	65.20%	109.08%	74.38%	40.74%	28.03%

Table 12 Allocation of Allowance for Loan Losses presents an allocation of the allowance for loan losses by major loan category. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses. Generally, the unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the loan portfolio.

Table of Contents**Table 12-Allocation of Allowance for Loan Losses**

<i>(dollars in thousands)</i>	2013		2012		December 31, 2011		2010		2009	
	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans
Commercial, financial and agricultural	\$ 6,131	70.7	\$ 6,461	69.2	\$ 5,950	66.6	\$ 5,226	65.5	\$ 4,974	64.3
Real estate - construction and land development	2,073	12.4	1,571	13.2	2,170	14.9	1,561	14.9	1,837	16.3
Total commercial related	8,204	83.1	8,032	82.4	8,120	81.5	6,787	80.4	6,811	80.6
Real estate - residential mortgages	65	3.0	124	3.2	88	3.1	30	3.2	32	3.4
Consumer and home equity	506	13.9	475	14.4	257	15.4	284	16.4	188	16.0
Total consumer related	571	16.9	599	17.6	345	18.5	314	19.6	220	19.4
Unallocated	1,200	n/a	671	n/a	237	n/a	525	n/a	144	n/a
Total	\$ 9,975	100.0	\$ 9,302	100.0	\$ 8,702	100.0	\$ 7,626	100.0	\$ 7,175	100.0

**Liquidity**

Maintaining adequate liquidity provides the Corporation with the ability to meet financial obligations to depositors, loan customers, employees, and shareholders on a timely and cost effective basis in the normal course of business. Additionally, it provides funds for growth and business opportunities as they arise. Liquidity is generated from transactions relating to both the Corporation's assets and liabilities. The primary sources of asset liquidity are scheduled investment security maturities and cash inflows, funds received from customer loan payments and, to a lesser degree, asset sales. The primary sources of liability liquidity are deposit growth, short-term borrowings and long-term debt. The Consolidated Statements of Cash Flows, included in this report, present the changes in cash from operating, investing and financing activities. At year-end 2013, we believe that liquidity was adequate based upon the potential liquidation of unpledged available-for-sale securities with a fair value totaling approximately \$84 million and available credit from the Federal Home Loan Bank of Pittsburgh totaling approximately \$217 million. The Corporation's loan-to-deposit ratio was approximately 93 percent for year-end 2013, compared to 82 percent for year-end 2012. The increase in the ratio was the result loan growth outpacing the growth of deposits in the year 2013.

**Off-Balance sheet arrangements**

The Corporation's financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist primarily of commitments to grant new loans, unfunded commitments under existing loan facilities, and letters of credit issued under the same standards as on-balance sheet instruments. Financial instruments with off-balance sheet risk are disclosed in Note 14-Commitments to Extend Credit in the notes to the consolidated financial statements totaled \$277 million at December 31, 2013, compared to \$248 million at December 31, 2012. Normally these commitments have fixed expiration dates or termination clauses and are for specific purposes. Accordingly, many of the commitments are expected to expire without being drawn and therefore, generally do not present significant liquidity risk to the Corporation or PeoplesBank.

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**Impact of inflation and changing prices**

The majority of assets and liabilities of a financial institution are monetary in nature and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation may impact the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation may also significantly affect noninterest expenses, which tend to rise during periods of general inflation. The level of inflation can be measured by the change in the Consumer Price Index (CPI) for all urban consumers (December vs. December). The change in the CPI for 2013 was 1.5 percent, compared to 1.7 percent for 2012 and 3.0 percent for 2011.

Management believes that the most significant impact on financial results is the Corporation's ability to react to changes in market interest rates. Management strives to structure the balance sheet to increase net interest income by managing interest rate sensitive assets and liabilities to reprice in response to changes in market interest rates. Additionally, management is focused on increasing fee income, an income component that is less sensitive to changes in market interest rates.

**Item 7A: Quantitative and qualitative disclosures about market risk**

Not applicable to smaller reporting companies.

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**Report of Management's Assessment of  
Internal Controls Over Financial Reporting**

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2013, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992)*, with an emphasis on Internal Control Over Financial Reporting-Guidance for Smaller Public Companies, also issued by COSO. Based on this assessment, management concluded that, as of December 31, 2013, the Corporation's internal control over financial reporting is effective based on those criteria.

This Annual Report does not include an attestation report of the Corporation's independent registered public accounting firm regarding internal control over financial reporting as no such report is required. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this Annual Report.

/s/ Larry J. Miller  
Larry J. Miller  
(Principal Executive Officer)  
Vice-Chairman, President  
and Chief Executive Officer

March 25, 2014

/s/ Jann A. Weaver  
Jann A. Weaver  
(Principal Financial and Accounting  
Officer) Treasurer, and  
Assistant Secretary

March 25, 2014

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Codorus Valley Bancorp, Inc.

**Consolidated Balance Sheets**

	December 31, 2013	December 31, 2012
<i>(dollars in thousands, except share and per share data)</i>		
<b>Assets</b>		
Interest bearing deposits with banks	\$ 1,947	\$ 34,866
Cash and due from banks	13,115	14,891
Total cash and cash equivalents	15,062	49,757
Securities, available-for-sale	228,741	234,062
Restricted investment in bank stocks, at cost	4,742	2,863
Loans held for sale	514	3,091
Loans (net of deferred fees of \$1,963 - 2013 and \$1,186 - 2012)	859,384	737,134
Less-allowance for loan losses	(9,975)	(9,302)
Net loans	849,409	727,832
Premises and equipment, net	14,599	11,493
Other assets	37,574	30,639
Total assets	\$ 1,150,641	\$ 1,059,737
<b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 107,921	\$ 88,476
Interest bearing	817,382	812,831
Total deposits	925,303	901,307
Short-term borrowings	40,363	19,356
Long-term debt	70,493	30,815
Other liabilities	6,833	6,928
Total liabilities	1,042,992	958,406
<b>Shareholders equity</b>		
Preferred stock, par value \$2.50 per share; \$1,000 liquidation preference, 1,000,000 shares authorized; 25,000 Series B shares issued and outstanding - 2013 and 2012	25,000	25,000
Common stock, par value \$2.50 per share; 15,000,000 shares authorized; shares issued and outstanding: 4,800,318 at December 31, 2013 and 4,482,319 at December 31, 2012	12,001	11,206
Additional paid-in capital	45,399	40,524
Retained earnings	23,077	18,868
Accumulated other comprehensive income	2,172	5,733
Total shareholders equity	107,649	101,331
Total liabilities and shareholders equity	\$ 1,150,641	\$ 1,059,737
See accompanying notes.		

Table of ContentsCodorus Valley Bancorp, Inc.  
**Consolidated Statements of Income***(dollars in thousands, except per share data)*

	2013	2012	2011
<b>Interest income</b>			
Loans, including fees	\$ 41,594	\$ 40,613	\$ 39,083
Investment securities:			
Taxable	2,910	3,367	3,823
Tax-exempt	2,397	2,424	2,430
Dividends	6	14	7
Other	65	94	68
Total interest income	46,972	46,512	45,411
<b>Interest expense</b>			
Deposits	7,655	9,615	11,156
Federal funds purchased and other short-term borrowings	125	122	114
Long-term debt	839	790	1,089
Total interest expense	8,619	10,527	12,359
Net interest income	38,353	35,985	33,052
<b>Provision for loan losses</b>	1,470	1,750	4,935
Net interest income after provision for loan losses	36,883	34,235	28,117
<b>Noninterest income</b>			
Trust and investment services fees	1,922	1,702	1,510
Income from mutual fund, annuity and insurance sales	614	896	1,103
Service charges on deposit accounts	2,727	2,560	2,583
Income from bank owned life insurance	727	633	647
Other income	662	645	613
Net gain on sales of loans held for sale	1,019	1,327	777
Net gain on sales of securities	83	427	125
Total noninterest income	7,754	8,190	7,358
<b>Noninterest expense</b>			
Personnel	16,827	15,312	13,748
Occupancy of premises, net	2,049	1,977	2,004
Furniture and equipment	2,045	1,851	1,695
Postage, stationery and supplies	586	508	519
Professional and legal	667	534	586
Marketing and advertising	1,074	907	840
FDIC insurance	622	733	1,004
Debit card processing	773	707	655
Charitable donations	685	640	396
External data processing	693	605	497
Foreclosed real estate including (gains) losses on sales	713	2,830	1,701
Impaired loan carrying costs	345	299	620
Other	3,075	3,025	2,814
Total noninterest expense	30,154	29,928	27,079
Income before income taxes	14,483	12,497	8,396
<b>Provision for income taxes</b>	3,917	3,103	1,617
Net income	10,566	9,394	6,779
Preferred stock dividends and discount accretion	250	384	1,460
Net income available to common shareholders	\$ 10,316	\$ 9,010	\$ 5,319
Net income per common share, basic	\$ 2.17	\$ 1.93	\$ 1.16
Net income per common share, diluted	\$ 2.13	\$ 1.91	\$ 1.15

See accompanying notes.





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Codorus Valley Bancorp, Inc.

**Consolidated Statements of Comprehensive Income**

<i>(dollars in thousands)</i>	Years ended December 31,		
	2013	2012	2011
<b>Net income</b>	\$ 10,566	\$ 9,394	\$ 6,779
<b>Other comprehensive (loss) income:</b>			
Securities available for sale:			
Net unrealized holding (losses) gains arising during the period (net of tax (benefit) expense of (\$1,806), \$47, and \$1,993, respectively)	(3,506)	91	3,869
Reclassification adjustment for (gains) included in net income (net of tax expense of \$28, \$145, and \$42, respectively) (a) (b)	(55)	(282)	(83)
Net unrealized (losses) gains	(3,561)	(191)	3,786
Comprehensive income	\$ 7,005	\$ 9,203	\$ 10,565

(a) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income within noninterest income.

(b) Income tax amounts are included in provision for income taxes on the Consolidated Statements of Income.

See accompanying notes.

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Codorus Valley Bancorp, Inc.

**Consolidated Statements of Cash Flows**

<i>(dollars in thousands)</i>	Years ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net income	\$ 10,566	\$ 9,394	\$ 6,779
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation/amortization	1,546	1,377	1,310
Net amortization of premiums on securities	1,223	1,438	1,449
Amortization of deferred loan origination fees and costs	(588)	(311)	(265)
Amortization of intangible assets	0	190	95
Provision for loan losses	1,470	1,750	4,935
Provision for losses on foreclosed real estate	342	2,663	829
Deferred income tax (benefit) expense	(437)	385	(1,057)
Amortization of investment in real estate partnership	325	335	583
Increase in cash surrender value and death benefit on bank owned life insurance	(727)	(633)	(647)
Originations of loans held for sale	(52,877)	(72,298)	(47,106)
Proceeds from sales of loans held for sale	56,215	73,403	50,004
Net gain on sales of loans held for sale	(1,019)	(1,327)	(777)
Gain (loss) on disposal of premises and equipment	1	9	(3)
Net gain on sales of securities available-for-sale	(83)	(427)	(125)
Net (gain) loss on sales of foreclosed real estate	(15)	167	(154)
Stock-based compensation	318	295	229
(Increase) decrease in interest receivable	(4)	73	(62)
Decrease in other assets	1,475	416	59
Decrease in interest payable	(79)	(51)	(166)
(Decrease) increase in other liabilities	(4)	(365)	411
Net cash provided by operating activities	17,648	16,483	16,321
<b>Cash flows from investing activities</b>			
Purchases of securities, available-for-sale	(63,161)	(63,119)	(59,502)
Maturities, repayments and calls of securities, available-for-sale	41,855	44,178	37,937
Sales of securities, available-for-sale	20,090	17,440	15,715
(Purchase) redemption of restricted investment in bank stock	(1,879)	772	432
Net increase in loans made to customers	(123,171)	(44,689)	(59,274)
Purchases of premises and equipment	(4,653)	(2,018)	(1,402)
Investment in bank owned life insurance	(5,307)	(237)	(677)
Proceeds from bank owned life insurance	0	206	0
Investment in foreclosed real estate	0	(17)	(4,130)
Proceeds from sales of foreclosed real estate	207	10,028	914
Net cash used in investing activities	(136,019)	(37,456)	(69,987)
<b>Cash flows from financing activities</b>			
Net increase in demand and savings deposits	34,734	63,343	51,186
Net decrease in time deposits	(10,738)	(16,435)	(2,896)
Net increase in short-term borrowings	21,007	9,099	3,494
Proceeds from issuance of long-term debt	40,000	0	15,000
Repayment of long-term debt	(322)	(15,813)	(30,414)
Tax benefit on vested restricted stock	89	44	0
Cash dividends paid to preferred shareholders	(250)	(634)	(774)
Cash dividends paid to common shareholders	(2,074)	(1,690)	(1,454)
Redemption of preferred stock and common stock warrant	0	0	(17,027)
Issuance of preferred stock	0	0	25,000
Net issuance of common stock	1,239	627	477
Cash paid in lieu of fractional shares	(9)	(6)	0

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Net cash provided by financing activities	83,676	38,535	42,592
Net (decrease) increase in cash and cash equivalents	(34,695)	17,562	(11,074)
Cash and cash equivalents at beginning of year	49,757	32,195	43,269
Cash and cash equivalents at end of period	\$ 15,062	\$ 49,757	\$ 32,195

See accompanying notes.

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Codorus Valley Bancorp, Inc.

**Consolidated Statements of Changes in Shareholders Equity**

<i>(dollars in thousands, except per share data)</i>	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance, January 1, 2011	\$ 15,983	\$ 10,330	\$ 37,290	\$ 10,798	\$ 2,138	\$ 0	\$ 76,539
Net income				6,779			6,779
Other comprehensive income, net of tax					3,786		3,786
Preferred stock discount accretion	478			(478)			0
Common stock cash dividends (\$0.319 per share, adjusted)				(1,454)			(1,454)
Preferred stock cash dividends				(1,087)			(1,087)
Redemption of preferred stock and repurchase of common stock warrant	(16,461)		(566)				(17,027)
Issuance of preferred stock	25,000						25,000
Stock-based compensation including related tax benefit			229				229
Forfeiture and withheld shares of restricted stock			3			(20)	(17)
Issuance and reissuance of common stock including related tax benefit:							
27,847 shares under the dividend reinvestment and stock purchase plan		67	199			3	269
16,442 shares under the employee stock option plan		37	87			17	141
11,257 shares under employee stock purchase plan		28	56				84
18,115 shares of stock-based compensation awards		45	(45)				0
Balance, December 31, 2011	\$ 25,000	\$ 10,507	\$ 37,253	\$ 14,558	\$ 5,924	\$ 0	\$ 93,242
Net income				9,394			9,394
Other comprehensive loss, net of tax					(191)		(191)
Common stock cash dividends (\$0.364 per share, adjusted)				(1,690)			(1,690)
5% common stock dividend, 211,564 shares at fair value		529	2,475	(3,010)			(6)
Preferred stock cash dividends				(384)			(384)
Stock-based compensation including related tax benefit			339				339
Withheld shares of restricted stock						(80)	(80)
Issuance and reissuance of common stock including related tax benefit:							
23,165 shares under the dividend reinvestment and stock purchase plan		50	216			44	310
28,264 shares under the employee stock option plan		65	199			36	300
10,784 shares under employee stock purchase plan		27	70				97
11,290 shares of stock-based compensation awards		28	(28)				0
Balance, December 31, 2012	\$ 25,000	\$ 11,206	\$ 40,524	\$ 18,868	\$ 5,733	\$ 0	\$ 101,331
Net income				10,566			10,566
Other comprehensive loss, net of tax					(3,561)		(3,561)
Common stock cash dividends (\$0.438 per share, adjusted)				(2,074)			(2,074)
5% common stock dividend, 225,937 shares at fair value		565	3,459	(4,033)			(9)
Preferred stock cash dividends				(250)			(250)

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Stock-based compensation including related tax benefit		407						407	
Forfeiture and withheld shares of restricted stock		5				(169)		(164)	
Issuance and reissuance of common stock including related tax benefit:									
19,683 shares under the dividend reinvestment and stock purchase plan	40	233				82		355	
65,441 shares under the employee stock option plan	159	739				38		936	
8,420 shares under employee stock purchase plan	10	53				49		112	
8,480 shares of stock-based compensation awards	21	(21)						0	
Balance, December 31, 2013	\$ 25,000	\$ 12,001	\$ 45,399	\$ 23,077	\$	2,172	\$	0	\$ 107,649

See accompanying notes.

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Codorus Valley Bancorp, Inc.

**Notes to Consolidated Financial Statements**

**NOTE 1-Summary of Significant Accounting Policies**

**Nature of Operations and Basis of Presentation**

Codorus Valley Bancorp, Inc. (Corporation or Codorus Valley) is a one-bank holding company headquartered in York, Pennsylvania that provides a full range of banking services through its subsidiary, PeoplesBank, A Codorus Valley Company (PeoplesBank or Bank). PeoplesBank operates two wholly-owned subsidiaries, Codorus Valley Financial Advisors, Inc., which sells nondeposit investment products, and SYC Settlement Services, Inc., which provides real estate settlement services. In addition, PeoplesBank may periodically create nonbank subsidiaries for the purpose of temporarily holding foreclosed properties pending the liquidation of these properties. PeoplesBank operates under a state charter and is subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The Corporation is subject to regulation by the Federal Reserve Board and the state of Pennsylvania.

The consolidated financial statements include the accounts of Codorus Valley and its wholly-owned bank subsidiary, PeoplesBank, and its wholly-owned nonbank subsidiary, SYC Realty Company, Inc. SYC Realty is primarily used to hold foreclosed properties obtained by PeoplesBank pending the liquidation of these properties. The accounts of CVB Statutory Trust No. 1 and No. 2 are not included in the consolidated financial statements as discussed in Note 8 Short-term Borrowings and Long-term Debt. All significant intercompany account balances and transactions have been eliminated in consolidation. The accounting and reporting policies of Codorus Valley and subsidiaries conform to accounting principles generally accepted in the United States of America and have been followed on a consistent basis.

In accordance with FASB ASC Topic 855, the Corporation evaluated the events and transactions that occurred after the balance sheet date of December 31, 2013 through the date these consolidated financial statements were issued.

**Investment Securities**

The classification of securities is determined at the time of acquisition and is reevaluated at each reporting date. Securities classified as available-for-sale are debt securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in maturity mix of assets and liabilities, income or liquidity needs, regulatory considerations and other factors. Debt securities available-for-sale are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of accumulated other comprehensive income in shareholders' equity. Premiums and discounts are recognized in interest income using the interest method over the estimated life of the security. Realized gains and losses from the sale of available-for-sale securities are computed on the basis of specific identification of the adjusted cost of each security and are shown net as a separate line item in the statement of income.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management must first assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the cost basis of the investment will be recovered. The assessment of the probability of recovery would consider, among other things, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. More information about investment securities is provided in Note 3 Securities.

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**Restricted Investment in Bank Stocks**

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and, as of December 31, 2013 and 2012, consisted primarily of the common stock of the Federal Home Loan Bank of Pittsburgh (FHLBP) and, to a lesser degree, Atlantic Community Bankers Bank (ACBB). Under the FHLBP's Capital Plan, PeoplesBank is required to maintain a minimum member stock investment, both as a condition of becoming and remaining a member and as a condition of obtaining borrowings from the FHLBP. The FHLBP uses a formula to determine the minimum stock investment, which is based on the volume of loans outstanding, unused borrowing capacity and other factors.

The FHLBP began paying a quarterly dividend on its common stock in February 2012, after a period of suspension since December 2008, but reported that future dividends will be dependent on its private-label residential mortgage-back securities portfolio, its overall financial performance and retained earnings and other factors. The FHLBP restricts the repurchase of the excess capital stock of member banks. The amount of excess capital stock that can be repurchased from any member is currently the lesser of five percent of the member's total capital stock outstanding or its excess capital stock outstanding.

Management evaluates the restricted stock for impairment in accordance with FASB ASC Topic 942. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Using the FHLBP as an example, the determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLBP as compared to the capital stock amount for the FHLBP and the length of time this situation has persisted; (2) commitments by the FHLBP to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLBP; and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLBP. Management believes no impairment charge was necessary related to the restricted stock during the periods ended December 31, 2013 and 2012.

**Loans Held for Sale**

Loans held for sale are comprised of residential mortgage loans originated by the Bank and servicing of the loan is not retained after sale. Loans held for sale are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements. The amount by which cost exceeds fair value, if any, is accounted for as a valuation allowance and is charged to expense in the period of the change. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loan and is recorded in noninterest income.

**Loans**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are stated at their outstanding unpaid principal balances less amounts charged off, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Generally, loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) over the contractual life of the loan. The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following industry classes: builder & developer, commercial real estate investor, residential real estate investor, hotel/motel, wholesale & retail, agriculture, manufacturing and all other. Consumer loans consist of the following classes: residential mortgage, home equity and all other.



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For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to the Corporation's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

**Allowance for Loan Losses**

The allowance for loan losses represents the Corporation's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. While the Corporation attributes a portion of the allowance to individual loans and groups of loans that it evaluates and determines to be impaired, the allowance is available to cover all charge-offs that arise from the loan portfolio.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The Corporation performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, generally substandard and nonaccrual loans. For loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative (environmental) risk factors. Historical loss rates are based on a two year rolling average of net charge-offs. Qualitative risk factors that supplement historical losses in the evaluation of loan pools include:

- Changes in national and local economies and business conditions
- Changes in the value of collateral for collateral dependent loans
- Changes in the level of concentrations of credit
- Changes in the volume and severity of classified and past due loans
- Changes in the nature and volume of the portfolio
- Changes in collection, charge-off, and recovery procedures
- Changes in underwriting standards and loan terms
- Changes in the quality of the loan review system
- Changes in the experience/ability of lending management and key lending staff
- Regulatory and legal regulations that could affect the level of credit losses
- Other pertinent environmental factors

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Each factor is assigned a value to reflect improving, stable or declining conditions based on the Corporation's best judgment using relevant information available at the time of the evaluation. An unallocated component is maintained to cover uncertainties that could affect the Corporation's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the loan portfolio.

As disclosed in Note 4-Loans, the Corporation engages in commercial and consumer lending. Loans are made within the Corporation's primary market area and surrounding areas, and include the purchase of whole loan or participation interests in loans from other financial institutions. Commercial related loans, which pose the greatest risk of loss to the Corporation, whether originated or purchased, are generally secured by real estate. Within the broad commercial loan segment, the builder & developer and commercial real estate investor loan classes generally present a higher level of risk than other commercial loan classifications. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, unstable real estate prices and the dependency upon successful construction and sale or operation of the real estate project. Within the consumer loan segment, junior (i.e., second) liens present a slightly higher risk to the Corporation because economic and housing market conditions can adversely affect the underlying value of the collateral and the ability of some borrowers to service their debt.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Corporation determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Loans that are deemed impaired are evaluated for impairment loss based on the net realizable value of the collateral, as applicable. Loans that are not collateral dependent will rely on the present value of expected future cash flows discounted at the loan's effective interest rate to determine impairment loss. Large groups of smaller balance homogeneous loans such as residential mortgage loans, home equity loans and other consumer loans are collectively evaluated for impairment, unless they are considered to be a troubled debt restructuring.

An allowance for loan losses is established for an impaired commercial loan if its carrying value exceeds its estimated fair value. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals of the underlying collateral. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the most recent appraisal and the condition of the property. Appraisals are generally discounted to provide for selling costs and other factors to determine an estimate of the net realizable value of the property. For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In instances when specific consumer related loans become impaired, they may be partially or fully charged off, which obviates the need for a specific allowance.

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Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted under a troubled debt restructuring may involve an interest rate that is below the market rate given the associated credit risk of the loan or an extension of a loan's stated maturity date. Loans classified as troubled debt restructurings are designated as impaired. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a reasonable period of time, generally six consecutive months after modification and future payments are reasonably assured.

Banking regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to the Corporation. Based on a comprehensive analysis of the loan portfolio, the Corporation believes that the level of the allowance for loan losses at December 31, 2013 is adequate.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Premises and Equipment**

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated principally on the straight-line method over the assets' estimated useful lives. Estimated useful lives are seven to forty years for buildings and improvements, three to twenty years for furniture and equipment and three to seven years for computer equipment and software. Maintenance and repairs are charged to expense as incurred. The cost of significant improvements to existing assets is capitalized and amortized over the shorter of the asset's useful life or related lease term. When facilities are retired or otherwise disposed of, the depreciated cost is removed from the asset accounts, and any gain or loss is reflected in the statement of income.

**Foreclosed Real Estate**

Foreclosed real estate, included in other assets, is comprised of property acquired through a foreclosure proceeding or property that is acquired through in substance foreclosure. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any difference between the carrying value and the new cost basis is charged against the allowance for loan losses. Appraisals, based upon an independent third party, are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell through a valuation allowance or a charge-off. Costs related to the improvement of foreclosed real estate are generally capitalized until the real estate reaches a saleable condition subject to fair value limitations. Revenue and expense from operations and changes in the valuation allowance are included in noninterest expense. When a foreclosed real estate asset is ultimately sold, any gain or loss on the sale is included in the income statement as a component of noninterest expense. At December 31, 2013, foreclosed real estate, net of allowance was \$4,068,000, compared to \$3,633,000 for December 31, 2012.

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**Investments in Real Estate Partnerships**

In March 2003, PeoplesBank acquired a 73.47 percent limited partner interest in a real estate joint venture known as Village Court, which was formed to develop, construct, own and operate a 60-unit affordable housing complex located in Dover Township, York County, Pennsylvania. Construction of the housing complex was completed in the fourth quarter of 2004 and the complex was fully leased by December 31, 2004. The investment balance included in other assets was \$208,000 at December 31, 2013, compared to \$533,000 at December 31, 2012.

Investment and related tax credits are accounted for under the effective yield method of accounting under which tax credits are recognized as they are allocated, and the cost of the investment is amortized to provide a constant yield over the period that tax credits are allocated, generally ten years.

**Bank Owned Life Insurance**

PeoplesBank invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by PeoplesBank on a select group of employees and directors. PeoplesBank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and is included in other assets in the amount of \$21,491,000 at December 31, 2013, compared to \$15,467,000 at December 31, 2012.

**Trust and Investment Services Assets**

Assets held by PeoplesBank in a fiduciary or agency capacity for its customers are not included in the consolidated balance sheets since these items are not assets of PeoplesBank.

**Advertising**

Advertising costs are charged to expense when incurred.

**Income Taxes**

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the effective date.

The Corporation accounts for uncertain tax positions as required by FASB ASC Topic 740. FASB ASC Topic 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, the accounting standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. No significant income tax uncertainties have been identified by the Corporation; therefore, the Corporation recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2013 or 2012. The Corporation's policy is to recognize interest and penalties on unrecognized tax benefits in income taxes expense in the Consolidated Statement of Income. The Company did not recognize any interest and penalties for the years ended December 31, 2013, 2012 and 2011. The tax years subject to examination by the taxing authorities are the years ended December 31, 2012, 2011, and 2010.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment losses for investment securities and the evaluation of impairment losses for foreclosed real estate.

Table of Contents**Fair Value of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

**Per Common Share Data**

Basic net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding. Diluted net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding plus common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options and warrants and are determined using the treasury stock method. All share and per share amounts are adjusted for stock dividends that are declared prior to the issuance of the consolidated financial statements.

The computation of net income per common share for the years ended December 31, 2013, 2012 and 2011 is provided in the table below.

<i>(in thousands, except per share data)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income available to common shareholders	\$ 10,316	\$ 9,010	\$ 5,319
Weighted average shares outstanding (basic)	4,744	4,663	4,585
Effect of dilutive stock options	95	64	29
Weighted average shares outstanding (diluted)	4,839	4,727	4,614
Basic earnings per common share	\$ 2.17	\$ 1.93	\$ 1.16
Diluted earnings per common share	\$ 2.13	\$ 1.91	\$ 1.15
Anti-dilutive stock options and common stock warrants excluded from the computation of earnings per share	23	111	197

**Stock-Based Compensation**

The Corporation accounts for its stock-based compensation awards in accordance with FASB ASC Topic 718, which requires public companies to recognize compensation expense, related to stock-based compensation awards in their statements of operations. Compensation expense is equal to the fair value of the stock-based compensation awards on the grant date and is recognized over the vesting period of such awards. More information is provided in Note 12.

**Cash Flow Information**

For purposes of the statements of cash flows, the Corporation considers interest bearing deposits with banks, cash and due from banks, and federal funds sold to be cash and cash equivalents.

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Supplemental cash flow information is provided in the table below.

<i>(dollars in thousands)</i>	Years ended December 31,		
	2013	2012	2011
Cash paid during the period for:			
Income taxes	\$ 3,740	\$ 2,825	\$ 1,960
Interest	\$ 8,698	\$ 10,578	\$ 12,525
Noncash investing activities:			
Transfer of loans to foreclosed real estate	\$ 969	\$ 231	\$ 3,013
Transfer of loans held for sale to held-to-maturity portfolio	\$ 258	\$ 0	\$ 0
Increase in other liabilities for investment in foreclosed real estate	\$ 0	\$ 0	\$ 116
Increase in other liabilities for purchase of securities settling after year-end	\$ 0	\$ 0	\$ 1,063
Increase in other liabilities for preferred dividends declared	\$ 0	\$ 63	\$ 313

**Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Corporation enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded on the balance sheet when they become a receivable to the Corporation.

**Comprehensive Income**

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

**Segment Reporting**

Management has determined that it operates in only one segment, community banking. The Corporation's non-banking activities are insignificant to the consolidated financial statements.

**Reclassification**

Certain amounts in the 2012 and 2011 consolidated financial statements have been reclassified to conform to the 2013 presentation, which did not impact net income or shareholders' equity.

**Recent Accounting Pronouncements**

There were no new accounting pronouncements affecting the Corporation during the reporting period that were not already adopted or that are expected to have a material impact on the Corporation's consolidated financial position or results of operations.

**NOTE 2-Restrictions on Cash and Due from Banks**

The Bank is required to maintain average reserves, in the form of cash and balances with the Federal Reserve Bank, against its deposit liabilities. In 2013 and 2012, the reserves were met with vault cash. The Bank is also required to maintain compensating balances with certain correspondent banks which totaled \$75,000 at December 31, 2013, compared to \$76,000 at December 31, 2012.

Table of Contents**NOTE 3-Securities**

A summary of securities, available-for-sale at December 31, 2013 and 2012 is provided below. The securities available-for-sale portfolio is generally comprised of high quality debt instruments, such as obligations of the United States government or agencies thereof and investments in the obligations of states and municipalities. The majority of municipal bonds in the portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but they are for critical services such as water and sewer. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific loss reserves. At December 31, 2013, the fair value of the municipal bond portfolio was concentrated in the states of Pennsylvania at 44 percent and Texas at 17 percent.

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>December 31, 2013</b>				
Debt securities:				
U.S. agency	\$ 33,265	\$ 695	\$ (461)	\$ 33,499
U.S. agency mortgage-backed, residential	105,181	1,563	(825)	105,919
State and municipal	87,004	2,411	(92)	89,323
Total debt securities	\$ 225,450	\$ 4,669	\$ (1,378)	\$ 228,741
<b>December 31, 2012</b>				
Debt securities:				
U.S. Treasury notes	\$ 5,001	\$ 31	\$ 0	\$ 5,032
U.S. agency	37,000	1,083	(25)	38,058
U.S. agency mortgage-backed, residential	84,630	3,603	0	88,233
State and municipal	98,744	4,053	(58)	102,739
Total debt securities	\$ 225,375	\$ 8,770	\$ (83)	\$ 234,062

The amortized cost and estimated fair value of debt securities at December 31, 2013 by contractual maturity are shown below. Actual maturities may differ from contractual maturities if call options on selected debt issues are exercised in the future. Mortgage-backed securities are included in the maturity categories based on average expected life.

<i>(dollars in thousands)</i>	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 13,995	\$ 14,127
Due after one year through five years	170,622	174,047
Due after five years through ten years	37,013	36,635
Due after ten years	3,820	3,932
Total debt securities	\$ 225,450	\$ 228,741

Gross realized gains and losses on sales of securities, available-for-sale is shown below. Realized gains and losses are computed on the basis of specific identification of the adjusted cost of each security and are shown net as a separate line item in the income statement.

<i>(dollars in thousands)</i>	Years ended December 31,		
	2013	2012	2011
Realized gains	\$ 127	\$ 428	\$ 229
Realized losses	(44)	(1)	(104)
Net gains	\$ 83	\$ 427	\$ 125

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Securities, issued by agencies of the federal government, with a carrying value of \$142,914,000 and \$135,348,000 on December 31, 2013 and December 31, 2012, respectively, were pledged to secure public and trust deposits, repurchase agreements and other short-term borrowings.

The table below shows gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position, at December 31, 2013 and 2012.

<i>(dollars in thousands)</i>	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2013</b>						
Debt securities:						
U.S. agency	\$ 15,351	\$ (461)	\$ 0	\$ 0	\$ 15,351	\$ (461)
U.S. agency mortgage-backed, residential	56,787	(825)	0	0	56,787	(825)
State and municipal	9,897	(78)	797	(14)	10,694	(92)
Total temporarily impaired debt securities, available-for-sale	\$ 82,035	\$ (1,364)	\$ 797	\$ (14)	\$ 82,832	\$ (1,378)
<b>December 31, 2012</b>						
Debt securities:						
U.S. agency	\$ 8,251	\$ (25)	\$ 0	\$ 0	\$ 8,251	\$ (25)
State and municipal	11,565	(58)	0	0	11,565	(58)
Total temporarily impaired debt securities, available-for-sale	\$ 19,816	\$ (83)	\$ 0	\$ 0	\$ 19,816	\$ (83)

The unrealized losses of \$1,364,000 at December 31, 2013 within the less than 12 months category were attributable to five U.S. agency securities, eighteen U.S. agency mortgage-backed securities, and twenty-three state and municipal securities. The unrealized losses of \$14,000 within the 12 months or more category were attributable to two state and municipal securities. All of the securities with unrealized losses have been evaluated and determined to be investment grade.

Securities available-for-sale are analyzed quarterly for possible other-than-temporary impairment. The analysis considers, among other factors: 1) whether the Corporation has the intent to sell its securities prior to market recovery or maturity; 2) whether it is more likely than not that the Corporation will be required to sell its securities prior to market recovery or maturity; 3) default rates/history by security type; 4) third-party securities ratings; 5) third-party guarantees; 6) subordination; 7) payment delinquencies; 8) nature of the issuer; and 9) current financial news.

The Corporation believes that unrealized losses at December 31, 2013 were primarily the result of changes in market interest rates and that it has the ability to hold these investments for a time necessary to recover the amortized cost. Through December 31, 2013, the Corporation has collected all interest and principal on its investment securities as scheduled. The Corporation believes that collection of the contractual principal and interest is probable and, therefore, all impairment is considered to be temporary.



Table of Contents**NOTE 4-Loans***Loan Portfolio Composition*

The table below provides the composition of the loan portfolio at December 31, 2013 and 2012. The portfolio is comprised of two segments, commercial and consumer loans. The commercial loan segment is disaggregated by industry class which allows the Corporation to monitor risk and performance. Those industries representing the largest dollar investment and most risk are listed separately. The other commercial loans category is comprised of various industries. The consumer related segment is comprised of residential mortgages, home equity and other consumer loans. The Corporation has not engaged in sub-prime residential mortgage originations.

<i>(dollars in thousands)</i>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Builder & developer	\$ 106,436	\$ 96,936
Commercial real estate investor	141,372	122,714
Residential real estate investor	78,400	66,419
Hotel/Motel	70,324	64,948
Wholesale & retail	75,445	70,443
Manufacturing	36,872	40,258
Agriculture	38,041	20,928
Other	167,325	124,834
Total commercial related loans	714,215	607,480
Residential mortgages	25,695	23,511
Home equity	80,859	65,858
Other	38,615	40,285
Total consumer related loans	145,169	129,654
Total loans	\$ 859,384	\$ 737,134

*Concentrations of Credit Risk*

Concentrations of credit risk arise when a number of customers are engaged in similar business activities in the same geographic region or have similar economic features that could cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Most of the Corporation's business is with customers in York County, Pennsylvania and northern-central Maryland, specifically Baltimore, Harford and Carroll counties. Although this focus may pose a concentration risk geographically, the Corporation believes that the diverse local economy and our detailed knowledge of the customer base lessens this risk. At December 31, 2013 and 2012, the Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: builder & developer, which was 12.4 and 13.2 percent of the portfolio at December 31, 2013 and 2012, respectively; and commercial real estate investor, which was 16.5 and 16.6 percent of the portfolio, respectively. Loans to borrowers within these industries are usually collateralized by real estate.

The principal balance of outstanding loans to directors, executive officers, principal shareholders and any associates of such persons was \$178,000 at December 31, 2013 and \$429,000 at December 31, 2012. During 2013, total additions were \$598,000 and total repayments and reductions were \$849,000. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collection. As of year-end 2013, all loans to this group were current and performing in accordance with contractual terms.

*Loan Risk Ratings*

The Corporation's internal risk rating system follows regulatory guidance as to risk classifications and definitions. Every approved loan is assigned a risk rating. Generally, risk ratings for commercial related loans and residential mortgages held for investment are determined by a formal evaluation of risk factors performed by the Corporation's underwriting staff. For consumer loans, and commercial loans up to \$750,000, the Corporation uses third-party credit scoring software models for risk rating purposes. The loan portfolio is monitored on a continuous basis by loan officers, loan review personnel and senior management. Adjustments of loan risk ratings are generally performed by the Special Asset Committee, which includes senior management. The Committee, which meets monthly, makes changes, as appropriate, to risk ratings when it becomes aware of credit events such as payment delinquency, cessation of a business or project, bankruptcy or death of the borrower, or changes in collateral value.



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The Corporation uses ten risk ratings to grade loans. The first seven ratings, representing the lowest risk, are combined and given a pass rating. A pass rating is a satisfactory credit rating, which applies to a loan that is expected to perform in accordance with the loan agreement and has a low probability of loss. A loan rated special mention has a potential weakness which may, if not corrected, weaken the loan or inadequately protect the Corporation's position at some future date. A loan rated substandard is inadequately protected by the current net worth or paying capacity of the borrower or of the collateral pledged. A substandard loan has a well-defined weakness or weaknesses that could jeopardize liquidation of the loan, which exposes the Corporation to loss if the deficiencies are not corrected. When circumstances indicate that collection of the loan is doubtful, the loan is risk rated nonaccrual, the accrual of interest income is discontinued, and any unpaid interest previously credited to income is reversed. Accordingly, the table below does not include the regulatory classification of doubtful, nor does it include the regulatory classification of loss because the Corporation promptly charges off loan losses.

The table below presents a summary of loan risk ratings by loan class at December 31, 2013 and 2012.

<i>(dollars in thousands)</i>	Pass	Special Mention	Substandard	Nonaccrual	Total
<b>December 31, 2013</b>					
Builder & developer	\$ 91,106	\$ 4,879	\$ 4,786	\$ 5,665	\$ 106,436
Commercial real estate investor	129,763	3,749	3,426	4,434	141,372
Residential real estate investor	74,626	1,790	187	1,797	78,400
Hotel/Motel	70,324	0	0	0	70,324
Wholesale & retail	73,425	892	0	1,128	75,445
Manufacturing	34,986	1,215	671	0	36,872
Agriculture	34,961	2,629	451	0	38,041
Other	164,621	880	482	1,342	167,325
Total commercial related loans	673,812	16,034	10,003	14,366	714,215
Residential mortgage	25,541	4	30	120	25,695
Home equity	80,271	357	11	220	80,859
Other	37,814	207	0	594	38,615
Total consumer related loans	143,626	568	41	934	145,169
Total loans	\$ 817,438	\$ 16,602	\$ 10,044	\$ 15,300	\$ 859,384
<b>December 31, 2012</b>					
Builder & developer	\$ 79,101	\$ 6,567	\$ 11,013	\$ 255	\$ 96,936
Commercial real estate investor	107,415	9,563	2,459	3,277	122,714
Residential real estate investor	62,327	1,361	2,044	687	66,419
Hotel/Motel	64,948	0	0	0	64,948
Wholesale & retail	66,155	1,521	983	1,784	70,443
Manufacturing	39,559	0	699	0	40,258
Agriculture	20,457	0	471	0	20,928
Other	121,223	1,156	612	1,843	124,834
Total commercial related loans	561,185	20,168	18,281	7,846	607,480
Residential mortgage	23,421	5	32	53	23,511
Home equity	65,406	112	188	152	65,858
Other	39,318	325	351	291	40,285
Total consumer related loans	128,145	442	571	496	129,654
Total loans	\$ 689,330	\$ 20,610	\$ 18,852	\$ 8,342	\$ 737,134

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*Impaired Loans*

The table below presents a summary of impaired loans at December 31, 2013 and 2012. Generally, impaired loans are loans risk rated substandard and nonaccrual. An allowance is established for those individual loans that are commercial related where the Corporation has doubt as to full recovery of the outstanding principal balance. The recorded investment represents outstanding unpaid principal loan balances adjusted for charge-offs.

<i>(dollars in thousands)</i>	December 31, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Builder & developer	\$ 3,861	\$ 3,861	-	\$ 12,211	\$ 12,211	-
Commercial real estate investor	7,860	7,860	-	5,736	5,836	-
Residential real estate investor	354	579	-	72	72	-
Hotel/Motel	0	0	-	0	0	-
Wholesale & retail	1,403	1,403	-	3,048	5,323	-
Manufacturing	671	671	-	699	699	-
Agriculture	0	0	-	0	0	-
Other commercial	1,498	1,498	-	1,483	1,611	-
Residential mortgage	150	176	-	85	111	-
Home equity	231	256	-	340	340	-
Other consumer	594	609	-	642	718	-
Total impaired loans with no related allowance	\$ 16,622	\$ 16,913	-	\$ 24,316	\$ 26,921	-
Impaired loans with a related allowance:						
Builder & developer	\$ 7,733	\$ 7,733	\$ 850	\$ 256	\$ 256	\$ 147
Commercial real estate investor	0	0	0	0	0	0
Residential real estate investor	1,630	1,630	650	2,659	2,659	700
Hotel/Motel	0	0	0	0	0	0
Wholesale & retail	0	0	0	0	0	0
Manufacturing	0	0	0	0	0	0
Agriculture	451	451	100	471	471	100
Other commercial	326	326	120	972	972	215
Residential mortgage	0	0	0	0	0	0
Home equity	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0
Total impaired loans with a related allowance	\$ 10,140	\$ 10,140	\$ 1,720	\$ 4,358	\$ 4,358	\$ 1,162
Total impaired loans:						
Builder & developer	\$ 11,594	\$ 11,594	\$ 850	\$ 12,467	\$ 12,467	\$ 147
Commercial real estate investor	7,860	7,860	0	5,736	5,836	0
Residential real estate investor	1,984	2,209	650	2,731	2,731	700
Hotel/Motel	0	0	0	0	0	0
Wholesale & retail	1,403	1,403	0	3,048	5,323	0
Manufacturing	671	671	0	699	699	0
Agriculture	451	451	100	471	471	100
Other commercial	1,824	1,824	120	2,455	2,583	215
Residential mortgage	150	176	0	85	111	0
Home equity	231	256	0	340	340	0
Other consumer	594	609	0	642	718	0
Total impaired loans	\$ 26,762	\$ 27,053	\$ 1,720	\$ 28,674	\$ 31,279	\$ 1,162

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The table below presents a summary of average impaired loans and related interest income that was included in net income for the years ended December 31, 2013, 2012 and 2011. Generally impaired loans are loans risk rated substandard and nonaccrual or classified as troubled debt restructurings. An allowance is established for individual commercial related loans where the Corporation has doubt as to full recovery of the outstanding principal balance. Typically, impaired consumer related loans are partially or fully charged-off obviating the need for a specific allowance. The recorded investment represents outstanding unpaid principal loan balances adjusted for charge-offs.

	December 31, 2013			For the years ended December 31, 2012			December 31, 2011		
	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income
<i>(dollars in thousands)</i>									
Impaired loans with no related allowance:									
Builder & developer	\$ 8,703	\$ 215	\$ 8	\$ 8,849	\$ 570	\$ 65	\$ 5,248	\$ 424	\$ 374
Commercial real estate investor	6,334	301	162	4,910	281	108	1,958	108	73
Residential real estate investor	238	7	5	307	5	4	443	3	2
Hotel/Motel	0	0	0	0	0	0	0	0	0
Wholesale & retail	2,229	65	66	2,711	28	4	2,242	79	0
Manufacturing	683	44	0	707	42	0	143	5	0
Agriculture	0	0	0	0	0	0	0	0	0
Other commercial	1,570	19	4	4,020	177	138	5,067	383	308
Residential mortgage	124	6	5	133	6	4	262	13	11
Home equity	327	8	1	274	8	1	152	4	0
Other consumer	621	23	23	435	22	10	515	37	20
Total impaired loans with no related allowance	\$ 20,829	\$ 688	\$ 274	\$ 22,346	\$ 1,139	\$ 334	\$ 16,030	\$ 1,056	\$ 788
Impaired loans with a related allowance:									
Builder & developer	\$ 1,624	\$ 294	\$ 0	\$ 260	\$ 6	\$ 4	\$ 796	\$ 0	\$ 0
Commercial real estate investor	0	0	0	45	0	0	166	0	0
Residential real estate investor	2,284	18	0	1,483	64	0	93	0	0
Hotel/Motel	0	0	0	0	0	0	0	0	0
Wholesale & retail	0	0	0	105	0	0	2,905	0	0
Manufacturing	0	0	0	0	0	0	0	0	0
Agriculture	462	33	0	481	34	0	496	35	0
Other commercial	694	0	0	935	2	0	777	8	0
Residential mortgage	0	0	0	0	0	0	0	0	0
Home equity	0	0	0	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0	0	0	0
Total impaired loans with a related allowance	\$ 5,064	\$ 345	\$ 0	\$ 3,309	\$ 106	\$ 4	\$ 5,233	\$ 43	\$ 0
Total impaired loans:									
Builder & developer	\$ 10,327	\$ 509	\$ 8	\$ 9,109	\$ 576	\$ 69	\$ 6,044	\$ 424	\$ 374
Commercial real estate investor	6,334	301	162	4,955	281	108	2,124	108	73
Residential real estate investor	2,522	25	5	1,790	69	4	536	3	2
Hotel/Motel	0	0	0	0	0	0	0	0	0
Wholesale & retail	2,229	65	66	2,816	28	4	5,147	79	0
Manufacturing	683	44	0	707	42	0	143	5	0
Agriculture	462	33	0	481	34	0	496	35	0
Other commercial	2,264	19	4	4,955	179	138	5,844	391	308
Residential mortgage	124	6	5	133	6	4	262	13	11
Home equity	327	8	1	274	8	1	152	4	0
Other consumer	621	23	23	435	22	10	515	37	20
Total impaired loans	\$ 25,893	\$ 1,033	\$ 274	\$ 25,655	\$ 1,245	\$ 338	\$ 21,263	\$ 1,099	\$ 788



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The performance and credit quality of the loan portfolio is also monitored by using an aging schedule which shows the length of time a payment is past due. The table below presents a summary of past due loans, current loans and nonaccrual loans by loan segment and class at December 31, 2013 and 2012.

<i>(dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
<b>December 31, 2013</b>							
Builder & developer	\$ 220	\$ 0	\$ 0	\$ 5,665	\$ 5,885	\$ 100,551	\$ 106,436
Commercial real estate investor	0	0	0	4,434	4,434	136,938	141,372
Residential real estate investor	0	265	0	1,797	2,062	76,338	78,400
Hotel/Motel	0	0	0	0	0	70,324	70,324
Wholesale & retail	0	0	0	1,128	1,128	74,317	75,445
Manufacturing	0	0	0	0	0	36,872	36,872
Agriculture	0	0	0	0	0	38,041	38,041
Other	109	0	0	1,342	1,451	165,874	167,325
Total commercial related loans	329	265	0	14,366	14,960	699,255	714,215
Residential mortgage	0	0	0	120	120	25,575	25,695
Home equity	171	0	0	220	391	80,468	80,859
Other	118	161	0	594	873	37,742	38,615
Total consumer related loans	289	161	0	934	1,384	143,785	145,169
Total loans	\$ 618	\$ 426	\$ 0	\$ 15,300	\$ 16,344	\$ 843,040	\$ 859,384
<b>December 31, 2012</b>							
Builder & developer	\$ 400	\$ 0	\$ 0	\$ 255	\$ 655	\$ 96,281	\$ 96,936
Commercial real estate investor	0	0	0	3,277	3,277	119,437	122,714
Residential real estate investor	2,044	0	0	687	2,731	63,688	66,419
Hotel/Motel	0	0	0	0	0	64,948	64,948
Wholesale & retail	1,067	0	0	1,784	2,851	67,592	70,443
Manufacturing	0	0	0	0	0	40,258	40,258
Agriculture	0	0	0	0	0	20,928	20,928
Other	456	0	0	1,843	2,299	122,535	124,834
Total commercial related loans	3,967	0	0	7,846	11,813	595,667	607,480
Residential mortgage	474	129	0	53	656	22,855	23,511
Home equity	62	0	0	152	214	65,644	65,858
Other	842	195	186	291	1,514	38,771	40,285
Total consumer related loans	1,378	324	186	496	2,384	127,270	129,654
Total loans	\$ 5,345	\$ 324	\$ 186	\$ 8,342	\$ 14,197	\$ 722,937	\$ 737,134

*Troubled Debt Restructurings*

Loans classified as troubled debt restructurings (TDRs) are designated impaired and arise when the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted with respect to these loans involve an extension of the maturity date or a below market interest rate relative to new debt with similar credit risk. Generally, these loans are secured by real estate. If repayment of the loan is determined to be collateral dependent, the loan is evaluated for impairment loss based on the fair value of the collateral. For loans that are not collateral dependent, the present value of expected future cash flows, discounted at the loan's original effective interest rate, is used to determine any impairment loss.

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A nonaccrual TDR represents a nonaccrual loan, as previously defined, which includes an economic concession. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive payments after the modification and future principal and interest payments are reasonably assured. In contrast, an accruing TDR represents a loan that, at the time of the modification, has a demonstrated history of payments and with respect to which management believes that future loan payments are reasonably assured under the modified terms.

The table below shows loans whose terms have been modified under TDRs during the years ended December 31, 2013 and 2012. There was no impairment loss recognized on any of these TDRs and they are all performing under their modified terms. There were no defaults of restructured loans during the years ended December 31, 2013 and 2012.

	Number of Contracts	Modifications		Recorded Investment at Period End
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
<i>(dollars in thousands)</i>				
<b>Years ended:</b>				
<b>December 31, 2013</b>				
Commercial related loans accruing	1	\$ 208	\$ 208	\$ 199
Commercial related loans nonaccrual	2	\$ 2,482	\$ 2,482	\$ 2,069
<b>December 31, 2012</b>				
Commercial related loans nonaccrual	1	\$ 286	\$ 286	\$ 281

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Table of Contents**NOTE 5-Allowance for Loan Losses**

The table below shows the activity in and the composition of the allowance for loan losses by loan segment and class detail as of and for the years ended December 31, 2013, 2012 and 2011.

<i>(dollars in thousands)</i>	<b>Commercial</b>		<b>Residential</b>		<b>Wholesale</b>			<b>Total commercial</b>	
	<b>Builder &amp; developer</b>	<b>real estate investor</b>	<b>real estate investor</b>	<b>Hotel/Motel</b>	<b>&amp; retail</b>	<b>Manufacturing</b>	<b>Agriculture</b>	<b>Other</b>	<b>related</b>
<b>Allowance for loan losses:</b>									
Balance, January 1, 2013	\$ 1,571	\$ 1,259	\$ 1,195	\$ 485	\$ 1,913	\$ 237	\$ 202	\$ 1,170	\$ 8,032
Charge-offs	(62)	0	(310)	0	(210)	0	0	(9)	(591)
Recoveries	0	0	0	0	85	0	0	17	102
Provisions	564	241	597	110	(1,151)	(20)	105	215	661
<b>Balance, December 31, 2013</b>	<b>\$ 2,073</b>	<b>\$ 1,500</b>	<b>\$ 1,482</b>	<b>\$ 595</b>	<b>\$ 637</b>	<b>\$ 217</b>	<b>\$ 307</b>	<b>\$ 1,393</b>	<b>\$ 8,204</b>
Balance, January 1, 2012	\$ 2,170	\$ 2,003	\$ 505	\$ 394	\$ 1,806	\$ 151	\$ 184	\$ 907	\$ 8,120
Charge-offs	(217)	(67)	(15)	0	0	0	0	(310)	(609)
Recoveries	0	0	0	0	16	0	0	1	17
Provisions	(382)	(677)	705	91	91	86	18	572	504
<b>Balance, December 31, 2012</b>	<b>\$ 1,571</b>	<b>\$ 1,259</b>	<b>\$ 1,195</b>	<b>\$ 485</b>	<b>\$ 1,913</b>	<b>\$ 237</b>	<b>\$ 202</b>	<b>\$ 1,170</b>	<b>\$ 8,032</b>
Balance, January 1, 2011	\$ 1,561	\$ 1,887	\$ 698	\$ 345	\$ 949	\$ 155	\$ 175	\$ 1,017	\$ 6,787
Charge-offs	(966)	0	(18)	0	(2,420)	0	0	(40)	(3,444)
Recoveries	2	0	0	0	6	0	0	1	9
Provisions	1,573	116	(175)	49	3,271	(4)	9	(71)	4,768
<b>Balance, December 31, 2011</b>	<b>\$ 2,170</b>	<b>\$ 2,003</b>	<b>\$ 505</b>	<b>\$ 394</b>	<b>\$ 1,806</b>	<b>\$ 151</b>	<b>\$ 184</b>	<b>\$ 907</b>	<b>\$ 8,120</b>

<i>(dollars in thousands)</i>	<b>Total consumer related</b>			<b>Unallocated</b>	<b>Total</b>
	<b>Residential mortgage</b>	<b>Home equity</b>	<b>Other</b>		
<b>Allowance for loan losses:</b>					

Balance, January 1, 2013	\$	124	\$	237	\$	238	\$	599	\$	671	\$	9,302
Charge-offs		(27)		(116)		(264)		(407)		0		(998)
Recoveries		2		9		88		99		0		201
Provisions		(34)		107		207		280		529		1,470
<b>Balance, December 31, 2013</b>	\$	65	\$	237	\$	269	\$	571	\$	1,200	\$	9,975

Balance, January 1, 2012	\$	88	\$	86	\$	171	\$	345	\$	237	\$	8,702
Charge-offs		(115)		(189)		(312)		(616)		0		(1,225)
Recoveries		41		2		15		58		0		75
Provisions		110		338		364		812		434		1,750
<b>Balance, December 31, 2012</b>	\$	124	\$	237	\$	238	\$	599	\$	671	\$	9,302

Balance, January 1, 2011	\$	30	\$	83	\$	201	\$	314	\$	525	\$	7,626
Charge-offs		(141)		(173)		(198)		(512)		0		(3,956)
Recoveries		0		8		80		88		0		97
Provisions		199		168		88		455		(288)		4,935
<b>Balance, December 31, 2011</b>	\$	88	\$	86	\$	171	\$	345	\$	237	\$	8,702

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The table below shows the allowance amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment at December 31, 2013, 2012 and 2011.

<i>(dollars in thousands)</i>	<b>Residential</b>									<b>Total commercial related</b>
	<b>Builder &amp; developer</b>	<b>Commercial real estate investor</b>	<b>real estate investor</b>	<b>Hotel/Motel</b>	<b>Wholesale &amp; retail</b>	<b>Manufacturing</b>	<b>Agriculture</b>	<b>Other</b>		
<b>Allowance for loan losses:</b>										
Individually evaluated for impairment	\$ 850	\$ 0	\$ 650	\$ 0	\$ 0	\$ 0	\$ 100	\$ 120	\$ 1,720	
Collectively evaluated for impairment	1,223	1,500	832	595	637	217	207	1,273	6,484	
<b>Balance, December 31, 2013</b>	<b>\$ 2,073</b>	<b>\$ 1,500</b>	<b>\$ 1,482</b>	<b>\$ 595</b>	<b>\$ 637</b>	<b>\$ 217</b>	<b>\$ 307</b>	<b>\$ 1,393</b>	<b>\$ 8,204</b>	
Individually evaluated for impairment	\$ 147	\$ 0	\$ 700	\$ 0	\$ 0	\$ 0	\$ 100	\$ 215	\$ 1,162	
Collectively evaluated for impairment	1,424	1,259	495	485	1,913	237	102	955	6,870	
<b>Balance, December 31, 2012</b>	<b>\$ 1,571</b>	<b>\$ 1,259</b>	<b>\$ 1,195</b>	<b>\$ 485</b>	<b>\$ 1,913</b>	<b>\$ 237</b>	<b>\$ 202</b>	<b>\$ 1,170</b>	<b>\$ 8,032</b>	
Individually evaluated for impairment	\$ 147	\$ 0	\$ 30	\$ 0	\$ 0	\$ 0	\$ 100	\$ 120	\$ 397	
Collectively evaluated for impairment	2,023	2,003	475	394	1,806	151	84	787	7,723	
<b>Balance, December 31, 2011</b>	<b>\$ 2,170</b>	<b>\$ 2,003</b>	<b>\$ 505</b>	<b>\$ 394</b>	<b>\$ 1,806</b>	<b>\$ 151</b>	<b>\$ 184</b>	<b>\$ 907</b>	<b>\$ 8,120</b>	
<b>Loans:</b>										
Individually evaluated for impairment	\$ 11,594	\$ 7,860	\$ 1,984	\$ 0	\$ 1,403	\$ 671	\$ 451	\$ 1,824	\$ 25,787	
	94,842	133,512	76,416	70,324	74,042	36,201	37,590	165,501	688,428	

Collectively evaluated for impairment										
<b>Balance, December 31, 2013</b>	\$ 106,436	\$ 141,372	\$ 78,400	\$ 70,324	\$ 75,445	\$ 36,872	\$ 38,041	\$ 167,325	\$ 714,215	

Individually evaluated for impairment	\$ 12,467	\$ 5,736	\$ 2,731	\$ 0	\$ 3,048	\$ 699	\$ 471	\$ 2,455	\$ 27,607	
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Collectively evaluated for impairment	84,469	116,978	63,688	64,948	67,395	39,559	20,457	122,379	579,873	
<b>Balance, December 31, 2012</b>	\$ 96,936	\$ 122,714	\$ 66,419	\$ 64,948	\$ 70,443	\$ 40,258	\$ 20,928	\$ 124,834	\$ 607,480	

Individually evaluated for impairment	\$ 2,891	\$ 3,965	\$ 552	\$ 0	\$ 3,781	\$ 714	\$ 489	\$ 4,499	\$ 16,891	
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Collectively evaluated for impairment	100,623	114,168	62,012	52,871	56,547	25,262	16,879	120,322	548,684	
<b>Balance, December 31, 2011</b>	\$ 103,514	\$ 118,133	\$ 62,564	\$ 52,871	\$ 60,328	\$ 25,976	\$ 17,368	\$ 124,821	\$ 565,575	

<i>(dollars in thousands)</i>	<b>Residential mortgage</b>	<b>Home equity</b>	<b>Other</b>	<b>Total consumer related</b>	<b>Unallocated</b>	<b>Total</b>
<b>Allowance for loan losses:</b>						

Individually evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,720
Collectively evaluated for impairment	65	237	269	571	1,200	8,255
<b>Balance, December 31, 2013</b>	\$ 65	\$ 237	\$ 269	\$ 571	\$ 1,200	\$ 9,975

Individually evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,162
Collectively evaluated for impairment	124	237	238	599	671	8,140
	\$ 124	\$ 237	\$ 238	\$ 599	\$ 671	\$ 9,302

**Balance,  
December 31,  
2012**

Individually evaluated for impairment	\$	0	\$	0	\$	0	\$	0	\$	0	\$	397
Collectively evaluated for impairment		88		86		171		345		237		8,305
<b>Balance, December 31, 2011</b>	\$	88	\$	86	\$	171	\$	345	\$	237	\$	8,702

**Loans:**

Individually evaluated for impairment	\$	150	\$	231	\$	594	\$	975	\$		\$	26,762
Collectively evaluated for impairment		25,545		80,628		38,021		144,194				832,622
<b>Balance, December 31, 2013</b>	\$	25,695	\$	80,859	\$	38,615	\$	145,169	\$		\$	859,384

Individually evaluated for impairment	\$	85	\$	340	\$	642	\$	1,067	\$		\$	28,674
Collectively evaluated for impairment		23,426		65,518		39,643		128,587				708,460
<b>Balance, December 31, 2012</b>	\$	23,511	\$	65,858	\$	40,285	\$	129,654	\$		\$	737,134

Individually evaluated for impairment	\$	204	\$	223	\$	270	\$	697	\$		\$	17,588
Collectively evaluated for impairment		21,120		58,167		47,956		127,243				675,927
<b>Balance, December 31, 2011</b>	\$	21,324	\$	58,390	\$	48,226	\$	127,940	\$		\$	693,515

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The following table presents a summary of premises and equipment as of December 31, 2013 and 2012.

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Land	\$ 3,445	\$ 2,000
Buildings and improvements	14,448	12,716
Capitalized leased premises	672	672
Equipment	14,151	12,940
	32,716	28,328
Less-accumulated depreciation/amortization	(18,117)	(16,835)
Premises and equipment, net	\$ 14,599	\$ 11,493

PeoplesBank leases certain banking branches under capital and noncancellable operating leases. The terms include various renewal options and provide for rental increases based upon predetermined factors. Total lease expenses under operating leases amounted to \$360,000 in 2013, \$423,000 in 2012 and \$409,000 in 2011.

At December 31, 2013, future minimum lease payments for these leases and a capital lease are payable as follows:

<i>(dollars in thousands)</i>	<b>Capital Lease</b>	<b>Operating Leases</b>
2014	\$ 102	\$ 342
2015	102	215
2016	0	95
2017	0	53
2018	0	54
Thereafter	0	279
Total future minimum lease payments	204	\$ 1,038
Less interest	(21)	
Present value of minimum lease payments	\$ 183	

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The composition of deposits as of December 31, 2013 and 2012 is shown below.

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Noninterest bearing demand	\$ 107,921	\$ 88,476
NOW	83,949	77,531
Money market	292,870	289,149
Savings	39,522	34,372
Time deposits less than \$100,000	230,641	236,683
Time deposits \$100,000 or more	170,400	175,096
<b>Total deposits</b>	<b>\$ 925,303</b>	<b>\$ 901,307</b>

The following table presents scheduled maturities of time deposits by year as of December 31, 2013.

<i>(dollars in thousands)</i>	<b>2013</b>
2014	\$ 189,986
2015	84,988
2016	55,548
2017	45,120
2018	24,920
Thereafter	479
<b>Total time deposits</b>	<b>\$ 401,041</b>

**NOTE 8-Short-term Borrowings and Long-term Debt**

The schedule below provides a summary of short-term borrowings that consist of securities sold under agreements to repurchase, federal funds purchased and other borrowings. Securities sold under agreements to repurchase are overnight borrowings between PeoplesBank and its commercial depositors and are subject to daily repricing. Federal Funds purchased from correspondent banks mature in one business day and reprice daily based on the Federal Funds rate. As of December 31, 2013, PeoplesBank's total availability under Federal Funds lines was \$8 million. Other short-term borrowings consist of credit available through the Federal Home Loan Bank of Pittsburgh (FHLBP) and the Federal Reserve Discount Window. PeoplesBank maintains a line-of credit (Open Repo Plus) with the FHLBP which is a revolving term commitment used on an overnight basis. The term of this commitment may not exceed 364 days and it reprices daily at market rates. Under terms of a blanket collateral agreement with the FHLBP, the line-of-credit and long term advances are secured by FHLBP stock and qualifying loan receivables, principally real estate secured loans. As of December 31, 2013, PeoplesBank's total availability was \$217 million with the FHLBP and collateralized availability of \$15 million with the Federal Reserve Discount Window.

During the second quarter of 2013, the Corporation opened a \$3 million line of credit with ACNB Bank to provide a source of liquidity. The line, renewable annually, is secured by a first lien on the Codorus Valley Corporate Center. The interest rate on the ACNB Bank line is Wall Street Journal Prime. No draws have been made on the line and on December 31, 2013, the balance was zero.

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The following table presents a summary of aggregate short-term borrowings as of and for the years ended December 31, 2013, 2012 and 2011.

	2013		2012		2011	
	Repurchase agreements	Other Short-term borrowings	Repurchase agreements	Other Short-term borrowings	Repurchase agreements	Other Short-term borrowings
<i>(dollars in thousands)</i>						
Amount outstanding at end of year	\$ 24,597	\$ 15,766	\$ 19,356	\$ 0	\$ 10,257	\$ 0
Weighted average interest rate at end of year	0.54%	0.25%	0.56%	0%	0.79%	0%
Maximum amount outstanding at any month-end	\$ 25,702	\$ 15,766	\$ 26,166	\$ 0	\$ 12,647	\$ 0
Daily average amount outstanding	\$ 22,174	\$ 542	\$ 20,843	\$ 0	\$ 11,546	\$ 0
Approximate weighted average interest rate for the year	0.56%	0.20%	0.58%	0%	0.99%	0%

Securities that serve as collateral for securities sold under agreements to repurchase and pledged to provide access to the Federal Reserve Bank Discount Window and other short-term borrowing remain in available-for-sale securities. The fair value of these securities was \$45,419,000 and \$45,696,000 on December 31, 2013 and 2012, respectively.

The following table presents a summary of long-term debt as of December 31, 2013 and 2012.

	December 31,	
<i>(dollars in thousands)</i>	2013	2012
PeoplesBank's obligations:		
FHLBP		
Due May 2013, 3.46%, amortizing	\$ 0	\$ 245
Due July 2015, 1.90%	5,000	5,000
Due July 2016, 2.35%	5,000	5,000
Due September 2016, 1.18%	10,000	0
Due October 2016, 1.06%	10,000	0
Due October 2016, 1.10%	10,000	0
Due March 2018, 1.17%	10,000	0
Due June 2018, 1.87%	5,000	5,000
Due June 2019, 2.10%	5,000	5,000
Total FHLBP	60,000	20,245
Capital lease obligation	183	260
Codorus Valley Bancorp, Inc. obligations:		
Junior subordinated debt		
Due 2034, 2.26%, floating rate based on 3 month LIBOR plus 2.02%, callable quarterly	3,093	3,093
Due 2036, 1.78% floating rate based on 3 month LIBOR plus 1.54%, callable quarterly	7,217	7,217
Total long-term debt	\$ 70,493	\$ 30,815

PeoplesBank's long-term debt obligations to FHLBP are fixed rate instruments.

In June 2006, Codorus Valley formed CVB Statutory Trust No. 2, a wholly-owned special purpose subsidiary whose sole purpose was to facilitate a pooled trust preferred debt issuance of \$7,217,000. In November 2004, Codorus Valley formed CVB Statutory Trust No. 1 to facilitate a pooled trust preferred debt issuance of \$3,093,000. The Corporation owns all of the common stock of these nonbank subsidiaries, and the debentures are the sole assets of the Trusts. The accounts of both Trusts are not consolidated for financial reporting purposes in accordance with FASB ASC 810. For regulatory capital purposes, all of the Corporation's trust preferred securities qualified as Tier 1 capital for all reported periods. Trust preferred securities are subject to capital limitations under the FDIC's risk-based capital guidelines. The Corporation used the net proceeds from these offerings to fund its operations.





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Total long-term debt maturities over the next five years are as follows: \$86,000 in 2014, \$5,097,000 in 2015, \$35,000,000 in 2016, \$0 in 2017 and \$15,000,000 in 2018.

**NOTE 9-Regulatory Matters**

The Corporation is subject to restrictions on the payment of dividends to its shareholders pursuant to the Pennsylvania Business Corporation Law of 1988, as amended (BCL). The BCL prohibits dividend payments if such payment would render the Corporation insolvent or result in negative net worth. Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by PeoplesBank to the Corporation. The amount of total dividends, which may be paid at any date, is generally limited to the retained earnings of PeoplesBank. Furthermore, dividend payments would be prohibited if the effect thereof would cause PeoplesBank's capital to be reduced below applicable minimum capital requirements as discussed below. Loans and advances by PeoplesBank to affiliates, including the Corporation, are limited to 10 percent of PeoplesBank's capital stock and contributed capital on a secured basis.

The Corporation and PeoplesBank are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that, if imposed, could have a material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and PeoplesBank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators.

Quantitative measures established by regulators to ensure capital adequacy require the Corporation and PeoplesBank to maintain minimum ratios, as set forth below, to total and Tier 1 capital as a percentage of risk-weighted assets, and of Tier 1 capital to quarter-to-date average assets (leverage ratio). In December 2013, PeoplesBank received the most recent notification from the Federal Deposit Insurance Corporation, which categorized PeoplesBank as well capitalized, as of September 30, 2013, under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change PeoplesBank's well capitalized category. As of December 31, 2012, PeoplesBank was also categorized as well capitalized.

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	Actual		Minimum for Capital Adequacy		Well Capitalized Minimum*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
<b>Codorus Valley Bancorp, Inc. (consolidated)</b>						
<b>at December 31, 2013</b>						
Capital ratios:						
Tier 1 risk based	\$ 115,477	12.79%	\$ 36,118	4.00%	n/a	n/a
Total risk based	125,452	13.89	72,236	8.00	n/a	n/a
Leverage	115,477	10.18	45,371	4.00	n/a	n/a
<b>at December 31, 2012</b>						
Capital ratios:						
Tier 1 risk based	\$ 105,597	13.59%	\$ 31,074	4.00%	n/a	n/a
Total risk based	114,899	14.79	62,147	8.00	n/a	n/a
Leverage	105,597	10.02	42,143	4.00	n/a	n/a
<b>PeoplesBank, A Codorus Valley Company</b>						
<b>at December 31, 2013</b>						
Capital ratios:						
Tier 1 risk based	\$ 111,713	12.42%	\$ 35,987	4.00%	\$ 53,981	6.00%
Total risk based	121,688	13.53	71,975	8.00	89,968	10.00
Leverage	111,713	9.88	45,236	4.00	56,545	5.00
<b>at December 31, 2012</b>						
Capital ratios:						
Tier 1 risk based	\$ 102,120	13.20%	\$ 30,951	4.00%	\$ 46,427	6.00%
Total risk based	111,422	14.40	61,902	8.00	77,378	10.00
Leverage	102,120	9.72	42,020	4.00	52,526	5.00

\* To be well capitalized under prompt corrective action provisions.

**NOTE 10-Shareholders Equity***Preferred stock issued under the US Treasury s Small Business Lending Fund Program*

On August 18, 2011, as part of the Treasury Small Business Lending Fund (SBLF) program, the Corporation entered into a Securities Purchase Agreement (SBLF Purchase Agreement) with the United States Department of the Treasury (Treasury) pursuant to which the Corporation sold to the Treasury, for an aggregate purchase price of \$25 million, 25,000 shares of senior non-cumulative, perpetual preferred stock, Series B, \$1,000 liquidation value, \$2.50 par value. Generally, the preferred stock is non-voting and qualifies as Tier 1 regulatory capital. The SBLF agreement imposes limits on the ability of the Corporation to pay dividends and repurchase shares of common stock if it fails to declare and pay quarterly dividends on the SBLF preferred stock. The dividend rate can fluctuate on a quarterly basis during the first 10 quarters during which the SBLF preferred stock is outstanding, based upon changes in the level of Qualified Small Business Lending or QSBL (as defined in the Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period was set at 5 percent. For the second through ninth calendar quarters, the dividend rate may be adjusted between one percent (1%) and five percent (5%) per annum to reflect the amount of change in the Bank's level of QSBL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QSBL as compared to the baseline. The annualized dividend rate for the years ended December 31, 2013, 2012 and 2011, was 1 percent, 1.54 percent and 5 percent, respectively. Based on the increase in the qualified small business lending portfolio balance over the baseline level at September 30, 2013, the dividend rate will remain at 1 percent through February 17, 2016. After four and one half years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%). Information about SBLF preferred stock is disclosed in Note 10 Shareholders Equity in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011.

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*Preferred stock and common stock warrant issued under the US Treasury's Capital Purchase Program*

On August 18, 2011, the Corporation entered into a repurchase letter agreement with the Treasury providing for the redemption of the CPP preferred stock. Pursuant to the SBLF Purchase Agreement, approximately \$16,507,000 of the proceeds of the sale of the SBLF preferred stock was used to redeem the 16,500 shares of the Series A CPP preferred stock plus accrued and unpaid dividends. Upon redemption, the remaining \$379,000 preferred stock discount was recorded as a reduction to third quarter 2011 net income available to common shareholders. Additionally, the additional paid-in-capital account was reduced by approximately \$39,000 pertaining to issuance costs for the CPP preferred stock. As a result of the redemption, the Corporation is no longer subject to the restrictions imposed by the CPP. On September 28, 2011, the Corporation repurchased the outstanding CPP common stock warrant for \$526,604 from the US Treasury which was recorded as a reduction to additional paid-in-capital.

*Common stock dividend*

Periodically, the Corporation distributes stock dividends on its common stock. The Corporation distributed 5 percent common stock dividends on December 10, 2013 and December 11, 2012 which resulted in the issuance of 225,937 and 211,564 additional common shares, respectively.

**NOTE 11-Benefit Plans**

**Defined Contribution Plan**

PeoplesBank maintains a 401(k) savings and investment plan covering substantially all employees. Under the plan, employees can contribute a percentage of their compensation subject to certain limits based on federal tax law. Beginning in the year 2013, the Bank made matching contributions up to the first 4 percent of each employee's compensation contributed to the plan and both the employee and employer contributions vest immediately. In 2012 and 2011, the Bank made matching contributions of 50 percent up to the first 6 percent of an employee's compensation contributed to the plan. Employee contributions vested immediately and employer contributions vested 100% after three years of service. The Bank's expense for the 401(k) savings and investment plan was \$366,000 for 2013, \$237,000 for 2012 and \$207,000 for 2011.

**Supplemental Benefit Plans**

PeoplesBank maintains supplemental retirement plans for selected executives. The expense associated with these plans was approximately \$239,000 for 2013, \$296,000 for 2012 and \$267,000 for 2011. The accrued liability for the supplemental retirement plans was \$3,714,000 at December 31, 2013 and \$3,475,000 at December 31, 2012. Income earned from bank owned life insurance policies was used to finance the cost of supplemental benefit plans, and provide a tax-exempt return to PeoplesBank.

**Director's Post Retirement Split-dollar Life Insurance Benefit**

PeoplesBank recorded net expense of \$7,000 in 2013, net income of \$1,000 in 2012 and net expense of \$28,000 in 2011, respectively, on bank owned life insurance policies with a post retirement split-dollar life insurance benefit. The accrued liability for the post retirement split-dollar benefit was \$242,000 at December 31, 2013 and \$235,000 at December 31, 2012.

Table of Contents**NOTE 12-Stock-Based Compensation**

FASB ASC Topic 718 requires that the fair value of equity awards granted to employees be recognized as compensation expense over the period during which an employee is required to provide service in exchange for such awards.

The following table presents information about the Corporation's stock plans, adjusted for stock dividends distributed, as of December 31, 2013.

Plan	Types of grants	Number of shares reserved (2)	Number of outstanding options (2)	Number of shares available for future issuance (2)
2000 Stock Incentive Plan (2000 Plan) (1)	Stock options			
	Stock appreciation rights			
	Restricted stock	86,313	55,099	0
2007 Long Term Incentive Plan (LTIP)	Stock options			
	Stock appreciation rights			
	Restricted stock			
2007 Employee Stock Purchase Plan (ESPP)	Stock awards	377,492	168,217 (3)	209,275
	Stock option	172,670	0	172,670
Employee Stock Bonus Plan (ESBP)	Stock awards	15,757	0	15,757

(1) All options available for grant under the 2000 Plan have been granted.

(2) Shares/options are subject to adjustment in the event of specified changes in the Corporation's capital structure.

(3) Amount includes 23,208 of unvested options.

**Stock Incentive Plans (2000 Plan and LTIP)**

Options awarded under these plans to date have been granted with an exercise price equal to the fair value of the stock on the grant date, a minimum vesting period of six months and an expiration period of ten years. Restricted stock awards under these plans have been granted at fair value and with 50% of the shares vesting in two years and 50% in three years. Upon exercise and/or award, the Corporation has historically issued authorized, but unissued, common stock to satisfy the options/awards.

The following table presents compensation expense and related tax benefits for stock option and restricted stock awards recognized on the consolidated statement of income.

<i>(dollars in thousands)</i>	2013	2012	2011
Compensation expense	\$ 292	\$ 270	\$ 210
Tax benefit	(74)	(67)	(52)
Net income effect	\$ 218	\$ 203	\$ 158

The tax benefit shown in the preceding table is less than the benefit that would be calculated using the Corporation's 35% statutory Federal tax rate. Under FASB ASC Topic 718, tax benefits are only recognized over the vesting period for options that ordinarily will generate a tax deduction when exercised (non-qualified stock options) and restricted stock awards.

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The Corporation granted the following stock options and restricted stock awards in 2013, 2012 and 2011.

	2013	2012	2011
Nonqualified stock options	9,713	11,899	23,537
Incentive stock options	13,495	15,850	27,925
Restricted stock	8,480	11,290	18,115

The weighted average grant-date fair value and weighted average assumptions used to determine the fair value using the Black-Scholes valuation mode for the stock options granted are presented below.

	2013	2012	2011
Fair value	\$ 6.55	\$ 4.74	\$ 2.62
Expected life (in years)	5.5	7.43	5.63
Risk-free interest rate	1.44%	1.10%	0.97%
Expected volatility	46.43%	43.84%	48.60%
Expected dividend yield	2.67%	3.19%	3.50%

The expected life of the options was estimated based on historical behavior and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Corporation's stock price was based on historical volatility for the period commensurate with the expected life of the options. Dividend yield was based on dividends for the most current year divided by the average market price for the most current year.

A summary of stock options activity from the option and stock incentive plans, adjusted for stock dividends distributed, is shown below.

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2013	266,903	\$ 10.19	5.8 years	\$ 1,107
Granted	23,208	19.25		
Exercised	(66,795)	11.89		
Outstanding at December 31, 2013	223,316	\$ 10.62	6.3 years	\$ 1,989
Exercisable at December 31, 2013	200,108	\$ 9.62	5.9 years	\$ 1,983

The following table presents information about stock options exercised for the years ended December 31, 2013, 2012 and 2011.

(dollars in thousands)	2013	2012	2011
Total intrinsic value of options exercised	\$ 467	\$ 140	\$ 42
Cash received from options exercised	\$ 794	\$ 252	\$ 127
Tax deduction realized from options exercised	\$ 141	\$ 48	\$ 14

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The following table presents information about non-vested options and restricted stock, adjusted for stock dividends distributed, for the year ended December 31, 2013.

	Stock Options		Restricted Stock	
	Options	Weighted Average Exercise Price Per Share	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2013	29,136	\$ 14.05	41,589	\$ 9.53
Vested	(29,136)	14.05	(22,060)	8.11
Cancelled	0	0.00	(1,887)	11.79
Granted	23,208	19.25	8,480	19.25
Non-vested at December 31, 2013	23,208	\$ 19.25	26,122	\$ 13.72

As of December 31, 2013, total unrecognized compensation cost related to non-vested options and restricted stock was \$380,000. The cost is expected to be recognized over a weighted average period of 0.9 years.

**Employee Stock Purchase Plan (ESPP)**

Under the ESPP, eligible employees can purchase common stock of the Corporation at 85% of the fair market value of the stock at the beginning or end of the six-month offering period, whichever is lower. The ESPP is considered to be a compensatory plan.

The following table presents information about the ESPP for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
ESPP shares purchased	8,420	10,784	11,257
Average purchase price per share (85% of market value)	\$ 13.386	\$ 8.969	\$ 7.467
Compensation expense recognized (in thousands)	\$ 26	\$ 24	\$ 19

In 2013, 4,174 shares were reissued from treasury stock and 4,246 shares were issued from authorized but unissued common stock to satisfy the purchase of ESPP shares. In 2012 and 2011, the Corporation has issued authorized, but unissued, common stock to satisfy the purchase of all ESPP shares.

**Employee Stock Bonus Plan (ESBP)**

The ESBP is administered by nonemployee members of the Corporation's Board of Directors, under which the Corporation may issue shares of its common stock to employees as performance based compensation. There were no shares of common stock issued under the ESBP in 2013, 2012 and 2011.

Table of Contents**NOTE 13-Income Taxes**

The following table presents the provision for income taxes for the years ended December 31, 2013, 2012 and 2011.

<i>(dollars in thousands)</i>	2013	2012	2011
<b>Current tax provision</b>			
Federal	\$ 4,042	\$ 2,486	\$ 2,440
State	312	232	234
Total current tax provision	4,354	2,718	2,674
<b>Deferred tax expense (benefit)</b>			
Federal	(383)	419	(979)
State	(54)	(34)	(78)
Total deferred tax expense (benefit)	(437)	385	(1,057)
Total tax provision	\$ 3,917	\$ 3,103	\$ 1,617

The differences between the effective income tax rate and the Federal statutory income tax rate for the years ended December 31, 2013, 2012 and 2011 are shown below.

	2013	2012	2011
Statutory tax rate	35.0%	34.0%	34.0%
Increase (decrease) resulting from:			
Low-income housing credits	(0.9)	(1.8)	(3.0)
Tax-exempt interest income	(6.3)	(7.5)	(11.2)
Bank owned life insurance income	(1.7)	(1.7)	(2.6)
State income taxes, net of federal tax benefit	1.2	1.1	1.2
Other, net	(0.3)	0.7	0.9
Effective income tax rate	27.0%	24.8%	19.3%

Significant components of the Corporation's net deferred tax asset, included in other assets as of December 31, 2013 and 2012 are shown below.

<i>(dollars in thousands)</i>	2013	2012
<b>Deferred tax assets</b>		
Allowance for loan losses	\$ 3,579	\$ 3,327
Deferred compensation	1,468	1,364
Low-income housing partnerships	567	580
Tax credit carryforward	0	75
Foreclosed real estate	1,419	1,327
Other	313	72
Total deferred tax assets	\$ 7,346	\$ 6,745
<b>Deferred tax liabilities</b>		
Deferred loan fees	\$ 424	\$ 436
Depreciation	422	221
Net unrealized gains on available-for-sale securities	1,119	2,953
Other	300	325
Total deferred tax liabilities	\$ 2,265	\$ 3,935
Net deferred tax assets	\$ 5,081	\$ 2,810

Based on the level of historical income projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that, as of December 31, 2013, it is more likely than not that the Corporation will realize the benefits of its deferred tax assets.



Table of Contents**NOTE 14-Commitments to Extend Credit**

In the normal course of business, the Corporation is a party to various financial transactions that are not funded as of the balance sheet date. Off-balance sheet financial instruments, which enable Bank customers to meet their financing needs, are comprised mainly of commitments to extend credit and standby letters of credit. Standby letters of credit are written conditional commitments issued by PeoplesBank to guarantee the performance of a customer to a third party. The credit and market risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. To manage these risks, the Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and requires collateral to support these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2013 and 2012, for guarantees under standby letters of credit issued was not material. Normally, commitments to extend credit and letters of credit have fixed expiration dates or termination clauses, have specific rates and are for specific purposes. Many of the commitments are expected to expire without being extended; therefore, total commitment amounts do not necessarily represent future cash requirements.

A summary of outstanding commitments at December 31, 2013 and 2012 is shown below.

<i>(dollars in thousands)</i>	2013	2012
<b>Commitments to grant loans</b>		
Fixed rate	\$ 46,164	\$ 50,958
Variable rate	7,779	23,254
<b>Unfunded commitments of existing loans</b>		
Fixed rate	\$ 52,956	\$ 42,003
Variable rate	142,578	115,035
<b>Standby letters of credit</b>	\$ 27,673	\$ 17,064

**NOTE 15-Contingent Liabilities**

Periodically, the Corporation and its subsidiary Bank may be defendants in legal proceedings relating to the conduct of their banking business. Most of such legal proceedings are normal parts of the banking business and, in management's opinion, do not materially affect the financial position or results of operations of the Corporation.

**Note 16 Fair Value Measurements and Fair Values of Financial Instruments**

The Corporation uses its best judgment in estimating the fair value of the Corporation's assets and liabilities; however, there are inherent weaknesses in any estimation technique. Therefore, the fair value estimates herein are not necessarily indicative of the amounts that could be realized in sales transactions on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values subsequent to the respective reporting dates may be different than the amounts reported at each period end.

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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. GAAP establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

Since management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications on a quarterly basis.

**Assets Measured at Fair Value on a Recurring Basis****Securities available-for-sale**

The fair values of investment securities were measured using information from a third-party pricing service. The pricing service uses quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. At least annually, the Corporation reviews a random sample of the pricing information received from the third-party pricing service by comparing it to price quotes from third-party brokers. Historically, price deviations have been immaterial.

	Total	Fair Value Measurements		
		(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
<i>(dollars in thousands)</i>				
<b>December 31, 2013</b>				
Securities available-for-sale:				
U.S. agency	\$ 33,499	\$ 0	\$ 33,499	\$ 0
U.S. agency mortgage-backed, residential	105,919	0	105,919	0
State and municipal	89,323	0	89,323	0
<b>December 31, 2012</b>				
Securities available-for-sale:				
U.S. Treasury notes	\$ 5,032	\$ 5,032	\$ 0	\$ 0
U.S. agency	38,058	0	38,058	0
U.S. agency mortgage-backed, residential	88,233	0	88,233	0
State and municipal	102,739	0	102,739	0

Table of Contents**Assets Measured at Fair Value on a Nonrecurring Basis****Impaired loans**

Impaired loans are those that are accounted for under FASB ASC Topic 310, in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These loans are included as Level 3 fair values, based on the lowest level of input that is significant to the fair value measurements. At December 31, 2013, the fair value consists of loan balances of \$8,669,000, net of valuation allowances of \$1,720,000 and charge-offs of \$291,000, compared to loan balances of \$4,493,000, net of valuation allowances of \$1,162,000 and charge-offs of \$2,605,000, at December 31, 2012.

**Foreclosed Real Estate**

Other real estate property acquired through foreclosure is initially recorded at fair value of the property at the transfer date less estimated selling cost. Subsequently, other real estate owned is carried at the lower of its carrying value or the fair value less estimated selling cost. Fair value is usually determined based upon an independent third-party appraisal of the property or occasionally upon a recent sales offer. At December 31, 2013, the fair value of foreclosed real estate with a valuation allowance or charge-off was \$3,098,000, which is net of valuation allowances of \$3,954,000 and charge-offs of \$100,000. At December 31, 2012, the fair value of foreclosed real estate with a valuation allowance or charge-off was \$2,779,000, which is net of valuation allowances of \$3,712,000 and no charge-offs.

	Total	Fair Value Measurements		
		(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
<i>(dollars in thousands)</i>				
<b>December 31, 2013</b>				
Impaired loans	\$ 8,669	\$ 0	\$ 0	\$ 8,669
Foreclosed real estate	3,098	0	0	3,098
<b>December 31, 2012</b>				
Impaired loans	\$ 4,493	\$ 0	\$ 0	\$ 4,493
Foreclosed real estate	2,779	0	0	2,779

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Corporation has utilized Level 3 inputs to determine fair value:

	Fair Value Estimate	Quantitative Information about Level 3 Fair Value Measurements			Weighted Average
		Valuation Techniques	Unobservable Input	Range	
<i>(dollars in thousands)</i>					
<b>December 31, 2013</b>					
Impaired loans	\$ 8,669	Appraisal (1)	Appraisal adjustments (2)	13% - 27%	19%
Foreclosed real estate	3,098	Appraisal (1)	Appraisal adjustments (2)	8% - 67%	45%
<b>December 31, 2012</b>					
Impaired loans	\$ 4,493	Appraisal (1)	Appraisal adjustments (1)	10% - 100%	27%
Foreclosed real estate	2,779	Appraisal (1)	Appraisal adjustments (2)	5% - 100%	12%

- (1) Fair value is generally determined through independent appraisals, which generally include various level 3 inputs that are not identifiable.
- (2) Appraisals may be adjusted downward by the Corporation's management for qualitative factors such as economic conditions, and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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**Disclosures about Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments as of December 31, 2013 and 2012.

**Cash and cash equivalents**

The carrying amount is a reasonable estimate of fair value.

**Securities available for sale**

The fair value of securities available for sale is determined in accordance with the methods described under FASB ASC Topic 820 as described above.

**Restricted investment in bank stocks**

The carrying amount of restricted investment in bank stocks is a reasonable estimate of fair value. The Company is required to maintain minimum investment balances in these stocks, which are not actively traded and therefore have no readily determinable market value.

**Loans held for sale**

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

**Loans, net**

The fair value of loans, excluding all impaired loans, is estimated using discounted cash flow analyses using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans were first segregated by type such as commercial, real estate, and consumer, and were then further segmented into fixed and variable rate. Projected future cash flows are calculated based upon contractual maturity or call dates. Generally, for variable rate loans that reprice frequently and have no significant change in credit risk, fair value is based on carrying value.

**Interest receivable**

The carrying value of interest receivable is a reasonable estimate of fair value.

**Deposits**

The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair values of time deposits are estimated using a discounted cash flow analyses. The discount rates used are based on rates currently offered for deposits with similar remaining maturities. The fair values of variable rate time deposits that reprice frequently are based on carrying value. The fair values of time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

**Short-term borrowings**

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

**Long-term debt**

Long-term debt includes FHLB advances (Level 2) and junior subordinated debt (Level 3). The fair value of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices are obtained from this active market and represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. The fair value of junior subordinated debt is estimated using discounted cash flow analysis, based on market rates and spread characteristics of similar debt with similar credit risk characteristics, terms and remaining maturity.

Table of Contents**Interest payable**

The carrying value of interest payable is a reasonable estimate of fair value.

**Off-balance sheet instruments**

Off-balance sheet instruments consist of lending commitments and letters of credit are based on fees currently charged in the market to enter into similar arrangements, taking into account the remaining terms of the agreements and counterparties' credit standing. These amounts were not considered material.

The following presents the carrying amount and estimated fair value of the Corporation's financial instruments as of December 31, 2013 and 2012.

<i>(dollars in thousands)</i>	Carrying Amount	Estimated Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	Fair Value Estimates (Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
<b>December 31, 2013</b>					
Financial assets					
Cash and cash equivalents	\$ 15,062	\$ 15,062	\$ 15,062	\$ 0	\$ 0
Securities available-for-sale	228,741	228,741	0	228,741	0
Restricted investment in bank stocks	4,742	4,742	0	4,742	0
Loans held for sale	514	524	0	524	0
Loans, net	849,409	868,413	0	0	868,413
Interest receivable	3,583	3,583	0	3,583	0
Financial liabilities					
Deposits	\$ 925,303	\$ 927,396	\$ 0	\$ 927,396	\$ 0
Short-term borrowings	40,363	40,363	0	40,363	0
Long-term debt	70,493	68,604	0	60,417	8,187
Interest payable	391	391	0	391	0
Off-balance sheet instruments	0	0	0	0	0
<b>December 31, 2012</b>					
Financial assets					
Cash and cash equivalents	\$ 49,757	\$ 49,757	\$ 49,757	\$ 0	\$ 0
Securities available-for-sale	234,062	234,062	5,032	229,030	0
Restricted investment in bank stocks	2,863	2,863	0	2,863	0
Loans held for sale	3,091	3,151	0	3,151	0
Loans, net	727,832	753,299	0	0	753,299
Interest receivable	3,579	3,579	0	3,579	0
Financial liabilities					
Deposits	\$ 901,307	\$ 907,439	\$ 0	\$ 907,439	\$ 0
Short-term borrowings	19,356	19,356	0	19,356	0
Long-term debt	30,815	26,568	0	21,289	5,279
Interest payable	470	470	0	470	0
Off-balance sheet instruments	0	0	0	0	0

Table of Contents**Note 17 Assets and Liabilities Subject to Offsetting***Securities Sold Under Agreements to Repurchase ( Repurchase Agreements )*

PeoplesBank enters into agreements under which it sells securities subject to an obligation to repurchase the same securities the next business day. These repurchase agreements are accounted for as a collateralized financing arrangement (i.e. secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability (short-term borrowings) in the Corporation's consolidated financial statements of condition, while the securities underlying the repurchase agreements remain in the respective securities asset accounts. In other words, there is no offsetting or netting of the securities with the repurchase agreement liabilities.

<i>(dollars in thousands)</i>		<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset in the Statements of Condition</b>	<b>Net Amounts of Liabilities Presented in the Statements of Condition</b>	<b>Gross amounts Not Offset in the Statements of Condition</b>	<b>Financial Instruments</b>	<b>Cash Collateral Pledged</b>	<b>Net Amount</b>
<b>December 31, 2013</b>								
Repurchase Agreements	(1)	\$ 24,597	\$ 0	\$ 24,597	\$ (24,597)	\$ 0	\$ 0	\$ 0
<b>December 31, 2012</b>								
Repurchase Agreements	(1)	\$ 19,356	\$ 0	\$ 19,356	\$ (19,356)	\$ 0	\$ 0	\$ 0

- (1) As of December 31, 2013 and 2012, the fair value of securities pledged in connection with repurchase agreements was \$29,299,000 and \$25,876,000, respectively.

Table of Contents**Note 18-Condensed Financial Information-Parent Company Only****Condensed Balance Sheets**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Cash and due from banks	\$ 239	\$ 312
Investment in bank subsidiary	113,885	107,853
Investment in other subsidiaries	790	794
Premises and equipment, net	3,570	3,516
Other assets	677	465
<b>Total assets</b>	<b>\$ 119,161</b>	<b>\$ 112,940</b>
<b>Liabilities</b>		
Long-term debt	\$ 10,310	\$ 10,310
Long-term debt with bank subsidiary	1,051	1,189
Other liabilities	151	110
<b>Total liabilities</b>	<b>11,512</b>	<b>11,609</b>
<b>Shareholders' equity</b>	<b>107,649</b>	<b>101,331</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 119,161</b>	<b>\$ 112,940</b>

**Condensed Statements of Income and Comprehensive Income**

<i>(dollars in thousands)</i>	<b>Years ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Income</b>			
Interest from investment securities	\$ 6	\$ 7	\$ 6
Dividends from bank subsidiary	1,520	2,022	2,514
<b>Total income</b>	<b>1,526</b>	<b>2,029</b>	<b>2,520</b>
<b>Expense</b>			
Interest expense on long-term debt	290	320	313
Occupancy of premises, net	213	133	187
Other	324	293	253
<b>Total expense</b>	<b>827</b>	<b>746</b>	<b>753</b>
Income before applicable income tax benefit and undistributed earnings (losses) of subsidiaries	699	1,283	1,767
<b>Applicable income tax benefit</b>	<b>278</b>	<b>249</b>	<b>253</b>
Income before undistributed earnings (losses) of subsidiaries	977	1,532	2,020
Equity in undistributed earnings of bank subsidiary	9,593	7,874	4,869
Equity in undistributed losses of other subsidiaries	(4)	(12)	(110)
<b>Net income</b>	<b>\$ 10,566</b>	<b>\$ 9,394</b>	<b>\$ 6,779</b>
Preferred stock dividends and discount accretion	250	384	1,460
<b>Net income available to common shareholders</b>	<b>\$ 10,316</b>	<b>\$ 9,010</b>	<b>\$ 5,319</b>
<b>Comprehensive income</b>	<b>\$ 7,005</b>	<b>\$ 9,203</b>	<b>\$ 10,565</b>

Table of Contents**Note 18-Condensed Financial Information-Parent Company Only (continued)****Condensed Statements of Cash Flows**

<i>(dollars in thousands)</i>	Years ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net income	\$ 10,566	\$ 9,394	\$ 6,779
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	182	160	159
Equity in undistributed earnings of subsidiaries, net	(9,589)	(7,862)	(4,759)
Loss on disposal of premises and equipment	1	0	0
Other, net	147	208	175
Net cash provided by operating activities	1,307	1,900	2,354
<b>Cash flows from investing activities</b>			
Additional investment in bank subsidiary	0	0	(7,800)
Return of (additional) investment in other subsidiary	0	360	(700)
Purchases of premises and equipment	(237)	(231)	(70)
Net cash (used in) provided by investing activities	(237)	129	(8,570)
<b>Cash flows from financing activities</b>			
Repayments of long-term debt	(138)	(128)	(119)
Tax benefit on vested restricted stock	89	44	0
Cash dividends paid to preferred shareholders	(250)	(634)	(774)
Cash dividends paid to common shareholders	(2,074)	(1,690)	(1,454)
Redemption of preferred stock and common stock warrant	0	0	(17,027)
Issuance of preferred stock	0	0	25,000
Net issuance of common stock	1,239	627	477
Cash paid in lieu of fractional shares	(9)	(6)	0
Net cash (used in) provided by financing activities	(1,143)	(1,787)	6,103
Net (decrease) increase in cash and cash equivalents	(73)	242	(113)
Cash and cash equivalents at beginning of year	312	70	183
Cash and cash equivalents at end of year	\$ 239	\$ 312	\$ 70



Table of Contents**Note 19-Quarterly Results of Operations (Unaudited)**

A summary of the quarterly results of operations for the years ended December 31, 2013 and 2012 is shown below.

<i>(dollars in thousands, except per share data)</i>	2013 Quarter				2012 Quarter			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	\$ 12,319	\$ 11,819	\$ 11,473	\$ 11,361	\$ 11,819	\$ 11,608	\$ 11,692	\$ 11,393
Interest expense	2,114	2,124	2,172	2,209	2,519	2,677	2,640	2,691
Net interest income	10,205	9,695	9,301	9,152	9,300	8,931	9,052	8,702
Provision for loan losses	500	150	560	260	600	650	250	250
Noninterest income	1,671	1,621	1,672	1,688	1,666	1,620	1,625	1,525
Gain on sales of loans held for sale	145	233	322	319	494	293	281	259
Noninterest expense	8,012	7,732	7,157	7,253	7,512	8,194	6,952	7,270
Income before taxes and securities gain (loss)	3,509	3,667	3,578	3,646	3,348	2,000	3,756	2,966
Gain (loss) on sales of securities	39	0	44	0	(4)	382	0	49
Income before income taxes	3,548	3,667	3,622	3,646	3,344	2,382	3,756	3,015
Provision for income taxes	966	990	977	984	890	511	977	725
Net income	2,582	2,677	2,645	2,662	2,454	1,871	2,779	2,290
Preferred stock dividends and discount accretion	63	62	62	63	63	62	71	188
Net income available to common shareholders	\$ 2,519	\$ 2,615	\$ 2,583	\$ 2,599	\$ 2,391	\$ 1,809	\$ 2,708	\$ 2,102
Net income per common share, basic (1)	\$ 0.52	\$ 0.55	\$ 0.55	\$ 0.55	\$ 0.51	\$ 0.39	\$ 0.58	\$ 0.45
Net income per common share, diluted (1)	\$ 0.51	\$ 0.54	\$ 0.54	\$ 0.54	\$ 0.50	\$ 0.38	\$ 0.58	\$ 0.45

(1) adjusted for common stock dividends distributed.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Codorus Valley Bancorp, Inc.  
York, Pennsylvania

We have audited the accompanying consolidated balance sheet of Codorus Valley Bancorp, Inc. and subsidiaries (the Corporation ) as of December 31, 2013 and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Codorus Valley Bancorp, Inc. and subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/S/ BDO USA, LLP

Harrisburg, Pennsylvania  
March 25, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
of Codorus Valley Bancorp, Inc.  
York, Pennsylvania

We have audited the accompanying consolidated balance sheet of Codorus Valley Bancorp, Inc. and subsidiaries ( the Corporation ) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Codorus Valley Bancorp, Inc. and subsidiaries as of December 31, 2012, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

ParenteBeard LLC  
Allentown, Pennsylvania  
March 28, 2013

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**Item 9: Changes in and disagreements with accountants on accounting and financial disclosure**

None.

**Item 9A: Controls and procedures**

The Corporation maintains controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon their evaluation of those controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act performed as of December 31, 2013, the Chief Executive and Chief Financial Officers of the Corporation concluded that the Corporation's disclosure controls and procedures were adequate. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended December 31, 2013 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. A Report of Management's Assessment of Internal Control Over Financial Reporting is located on page 43 of this Annual Report.

The Chief Executive and Chief Financial Officers are not aware of any changes in internal controls over financial reporting or in other factors that has materially affected these controls subsequent to December 31, 2013, the date of their evaluation.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted, which among other things, exempted non-accelerated SEC filers such as the Corporation, i.e., companies with a public float below \$75 million, from the requirement of the Sarbanes-Oxley Act's section 404(b) external auditors' attestation of internal controls over financial reporting.

In 2012, PeoplesBank became subject to FDIC regulation 363.3(b), which requires depository institutions with total assets of \$1 billion or more to engage an independent public accountant to examine, attest to, and report on the assertion of management concerning the institution's internal control structure and procedures for financial reporting. The FDIC's independent attestation requirement is essentially equivalent to the SEC's independent attestation requirement under section 404(b) of the Sarbanes-Oxley Act.

**Item 9B: Other information**

None.

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**PART III**

**Item 10: Directors, executive officers and corporate governance**

Information appearing in the Proxy Statement relating to the 2014 Annual Meeting of Shareholders to be held May 20, 2014 (Proxy Statement), under the heading, Proposal 1-Election of Directors: and the caption Information about Nominees and Continuing Directors, under the heading Security Ownership of Directors, Nominees, Executive Officers and Certain Beneficial Owners and the caption Executive Officers, and under the heading Governance of the Corporation is incorporated by reference in response to this item.

The Corporation has adopted a Code of Business Conduct and Ethics (Code of Ethics) as defined in Item 406 of Regulation S-K. The Code of Ethics was filed as Exhibit 14 to a Form 10-Q, filed with the SEC on November 13, 2012, and is incorporated by reference in response to this item. The Code of Ethics is also accessible on PeoplesBank's website at [www.peoplesbanknet.com](http://www.peoplesbanknet.com), select Investor Relations, then select Corporate Information and then select Governance Documents.

Information appearing in the Proxy Statement, under the heading Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference in response to this item.

**Item 11: Executive compensation**

Information appearing in the Proxy Statement, under the captions Executive Compensation and Director Compensation is incorporated by reference in response to this item.

**Item 12: Security ownership of certain beneficial owners and management and related shareholder matters**

Information appearing on page 12 of this report under the caption Securities Authorized for Issuance under Equity Compensation Plans and in the Proxy Statement, under the caption Security Ownership of Directors, Nominees, Executive Officers, and Certain Beneficial Owners is incorporated by reference in response to this item.

**Item 13: Certain relationships and related transactions, and director independence**

Information appearing in the Proxy Statement, under the captions Related Person Transactions and Governance of the Corporation is incorporated by reference in response to this item.

**Item 14: Principal accounting fees and services**

Information appearing in the Proxy Statement, under the caption Independent Registered Public Accounting Firm, is incorporated by reference in response to this item.

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**PART IV**

**Item 15: Exhibits and financial statement schedules**

(a) Documents filed as part of this Form 10-K report.

1. Financial Statements

The following consolidated statements of Codorus Valley Bancorp, Inc. are incorporated by reference to Part II, Item 8 hereof:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Shareholders' Equity

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Required financial statement schedules are omitted. This information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

3. Exhibits filed as part of 10-K pursuant to Item 601 of Regulation S-K.

See Exhibit Index.

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**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Codorus Valley Bancorp, Inc. (Registrant)

/s/ Larry J. Miller

Larry J. Miller, Vice-Chairman,  
President and Chief Executive Officer

Date: March 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature and Capacity

/s/ Rodney L. Krebs Rodney L. Krebs	Chairman of the Board of Directors and Director	3/25/14
/s/ Larry J. Miller Larry J. Miller (Principal Executive Officer)	President, Chief Executive Officer, Vice-Chairman of the Board of Directors and Director	3/25/14
/s/ D. Reed Anderson D. Reed Anderson, Esq.	Director	3/25/14
/s/ Cynthia A. Dotzel Cynthia A. Dotzel, CPA	Director	3/25/14
/s/ Jeffrey R. Hines Jeffrey R Hines, P.E.	Director	3/25/14
/s/ MacGregor S. Jones MacGregor S. Jones	Director	3/25/14
/s/ Dallas L. Smith Dallas L. Smith	Director	3/25/14
/s/ Harry R. Swift Harry R. Swift, Esq.	Director	3/25/14
/s/ Michael L. Waugh Michael L. Waugh	Director	3/25/14
/s/ Jann A. Weaver Jann A. Weaver (Principal Financial and Accounting Officer)	Treasurer and Assistant Secretary	3/25/14

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**Exhibit Index**

Exhibit Number	Description of Exhibit
3.1	Amended Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-Q for September 30, 2012, filed with the Commission on November 13, 2012)
3.2	Amended By-laws (Incorporated by reference to Exhibit 3(ii) to the Registrant's Current Report on Form 8-K, filed with the Commission on February 17, 2012)
3.3	Certificate of Designations for the Series A Preferred Stock (Incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 10-Q for September 30, 2013, filed with the Commission on November 12, 2013)
3.4	Certificate of Designation of Senior Non-Cumulative Perpetual Preferred Stock, Series B (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 24, 2011)
4	Rights Agreement dated as of November 4, 2005 (Incorporated by reference to Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010), as amended January 9, 2009 (Incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010), as further amended August 17, 2011 (Incorporated by reference to exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 24, 2011)
4.1	Small Business Lending Fund- Securities Purchase Agreement, dated August 18, 2011, between Codorus Valley Bancorp, Inc. and the Secretary of the Treasury, with respect to the issuance and sale of the SBLF Preferred Stock (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 24, 2011)
10.1	Employment Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Larry J. Miller, dated December 27, 2005. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010), as amended August 9, 2011 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 11, 2011) *
10.2	Change of Control Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Jann A. Weaver, dated December 27, 2005. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010) *
10.3	2000 Stock Incentive Plan (Incorporated by reference to Exhibit 4.3 of Registration Statement No. 333-40532 on Form S-8, filed with the Commission on June 30, 2000) *



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- 10.4 2001 Employee Stock Bonus Plan (Incorporated by reference to Exhibit 99.1 of Registration Statement No. 333-68410 on Form S-8, filed with the Commission on August 27, 2001) \*
- 10.5 Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to Exhibit 10.1 of Registration Statement No. 333-179179 on Form S-3D, filed with the Commission on January 26, 2012)
- 10.6 Form of Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller, Harry R. Swift and Jann Allen Weaver, dated October 1, 1998. (Incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for December 31, 2009 filed with the Commission on March 24, 2010) \*
- 10.7 Form of Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller, Harry R. Swift and Jann Allen Weaver, dated December 27, 2005. (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for December 31, 2009 filed with the Commission on March 24, 2010) \*
- 10.8 Form of Second Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller, Harry R. Swift and Jann Allen Weaver, dated December 23, 2008. (Incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for December 31, 2009 filed with the Commission on March 24, 2010) \*
- 10.9 Form of Group Term Replacement Plan, dated January 1, 2009 pertaining to senior officers of the Corporation's subsidiary, PeoplesBank, A Codorus Valley Company. (Incorporated by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K for December 31, 2009 filed with the Commission on March 24, 2010) \*
- 10.10 Form of Director Group Term Replacement Plan, dated December 1, 1998, including Split Dollar Policy Endorsements pertaining to non-employee directors of the Corporation's subsidiary, PeoplesBank, A Codorus Valley Company. (Incorporated by reference to Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for December 31, 2009 filed with the Commission on March 24, 2010) \*
- 10.11 Long-Term Nursing Care Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Larry J. Miller, dated December 27, 2005. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010) \*
- 10.12 Codorus Valley Bancorp, Inc. Change in Control and Supplemental Benefit Trust Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Hershey Trust Company, dated January 25, 2006. (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2010, filed with the Commission on November 15, 2010) and Resignation and Appointment of Trustee. (Incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K for December 31, 2011 filed with the Commission on March 27, 2012)

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- 10.13 Amended and Restated Declaration of Trust of CVB Statutory Trust No. 2, dated as of June 28, 2006, among Codorus Valley Bancorp, Inc., as sponsor, the Delaware and institutional trustee named therein, and the administrators named therein. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)
- 10.14 Indenture, dated as of June 28, 2006, between Codorus Valley Bancorp, Inc., as issuer, and the trustee named therein, relating to the Junior Subordinated Debt Securities due 2036. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)
- 10.15 Guarantee Agreement, dated as of June 28, 2006, between Codorus Valley Bancorp, Inc. and guarantee trustee named therein. (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)
- 10.16 2007 Long-Term Incentive Plan of Codorus Valley Bancorp, Inc. (Incorporated by reference to Exhibit A of the Registrant's definitive proxy statement, dated April 6, 2012) \*
- 10.17 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit B of the Registrant's definitive proxy statement, dated April 6, 2012) \*
- 10.18 Executive Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 21, 2012) \*
- 10.19 Employment Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Michael F. Allen, dated July 23, 2012. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A, filed with the Commission on March 19, 2013)\*
- 14 Code of Ethics (Incorporated by reference to Exhibit 14 to the Registrant's Quarterly Report on Form 10-Q for September 30, 2012 filed with the Commission on November 13, 2012)
- 21 List of subsidiaries of the Codorus Valley Bancorp, Inc.
- 23 Consent of Independent Registered Public Accounting Firms
- 24 Power of Attorney
- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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101 Interactive data file containing the following financial statements of Codorus Valley Bancorp, Inc. formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2013 and 2012, (ii) Consolidated Statements of Income for the years ended December 31, 2013, 2012, and 2011, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012, and 2011, (iv) Consolidated Statements of Cash Flow for the years ended December 31, 2013, 2012, and 2011, (v) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012, and 2011 and (vi) Notes to Consolidated Financial Statements filed herewith.

\* Management contract or compensation plan or arrangement required to be filed or incorporated as an exhibit.