

CODORUS VALLEY BANCORP INC
Form PRE 14A
March 14, 2018

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

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
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):

No fee required
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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- 1) Amount Previously Paid:

- 2) Form, Schedule or Registration Statement No.:

- 3) Filing Party:

- 4) Date Filed:

April 6, 2018

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 15, 2018, 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 2017 Annual Report to Shareholders on Form 10-K.

The principal business of the meeting is:

To elect three Class A directors, each to serve for a term of three years and until their successors are elected and qualified;

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

To amend the Codorus Valley Bancorp, Inc.'s Articles of Incorporation to increase the aggregate number of shares of the Corporation's common stock that the Corporation may issue from 15 million to 30 million;

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, 2018; 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 continue 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 15, 2018.

Sincerely,

Larry J. Miller

Chairman, President and Chief Executive Officer

CODORUS VALLEY BANCORP, INC.

NASDAQ TRADING SYMBOL: CVLY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

AND

PROXY STATEMENT

2018

www.peoplesbanknet.com

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PROXY STATEMENT

Dated and to be mailed on or about April 6, 2018

Codorus Valley Bancorp, Inc.

Codorus Valley Corporate Center

105 Leader Heights Road

York, Pennsylvania 17403

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 15, 2018

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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 15, 2018

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 15, 2018, at 9:00 a.m., prevailing time, for the purpose of considering and voting upon the following matters:

1. To elect three Class A 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 amend the Codorus Valley Bancorp Inc.'s Articles of Incorporation to increase the aggregate number of shares of the Corporation's common stock that the Corporation may issue from 15 million to 30 million;
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, 2018; 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 February 28, 2018 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 2017 Annual Report on Form 10-K.

BY ORDER OF THE BOARD OF DIRECTORS

Timothy J. Nieman, Esq.
Secretary

York, Pennsylvania

April 6, 2018

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 15, 2018. This Notice of Annual Meeting and Proxy Statement, proxy card and 2017 Annual Report are available at: www.proxyvote.com.

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 2018 Annual Meeting of Shareholders. This Proxy Statement and the related proxy card are being first distributed to shareholders on or about April 6, 2018.

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 15, 2018, 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 February 28, 2018, are entitled to vote at the meeting.

At the Annual Meeting, shareholders will vote:

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

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

To amend the Corporation’s Articles of Incorporation to increase the aggregate number of shares of the Corporation’s common stock which the Corporation may issue from 15 million to 30 million;

To ratify the appointment of BDO USA, LLP as the Corporation’s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2018; 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 amending the Corporation's Articles of Incorporation to increase the aggregate number of shares of the Corporation's common stock which the Corporation may issue from 15 million to 30 million and FOR ratification of BDO USA, LLP as the Corporation's independent registered public accounting firm for the fiscal year ending December 31, 2018.

You may revoke a previously delivered proxy by delivering written notice of revocation to Timothy J. Nieman, Esq., Secretary of the Corporation, or by executing a later dated proxy and giving written notice of the revocation to Mr. Nieman 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. Equiniti Trust Company, 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 February 28, 2018, the record date for the Annual Meeting, the Corporation had 8,913,098 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 three 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 each of the other proposals identified in this Proxy Statement requires the affirmative vote of a majority of the votes cast 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

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 Corporate Board of Directors has eight (8) members. The Board has determined that the following seven (7) directors are independent in accordance with the independence standards of the NASDAQ Stock Market: Harry R. Swift, Esq., Lead Director; Brian D. Brunner; Cynthia A. Dotzel, CPA; John W. Giambalvo, Esq.; 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.

The Board believes that Mr. Miller's service as President and Chief Executive Officer of the Bank from 1981 to 2016 and the Corporation since its incorporation in 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 Harry R. Swift, Esq., as the independent Lead Director. As Lead Director, Mr. Swift 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; assists with the identification and recommendation of Board candidates; serves as a member of the Corporate Governance and Nominating Committee; and serves as a member of the Compensation Committee and participates in its evaluation and discussion of the Corporation's 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 2017. During 2017, 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 2017 Annual Meeting of Shareholders with the exception of Mr. Swift, and we anticipate that 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); Jeffrey R. Hines, P.E. (Vice Chair); John W. Giambalvo, Esq.; and Dallas L.

Smith. The Audit Committee met four (4) times during 2017.

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 35 years' experience as a practicing certified public accountant, and her prior audit 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 bottom of the home page, click on "Governance Documents" in the right-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: Jeffrey R. Hines, P.E. (Chair); John W. Giambalvo, Esq. (Vice Chair); Brian D. Brunner; Cynthia A. Dotzel, CPA; MacGregor S. Jones; Dallas L. Smith; and Harry R. Swift, Esq. The Compensation Committee met eight (8) times during 2017.

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 bottom of the home page, click on "Governance Documents" in the right-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: Jeffrey R. Hines, P.E. (Chair); Harry R. Swift, Esq. (Vice Chair); Brian D. Brunner; Cynthia A. Dotzel, CPA; John W. Giambalvo, Esq.; MacGregor S. Jones; and Dallas L. Smith. The Corporate Governance and Nominating Committee met two (2) times during 2017.

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 bottom of the home page, click on "Governance Documents" in the right-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 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), Executive Chairman of the Bank, President and Chief Executive Officer of the Bank, 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 2017. 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 Chair 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 directors 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:

Timothy J. Nieman, 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 Timothy J. Nieman, 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 2019 Annual Meeting of Shareholders, the proposal must be received by the Corporation at its principal executive offices c/o Timothy J. Nieman, Esq., Corporate Secretary, Codorus Valley Bancorp, Inc., P.O. Box 2887, York, PA 17405-2887, no later than December 7, 2018. Any such proposal must comply with Rule 14a-8 of Regulation 14A of the proxy rules of the SEC. If a shareholder proposal is submitted to the Corporation after December 7, 2018, it will not be included in the Corporation's 2019 Proxy Statement.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the next Annual Meeting, the Corporation's Bylaws require shareholders to give advance notice of such proposals. The required notice, which must include the information and documents set forth in Section 2.6(b) of the Bylaws, must be given not less than 120 days prior to the first anniversary of the date of the Corporation's proxy statement released to shareholders in connection with the preceding year's Annual Meeting. If notice is not received by the Corporation within this timeframe, the

Corporation will consider such notice untimely. 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 Annual Meeting without inclusion in our proxy statement is received within the required timeframe and is properly presented, then a proxy will have the ability to confer discretionary authority to vote on the proposal.

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 Timothy J. Nieman, 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 three (3) nominees for the Board of Directors for election at the 2018 Annual Meeting. The Board of Directors has nominated the following three (3) individuals for election to the Board of Directors, each for a three-year term:

Nominees for Class A Directors

For a Three Year Term Expiring in 2021

Brian D. Brunner

Jeffrey R. Hines, P.E.

Dallas L. Smith

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 three nominees to be elected.

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

Information about Nominees and Continuing Directors

Information, as of April 6, 2018, concerning the three nominees for election to the Board of Directors and the five continuing directors appears below. Each of the nominees and continuing directors also serves as a director of the Bank.

<u>Name</u>	<u>Director</u>	<u>Principal Occupation and Business Experience for the Past Five Years and Positions Held and Age</u>	<u>Since</u>	<u>With Codorus Valley Bancorp, Inc. and Subsidiaries</u>
		<u>Class A –Continuing</u>		
		<u>Directors with</u>		
		<u>Terms Expiring in</u>		
		<u>2018</u>		
		<u>Nominees for Class A – Continuing Directors with Terms Expiring in 2021</u>		

Brian D. Brunner 2016 (62)	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 Chair of the Bank’s Strategic Technology and Cybersecurity Committee. Mr. Brunner serves as the Division President of Account and Item Processing Sales 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.
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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 and has nominated him for re-election.

Jeffrey R.
Hines,
P.E.

(56)

Mr. Hines has served as a director of both the Corporation and the Bank since 2011. He is currently Chair of the Corporation's Corporate Governance and Nominating Committee, Chair of the Compensation Committee and Vice Chair of 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 The 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

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that the attributes, skills and qualifications Mr. Hines has developed through his business background, his leadership role at The 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 and recommends him for re-election.

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.

Dallas L.
Smith 1986

(72) 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 and recommends him for re-election.

Class B-
Continuing
Directors with
Terms
Expiring in
2019

Cynthia 2011 A lifelong resident of York County, Ms. Dotzel currently serves as a director and practicing CPA with
A. the public accounting firm of Baker Tilly Virchow Krause, LLP, which acquired SF & Company, CPAs
Dotzel, & Business Advisors, in November 2015, where she practiced as a CPA since 2009. Ms. Dotzel has
CPA served as a director of both the Corporation and Bank since 2011 and is the Chair of the Corporation's
Audit Committee, a member of both the Compensation Committee and Corporate Governance
(63) Committee and the Bank's Wealth Management Committee. Prior to her current position, Ms. Dotzel
founded the accounting firm Dotzel and Company. She has over 35 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.

Harry R.
Swift,
Esq.

2012 Mr. Swift currently serves as the Board's Lead Director. Mr. Swift has served as a director of both the Corporation and the Bank since January 2012. He is a member of the Corporation's

(70)

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Enterprise Risk Management Committee and Compensation Committee, and is Chair of the Bank's Wealth Management Committee, Vice Chair of the Corporate Governance Committee and member of the Bank's CRA 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 through March 2014. At various times, Mr. Swift served as Executive Vice President, Secretary, 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.

Class C –
Continuing
Directors with
Terms Expiring in
2020

Mr. Giambalvo has served as a director of the Bank since January 12, 2017, and director of the Corporation since July 11, 2017. He is a member of the Corporation's Corporate Governance and Nominating Committee, Vice Chair of the Compensation Committee, member of the Audit Committee and is also a member of the Bank's Strategic Technology and Cybersecurity Committee. Mr. Giambalvo is the President and CEO of Jack Giambalvo Motor Co., Inc., and has over 20 years' experience in the auto industry. Mr. Giambalvo started his professional career as a law clerk for the Honorable John C. Uhler, and then became an Assistant District Attorney in York, PA. Mr. Giambalvo previously served as a member of the Board of Directors of the PA Automobile Dealers Association.

John W. Giambalvo, Esq. (49) 2017

The Corporate Governance and Nominating Committee believes that the attributes, skills and qualifications Mr. Giambalvo has developed through 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 (72) 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 Committee. A 1968 graduate of 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.

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 a member of the Corporation's Enterprise Risk Management Committee, and the Bank's CRA Committee. A resident of York County since 1972, Mr. Miller has served as a director, President and Chief Executive Officer of the Corporation since 1986 and the Bank from 1981 to 2016, 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, YorkCounts, the Cultural Alliance of York County and Wellspan Health System. Mr. Miller serves in leadership capacities for various other non-profit organizations.

Larry J.
Miller 1986
(66)

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 February 28, 2018.

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, 2017, 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	808,299 ⁽¹⁾	9.10%
FMR LLC 245 Summer Street Boston, MA 02210	755,904 ⁽²⁾	8.51%
Maltese Capital Management LLC 150 East 52nd Street, 30th Floor New York, NY 10022	449,462 ⁽³⁾	5.06%

⁽¹⁾ This information is based solely on Schedule 13G/A filed jointly by Banc Fund VII L.P., Banc Fund VIII, L.P., and Banc Fund IX L.P., with the SEC on February 14, 2018, reporting ownership as of December 31, 2017.

(2) This information is based solely on Schedule 13G/A filed by FMR LLC with the SEC on February 13, 2018 reporting ownership as of December 30, 2017.

(3) This information is based solely on Schedule 13G filed by Maltese Capital Management LLP with the SEC on February 12, 2018 reporting ownership as of December 31, 2017.

Beneficial Ownership of Executive Officers and Directors

The following table sets forth, as of February 28, 2018, 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.

Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class
<i>Directors and Nominees</i>		
Brian D. Brunner	18,335 ⁽²⁾	*
Cynthia A. Dotzel, CPA	45,947 ⁽³⁾	*
John W. Giambalvo, Esq.	7,674 ⁽⁴⁾	*
Jeffrey R. Hines, P.E.	12,048 ⁽⁵⁾	*
MacGregor S. Jones	36,977 ⁽⁶⁾	*
Larry J. Miller	117,941 ⁽⁷⁾	1.32%
Dallas L. Smith	56,046 ⁽⁸⁾	*
Harry R. Swift, Esq.	5,564 ⁽⁹⁾	*
<i>Named Executive Officers</i>		
Charles T. Field, CPA	2,733 ⁽¹⁰⁾	*
A. Dwight Utz	17,918 ⁽¹¹⁾	*
Diane E. Baker, CPA	15,251 ⁽¹²⁾	*
Amy L. Doll	11,400 ⁽¹³⁾	*
All Executive Officers and Directors as a Group (12 persons)	347,834	3.87%

* 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 February 28, 2018 (“presently exercisable stock options”).

⁽²⁾ Includes 17,027 shares held jointly with Mr. Brunner’s spouse.

⁽³⁾ Includes 6,710 shares issuable pursuant to presently exercisable stock options.

⁽⁴⁾ Includes 2,756 shares held in a profit sharing plan for his benefit.

⁽⁵⁾ Includes 770 shares held jointly with Mr. Hines' spouse, 1,447 shares held by his spouse and 8,581 shares issuable pursuant to presently exercisable stock options.

⁽⁶⁾ Includes 25,733 shares held jointly with Mr. Jones' spouse, 4,456 shares held in his spouse's IRA, and 3,173 shares issuable pursuant to presently exercisable stock options.

⁽⁷⁾ Includes 25,816 shares held jointly with Mr. Miller's spouse, 2,098 shares held jointly with his daughter, 2,098 shares held jointly with his son, 1,559 shares held in Mr. Miller's IRA, 6,133 shares of unvested restricted stock, and 3,992 shares issuable pursuant to presently exercisable stock options.

(8) Includes 837 shares held in Mr. Smith's spouse's IRA and 27,956 shares issuable pursuant to presently exercisable stock options.

(9) Includes 551 shares held in Mr. Swifts' IRA.

(10) Includes 1,575 of unvested restricted stock.

(11) Mr. Utz was terminated from his position as Executive Vice President and Chief Operating Officer of the Corporation on February 5, 2018. Mr. Utz beneficially owned 17,918 shares as of the date of his termination.

(12) Includes 2,530 shares of unvested restricted stock and 7,421 shares issuable pursuant to presently exercisable stock options.

(13) Includes 2,765 shares of unvested restricted stock and 7,000 shares issuable pursuant to presently exercisable stock options.

Executive Officers

The following table identifies each of the executive officers of the Corporation, their age as of April 6, 2018, the position they currently hold and their professional experience during the prior five years.

<u>Name</u>	<u>Age</u>	<u>Position and Prior Professional Experience</u>
Larry J. Miller	66	Chairman of the Board of the Corporation 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 1981 through his retirement from such positions on March 8, 2016.
Timothy J. Nieman, Esq.	52	Secretary and General Counsel of the Corporation and Bank since February 2018; General Counsel of the Corporation and Bank from January 2018 to February 2018; Partner at Rhoads & Sinon, LLP from 2003 to 2017; Associate at Rhoads & Sinon, LLP from 1998 to 2003; Associate at Klett Lieber Rooney & Schorling from 1992 to 1998.
Charles T. Field, CPA	53	Treasurer and Assistant Secretary of the Corporation since November 2016; Executive Vice President and Chief Financial Officer of the Bank since February 2018; Senior Vice President and Chief Financial Officer of the Bank from November 2016 to February 2018; Senior Vice President and Chief Financial Officer of East River Bank in Philadelphia, Pennsylvania from 2014 to 2016; Senior Vice President and Chief Financial Officer of both the Westchester Bank Holding Corporation and the Westchester Bank from 2008 to 2013; Senior Vice President and Chief Financial Officer of Interchange Financial Services from 2003 to 2007 and held the position of Manager in the Financial Institutions Audit Group for Deloitte & Touche, LLP from 1987 to 1995.
Diane E. Baker, CPA	47	Vice President of the Corporation since 2002; Secretary of the Corporation from July 2017 to February 2018; Assistant Treasurer and Assistant Secretary of the Corporation since February 2018; Executive Vice President, Chief Operating Officer and Chief Risk Officer of the Bank since February 2018; Senior Vice President and Chief Risk Officer of the Bank from March 2016 to February 2018; Enterprise Risk Management Officer from 2014 to March 2016; Vice President and Internal Auditor of the Corporation and Bank from 2002 to 2014.

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 for the Corporation and the Bank (hereinafter referred to as the compensation policies of the Corporation), 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 2017 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; Executive Chairman of the Bank
Charles T. Field- Treasurer and Assistant Secretary of the Corporation; Executive Vice President and Chief Financial Officer of the Bank;
Diane E. Baker- Vice President, Assistant Treasurer and Assistant Secretary of the Corporation; Executive Vice President, Chief Operating and Chief Risk Officer of the Bank
A Dwight Utz- Former President and Chief Executive Officer of the Bank
Amy L. Doll- Senior Vice President, Chief Revenue and Chief Lending Officer of the Bank

Executive Summary

Key 2017 Business Accomplishments

The 2017 year was a very successful one for the Corporation despite a very challenging regulatory environment. As we look back on the 2017 year as an organization, we are extremely proud of the following key accomplishments:

Key Strategic Accomplishments:

Continued to post strong gains in deposit market share over previous year in its core York County, Pennsylvania market.

Opened four new limited services offices in Lancaster County, Pennsylvania at Landis Homes, Woodcrest Villa, Luther Acres and Homestead Village Retirement Communities enhancing the Bank's ability to generate new relationships and serve its clients in this rapidly growing market.

Started the evolution of the Camp Hill, Pennsylvania Business Banking Center into a full-service financial center providing both business and personal banking services.

Launched a redesigned website to further enhance the clients' banking experience.

Key Financial Accomplishments:

Total assets grew to over \$1.7 billion by the end of 2017, total loans and deposits grew to over \$1.4 billion respectively, reflecting both continued organic growth throughout the year in both our core business and retail banking activities.

Total loans and deposits grew 10 percent in 2017.

Total assets under management for the wealth management division grew 26 percent, to over \$700 million in 2017 resulting in a 9 percent increase in fee income.

Earnings for the year ended December 31, 2017 were \$1.35 per share basic and \$1.34 per share diluted, as adjusted stock dividends, with a return on average equity of 7.40 percent. Net income, earnings per share, and return on average equity for 2017 were impacted by a \$2.8 million reduction in the net deferred tax asset value due to the new corporate tax rate of 21 percent enacted as part of the Tax Cuts and Jobs Act.

Distributed to common shareholders both a five percent common stock dividend and cash dividends totaling \$0.516 per share.

Key 2017 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 practices. 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 financial institutions.

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, assessing 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.

2017 Compensation Decisions

The Corporation's significant accomplishments in 2017, 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.

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.

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 2017.

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 shareholders, the community, clients and employees. 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.

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.

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. Seven 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 at least quarterly throughout the year (met eight times in 2017). The Chair of the Committee reports on Committee actions at meetings of the Board of Directors. Written minutes of Committee meetings are prepared, presented to and accepted by the Board.