CODORUS VALLEY BANCORP INC
Form PRE 14A
March 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

Codorus Valley Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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March 30, 2016

Dear Fellow Shareholders of Codorus Valley Bancorp, Inc.:

On behalf of the Corporation's Board of Directors, I am pleased to invite you to attend Codorus Valley Bancorp, Inc.'s Annual Meeting of Shareholders to be held on Tuesday, May 17, 2016, at 9:00 a.m., prevailing time. The location of the Annual Meeting is the Codorus Valley Corporate Center, 105 Leader Heights Road, York, Pennsylvania 17403. At the Annual Meeting, you will have the opportunity to ask questions and to make comments. Enclosed with the Proxy Statement and Notice of Meeting is a proxy card and the Corporation's 2015 Annual Report to Shareholders on Form 10-K.

The principal business of the meeting is:

- To elect two Class B directors, each to serve for a term of three years;
- To approve an advisory, non-binding resolution regarding executive compensation;
- To approve an amendment to our Articles of Incorporation to limit the transactions requiring approval of our shareholders by a supermajority vote;
- To ratify the appointment of BDO USA, LLP as Codorus Valley Bancorp, Inc.'s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2016; and
- To transact any other business that is properly presented at the Annual Meeting.

The Notice of Meeting and Proxy Statement accompanying this letter describe the specific business to be acted upon in more detail.

I am delighted that you have invested in Codorus Valley Bancorp, Inc., and I hope that, whether or not you plan to attend the Annual Meeting, you will vote as soon as possible, either electronically through the Internet, by telephone or by following the instructions on the enclosed proxy card and returning the proxy in the envelope provided. The prompt return of your proxy will save the Corporation expenses involved in further communications, and will ensure your representation at the Annual Meeting if you do not attend in person.

We are continuing to evaluate the benefits of moving toward the electronic delivery of proxy materials in the future. If you would be strongly opposed to receiving proxy materials via the Internet, please let us know. We appreciate your feedback.

Thank you for your continued support and I look forward to seeing you on May 17, 2016.

Sincerely,

Larry J. Miller

Chairman, President and Chief Executive Officer

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CODORUS VALLEY BANCORP, INC.

NASDAQ TRADING SYMBOL: CVLY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

AND

PROXY STATEMENT

2016

www.peoplesbanknet.com

2

PROXY STATEMENT

Dated and to be mailed on or about March 30, 2016

Codorus Valley Bancorp, Inc.

Codorus Valley Corporate Center

105 Leader Heights Road

York, Pennsylvania 17403

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 17, 2016

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CODORUS VALLEY BANCORP, INC.

CODORUS VALLEY CORPORATE CENTER

105 LEADER HEIGHTS ROAD

YORK, PENNSYLVANIA 17403

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 17, 2016

TO THE SHAREHOLDERS OF CODORUS VALLEY BANCORP, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Codorus Valley Bancorp, Inc. will be held at the Codorus Valley Corporate Center, 105 Leader Heights Road, York, Pennsylvania, on Tuesday, May 17, 2016, at 9:00 a.m., prevailing time, for the purpose of considering and voting upon the following matters:

1. To elect two Class B directors, each to serve for a three-year term and until their successors are elected and qualified;

2. To approve an advisory, non-binding resolution regarding executive compensation;

3. To approve an amendment to our Articles of Incorporation to limit the transactions requiring approval of our shareholders by a supermajority vote;

4. To ratify the appointment of BDO USA, LLP as Codorus Valley Bancorp, Inc.'s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2016; and

5. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

Only those shareholders of record at the close of business on March 2, 2016 are entitled to notice of and to vote at the meeting. Please vote as soon as possible, either electronically through the Internet, by telephone or by following the instructions on the enclosed proxy card and returning the proxy in the envelope provided. Your proxy is revocable at any time by voting again through the Internet or by telephone, or by delivering notice of revocation or a later dated proxy to the Secretary of the Corporation before the vote at the meeting.

Your vote is important and voting electronically through the Internet, by telephone or by written proxy, will ensure your representation at the Annual Meeting if you do not attend in person.

We enclose with this Notice of Annual Meeting and Proxy Statement a proxy card (with voting instructions) and a copy of the Corporation's 2015 Annual Report on Form 10-K.

BY ORDER OF THE BOARD OF DIRECTORS

Benjamin F. Riggs, Jr., Esq.
Secretary

York, Pennsylvania

March 30, 2016

YOUR VOTE IS IMPORTANT. PLEASE VOTE PROMPTLY, EITHER ELECTRONICALLY THROUGH THE INTERNET, BY
TELEPHONE, OR BY COMPLETING, SIGNING AND RETURNING YOUR PROXY CARD.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 17, 2016. This Notice of
Annual Meeting and Proxy Statement, proxy card and 2015 Annual Report are available at: www.proxyvote.com.

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GENERAL

Introduction

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board”) of Codorus Valley Bancorp, Inc. (the “Corporation”) to be used at the 2016 Annual Meeting of Shareholders. This Proxy Statement and the related proxy card are being first distributed to shareholders on or about March 30, 2016.

The Corporation will bear the expense of soliciting proxies. In addition to the use of the mail, the directors, officers and employees of the Corporation and its subsidiaries may, without additional compensation, solicit proxies in person or by telephone, e-mail, Internet or facsimile.

The Annual Meeting of Shareholders will be held on Tuesday, May 17, 2016, at 9:00 a.m. at the Codorus Valley Corporate Center, 105 Leader Heights Road, York, Pennsylvania. Shareholders of record at the close of business on March 2, 2016 are entitled to vote at the meeting.

At the Annual Meeting, shareholders will vote:

- To elect two Class B directors, each to serve for a three-year term;
- To approve an advisory, non-binding resolution regarding executive compensation;
- To approve an amendment to our Amended and Restated Articles of Incorporation to limit the transactions requiring approval of our shareholders by a supermajority vote;
- To ratify the appointment of BDO USA, LLP as the Corporation’s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2016; and
- To transact any other business that may properly come before the meeting and any adjournment or postponement of the meeting.

In addition, the Corporation may ask shareholders to approve the minutes of the prior shareholders’ meeting. However, approval of such minutes is an administrative action and does not constitute approval of, or a vote for, any of the matters set forth in the minutes.

Proxies and Voting Procedures

You can vote your shares by completing and returning a written proxy card. You can also vote in person at the meeting. Alternatively, you may vote by telephone or electronically through the Internet by following the instructions on the proxy card. Submitting your voting instructions through one of these methods will not affect your right to attend the meeting and will not limit your right to vote at the annual meeting if you later decide to attend in person.

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee, who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you may have the right to direct your broker or nominee how to vote, and you are also invited to attend the meeting. However, because you are not the shareholder of record, you may not vote your street-name shares in person at the meeting unless you obtain a proxy executed in your favor from the holder of record. Please contact your broker or nominee for a voting instruction card for you to use in directing the broker or nominee how to vote your shares. **Please note that brokers or nominees may not cast a vote on your behalf for the election of directors or on any other matter that is not routine without instruction from you.**

By properly completing a proxy, you appoint Cindy L. Baugher, Jann Allen Weaver and Wanda Waugh as proxy holders to vote your shares as indicated on the proxy card. Any signed proxy card not specifying to the contrary will be voted FOR election of the director nominees identified in this Proxy Statement, FOR approval of the advisory, non-binding resolution regarding executive compensation, FOR approval of an Amendment to the

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Articles of Incorporation and FOR ratification of BDO USA, LLP as the Corporation’s independent registered public accounting firm for the fiscal year ending December 31, 2016.

You may revoke a previously delivered proxy by delivering written notice of revocation to Benjamin F. Riggs, Jr., Esq., Secretary of the Corporation, or by executing a later dated proxy and giving written notice of the revocation to Mr. Riggs at any time before the proxy is voted at the Annual Meeting. If you submitted your proxy by Internet or by telephone, you can vote again by voting over the Internet or by telephone. We will honor the latest vote received. Proxy holders will vote shares represented by written proxies, if properly signed and returned to the Secretary, in accordance with instructions of the shareholders.

If you are a participant in the Codorus Valley Bancorp, Inc. Dividend Reinvestment and Stock Purchase Plan, the enclosed proxy will serve as a voting instruction card for your shares held in the Plan. Wells Fargo Bank, N.A., the Plan administrator, will vote your shares held in the Dividend Reinvestment and Stock Purchase Plan in the same manner as you indicate on your proxy card.

At the close of business on March 2, 2016, the record date for the Annual Meeting, the Corporation had 7,963,528 shares of common stock, par value $2.50 per share, issued and outstanding. Each share is entitled to one vote on all matters submitted to a vote of the shareholders.

Quorum

A majority of the outstanding shares of common stock, represented in person or by proxy, constitutes a quorum for the conduct of business at the Annual Meeting. Under Pennsylvania law and the Corporation’s Bylaws, the presence of a quorum is required for each matter to be acted upon at the meeting. Votes withheld and abstentions, while not votes cast, will be counted as present for purposes of determining the presence of a quorum. Shares of common stock represented by “broker non-votes” (i.e., shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote, (ii) the broker or nominee does not have discretionary voting power under applicable rules of the New York Stock Exchange or the instrument under which it serves in such capacity, or (iii) the record holder has indicated on the proxy or otherwise notified the Corporation that it does not have authority to vote such shares on that matter) will be counted as present for purposes of determining the presence of a quorum only if such shares have been voted at the meeting on a matter other than a procedural motion.

Required Vote

In the case of the election of directors, the two nominees receiving the highest number of votes shall be elected. A "Withhold" vote will have the effect of a vote against the election of the nominee. Abstentions and broker non-votes will have no effect on the election of directors.

Approval of the amendment to the Articles of Incorporation requires the affirmative vote of 75% of the outstanding shares of the Corporation. Approval of each of the other proposals identified in this Proxy Statement requires the affirmative vote of a majority of the shares present at the meeting, in person or by proxy. Abstentions and broker non-votes that are counted only for purposes of determining a quorum will have the effect of a vote against each of these other proposals.

Although the Board knows of no other business to be presented at the Annual Meeting, in the event that any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the instructions of the Board as permitted by Securities and Exchange Commission (SEC) Rule 14a-4(c).

Cautionary Statement Regarding Forward-Looking Statements

This Proxy Statement and the documents that have been incorporated herein by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, these statements can be identified

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by the use of words such as “anticipate,” “believe,” “can,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “target,” “will,” “would” and similar expressions. Actual results and trends could differ materially from those set forth in such statements due to various risks, uncertainties and other factors. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: ineffectiveness of our business strategy due to changes in current or future market conditions; the effects of competition, and of changes in laws and regulations, including industry consolidation and development of competing financial products and services; interest rate movements; changes in credit quality; inability to achieve merger-related synergies; difficulties in integrating distinct business operations, including information technology difficulties; volatilities in the securities markets; and deteriorating economic conditions, and other risks and uncertainties, including those detailed in our filings with the SEC.

Although forward-looking statements help provide additional information about us, investors should keep in mind that forward-looking statements are only predictions, at a point in time, and are inherently less reliable than historical information. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Proxy Statement. We assume no obligation to update any forward-looking statement in order to reflect any event or circumstance that may arise after the date of this Proxy Statement, other than as may be required by applicable law or regulation.

GOVERNANCE OF THE CORPORATION

Our Board of Directors believes that the purpose of corporate governance is to maximize long-term shareholder value in a manner consistent with applicable law and with the highest standards of integrity. The Board adheres to corporate governance practices that the Board and management believe promote this purpose, are sound and represent best practices. We continually review these governance practices against changes in applicable federal and Pennsylvania (the state in which we are incorporated) law, the rules and listing standards of the NASDAQ Stock Market, and the rules and regulations of the SEC, as well as best practices suggested by recognized governance authorities.

Director Independence

Currently, our Board of Directors has eight (8) members. The Board has determined that the following six (6) directors are independent in accordance with the independence standards of the NASDAQ Stock Market: D. Reed Anderson, Esq., Lead Director; Brian D. Brunner; Cynthia A. Dotzel, CPA; Jeffrey R. Hines, P.E.; MacGregor S. Jones; and Dallas L. Smith.

In determining the directors' independence, in addition to matters disclosed under "Related Person Transactions", the Board of Directors considered each director's beneficial ownership of Corporation common stock and loan transactions between the Corporation's wholly-owned bank subsidiary, PeoplesBank, a Codorus Valley Company (the "Bank"), and the directors, their family members and businesses with whom they are associated, as well as any contributions made by the Bank to non-profit organizations with whom such persons are associated. In each case, the Board determined that none of the transactions above impaired the independence of the director.

Board Structure

The Corporation's senior leadership is currently shared between the Board's Chairman, President and Chief Executive Officer and the Board's Vice Chairman and Lead Director.

On August 9, 2015, Rodney L. Krebs, Chairman of the Board of Directors of the Corporation and the Bank, retired from the Board of Directors due to his attaining the mandatory retirement age of 75, as set forth in the Corporation's bylaws. In connection with Mr. Krebs' retirement, the Boards of Directors appointed Larry J. Miller, President and CEO of the Corporation and Bank, to the position of Chairman. Additionally, the Boards appointed D. Reed Anderson, Esq., a member of the Board whom the Board has determined to be independent in accordance with the independence standards of the NASDAQ Stock Market, to the position of Vice Chairman and Lead Director.

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The Board believes that Mr. Miller’s service as President and Chief Executive Officer of the Bank since 1981 and the Corporation since 1986 uniquely qualifies him for this role, and that the addition of several key members to the Corporation’s executive management team in recent years allows Mr. Miller the time necessary to perform the additional duties of Chairman. The Board of Directors also believes that Mr. Miller’s leadership of the Corporation over the last thirty years, together with his knowledge of the current business and regulatory environment, will ensure that management is aligned with the Board and positioned to effectively implement the business strategy endorsed by the Board.

Our Chairman is currently responsible for ensuring the smooth functioning and efficient operation of our Board by guiding the processes of our Board, presiding at Board meetings and at shareholder meetings, and acting as a liaison between our Board and our management team. In this regard, our Chairman consults regularly with our executives over business matters and provides our executives with consultation and advice on matters that require prompt attention.

The Corporation has designated D. Reed Anderson, Esq., as the independent Lead Director. As Lead Director, Mr. Anderson presides at any Board meeting at which the Chairman is not present, including executive sessions of the independent directors; serves as a liaison between the Chairman and the independent directors; reviews and consults with the Chairman regarding meeting agendas and meeting schedules of the Board; has the authority to call meetings of the independent directors; receives and responds directly to shareholder and other stakeholder questions and comments that are directed to the Lead Director or to the independent directors as a group; serves as Chair of the Corporate Governance and Nominating Committee and assists with the identification and recommendation of Board candidates; and serves as Chair of the Compensation Committee and participates in its evaluation and discussion of the Chief Executive Officer’s performance with the Chief Executive Officer.

Moreover, on at least a semi-annual basis, when the independent directors meet in executive session, without the presence of management, the independent directors meet under the leadership of the independent Lead Director.

Meetings and Committees of the Board of Directors

The Board of Directors of Codorus Valley Bancorp, Inc. met fourteen (14) times during 2015. During 2015, all directors attended at least 75% of the meetings of the Board of Directors and of the various committees on which they served. While the Corporation has no formal policy in place, directors are strongly encouraged to attend the Annual Meeting of Shareholders. All of our then serving directors attended the 2015 Annual Meeting of Shareholders, and we anticipate that almost all directors will attend this year’s meeting.

The Board of Directors of the Corporation has a standing Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Enterprise Risk Management Committee, each of which is described below.

Audit Committee. The Audit Committee of the Board of Directors is comprised solely of directors who meet the applicable standards for independence of audit committee members of the NASDAQ Stock Market and possess the requisite knowledge or experience to serve on the Audit Committee. The current members of the Audit Committee are: Cynthia A. Dotzel, CPA (Chair); D. Reed Anderson, Esq.; Jeffrey R. Hines, P.E.; and Dallas L. Smith. The Audit Committee met four (4) times during 2015.

The principal duties of the Audit Committee, as set forth in its charter, include reviewing significant audit and accounting principles, policies and practices, reviewing performance of internal auditing procedures and recommending to the Board the engagement of the Corporation's independent registered public accounting firm. The Audit Committee has the authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities.

Cynthia A. Dotzel, CPA, Chair of the Committee, has been designated by the Board as the Audit Committee financial expert. In designating Ms. Dotzel as the Audit Committee financial expert, the Board considered her more than 25 years' experience as a practicing certified public accountant, and her prior audit

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committee experience. Furthermore, the Board of Directors believes that each Audit Committee member has sufficient knowledge in financial and auditing matters to serve on the committee.

The Audit Committee operates under a written charter, which is available on the Corporation's website at *www.peoplesbanknet.com*. Click on the "Investor Relations" link at the top of the home page, click on "Governance Documents" in the left-hand margin, and then click on the "Audit Committee Charter" link.

Compensation Committee. All members of the Compensation Committee are independent under applicable independence standards of the NASDAQ Stock Market. The current members of the Compensation Committee are: D. Reed Anderson, Esq. (Chairman); Cynthia A. Dotzel, CPA; Jeffrey R. Hines, P.E.; MacGregor S. Jones; Brian D. Brunner and Dallas L. Smith. The Compensation Committee met four (4) times during 2015.

The principal duties of the Compensation Committee include evaluating and recommending to the Board compensation plans, policies, and programs for the executive officers of the Corporation and its subsidiaries. The Compensation Committee may delegate any of its responsibilities to a subcommittee comprised of three or more members of the committee.

The Compensation Committee's processes and procedures for consideration and determination of executive compensation are described below in the section titled "Compensation Discussion and Analysis" entitled "Role of the Compensation Committee, Management and Compensation Consultant in the Executive Compensation Process."

The Compensation Committee operates pursuant to a written charter, which is available on the Corporation's website at *www.peoplesbanknet.com*. Click on the "Investor Relations" link at the top of the home page, click on "Governance Documents" in the left-hand margin, and then click on the "Compensation Committee Charter" link. The Committee has the authority under its charter to select, retain and terminate counsel, consultants and other experts. For information concerning Meridian Compensation Partners, LLC, the compensation consultant currently retained by the committee, see the section of "Compensation Discussion and Analysis" entitled "Role of the Compensation Consultant."

Corporate Governance and Nominating Committee. All members of the Corporate Governance and Nominating Committee are independent under applicable independence standards of the NASDAQ Stock Market. The current members of the Corporate Governance and Nominating Committee are: D. Reed Anderson, Esq. (Chairman); Cynthia A. Dotzel, CPA; Jeffrey R. Hines, P.E.; Brian D. Brunner; MacGregor S. Jones; and Dallas L. Smith. The Corporate Governance and Nominating Committee met two (2) times during 2015.

The principal duties of the Corporate Governance and Nominating Committee include developing and recommending to the Board criteria for selecting qualified director candidates, identifying individuals qualified to become Board members, evaluating and selecting, or recommending to the Board, director nominees for each election of directors, considering committee member qualifications, appointment and removal, recommending codes of conduct and codes of ethics applicable to the Corporation and providing oversight in the evaluation of the Board and each committee.

The Corporate Governance and Nominating Committee operates pursuant to a written charter, which is available on the Corporation's website at *www.peoplesbanknet.com*. Click on the "Investor Relations" link at the top of the home page, click on "Governance Documents" in the left-hand margin, and then click on the "Corporate Governance and Nominating Committee Charter" link.

Role of the Board in Risk Oversight

The Board of Directors is responsible for oversight of the various risks facing the Corporation. In this regard, the Board seeks to understand and oversee the most critical risks relating to the Corporation's business, to allocate responsibilities for the oversight of risks among the full Board and its committees, and to see that management has in place effective systems and processes for managing risks facing the Corporation. Overseeing risk is an ongoing process, and risk is inherently tied to strategy and to strategic decisions. Accordingly, the Board

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considers risk throughout the year and with respect to specific proposed actions. While the Board oversees risk, management is charged with identifying and managing risk within the risk appetites set by the Board.

The Board implements its risk oversight function both as a whole and through delegation to various committees. These committees meet regularly and report back to the full Board. The following committees play particularly significant roles in carrying out the risk oversight function.

- *The Enterprise Risk Management Committee*: The Enterprise Risk Management Committee operates pursuant to a written charter, and provides general risk oversight and is generally responsible for risk management, which includes monitoring and ensuring that credit risk, interest rate risk, liquidity risk, price risk, transaction risk, compliance risk, strategic risk and reputation risk assumed by the Corporation is consistent with the levels established by the Board.

The committee is comprised of the Chief Risk Officer (Chair), President and Chief Executive Officer, Chief Operating Officer, General Counsel, Chief Financial Officer, Chief Credit Officer, BSA and Security Officer, and Loan Review Officer, as well as representatives from the Board of Directors (currently MacGregor S. Jones and Harry R. Swift, Esq.). The Enterprise Risk Management Committee met six (6) times during 2015. The Enterprise Risk Management Committee takes minutes at each of its meetings, and those minutes are reviewed and accepted by the Board of Directors.

- *The Compensation Committee*: The Compensation Committee evaluates the risks and rewards associated with the Corporation's compensation philosophy and programs.

- *The Audit Committee*: The Audit Committee oversees the Corporation's processes for assessing risks and the effectiveness of the Corporation's system of internal controls. In performing this function, the Audit Committee considers information from the Corporation's independent registered public accounting firm, internal auditors, and other consultants as it determines appropriate, and discusses relevant issues with management and the independent registered public accounting firm.

Director Nomination Process

The Corporate Governance and Nominating Committee is responsible for identifying and evaluating individuals qualified to become members of the Board of Directors and to recommend such individuals to the Board of Directors for consideration and nomination. The Corporate Governance and Nominating Committee and the Board of Directors endeavor to recruit and retain Board members who demonstrate intellectual capacity, strong interpersonal skills, good business instinct, objectivity and the highest level of personal and professional integrity. When evaluating current members of the Board of Directors and prospective candidates for the Board of Directors, the Committee seeks to balance the skill sets and attributes of existing Board members with the need for other complementary skills, talents and qualities that will position the Corporation to successfully implement its strategic vision.

In addition to requiring that each existing director and candidate for nomination possesses unquestionable character and a commitment to contribute to the success of the Corporation and the stewardship of the community, the Corporate Governance and Nominating Committee's evaluation of director candidates includes an assessment of issues and factors regarding the individual's education, business experience, accounting and financial expertise, age, diversity, reputation, civic and community relationships and knowledge and experience in matters that impact diversified community financial institutions. The Committee will also take into account the director candidate's ability to devote adequate time to corporate matters, including being prepared for, and participating in, all meetings of the Board of Directors and any committees to which he or she may be assigned. When the Corporate Governance and Nominating Committee is considering current members of the Board of Directors for nomination for reelection, the Committee considers prior performance, as well as meeting attendance records.

The current practice of the Corporate Governance and Nominating Committee is to identify potential director candidates through a variety of sources. The Committee considers recommendations made by current or former directors or members of management. Potential candidates may also be identified through contacts in the business, civic, academic, legal and non-profit communities served by the Corporation. The Chairman of the Corporate Governance and Nominating Committee determines how best to approach director candidates regarding a potential nomination.

Regarding new director candidates, the Corporate Governance and Nominating Committee will evaluate whether the nominee is independent, as independence is defined under applicable standards of the NASDAQ Stock Market, and whether the nominee meets the qualifications for director outlined above, as well as any special qualifications applicable to membership on any committee to which the nominee may be appointed to serve if elected. A majority of the Board of Directors must meet the criteria for "independence" established by the NASDAQ Stock Market, and the Committee will consider any conflicts of interest that might impair that independence prior to making a decision.

The Corporate Governance and Nominating Committee will consider recommendations received from Corporation shareholders. Shareholders may recommend qualified director candidates by writing to:

Benjamin F. Riggs, Jr., Esq.

Corporate Secretary

Codorus Valley Bancorp, Inc.

P.O. Box 2887

York, PA 17405-2887

Submissions must include information regarding a candidate's citizenship, age, background, business and personal addresses, qualifications, experience, principal occupation or employment, directorships and other positions held by the candidate in business, charitable and community organizations and his/her willingness to serve as a member of the Board of Directors. Based on a preliminary assessment of the candidate's qualifications, the Corporate Governance and Nominating Committee may conduct interviews with, and request additional information from, the candidate.

The Board does not have a formal policy for considering director candidates recommended by shareholders due to the infrequency of nominations, but its policy is to give due consideration to any and all candidates and there are no differences in how the Corporate Governance and Nominating Committee evaluates a candidate for director based on whether the candidate is recommended by the Committee or by a shareholder.

Nomination of Directors

Article 10, Section 10.1 of the Corporation’s Bylaws requires that nominations for election as a director be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder’s notice must be delivered to or received at the principal executive office of the Corporation not less than 90 days prior to the one year anniversary date of the preceding meeting of shareholders called to elect directors. The notice must provide the specific information required by Section 10.1 of the Bylaws. The Board is required to determine whether nominations have been made in accordance with the requirements of the Bylaws. If the Board determines that a nomination was not made in accordance with the Bylaws, the shareholder may be given an opportunity to cure any deficiency in accordance with the Bylaws.

You may obtain a copy of the Corporation’s Bylaws by writing to Benjamin F. Riggs, Jr., Esq., Corporate Secretary, Codorus Valley Bancorp, Inc., P.O. Box 2887, York, PA 17405-2887. Additionally, a copy of the Corporation’s current Bylaws has been filed with the SEC as Exhibit 3.1 to Form 8-K filed January 12, 2016.

Deadline for Submission of Shareholder Proposals

In order for a shareholder to include a proposal in the Corporation’s Proxy Statement for presentation at the 2017 Annual Meeting of Shareholders, the proposal must be received by the Corporation at its principal executive offices c/o Benjamin F. Riggs, Jr., Esq., Corporate Secretary, Codorus Valley Bancorp, Inc., P.O. Box 2887, York, PA 17405-2887, no later than November 30, 2016. Any such proposal must comply with Rule 14a-8 of Regulation

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14A of the proxy rules of the SEC. If a shareholder proposal is submitted to the Corporation after November 30, 2016, it will not be included in the Corporation's 2017 Proxy Statement.

Under Rule 14a-4(c)(1) of the Securities Exchange Act of 1934, as amended, if any shareholder proposal intended to be presented at the 2016 Annual Meeting of Shareholders without inclusion in our proxy statement is received at our principal executive offices after February 13, 2016, then a proxy will have the ability to confer discretionary authority to vote on the proposal.

Commencing with the 2017 Annual Meeting, in order for a shareholder proposal to be considered timely, it must be received by the Corporation at its principal executive offices at least 120 days prior to the first anniversary of the date of the Corporation's release of its proxy statement in connection with the preceding year's annual meeting and otherwise comply with the provisions of Section 2.6 of the Corporation's Bylaws. Failure to comply may result in the proposal being disregarded. The deadline for submission in connection with the 2017 Annual Meeting is November 30, 2016.

Communicating with Directors

The Board of Directors has established a process for shareholders and other interested parties to communicate directly with the Chairman of the Board of Directors or its independent directors, individually, or the Board of Directors, collectively, by submitting written correspondence to the following address:

Chairman of the Board of Directors (or name of individual, independent director)

c/o Benjamin F. Riggs, Jr., Esq.

Corporate Secretary

Codorus Valley Bancorp, Inc.

P.O. Box 2887

York, PA 17405-2887

The Corporate Secretary may facilitate direct communications with the Board of Directors or individual, independent directors by reviewing and summarizing such communications. All such communications will be referred to the Chairman of the Board of Directors or individual, independent directors for consideration unless otherwise instructed by the Board of Directors.

PROPOSAL 1 – Election of Directors

The Corporation's Bylaws provide that the Board of Directors shall consist of not less than five (5) nor more than twenty-five (25) persons. The Bylaws also provide that the Board of Directors shall be divided into three (3) classes, with directors of each class to be elected for a term of three (3) years, so that the term of office of one class of directors expires at the annual meeting each year. Each class consists, as nearly as possible, of one-third of the directors. The Board of Directors determines the number of directors in each class.

A majority of the Board of Directors may increase or decrease the number of directors between meetings of the shareholders. Any vacancy occurring on the Board of Directors, whether due to an increase in the number of directors, resignation, retirement, death, or any other reason, may be filled by appointment by the remaining directors. Any director who is appointed to fill a vacancy holds office until the expiration of the term of the class of directors to which he or she was appointed. The Corporation's Bylaws mandate the retirement of directors at age 75.

The Board of Directors has fixed the number of directors at eight (8). There are two (2) nominees for the Board of Directors for election at the 2016 Annual Meeting. The Board of Directors has nominated the following two (2) individuals for election to the Board of Directors, each for a three-year term:

Nominees for Class B Directors

<u>For a Three Year Term Expiring in 2019</u>

Cynthia A. Dotzel, CPA

Harry R. Swift, Esq.

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Each of the nominees presently serves as a director of the Corporation.

If the nominees should become unavailable for any reason, proxies received from shareholders will be voted in favor of substitute nominees, as the Board of Directors shall determine. The Board of Directors has no reason to believe that the nominees will be unable to serve if elected.

Cumulative voting does not exist in the election of directors. Each share of Corporation common stock is entitled to cast one vote for each nominee. For example, if a shareholder owns ten shares of common stock, he or she may cast up to ten votes for each of the two nominees to be elected.

The Board of Directors recommends a vote FOR the foregoing nominees.

Information about Nominees and Continuing Directors

Information, as of March 30, 2016, concerning the two nominees for election to the Board of Directors and the six continuing directors appears below. Each of the nominees and continuing directors also serves as a director of the Bank.

Name and Age	**Director Since**	**Principal Occupation and Business Experience for the Past Five Years and Positions Held With Codorus Valley Bancorp, Inc. and Subsidiaries**
Nominees for Class B – Continuing Directors with Terms Expiring in 2016		
Cynthia A. Dotzel, CPA	2011	A lifelong resident of York County, Ms. Dotzel currently serves as a principal and practicing CPA with the public accounting firm of Baker Tilly Virchow Krause, LLP, which acquired SF & Company, CPAs & Business Advisors, in November 2015, where she practiced as a CPA since 2009. Mrs. Dotzel has served as a director of both the Corporation

(61)		and Bank since 2011 and is the Chair of the Corporation’s Audit Committee, and a member of both the Compensation Committee and Corporate Governance Committee. Prior to her current position, Ms. Dotzel founded the accounting firm Dotzel and Company, where she practiced for over 20 years of experience in the accounting industry. Additionally, Ms. Dotzel has numerous civic, charitable and professional affiliations, many of which involve leadership roles, and previously served as a Board Member and Audit Committee Chair for Waypoint Financial Corp., Waypoint Bank, York Financial Corp. and York Federal Savings & Loan.
		The Corporate Governance and Nominating Committee believes that Ms. Dotzel’s professional and financial services experience, as well as her roles in civic, charitable and professional organizations, enable her to provide continued business and financial expertise to the Board of Directors and has nominated her for re-election.
Harry R. Swift, Esq. (68)	2012	Mr. Swift has served as a director of both the Corporation and the Bank since January 2012, is a member of the Corporation’s Enterprise Risk Management Committee and is Chairman of the Bank’s Wealth Management Committee. A resident of York County since 1973, Mr. Swift is an attorney and was employed with the Bank beginning in 1997 and retired as General Counsel and Secretary on December 31, 2013. He remained employed with the Bank on a part time basis until March 31, 2014. At various times, Mr. Swift served as Executive Vice President, Secretary,

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Chief Operating Officer, General Counsel, and Cashier of the Bank and/or the Corporation. Prior to his employment with the Bank, Mr. Swift was in private practice and provided representation to the financial services industry. Mr. Swift has over 30 years of combined service in the financial services industry.

The Corporate Governance and Nominating Committee believes that his 30 plus years of experience in the financial services industry enables Mr. Swift to provide continued business and institutional expertise to the Board of Directors and has nominated him for re-election.

Class A –Continuing Directors with Terms Expiring in 2018

Brian D. Brunner, (60)	2016	Mr. Brunner has served as a director of the Corporation since January 12, 2016 and the Bank since September 15, 2015. He is a member of the Corporation's Corporate Governance and Nominating Committee, the Corporation's Compensation Committee and the Bank's Wealth Management Committee. Mr. Brunner has served as the Division President of Account and Item Processing within the Global Sales Organization of Fiserv, Inc. and is also a member of the Association for Financial Technology. Mr. Brunner was an organizer and founding director of Bay Net Community Bank, a de novo bank established in the Baltimore, Maryland region. Mr. Brunner previously served as an independent director on the Board of Madison Bancorp, Inc., which was acquired by Codorus Valley Bancorp, Inc. on January 16, 2015. The Corporate Governance and Nominating Committee believes that his 30 plus years of experience in the financial services industry, extensive knowledge of the Maryland markets and expertise in financial services technology enables Mr. Brunner to provide unique expertise to the Board of Directors.
Jeffrey R. Hines, P.E. (54)	2011	Mr. Hines has served as a director of both the Corporation and the Bank since 2011. He currently is a member of the Corporation's Corporate Governance and Nominating Committee, the Compensation Committee and the Audit Committee. Since 2008, Mr. Hines has served as President and Chief Executive Officer, as well as a member of the Board of Directors, of The York Water Company, a Pennsylvania public utility and NASDAQ listed company. Mr. Hines served in various additional capacities with York Water Company since 1995, including Vice President of Engineering, Secretary, Chief Operating Officer and Engineering Manager. Mr. Hines also serves in leadership roles on numerous non-profit and trade organizations.

The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Hines has developed through his business background, his leadership role at York Water Company, Inc., and his leadership roles in non-profit and trade organizations enable him to provide continued business expertise to the Board of Directors.

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Dallas L. Smith (70)	1986	Mr. Smith has served as a director of both the Corporation and the Bank since 1986 and 1983, respectively, and is a member of the Corporation's Corporate Governance and Nominating Committee, the Compensation Committee and the Audit Committee and is a member of the Bank's Wealth Management Committee. Since 1988, Mr. Smith has served as President of Bruce V. Smith, Inc., a retail corporation specializing in furniture (doing business as Smith Village), originally established by his father in 1932. Mr. Smith is a graduate from The Wharton School, University of Pennsylvania and is a native resident of York County. The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Smith has developed through his economic background and his professional experiences as a business leader in the retail sector, as well as his knowledge and experience as director of the Bank and Corporation, enable him to provide continued business expertise to the Board of Directors.
Class C – Continuing Directors with Terms Expiring in 2017		
D. Reed Anderson, Esq. (73)	1994	Mr. Anderson currently serves as the Board's Lead Director. Mr. Anderson has served as a director of both the Corporation and the Bank since 1994. He is a member of the Corporation's Corporate Governance and Nominating Committee, Chairman of the Compensation Committee, member of the Audit Committee and is also a member of the Bank's Wealth Management Committee. Mr. Anderson has been an attorney with law firm of Stock and Leader since 1970, having graduated from The Pennsylvania State University and received his J.D. from The Dickinson School of Law. Mr. Anderson served as a Captain in the U.S. Army during the Vietnam War. He has served as Chairman of the Board of Directors of the York County Chamber of Commerce, the York County March of Dimes Foundation, WellSpan Health Systems, and YorkCounts, as well as an elder of Centre Presbyterian Church. Mr. Anderson also currently serves in a number of other leadership capacities for various York County non-profit organizations. He is a native resident of York County. The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Anderson has developed through his background in the legal field, his leadership roles in charitable and community organizations, and his professional experiences as a business leader and lawyer, as well as his knowledge and experience as a director of the Bank and Corporation, enable him to provide continued business expertise to the Board of Directors.
MacGregor S. Jones	1993	A resident of York County since 1957, Mr. Jones has served as a director of both the Corporation and the Bank since 1993. He currently is a member of the Corporation's Corporate Governance and Nominating Committee, the Compensation Committee and the Enterprise Risk Management

(70)	Committee. A 1968 graduate of

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		Gettysburg College, during his career Mr. Jones worked in the manufacturing industry for AMF, Inc., in the computer industry for Computer Allied Systems, Inc., and is a retired Ford and General Motors dealership owner. Currently, Mr. Jones is heavily involved in the field of automotive fuel and energy technology as a stockholder of Talbert Fuel Systems, Inc. and as a Member of York Innovators Group, LLC. Mr. Jones has served in governance capacities for: Gettysburg College, York-Adams Boy Scout Council, Yorkshire United Methodist Church, and on many boards and committees throughout the York community. The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Jones has developed through his business background, his leadership roles in charitable and community organizations, and his professional experiences as a business leader, as well as his knowledge and experience as director of the Bank and Corporation, enable him to provide continued business expertise to the Board of Directors.
Larry J. Miller (64)	1986	Mr. Miller currently serves as Chairman of the Board, President and Chief Executive Officer for the Corporation, Executive Chairman of the Bank and is currently is a member of the Corporation's Enterprise Risk Management Committee. A resident of York County since 1972, Mr. Miller has served as a director, President and Chief Executive Officer of both the Corporation and the Bank since 1986 and 1981, respectively, and served as Vice Chairman of both Boards from 2004 until his appointment as Chairman in August 2015. He attended York College of Pennsylvania, is a graduate from The Pennsylvania School of Banking at Bucknell University, and has served as Chairman of the Board of Directors of the United Way of York County, the York County Economic Development Corporation, and YorkCounts and the Cultural Alliance of York County. Mr. Miller is currently Chairman of the Wellspan Health System Board of Directors and serves in leadership capacities for various other non-profit organizations. The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Miller has developed through his banking background, his leadership roles in charitable and community organizations, and his professional experiences as a business leader, as well as his knowledge and experience as director and President and Chief Executive Officer of the Bank and Corporation, enable him to provide continued banking and business expertise to the Board of Directors.

INFORMATION CONCERNING SECURITY OWNERSHIP

Beneficial ownership of shares of the Corporation's common stock is determined in accordance with SEC Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, in which the person has or shares:

- Voting power, which includes power to vote or to direct the voting of the stock;
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
- The right to acquire beneficial ownership within 60 days after March 2, 2016.

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Beneficial Ownership of Principal Holders

The following table shows, to the best of the Corporation's knowledge, those persons or entities who owned of record or beneficially, on December 31, 2015, more than 5% of the Corporation's outstanding common stock.

Name & Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class
The Banc Funds Company LLC affiliates 20 North Wacker Drive, Suite 3300 Chicago, IL 60606	748,533[1]	9.60%
FMR LLC 245 Summer Street Boston, MA 02210	694,500[2]	8.99%
Wellington Management Group LLP c/o Wellington Management Co. LLP 280 Congress Street Boston, MA 02210	552,051[3]	7.15%

(1) This information is based solely on Schedule 13G/A filed jointly by Banc Fund VI L.P, Banc Fund VII L.P., Banc Fund VIII, L.P., and Banc Fund IX L.P., (the "Partnerships") with the SEC on February 8, 2016, reporting ownership as of December 31, 2015. The Partnerships are directly or indirectly controlled by The Bank Funds Company, LLC. Charles J. Moore, the principal shareholder of The Banc Funds Company LLC, has voting and investment power over all 748,533 shares beneficially owned by the Partnerships.

(2) This information is based solely on Schedule 13G/A filed by FMR LLC with the SEC on February 12, 2016 reporting ownership as of December 31, 2015. FMR LLC has sole voting power over 60,554 shares beneficially owned and sole disposition power over all 694,500 shares beneficially owned.

(3) This information is based solely on Schedule 13G filed by Wellington Management Group LLP with the SEC on February 11, 2016 reporting ownership as of December 31, 2015. Wellington Management Group LLP has shared voting and investment power over all 552,051 shares beneficially owned.

Beneficial Ownership of Executive Officers and Directors

The following table sets forth, as of March 2, 2016, and from information supplied by the respective persons, the amount and the percentage, if over 1%, of the common stock of the Corporation beneficially owned by each director, each nominee for director, each of the named executive officers and all executive officers and directors of the Corporation as a group.

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Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership[1]	Percent of Class
Directors and Nominees		
D. Reed Anderson, Esq.	43,552[2]	*
Brian D. Brunner	10,250[3]	*
Cynthia A. Dotzel, CPA	37,666[4]	*
Jeffrey R. Hines, P.E.	6,498[5]	*
MacGregor S. Jones	35,049[6]	*
Larry J. Miller	102,336[7]	1.28%
Dallas L. Smith	45,739[8]	*
Harry R. Swift, Esq.	7,799[9]	*
Other Executive Officers		
A. Dwight Utz	14,796[10]	*
Michael F. Allen	5,578 [11]	*
Michael D. Peduzzi, CPA	4,343[12]	*
Benjamin F. Riggs, Jr., Esq.	3,030[13]	*
Diane E. Baker, CPA	6,995[14]	*
Stephen M. Altland	13,354[15]	*
Amy L. Doll	3,433[16]	*
All Executive Officers and Directors as a Group (15 persons)	334,840	4.16%

* Indicates beneficial ownership of less than 1%.
[1] Unless otherwise indicated, to the knowledge of the Corporation, all persons listed have sole voting and investment power with respect to their shares of Corporation common stock, except to the extent authority is shared by spouses under applicable law. Fractional shares beneficially owned by such individuals have been rounded down to the number of whole shares beneficially owned. Pursuant to the rules of the SEC, the number of shares of common stock deemed outstanding includes shares issuable pursuant to options held by the respective person or group that are currently exercisable or may be exercised within 60 days of March 2, 2016 ("presently exercisable stock options").
[2] Includes 11,869 shares held in Mr. Anderson's 401(k) plan and 22,309 shares issuable pursuant to presently exercisable stock options.
[3] Includes 10,250 shares held jointly with Mr. Brunner's spouse.
[4] Includes 4,709 shares issuable pursuant to presently exercisable stock options.
[5] Includes 141 shares held jointly with Mr. Hines' spouse, 1,258 shares held by his spouse and 4,599 shares issuable pursuant to presently exercisable stock options.
[6] Includes 23,239 shares held jointly with Mr. Jones' spouse, 4,951 shares held in his spouse's IRA, and 4,856 shares issuable pursuant to presently exercisable stock options.
[7] Includes 22,423 shares held jointly with Mr. Miller's spouse, 1,823 shares held jointly with his daughter, 1,823 shares held jointly with his son, 1,415 shares held in Mr. Miller's IRA, 11,643 shares of unvested restricted stock, and 3,621 shares issuable pursuant to presently exercisable stock options.
[8] Includes 894 shares held in Mr. Smith's spouse's IRA and 22,174 shares issuable pursuant to presently exercisable stock options.
[9] Includes 500 shares held in Mr. Swifts' IRA and 2,941 shares issuable pursuant to presently exercisable stock options.
[10] Includes 12,500 shares held in Mr. Utz's IRA and 2,296 shares of unvested restricted stock.

(11) Mr. Allen resigned from his position as Vice President and Chief Operating Officer on March 31, 2015. Mr. Allen beneficially owned 5,578 shares as of the date of his resignation.

(12) Includes 1,000 shares held in Mr. Peduzzi's IRA, 1,574 shares of unvested restricted stock and 1,769 shares issuable pursuant to presently exercisable stock options.

(13) Includes 1,261 shares of unvested restricted stock and 1,769 shares issuable pursuant to presently exercisable stock options.

(14) Includes 1,401 shares of unvested restricted stock and 3,242 shares issuable pursuant to presently exercisable stock options.

(15) Includes 1,698 shares of unvested restricted stock and 9,015 shares issuable pursuant to presently exercisable stock options.

(16) Includes 1,493 shares of unvested restricted stock and 1,859 shares issuable pursuant to presently exercisable stock options.

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Executive Officers

The following table identifies each of the executive officers of the Corporation, their age as of March 30, 2016, the position they currently hold and their professional experience during the prior five years.

Name	Age	Position and Prior Professional Experience
Larry J. Miller	64	Chairman of the Corporation and the Bank since 2015; President and Chief Executive Officer of the Corporation since 1986; Executive Chair of the Bank since March 8, 2016; and President and Chief Executive Officer of the Bank from 1981through his retirement from such positions on March 8, 2016.
A. Dwight Utz	61	Executive Vice President and Chief Operating Officer of the Corporation since September 2015; Executive Vice President and Chief Operating Officer of the Bank from September 2015 through the date of his appointment as President and Chief Executive Officer of the Bank on March 8, 2016; President and Chief Executive Officer of ECB Bancorp, Inc. and East Carolina Bank from 2009 to June 2013; Executive Vice President and Chief Retail Officer of MidSouth Bancorp, Inc. from 2001 to 2009.
Benjamin F. Riggs, Jr., Esq.	52	General Counsel and Secretary of the Corporation and Bank since January 2014; General Counsel and Secretary of Four Seasons Produce, Inc. 2005 to 2013; Vice President and Senior Counsel of Sovereign Bank from 2004 to 2005; Vice President and Assistant General Counsel of Waypoint Bank from 2000 to 2004; Assistant General Counsel of York Federal Savings & Loan Association from 1994 to 2000.
Michael D. Peduzzi, CPA	50	Senior Vice President and Chief Financial Officer of the Bank since 2015; Treasurer and Assistant Secretary of the Corporation since 2015; Shareholder and Principal of S.R. Snodgrass, PC (certified public accounting firm) from 2011 to 2014; Executive Vice President and Chief Financial Officer of Union National Financial Corp. from 2007 to 2011.
Diane E. Baker, CPA	45	Senior Vice President and Chief Risk Officer since March 2016; Enterprise Risk Management Officer from 2014 to March 2016; Vice President and Internal Auditor of the Corporation and Bank from 2002 to 2014.

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INFORMATION CONCERNING COMPENSATION

Executive Compensation

Compensation Discussion and Analysis

The Compensation Committee (referred to in this discussion as the "Committee") assists the Board of Directors and maintains responsibility for establishing and implementing the Corporation's executive compensation philosophy, as well as monitoring adherence to the policies and practices of compensation programs maintained by the Corporation for all employees (including equity and non-equity-based incentive programs and retirement programs). This Compensation Discussion and Analysis section is intended to help our shareholders understand the Corporation's compensation philosophy, objectives, components and practices. This section also describes the Committee's decisions made during 2015 as they relate to the compensation of our named executive officers.

The following officers have been identified as our named executive officers:

Larry J. Miller	– Chairman, President and Chief Executive Officer of the Corporation
Michael D. Peduzzi	– Sr. Vice President and Chief Financial Officer of the Bank
Michael F. Allen	– Former Executive Vice President/Chief Operating Officer of the Bank
Benjamin F. Riggs, Jr.	– General Counsel and Secretary of the Corporation
Amy L. Doll	– Sr. Vice President and Chief Lending Officer of the Bank
Stephen M. Altland	– Sr. Vice President/Wealth Management Division of the Bank

Executive Summary

Key 2015 Business Accomplishments

The 2015 year was a very successful one for the Corporation despite a very challenging economic and regulatory environment. The Corporation continued to evolve as we completed the merger acquisition of Madison Bancorp, Inc., and continued our organic growth through the opening of multiple new offices. As we look back on the 2015 year as an organization, we are extremely proud of the following key accomplishments:

Key Strategic Accomplishments:

- Successfully completed the merger acquisition of Madison Bancorp, Inc. (“Madison”) with minimal organizational, operational or accounting challenges, which added over $130 million in assets, $120 million in deposits, twenty-two associates, and four additional financial centers to our Maryland footprint, including branches in the highly-desirable markets of Baltimore and Harford Counties.

- Opened a new financial center in Shrewsbury, Pennsylvania, featuring enhanced technologies and reflecting a new prototype financial center design.

- Relocated our South Hanover, Pennsylvania financial center from a leased facility to a newly-constructed office reflecting the same modernistic design and technological capabilities as the Shrewsbury prototype.

- Consolidated two financial centers in the city of York, Pennsylvania into one larger and more modern Center City York financial center, providing for expanded services for customers, while realizing long-term cost savings through the overhead reduction of two leased locations to one. We also consolidated two financial centers in Bel Air, Maryland, moving the personnel and accounts from a smaller loan-production office to an adjacent full-service financial center acquired in the Madison transaction. Beyond one-time lease termination costs, the consolidation will provide long-term overhead savings without a compromise to access or services for our Bel Air, Maryland customers.

- Acquired and renovated a commercial building located in close proximity to our corporate headquarters to serve as the PeoplesBank Administrative Services Center and to fulfill operational and administrative needs required of our expanding customer base.

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- Further solidified our executive leadership team and Board of Directors with the hiring of a new Executive Vice President and Chief Operating Officer, the appointment of a new Chief Lending Officer, and the appointment of a new, independent director.

Key Financial Accomplishments:

- Total assets grew to over $1.4 billion by the end of 2015, and total loans grew to over $1.1 billion, reflecting both continued organic growth throughout the year in our core business banking activities, as well as the loans and deposits added from our January 2015 acquisition of Madison.

- Earnings for the year ended December 31, 2015 were $1.76 per share basic and $1.75 per share diluted, with a return on average equity of 8.94 percent, as adjusted.

- Distributed to common shareholders both a five percent common stock dividend and cash dividends totaling $0.486 per share.

- Completed a $34.5 million public offering of common stock, resulting in net proceeds of approximately $32 million, enhancing our already well-capitalized financial position, providing support for our ongoing loan growth and future franchise expansion, and providing a source of funds to facilitate the redemption of the remaining $12 million of preferred stock held by the U.S Treasury pursuant to the Small Business Lending Fund program.

Key 2015 Compensation Program Attributes

The Committee strives to implement an executive compensation program that is aligned with the philosophy of the Corporation, as well as achieves its desired objectives. Overall, we believe that our compensation programs are fair, reasonable, competitive with our peers and reflective of best practice. Listed below are some of the key attributes of our compensation program, which form the basis for our opinion:

- Our salaries are competitive with the median for comparably-sized banks.

- Our overall compensation program is performance-oriented and reflects our pay-for-performance culture.

- We have strong risk-mitigating design principles, such as placing caps on our annual incentive opportunities, measuring performance across multiple measures - including asset quality, and including vesting requirements on our long-term incentive awards.

- We seek and receive advice from independent experts in executive compensation.

2015 Compensation Decisions

The Corporation's significant accomplishments in 2015, including those identified above, led to a number of decisions by the Committee and Board throughout the year that reflect the desire to retain and motivate an employee base and executive team that will continue to challenge each other for performance results. Key highlights as they relate to compensation programs or actions include:

- Mid-year salary adjustments for certain named executive officers to more closely reflect market value for such positions, as well as increased responsibilities arising as a result of the growth of the Corporation and the assumption of additional duties resulting from the resignation of the Corporation's Chief Operating Officer in the first quarter.

- Continued inclusion of performance goals and caps in our annual executive incentive plan to promote short-term, but responsible, growth.

- Continued reliance on equity grants with various vesting periods to incent retention and promote long-term stock appreciation.

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The remainder of this Compensation Discussion & Analysis, as well as the Summary Compensation Table and supporting tabular disclosures, are intended to provide greater detail on the compensation philosophy, roles, programs, processes, and actions in 2015.

Executive Compensation Philosophy and Objectives

The Committee believes the success of the Corporation is driven through hiring, developing and retaining qualified executives who are motivated to perform for the benefit of our employees, customers, shareholders and the community. The executive compensation program is designed to:

- Further the strategic goals of the Corporation.
- Align the interests of our executives with our shareholders.
- Be balanced in terms of the mix of cash and equity compensation payable under the program.
- Be competitive with our peers.
- Motivate and reward executives for achievement of high levels of performance against defined goals and objectives – both short- and long-term.
- Enable the Corporation to attract and retain key executives capable of maximizing the Corporation's performance.
- Be prudent and fiscally responsible.
- Ensure regulatory compliance.
- Provide for a balanced mix of fixed and variable compensation.

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Motivate and reward executives without encouraging undue risk-taking which could materially threaten the safety and soundness of the Corporation or any individual business unit.

The Corporation seeks to provide all of its executive officers with a comprehensive program of compensation and benefit opportunities consistent with prevailing practices among publicly-traded financial services organizations of similar asset size (including slightly smaller and slightly larger), market profiles, operating circumstances and regionally similar geographic locations. The Committee believes that this level of market competitiveness appropriately positions the Corporation to attract, motivate, reward and retain the caliber of executive talent required to enable the Corporation to achieve its short- and long-term strategic goals and objectives. When deemed necessary by the Committee, position values are established based on compensation practices of larger institutions with which the Corporation competes for executive talent in its local and regional labor market.

The executive compensation program is intended to provide participating executives with a balanced and market-competitive mix of fixed and performance-based variable compensation and benefit provisions. The variable compensation features include annual cash incentives to reward short-term performance relative to our annual business plans and long-term incentives, in the form of equity grants, to reward future performance of the Corporation and increased shareholder value. Short- and long-term incentives are designed to focus executives' efforts on the strategic goals and objectives of the Corporation and to link executives' financial rewards with the interests of the Corporation's shareholders.

All components of compensation, both fixed and variable, are targeted at the median of our industry peer group, as identified by the Committee in consultation with its compensation consultant. The variable incentive award opportunities allow executives to earn total compensation which is above the median of industry norms when their individual and collective performance significantly exceeds established goals and objectives as outlined in the Corporation's strategic plan or goals and objectives established for their positions. When corporate and or individual performance is below goals and objectives, variable compensation plans are designed to result in compensation that lags behind the market.

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Role of the Compensation Committee, Management and the Compensation Consultant in the Executive Compensation Process

Role of the Compensation Committee

The Compensation Committee is appointed by the Corporation’s Board of Directors to discharge the Board’s responsibilities relating to compensation of the Corporation’s executive officers and other key employees of its subsidiaries. Six members of our Board of Directors sit on the Committee, each of whom is an independent director under the NASDAQ Stock Market listing requirements. To fulfill its responsibilities, the Committee meets approximately quarterly throughout the year (four times in 2015). The Chair of the Committee reports on Committee actions at meetings of the Board of Directors and prepares written minutes of Committee meetings, which are accepted to the Board.

The Committee has overall responsibility for evaluating and approving the compensation plans, policies and programs of the Corporation applicable to its key executives. In discharging its responsibilities, the Committee establishes the Corporation’s general compensation philosophy, and oversees the development and implementation of the Corporation’s executive compensation programs and related policies.

The Committee reviews the operation and effectiveness of the executive compensation program on a continuous basis discussing current regulatory issues, industry trends and internal Corporation needs with respect to executive compensation.

The Committee may request information from management about the Corporation, the performance of the business and the executive compensation program to evaluate effectiveness and to recommend program modifications and changes for Board consideration. It may also recommend to the Board changes in the scope of its responsibilities beyond the positions currently designated as “executive” to include other critical positions in the Corporation.

Based upon corporate goals and objectives approved by the Board, the Compensation Committee annually reviews and approves corporate goals and objectives that are specifically relevant to Chief Executive Officer compensation and evaluates the Chief Executive Officer’s performance in light of those goals and objectives. Based on such evaluation, the Committee sets the compensation (including base salary, incentive compensation, employment terms (such as severance agreements, employment agreements and change in control agreements, if and when appropriate) and equity-based awards or special or supplemental benefits)) of the Chief Executive Officer subject to ratification by the full Board of Directors. In determining compensation, the Compensation Committee may consider, among other factors, the Corporation's performance and relative shareholder return, the nature, extent and acceptability of risks that the Chief Executive Officer may be encouraged to take by such compensation, the value of similar incentive awards to chief executive officers at comparable companies, and the awards given to the Chief Executive Officer in past years.

In addition to determining Chief Executive Officer compensation, the Committee annually reviews and recommends to the Board for approval the compensation of executive officers other than the Chief Executive Officer.

The Committee is also responsible for reviewing the Corporation's incentive compensation plans, equity-based plans, retirement plans, deferred compensation plans and welfare benefit plans. Unless their administration is otherwise delegated in accordance with the provisions of such plans, the Committee administers such plans, including determining any incentive or equity-based awards to be granted to executive officers under such plans.

In order to discharge its responsibilities, the Committee has the authority and is provided the resources to obtain advice and assistance from internal or external legal, compensation, human resource, accounting and other advisors or consultants as it deems necessary or appropriate. These services are provided as a matter of practice as requested by the Committee and such advisors report directly to the Committee.

Details on the Committee's functions are more fully described in its charter. As part of its responsibilities, the Committee reviews its charter in the development of an annual work plan and recommends any proposed

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changes to the Board for approval. The Committee's Charter can be viewed at the Corporation's website, *www.peoplesbanknet.com* under the "Governance Documents" tab.

The Committee will continue to review, evaluate, and revise the compensation philosophy as appropriate to meet its desired objectives.

Role of the Compensation Consultant

The Committee has the authority to hire, fire, and seek the services of compensation consulting and advisory firms as it deems appropriate. These advisors serve as independent counsel and report directly to the Committee. As a matter of general policy the Committee does not prohibit its advisors from providing services to management, but any such engagements must be approved by the Committee.

In August 2015, the Committee hired the independent outside consulting firm Meridian Compensation Partners, LLC, sometimes referred to in this discussion as Meridian, which specializes in executive and board compensation. Meridian reports directly to the Committee and carries out its responsibilities to the Committee in coordination with the human resources department, as requested by the Committee. Meridian only provides services on behalf of the Committee and did not perform any additional services to the Corporation during 2015.

In December 2014, Mosteller & Associates, Inc. provided guidance to the Committee in establishing base salaries for the Chief Executive Officer and other named executive officers for 2015. Mosteller continued to provide these services until the hiring of Meridian in August 2015.

Role of Management

The Committee often requests one or more members of executive or senior management, such as the Chief Executive Officer and Senior Vice President of Human Resources, to be present at Committee meetings where executive compensation and corporate or individual performance are discussed and evaluated. Although the Committee is ultimately responsible for executive compensation decisions, information and input from senior management is critical to ensuring the Committee and its advisors have the information needed to make informed decisions. Executives may provide insight, suggestions or recommendations regarding executive compensation. However, only

Committee members vote on decisions regarding executive compensation. In all cases, no executive officer shall be present at meetings at which their compensation or performance is discussed or determined by the Committee.

Below is a summary of the role of management in assisting the Committee to discharge its responsibilities:

- The Chief Executive Officer develops recommendations for corporate goals and corresponding weightings and incentive performance metrics for the annual executive incentive plan and presents the same to the Committee for its consideration. The Committee has final approval of the goals, weightings and metrics to be used for purposes of the annual executive incentive plan.

- The Chief Executive Officer presents performance summaries and recommendations relating to the other named executive officers and other key executives' compensation to the Committee for its review and approval. The Committee Chair ensures feedback is shared with the full Board for the purposes of making informed compensation decisions.

- As deemed necessary, the Chief Executive Officer and Senior Vice President of Human Resources provide the Committee with data necessary to evaluate and implement compensation proposals and programs.

- The Senior Vice President of Human Resources coordinates external legal support related to employment agreements and retirement programs.

- The Senior Vice President of Human Resources provides data and information to the Committee, as requested, and also assists the Committee Chair in determining the logistics and agenda for the meeting.

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- At the direction of the Committee, the Senior Vice President of Human Resources works with outside consultants to provide data and information relative to the Committee's needs and objectives.

Factors Considered in Determining Executive Compensation

The Committee's compensation decisions throughout the year were supported by various analyses, information and input including, but not limited to:

- Total compensation philosophy and objectives.
- Pay target guidelines as developed in consultation with our independent compensation consultant.
- Strategic plans and performance relative to annual goals.
- Competitive benchmarking reviews conducted by our independent compensation consultant.
- Risk assessment/mitigation considerations.
- Individual performance, overall leadership, and potential.
- Individual performance related to leading and upholding the Corporation's vision, mission and values.
- External influences, economic conditions and industry factors.
- Executive attraction and retention considerations.
- Best/emerging practices as provided by outside consultants.
- Changing regulations.

- Director and Committee input as gathered during executive sessions.
- Internal equity considerations.
- Cost, tax, and accounting considerations.

Competitive Benchmarking

In August, 2015, Meridian was retained by the Committee to conduct a comprehensive review of the Corporation's executive compensation program. The purpose of this review was to provide an independent and objective analysis of all elements of compensation (individually and in the aggregate), including pay and performance alignment relative to the practices of a new market and peer group prompted by the growth of the organization. In addition, the Committee reviewed best/emerging practices as provided by Meridian in relation to key compensation governance institutions and shareholder advisory firms. Ultimately, the combination of information derived from Meridian regarding competitive market data and the Committee's review of compensation governance best practices was determined to support the compensation decisions previously made and, yet to be made, for the organization.

A primary data source used in setting competitive market practices for the named executive officers is the information publicly disclosed by a peer group of other publicly traded bank holding companies. This peer group was developed by Meridian using objective parameters that reflect institutions of similar asset size operating within our geographic region, and was ultimately discussed with and approved by the Committee. The peer group will be reviewed and updated from time to time, as appropriate, since comparable institutions may change depending on the current size of the Corporation, acquisitions and business focus of the Corporation or peer institutions. Overall, the goal is to maintain data from a group of 20 comparative bank holding companies that provide a market perspective for executive compensation.

The 2015 peer group consisted of 20 bank holding companies in Pennsylvania and contiguous states ranging from approximately $1 billion to $3 billion in assets, positioning the Corporation slightly below the median in terms of asset size.

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The following is the peer group used as a result of the November 2015 review conducted by Meridian:

Univest Corporation of Pennsylvania	Sun Bancorp, Inc.
Arrow Financial Corporation	CNB Financial Corporation
Suffolk Bancorp	Peoples Financial Services Corp.
Chemung Financial Corporation	BCB Bancorp, Inc.
First United Corporation	Old Line Bancshares, Inc.
Penns Woods Bancorp, Inc.	Republic First Bancorp, Inc.
Citizens & Northern Corporation	Orrstown Financial Services, Inc.
Community Financial Corporation	AmeriServ Financial, Inc.
ACNB Corporation	Shore Bancshares, Inc.
1st Constitution Bancorp	Unity Bancorp, Inc.

In addition to the peer group data, Meridian used several other sources of data to identify general compensation trends with respect to cash compensation (i.e., base salary and incentives), including comparative data from industry surveys using the appropriate scope (asset size and region) and a proprietary database of national banking compensation data. Data utilized reflected institutions representing similar asset size and region to the Corporation.

Information derived from the competitive market analysis was used by Meridian to develop market competitive guidelines intended to support the Corporation's total compensation philosophy. Using this information, Meridian then presented to the Committee the guidelines for base salary, short and long-term incentive targets and estimated total direct compensation (assuming all elements paid at expectation/goal levels), so the Committee could see the potential pay and range of pay for each executive role. These guidelines provided a framework for consideration by the Committee in setting future compensation levels as described below.

Total Compensation and Performance Alignment

The Committee seeks to ensure that the total compensation package paid to executives is considered in the aggregate (i.e., the sum of its parts) and is properly aligned with the Corporation's performance. The Corporation's performance is evaluated in light of a number of factors, including corporate and individual performance in light of our own performance targets and industry/peer results, overall financial performance and strategic accomplishments that position the Corporation for success going forward. Performance goals in our incentive plans are positioned at levels that are achievable, but require increased effort on the part of our management team.

The Committee receives regular updates on the Corporation’s performance relative to performance goals and industry realities.

The Committee will continue to refine its assessment processes and peer groups to ensure its comparisons are appropriate.

Risk Assessment/Mitigation Considerations

As a bank holding company with its principal subsidiary a Pennsylvania-chartered bank, both of which are subject to significant federal and state regulation and regulatory oversight, the Corporation has always adhered to defined risk guidelines, practices and controls designed to ensure the safety and soundness of the organization. Our management and Board of Directors conduct regular reviews of our business to ensure we remain within appropriate regulatory guidelines and appropriate practice, supplemented by our internal audit and compliance function.

Annually, the Committee reviews the Corporation’s executive incentive plans and assesses the extent to which incentives established by these policies relate to or influence excessive risk-taking on the part of participating employees. The Committee reviewed the plans in January 2015, including a discussion of the revised and expanded annual executive incentive plan, and the performance goals driving awards under these plans. The performance goals include measures intended to ensure that participating executives do not engage in activities or behaviors that create undue risk for the Corporation.

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The Committee approved a clawback policy on January 12, 2016 that requires, to the extent legally permitted, the return, repayment or forfeiture of any annual or long-term incentive compensation payment or award made or granted to any current or former executive officer if the payment or award was based on financial statements filed with the SEC within the prior 3-years that were subject to a restatement due to noncompliance with the rules and regulations of the SEC or misconduct by an executive officer.

Assessing Industry Competitiveness

Based on the information provided by Meridian, as well as national and regional compensation practice survey reports for financial services companies with assets of similar size scope to the Corporation, the Committee believes the types and levels of compensation provisions included in our executive compensation program are consistent with current features and "best practices" among organizations of similar size, regional geography and type.

Compensation Components and 2015 Decisions

The Corporation's compensation program consists of four main components: Base Salary, Annual Incentives, Long-Term Incentive/Equity, and Benefits and Perquisites. The following section summarizes the role of each component in the decision making process, how decisions are made and the resulting 2015 decision with respect to the named executive officers.

Base Salary

Objective. The Corporation believes the purpose of base salary is to provide competitive and fair base compensation that recognizes the executives' role, responsibilities, experience and performance. Base salary represents fixed compensation that is targeted to be competitive with the practices of comparable financial institutions in the region.

Typically, the Committee sets base salary for each executive in January of each year. Salaries are determined in consideration of the competitive market for similar roles, as well as each individual's experience, performance and contributions. Input from the Chief Executive Officer is considered in setting executive salaries, while the Committee is solely responsible for recommending the Chief Executive Officer's salary.

Annual opportunities for salary increases may be affected by changes in the market value of the position, but are based primarily on the performance of the individual during the most recent performance period.

2015 and 2016 Decisions. In August 2015, the Committee retained Meridian to complete an executive total compensation review, using a new peer group including financial organizations with assets between $1 billion and $3 billion in Pennsylvania and contiguous states. In January 2016, after thoroughly reviewing the results of the 2016 executive total compensation review, the Committee affirmed its previous direction to establish base salary compensation in relation to the peer group benchmarks. The Committee approved the following base salary adjustments: