UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)
☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2020
or
☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____________ to _____________.

Commission file Number 0-15536

CODORUS VALLEY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania — **23-2428543**
(State or other jurisdiction of incorporation or organization) — (I.R.S. Employer Identification No.)

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $2.50 par value	CVLY	NASDAQ Global Market

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

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

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

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

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

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

Large accelerated filer ☐
Accelerated filer ☐
Non-accelerated filer ☒
Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of Codorus Valley Bancorp, Inc.'s voting stock held by non-affiliates was approximately $129,737,251 as of June 30, 2020.

As of February 24, 2021, Codorus Valley Bancorp, Inc. had 9,839,991 shares of common stock outstanding, par value $2.50 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference to the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 18, 2021.

Codorus Valley Bancorp, Inc.
Form 10-K Index

PART I

Item 1: Business

Codorus Valley Bancorp, Inc. (“Codorus Valley” or the “Corporation”) is a Pennsylvania business corporation, incorporated on October 7, 1986. On March 2, 1987, Codorus Valley became a bank holding company under the Bank Holding Company Act of 1956, as amended. PeoplesBank, A Codorus Valley Company (“PeoplesBank”) is its wholly owned bank subsidiary. The Corporation’s business consists primarily of managing PeoplesBank, and its principal source of income is dividends received from PeoplesBank. The Corporation also wholly-owns one non-bank subsidiary, SYC Realty Co., Inc., a subsidiary for holding certain foreclosed assets pending liquidation. On December 31, 2020, Codorus Valley had total consolidated assets of $2.16 billion, total deposits and other liabilities of $1.96 billion, and total shareholders’ equity of $197,960,000.

Bank Subsidiary

PeoplesBank, organized in 1934, is a Pennsylvania chartered bank that offers a full range of consumer, business, wealth management, and mortgage services at financial centers located in communities throughout South Central Pennsylvania and Central Maryland. In addition to the twenty-six full service financial centers there are seven financial centers located primarily within retirement communities that provide a full suite of services on a limited basis. PeoplesBank, with origins dating back to 1864, is focused on acquiring and nurturing financial relationships with small and mid-sized businesses. The Federal Deposit Insurance Corporation insures the deposits of PeoplesBank to the maximum extent provided by law. On December 31, 2020, PeoplesBank had total gross loans of $1.54 billion, excluding loans held for sale, and total deposits of $1.86 billion. PeoplesBank had the second largest share of deposits in York County, Pennsylvania, with deposits totaling 15.2 percent of the market as of June 30, 2020, the latest available measurement date.

PeoplesBank is not dependent on deposits of, or exposed to a loan concentration to, a single client, or a small group of clients. Therefore, the loss of a single client, or a small client group, would not have a material adverse effect on the financial condition of PeoplesBank. At December 31, 2020, the largest indebtedness of a single PeoplesBank client was approximately $23,047,000 or 1.4 percent of the total loan portfolio, which was within PeoplesBank’s regulatory lending limit of $32,971,000.

Most of the Corporation's business is with clients located within South Central Pennsylvania, principally York and Lancaster Counties and North Central Maryland, principally Harford County, Baltimore County and Baltimore City. Although this market area may pose a concentration risk geographically, we believe that the diverse local economies and our detailed knowledge of the client base lessens this risk. At December 31, 2020, the Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor represented 15.4 percent of the portfolio and commercial real estate investor represented 15.3 percent of the portfolio. At December 31, 2019, the Corporation had three industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor represented 16.5 percent of the portfolio; commercial real estate investor represented 13.8 percent of the portfolio; and builder and developer represented 10.6 percent of the portfolio. Loans to borrowers within these industries are usually collateralized by real estate.

Nonbank Subsidiaries of PeoplesBank

PeoplesBank had four wholly-owned nonbank subsidiaries as of December 31, 2020, that were consolidated for financial reporting purposes.

Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors, a subsidiary that sells non-deposit investment products, began operations in January 2000, and previously operated as SYC Insurance Services, Inc. until the change to the current name in December 2005.

Periodically, PeoplesBank creates nonbank subsidiaries for the purpose of temporarily holding certain foreclosed assets pending liquidation. On December 31, 2020, none of the three of these foreclosed asset subsidiaries was active.

Nonbank Subsidiaries of Codorus Valley Bancorp, Inc.

In 2006, Codorus Valley formed CVB Statutory Trust No. 2, a wholly-owned special purpose subsidiary whose sole purpose was to facilitate a pooled trust preferred debt issuance of $7,217,000. In 2004, Codorus Valley formed CVB

Statutory Trust No. 1 to facilitate a pooled trust preferred debt issuance of $3,093,000. The Corporation owns 100 percent of the common stock of these nonbank subsidiaries, which are not consolidated for financial reporting purposes. These obligations are reported as junior subordinated debt on the Corporation's balance sheet.

In 1991, SYC Realty Co., Inc. was incorporated as a wholly owned subsidiary of Codorus Valley, and originally commenced operations in October 1995. Codorus Valley created this nonbank subsidiary primarily for the purpose of holding certain foreclosed properties obtained by PeoplesBank pending liquidation of those properties. SYC Realty was inactive during the entire reporting period of 2020.

Human Capital Resources

At year-end 2020, PeoplesBank employed 320 full-time employees and 26 part-time employees, which equated to approximately 343 full-time equivalent employees. Employees are not covered by a collective bargaining agreement, and PeoplesBank considers its relations with employees to be satisfactory. The Corporation monitors employee turnover as a critical measure of success and reported 18.9 percent and 20.9 percent employee turnover as of December 31, 2020 and December 31, 2019, respectively.

Approximately 50 percent of the Company's associates continue to work off-premise since mid-March 2020 at the start of the COVID-19 pandemic. A phased approach and a comprehensive plan to safely return associates working remotely has been developed, and will be implemented as the number of COVID-19 cases decline. A detailed protocol for the safety of associates and clients has been followed, including notifying clients, based on CDC guidelines, who may have come into close contact with an associate who has tested positive.

Segment Reporting

Management has determined that it operates in only one segment, community banking. The Corporation's non-banking activities are not significant to the consolidated financial statements.

Competition

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

Supervision and Regulation

The Corporation is subject to extensive regulation under federal and Pennsylvania banking laws, regulations and policies, including prescribed standards relating to capital, earnings, dividends, the repurchase or redemption of shares, loans or extensions of credit to affiliates and insiders, internal controls, information systems, internal audit processes, loan documentation, credit underwriting, asset growth, impaired assets, and loan-to-value ratios. The bank regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking systems as a whole, and not for the protection of security holders.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their bank subsidiaries and provides certain specific information about Codorus Valley and PeoplesBank. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Corporation.

Bank Holding Company Regulations

Codorus Valley is registered as a bank holding company, and is subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"), under the Bank Holding Company Act of 1956, as amended. The Bank Holding Company Act requires bank holding companies to file periodic reports with, and subjects them to examination by, the Federal Reserve. The Federal Reserve has issued regulations under the Bank Holding Company

Act that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve may require Codorus Valley to use its resources to provide adequate capital funds to PeoplesBank during periods of financial stress or adversity.

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

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

The Federal Reserve Act imposes restrictions on a subsidiary bank of a bank holding company, such as PeoplesBank. The restrictions affect extensions of credit to the bank holding company and its subsidiaries, investments in the stock or other securities of the bank holding company and its subsidiaries, and taking such stock or securities as collateral for loans.

The Federal Reserve Act and Federal Reserve regulations also place limitations and reporting requirements on extensions of credit by a bank to the principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulation may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

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

Regulation of PeoplesBank

PeoplesBank is a Pennsylvania chartered bank that is not a member of the Federal Reserve System, and its deposits are insured (up to applicable limits) by the Federal Deposit Insurance Corporation (“FDIC”). Accordingly, PeoplesBank’s primary federal regulator is the FDIC, and PeoplesBank is subject to the extensive regulation and examination by the FDIC and the Pennsylvania Department of Banking and Securities.

State and federal banking laws and regulations govern such things as: the scope of a bank’s business; permissible investments; the reserves against deposits a bank must maintain; the types and terms of loans a bank may make and the collateral it may take; the activities of a bank with respect to mergers and consolidations; the establishment of branches; and the sale of non-deposit investment products by the bank and its subsidiaries.

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

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

The Pennsylvania Insurance Department, the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA") control and supervise the licensing and activities of employees engaged in the sale of non-deposit investment products.

Federal Deposit Insurance and Premiums

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

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

On April 26, 2016, the FDIC adopted a rule amending small institution pricing for deposit insurance, which is effective the quarter after the Reserve Ratio reaches 1.15 percent. The reserve ratio reached 1.15 percent effective June 30, 2016, so the lower rates became effective July 1, 2016. The initial base assessment rates for all insured institutions were reduced from 5 to 35 basis points to 3 to 30 basis points. Total base assessment rates after possible adjustments were reduced from 2.5 to 45 basis points to 1.5 to 40 basis points. For insured institutions under $10 billion in total assets, the new pricing system eliminates all risk categories and uses the Financial Ratios Method to determine assessment rates. CAMELS composite ratings are used to set minimum and maximum assessment rates for an institution. In addition, the new pricing system revises the Financial Ratios Method so that it is based on a statistical method eliminating the probability of failure over three years; and updates the financial measures used in the financial Ratios Method so the measures are consistent with the statistical method. Generally, the change in the assessment methodology by the FDIC lowered deposit insurance premiums for community banks like PeoplesBank.

On January 24, 2019, the FDIC provided preliminary notification of small bank assessment credits. On September 30, 2018, the Deposit Insurance Fund (DIF) reserve ratio reached 1.36 percent. Because the reserve ratio exceeded 1.35 percent, small banks were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15 percent to 1.35 percent, to be applied when the reserve ratio is at least 1.38 percent. The DIF reserve ratio as of June 30, 2019 was 1.40 percent. Because the reserve ratio exceeded the 1.38 percent, small bank assessment credits were applied beginning with the invoice payment for the second quarter assessment period of 2019. The small bank assessment credits issued to the Corporation were fully utilized as of December 31, 2019.

Dividend Restrictions

The Corporation is a legal entity separate and distinct from PeoplesBank. Declaration and payment of cash dividends by the Corporation depends upon cash dividend payments to the Corporation by PeoplesBank, which is the Corporation's primary source of revenue and cash flow. Accordingly, the right of the Corporation, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Corporation in its capacity as a creditor may be recognized.

As a Pennsylvania chartered bank, PeoplesBank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code of 1965, as amended. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements.

The payment of dividends by PeoplesBank and the Corporation may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe and unsound practice. More information about dividend restrictions and capital requirements can be found in Note 9 – Regulatory Matters, to the consolidated financial statements.

Other Laws and Regulations Affecting the Corporation and PeoplesBank

May 2018 Banking Reform Legislation On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act"), amended certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as certain other statutes administered by the federal banking agencies Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio and "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which requires higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

Section 201 of the Regulatory Relief Act directed the federal banking agencies to develop a community bank leverage ratio ("CBLR") of not less than 8% and not more than 10% for qualifying community banks and bank holding companies with total consolidated assets of less than $10 billion. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules; (ii) the capital ratio requirements necessary to be considered "well capitalized" under the banking agencies' prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements.

On September 17, 2019, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve Board, and the FDIC adopted a rule to implement the provisions of Section 201 of the Regulatory Relief Act. Under the rule, a qualifying community banking organization would be defined as a deposit institution or depository institution holding company with less than $10 billion in assets and specified limited amounts of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets, and certain temporary difference deferred tax assets. A qualifying community banking organization would be permitted to elect the CBLR framework if its CBLR is greater than 9%. The rule also addresses opting in and opting out of the CBLR framework by a community banking organization, the treatment of a community banking organization that falls below the CBLR requirements, and the effect of various CBLR levels for purposes of the prompt corrective action categories applicable to insured depository institutions. Advanced approaches banking organizations (generally, institutions with $250 billion or more in consolidated assets) are not eligible to use the CBLR framework.

The Company continues to analyze the changes implemented by the Regulatory Relief Act, including the CBLR framework included in the recently adopted rule. The Company does not believe, however, that such changes will materially impact the Company's business, operations, or financial results.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) In July 2010, the Dodd-Frank Act was enacted to improve accountability and transparency in the financial system, to attempt to end "too big to fail" pertaining to large, troubled financial institutions, to protect the American taxpayer by ending governmental bailouts, to protect consumers from abusive financial services practices, and for other purposes. The Dodd-Frank Act is broad and complex legislation that puts in place a sweeping new financial services regime that will have significant regulatory and legal consequences for banks now and for years to come. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to the potential for additional legislative changes to the Dodd-Frank Act. The Corporation, like all financial institutions, has been and will continue to be impacted by the Dodd-Frank Act in the areas of corporate governance, deposit insurance assessments, capital requirements, risk management, stress testing, and regulation under consumer protection laws.

Among other things, the Dodd-Frank Act:

- Provides extensive authority to the federal bank regulatory agencies and, in particular, the Federal Reserve, to take proactive steps to reduce or eliminate threats to the safety of the financial system, impose strict controls on large bank holding companies ($50 billion or more) and nonbank financial companies to limit their risk, and take direct control of troubled financial companies considered systemically significant;
- Increases bank supervision by restructuring the supervision of holding companies and depository institutions; establishes the equivalent of a prompt corrective action program for large bank holding companies; requires that capital requirements for holding companies be at least as strict as capital requirements for depository institutions; disallows new issuances of trust preferred securities from qualifying for Tier 1 capital treatment; directs federal bank regulators to develop specific capital requirements for holding companies and depository institutions that address activities that pose risk to the financial system, such as significant activities in higher risk areas, or concentrations in assets whose reported values are based on models;
- Established the Consumer Financial Protection Bureau as an independent entity within the Federal Reserve System that has assumed responsibility for supervision and enforcement of most consumer protection laws, and has authority to supervise, examine and take enforcement action with respect to depository institutions with more than $10 billion in assets and nonbank mortgage industry participants and other designated nonbank providers of consumer financial services;
- Places certain limitations on investment and other activities by depository institutions, holding companies and their affiliates. Expands the coverage of Section 23A of the Federal Reserve Act to include the credit exposure related to additional transactions, including derivatives; and
- Significantly increases the regulation of residential mortgage lending and servicing by banks and nonbanks by requiring, among other things, mortgage originators to ensure that the consumer will have the capacity to repay the loan; and requires mortgage loan securitizers to retain a certain amount of risk, unless the mortgages conform to the new regulatory standards as qualified residential mortgages.

Sarbanes-Oxley Act of 2002 The Sarbanes-Oxley Act (“SOA”) was signed into law in July 2002 and applies to all companies, both U.S. and non-U.S, that file periodic reports under the Securities Exchange Act of 1934. The stated goals of the SOA were to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SEC is responsible for establishing rules to implement various provisions of the SOA. The SOA includes specific disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC. The SOA represents significant regulation of the accounting profession and corporate governance practices, such as the relationship between a board of directors and management and between a board of directors and its committees. Section 404 of the SOA requires publicly held companies to document, test and certify that their internal control systems over financial reporting are effective.

On March 12, 2020, the SEC issued the final ruling on the proposal *Amendments to the Accelerated Filer and Large Accelerated Filer Definitions.* As a result of the amendments, certain low revenue filers will remain obligated to provide a report by management assessing the effectiveness of the Corporation’s internal control over financial reporting (“ICFR”), but will not require an attestation report from the Corporation’s independent auditor assessing the effectiveness of the Corporation’s ICFR. The Corporation meets the amended definition and will not be required to provide an attestation report from its independent auditor assessing the effectiveness of its ICFR. PeoplesBank remains subject to independent auditor attestation under FDIC regulation 363.3(b).

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

Coronavirus Aid, Relief and Economic Security Act (CARES Act) On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. Since that time banking regulators, the SEC and FASB have all issued additional guidance and clarification on various sections of the CARES Act. Section 4013 of the CARES Act provides the option to not apply ASC 310-40 (TDRs) to a loan modification, related specifically to COVID-19 hardships. Regulators have encouraged financial institutions to work constructively with borrowers in communities and industries affected by COVID-19 using prudent and proactive actions which are in the best interests of the financial institution, the borrower and the economy. The Corporation's Board of Directors approved a number of options for loan modifications, including interest deferral, full payment deferral, additional extensions of credit, and SBA loan programs (i.e., Economic Injury Disaster Loans, Paycheck Protection Program). As of December 31, 2020, the Corporation has remaining loan modifications totaling approximately $26 million. The Corporation has been an active participant in the SBA Paycheck Protection Program, with outstanding PPP loans as of December 31, 2020 of approximately $143 million.

Future Laws and Regulations

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

Other Information

This Annual Report on Form 10-K is filed with the Securities and Exchange Commission (SEC). Copies of this document, the Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and other filings by Codorus Valley with the SEC may be obtained electronically at PeoplesBank's website at **www.peoplesbanknet.com** (select "Your Life" or "Your Business", then select "Investor Relations", then select "Filings", then select "Documents"), or the SEC's website at www.sec.gov. Copies can also be obtained without charge by writing to: Treasurer, Codorus Valley Bancorp, Inc., 105 Leader Heights Road, York, PA 17403.

Where we have included web addresses in this report, such as the Corporation's web address, we have included these web addresses as inactive text references only. Except as specifically incorporated by reference into this report, information on those websites is not part hereof.

Item 1A: Risk Factors

Before investing in our common stock, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. Unless the context otherwise requires, references to "we," "us," "our," "Codorus Valley Bancorp, Inc.," "Codorus Valley" or the "Corporation" refer to Codorus Valley Bancorp, Inc. and its direct or indirect owned subsidiaries, and references to the "Bank" refer to PeoplesBank, a Codorus Valley Company, the wholly-owned banking subsidiary of the Corporation.

The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that we are not aware of or focused on, or that we currently deem immaterial, may also impact our business and results of operations. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to Our Business and Industry

Weakness in the economy may materially adversely affect our business and results of operations.

Our results of operations are materially affected by conditions in the economy generally, which continue to be uncertain and include uneven economic growth, accompanied by low interest rates. Dramatic declines in the housing market following the 2008 financial crisis, with falling home prices and increasing foreclosures and unemployment, resulted in significant write-downs of asset values by financial institutions. While conditions have improved, a return to a recessionary or excessive inflationary economy could result in financial stress on our borrowers that would adversely affect consumer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets could adversely affect our business, financial condition, results of operations and stock price. Our ability to properly assess the creditworthiness of our clients and to estimate the losses inherent in our credit exposure would be made more complex by these difficult market and economic conditions. Accordingly, if market conditions worsen, we may experience increases in foreclosures, delinquencies, write-offs and client bankruptcies, as well as more restricted access to funds.

Deterioration in our local and regional economy or real estate market may adversely affect our business.

Substantially all of our business is with clients located within South Central Pennsylvania, principally York and Lancaster Counties and North Central Maryland, principally Harford County, Baltimore County and Baltimore City. As a result of this geographic concentration, our results depend largely on economic conditions in these and surrounding areas. Deterioration in economic conditions in these markets could:

- increase loan delinquencies;
- increase problem assets and foreclosures;
- increase claims and lawsuits;
- decrease the demand for our products and services; and
- decrease the value of collateral for loans, especially real estate, in turn reducing clients' borrowing power, the value of assets associated with nonperforming loans and collateral coverage.

Generally, we make loans to small and mid-sized businesses whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Adverse economic and business conditions in our market area could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. For example, we place substantial reliance on real estate as collateral for our loan portfolio. A sharp downturn in real estate values in our market area could leave many of our loans inadequately collateralized. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings could be adversely affected.

If our allowance for loan and lease losses is not sufficient to cover actual loan and lease losses, our earnings would decrease.

We are exposed to the risk that our borrowers may default on their obligations. To absorb probable, incurred loan and lease losses that we may realize, we recognize an allowance for loan and lease losses based on, among other things, national and regional economic conditions, historical loss experience, and delinquency trends. However, we cannot estimate loan and lease losses with certainty, and we cannot assure you that charge-offs in future periods will not exceed the allowance for loan and lease losses. If charge-offs exceed our allowance, our earnings would decrease. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for loan and lease losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. Factors that require an increase in our allowance for loan and lease losses, such as a prolonged economic downturn or continued weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control, could reduce our earnings.

Our exposure to credit risk, which is heightened by our focus on commercial lending, could adversely affect our earnings and financial condition.

There are certain risks inherent in making loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks inherent in dealing with borrowers and, in the case of a loan backed by collateral, risks resulting from uncertainties about the future value of the collateral if a disposition is necessary.

Commercial loans, including commercial real estate, are generally viewed as having a higher credit risk than residential real estate or consumer loans because they usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Our consolidated commercial lending operations include commercial, financial and agricultural lending, real estate construction lending, and commercial mortgage lending. Construction financing typically involves a higher degree of credit risk than commercial mortgage lending. Risk of loss on a construction loan depends largely on the accuracy of the initial estimate of the property's value at completion of construction compared to the estimated cost (including interest) of construction. If the estimated property value proves to be inaccurate, the loan may be inadequately collateralized.

Because our loan portfolio contains a significant number of commercial real estate, commercial and industrial loans, and construction loans, the deterioration of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could cause an increase in loan related legal fees and expenses, loan charge-offs and a corresponding increase in the provision for loan losses, which could adversely impact our financial condition and results of operations.

We depend primarily on net interest income for our earnings, and changes in interest rates could adversely impact our financial condition and results of operations.

Our ability to make a profit, like that of most financial institutions, substantially depends upon our net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or reduce net interest income and net income.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. When interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. Changes in market interest rates are affected by many factors beyond our control, including inflation, unemployment, money supply, international events, and events in the United States and other financial markets.

We attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact and a rapid increase or decrease in interest rates could adversely affect our financial performance. In the event that one or more of these factors were to result in a decrease in our net interest income, we do not have significant sources of fee income to make up for decreases in net interest income.

The planned phasing out of LIBOR as a financial benchmark presents risks to the financial instruments originated or held by the Corporation.

The London Interbank Offered Rate ("LIBOR") is the reference rate used for many of the Corporation's transactions, including variable and adjustable rate loans and borrowings. However, a reduced volume of interbank unsecured term borrowing, coupled with recent legal and regulatory proceedings related to rate manipulation by certain financial institutions, has led to international reconsideration of LIBOR as a financial benchmark. The United Kingdom Financial Conduct Authority ("FCA"), which regulates the process for establishing LIBOR, announced in July 2017 that the sustainability of LIBOR cannot be guaranteed. Accordingly, the FCA intends to stop persuading, or compelling, banks to submit rates for the calculation of LIBOR after 2021.

Regulators, industry groups and certain communities (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fallback language LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate ("SOFR") as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what the effect of their implantation may be on the markets for floating rate financial instruments. The uncertainty surrounding potential reforms, including the use of alternative reference rates and changes to the methods and processes used to calculate rates, may have an adverse effect on the trading market for LIBOR-based securities, loan yields, and the amount received and paid on derivative contracts and other financial instruments. In addition, the implementation of LIBOR reform proposals may result in increased compliance and operational costs.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

The banking industry is heavily regulated, and such regulations are intended primarily for the protection of depositors and the federal deposit insurance fund, not shareholders. As a bank holding company, we are subject to regulation by the Federal Reserve. Our bank subsidiary is also regulated by the Federal Deposit Insurance Corporation, or FDIC, and is subject to regulation by the Pennsylvania Department of Banking and Securities and recently, by regulations promulgated by the Consumer Financial Protection Bureau (CFPB) as to consumer financial services and products. These regulations affect lending practices, capital structure, investment practices, dividend policy, and growth. In addition, we have non-bank operating subsidiaries from which we derive income. One of these non-bank subsidiaries, Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors, engages in providing investment management and insurance brokerage services, industries that are also heavily regulated on both a state and federal level. In addition, newly enacted and amended laws, regulations, and regulatory practices affecting the financial service industry may result in higher capital requirements, higher insurance premiums and limit the manner in which we may conduct our business. Such changes may adversely affect us, including our ability to offer new products and services, obtain financing, attract deposits, make loans and leases and achieve satisfactory spreads, and may also result in the imposition of additional costs on us. As a public corporation, we are also subject to the corporate governance standards set forth in the Sarbanes-Oxley Act of 2002, as well as any applicable rules or regulations promulgated by the SEC and The NASDAQ Global Market.

Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, affect retention of key personnel, require us to increase our regulatory capital, require us to invest significant management attention and resources and limit our ability to pursue business opportunities in an efficient manner.

We recently became subject to more stringent capital requirements.

The Dodd-Frank Act required the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the Final Capital Rule, that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. Certain capital requirements mandated by the Final Capital Rule became effective January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5 percent of risk-weighted assets for a “well capitalized” institution and increases the minimum Tier I capital ratio for a “well capitalized” institution from 6 percent to 8 percent. Additionally, the Final Capital Rule requires an institution to maintain a 2.5 percent common equity Tier I capital conservation buffer over the 6.5 percent minimum risk-based capital requirement for “adequately capitalized” institutions, or face restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. For bank holding companies under $15 billion in assets as of December 31, 2009, the Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010, subject to a limit of 25 percent of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

The soundness of other financial services institutions may adversely affect our credit risk.

Our ability to engage in funding transactions could be adversely affected by the actions and failure of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. As a result, defaults by, or even questions or rumors about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or other institutions. Many of these transactions expose us to operational and credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Losses related to these credit risks could materially and adversely affect our results of operations or earnings.

We are required to make a number of judgments in applying accounting policies and different estimates and assumptions in the application of these policies could result in a decrease in capital and/or other material changes to our reports of financial condition and results of operations.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments, the effectiveness of derivatives and other hedging activities, and the fair value of certain financial instruments (securities, derivatives, and privately held investments), income tax assets or liabilities (including deferred tax assets and any related valuation allowance), and share-based compensation. While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could result in a decrease to net income and, possibly, capital and may have a material adverse effect on our financial condition and results of operations.

From time to time, the Financial Accounting Standards Board, or FASB, and the SEC change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes are beyond our control, can be difficult to predict, and could materially impact how we report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior financial statements by material amounts. The implementation of new or revised guidance could result in material adverse effects to our reported capital.

We may elect or need to seek additional capital in the future, but that capital may not be available when needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In the future, we may elect or need to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on acceptable terms. If we cannot raise additional capital when needed, our ability to expand our operations through internal growth or acquisitions could be materially impaired.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings. Information technology systems are critical to our business.

We use various technology systems to manage our client relationships, general ledger, securities investments, deposits, and loans. Business disruptions can occur due to forces beyond our control such as severe weather, power or telecommunications loss, accidents, cyberattacks, terrorism, health emergencies, the spread of infectious diseases or pandemics. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches and cyber-attacks), but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter clients from using our products and services. Although we take protective measures, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber-attacks that could have an impact on information security.

In addition, we outsource a significant amount of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our clients or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of client information through various other vendors and their personnel.

There have been increasing efforts on the part of third parties, including through cyber-attacks, to breach data security at financial institutions or with respect to financial transactions. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data. In addition, because the techniques used to cause such security breaches change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. The ability of our clients to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of clients and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Our controls and procedures may fail or could be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures in order to ensure accurate financial control and reporting. Any system of controls, no matter how well designed and operated, can only provide reasonable, not absolute assurance that the objectives of the system are met. Any failure or circumvention of our controls and/or procedures could have a material adverse effect on our business and results of operation and financial condition.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control, or OFAC, that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

The inability to hire or retain key personnel could adversely affect our business.

Our success is dependent upon our ability to attract and retain highly skilled individuals. We face intense competition from various other financial institutions, as well as from non-bank providers of financial services, such as credit unions, brokerage firms, insurance agencies, consumer finance companies and government organizations, for the attraction and retention of key personnel, specifically those who generate and maintain our client relationships and serve in other key operation positions in the areas of finance, credit oversight and administration, and wealth management. These competitors may offer greater compensation and benefits, which could result in the loss of potential and/or existing substantial client relationships and may adversely affect our ability to compete effectively. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation within our market area, as a trusted and responsible financial corporation, for all aspects of our relationships with clients, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain clients and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining client and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and incur related costs and expenses.

We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements, which could reduce our ability to effectively compete.

Our future success depends, in part, on our ability to effectively embrace technological efficiencies to better serve clients and reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements. There can be no assurance that we will be able to effectively implement new technology-driven products and services, which could reduce our ability to effectively compete. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition.

Competition from other financial institutions in originating loans, attracting deposits and providing various financial services may adversely affect our profitability.

Our banking subsidiary faces substantial competition in originating loans, both commercial and consumer. This competition comes principally from other banks, savings institutions, mortgage banking companies, and other lenders. Many of our competitors enjoy advantages over us, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that our banking subsidiary originates and the interest rates it may charge on these loans.

In attracting business and consumer deposits, our bank subsidiary faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages over us, including greater financial resources, more aggressive marketing campaigns and better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations. As a result, we may need to seek other sources of funds that may be more expensive to obtain and could increase our cost of funds.

Our banking and non-banking subsidiaries also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance companies and governmental organizations which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our banking operations. As a result, such non-bank competitors may have advantages over our banking and non-banking subsidiaries in providing certain products and services. This competition may reduce or limit our margins on banking and non-banking services, reduce our market share, and adversely affect our earnings and financial condition.

We may not be able to successfully maintain and manage our growth.

We continue to execute on our acquisition and organic branching initiatives, which are intended to develop our branch infrastructure in a manner more consistent with the expansion of lending markets and to fill in and grow our branch footprint. As we continue to grow through our acquisitions, branching and other strategic initiatives, we cannot be certain as to our ability to manage increased levels of assets and liabilities. We may be required to make additional investments in equipment and personnel to manage higher asset levels and loans balances, which may adversely impact our efficiency ratio, earnings and shareholder returns.

The financial impact and difficulties in integrating future acquisitions could adversely affect our business.

The efficient and effective integration of any businesses we acquire into our organization is critical to the financial success of an acquisition transaction. Any future acquisitions involve numerous risks, including difficulties in integrating the culture, operations, technologies and personnel of the acquired companies, the diversion of management’s attention from other business concerns and the potential loss of clients. Failure to successfully integrate the operations of any future acquisitions could also harm our business, results of operations and cash flows.

The impacts of COVID-19 pandemic

In December 2019, a coronavirus (COVID-19) was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. Since first being reported in China, the coronavirus has spread to additional countries including the United States. On March 13, 2020, President Trump declared the ongoing COVID–19 pandemic of sufficient severity and magnitude to warrant an emergency declaration for all states, territories, and the District of Columbia.

In response, many state and local governments, including the Commonwealth of Pennsylvania and the State of Maryland, have instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. It has been widely reported that these restrictions have resulted in significant adverse effects for many different types of businesses, particularly those in the travel, hospitality and food and beverage industries, among many others, and has resulted in a significant number of layoffs and furloughs of employees nationwide and in the regions in which the Corporation operates. The ultimate effect of COVID-19 on the local or broader economy is not known nor is the ultimate length of the restrictions described and any accompanying effects. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate, which has negatively affected interest income and, therefore, earnings. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the coronavirus outbreak, and there is no guarantee that the Corporation’s efforts to address the adverse impacts of the coronavirus will be effective. The extent of such impact will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

The effect of COVID-19 and related events, including those described above and those not yet known or knowable, could have a negative effect on the Corporation's business prospects, financial condition and results of operations, as a result of quarantines; market volatility; market downturns; changes in consumer behavior; business closures; deterioration in the credit quality of borrowers or the inability of borrowers to satisfy their obligations (and any related forbearances or restructurings that may be implemented); changes in the value of collateral securing outstanding loans; changes in the value of the investment securities portfolio; effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating the Corporation's financial reporting and internal controls; declines in the demand for loans and other banking services and products; declines in demand resulting from adverse impacts of the disease on businesses deemed to be "non-essential" by governments; and branch or office closures and business interruptions.

In addition, the adverse economic effects of the coronavirus may lead to an increase in credit risk on the Corporation’s commercial and residential loan portfolios. Likewise, the Corporation is also monitoring the fluctuations in the markets as it pertains to interest rates and fair value of our investments for other than temporary impairment (OTTI). To curtail the spread of the virus, we are currently operating with modified branch access and taking other precautionary measures.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Section 4013 of the CARES Act, “Temporary Relief From Troubled Debt Restructurings,” provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to trouble debt restructurings (TDR) for a limited period of time to account for the effects of COVID-19. Section 541 of the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020, extending the provisions in Section 4013 of the CARES Act to January 1, 2022.

While the Corporation continues to evaluate the disruption caused by the pandemic and impact of the CARES Act, these events may have a material adverse impact on the Corporation’s results of future operations, financial position, capital, and liquidity in fiscal year 2020. Further, a decrease in results of future operations may place a strain on the Corporation’s capital reserve ratios.

Risks Related to Our Common Stock

The market price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The market price of our common stock on the NASDAQ Global Market constantly changes. We expect that the market price of our common stock will continue to fluctuate and there can be no assurance about the market prices for our common stock.

Stock price volatility may make it difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price may fluctuate significantly as a result of a variety of factors, many of which are beyond our control. These factors include, among others:

- actual or anticipated variations in quarterly results of operations or quality of our assets;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- any failure to pay dividends on our common stock or a reduction in cash dividends;
- continued levels of loan quality and volume origination;
- the adequacy of loan loss reserves;
- the willingness of clients to substitute competitors' products and services for our products and services and vice versa, based on price, quality, relationship or otherwise;
- interest rate, market and monetary fluctuations;
- declines in the fair value of our available-for-sale securities that are deemed to be other-than-temporarily impaired;
- the timely development of competitive new products and services by us and the acceptance of such products and services by clients;
- changes in consumer spending and saving habits relative to the financial services we provide;
- relationships with major clients;
- our ability to continue to grow our business internally and through acquisition and successful integration of new or acquired entities while controlling costs;
- news reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;
- perceptions in the marketplace regarding us and/or our competitors;
- rapidly changing technology, or new technology used, or services offered, by competitors;
- deposit flows;
- changes in accounting principles, policies and guidelines;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in and compliance with laws and government regulations of federal, state and local agencies;
- effects of climate change;
- geopolitical conditions such as acts or threats of terrorism or military conflicts;
- natural disasters or severe weather conditions;
- health emergencies, the spread of infectious diseases or pandemics;
- cyber breaches or breaches of physical premises, including data centers;
- failure to retain or attract key personnel;
- operating results that vary from the expectations of management, analysts and investors;
- future sales of our equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- the relatively low trading volume of our common stock.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

The trading volume of our common stock may not provide adequate liquidity for investors and is less than that of other financial services companies.

Our common stock is listed under the symbol "CVLY" on the NASDAQ Global Market. The average daily trading volume for shares of our common stock is less than larger financial institutions. As a result, sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our capital at desired or regulatory-required levels or to replace existing capital, we may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. Generally, we are not restricted from issuing such additional shares. We may sell any shares that we issue at prices below the current market price of our common stock, and the sale of these shares may significantly dilute shareholder ownership. We could also issue additional shares in connection with acquisitions of other financial institutions or in connection with our equity compensation plans. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both.

Offerings of debt and/or preferred equity securities may adversely affect the market price of our common stock.

We may attempt to increase our capital resources or, if our or our subsidiary bank's capital ratios fall below the required minimums, we could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings are likely to receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Our common stock is subordinate to our existing and future indebtedness and preferred stock, and effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.

Shares of our common stock are equity interests in us and do not constitute indebtedness. As such, shares of our common stock rank junior to all of our indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including in our liquidation. Additionally, holders of our common stock could be subject to the prior dividend and liquidation rights of holders of our preferred stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors.

We may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below the required minimums, we could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust-preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings are likely to receive distributions of our available assets prior to the holders of our common stock.

We are currently authorized to issue up to 30,000,000 shares of common stock of which 9,820,882 shares were outstanding as of December 31, 2020, and up to 1,000,000 shares of preferred stock, none of which were outstanding as of December 31, 2020. Our board of directors has authority, without action or vote of the shareholders of common stock, to issue all or part of the authorized but unissued shares. Authorized but unissued shares of our common stock or preferred stock could be issued on terms or in circumstances that could dilute the interests of other shareholders.

Regulatory and contractual restrictions may limit or prevent us from paying dividends or repurchasing, or we may choose not to pay dividends on or repurchase, our common stock.

The Company is an entity separate and distinct from its principal subsidiary, PeoplesBank, and we derive substantially all of our revenue in the form of dividends from that subsidiary. Accordingly, we are and will be dependent upon dividends from PeoplesBank to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on our common and preferred stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event PeoplesBank is unable to pay dividends to us, we may not be able to pay dividends on our common or preferred stock. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors, including those of its depositors.

As described below in the next risk factor, the terms of our outstanding junior subordinated debt securities prohibit us from paying dividends on or repurchasing our common stock at any time when we have elected to defer the payment of interest on such debt securities or certain events of default under the terms of those debt securities have occurred and are continuing. These restrictions could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors.

Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce, suspend or eliminate our common stock cash dividend in the future. No determination has been made by our board of directors regarding whether or what amount of dividends will be paid in future quarters. Additionally, there can be no assurance that regulatory approval will be granted by the Federal Reserve Board to pay dividends. Future payment of cash dividends, if any, will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as the board may deem relevant and will be subject to applicable federal and state laws that impose restrictions on our and our bank subsidiary's ability to pay dividends, as well as guidance issued from time to time by regulatory authorities.

Under guidance issued by the Federal Reserve, as a bank holding company we are to consult the Federal Reserve before declaring dividends and are to strongly consider eliminating, deferring, or reducing dividends we pay to our shareholders if (1) our net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (2) our prospective rate of earnings retention is not consistent with our capital needs and overall current and prospective financial condition, or (3) we will not meet, or are in danger of not meeting, our minimum regulatory capital adequacy ratios.

If we defer payments of interest on our outstanding subordinated notes or junior subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of December 31, 2020, we had $31,000,000 outstanding aggregate principal amount of subordinated debt evidenced by subordinated notes and note purchase agreements and $10,310,000 outstanding aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by certain of our subsidiaries that are statutory business trusts. We have also guaranteed those trust preferred securities. There are currently two separate series of these junior subordinated debt securities outstanding, each series having been issued under a separate indenture and with a separate guarantee. The note purchase agreements and each of these indentures, together with the related guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock at any time when (i) there shall have occurred and be continuing an event of default under the note purchase agreement or indenture or any event, act or condition that with notice or lapse of time or both would constitute an event of default under the note purchase agreement or indenture; or (ii) we are in default with respect to payment of any obligations under the related guarantee; or (iii) we have deferred payment of interest on the junior subordinated debt securities outstanding under that indenture. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities of each series from time to time for up to five years.

Events of default under each note purchase agreement and indenture generally consists of our failure to pay interest on the subordinated notes or junior subordinated debt securities outstanding under the indenture under certain circumstances, our failure to pay any principal of or premium on such subordinated notes or junior subordinated debt securities when due, our failure to comply with certain covenants under the note purchase agreements or indenture, and certain events of bankruptcy, insolvency or liquidation relating to us or the Bank.

As a result of these provisions, if we were to elect to defer payments of interest on any series of junior subordinated debt securities, or if any of the other events described in clause (i) or (ii) of the first paragraph of this risk factor were to occur, we would be prohibited from declaring or paying any dividends on our common stock, from redeeming, repurchasing or otherwise acquiring any of our common stock, and from making any payments to holders of our common stock in the event of our liquidation, which would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may issue additional series of subordinated notes or junior subordinated debt securities in the future with terms similar to those of our existing subordinated notes or junior subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, any other governmental entity or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this document and our other filings with the SEC, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Anti-takeover provisions and restrictions on ownership could negatively impact our shareholders.

Provisions of federal and Pennsylvania law and our amended and restated articles of incorporation and bylaws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our shareholders. In addition, the Bank Holding Company Act of 1956, as amended, or the BHCA, requires any bank holding company to obtain the approval of the Federal Reserve prior to acquiring more than 5 percent of our outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve to acquire 10 percent or more of our outstanding common stock under the Change in Bank Control Act. Any holder of 25 percent or more of our outstanding common stock, other than an individual, is subject to regulation as a bank holding company under the BHCA.

Our articles of incorporation and bylaws contain certain provisions that may have the effect of deterring or discouraging an attempt to take control of the Company. Among other things, these provisions:

- empower our board of directors, without shareholder approval, to issue shares of our common or preferred stock the terms of which, including voting power, are set by our board;
- divide our board of directors into three classes serving staggered three year terms;
- authorize our board of directors to oppose a tender or other offer for the Company's securities if the board determines that such an offer should be rejected;
- require the affirmative vote of holders of at least 75 percent of the outstanding shares of our common stock to approve merger, consolidation, liquidation or dissolution of the Company, or any sale or other disposition of all or substantially all of the assets of the Company, excepting transactions described above that are approved by at least 80 percent of the members of the Board of Directors, where such transactions shall only require shareholder approval by a majority of the votes cast at the shareholders meeting;
- eliminate cumulative voting in the election of directors; and
- require advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders.

Item 1B: Unresolved Staff Comments

Not applicable.

Item 2: Properties

Codorus Valley owns the Codorus Valley Corporate Center ("Corporate Center"), located at 105 Leader Heights Road, York, PA 17403, subject to a first lien held by ACNB Bank. The first lien held by ACNB Bank supports a $3,000,000 line of credit. No draws have been made on the line and on December 31, 2020, the balance was zero. This facility serves as the corporate headquarters and is approximately 40,000 square feet, a portion of which is leased to third-parties. The Corporate Center is adjacent to PeoplesBank's Data Operations Center and the Leader Heights financial center and is approximately one half mile from PeoplesBank's Administrative Services Centers.

PeoplesBank owns and leases properties in York, Cumberland and Lancaster Counties, Pennsylvania and Baltimore and Harford Counties and Baltimore City in Maryland as shown below.

	Owned	Leased	Total
Pennsylvania			
Financial Centers	10	11	21
Limited Service Facilities	0	7	7
Administrative Services Centers	1	1	2
Other Properties(1)	2	0	2
Maryland			
Financial Centers	4	1	5
Other Property(2)	0	1	1

(1) The other properties located in Pennsylvania consists of a maintenance facility for storage of maintenance equipment and a 3-building complex purchased in 2019 for future back office operations expansion.
(2) The other property located in Maryland consists of a Loan Production Office.

Item 3: Legal Proceedings

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

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Codorus Valley Bancorp, Inc. stock is listed on the NASDAQ Global Market under the symbol CVLY. Codorus Valley had approximately 1,893 holders of record as of February 24, 2021. The closing price per share of Codorus Valley's common stock on February 24, 2021, was $17.22. The following table sets forth high and low sales prices and dividends paid per common share for Codorus Valley as reported by NASDAQ during the periods indicated. All amounts reflect the impact of the common stock dividends distributed by the Corporation.

	2020			2019		
Quarter	High	Low	Dividends Per Share	High	Low	Dividends Per Share
First	$ 23.05	$ 14.15	$ 0.160	$ 23.07	$ 18.71	$ 0.152
Second	15.70	10.62	$ 0.160	22.35	19.30	$ 0.152
Third	14.13	11.62	$ 0.100	23.46	19.30	$ 0.152
Fourth	17.73	12.71	$ 0.100	23.60	20.69	$ 0.152

Dividend Policy

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about options outstanding and securities available for future issuance under the Corporation's 2001 Employee Stock Bonus Plan, 2007 Long Term Incentive Plan, 2007 Employee Stock Purchase Plan and 2017 Long Term Incentive Plan, as adjusted for stock dividends distributed.

	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	182,767	$ 16.17	446,346 (1)
Equity compensation plans not approved by security holders	0	0	21,117 (2)
Total	182,767	$ 16.17	467,463

(1) Includes 142,611 shares available for issuance under the 2007 Employee Stock Purchase Plan.
(2) Shares available for issuance under the 2001 Employee Stock Bonus Plan that provides for shares of common stock to employees as performance-based compensation. For a description of this plan, see Note 12 - Stock-Based Compensation, to the consolidated financial statements.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Corporation has a Share Repurchase Program (the "Program"), authorized in 2018, which permits the purchase of up to a maximum of 4.9 percent of the outstanding shares of the Corporation's common stock at a price per share no greater than 150 percent of the latest quarterly published book value. The Corporation's Board of Directors, under the Program, approved the repurchase of shares of its common stock in an aggregate amount of up to $5 million. During the twelve months of 2019 the Corporation repurchased 222,594 shares at an average price of $22.43 for a total of $5,000,000 as detailed below.

The Corporation's Board of Directors approved a new Share Repurchase Program ("Program") in March 2020. Under the newly approved Program, the Corporation is authorized to repurchase up to $5 million of the Corporation's issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation's Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. During the first quarter of 2020 the Corporation repurchased 5,335 shares at an average price of $16.37. Shortly after the Program began, and in response to COVID-19, the Corporation suspended the Program. Details for the repurchases under the Program for the year ended December 31, 2020 are detailed below.

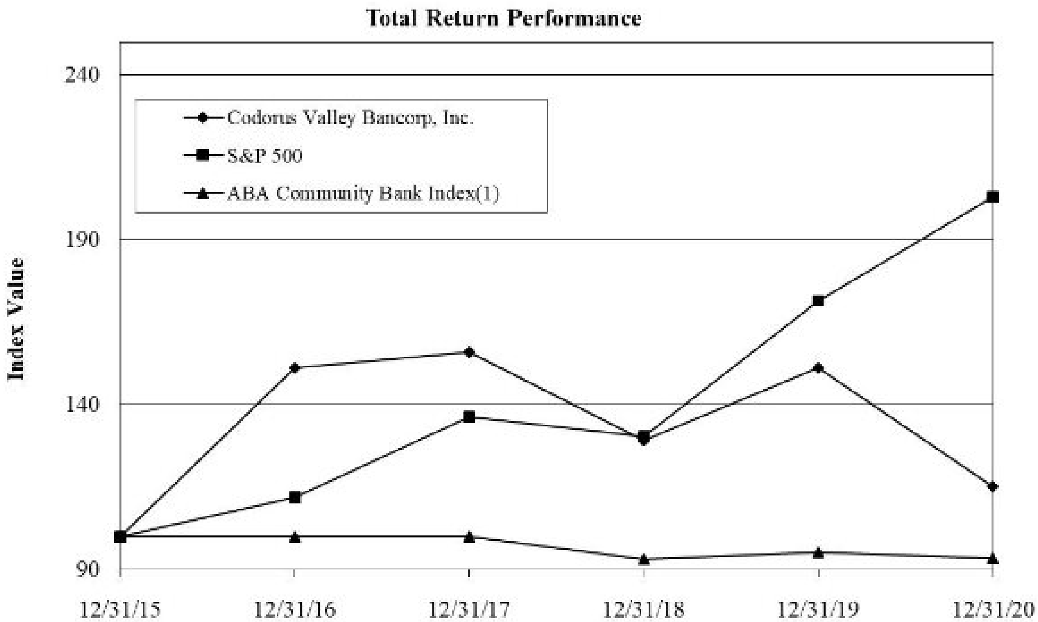
The Corporation's Board of Directors approved a new Share Repurchase Program ("Program") in January 2021. Under the newly approved Program, the Corporation is authorized to repurchase up to $5 million of the Corporation's issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation's Dividend Reinvestment and Stock Purchase Plan and its equity compensation program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
March 1 - 31, 2020	5,335	$ 16.37	5,335	$ 4,912,660
April 1 - 30, 2020	0	$ 0	0	$ 4,912,660
May 1 - 31, 2020	0	$ 0	0	$ 4,912,660
June 1 - 30, 2020	0	$ 0	0	$ 4,912,660
July 1 - 31, 2020	0	$ 0	0	$ 4,912,660
August 1 - 31, 2020	0	$ 0	0	$ 4,912,660
September 1 - 30, 2020	0	$ 0	0	$ 4,912,660
October 1 - 31, 2020	0	$ 0	0	$ 4,912,660
November 1 - 30, 2020	0	$ 0	0	$ 4,912,660
December 1-31, 2020	0	$ 0	0	$ 4,912,660

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - 30, 2019	0	$ 0	0	$ 5,000,000
May 1 - 31, 2019	0	$ 0	0	$ 5,000,000
June 1 - 30, 2019	35,600	$ 21.41	35,600	$ 4,237,804
July 1 - 31, 2019	30,100	$ 22.93	30,100	$ 3,547,610
August 1 - 31, 2019	40,500	$ 22.23	40,500	$ 2,647,348
September 1 - 30, 2019	50,600	$ 23.29	50,600	$ 1,468,921
October 1 - 31, 2019	65,794	$ 22.23	65,794	$ 0

Performance Graph

The following five-year performance graph compares the cumulative total shareholders return (including reinvestment of dividends) on Codorus Valley Bancorp, Inc.'s common stock to the S&P 500 Index and the ABA Community Bank NASDAQ Index. The stock performance graph assumes that $100 was invested on December 31, 2015, and the cumulative return is measured as of each subsequent fiscal year end.



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**
Codorus Valley Bancorp, Inc.	$ 100.00	$ 151.31	$ 155.86	$ 129.03	$ $ 151.07	$ 115.20
S&P 500	100.00	111.96	136.40	130.42	171.49	203.04
ABA Community Bank Index(1)	100.00	100.00	99.91	93.02	95.17	93.32

(1) The ABA Community Bank Index is a market capitalization-weighted index, including banks and thrifts or their holding companies listed on The NASDAQ Stock Market as selected by the American Bankers Association (ABA).

Item 6: Selected financial data
Codorus Valley Bancorp, Inc.

	2020	2019	2018	2017	2016
Summary of operations *(in thousands)*					
Interest income	$ 75,713	$ 85,317	$ 80,321	$ 70,415	$ 62,230
Interest expense	15,253	21,378	16,401	10,868	8,649
Net interest income	60,460	63,939	63,920	59,547	53,581
Provision for loan losses	14,675	2,450	2,700	4,175	3,000
Noninterest income	15,892	13,912	13,314	11,522	10,030
Noninterest expense	51,204	51,729	49,810	44,986	41,623
Income before income taxes	10,473	23,672	24,724	21,908	18,988
Provision for income taxes	2,031	5,025	5,182	9,904	5,886
Net income	8,442	18,647	19,542	12,004	13,102
Preferred stock dividends	0	0	0	0	16
Net income available to common shareholders	$ 8,442	$ 18,647	$ 19,542	$ 12,004	$ 13,086
Per common share					
(adjusted for stock dividends)					
Net income, basic	$ 0.86	$ 1.89	$ 1.98	$ 1.22	$ 1.35
Net income, diluted	$ 0.86	$ 1.88	$ 1.96	$ 1.21	$ 1.34
Cash dividends paid	$ 0.520	$ 0.608	$ 0.564	$ 0.468	$ 0.427
Stock dividends distributed	0 %	5 %	5 %	5 %	5 %
Book value	$ 20.16	$ 19.59	$ 18.01	$ 16.72	$ 15.88
Tangible book value (1)	$ 19.92	$ 19.36	$ 17.78	$ 16.49	$ 15.65
Cash dividend payout ratio	60.2 %	32.4 %	28.3 %	38.0 %	32.0 %
Weighted average shares outstanding	9,781,712	9,863,332	9,857,559	9,779,816	9,694,739
Weighted average diluted shares outstanding	9,809,011	9,929,659	9,953,229	9,894,628	9,777,719
Profitability ratios					
Return on average shareholders' equity (ROE)	4.35 %	9.98 %	11.42 %	7.40 %	8.47 %
Return on average assets (ROA)	0.41 %	1.01 %	1.11 %	0.72 %	0.88 %
Net interest margin (tax equivalent basis)	3.13 %	3.66 %	3.84 %	3.84 %	3.89 %
Efficiency ratio	66.68 %	65.93 %	63.95 %	62.07 %	64.09 %
Net overhead ratio	1.73 %	2.05 %	2.08 %	2.03 %	2.15 %
Capital ratios (consolidated)					
Common equity tier 1 ratio	13.10 %	12.45 %	12.15 %	11.58 %	11.88 %
Tier 1 risk-based capital	13.79 %	13.11 %	12.83 %	12.29 %	12.66 %
Total risk-based capital	17.13 %	14.36 %	14.08 %	13.48 %	13.81 %
Average shareholders' equity to average assets	9.52 %	10.12 %	9.75 %	9.79 %	10.44 %
Summary of financial condition at year-end *(in thousands)*					
Investment securities (including restricted bank stock)	$ 187,595	$ 164,226	$ 155,515	$ 164,902	$ 201,665
Loans (including loans held for sale)	1,560,570	1,516,938	1,489,807	1,401,479	1,272,319
Assets	2,162,199	1,886,545	1,807,480	1,709,205	1,611,587
Deposits	1,863,539	1,590,564	1,495,280	1,384,507	1,264,177
Borrowings	85,748	89,557	122,332	150,805	181,947
Equity	197,960	191,168	178,746	164,219	154,957
Other data					
Full service financial centers	26	25	26	26	26
Number of employees (*full-time equivalents*)	343	350	348	326	306
Wealth Management assets, market value (*in thousands*)	$ 1,017,126	$ 899,876	$ 725,087	$ 711,161	$ 562,865

(1) The following tables provides the reconciliation of tangible book value, which is a non-GAAP Financial Measure, for the dates indicated:

(dollars in thousands)	2020	2019	2018	2017	2016
Total Shareholders' Equity	$ 197,960	$ 191,168	$ 178,746	$ 164,219	$ 154,957
Less: Preferred Stock	0	0	0	0	0
Less: Goodwill and Other Intangible Assets	(2,308)	(2,312)	(2,316)	(2,321)	(2,327)
Tangible Shareholders' Equity	$ 195,652	$ 188,856	$ 176,430	$ 161,898	$ 152,630
Common Shares Outstanding	9,821	9,756	9,924	9,819	9,755
Book Value	$ 20.16	$ 19.59	$ 18.01	$ 16.72	$ 15.88
Book Value	$ 20.16	$ 19.59	$ 18.01	$ 16.72	$ 15.88
Effect of Intangible Assets	(0.24)	(0.23)	(0.23)	(0.23)	(0.23)
Tangible Book Value	$ 19.92	$ 19.36	$ 17.78	$ 16.49	$ 15.65

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Forward-looking Statements

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

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

- Operating, legal and regulatory risks;
- Credit risk, including an increase in nonperforming assets requiring loss provisions and the incurrence of carrying costs related to nonperforming assets;
- Interest rate fluctuations which could increase our cost of funds or decrease our yield on earning assets and therefore reduce our net interest income;
- Declines in the market value of investment securities considered to be other-than-temporary;
- Unavailability of capital when needed or availability at less than favorable terms;
- Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, may adversely affect the Corporation’s operations, net income or reputation;
- Inability to achieve merger-related synergies, and difficulties in integrating the business and operations of acquired institutions;
- A prolonged economic downturn or excessive inflation;
- Political and competitive forces affecting banking, securities, asset management and credit services businesses;
- Occurrence of natural or man-made disasters or calamities, including health emergencies, the spread of infectious diseases or pandemics;
- The effects of and changes in the rate of FDIC premiums, including special assessments;
- Future legislative or administrative changes to U.S. governmental capital programs;
- Future changes in federal or state tax laws or tax rates;

- Enacted financial reform legislation, e.g., Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant impact on the Corporation’s business and results of operations; and
- The risk that management's analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful;
- Impact of COVID-19 pandemic.

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

Critical Accounting Estimates

Disclosure of Codorus Valley’s significant accounting policies is included in Note 1 in the notes to the consolidated financial statements included in this Form 10-K. Some of these policies require management to make significant judgments, estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities. Management makes significant estimates in determining the allowance for loan losses and the fair value of its available-for-sale securities portfolio.

Management considers a variety of factors in establishing allowance for loan losses such as current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, financial and managerial strength of borrowers, adequacy of collateral, (if collateral dependent, or present value of future cash flows) and other relevant factors. There is also the potential for adjustment to the allowance for loan losses as a result of regulatory examinations.

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

Management discussed the development and selection of critical accounting estimates and related Management Discussion and Analysis disclosures with the Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within this report. Additional information is contained in Management’s Discussion and Analysis regarding critical accounting estimates, including the provision and allowance for loan losses located on pages 32 and 45 of this report.

FINANCIAL HIGHLIGHTS

Executive Summary

The Corporation's net income available to common shareholders (earnings) was $8,442,000 for the full year 2020, compared to $18,647,000 of earnings in 2019, a decrease of $10,205,000 or 55 percent. The lower net income was primarily the result of higher provision for loan loss in 2020 compared to 2019. Lower interest income was partially offset by a decrease in interest expense.

- Net interest income for 2020 decreased $3,479,000 or 5 percent when compared to 2019, primarily due to a decrease in the rate on commercial loans, offset by an increase in the volume of commercial loans and a decrease in the rate on interest-bearing deposits.
- Net interest margin (tax-equivalent basis) for 2020 was 3.13 percent, compared to 3.66 percent for 2019. The Corporation continues to have success in growing lower cost core deposits in a highly competitive environment. The average yield on earning assets decreased to 3.92 percent in 2020 as compared to 4.88 percent in 2019 and the cost of interest-bearing liabilities decreased to 1.03 percent in 2020, as compared to 1.54 percent in 2019.
- The loan loss provision for 2020 was $14,675,000, an increase of $12,225,000 compared to 2019. The increased provision expense in 2020 was primarily due to partial charge offs on commercial lending relationships. Although some of the lending relationships did have specific reserve allocations to adequately cover the partial charge off, historical loss factors were negatively impacted, which increased the provision expense. One partial charge off in the first quarter 2020 did not have a specific reserve allocation, which also increased provision expense. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in additional provision for loan losses during the year. The provision for both periods supported adequate allowance for loan loss coverage, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments. The allowance as a percentage of total loans was 1.38 percent at December 31, 2020, and 1.40 percent at December 31, 2019.
- Noninterest income, excluding gains on sales of investment securities, for the year ended December 31, 2020, totaled $15,827,000 representing an increase of $1,906,000 or 14 percent compared to noninterest income of $13,921,000 for 2019. Specific noninterest income increases included trust and investment services fees, income from mutual fund, annuity and insurance sales, and gains on sale of loans held for sale. Gains on sales of investment securities totaled $65,000 for 2020 compared to losses on sales of investment securities of $9,000 in 2019.
- Noninterest expense for the year ended 2020, totaled $51,204,000 representing a decrease of $525,000 or 1 percent compared to $51,729,000 for 2019. Decreases in foreclosed real estate costs, marketing and occupancy were partially offset by increases in professional and legal expense, FDIC insurance, and external data processing costs.
- The provision for income taxes for 2020 totaled $2,031,000 which was $2,994,000 or 60 percent below the provision for income taxes for 2019 of $5,025,000. The decrease was due to lower income before taxes for 2020 compared to 2019.
- Earnings per share were $0.86 basic and diluted for 2020 compared to $1.89 basic and $1.88 diluted for 2019. The decrease in earnings per share for the year was primarily the result of the aforementioned lower net income in 2020.

On December 31, 2020, total assets were approximately $2.16 billion, representing a 15 percent increase compared to December 31, 2019. The growth for 2020 occurred primarily in the commercial loan portfolio and cash and cash equivalents which was funded primarily by an increase in deposits and offset by a reduction in long-term debt.

The Corporation's capital level remained sound as evidenced by capital ratios that exceed current regulatory requirements for well capitalized institutions.

The closing price for the Corporation's common stock (NASDAQ: CVLY) was $16.96 per share on December 31, 2020, compared to $23.03 per share on December 31, 2019, as adjusted. Cash dividends paid on common shares for the year 2020 totaled $0.520 per share, representing a decrease of $0.088 or 15 percent below the cash dividends of $0.608, as adjusted, paid for the year 2019.

Year Ended December 31, 2020 vs. Year Ended December 31, 2019

The full year 2020 net income available to shareholders of $8,442,000 represents a decrease of $10,205,000 compared to the full year 2019 earnings of $18,647,000. Earnings per share were $0.86 basic and diluted for 2020 compared to $1.89 basic and $1.88 diluted for 2019. The lower net income was primarily the result of higher provision for loan loss in 2020 compared to 2019. Lower interest income was partially offset by a decrease in interest expense.

Net interest income, which totaled $60,460,000 for the year ended December 31, 2020, represented a decrease of $3,479,000 or 5 percent below net interest income of $63,939,000 for 2019. The change in net interest income was primarily due to a decrease in the rate on commercial loans, offset by an increase in the volume of commercial loans and a decrease in the rate on interest-bearing deposits.

The loan loss provision for 2020 was $14,675,000, an increase of $12,225,000 compared to a provision of $2,450,000 for 2019. The increased provision expense in 2020 was primarily due to partial charge offs on commercial lending relationships. Although some of the lending relationships did have specific reserve allocations to adequately cover the partial charge off, historical loss factors were negatively impacted which increased the provision expense. One partial charge off in the first quarter 2020 did not have a specific reserve allocation, which also increased provision expense. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in additional provision for loan losses during the year. The provision for both periods supported adequate allowance for loan loss coverage considering several factors, including the size, composition, and risks to the loan portfolio, the level of specific reserves, and realized net charge-offs, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments. The allowance for loan losses as a percentage of total period-end loans was 1.38 percent and 1.40 percent as of December 31, 2020 and 2019, respectively.

Noninterest income, excluding gains on sales of investment securities, for the year ended December 31, 2020, totaled $15,827,000 representing an increase of $1,906,000 or 14 percent compared to noninterest income of $13,921,000 for 2019. Specific noninterest income increases included trust and investment services fees, income from mutual fund, annuity and insurance sales, and gains on sale of loans held for sale. Gains on sales of investment securities totaled $65,000 for 2020 compared to losses on sales of investment securities of $9,000 in 2019.

Noninterest expense for the year ended December 31, 2020, totaled $51,204,000 representing a decrease of $525,000 or 1 percent compared to $51,729,000 for 2019. Decreases in foreclosed real estate costs, marketing and occupancy were partially offset by increases in professional and legal expense, FDIC insurance, and external data processing costs.

The provision for income taxes for 2020 totaled $2,031,000 which was $2,994,000 or 60 percent below the provision for income taxes for 2019 of $5,025,000. The decrease was due to lower income before taxes for 2020 compared to 2019.

On December 31, 2020, total assets were $2.16 billion, representing a 15 percent increase compared to total assets of $1.89 billion as of December 31, 2019. The growth for 2020 occurred primarily in the commercial loan portfolio and cash and cash equivalents which was funded primarily by an increase in deposits and offset by a reduction in long-term debt.

The growth in core deposits included a $102,499,000 increase in the average balance of noninterest bearing deposits for 2020 compared to 2019. Growing core deposits remains a particular focus of the Corporation because the rates paid for such deposits are low, transactional activity on these deposits are a source of fee income, and a core deposit relationship provides the opportunity to cross-sell other financial products and services. The Corporation excludes time deposits in its definition of core deposits.

Cash dividends paid on common shares for the year 2020 totaled $0.520 per share, representing a decrease of $0.088 or 15 percent below the cash dividends of $0.608, as adjusted, paid for the year 2019.

The Corporation distributed a 5 percent common stock dividend on December 10, 2019. There was no common stock dividend distributed in 2020.

The Corporation’s capital level remained sound as evidenced by capital ratios that exceed current regulatory requirements for well capitalized institutions. Table 9 - Capital Ratios, following, shows that both the Corporation and PeoplesBank were well capitalized for all periods presented.

INCOME STATEMENT ANALYSIS

Net Interest Income

The Corporation’s principal source of revenue is net interest income, which is the difference between (i) interest income on earning assets, primarily loans and investment securities, and (ii) interest expense incurred on deposits and borrowed funds. Fluctuations in net interest income are caused by changes in both interest rates, and the volume and composition of interest rate sensitive assets and liabilities. Unless otherwise noted, this section discusses interest income and interest expense amounts as reported in the Consolidated Statements of Income, which are not presented on a tax equivalent basis.

Net interest income for the year ended December 31, 2020, was $60,460,000, a decrease of $3,479,000 or 5 percent below the full year 2019 net interest income. Although average earning assets increased by 11 percent, the average rate decreased by 96 basis points or 20 percent, driven by Payroll Protection Program (“PPP”) loans and an increase in interest bearing deposits with banks. The decrease in the rate of earning assets was partially offset by a reduction in the rate of interest bearing liabilities. The net interest margin, which reflects net interest income on a tax-equivalent basis as a percentage of average interest-earning assets, was 3.13 percent for 2020, compared to 3.66 percent for 2019.

Interest income for the full year 2020 totaled $75,713,000, a decrease of $9,604,000 or 11 percent below 2019. The decrease in total interest income was driven by lower rates on interest earning assets, partially offset by a higher average volume of interest bearing assets. The decrease in rate and the increase in average balances were driven by PPP loans and an increase in interest bearing deposits with banks. Interest earning assets averaged $1.94 billion and yielded 3.92 percent (tax equivalent basis) for 2020, compared to $1.75 billion and a tax-equivalent yield of 4.88 percent, respectively, for 2019.

Interest expense for the full year 2020 totaled $15,253,000, a decrease of $6,125,000 or 29 percent below 2019. The decrease in total interest expense was primarily driven by a decrease in rate in core deposits (the Corporation defines core deposits as demand, savings, and money market deposits), time deposits and long-term borrowings. Interest expense on deposits decreased $5,168,000 or 28 percent for 2020 compared to 2019 and was primarily attributed to the decreases in rates paid on interest bearing core deposits and time deposits. The average volume of interest bearing core deposits was $851,495,000 for the full year 2020, an $88,772,000 or 12 percent increase above the average volume for 2019. Interest expense on long-term debt and subordinated debentures decreased $953,000 or 36 percent for 2020. The average rate paid on long-term borrowings in 2020 of 2.54 percent, reflected a 6 basis point increase from the average rate paid of 2.48 percent in 2019. Long-term debt is primarily comprised of advances from the Federal Home Loan Bank of Pittsburgh, with intermediate term bullet maturities that supplement deposit funding and provide a partial funding hedge against rising market interest rates.

Tables 1 and 2, following, are presented on a tax-equivalent basis to make it easier to compare taxable and tax-exempt assets. Interest on tax-exempt assets (which include securities issued by, or loans made to, state and local governments) is adjusted based upon a 21 percent federal income tax rate in 2020 and 2019.

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

	2020			2019		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest bearing deposits with banks	$ 202,267	$ 564	0.28 %	$ 92,436	$ 1,960	2.12 %
Investment securities:						
Taxable	147,562	2,908	1.97	130,687	3,348	2.56
Tax-exempt	20,852	593	2.84	29,387	846	2.88
Total investment securities	168,414	3,501	2.08	160,074	4,194	2.62
Loans:						
Taxable (1)	1,557,861	71,457	4.59	1,488,922	78,984	5.30
Tax-exempt	9,563	388	4.06	10,704	428	4.00
Total loans	1,567,424	71,845	4.58	1,499,626	79,412	5.30
Total earning assets	1,938,105	75,910	3.92	1,752,136	85,566	4.88
Other assets (2)	101,020			93,462		
Total assets	$ 2,039,125			$ 1,845,598		
Liabilities and Shareholders' Equity						
Deposits:						
Interest bearing demand	$ 752,148	$ 2,935	0.39 %	$ 677,083	$ 8,037	1.19 %
Savings	99,347	65	0.07	85,640	85	0.10
Time	548,941	10,541	1.92	511,940	10,587	2.07
Total interest bearing deposits	1,400,436	13,541	0.97	1,274,663	18,709	1.47
Short-term borrowings	8,428	38	0.45	7,892	42	0.53
Long-term debt	62,346	1,582	2.54	106,133	2,627	2.48
Subordinated debentures	2,550	92	3.61	0	0	0.00
Total interest bearing liabilities	1,473,760	15,253	1.03	1,388,688	21,378	1.54
Noninterest bearing deposits	360,494			257,995		
Other liabilities	10,659			12,107		
Shareholders' equity	194,212			186,808		
Total liabilities and shareholders' equity	$ 2,039,125			$ 1,845,598		
Net interest income (tax equivalent basis)		$ 60,657			$ 64,188	
Net interest margin (3)			3.13 %			3.66 %
Tax equivalent adjustment		(197)			(249)	
Net interest income		$ 60,460			$ 63,939	

(1) Average balance includes average nonaccrual loans of $22,475,000 in 2020 and $23,626,000 in 2019. Interest includes net loan fees of $6,128,000 in 2020 and $3,175,000 in 2019.
(2) Average balance includes average bank owned life insurance, foreclosed real estate and unrealized holding gains (losses) on investment securities.
(3) Net interest income (tax equivalent basis) annualized as a percent of average interest earning assets.

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

	2020 vs. 2019 Increase (decrease) due to change in		
(dollars in thousands)	**Volume**	**Rate**	**Net**
Interest Income			
Interest bearing deposits with banks	$ 2,329	$ (3,725)	$ (1,396)
Investment securities:			
Taxable	314	(754)	(440)
Tax-exempt	(246)	(7)	(253)
Loans:			
Taxable	6,475	(14,002)	(7,527)
Tax-exempt	(46)	6	(40)
Total interest income	8,826	(18,482)	(9,656)
Interest Expense			
Deposits:			
Interest bearing demand	735	(5,837)	(5,102)
Savings	14	(34)	(20)
Time	765	(811)	(46)
Short-term borrowings	3	(7)	(4)
Long-term debt	(1,004)	(41)	(1,045)
Subordinated debentures	0	92	92
Total interest expense	513	(6,638)	(6,125)
Net interest income	$ 8,313	$ (11,844)	$ (3,531)

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

Provision for Loan Losses

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

For the year 2020, the provision for loan losses was $14,675,000, which was $12,225,000 or 499 percent higher, compared to a provision of $2,450,000 in 2019. The increased provision expense in 2020 was primarily due to partial charge offs on commercial lending relationships. Although some of the lending relationships did have specific reserve allocations to adequately cover the partial charge off, historical loss factors were negatively impacted which increased the provision expense. One partial charge off in the first quarter 2020 did not have a specific reserve allocation, which also increased provision expense. In addition, changes in the external environment created by COVID-19 caused management to increase the qualitative factors for certain loan segments in the allowance for loan loss analysis, which resulted in additional provision for loan losses during the year. The provision for both periods supported adequate allowance for loan loss coverage, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments.

Noninterest Income

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

Table 3 - Noninterest income

(dollars in thousands)		2020		2019
Trust and investment services fees	$	3,934	$	3,598
Income from mutual fund, annuity and insurance sales		1,070		1,055
Service charges on deposit accounts		4,494		4,845
Income from bank owned life insurance		1,131		1,252
Other income		1,686		1,965
Gain on sale of loans held for sale		3,512		1,206
Gain (loss) on sales of securities		65		(9)
Total noninterest income	$	15,892	$	13,912

For the year 2020, the overall $1,980,000 or 14 percent increase in total noninterest income, compared to the year 2019, was primarily the result of an increase in gains on sale of loans held for sale offset by decreases in services charges on deposit accounts and other income. The discussion that follows addresses changes in selected categories of noninterest income.

Trust and investment services fees—The upward trend in trust and investment services fee income over the two year period presented was due to growth in trust assets under management from both new accounts, and appreciation in the market value of managed accounts, upon which some fees are based.

Income from mutual fund, annuity and insurance sales— Income from mutual fund, annuity and insurance sales increased due to higher volume of assets under management over the last two year period. The non-deposit investment products are sold by PeoplesBank's subsidiaries Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors.

Service charges on deposit accounts—For the year 2020, the $351,000 or 7 percent decrease in service charge income compared to the year 2019 was due to a lower assessment of overdraft fees in the second quarter 2020. The lower assessment is partially due to the waiver of fees associated with the COVID-19 pandemic followed by an overall reduction in overdraft fees once fee assessment resumed. In addition foreign ATM fees were waived during the second quarter 2020.

Income from bank owned life insurance (BOLI)—For the year 2020, the $121,000 or 10 percent decrease in income from BOLI compared to 2019 was primarily due to a lower return on investments.

Other income—For the year 2020, the $279,000 or 14 percent decrease in other income compared to the year 2019 was primarily the result of lower swap referral fees.

Net gain on sales of loans held for sale—For the year 2020, the $2,306,000 or 191 percent increase in net gain on sales of loans held for sale compared to the year 2019 was due to the sale of a larger volume of mortgage loans to the secondary market.

Net gain (loss) on sales of securities—For the year 2020, the Corporation realized $65,000 in gains on sales of securities compared to $9,000 in losses in 2019. Securities sold included those where market pricing for certain instruments provided a favorable total return upon the sales and reinvestment of proceeds, versus holding the respective securities to maturity.

Noninterest Expense

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

Table 4 - Noninterest expense

(dollars in thousands)	**2020**	**2019**
Personnel	$ 30,051	$ 30,224
Occupancy of premises, net	3,458	3,637
Furniture and equipment	3,362	3,174
Postage, stationery and supplies	717	720
Professional and legal	1,133	946
Marketing	1,347	1,785
FDIC insurance	892	473
Debit card processing	1,317	1,258
Charitable donations	1,650	1,657
Telecommunications	533	501
External data processing	2,814	2,473
(Gain)/loss on foreclosed real estate, including provision for (recovery of) losses	(170)	776
Other	4,100	4,105
Total noninterest expense	$ 51,204	$ 51,729

Total noninterest expense for the year 2020 decreased $525,000 or 1 percent below the year 2019. The discussion that follows addresses changes in selected noninterest expenses.

***Personnel*—**The $173,000 or 1 percent decrease in personnel is primarily the result of lower actual medical claims expense in 2020 compares to 2019, partially offset by higher commissions due to an increase in residential mortgage loan production.

Occupancy of premises, net— Occupancy of premises expense is comprised of rent, depreciation, maintenance, insurance, real estate taxes and utilities. The level of expense can vary annually based upon franchise expansion, repairs and maintenance, and normal business growth.

Furniture and equipment—The upward trend in furniture and equipment expense was primarily due to increased spending on maintenance of computer hardware equipment.

***Professional and legal*—**The $187,000 or 20 percent increase in professional and legal expense was attributable to increases in CPA and legal expenses offset by a reduction in consulting expense.

Marketing— The $438,000 or 25 percent decrease in marketing expense is primarily attributed to marketing campaigns delayed in 2020 due to the COVID-19 pandemic.

FDIC insurance—The $419,000 or 89 percent increase in FDIC insurance is due to asset growth which resulted in higher assessment as well as assessment credits issued by the FDIC in 2019.

Debit card processing—For the year 2020, the $59,000 or 5 percent increase in debit card processing expense was primarily due to a continual increase in debit card transaction volume, due primarily to the increased number of demand deposit accounts and debit cards and the shift in client behavior toward electronic access of funds as a result of the pandemic.

***External data processing*—**The upward trend in external data processing from 2019 to 2020 reflects increased reliance on outsourcing transaction processing to specialized vendors, which is typically performed on their hosted and secure websites, thereby increasing the Corporation's data processing efficiency. Additional expenditures related to expansion in the electronic banking services offered to our client base, and charges for higher transaction volume from normal business growth.

***(Gain)/loss on foreclosed real estate including provision for (recovery of) losses*—**The $946,000 or 122 percent decrease in foreclosed real estate including provision for losses is attributed to the recovery of provision for loss associated with the sale of foreclosed real estate in 2020, further impacted by a write down on foreclosed real estate during the fourth quarter 2019.

Provision for Income Taxes

The provision for income taxes for 2020 totaled $2,031,000, which was $2,994,000 or 60 percent below the provision for income taxes for 2019 of $5,025,000. The decrease was due to lower net income before taxes in 2020 compared to 2019. For 2020 and 2019, the Corporation's incremental statutory federal income tax rate was 21 percent; however, the Corporation's effective income tax rate was approximately 19.4 percent for 2020, compared to 21.3 percent for 2019. The effective tax rate differs from the statutory tax rate due to the impact and volume of tax-exempt income, including income from bank owned life insurance and certain municipal securities and loans.

BALANCE SHEET REVIEW

Interest Bearing Deposits with Banks

Interest bearing deposits with banks totaled $313,469,000 on December 31, 2020, compared to $110,742,000 on December 31, 2019. The balance increased as a result of the strong growth in deposits offset by loan growth, principally commercial loans and a reduction in long-term debt.

Investment Securities (Available-for-Sale)

The Corporation's entire investment securities portfolio is classified available-for-sale, and is comprised of interest-earning debt securities (see Table 5 below). Investment securities serve as an important source of liquidity, and provide stable interest income revenue supplementary to the larger loan portfolio. The securities also serve as collateral for public and trust deposits, securities sold under agreements to repurchase, and to support borrowing capacity. The investment securities portfolio is managed to comply with the Corporation's Investment Securities Policy, and accounted for in accordance with FASB ASC Topic 320. Decisions to purchase or sell securities are based on an assessment of current economic and financial conditions, including the interest rate environment, the demand for loans, liquidity and income requirements.

The following table shows the amortized cost and fair value, by type of debt security, for two year-end periods:

Table 5-Investment Securities

	December 31,			
	2020		2019	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities:				
U.S. Treasury notes	$ 0	$ 0	$ 9,834	$ 9,953
U.S. agency	40,000	40,000	15,000	14,923
U.S. agency mortgage-backed, residential	106,792	110,896	106,799	108,155
State and municipal	24,014	24,300	26,385	26,644
Corporates	9,681	9,806	0	0
Total debt securities	$ 180,487	$ 185,002	$ 158,018	$ 159,675

At December 31, 2020, the fair value of securities, available-for-sale, totaled $185,002,000, an increase compared to the fair value of the investment securities portfolio balance of $159,675,000 at December 31, 2019.

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

As shown in Table 5, above, the Corporation holds investments in the obligations of states and municipalities. Municipalities have many options for meeting their debt obligations, including decreasing costs and service levels, imposing taxes and fees and selling assets. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific reserves, which provide additional layers of protection to the investor. Access to the credit market and a good credit rating are high priorities enabling a municipality to meet its current and future funding needs at a reasonable interest cost. For these reasons, defaults on municipal bonds are unusual. The majority of municipal bonds in the Corporation's portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but such bonds are for critical services such as water and sewer. Many of the municipal holdings are also insured or backed by specific school district loss reserves. Based on the results of an independent credit review of the Bank's entire municipal bond portfolio as performed in 2020, and recent bond ratings by national statistical rating organizations, we believe that the municipal investments held by PeoplesBank are investment grade.

The table below shows that the available-for-sale securities portfolio had an overall yield of 1.92 percent on December 31, 2020:

Table 6-Securities Maturity Schedule (amortized cost basis)

	December 31, 2020 Maturity Distribution				Total	
(dollars in thousands)	One year or less	One through five years	Five through ten years	After ten years	Amount	Yield(1)
Debt securities:						
U.S. agency	40,000	0	0	0	40,000	0.05 %
U.S. agency mortgage-backed, residential (2) (2)	6,077	81,504	7,631	11,580	106,792	2.34 %
State and municipal	2,255	5,335	7,681	8,743	24,014	2.46 %
Corporates	0	2,797	6,884	0	9,681	3.69 %
Total debt securities	$ 48,332	$ 89,636	$ 22,196	$ 20,323	$ 180,487	1.92 %
Yield (1)	0.48 %	2.36 %	2.99 %	2.22 %	1.92 %	

(1) Weighted average yields (tax equivalent basis) were calculated on the amortized cost basis.
(2) U.S. agency mortgage-backed securities are included in the maturity categories based on average expected life.

The portfolio yield as of December 31, 2020, reflected in the table above, is lower than the 2.64 percent securities portfolio yield as of December 31, 2019. Generally, lower yielding securities, as compared to the yields in maturing and called securities, were purchased in 2020. Purchases included the reinvestment of cash flows from maturities, calls and principal repayments on mortgage-backed bonds, during a year of decreasing market investment interest rates. At year-end 2020 and 2019, there were no holdings of securities of any one issuer, other than the US Government and its agencies, in an amount greater than 10 percent of shareholders' equity. More information about investment securities is provided in Note 3-Securities, to the consolidated financial statements.

Restricted Investment in Bank Stocks

At December 31, 2020, the Corporation held approximately $2,593,000 in restricted common stock, compared to $4,551,000 at year-end 2019. Investment in restricted stock is a condition of obtaining credit from the Federal Home Loan Bank of Pittsburgh (FHLBP) and the Atlantic Community Bankers Bank, which is a subsidiary of Atlantic Community Bancshares, Inc. (ACBI). Accordingly, changes in the level of restricted stock are the result of member capital requirements and borrowing levels from the FHLBP as described within the Long-term Debt section of this report. Of the total investment as of December 31, 2020, approximately $2,518,000 consisted of stock issued by the FHLBP, with the remainder being restricted stock issued by ACBI. Information about restricted investment in bank stocks, including impairment considerations, is provided in Note 1–Summary of Significant Accounting Policies, to the consolidated financial statements.

Loans Held for Sale

On December 31, 2020, loans held for sale were approximately $15,981,000, which consists of $7,389,000 residential mortgage loans and $8,592,000 of Small Business Administration (SBA) loans compared to $11,803,000 at year-end 2019 which consists of $5,065,000 residential mortgage loans and $6,738,000 of Small Business Administration (SBA) loans. For both years, PeoplesBank's mortgage banking production focused on originating and selling secondary-market qualifying residential mortgage loans.

Loans

On December 31, 2020, total loans, net of deferred fees, was approximately $1.54 billion, compared to $1.51 billion at year end 2019, an increase of $39,454,000 or 3 percent above total loans as of year-end 2019. The increase consisted of increased commercial loans of $43,276,000 or 3.4 percent offset by a decrease in consumer loans of $3,822,000 or 2 percent. The increase was attributed to the origination of PPP loans which had an outstanding balance of $143,000,000 at year end 2020.

The average yield (tax-equivalent basis) earned on total loans was 4.58 percent for the full year 2020, as compared to 5.30 percent for the year 2019. Market interest rates and strong competition in our markets resulted in continuing pricing pressures on new loan and refinancing activities. The reduction in yields was further impacted by origination of PPP loans at 1.00%. The composition of the Corporation's loan portfolio, by industry class, at December 31, 2020 and 2019 is provided in Note 4–Loans in the notes to the consolidated financial statements.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. Since that time banking regulators, the SEC and FASB have all issued additional guidance and clarification on various sections of the CARES Act. Section 4013 of the CARES Act provides the option to not apply ASC 310-40 (TDRs) to a loan modification, related specifically to COVID-19 hardships. Regulators have encouraged financial institutions to work constructively with borrowers in communities and industries affected by COVID-19 using prudent and proactive actions which are in the best interests of the financial institution, the borrower and the economy. The Corporation's Board of Directors approved a number of options for loan modifications, including interest deferral, full payment deferral, additional extensions of credit, and SBA loan programs (i.e., Economic Injury Disaster Loans, Paycheck Protection Program). As of December 31, 2020, the Corporation has remaining loan modifications totaling approximately $26 million. The Corporation has been an active participant in the SBA Paycheck Protection Program, with outstanding PPP loans as of December 31, 2020 of $143,000,000.

The following table presents the general composition of total loans for five year-end periods:

Table 7-Loan Portfolio Composition

	December 31,									
(dollars in thousands)	**2020**	**%**	**2019**	**%**	**2018**	**%**	**2017**	**%**	**2016**	**%**
Commercial, financial and agricultural	$ 1,180,274	76.4	$ 1,125,295	74.7	$ 1,124,833	75.7	$ 1,013,428	72.4	$ 924,729	72.8
Real estate-construction and land development	147,609	9.6	159,312	10.6	154,977	10.4	184,402	13.2	148,635	11.7
Total commercial related loans	1,327,883	86.0	1,284,607	85.3	1,279,810	86.1	1,197,830	85.6	1,073,364	84.5
Real estate - residential mortgages	95,751	6.2	94,868	6.3	83,977	5.7	79,325	5.6	73,496	5.8
Consumer and home equity	120,955	7.8	125,660	8.4	121,893	8.2	122,609	8.8	123,911	9.7
Total consumer related loans	216,706	14.0	220,528	14.7	205,870	13.9	201,934	14.4	197,407	15.5
Total loans	$ 1,544,589	100.0	$ 1,505,135	100.0	$ 1,485,680	100.0	$ 1,399,764	100.0	$ 1,270,771	100.0

The table below shows at December 31, 2020, the commercial loan portfolio was comprised of approximately $854,887,000 or 64 percent in fixed rate loans, and $472,996,000 or 36 percent in floating rate loans. This compares to $807,721,000 or 63 percent in fixed rate loans, and $476,886,000 or 37 percent in floating rate loans, for the year ended December 31, 2019. Floating rate loans reprice periodically with changes in the Wall Street Journal (WSJ) Prime Rate, or LIBOR.

Table 8-Selected Loan Maturities and Interest Rate Sensitivity

	December 31, 2020 Maturity Distribution			
(dollars in thousands)	One year or less	One through five years	After five years	Total
Commercial, financial and agricultural	$ 396,420	$ 538,816	$ 245,038	$ 1,180,274
Real estate-construction and land development	58,042	56,096	33,471	147,609
Total commercial related loans	$ 454,462	$ 594,912	$ 278,509	$ 1,327,883
Fixed interest rates	$ 112,769	$ 547,060	$ 195,058	$ 854,887
Floating interest rates	341,693	47,852	83,451	472,996
Total commercial related loans	$ 454,462	$ 594,912	$ 278,509	$ 1,327,883

During 2020, in terms of dollars and percentages more fixed rate commercial loans were originated, driven by PPP loan production, although a majority of the commercial portfolio is fixed rate loans with maturities ranging from five to ten years. Although the commercial loan portfolio's fixed rate volume and longer maturities increase risk if interest rates rise, management has implemented interest rate risk mitigation strategies which include maintaining a shorter duration in the Corporation's investment portfolio, and lengthening fixed rate liabilities, principally borrowings from the Federal Home Loan Bank of Pittsburgh. In addition, commercial loans are generally structured whereby there is an initial fixed rate period, typically five years, and then adjustments based upon a predetermined index if a new fixed rate is not renegotiated. Approximately 43 percent of the loans identified as fixed interest rates above are set to adjust during the term of the loan. Additional loan information can be found in Note 4–Loans, in the notes to the consolidated financial statements, and within the Risk Management section of this report.

Premises and Equipment

On December 31, 2020, premises and equipment, net of accumulated depreciation, totaled approximately $25,206,000, as compared to $25,967,000 on December 31, 2019. The increase was a result of new purchases of $2,257,000, offset by depreciation and disposals on existing premises and equipment of $3,018,000. Financing leases which are now included as part of premises and equipment on the consolidated balance sheets had a balance of $1,112,000 on December 31, 2020.

Other Assets

On December 31, 2020, other assets totaled approximately $69,612,000, compared to $63,567,000 of other assets as of December 31, 2019. Other assets were primarily comprised of investments in bank owned life insurance (BOLI), prepaid expenses, accrued interest receivable, and deferred tax assets.

Investments in life insurance relates to a select group of employees and directors whereby PeoplesBank is the owner and beneficiary of the policies. These investments, carried at the cash surrender value of the underlying policies, totaled $46,761,000 at year-end 2020, compared to $45,647,000 at year-end 2019. PeoplesBank purchased $6,836,000 of BOLI during 2019. The selection of the underlying BOLI insurers is based primarily on the respective insurers' high credit rating and reputation, and competitive tax-exempt yield. The Corporation also seeks to maintain a reasonable diversification among insurers supporting the BOLI portfolio. The level of the Corporation's BOLI investment was approximately 23 percent of PeoplesBank's Tier 1 capital, excluding net unrealized gains on available-for-sale securities, at December 31, 2020, which is within the regulatory guideline of 25 percent of Tier 1 capital.

At year-end 2020, there were no foreclosed real estate assets included in other assets, compared to $797,000 at year-end 2019. The $797,000 decrease was the result of the sale of one property totaling $797,000. Foreclosed real estate is discussed in the Nonperforming Assets section of this report.

Also included with other assets is $8,352,000 of accrued interest receivable on loans and investment securities, and $5,340,000 of net deferred tax assets. Additional information about these assets can be found in Note 1–Summary of Significant Accounting Policies in the notes to the consolidated financial statements under the appropriate subheadings.

Funding

Deposits

Deposits are the Corporation’s principal source of funding for earning assets. The average rate paid on interest-bearing deposits was 0.97 percent for the year 2020 as compared to 1.47 percent for the year 2019.

On December 31, 2020, deposits totaled $1.86 billion, which represented a $272,975,000 or 17 percent increase compared to the level at year-end 2019. The increase, primarily associated with noninterest and interest bearing demand, money market and savings, reflects client deposit behavior since the beginning of the pandemic. Core deposits, consisting of demand, money market and savings, in aggregate, increased $283,599,000 or 27 percent and time deposits (i.e. CDs) decreased $10,624,000 or 2 percent. Of the total $532,287,000 of time deposits as of December 31, 2020, the balance of certificates of deposit with a balance of less than $100,000 totaled $283,910,000, $100,000 to $250,000 totaled $180,674,000 and $250,000 or more totaled $67,703,000. Time deposits totaling $351,958,000 or 66 percent of the total at year-end 2020 will mature in 2021.

On December 31, 2020, the balance of certificates of deposit with a balance of $100,000 and above was $248,377,000. Of this total, $32,096,000 mature within three months, $39,341,000 mature after three months but within six months, $94,734,000 mature after six months but within twelve months, and the remaining $82,206,000 mature beyond twelve months. The composition of the Corporation’s deposit portfolio at December 31, 2020 is provided in Note 7-Deposits, in the notes to the consolidated financial statements.

Short-term Borrowings

Short-term borrowings consist of securities sold under agreements to repurchase (repo agreements), federal funds purchased, and other borrowings as described more fully in Note 8-Short-term Borrowings and Long-term Debt, to the consolidated financial statements. On December 31, 2020, short-term borrowings totaled $8,540,000, as compared to the $7,925,000 as of December 31, 2019. The balance on December 31, 2020, consisted of $8,540,000 of repurchase agreements and no other short-term borrowings as compared to the balance of $7,925,000 at year-end 2019 consisting of repurchase agreements and no other short-term borrowings. The increase in the balance of repurchase agreements was a result of a shifting in balances out of deposit products while other short-term borrowings remained the same as cash flow from investments and deposits were ample to fund loan growth and maintain adequate liquidity.

Long-term Debt

Long-term debt is a secondary funding source to deposits for asset growth. On December 31, 2020, long-term debt totaled $77,208,000, compared to $81,632,000 at year-end 2019. The decrease was the result of the repayment of matured advances from the Federal Home Loan Bank of Pittsburgh (FHLBP), offset by a new issuance of subordinated debentures.

Generally, funds for the payment of long-term debt come from operations. On December 31, 2020, total unused credit with the FHLBP was approximately $453,456,000. Obligations to the FHLBP are secured by FHLBP stock and qualifying collateral, principally real estate secured loans. A listing of outstanding long-term debt obligations is provided in Note 8-Short-term Borrowings and Long-term Debt, in the notes to the consolidated financial statements.

Shareholders' Equity and Capital Adequacy

Shareholders' equity, or capital, enables the Corporation to maintain asset growth and absorb losses. Capital adequacy can be affected by a multitude of factors, including profitability, new stock issuances, corporate expansion, balance sheet growth, dividend policy, and regulatory mandates.

Total shareholders' equity was $197,960,000 on December 31, 2020, an increase of approximately $6,792,000 or 4 percent, compared to $191,168,000 at year-end 2019. The increase was primarily the result of the Corporation's $8,442,000 in net income available for shareholders less $5,081,000 of dividends paid to shareholders for 2020. Information pertaining to stock of the Corporation is disclosed in Note 10–Shareholders' Equity, in the notes to the consolidated financial statements.

Dividends on Stock

The Corporation typically pays cash dividends on its stock on a quarterly basis. The Board of Directors determines the dividend rate after considering the Corporation's capital requirements, current and projected net income, and other factors. Annual cash dividends per share for the year 2020 totaled $0.520 per share, representing a decrease of $0.088 or 15 percent below the cash dividends of $0.608, as adjusted, paid for the year 2019.

Periodically, the Corporation distributes stock dividends on its stock. On December 10, 2019, the Corporation distributed a 5 percent stock dividend to shareholders of record at the close of business on October 22, 2019. There was no common stock dividend distributed in 2020.

Compensation Plans

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

Capital Ratios

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Corporation and PeoplesBank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Table 9-Capital Ratios

(dollars in thousands)	Ratios at December 31, 2020	2019	Federal Minimum Required 2020	2019	Federal Well Capitalized	Capital (1) at December 31, 2020	2019
Common Equity Tier 1 Capital							
(as a percentage of risk weighted assets)							
Codorus Valley Bancorp, Inc. (consolidated)	13.10 %	12.45 %	7.00 %	7.00 %	n/a%	$ 191,863	$ 187,312
PeoplesBank	13.56	12.88	7.00	7.00	6.50	198,184	193,421
Tier 1 risk-based capital							
(as a percentage of risk weighted assets)							
Codorus Valley Bancorp, Inc. (consolidated)	13.79 %	13.11 %	8.50 %	8.50 %	n/a%	$ 201,863	$ 197,312
PeoplesBank	13.56	12.88	8.50	8.50	8.00	198,184	193,421
Total risk-based capital							
(as a percentage of risk weighted assets)							
Codorus Valley Bancorp, Inc. (consolidated)	17.13 %	14.36 %	10.50 %	10.50 %	n/a%	$ 250,806	$ 216,154
PeoplesBank	14.82	14.13	10.50	10.50	10.00	216,484	212,220
Leverage							
(Tier 1 capital as a percentage of average total assets)							
Codorus Valley Bancorp, Inc. (consolidated)	9.58 %	10.55 %	4.00 %	4.00 %	n/a%	$ 201,863	$ 197,312
PeoplesBank	9.43	10.36	4.00	4.00	5.00	198,184	193,421

(1) Net unrealized gains and losses on securities available-for-sale, net of taxes, are disregarded for capital ratio computation purposes in accordance with federal regulatory banking guidelines.

Risk Management

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

Credit Risk Management

Credit risk represents the possibility that a loan client, counterparty or issuer may not perform in accordance with contractual terms, posing one of the most significant risks of loss to the Corporation. Accordingly, the Corporation emphasizes the management of credit risk. To support this objective, a lending policy framework has been established which management believes is sound given the nature and scope of our operations. This framework includes seven basic policy parameters that guide the lending process and minimize risk:

- The Corporation follows detailed written lending policies and procedures.
- Lending authority is granted commensurate with dollar amount, loan type, level of risk, and loan officer experience.
- Loan review committees function at both the senior lending officer level and the Board level to review and approve loans that exceed pre-established dollar thresholds and/or meet other criteria.
- The Corporation lends mainly within its primary geographical market area, including York County and Lancaster County, Pennsylvania and Harford County, Baltimore County and Baltimore City, Maryland. Although this focus may pose a geographical concentration risk, the diverse local economies and employee knowledge of our clients lessens this risk.
- The loan portfolio is diversified to prevent dependency upon a single client or small group of related clients.
- The Corporation does not participate in the subprime lending market, nor does it invest in securities backed by subprime mortgages.
- The Corporation does not lend to foreign countries or persons residing therein.

The Corporation uses loan-to-value ratios ("LTV ratios") for loan underwriting, establishing generally acceptable ratios of the loan amount to the value of the collateral securing the loan, to minimize the risk of future loss from the loan portfolio. At December 31, 2020, the LTV ratios listed below were in effect.

	LTV ratio %	
Loan type	**Owner Occupied**	**Non-owner Occupied**
Residential, 1-4 units	80	75
Residential construction	N/A	70
Residential construction - presold	N/A	80
Residential rehab for resale	N/A	70
Agricultural	80	N/A
Residential (5 or more units)	N/A	75
Commercial	80	75
Office	80	75
Mixed use (Retail/Commercial)	80	75
Retail, credit anchor	80	80
Retail, no credit anchor	75	75
Raw Land	N/A	60
Approved, but unimproved land	N/A	65
Approved and improved land	N/A	70
Warehouse	75	70
Hotel, acceptable flag	N/A	75
Hotel, other	N/A	65
MHP	N/A	65
Special/Limited use properties	50	50
Self storage	N/A	70

An acceptable valuation is required on all real estate secured loans, unless the lien has been taken as an abundance of caution. Generally, an appraisal performed by an independent licensed appraiser is required for real estate secured loans. Exceptions to LTV ratios and the use of an approved licensed appraiser are sometimes made by management or the Board of Directors when there are compensating factors.

One component of the internal credit risk review is the identification and management of industry concentrations, defined as greater than 10 percent of the total loan portfolio. As of December 31, 2020, the Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor represented 15.4 percent of the portfolio and commercial real estate investor represented 15.3 percent of the portfolio. As of December 31, 2019, the Corporation had three industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor, which represented 16.5 percent of the portfolio; commercial real estate investor, which represented 13.8 percent of the portfolio; and builder & developer, which represented 10.6 percent of the portfolio. Loans to borrowers within these industries are usually collateralized by real estate.

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

Nonperforming Assets

Table 10 – Nonperforming Assets, below, presents a five-year history of asset categories posing the greatest risk of loss and related ratios.

Table 10-Nonperforming Assets

	December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Nonaccrual loans	$ 38,175	$ 24,696	$ 20,058	$ 5,052	$ 3,114
Nonaccrual loans, troubled debt restructurings	0	54	930	0	0
Accruing loans that are contractually past due 90 days or more as to principal and interest	1,295	280	2,128	76	733
Total nonperforming loans	39,470	25,030	23,116	5,128	3,847
Foreclosed real estate, net of allowance	0	797	1,755	216	2,705
Total nonperforming assets	$ 39,470	$ 25,827	$ 24,871	$ 5,344	$ 6,552
Accruing troubled debt restructurings	$ 1,395	$ 1,596	$ 3,098	$ 3,344	$ 3,664
Total period-end loans, net of deferred fees	$ 1,544,589	$ 1,505,135	$ 1,485,680	$ 1,399,764	$ 1,270,771
Allowance for loan losses (ALL)	$ 21,264	$ 21,066	$ 19,144	$ 16,689	$ 14,992
ALL as a % of total period-end loans	1.38 %	1.40 %	1.29 %	1.19 %	1.18 %
Net charge-offs as a % of average total loans	0.93 %	0.04 %	0.02 %	0.18 %	0.06 %
ALL as a % of nonperforming loans	53.87 %	84.16 %	82.81 %	325.48 %	389.69 %
Nonperforming loans as a % of total period-end loans	2.56 %	1.66 %	1.56 %	0.37 %	0.30 %
Nonperforming assets as a % of total period-end loans and net foreclosed real estate	2.56 %	1.72 %	1.67 %	0.38 %	0.51 %
Nonperforming assets as a % of total period-end assets	1.83 %	1.37 %	1.38 %	0.31 %	0.41 %
Nonperforming assets as a % of total period-end shareholders' equity	19.94 %	13.51 %	13.91 %	3.25 %	4.23 %

For the year 2018 there was a $19.5 million increase in nonperforming assets, primarily related to the identification of a likely deterioration within eight credit relationships that had a loan balance of $16.9 million, of which one relationship represents $9.4 million. For the year 2019 there was a $956,000 increase in nonperforming assets. For the year 2020 there was a $14.4 million increase in nonperforming assets, primarily related to the identification of a likely deterioration within one credit relationship that had a loan balance of $12.5 million. The Corporation expanded its legal department in 2019 to include a part-time dedicated workout officer, who became full-time in 2020. The continuous collection efforts coordinated by the Corporation's General Counsel, recoveries from borrower payments and foreclosed real estate sales, the establishment of valuation allowances for selective accounts, and if necessary, loan charge-offs have been critical to managing the level of nonperforming assets. Management believes that specific reserves assigned within the allowance for loan losses for each credit is sufficient at December 31, 2020. In monitoring and managing nonperforming assets, we remain concerned about the impact of changing economic conditions, the potential for adverse real estate market value changes, and the corresponding effects on commercial borrowers and changes in the external environment created by COVID-19.

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

As of December 31, 2020, the nonperforming loan portfolio balance totaled $39,470,000, compared to $25,030,000 at year-end 2019. Nonperforming loans consist of nonaccrual loans and accruing loans 90 days or more past due. The Corporation generally places a loan on nonaccrual status and ceases accruing interest income (i.e., recognizes interest income on a cash basis as long as the loan is sufficiently collateralized) when loan payment performance is unsatisfactory and the loan is past due 90 days or more. Loans past due 90 days or more and still accruing interest represent loans that are contractually past due, but are well collateralized and in the process of collection. A loan is returned to interest accruing status when we determine that circumstances have improved to the extent that all of the principal and interest amounts contractually due are current for at least six consecutive payments and future payments are reasonably assured. As of December 31, 2020, the nonaccrual loan portfolio balance totaled $38,175,000, compared to $24,750,000 at year-end 2019. The increase in nonaccrual loans resulted from loans totaling $28,744,000 being placed on nonaccrual status, which was offset by reductions totaling $15,319,000 primarily the result of principal repayments and charge-offs. For both periods, the nonperforming loan portfolio balance was comprised primarily of collateralized commercial loans. For 2020, the gross interest income that would have been recorded if the nonaccrual loans has been current in accordance with their original terms and current throughout the period was approximately $3,497,000. The amount of interest income on those nonaccrual loans that was included in net income for 2020 was approximately $766,000. For 2019, the gross interest income that would have been recorded if the nonaccrual loans had been current in accordance with their original terms and current throughout the period was approximately $1,915,000. The amount of interest income on those nonaccrual loans that was included in net income for 2019 was approximately $203,000. The interest income recognized on impaired loans in Note 4–Loans, in the notes to the consolidated financial statements, is a higher amount because it includes interest income on all impaired loans, which includes nonaccrual loans, from the time the loan was impaired.

Foreclosed real estate represents real estate acquired to satisfy debts owed to PeoplesBank and is included in the Other Assets category on the Corporation's balance sheet. The carrying amount of foreclosed real estate as of December 31, 2020, net of allowance, was $0, a decrease of $797,000 or 100 percent, compared to $797,000 at year-end 2019. The decrease was the result of the disposition of one property totaling $797,000, also impacted by the addition and disposition of one property during the year.

Troubled debt restructurings pertain to loans whose terms have been modified to include a concession that we would not ordinarily consider due to the debtor's financial difficulties. Concessions granted under a troubled debt restructuring typically involve a reduction of interest rate lower than the current market rate for new debt with similar risk, the deferral of payments or extension of the stated maturity date. Troubled debt restructurings are evaluated for impairment if they have been restructured during the most recent calendar year, or if they cease to perform in accordance with the modified terms. As of December 31, 2020, the accruing troubled debt restructuring portfolio balance totaled $1,395,000, compared to $1,596,000 at year-end 2019. The decrease was the result of principal payments made on loans within the troubled debt restructuring portfolio as well as one loan which was charged off.

At December 31, 2020, there were modifications remaining for 8 mortgage loans totaling $3,800,000, 37 commercial loans totaling $85,400,000 and no consumer loans under the CARES Act, which are not considered TDRs.

At December 31, 2020, there were $35,852,000 in additional potential problem loans being closely monitored by management. These additional potential problem loans consist of loans classified as substandard, reflecting an increased risk of the borrowers' ability to comply with present repayment terms. These loans are not classified as nonperforming and are not disclosed in Table 10. Comparatively, we were monitoring $25,383,000 of potential problem loans at December 31, 2019.

Allowance for Loan Losses

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

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

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

The allowance for loan losses was $21,264,000 or 1.38 percent of total loans, on December 31, 2020, compared to $21,066,000 and 1.40 percent, respectively, on December 31, 2019. The $198,000 or 1 percent increase in the allowance from December 31, 2019 to December 31, 2020 was generally consistent with the increase to applicable qualitative factors in the calculation of the reserve to reflect changes in historical losses and COVID-19, offset by the reduction in the related allowance established for impaired loans of $4,108,000. Loan balances individually evaluated for impairment over the same 12 month period increased by $13,224,000 and include those identified as nonaccrual or contractually past due.

Based on our comprehensive analysis of the loan portfolio, and recognizing other relevant considerations including expected continued loan growth, continued uncertainty on certain larger criticized assets as legal and collection efforts continue, and the unknown impact of future accounting and regulatory requirements related to the determination of the allowance for loan losses, we believe that the allowance for loan losses was adequate at December 31, 2020, however, changing economic conditions associated with the COVID-19 pandemic may require future adjustments.

Table 11 -Analysis of Allowance for Loan Losses

(dollars in thousands)	2020	2019	2018	2017	2016
Balance - beginning of year	$ 21,066	$ 19,144	$ 16,689	$ 14,992	$ 12,704
Provision charged to operating expense	14,675	2,450	2,700	4,175	3,000
Loans charged off:					
Commercial, financial and agricultural	14,380	410	146	858	771
Real estate - construction and land development	103	0	0	1,474	0
Real estate - residential mortgages	0	0	10	0	79
Consumer and home equity	79	309	326	305	116
Total loans charged off	14,562	719	482	2,637	966
Recoveries:					
Commercial, financial and agricultural	45	75	168	101	193
Real estate - construction and land development	0	0	18	30	0
Real estate - residential mortgages	0	0	10	5	1
Consumer and home equity	40	116	41	23	60
Total recoveries	85	191	237	159	254
Net charge-offs	14,477	528	245	2,478	712
Balance - end of year	$ 21,264	$ 21,066	$ 19,144	$ 16,689	$ 14,992
Ratios:					
Net charge-offs as a % of average total loans	0.93 %	0.04 %	0.02 %	0.18 %	0.06 %
Allowance for loan losses as a % of total period-end loans	1.38 %	1.40 %	1.29 %	1.19 %	1.18 %
Allowance for loan losses as a % of nonperforming loans	53.87 %	84.16 %	82.81 %	325.48 %	389.69 %

Table 12 - Allocation of Allowance for Loan Losses, below, presents a comparison of the allocation of the allowance for loan losses by major loan category for five year-end periods. While the Corporation attributes a portion of the allowance to individual loans and groups of loans that it evaluates and determines to be impaired, the allowance is available to cover all charge-offs that arise from the loan portfolio.

Table 12-Allocation of Allowance for Loan Losses

	December 31,									
	2020		2019		2018		2017		2016	
(dollars in thousands)	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans	Amount	% Total Loans
Commercial, financial and agricultural	$ 18,564	76.4	$ 18,274	74.7	$ 15,055	75.7	$ 10,730	72.4	$ 10,390	72.8
Real estate - construction and land development	2,034	9.6	2,263	10.6	2,835	10.4	3,388	13.2	2,384	11.7
Total commercial related	20,598	86.0	20,537	85.3	17,890	86.1	14,118	85.6	12,774	84.5
Real estate - residential mortgages	256	6.2	158	6.3	126	5.7	108	5.6	85	5.8
Consumer and home equity	388	7.8	370	8.4	409	8.2	283	8.8	372	9.7
Total consumer related	644	14.0	528	14.7	535	13.9	391	14.4	457	15.5
Unallocated	22	n/a	1	n/a	719	n/a	2,180	n/a	1,761	n/a
Total	$ 21,264	100.0	$ 21,066	100.0	$ 19,144	100.0	$ 16,689	100.0	$ 14,992	100.0

Affecting our estimation of the allowance for loan and lease losses are several considerations that are not specifically measureable through either specific loan impairment analyses, or portfolio-based historical losses. For example, we believe that we could face increasing credit risks and uncertainties, not yet reflected in current leading indicators, associated with prolonged low economic growth, or potential recessionary business conditions for certain industries or the broad economy, or the erosion of real estate values, any or all of which can adversely affect our borrowers' ability to service their loans.

Additionally, we have experienced continued commercial loan growth, including growth in newer markets where we have less of a loss history. Also, we recognize the inherent imprecision in any methodology for estimating specific and general loan losses, including the unpredictable timing and amounts of charge-offs and related historical loss averages, and specific-credit or broader portfolio future cash flow value and collateral valuation uncertainties which could negatively impact unimpaired portfolio loss factors.

Liquidity

Maintaining adequate liquidity provides the Corporation with the ability to meet financial obligations to depositors, loan clients, employees, and shareholders on a timely and cost effective basis in the normal course of business. Additionally, it provides funds for growth and business opportunities as they arise. Liquidity is generated from transactions relating to both the Corporation's assets and liabilities. The primary sources of asset liquidity are scheduled investment security maturities and cash inflows, funds received from client loan payments and, to a lesser degree, asset sales. The primary sources of liability liquidity are deposit growth, short-term borrowings and long-term debt. The Consolidated Statements of Cash Flows, included in this report, present the changes in cash from operating, investing and financing activities. At year-end 2020, we believe our liquidity was adequate based upon the potential liquidation of unpledged available-for-sale securities with a fair value totaling approximately $14,688,000 and available credit from the Federal Home Loan Bank of Pittsburgh totaling approximately $453,456,000. The Corporation's loan-to-deposit ratio was approximately 83 and 95 percent as of year-end 2020 and 2019 respectively. The ratio decreased with period end deposit growth higher than loan growth in 2020.

Off-Balance Sheet Arrangements

The Corporation's financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist primarily of commitments to grant new loans, unfunded commitments under existing loan facilities, and letters of credit issued under the same standards as on-balance sheet instruments. Financial instruments with off-balance sheet risk are disclosed in Note 14-Commitments to Extend Credit, to the consolidated financial statements, and totaled $591,362,000 at December 31, 2020, compared to $498,932,000 at December 31, 2019. Generally, these commitments have fixed expiration dates or termination clauses and are for specific purposes. Accordingly, many of the commitments are expected to expire without being drawn and, therefore, generally do not present significant liquidity risk to the Corporation or PeoplesBank.

Contractual Obligations

The following table presents the amount and timing of payments due under long-term contractual obligations.

Table 13-Contractual Obligations

		December 31, 2020 Payments due by period			
(dollars in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt	$ 75,912	$ 25,000	$ 10,000	$ 0	$ 40,912
Operating leases	2,682	667	1,093	605	317
Financing leases	1,967	75	150	154	1,588
Time deposits	532,287	351,958	169,824	9,637	868
Supplemental retirement plans	8,643	315	891	891	6,546
Purchase obligations	6,402	2,231	3,565	606	0
Naming rights	590	295	295	0	0
Deferred compensation	541	2	11	38	490
Total	$ 629,024	$ 380,543	$ 185,829	$ 11,931	$ 50,721

Impact of Inflation and Changing Prices

The majority of assets and liabilities of a financial institution are monetary in nature and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation may impact the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation may also significantly affect noninterest expenses, which tend to rise during periods of general inflation. The level of inflation can be measured by the change in the Consumer Price Index (CPI) for all urban consumers (December vs. December). The change in the CPI for 2020 and 2019 was 1.3 percent, compared to 2.3 percent for 2018.

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

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

The most significant market risk to which the Corporation is exposed is interest rate risk. The primary business of the Corporation and the composition of its balance sheet consist of investments in interest earning assets (primarily loans and securities) which are funded by interest bearing liabilities (deposits and borrowings), all of which have varying levels of sensitivity to changes in market interest rates. Changes in rates also have an impact on the Corporation's liquidity position and could affect its ability to meet obligations and continue to grow.

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset Liability Management Committee, consisting of key financial and senior management personnel, meets on a regular basis. The Committee is responsible for reviewing the interest rate sensitivity and liquidity positions of the Corporation, reviewing projected sources and uses of funds, approving asset and liability management policies, monitoring economic conditions, and overseeing the formulation and implementation of strategies regarding balance sheet positions.

Simulation of net interest income is performed for the next twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of net interest income is used primarily to measure the Corporation's short-term earnings exposure to rate movements. A "shock" is an immediate upward or downward movement of interest rates. The shocks do not take into account changes in client behavior that could result in changes to mix and/or volumes in the balance sheet, nor do they account for competitive pricing over the forward 12-month period. The Corporation applies these interest rate "shocks" to its financial instruments up and down 100, 200, 300, and 400 basis points. A 300 and 400 basis point decrease in interest rates is not simulated at this time due to the historically low interest rate environment.

The following table summarizes the expected impact of interest rate shocks on net interest income as well as the Corporation's policy limits at each level. All scenarios with the exception of a decrease of 100 basis points were within policy limits at December 31, 2020.

Change in Interest Rates (basis points)	Annual Change in Net Interest Income (in thousands)	% Change in Net Interest Income	% Change Policy Limit
+100	$ 5,361	8.96 %	(5.00) %
-100	$ (3,667)	(6.13) %	(5.00) %
+200	$ 11,791	19.71 %	(15.00) %
-200	$ (6,294)	(10.52) %	(15.00) %
+300	$ 18,114	30.28 %	(25.00) %
+400	$ 24,470	40.90 %	(35.00) %

Management Report on Internal Controls Over Financial Reporting

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in SEC Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013).* Based on this assessment, management concluded that, as of December 31, 2020, the Corporation's internal control over financial reporting is effective based on those criteria.

/s/ Larry J. Miller
Larry J. Miller
(Principal Executive Officer)
Chair, President
and Chief Executive Officer

March 9, 2021

/s/ Larry D. Pickett
Larry D. Pickett, CPA
(Principal Financial and Accounting
Officer) Treasurer, and
Assistant Secretary

March 9, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Codorus Valley Bancorp, Inc. (the "Company") as of December 31, 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Adjustments for qualitative (environmental) risk factors.

As more fully described in Note 1 to the consolidated financial statements, the Company estimates and records an allowance for loan losses for the general component of pools of loans based on historical loss rates for each class of loan and adjusts for the qualitative (environmental) risk factors. Historical loss rates are based on a two-year rolling average of net charge-offs. The Company's allowance for loan loss was $21,264,000 at December 31, 2020, which included a $17,952,000 in general reserve. Qualitative factors are used to adjust historical loss rates considering relevant environmental factors. The environmental factors considered include national, regional and local economic and business conditions, changes in value of collateral, changes in the level of concentration of credit, changes in the volume and severity of classified and past due loans, changes in the nature and volume of portfolio, changes in the collection, charge-off, and recovery procedures, changes in underwriting standards and loan terms, changes in the quality of loan reviews, changes in experience and ability of lending management and key lending officers, impact of regulatory and legal regulations, and the impact of COVID-19 pandemic that could affect the level of credit losses.

The application of the adjustments for qualitative risk factors to the historical loss rates requires significant judgments by management.

The principal considerations for our determination that auditing the adjustments to the historical loss rates as a critical audit matter is the high degree of judgment involved in the assessment of the risk of loss associated with each qualitative risk factor. Our audit procedures included substantive testing related to the adjustments for these factors. Procedures included, among others:

- Evaluation of completeness and accuracy of the data inputs used to determine the qualitative factors.
- Evaluation of the adjustments to historical loss rates for reasonableness and appropriateness including both directional consistency and the magnitude of the adjustments.
- Analytically evaluate changes that occurred in the allowance for loan losses for loans.

Identification and measurement of loans individually evaluated.

As more fully described in Note 1 to the consolidated financial statements, a loan is considered impaired (individually evaluated) when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status and the probability of collecting scheduled payments when due. The significance of payment delays and payment shortfalls are determined on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

During the first quarter of 2020, the Company classified a $8 million loan relationship as impaired and charged off $7.5 million of the balance. Determining the timing of the impairment classification and related charge off required significant judgment by management, due to the nature of the credit, including the source of repayment, which was complicated due to the fact the assets of the obligor were held by an estate and were being administrated by third parties.

The principal considerations for our determination that auditing the identification and measurement of impairment on individually evaluated loans as a critical audit matter is the high degree of judgment involved in the determination of whether a loan is impaired and the ability to collect the amount owed. Our audit procedures included substantive testing related to the identification and measurement of impairment of the loan relationship. Procedures included, among others:

- Testing the classified loan listing for proper identification and completeness of loans individually evaluated.
- Testing the relevance and reliability of information used to evaluate the probability of collection of this loan relationship and to measure the timing and amount of impairment.

/s/ Crowe LLP

We have served as the Company's auditor since 2020.

Columbus, Ohio
March 9, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Codorus Valley Bancorp, Inc. (the "Corporation") as of December 31, 2019, the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and subsidiaries at December 31, 2019, and the results of their operations and their cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ BDO USA, LLP

We served as the Corporation's auditor from 2013 to 2020.

Philadelphia, Pennsylvania
March 11, 2020

Item 8: Financial Statements and Supplementary Data
Codorus Valley Bancorp, Inc.
Consolidated Balance Sheets

(dollars in thousands, except per share data)		December 31, 2020		December 31, 2019
Assets				
Interest bearing deposits with banks	$	313,469	$	110,742
Cash and due from banks		22,324		20,849
Total cash and cash equivalents		335,793		131,591
Securities, available-for-sale		185,002		159,675
Restricted investment in bank stocks, at cost		2,593		4,551
Loans held for sale		15,981		11,803
Loans (net of deferred fees of $6,134 - 2020 and $3,463 - 2019)		1,544,589		1,505,135
Less-allowance for loan losses		(21,264)		(21,066)
Net loans		1,523,325		1,484,069
Premises and equipment, net		25,206		25,967
Operating leases right-of-use assets		2,386		3,021
Goodwill		2,301		2,301
Other assets		69,612		63,567
Total assets	$	2,162,199	$	1,886,545
Liabilities				
Deposits				
Noninterest bearing	$	396,947	$	273,968
Interest bearing		1,466,592		1,316,596
Total deposits		1,863,539		1,590,564
Short-term borrowings		8,540		7,925
Long-term debt		46,606		81,632
Subordinated debentures - face amount $31,000 (less unamortized discount and debt		30,602		0
issuance cost of $398 at December 31, 2020 and $0 at 2019)				
Operating leases liabilities		2,515		3,184
Other liabilities		12,437		12,072
Total liabilities		1,964,239		1,695,377
Shareholders' equity				
Preferred stock, par value $2.50 per share;				
1,000,000 shares authorized; shares issued and outstanding:				
0 at December 31, 2020 and 0 at December 31, 2019		0		0
Common stock, par value $2.50 per share; 30,000,000 shares authorized; shares issued				
and outstanding: 9,820,882 at December 31, 2020 and 9,755,976 at December 31, 2019		24,552		24,390
Additional paid-in capital		141,461		140,450
Retained earnings		28,380		25,019
Accumulated other comprehensive income		3,567		1,309
Total shareholders' equity		197,960		191,168
Total liabilities and shareholders' equity	$	2,162,199	$	1,886,545

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Income

(dollars in thousands, except per share data)	Years ended December 31, 2020	2019
Interest income		
Loans, including fees	$ 71,766	$ 79,327
Investment securities:		
Taxable	2,735	2,972
Tax-exempt	475	682
Dividends	173	376
Other	564	1,960
Total interest income	75,713	85,317
Interest expense		
Deposits	13,541	18,709
Federal funds purchased and other short-term borrowings	38	42
Long-term debt	1,582	2,627
Subordinated debentures	92	0
Total interest expense	15,253	21,378
Net interest income	60,460	63,939
Provision for loan losses	14,675	2,450
Net interest income after provision for loan losses	45,785	61,489
Noninterest income		
Trust and investment services fees	3,934	3,598
Income from mutual fund, annuity and insurance sales	1,070	1,055
Service charges on deposit accounts	4,494	4,845
Income from bank owned life insurance	1,131	1,252
Other income	1,686	1,965
Gain on sale of loans held for sale	3,512	1,206
Gain (loss) on sales of securities	65	(9)
Total noninterest income	15,892	13,912
Noninterest expense		
Personnel	30,051	30,224
Occupancy of premises, net	3,458	3,637
Furniture and equipment	3,362	3,174
Postage, stationery and supplies	717	720
Professional and legal	1,133	946
Marketing	1,347	1,785
FDIC insurance	892	473
Debit card processing	1,317	1,258
Charitable donations	1,650	1,657
Telecommunications	533	501
External data processing	2,814	2,473
(Gain)/loss on foreclosed real estate, including provision for (recovery of) losses	(170)	776
Other	4,100	4,105
Total noninterest expense	51,204	51,729
Income before income taxes	10,473	23,672
Provision for income taxes	2,031	5,025
Net income	8,442	18,647
Net income per share, basic	$ 0.86	$ 1.89
Net income per share, diluted	$ 0.86	$ 1.88

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Comprehensive Income

(dollars in thousands)	Years ended December 31, 2020	2019
Net income	**$ 8,442**	**$ 18,647**
Other comprehensive income:		
Securities available for sale:		
Net unrealized holding gains arising during the period (net of tax expense of $614 and $937, respectively)	2,309	3,528
Reclassification adjustment for (gains) losses included in net income (net of tax expense (benefit) of $14 and ($2), respectively) (a) (b)	(51)	7
Net unrealized gains	2,258	3,535
Comprehensive income	$ 10,700	$ 22,182

(a) Amounts are included in (loss) gain on sales of securities on the Consolidated Statements of Income within noninterest income.
(b) Income tax amounts are included in provision for income taxes on the Consolidated Statements of Income.

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Cash Flows

(dollars in thousands)	Years ended December 31, 2020	2019
Cash flows from operating activities		
Net income	$ 8,442	$ 18,647
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation/amortization	2,748	2,645
Net amortization of premiums on securities	1,036	375
Amortization of deferred loan origination fees, net of costs	(4,226)	(1,480)
Net amortization of operating lease right of use assets	633	760
Net amortization of finance lease right of use assets	47	177
Net change in operating lease liabilities	(654)	(882)
Provision for loan losses	14,675	2,450
Provision for losses on foreclosed real estate	18	643
Deferred income tax benefit	(1,257)	(595)
Increase in bank owned life insurance	(1,131)	(1,252)
Originations of mortgage loans held for sale	(81,932)	(43,284)
Originations of SBA loans held for sale	(1,985)	(6,951)
Proceeds from sales of mortgage loans held for sale	83,018	39,368
Proceeds from sales of SBA loans held for sale	140	4,120
Gain on sales of mortgage loans held for sale	(3,503)	(911)
Gain on sales of SBA loans held for sale	(9)	(295)
Loss on disposal of premises and equipment	226	350
Loss (gain) on lease write off	8	(8)
(Gain) loss on sales of securities available-for-sale	(65)	9
(Gain) loss on sales of foreclosed real estate	(216)	0
Stock-based compensation	515	666
(Increase) decrease in interest receivable	(3,336)	536
(Increase) decrease in other assets	(1,642)	573
(Decrease) increase in interest payable	(310)	6
Increase in other liabilities	674	969
Net cash provided by operating activities	11,914	16,636
Cash flows from investing activities		
Purchases of securities, available-for-sale	(197,065)	(124,463)
Maturities, repayments and calls of securities, available-for-sale	151,948	98,727
Sales of securities, available-for-sale	21,679	19,745
Redemption of restricted investment in bank stock	1,958	1,371
Net increase in loans made to customers	(49,826)	(18,503)
Purchases of premises and equipment	(2,257)	(3,103)
Investment in bank owned life insurance	(8)	(6,836)
Proceeds from sales of foreclosed real estate	1,116	315
Net cash used in investing activities	(72,455)	(32,747)
Cash flows from financing activities		
Net increase in demand and savings deposits	283,599	17,149
Net (decrease) increase in time deposits	(10,624)	78,135
Net increase in short-term borrowings	615	903
Proceeds from issuance of subordinated debentures	30,602	0
Repayment of long-term debt	(35,000)	(35,000)
Net change in finance lease liabilities	(26)	(40)
Cash dividends paid to shareholders	(5,081)	(6,017)
Proceeds from treasury stock reissuance	153	334
Payment of taxes related to stock withheld	(66)	(88)
Treasury stock repurchased	(87)	(4,993)
Proceeds from issuance of stock	658	550
Cash paid in lieu of fractional shares	0	(13)
Net cash provided by financing activities	264,743	50,920
Net increase in cash and cash equivalents	204,202	34,809
Cash and cash equivalents at beginning of year	131,591	96,782
Cash and cash equivalents at end of period	$ 335,793	$ 131,591

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, January 1, 2019	$ 23,629	$ 134,506	$ 22,837	$ (2,226)	$ 0	$ 178,746
Adoption of ASC topic 842 (leases)			(199)			(199)
Net income			18,647			18,647
Other comprehensive income, net of tax				3,535		3,535
Common stock cash dividends ($0.608 per share, adjusted)			(6,017)			(6,017)
5% common stock dividend, 463,193 shares at fair value	656	5,049	(10,249)		4,531	(13)
Stock-based compensation		666				666
Repurchased stock - 222,594 shares					(4,993)	(4,993)
Forfeiture and withheld shares of restricted stock		7			(95)	(88)
Issuance and reissuance of common stock:						
26,061 shares under the dividend reinvestment and stock purchase plan	42	393			145	580
10,321 shares under the employee stock option plan		(160)			219	59
13,127 shares under employee stock purchase plan	12	54			179	245
21,033 shares of stock-based compensation awards	51	(65)			14	0
Balance, December 31, 2019	$ 24,390	$ 140,450	$ 25,019	$ 1,309	$ 0	$ 191,168
Net income			8,442			8,442
Other comprehensive income, net of tax				2,258		2,258
Common stock cash dividends ($0.520 per share)			(5,081)			(5,081)
Stock-based compensation		515				515
Repurchased stock - 5,335 shares					(87)	(87)
Withheld Stock - 3,901 shares					(66)	(66)
Issuance and reissuance of common stock:						
32,914 shares under the dividend reinvestment and stock purchase plan	68	335			89	492
13,063 shares under the employee stock option plan	25				53	78
20,507 shares under employee stock purchase plan	50	180			11	241
7,658 shares of stock-based compensation awards	19	(19)				0
Balance, December 31, 2020	$ 24,552	$ 141,461	$ 28,380	$ 3,567	$ 0	$ 197,960

See accompanying notes.

Codorus Valley Bancorp, Inc.
Notes to Consolidated Financial Statements

NOTE 1-Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Codorus Valley Bancorp, Inc. ("Corporation" or "Codorus Valley") is a one-bank holding company headquartered in York, Pennsylvania that provides a full range of banking services through its subsidiary, PeoplesBank, A Codorus Valley Company ("PeoplesBank" or "Bank"). PeoplesBank operates one wholly-owned subsidiary as of December 31, 2020, Codorus Valley Financial Advisors, Inc. d/b/a Peoples Wealth Advisors, which sells non-deposit investment products. In addition, PeoplesBank may periodically create nonbank subsidiaries for the purpose of temporarily holding foreclosed properties pending the liquidation of these properties. PeoplesBank operates under a state charter and is subject to regulation by the Pennsylvania Department of Banking and Securities, and the Federal Deposit Insurance Corporation. The Corporation is subject to regulation by the Federal Reserve Board and the Pennsylvania Department of Banking and Securities.

The consolidated financial statements include the accounts of Codorus Valley and its wholly-owned bank subsidiary, PeoplesBank, and a wholly-owned nonbank subsidiary, SYC Realty Company, Inc. SYC Realty was inactive during the reportable period of 2020. The accounts of CVB Statutory Trust No. 1 and No. 2 are not included in the consolidated financial statements as discussed in Note 8 – Short-term Borrowings and Long-term Debt. All significant intercompany account balances and transactions have been eliminated in consolidation. The accounting and reporting policies of Codorus Valley and subsidiaries conform to accounting principles generally accepted in the United States of America and have been followed on a consistent basis.

Investment Securities

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

The Corporation evaluates securities within the Corporation's available for sale portfolio for other-than-temporary impairment ("OTTI") at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Corporation intends to sell the security; (2) it is "more likely than not" that the Corporation will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized costs basis. For all impaired debt securities that the Corporation intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. More information about investment securities is provided in Note 3 – Securities.

Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and, as of December 31, 2020 and 2019 consisted primarily of the common stock of the Federal Home Loan Bank of Pittsburgh (FHLBP) and, to a lesser degree, Atlantic Community Bancshares, Inc. (ACBI), the parent company of Atlantic Community Bankers Bank (ACBB). Under the FHLBP's Capital Plan, PeoplesBank is required to maintain a minimum member stock investment, both as a condition of becoming and remaining a member and as a condition of obtaining borrowings from the FHLBP. The FHLBP uses a formula to determine the minimum stock investment, which is based on the volume of loans outstanding, unused borrowing capacity and other factors.

The FHLBP paid dividends during the years ended December 31, 2020 and 2019. The FHLBP restricts the repurchase of the excess capital stock of member banks. The amount of excess capital stock that can be repurchased from any member is currently the lesser of five percent of the member's total capital stock outstanding or its excess capital stock outstanding.

Management evaluates the restricted stock for impairment in accordance with FASB ASC Topic 942. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Using the FHLBP as an example, the determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLBP as compared to the capital stock amount for the FHLBP and the length of time this situation has persisted; (2) commitments by the FHLBP to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLBP; and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLBP. Management believes no impairment charge was necessary related to the restricted stock during the periods ended December 31, 2020 and 2019.

Loans Held for Sale

Loans held for sale are comprised of residential mortgage loans and the guaranteed portion of secondary-market qualified Small Business Administration loans. Loans held for sale are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements. The amount by which cost exceeds fair value, if any, is accounted for as a valuation allowance and is charged to expense in the period of the change. The Company generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. Gains or losses recognized on the sale of mortgage loans and loans guaranteed by the Small Business Administration loans are recognized based on the difference between the selling price and the carrying value of the related loan and are recorded in noninterest income. Residential mortgage loans sold are sold servicing released.

Loans

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

Generally, for all classes of loans receivable, when it is probable that principal and interest will not be collectible or a loss in incurred, the accrual of interest is discontinued. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to the Corporation's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

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

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

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

- Changes in international, US, and local economies and business conditions
- Changes in the value of collateral for collateral dependent loans
- Changes in the level of concentrations of credit

- Changes in the volume and severity of classified and past due loans
- Changes in the nature and volume of the portfolio
- Changes in collection, charge-off, and recovery procedures
- Changes in underwriting standards and loan terms
- Changes in the quality of the loan review system
- Changes in the experience/ability of lending management and key lending staff
- Regulatory and legal regulations that could affect the level of credit losses
- Other pertinent environmental factors
- Impact of COVID-19 pandemic

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

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

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

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. Since that time banking regulators, the SEC and FASB have all issued additional guidance and clarification on various sections of the CARES Act. Section 4013 of the CARES Act provides the option to not apply ASC 310-40 (TDRs) to a loan modification, related specifically to COVID-19 hardships. Regulators have encouraged financial institutions to work constructively with borrowers in communities and industries affected by COVID-19 using prudent and proactive actions which are in the best interests of the financial institution, the borrower and the economy. The Corporation's Board of Directors approved a number of options for loan modifications, including interest deferral, full payment deferral, additional extensions of credit, and SBA loan programs (i.e., Economic Injury Disaster Loans, Paycheck Protection Program). As of December 31, 2020, the Corporation has remaining loan modifications totaling approximately $89 million. The Corporation has been an active participant in the SBA Paycheck Protection Program, with outstanding PPP loans as of December 31, 2020 of approximately $143 million.

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

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

Foreclosed Real Estate
Foreclosed real estate, included in other assets, is comprised of property acquired through a foreclosure proceeding or property that is acquired through in substance foreclosure. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any difference between the carrying value and the new cost basis is charged against the allowance for loan losses. Appraisals, obtained from an independent third party, are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell through a valuation allowance or a charge-off. Costs related to the improvement of foreclosed real estate are generally capitalized until the real estate reaches a saleable condition subject to fair value limitations. Revenue and expense from operations and changes in the valuation allowance are included in noninterest expense. When a foreclosed real estate asset is ultimately sold, any gain or loss on the sale is included in the income statement as a component of noninterest expense. At December 31, 2020 there was no foreclosed real estate, compared to $797,000 in foreclosed real estate, which included no residential real estate, at December 31, 2019. Included within loans receivable as of December 31, 2020, was a recorded investment of $206,000 of consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction compared to $407,000 as of December 31, 2019.

Bank Owned Life Insurance
PeoplesBank invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by PeoplesBank on a select group of employees and members of the board of directors. PeoplesBank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and is included in other assets in the amount of $46,761,000 at December 31, 2020, compared to $45,647,000 at December 31, 2019.

Mortgage Servicing Rights
PeoplesBank retained servicing of sold mortgage loans beginning in 2016. In 2020 PeoplesBank began selling mortgages servicing released for the majority of the new portfolio. The mortgage servicing rights (MSRs) associated with previously sold loans are included in other assets on the consolidated balance sheets at an amount equal to the estimated fair value of the contractual rights to service the mortgage loans. The MSR asset is amortized as a reduction to servicing income which was $178,000 and $257,000 in 2020 and 2019, respectively. Mortgage servicing income is included in other income in the statements of income. The MSR asset is evaluated periodically for impairment and carried at the lower of amortized cost or fair value. A third party calculates fair value by discounting the estimated cash flows from servicing income using a rate consistent with the risk associated with these assets and an expected life commensurate with the expected life of the underlying loans. In the event that the amortized cost of the MSR asset exceeds the fair value of the asset, a valuation allowance would be established through a charge against servicing income. Subsequent fair value evaluations may determine that impairment has been reduced or eliminated, in which case the valuation allowance would be reduced through a credit to earnings. At December 31, 2020, the balance of residential mortgage loans serviced for third parties was $87,142,000 compared to $115,620,000 at December 31, 2019.

The following table summarizes the changes in MSRs, which are included in other assets on the consolidated balance sheets.

(dollars in thousands)	Years ended December 31, 2020	2019
Amortized cost:		
Balance at beginning of year	$ 965	$ 925
Originations of mortgage servicing rights	93	277
Amortization expense	(467)	(220)
Valuation allowance	(80)	(17)
Balance at end of year	$ 511	$ 965

Trust and Investment Services Assets
Assets held by PeoplesBank in a fiduciary or agency capacity for its clients are not included in the consolidated balance sheets since these items are not assets of PeoplesBank. At December 31, 2020, the market value of assets was $1,017,000,000 compared to $899,876,000 at December 31, 2019.

Advertising
Advertising costs are charged to expense when incurred.

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

The Corporation accounts for uncertain tax positions as required by FASB ASC Topic 740. FASB ASC Topic 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, the accounting standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. No significant income tax uncertainties have been identified by the Corporation; therefore, the Corporation recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2020 and 2019. The Corporation's policy is to recognize interest and penalties on unrecognized tax benefits in income taxes expense in the Consolidated Statement of Income. The tax years subject to examination by the taxing authorities are the years ended December 31, 2019, 2018, and 2017.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, particularly as it relates to changing economic conditions associated with the COVID-19 pandemic.

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

Goodwill and Core Deposit Intangible Assets
Goodwill arising from acquisitions is not amortized, but is subject to an annual impairment test. This test consists of a qualitative analysis. If the Corporation determines events or circumstances indicate that it is more likely than not that goodwill is impaired, a quantitative analysis must be completed. Analyses may also be performed between annual tests. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The Corporation completes its annual goodwill impairment test on October 1st of each year. Based upon a qualitative and quantitative analysis of goodwill, the Corporation concluded that the amount of recorded goodwill was not impaired as of October 1, 2020.

Core deposit intangibles represent the value assigned to demand, interest checking, money market, and savings accounts acquired as part of an acquisition. The core deposit intangible value represents the future economic benefit of potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and the alternative cost to grow a similar core deposit base. The core deposit intangible asset resulting from the merger with Madison Bancorp, Inc. was determined to have a definite life and is being amortized using the sum of the years' digits method over ten years. All intangible assets must be evaluated for impairment if certain events or changes in circumstances occur. Any impairment write-downs would be recognized as expense on the consolidated statements of income.

At December 31, 2020, the Corporation does not have any indicators of potential impairment of either goodwill or core deposit intangibles.

Revenue from Contracts with Customers

The majority of the Corporation's revenue-generating transactions are not within the scope of ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other U.S. Generally Accepted Accounting Principles (GAAP) discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

Trust and investment service fees – The Corporation provides trust, investment management custody and irrevocable life insurance trust services to customers. Such services are rendered in accordance with the underlying contracts for which fees are earned. The Corporation's performance obligations are generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for services rendered is primarily received in the following month.

Income from mutual fund, annuity and insurance sales – The Corporation sells mutual funds, annuity and insurance products to its customers. The Corporation's performance obligation is met upon the signing of the product agreement and, in certain cases, a time component may exist when the customer has the right to rescind the agreement with or without penalty. The Corporation recognizes revenues upon delivery of the product or service unless there is a time component in which case revenues are recognized utilizing the expected value method. Payment for services rendered is primarily received in the following month.

Service charges on deposits accounts – These represent general service fees for monthly account maintenance and activity- or transaction based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Other service charges include revenue from processing wire transfers, cashier's checks and other services. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to the customers' accounts.

Other noninterest income – The Corporation evaluated individual components of other noninterest income, such as credit card merchant fees, credit and gift card fees and ATM fees. Debit card income is primarily comprised of interchange fees earned whenever the Corporation's debit cards are processed through payment networks, such as Visa. Credit and gift card income is realized through a third party provider who issues credits as private label in the Corporation's name. ATM fees are primarily generated when a non-Corporation cardholder uses a Corporation ATM. The income is primarily comprised as a percentage of interchange fees earned whenever the issuer's card is processed through card payment networks, such as Visa or Pulse. Merchant services income is realized through a third party service provider who is contracted by the Corporation under a referral arrangement. Such fees represent fees charged to merchants to process their debit card transactions. The Corporation's performance obligation for these fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received within a 1 to 3 day lag or in the following month.

Per Share Data

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

The computation of net income per share for the years ended December 31, 2020 and 2019 is provided in the table below.

(in thousands, except per share data)	2020	2019
Net income available to shareholders	$ 8,442	$ 18,647
Weighted average shares outstanding (basic)	9,782	9,863
Effect of dilutive stock options	27	66
Weighted average shares outstanding (diluted)	9,809	9,929
Basic earnings per share	$ 0.86	$ 1.89
Diluted earnings per share	$ 0.86	$ 1.88
Anti-dilutive stock options excluded from the computation of earnings per share	136	32

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

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

Supplemental cash flow information is provided in the table below.

	Years ended December 31,	
(dollars in thousands)	2020	2019
Cash paid during the period for:		
Income taxes	$ 4,217	$ 4,310
Interest	$ 15,563	$ 21,373
Noncash investing activities:		
Transfer of loans to foreclosed real estate	$ 121	$ 0
Initial recognition of financing lease right-of-use assets	$ 0	$ 1,358
Initial recognition of financing lease liabilities	$ 0	$ 1,480
Initial recognition of operating lease right-of-use assets	$ 186	$ 2,958
Initial recognition of operating lease liabilities	$ 186	$ 3,035

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

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

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

Recent Accounting Pronouncements

Pronouncements Adopted in 2020

In January 2017, the FASB issued Accounting Standards Update (ASU) 2017-04, Intangibles – Goodwill and Other (Topic 350). This standard simplifies the test for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill, which currently is Step 2 of the goodwill impairment test. Instead, the goodwill impairment test will consist of a single quantitative step comparing the fair value of the reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and any interim goodwill impairment tests in reporting periods beginning after December 15, 2019. The Corporation adopted this standard effective January 1, 2020. The adoption of this standard did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement. The amendments in this update modify the disclosure requirements in Topic 820, Fair Value Measurement. The following disclosure requirements were removed: the amount of and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The following disclosure requirements were modified: for investments in certain entities that calculate net asset value, and entity is required to disclose the timing of liquidation of investee's assets and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The update is effective for fiscal years beginning after December 15, 2019. The adoption of this update did not have a material impact on the Corporation's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those incurred to develop or obtain internal-use software. This standard requires application of Subtopic 350-40 to determine which costs to implement the service contract would be capitalized as an asset and which costs would be expensed. The amendments in the update are effective for the years beginning after December 15, 2019. The adoption of this update did not have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740). This standard is part of an initiative to reduce complexity in accounting standards and provides simplifications to the accounting for income taxes by removing certain exceptions related to intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, deferred tax liability recognition for equity method investment related to foreign subsidiaries and the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additional simplifications are provided related to franchise tax recognition, step up in tax basis of goodwill, allocation of consolidated current and deferred tax expense and the reflection of the effect of enacted change in tax laws in the interim period that includes the enactment date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The adoption of this standard did not have a material impact on its consolidated financial statements.

Pronouncements Not Yet Effective

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). This standard adds a new Topic 326 which requires companies to measure and record impairment on financial instruments at the time of origination using the expected credit loss (CECL) model. The CECL model calculates impairment based on historical experience, current conditions, and reasonable and supportable forecasts, and reflects the organization's current estimate of all expected credit losses over the contractual term of its financial assets. The new standard was delayed and is now effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation expects the provisions of ASU No. 2016-13 to impact its consolidated financial statements, in particular, the level of the reserve for credit losses. The Corporation is continuing to evaluate the extent of the potential impact and expects that portfolio composition and economic conditions at the time of adoption will be a factor.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20). The amendments in this update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The update is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Corporation is currently evaluating the impact of the adoption of this update on its disclosures.

NOTE 2-Restrictions on Cash and Due from Banks

PeoplesBank is required to maintain average reserves, in the form of cash and balances with the Federal Reserve Bank, against its deposit liabilities. In 2020 and 2019, the reserves were met with vault cash. PeoplesBank is also required to maintain compensating balances with certain correspondent banks, which totaled $65,000 at December 31, 2020 and 2019.

NOTE 3-Securities

A summary of securities, available-for-sale at December 31, 2020 and 2019 is provided below. The securities available-for-sale portfolio is generally comprised of high quality debt instruments, principally obligations of the United States government or agencies thereof and investments in the obligations of states and municipalities. The majority of municipal bonds in the portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but they are for critical services such as water and sewer. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific loss reserves. At December 31, 2020, 85 percent of the fair value of the municipal bond portfolio was concentrated in the Commonwealth of Pennsylvania and 13 percent was concentrated in the state of Texas. The portfolio was intentionally distributed to limit exposure with the largest issuer at $2 million. At year-end 2020 and 2019, there were no holdings of securities of any one issuer, other than the US Government and its agencies, in an amount greater than 10% of shareholders' equity.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Debt securities:				
U.S. agency	$ 40,000	$ 0	$ 0	$ 40,000
U.S. agency mortgage-backed, residential	106,792	4,133	(29)	110,896
State and municipal	24,014	311	(25)	24,300
Corporates	9,681	139	(14)	9,806
Total debt securities	$ 180,487	$ 4,583	$ (68)	$ 185,002
December 31, 2019				
Debt securities:				
U.S. Treasury notes	$ 9,834	$ 119	$ 0	$ 9,953
U.S. agency	15,000	0	(77)	14,923
U.S. agency mortgage-backed, residential	106,799	1,443	(87)	108,155
State and municipal	26,385	260	(1)	26,644
Total debt securities	$ 158,018	$ 1,822	$ (165)	$ 159,675

The proceeds from sales of securities and the associated gains and losses are listed below. Realized gains and losses are computed on the basis of specific identification of the adjusted cost of each security and are shown net as a separate line item in the income statement.

(dollars in thousands)	Years ended December 31, 2020	2019
Proceeds	$ 21,679	$ 19,745
Gross gains	124	18
Gross losses	(59)	(27)

The tax (provision) benefit related to these net realized gain and losses was $(14) and $2 respectively.

The amortized cost and estimated fair value of debt securities at December 31, 2020 by contractual maturity are shown below. Actual maturities may differ from contractual maturities if call options on selected debt issues are exercised in the future. Mortgage-backed securities are included in the maturity categories based on average expected life.

(dollars in thousands)	Available-for-sale Amortized Cost	Fair Value
Due in one year or less	$ 48,332	$ 48,340
Due after one year through five years	89,635	92,866
Due after five years through ten years	22,197	22,839
Due after ten years	20,323	20,957
Total debt securities	$ 180,487	$ 185,002

Investment securities having a carrying value of $170,313,000 and $128,427,000 on December 31, 2020 and December 31, 2019, respectively, were pledged to secure public and trust deposits, repurchase agreements and other short-term borrowings.

The table below shows gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position, at December 31, 2020 and 2019.

	Less than 12 months			12 months or more			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
December 31, 2020									
Debt securities:									
U.S. agency	2	$ 40,000	$ 0	0	$ 0	$ 0	2	$ 40,000	$ 0
U.S. agency mortgage-backed, residential	8	8,706	(29)	0	0	0	8	8,706	(29)
State and municipal	4	3,808	(25)	0	0	0	4	3,808	(25)
Corporates	3	4,075	(14)	0	0	0	3	4,075	(14)
Total temporarily impaired debt securities, available-for-sale	17	$ 56,589	$ (68)	0	$ 0	$ 0	17	$ 56,589	$ (68)
December 31, 2019									
Debt securities:									
U.S. agency	1	$ 4,983	$ (17)	2	$ 9,940	$ (60)	3	$ 14,923	$ (77)
U.S. agency mortgage-backed, residential	12	21,821	(82)	2	1,163	(5)	14	22,984	(87)
State and municipal	1	466	(1)	0	0	0	1	466	(1)
Total temporarily impaired debt securities, available-for-sale	14	$ 27,270	$ (100)	4	$ 11,103	$ (65)	18	$ 38,373	$ (165)

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

The Corporation believes that any unrealized losses at December 31, 2020 were primarily the result of changes in market interest rates and that it has the ability to hold these investments for a time necessary to recover the amortized cost. Through December 31, 2020, the Corporation has collected all interest and principal on its investment securities as scheduled. The Corporation believes that collection of the contractual principal and interest is probable and, therefore, all impairment is considered to be temporary.

NOTE 4-Loans

Loan Portfolio Composition

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. Since that time banking regulators, the SEC and FASB have all issued additional guidance and clarification on various sections of the CARES Act. Section 4013 of the CARES Act provides the option to not apply ASC 310-40 (TDRs) to a loan modification, related specifically to COVID-19 hardships. Regulators have encouraged financial institutions to work constructively with borrowers in communities and industries affected by COVID-19 using prudent and proactive actions which are in the best interests of the financial institution, the borrower and the economy. The Corporation’s Board of Directors approved a number of options for loan modifications, including interest deferral, full payment deferral, additional extensions of credit, and SBA loan programs (i.e., Economic Injury Disaster Loans, Paycheck Protection Program). As of December 31, 2020, the Corporation has remaining loan modifications totaling approximately $89 million. The Corporation has been an active participant in the SBA Paycheck Protection Program, with outstanding PPP loans as of December 31, 2020 of approximately $143,000,000.

The table below provides the composition of the loan portfolio at December 31, 2020 and 2019. The portfolio is comprised of two segments, commercial and consumer loans. The commercial loan segment is disaggregated by industry class which allows the Corporation to monitor risk and performance.

Those industries representing the largest dollar investment and most risk are listed separately. The "Other" commercial loans category is comprised of various industries. The consumer related segment is comprised of residential mortgages, home equity and other consumer loans. The Corporation has not engaged in sub-prime residential mortgage originations.

(dollars in thousands)	December 31, 2020	% Total Loans	December 31, 2019	% Total Loans
Builder & developer	$ 147,609	9.6	$ 159,312	10.6
Commercial real estate investor	236,924	15.3	207,227	13.8
Residential real estate investor	238,458	15.4	247,969	16.5
Hotel/Motel	79,421	5.2	80,260	5.3
Wholesale & retail	108,425	7.0	109,238	7.3
Manufacturing	79,142	5.1	86,511	5.7
Agriculture	80,450	5.2	80,719	5.4
Other	357,454	23.2	313,371	20.7
Total commercial related loans	1,327,883	86.0	1,284,607	85.3
Residential mortgages	95,751	6.2	94,868	6.3
Home equity	96,711	6.3	100,827	6.7
Other	24,244	1.5	24,833	1.7
Total consumer related loans	216,706	14.0	220,528	14.7
Total loans	$ 1,544,589	100.0	$ 1,505,135	100.0

Concentrations of Credit Risk

Concentrations of credit risk arise when a number of clients are engaged in similar business activities in the same geographic region or have similar economic features that could cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Most of the Corporation's business is with clients in south central Pennsylvania, specifically York County and Lancaster County and north central Maryland, specifically Baltimore County, Harford County and Baltimore City. At December 31, 2020, the Corporation had two industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor, which represented 15.4 percent of the portfolio and commercial real estate investor, which represented 15.3 percent of the portfolio. At December 31, 2019, the Corporation had three industry concentrations that exceeded 10 percent of the total loan portfolio: residential real estate investor, which represented 16.5 percent of the portfolio; commercial real estate investor, which represented 13.8 percent of the portfolio; and builder & developer, which represented 10.6 percent of the portfolio. Loans to borrowers within these industries are usually collateralized by real estate.

The principal balance of outstanding loans to directors, executive officers, principal shareholders and any affiliates of such persons was $8,376,000 at December 31, 2020 and $9,355,000 at December 31, 2019. During 2020, total additions were $719,000 and total repayments and reductions were $1,698,000. As of year-end 2020, all loans to this group were current and performing in accordance with contractual terms.

Loan Risk Ratings

The Corporation's internal risk rating system follows regulatory guidance as to risk classifications and definitions. Every approved loan is assigned a risk rating. Generally, risk ratings for commercial related loans are determined by a formal evaluation of risk factors performed by the Corporation's underwriting staff. For consumer and residential mortgage loans, the bank follows the Uniform Retail Credit Classification guidance. Commercial loans up to $500,000 may be scored using third-party credit scoring software models for risk rating purposes. The loan portfolio is monitored on a continuous basis by loan officers, loan review personnel and senior management. Adjustments of loan risk ratings within the Watch, Criticized and Classified categories are generally performed by the Special Asset Committee, which includes senior management. The Committee, which typically meets at least quarterly, makes changes, as appropriate, to risk ratings when it becomes aware of credit events such as payment delinquency, cessation of a business or project, bankruptcy or death of the borrower, or changes in collateral value. In addition to review by the Committee, existing loans are monitored by the primary loan officer and loan review officer to determine if any changes, upward or downward, in risk ratings are appropriate. An external consultant is also used to review a portion of the existing portfolio and recommends risk rating changes as appropriate. Primary loan officers may recommend a change to a risk rating and internal loan review officers may downgrade existing loans, except to non-accrual status. Only the Committee, Executive Chairman or President/CEO may downgrade a loan to non-accrual status or upgrade a loan that is criticized or classified.

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

The table below presents a summary of loan risk ratings by loan class at December 31, 2020 and 2019.

(dollars in thousands)	Pass	Special Mention	Substandard	Nonaccrual	Total
December 31, 2020					
Builder & developer	$ 133,804	$ 11,305	$ 2,121	$ 379	$ 147,609
Commercial real estate investor	230,113	6,379	231	201	236,924
Residential real estate investor	234,316	1,215	130	2,797	238,458
Hotel/Motel	48,264	542	18,143	12,472	79,421
Wholesale & retail	99,821	8,591	13	0	108,425
Manufacturing	67,968	0	3,610	7,564	79,142
Agriculture	72,829	416	3,776	3,429	80,450
Other	331,658	1,730	13,804	10,262	357,454
Total commercial related loans	1,218,773	30,178	41,828	37,104	1,327,883
Residential mortgage	95,466	123	11	151	95,751
Home equity	96,026	55	0	630	96,711
Other	23,954	0	0	290	24,244
Total consumer related loans	215,446	178	11	1,071	216,706
Total loans	$ 1,434,219	$ 30,356	$ 41,839	$ 38,175	$ 1,544,589
December 31, 2019					
Builder & developer	$ 151,672	$ 6,503	$ 252	$ 885	$ 159,312
Commercial real estate investor	201,967	3,890	1,145	225	207,227
Residential real estate investor	238,216	3,780	202	5,771	247,969
Hotel/Motel	67,732	12,528	0	0	80,260
Wholesale & retail	89,556	10,513	1,954	7,215	109,238
Manufacturing	76,721	1,058	7,597	1,135	86,511
Agriculture	76,350	1,123	404	2,842	80,719
Other	277,634	16,490	13,748	5,499	313,371
Total commercial related loans	1,179,848	55,885	25,302	23,572	1,284,607
Residential mortgage	94,388	131	74	275	94,868
Home equity	100,089	61	0	677	100,827
Other	24,600	0	7	226	24,833
Total consumer related loans	219,077	192	81	1,178	220,528
Total loans	$ 1,398,925	$ 56,077	$ 25,383	$ 24,750	$ 1,505,135

Impaired Loans

The table below presents a summary of impaired loans at December 31, 2020 and 2019. Generally, impaired loans are all loans risk rated nonaccrual or classified as troubled debt restructurings. An allowance is established for those individual loans that are commercial related where the Corporation has doubt as to full recovery of the outstanding principal balance. Typically, impaired consumer related loans are partially or fully charged-off eliminating the need for a specific allowance. The recorded investment represents outstanding unpaid principal loan balances adjusted for payments collected on a non-cash basis and charge-offs.

	With No Allowance		With A Related Allowance			Total	
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal**	**Recorded Investment**	**Unpaid Principal**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal**
December 31, 2020							
Builder & developer	$ 575	$ 790	$ 0	$ 0	$ 0	$ 575	$ 790
Commercial real estate investor	1,163	1,170	0	0	0	1,163	1,170
Residential real estate investor	581	862	2,216	2,216	216	2,797	3,078
Hotel/Motel	12,472	12,472	0	0	0	12,472	12,472
Wholesale & retail	237	237	0	0	0	237	237
Manufacturing	7,564	7,564	0	0	0	7,564	7,564
Agriculture	2,270	2,382	1,159	1,217	615	3,429	3,599
Other commercial	6,710	7,015	3,552	3,888	2,481	10,262	10,903
Total impaired commercial related loans	31,572	32,492	6,927	7,321	3,312	38,499	39,813
Residential mortgage	151	151	0	0	0	151	151
Home equity	630	653	0	0	0	630	653
Other consumer	290	301	0	0	0	290	301
Total impaired consumer related loans	1,071	1,105	0	0	0	1,071	1,105
Total impaired loans	$ 32,643	$ 33,597	$ 6,927	$ 7,321	$ 3,312	$ 39,570	$ 40,918
December 31, 2019							
Builder & developer	$ 621	$ 651	$ 473	$ 474	$ 238	$ 1,094	$ 1,125
Commercial real estate investor	1,370	1,371	0	0	0	1,370	1,371
Residential real estate investor	734	753	5,037	5,137	1,873	5,771	5,890
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	273	273	7,184	7,811	2,537	7,457	8,084
Manufacturing	13	13	1,122	1,220	463	1,135	1,233
Agriculture	1,784	1,791	1,058	1,058	701	2,842	2,849
Other commercial	1,864	1,974	3,635	3,888	1,608	5,499	5,862
Total impaired commercial related loans	6,659	6,826	18,509	19,588	7,420	25,168	26,414
Residential mortgage	275	277	0	0	0	275	277
Home equity	677	677	0	0	0	677	677
Other consumer	226	231	0	0	0	226	231
Total impaired consumer related loans	1,178	1,185	0	0	0	1,178	1,185
Total impaired loans	$ 7,837	$ 8,011	$ 18,509	$ 19,588	$ 7,420	$ 26,346	$ 27,599

The table below presents a summary of average impaired loans and related interest income that was included in net income for the years ended December 31, 2020 and 2019. Interest income on loans with no related allowance is the result of interest collected on a cash basis, except accruing TDRs.

	With No Related Allowance		With A Related Allowance		Total	
(dollars in thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
December 31, 2020						
Builder & developer	$ 732	$ 36	$ 151	$ 0	$ 883	$ 36
Commercial real estate investor	1,269	72	0	0	1,269	72
Residential real estate investor	1,165	31	3,535	0	4,700	31
Hotel/Motel	2,494	0	0	0	2,494	0
Wholesale & retail	252	8	2,851	0	3,103	8
Manufacturing	1,518	3	429	0	1,947	3
Agriculture	2,228	123	1,117	0	3,345	123
Other commercial	4,747	86	3,686	0	8,433	86
Total impaired commercial related loans	14,405	359	11,769	0	26,174	359
Residential mortgage	177	6	0	0	177	6
Home equity	640	47	0	0	640	47
Other consumer	230	11	0	0	230	11
Total impaired consumer related loans	1,047	64	0	0	1,047	64
Total impaired loans	$ 15,452	$ 423	$ 11,769	$ 0	$ 27,221	$ 423
December 31, 2019						
Builder & developer	$ 1,086	$ 43	$ 219	$ 0	$ 1,305	$ 43
Commercial real estate investor	2,756	123	0	0	2,756	123
Residential real estate investor	628	32	4,791	0	5,419	32
Hotel/Motel	0	0	0	0	0	0
Wholesale & retail	1,241	10	7,325	0	8,566	10
Manufacturing	276	17	1,394	0	1,670	17
Agriculture	1,108	29	423	0	1,531	29
Other commercial	4,252	90	4,990	0	9,242	90
Total impaired commercial related loans	11,347	344	19,142	0	30,489	344
Residential mortgage	323	11	0	0	323	11
Home equity	607	18	0	0	607	18
Other consumer	267	16	0	0	267	16
Total impaired consumer related loans	1,197	45	0	0	1,197	45
Total impaired loans	$ 12,544	$ 389	$ 19,142	$ 0	$ 31,686	$ 389

Past Due and Nonaccrual

The performance and credit quality of the loan portfolio is also monitored by using an aging schedule which shows the length of time a loan is past due. The table below presents a summary of past due loans, nonaccrual loans and current loans by loan segment and class at December 31, 2020 and 2019.

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
December 31, 2020							
Builder & developer	$ 427	$ 489	$ 322	$ 379	$ 1,617	$ 145,992	$ 147,609
Commercial real estate investor	0	0	0	201	201	236,723	236,924
Residential real estate investor	136	0	0	2,797	2,933	235,525	238,458
Hotel/Motel	0	0	0	12,472	12,472	66,949	79,421
Wholesale & retail	29	0	0	0	29	108,396	108,425
Manufacturing	0	0	0	7,564	7,564	71,578	79,142
Agriculture	0	0	0	3,429	3,429	77,021	80,450
Other	679	1,596	0	10,262	12,537	344,917	357,454
Total commercial related loans	1,271	2,085	322	37,104	40,782	1,287,101	1,327,883
Residential mortgage	0	0	937	151	1,088	94,663	95,751
Home equity	206	177	36	630	1,049	95,662	96,711
Other	717	321	0	290	1,328	22,916	24,244
Total consumer related loans	923	498	973	1,071	3,465	213,241	216,706
Total loans	$ 2,194	$ 2,583	$ 1,295	$ 38,175	$ 44,247	$ 1,500,342	$ 1,544,589
December 31, 2019							
Builder & developer	$ 0	$ 0	$ 43	$ 885	$ 928	$ 158,384	$ 159,312
Commercial real estate investor	0	0	0	225	225	207,002	207,227
Residential real estate investor	295	0	0	5,771	6,066	241,903	247,969
Hotel/Motel	0	0	0	0	0	80,260	80,260
Wholesale & retail	0	0	0	7,215	7,215	102,023	109,238
Manufacturing	409	0	0	1,135	1,544	84,967	86,511
Agriculture	14	0	0	2,842	2,856	77,863	80,719
Other	463	1,865	120	5,499	7,947	305,424	313,371
Total commercial related loans	1,181	1,865	163	23,572	26,781	1,257,826	1,284,607
Residential mortgage	0	70	104	275	449	94,419	94,868
Home equity	249	276	0	677	1,202	99,625	100,827
Other	750	68	13	226	1,057	23,776	24,833
Total consumer related loans	999	414	117	1,178	2,708	217,820	220,528
Total loans	$ 2,180	$ 2,279	$ 280	$ 24,750	$ 29,489	$ 1,475,646	$ 1,505,135

Troubled Debt Restructurings

Loans classified as troubled debt restructurings (TDRs) are designated impaired and arise when the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted with respect to these loans involve an extension of the maturity date or a below market interest rate relative to new debt with similar credit risk. The principal balance of outstanding TDRs was $1,395,000 at December 31, 2020 and $1,649,000 at December 31, 2019. There were no allowances allocated to any TDRs at December 31, 2020 or 2019. There are no commitments to lend to existing TDRs. A TDR is considered to be in payment default once it is contractually past due pursuant to the terms of the loan documents. Generally, these loans are secured by real estate. If repayment of the loan is determined to be collateral dependent, the loan is evaluated for impairment loss based on the fair value of the collateral. For loans that are not collateral dependent, the present value of expected future cash flows, discounted at the loan's original effective interest rate, is used to determine any impairment loss. A nonaccrual TDR represents a nonaccrual loan, as previously defined, which includes an economic concession. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive payments after the modification and future principal and interest payments are reasonably assured. In contrast, an accruing TDR represents a loan that, at the time of the modification, has a demonstrated history of payments and with respect to which management believes that future loan payments are reasonably assured under the modified terms.

At December 31, 2020, there are modification remaining for 8 mortgage loans totaling $3,800,000, 37 commercial loans totaling $85,400,000 and no consumer loans under the CARES Act, which are not considered TDRs.

The table below shows loans whose terms have been modified under TDRs during the years ended December 31, 2020 and 2019. The loan modified during 2019, detailed in the table below, was charged off in the third quarter of 2020. There were no defaults during the year ended December 31, 2020 for TDRs entered into during the previous 12 month period. A loan is considered to be in payment default once it is 90 days past due under the modified terms.

	Modifications			
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at Period End
Years ended:				
December 31, 2020				
None				
December 31, 2019	1	$ 63	$ 63	$ 54
Commercial related loans accruing				

NOTE 5-Allowance for Loan Losses

The table below shows the activity in and the composition of the allowance for loan losses by loan segment and class detail as of and for the years ended December 31, 2020 and 2019.

	Allowance for Loan Losses				
(dollars in thousands)	**January 1, 2020 Balance**	**Charge-offs**	**Recoveries**	**Provision**	**December 31, 2020 Balance**
Builder & developer	$ 2,263	$ (936)	$ 9	$ 698	$ 2,034
Commercial real estate investor	2,565	0	0	612	3,177
Residential real estate investor	4,632	(1,880)	26	1,166	3,944
Hotel/Motel	742	0	0	698	1,440
Wholesale & retail	3,575	(3,116)	7	1,950	2,416
Manufacturing	1,252	(459)	0	47	840
Agriculture	1,304	0	0	(16)	1,288
Other commercial	4,204	(8,092)	3	9,344	5,459
Total commercial related loans	20,537	(14,483)	45	14,499	20,598
Residential mortgage	158	0	0	98	256
Home equity	203	(60)	1	143	287
Other consumer	167	(19)	39	(86)	101
Total consumer related loans	528	(79)	40	155	644
Unallocated	1	0	0	21	22
Total	$ 21,066	$ (14,562)	$ 85	$ 14,675	$ 21,264

	Allowance for Loan Losses				
(dollars in thousands)	**January 1, 2019 Balance**	**Charge-offs**	**Recoveries**	**Provision**	**December 31, 2019 Balance**
Builder & developer	$ 2,835	$ (34)	$ 63	$ (601)	$ 2,263
Commercial real estate investor	2,636	0	0	(71)	2,565
Residential real estate investor	3,945	(217)	12	892	4,632
Hotel/Motel	732	0	0	10	742
Wholesale & retail	1,813	(113)	0	1,875	3,575
Manufacturing	1,287	0	0	(35)	1,252
Agriculture	579	0	0	725	1,304
Other commercial	4,063	(46)	0	187	4,204
Total commercial related loans	17,890	(410)	75	2,982	20,537
Residential mortgage	126	0	0	32	158
Home equity	265	(147)	71	14	203
Other consumer	144	(162)	45	140	167
Total consumer related loans	535	(309)	116	186	528
Unallocated	719	0	0	(718)	1
Total	$ 19,144	$ (719)	$ 191	$ 2,450	$ 21,066

The table below shows the allowance amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment at December 31, 2020 and 2019 along with the related loan balances for those years.

	Allowance for Loan Losses			Loans		
(dollars in thousands)	**Individually Evaluated For Impairment**	**Collectively Evaluated For Impairment**	**Balance**	**Individually Evaluated For Impairment**	**Collectively Evaluated For Impairment**	**Balance**
December 31, 2020						
Builder & developer	$ 0	$ 2,034	$ 2,034	$ 575	$ 147,034	$ 147,609
Commercial real estate investor	0	3,177	3,177	1,163	235,761	236,924
Residential real estate investor	216	3,728	3,944	2,797	235,661	238,458
Hotel/Motel	0	1,440	1,440	12,472	66,949	79,421
Wholesale & retail	0	2,416	2,416	237	108,188	108,425
Manufacturing	0	840	840	7,564	71,578	79,142
Agriculture	615	673	1,288	3,429	77,021	80,450
Other commercial	2,481	2,978	5,459	10,262	347,192	357,454
Total commercial related	3,312	17,286	20,598	38,499	1,289,384	1,327,883
Residential mortgage	0	256	256	151	95,600	95,751
Home equity	0	287	287	630	96,081	96,711
Other consumer	0	101	101	290	23,954	24,244
Total consumer related	0	644	644	1,071	215,635	216,706
Unallocated	0	22	22	0	0	0
Total	$ 3,312	$ 17,952	$ 21,264	$ 39,570	$ 1,505,019	$ 1,544,589
December 31, 2019						
Builder & developer	$ 238	$ 2,025	$ 2,263	$ 1,094	$ 158,218	$ 159,312
Commercial real estate investor	0	2,565	2,565	1,370	205,857	207,227
Residential real estate investor	1,873	2,759	4,632	5,771	242,198	247,969
Hotel/Motel	0	742	742	0	80,260	80,260
Wholesale & retail	2,537	1,038	3,575	7,457	101,781	109,238
Manufacturing	463	789	1,252	1,135	85,376	86,511
Agriculture	701	603	1,304	2,842	77,877	80,719
Other commercial	1,608	2,596	4,204	5,499	307,872	313,371
Total commercial related	7,420	13,117	20,537	25,168	1,259,439	1,284,607
Residential mortgage	0	158	158	275	94,593	94,868
Home equity	0	203	203	677	100,150	100,827
Other consumer	0	167	167	226	24,607	24,833
Total consumer related	0	528	528	1,178	219,350	220,528
Unallocated	0	1	1	0	0	0
Total	$ 7,420	$ 13,646	$ 21,066	$ 26,346	$ 1,478,789	$ 1,505,135

NOTE 6-Premises, Equipment and Leases

The following table presents a summary of premises and equipment as of December 31, 2020 and 2019.

(dollars in thousands)	**2020**	**2019**
Land	$ 5,097	$ 5,093
Buildings and improvements	27,441	26,874
Financing lease right-of-use assets	1,087	1,134
Equipment	23,518	23,056
	57,143	56,157
Less accumulated depreciation/amortization	(31,937)	(30,190)
Premises and equipment, net	$ 25,206	$ 25,967

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Corporation adopted ASU 2016-02 "*Leases" (Topic 842)* and all subsequent ASUs that modified Topic 842. For the Corporation, Topic 842 affected the accounting treatment for operating lease agreements in which the Corporation is the lessee.

Substantially all of the leases in which the Corporation is the lessee are comprised of real estate property, ATM locations, and office space. Substantially all of our leases are classified as operating leases, and therefore, were previously not recognized on the Corporation's consolidated statements of condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated statements of condition as a right-of-use ("ROU") asset and a corresponding lease liability. The Corporation has one finance lease for one financial center.

Leases with an initial term of 12 months or less are not recorded on the consolidated statement of condition. The leases have remaining lease terms of 1 year to 25 years, some of which include options to extend. Upon opening a new financial center, we typically install brand-specific leasehold improvements which are depreciated over the shorter of the useful life or length of the lease. To the extent that the initial lease term of the related lease is less than the useful life of the leasehold improvements and, taking into consideration the dollar amount of the improvements, we conclude that it is reasonably certain that a renewal option will be exercised, the renewal period is included in the lease term, and the related payments are reflected in the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Corporation utilizes its incremental borrowing rate at lease inception, on an amortizing and collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used. For the Corporation's financing leases, the Corporation utilized its incremental borrowing rate at lease inception.

All of our leases include fixed rental payments. We commonly enter into leases under which the lease payments increase at pre-determined dates based on the change in the consumer price index. While the majority of our leases are gross leases, we also have a number of leases in which we make separate payments to the lessor based on the lessor's property and casualty insurance cost and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and nonlease components for all of our building leases.

The components of lease expense were as follows:

	Twelve months ended December 31,	
(dollars in thousands)	**2020**	**2019**
Operating lease cost	$ 730	$ 760
Finance lease cost:		
Amortization of right-of-use assets	$ 47	$ 69
Interest on lease liability	48	53
Total finance lease cost	$ 95	$ 122
Total lease cost	$ 825	$ 882

Supplemental cash flow information related to leases were as follows:

	Twelve months ended December 31,	
	2020	**2019**
Operating cash flows from operating leases	$ 751	$ 783
Operating cash flows from financing leases	48	53
Financing cash flows from financing leases	26	40
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	186	1,019
Finance leases	0	0

Amounts recognized as right-of-use assets related to finance leases are included in fixed assets in the accompanying statement of financial position, while related lease liabilities are included in long-term debt. Supplemental balance sheet information related to leases was as follows:

	December 31, 2020	December 31, 2019
Assets:		
Operating leases right-of-use assets	$ 2,386	$ 3,021
Finance leases assets	1,087	1,134
Total lease assets	$ 3,473	$ 4,155
Liabilities:		
Operating	$ 2,515	$ 3,184
Financing	1,296	1,322
Total lease liabilities	$ 3,811	$ 4,506
Weighted Average Remaining Lease Term (years)		
Operating leases	5.2	5.6
Finance leases	23.2	24.2
Weighted Average Discount Rate		
Operating leases	2.68 %	2.72 %
Finance leases	3.69 %	3.69 %

At December 31, 2020, future minimum payments for financing leases and operating leases are payable as follows:

Year Ending December 31,	Operating Leases	Finance Leases
2021	$ 667	$ 75
2022	604	75
2023	489	75
2024	413	75
2025	192	79
Thereafter	317	1,588
Total lease payments	2,682	1,967
Less imputed interest	(167)	(671)
Total	$ 2,515	$ 1,296

NOTE 7-Deposits

The composition of deposits as of December 31, 2020 and 2019 is shown below.

(dollars in thousands)	December 31, 2020	December 31, 2019
Noninterest bearing demand	$ 396,947	$ 273,968
Interest bearing demand	224,764	174,248
Money market	598,398	513,948
Savings	111,143	85,489
Time deposits less than $100	283,910	303,527
Time deposits $100 to $250	180,674	175,477
Time deposits $250 or more	67,703	63,907
Total deposits	$ 1,863,539	$ 1,590,564

Included above in time deposits less than $100,000 are brokered time deposits in the amount of $116,000 and $10,199,000 at December 31, 2020 and 2019, respectively. Included above in time deposits $100,000 to $250,000 are brokered time deposits in the amount of $2,684,000 and $1,317,000 at December 31, 2020 and 2019, respectively.

The deposits from members of the board of directors, executive officers, principal shareholders and any affiliates of such persons were $5,480,000 at December 31, 2020 and $5,430,000 at December 31, 2019.

The following table presents scheduled maturities of time deposits by year as of December 31, 2020.

(dollars in thousands)		2020
2021	$	351,958
2022		127,282
2023		42,542
2024		6,566
2025		3,071
Thereafter		868
Total time deposits	$	532,287

Demand deposit overdrafts reclassified as loans were $55,000 and $86,000 at December 31, 2020 and 2019, respectively.

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

The schedule below provides a summary of short-term borrowings that consist of securities sold under agreements to repurchase, federal funds purchased and other borrowings. Securities sold under agreements to repurchase are overnight borrowings between PeoplesBank and its commercial depositors and are subject to daily repricing. Federal Funds purchased from correspondent banks mature in one business day and reprice daily based on the Federal Funds rate. As of December 31, 2020, PeoplesBank's total availability under Federal Funds lines was $13,000,000. Other short-term borrowings consist of credit available through the Federal Home Loan Bank of Pittsburgh (FHLBP). PeoplesBank maintains a line-of-credit (Open Repo Plus) with the FHLBP which is a revolving term commitment used on an overnight basis. The term of this commitment may not exceed 364 days and it reprices daily at market rates. Under terms of a blanket collateral agreement with the FHLBP, the line-of-credit and long term advances are secured by FHLBP stock and qualifying real estate secured loans. As of December 31, 2020, PeoplesBank's total availability was $453,456,300 with the FHLBP.

The Corporation maintains a $3,000,000 line of credit with ACNB Bank to provide a source of liquidity. The line, renewable annually, is secured by a first lien on the Codorus Valley Corporate Center. The interest rate on the ACNB Bank line is Wall Street Journal Prime. No draws have been made on the line and on December 31, 2020 and 2019, the balance was zero.

The following table presents a summary of aggregate short-term borrowings as of and for the years ended December 31, 2020 and 2019.

	2020				2019			
(dollars in thousands)		Repurchase agreements		Other Short-term borrowings		Repurchase agreements		Other Short-term borrowings
Amount outstanding at end of year	$	8,540	$	0	$	7,925	$	0
Weighted average interest rate at end of year		0.40 %		0 %		0.53 %		0 %
Maximum amount outstanding at any month-end	$	9,477	$	0	$	9,986	$	0
Daily average amount outstanding	$	8,428	$	0	$	7,891	$	1
Approximate weighted average interest rate for the year		0.46 %		0 %		0.54 %		1.97 %

Securities that serve as collateral for securities sold under agreements to repurchase and pledged to provide access to the Federal Reserve Bank Discount Window and other short-term borrowing remain in available-for-sale securities. The fair value of these securities was $11,342,000 and $11,117,000 on December 31, 2020 and 2019, respectively.

The following table presents a summary of long-term debt as of December 31, 2020 and 2019:

(dollars in thousands)	December 31, 2020	2019
PeoplesBank's obligations:		
FHLBP		
Due March 2020, 1.86%	$ 0	$ 10,000
Due June 2020, 1.87%	0	15,000
Due June 2020, 2.70%	0	10,000
Due June 2021, 2.81%	10,000	10,000
Due June 2021, 2.14%	15,000	15,000
Due May 2022, 2.93%	10,000	10,000
Total FHLBP	35,000	70,000
Codorus Valley Bancorp, Inc. obligations:		
Junior subordinated debt		
Due 2034, 2.24%, floating rate based on 3 month LIBOR plus 2.02%, callable quarterly	3,093	3,093
Due 2036, 1.78% floating rate based on 3 month LIBOR plus 1.54%, callable quarterly	7,217	7,217
Due 2030, 4.50%, fixed rate, callable on or after December 2025	30,602	0
Total junior subordinated debt	$ 40,912	$ 10,310
Lease obligations included in long-term debt:		
Finance lease liabilities	1,296	1,322
Total long-term debt	$ 77,208	$ 81,632

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

At December 31, 2020 and 2019, municipal deposit letters of credit issued by the FHLBP on behalf of PeoplesBank naming applicable municipalities as beneficiaries were $42,000,000. The letters of credit took the place of securities pledged to the municipalities for their deposits maintained at PeoplesBank.

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

In December 2020, Codorus Valley issued subordinated notes in the amount of $31,000,000. The Corporation may redeem the subordinated notes, in whole or in part, in a principal amount with integral multiples of $10,000, on or after December 9, 2025 and prior to the maturity date at 100% of the principal amount, plus accrued and unpaid interest. The subordinated notes mature on December 9, 2030. The subordinated notes are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Note Purchase Agreements. The subordinated notes may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated notes have a fixed rate of interest equal to 4.50% until December 30, 2025. After that term, the variable rate of interest is equal to the then current 90-Day Average SOFR (Secured Oversight Financing Rate) plus 404 basis points.

The following table presents long-term debt maturities by year as of December 31, 2020.

(dollars in thousands)	2020
2021	$ 25,075
2022	10,075
2023	75
2024	75
2025	79
Thereafter	41,829
Total long-term debt	$ 77,208

NOTE 9-Regulatory Matters

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

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized PeoplesBank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

Actual and required capital amounts (in thousands) and ratios are presented below at year end.

	Actual (1)		Minimum for Capital Adequacy		Well Capitalized Minimum (2)	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Codorus Valley Bancorp, Inc. *(consolidated)*						
at December 31, 2020						
Capital ratios:						
Common Equity Tier 1	$ 191,863	13.10 %	$ 102,504	7.00 %	$ n/a	n/a%
Tier 1 risk based	201,863	13.79	124,469	8.50	n/a	n/a
Total risk based	250,806	17.13	153,756	10.50	n/a	n/a
Leverage	201,863	9.58	84,250	4.00	n/a	n/a
at December 31, 2019						
Capital ratios:						
Common Equity Tier 1	$ 187,312	12.45 %	$ 105,359	7.00 %	$ n/a	n/a%
Tier 1 risk based	197,312	13.11	127,936	8.50	n/a	n/a
Total risk based	216,154	14.36	158,039	10.50	n/a	n/a
Leverage	197,312	10.55	74,820	4.00	n/a	n/a
PeoplesBank, A Codorus Valley Company						
at December 31, 2020						
Capital ratios:						
Common Equity Tier 1	$ 198,184	13.56 %	$ 102,274	7.00 %	$ 94,968	6.50 %
Tier 1 risk based	198,184	13.56	124,190	8.50	116,884	8.00
Total risk based	216,484	14.82	153,411	10.50	146,105	10.00
Leverage	198,184	9.43	84,109	4.00	105,137	5.00
at December 31, 2019						
Capital ratios:						
Common Equity Tier 1	$ 193,421	12.88 %	$ 105,118	7.00 %	$ 97,610	6.50 %
Tier 1 risk based	193,421	12.88	127,643	8.50	120,135	8.00
Total risk based	212,220	14.13	157,677	10.50	150,169	10.00
Leverage	193,421	10.36	74,673	4.00	93,341	5.00

(1) Net unrealized gains and losses on securities available-for-sale, net of taxes, are disregarded for capital ratio computation purposes in accordance with federal regulatory banking guidelines.
(2) To be “well capitalized” under the prompt corrective action provisions in the Basel III framework. “Well capitalized” applies to PeoplesBank only.

NOTE 10-Shareholders’ Equity

Stock Dividend

Periodically, the Corporation distributes stock dividends on its common stock. The Corporation distributed 5 percent common stock dividends on December 10, 2019 which resulted in the issuance of 463,193 additional common shares. There was no common stock dividend distributed in 2020.

Share Repurchase

During the twelve months of 2019 the Corporation repurchased 222,594 shares of its common stock at an average price of $22.43 for a total of $5,000,000 pursuant to a Share Repurchase Program approved by the Board of Directors in 2018.

The Corporation’s Board of Directors approved a Share Repurchase Program (“Program”) in March 2020. Under the Program, the Corporation is authorized to repurchase up to $5 million of the Corporation’s issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation’s Dividend Reinvestment and Stock Purchase Plan and its equity compensation program. During the first quarter of 2020 the Corporation repurchased 5,335 shares at an average price of $16.37. Shortly after the Program began, and in response to COVID-19, the Corporation suspended the Program. That program expired by its own terms in October, 2020.

The Corporation’s Board of Directors approved a new Share Repurchase Program (“Program”) in January 2021. Under the newly approved Program, the Corporation is authorized to repurchase up to $5 million of the Corporation’s issued and outstanding common stock. All shares of common stock repurchased pursuant to the Program shall be held as treasury shares and be available for use and reissuance for purposes as and when determined by the Board of Directors including, without limitation, pursuant to the Corporation’s Dividend Reinvestment and Stock Purchase Plan and its equity compensation program.

NOTE 11- Benefit Plans

Defined Contribution Plan
PeoplesBank maintains a 401(k) savings and investment plan covering substantially all employees. Under the plan, employees can contribute a percentage of their compensation subject to certain limits based on federal tax law. In 2020 and 2019, PeoplesBank made 100 percent matching contributions up to the first 4 percent of each employee’s compensation contributed to the plan, and both the employee and employer contributions vest immediately. PeoplesBank's expense for the 401(k) savings and investment plan was $719,000 for 2020 and $676,000 for 2019. The components of expense are included in the line item “Personnel expense” in the income statement.

PeoplesBank maintains a supplemental defined contribution deferred compensation plan. Under the plan, PeoplesBank contributes a percentage of compensation to the executive. PeoplesBank’s expense for the defined contribution deferred compensation plan was $71,000 which includes interest of $7,000 for the period ended December 31, 2020 and catch up interest of $2,700 for the period ended December 31, 2019. Expense for the plan was $60,000 which includes interest of $3,000 for the period ended December 31, 2019. The components of expense are included in the line item “Personnel expense” in the income statement. Total accrued liability for the defined contribution deferred compensation plan was $131,000 and $60,000, respectively at December 31, 2020 and December 31, 2019.

Supplemental Benefit Plans
PeoplesBank maintains supplemental retirement plans for selected executives. The expense associated with these plans was approximately $213,000 for 2020, $371,000 for 2019. The components of expense are included in the line item “Personnel expense” in the income statement. The accrued liability for the supplemental retirement plans was $4,292,000 at December 31, 2020 and $4,264,000 at December 31, 2019. Income earned from bank owned life insurance policies was used to finance the cost of supplemental benefit plans, and provide a tax-exempt return to PeoplesBank.

Directors Post Retirement Split-dollar Life Insurance Benefit
PeoplesBank recorded net expense of $66,000 in 2020, $40,000 in 2019, on bank owned life insurance policies with a post retirement split-dollar life insurance benefit. The components of expense are included in the line item “Personnel expense” in the income statement. The accrued liability for the post retirement split-dollar benefit was $549,000 at December 31, 2020 and $484,000 at December 31, 2019.

Directors and Executives Deferred Compensation Plans
PeoplesBank maintains two plans for deferred compensation related to directors and executives. Under the plans, the executive or director may defer a portion of their compensation in accordance with the terms of the plan. The accrued liability related to the directors deferred compensation plan was $31,000 which includes interest of $2,800 for the period ended December 31, 2020 and catch up interest of $480 for the period ended December 31, 2019. The accrued liability was $29,000 which includes interest expense of $600 for the period ended December 31, 2019. The components of expense are included in the line item “Other expense” in the income statement. Total accrued liability was $60,000 and $29,000, respectively at December 31, 2020 and December 31, 2019.

The accrued liability related to the executive deferred compensation plan was $229,000 which includes interest of $13,000 for the period ended December 31, 2020 and catch up interest of $1,900 for the period ended December 31, 2019. The accrued liability was $123,000 which includes interest expense of $3,000 for the period ended December 31, 2019. The components of expense are included in the line item “Other expense” in the income statement. Total accrued liability was $352,000 and $123,000 respectively at December 31, 2020 and December 31, 2019.

NOTE 12-Stock-Based Compensation

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

The following table presents information about the Corporation’s stock plans, adjusted for stock dividends distributed, as of December 31, 2020.

Plan	Types of grants	Number of shares reserved (1)	Number of outstanding awards (1)	Number of shares available for future issuance (1)
2007 Long Term Incentive Plan (07LTIP)	Stock options Stock appreciation rights Restricted stock Stock awards	150,876	150,876	0 (2)
2017 Long Term Incentive Plan (17LTIP)	Stock options Stock appreciation rights Restricted stock Stock awards	362,690	58,955 (3)	303,735
2007 Employee Stock Purchase Plan (ESPP)	Stock option	142,611	0	142,611
Employee Stock Bonus Plan (ESBP)	Stock awards	21,117	0	21,117

(1) Shares/options are subject to adjustment in the event of specified changes in the Corporation's capital structure.
(2) Plan expired on May 15, 2017.
(3) Amount includes 5,776 of unvested options and 27,064 of unvested restricted stock.

<u>2007 Long-Term Incentive Plan (07LTIP) and 2017 Long-Term Incentive Plan (17LTIP)</u>

Options awarded under these plans to date have been granted with an exercise price equal to the fair value of the stock on the grant date, a minimum vesting period of six months and an expiration period of ten years. Restricted awards are granted at fair value. 1,957 restricted shares granted in 2020 vest 100% three years from the date of grant. 1,106 restricted shares granted in 2019 vest 100% four years from the date of grant. 713 restricted shares granted in 2019 vest 100% three years from the date of grant. All of the remaining restricted shares granted in 2020 and 2019 vest as follows: one third at the end of the first year from the date of grant; one third at the end of the second year from the date of grant; and one third at the end of the third year from the date of grant. Restricted stock awards are participating securities but have no impact on basic EPS at December 31, 2020 and 2019. The plans also permit the granting of stock awards. Upon exercise and/or award, the Corporation has historically issued treasury stock, if available, and/or authorized, but unissued, common stock to satisfy the options/awards.

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

(dollars in thousands)		2020		2019
Compensation expense	$	440	$	603
Tax benefit		(92)		(127)
Net income effect	$	348	$	476

The tax benefit shown in the preceding table is less than the benefit that would be calculated using the Corporation's 21% statutory Federal tax rate for 2020 and 2019. Under FASB ASC Topic 718, tax benefits are only recognized over the vesting period for options that ordinarily will generate a tax deduction when exercised (non-qualified stock options) and restricted stock awards.

The Corporation granted the following restricted stock and stock awards during the years ended December 31, 2020 and 2019, as adjusted for stock dividends.

	2020	2019
Restricted stock	7,658	14,872
Stock award	0	6,195

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

	Options		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2020	201,030	$	15.25	5.0 years	$	1,610
Granted	0		0.00			
Exercised	(13,063)		5.96			
Cancelled/Forfeited	0		0.00			
Expired	(5,200)		6.13			
Outstanding at December 31, 2020	182,767	$	16.17	4.4 years	$	426
Vested and exercisable at December 31, 2020	176,991	$	15.96	4.3 years	$	426

The following table presents information about stock options exercised for the years ended December 31, 2020 and 2019.

(dollars in thousands)		2020		2019
Total intrinsic value of options exercised	$	43	$	147
Cash received from options exercised	$	78	$	59
Tax deduction realized from options exercised	$	9	$	31

The following table presents information about non-vested options and restricted stock, adjusted for stock dividends distributed, for the year ended December 31, 2020.

	Stock Options			Restricted Stock		
	Options		Weighted Average Exercise Price Per Share	Shares		Weighted Average Grant Date Fair Value
Non-vested at January 1, 2020	16,400	$	23.76	34,964	$	23.40
Vested	(10,624)		24.31	(15,560)		23.86
Cancelled/Forfeited	0		0	0		0
Granted	0		0	7,658		17.31
Non-vested at December 31, 2020	5,776	$	22.74	27,062	$	21.41

As of December 31, 2020, total unrecognized compensation cost related to non-vested options and restricted stock was $291,000, of which $204,000 will be recognized in 2021, $70,000 will be recognized in 2022 and $17,000 in 2023 with a weighted average recognition period of 1.0 years. The unrecognized compensation expense does not include an estimate for forfeiture of stock awards. The Corporation recognizes forfeitures in the period in which the forfeiture occurs.

Employee Stock Purchase Plan (ESPP)

Under the ESPP, eligible employees can purchase common stock of the Corporation at 85% of the fair market value of the stock at the beginning or end of the six-month offering period, whichever is lower. The ESPP is considered to be a compensatory plan. The following table presents information about the ESPP for the years ended December 31, 2020 and 2019.

	2020	2019
ESPP shares purchased	20,506	13,127
Average purchase price per share (85% of market value)	$ 11.720	$ 18.602
Compensation expense recognized (in thousands)	$ 76	$ 62
Shares issued from treasury stock to satisfy the purchase of ESPP shares	619	8,373
Shares issued from authorized but unissued common stock to satisfy the purchase of ESPP shares	19,887	4,754

Employee Stock Bonus Plan (ESBP)

The ESBP is administered by the Compensation Committee which is comprised of non-employee members of the Corporation's Board of Directors. Under the ESBP the Corporation may issue shares of its common stock to employees as performance based compensation. There were no shares of common stock issued under the ESBP in 2020 and 2019.

NOTE 13-Income Taxes

The following table presents the provision for income taxes for the years ended December 31, 2020 and 2019.

(dollars in thousands)	2020	2019
Current tax provision		
Federal	$ 2,909	$ 5,013
State	379	607
Total current tax provision	3,288	5,620
Deferred tax benefit		
Federal	(1,121)	(573)
State	(136)	(22)
Total deferred tax benefit	(1,257)	(595)
Total tax provision	$ 2,031	$ 5,025

The differences between the effective income tax rate and the Federal statutory income tax rate for the years ended December 31, 2020 and 2019 are shown below.

	2020	2019
Statutory tax rate	21.0 %	21.0 %
Increase (decrease) resulting from:		
Tax-exempt interest income	(1.4)	(0.8)
Bank owned life insurance income	(2.3)	(1.1)
State income taxes, net of federal tax benefit	1.8	2.0
Other, net	0.3	0.2
Effective income tax rate	19.4 %	21.3 %

Significant components of the Corporation's net deferred tax asset, included in other assets as of December 31, 2020 and 2019 are shown below.

(dollars in thousands)	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 4,999	$ 4,955
Deferred compensation	1,335	1,214
Leasing	895	1,059
Low-income housing partnerships	3	28
Foreclosed real estate	4	0
Acquisition accounting adjustments	0	102
Deferred loan fees	129	0
Acquired net operating loss carryforwards	6	16
Other	400	65
Total deferred tax assets	$ 7,771	$ 7,439
Deferred tax liabilities		
Deferred loan fees	$ 0	$ 718
Depreciation	422	505
Leasing	816	977
Acquisition accounting adjustments	11	0
Net unrealized gains on available-for-sale securities	948	348
Other	234	222
Total deferred tax liabilities	$ 2,431	$ 2,770
Net deferred tax assets	$ 5,340	$ 4,669

Based on the level of historical income projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that, as of December 31, 2020, it is more likely than not that the Corporation will realize the benefits of its deferred tax assets.

NOTE 14-Commitments

In the normal course of business, the Corporation is a party to various financial transactions that are not funded as of the balance sheet date. Off-balance sheet financial instruments, which enable PeoplesBank clients to meet their financing needs, are comprised mainly of commitments to extend credit and standby letters of credit. Standby letters of credit are written conditional commitments issued by PeoplesBank to guarantee the performance of a client to a third party. The credit and market risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. To manage these risks, the Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and requires collateral to support these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2020 and 2019, for guarantees under standby letters of credit issued was considered not material by management. Normally, commitments to extend letters of credit have fixed expiration dates or termination clauses, have specific rates and are for specific purposes. Many of the commitments are expected to expire without being extended; therefore, total commitment amounts do not necessarily represent future cash requirements. Commitments to grant loans are generally made for periods of 90 days or less. As of December 31, 2020, the fixed rate loan commitments have interest rates ranging from 2.25% to 5.69% and maturities ranging from 1 year to 30 years. As of December 31, 2019, the fixed rate loan commitments have interest rates ranging from 2.50% to 5.75% and maturities ranging from 1 year to 30 years.

A summary of outstanding commitments at December 31, 2020 and 2019 is shown below.

(dollars in thousands)	2020	2019
Commitments to grant loans		
Fixed rate	$ 31,547	$ 32,511
Variable rate	64,001	29,869
Unfunded commitments of existing loans		
Fixed rate	$ 39,661	$ 44,101
Variable rate	440,947	375,198
Standby letters of credit	$ 15,206	$ 17,253

NOTE 15-Contingent Liabilities

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

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

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

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

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

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

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

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

Assets Measured at Fair Value on a Recurring Basis

Securities Available for Sale

The fair values of investment securities were measured using information from a third-party pricing service. The pricing service uses quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

		Fair Value Measurements		
(dollars in thousands)	**Total**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Other Unobservable Inputs**
December 31, 2020				
Securities available-for-sale:				
U.S. agency	$ 40,000	$ 0	$ 40,000	$ 0
U.S. agency mortgage-backed, residential	110,896	0	110,896	0
State and municipal	24,300	0	24,300	0
Corporates	9,806	0	9,806	0
December 31, 2019				
Securities available-for-sale:				
U.S. Treasury notes	$ 9,953	$ 9,953	$ 0	$ 0
U.S. agency	14,923	0	14,923	0
U.S. agency mortgage-backed, residential	108,155	0	108,155	0
State and municipal	26,644	0	26,644	0

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

Impaired loans are those that are accounted for under FASB ASC Topic 310, in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These loans are included as Level 3 fair values, based on the lowest level of input that is significant to the fair value measurements. At December 31, 2020, the fair value consists of impaired loan balances of $4,009,000, net of valuation allowances of $3,312,000 and charge-offs of $373,000, compared to impaired loan balances of $11,297,000, net of valuation allowances of $7,420,000 and charge-offs of $134,000, at December 31, 2019.

Foreclosed Real Estate

Other real estate property acquired through foreclosure is initially recorded at fair value of the property at the transfer date less estimated selling cost. Subsequently, other real estate owned is carried at the lower of its carrying value or the fair value less estimated selling cost. Fair value is usually determined based upon an independent third-party appraisal of the property or occasionally upon a recent sales offer. At December 31, 2020 there were no foreclosed real estate assets with a valuation allowance or write-down. At December 31, 2019, the fair value of foreclosed real estate with a valuation allowance or write-down was $797,000 which is net of write-downs of $617,000.

Mortgage Servicing Rights

Mortgage servicing rights are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. The fair value of servicing rights is based on the present value of estimated future cash flows on pools of mortgages stratified by rate and original time to maturity. Mortgage servicing rights are subsequently evaluated for impairment on a quarterly basis. Significant inputs to the valuation include expected cash flow, expected net servicing income, a cash flow discount rate and the expected life of the underlying loans. At December 31, 2020 the fair value of the mortgage servicing rights asset was $511,000. At December 31, 2019, the fair value of the mortgage servicing rights asset was $1,047,000.

(dollars in thousands)	Total	Fair Value Measurements (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
December 31, 2020				
Impaired builder & developer loans	$ 196	$ 0	$ 0	$ 196
Impaired residential real estate investor loans	2,209	2,000	0	209
Impaired agriculture loans	544	0	0	544
Impaired other loans	1,071	0	0	1,071
Mortgage servicing rights	511	0	0	511
December 31, 2019				
Impaired builder & developer loans	$ 1,047	$ 0	$ 0	$ 1,047
Impaired residential real estate investor loans	2,561	0	0	2,561
Impaired wholesale & retail loans	4,647	0	0	4,647
Impaired manufacturing loans	659	0	0	659
Impaired agriculture loans	357	0	0	357
Impaired other loans	2,026	0	0	2,026
Foreclosed real estate	797	0	0	797
Mortgage servicing rights	1,047	0	0	1,047

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

(dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements Fair Value Estimate	Valuation Techniques		Unobservable Input		Range	Weighted Average
December 31, 2020							
Impaired builder & developer loans	$ 196	Appraisal	(1)	Appraisal adjustments	(2)	15% - 15%	15 %
Impaired residential real estate investor loans	209	Appraisal	(1)	Appraisal adjustments	(2)	15% - 15%	15 %
Impaired agriculture loans	544	Appraisal	(1)	Appraisal adjustments	(2)	25% - 25%	25 %
Impaired other loans	89	Appraisal	(1)	Appraisal adjustments	(2)	15% - 15%	15 %
Impaired other loans	982	Business asset valuation	(3)	Business asset valuation adjustments	(4)	40% - 50%	44 %
Mortgage servicing rights	511	Multiple of annual service fee		Estimated prepayment speed based on rate and term		18.5% - 18.5%	18.5 %
December 31, 2019							
Impaired builder & developer loans	$ 1,047	Appraisal	(1)	Appraisal adjustments	(2)	15% - 25%	25 %
Impaired residential real estate investor loans	$ 2,561	Appraisal	(1)	Appraisal adjustments	(2)	15% - 20%	16 %
Impaired agriculture loans	$ 357	Appraisal	(1)	Appraisal adjustments	(2)	25% - 25%	25 %
Impaired other loans	$ 2,026	Appraisal	(1)	Appraisal adjustments	(2)	25% - 55%	52 %
Impaired wholesale & retail loans	4,647	Business asset valuation	(3)	Business asset valuation adjustments	(4)	68% - 68%	68 %
Impaired manufacturing loans	659	Business asset valuation	(3)	Business asset valuation adjustments	(4)	10% - 73%	72 %
Foreclosed real estate	797	Appraisal	(1)	Appraisal adjustments	(2)	22% -22%	22 %
Mortgage servicing rights	1,047	Multiple of annual service fee		Estimated prepayment speed based on rate and term		11.2% - 11.2%	11.2 %

(1) Fair value is generally determined through independent appraisals which generally include various level 3 inputs that are not identifiable.

(2) Appraisal amounts may be adjusted downward by the Corporation's management for qualitative factors such as economic conditions, and estimated liquidation expenses. The range of liquidation expenses and other adjustments are presented as a percent of the appraisal or financial statement book value.
(3) Fair value is generally determined through customer-provided financial statements.
(4) Business asset valuations may be adjusted downward by the Corporation's management for qualitative factors such as economic conditions, and estimated liquidation expenses. The range of liquidation expenses and other adjustments are presented as a percent of the financial statement book value.

The following presents the carrying amount and estimated fair value of the Corporation’s financial instruments as of December 31, 2020 and 2019.

			Fair Value Estimates		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
December 31, 2020					
Financial assets					
Cash and cash equivalents	$ 335,793	$ 335,793	$ 335,793	$ 0	$ 0
Securities available-for-sale	185,002	185,002	0	185,002	0
Restricted investment in bank stocks	2,593	N/A	N/A	N/A	N/A
Loans held for sale	15,981	17,228	0	17,228	0
Loans, net	1,523,325	1,527,295	0	0	1,527,295
Interest receivable	8,352	8,352	0	8,352	0
Financial liabilities					
Deposits	$ 1,863,539	$ 1,868,203	$ 0	$ 1,868,203	$ 0
Short-term borrowings	8,540	8,540	0	8,540	0
Long-term debt (1)	45,310	43,005	0	35,571	7,434
Subordinated debentures	30,602	31,159	0	31,159	0
Interest payable	532	532	0	532	0
Off-balance sheet instruments	0	0	0	0	0
December 31, 2019					
Financial assets					
Cash and cash equivalents	$ 131,591	$ 131,591	$ 131,591	$ 0	$ 0
Securities available-for-sale	159,675	159,675	9,953	149,722	0
Restricted investment in bank stocks	4,551	4,551	0	4,551	0
Loans held for sale	11,803	12,460	0	12,460	0
Loans, net	1,484,069	1,472,772	0	0	1,472,772
Interest receivable	5,016	5,016	0	5,016	0
Financial liabilities					
Deposits	$ 1,590,564	$ 1,582,179	$ 0	$ 1,582,179	$ 0
Short-term borrowings	7,925	7,925	0	7,925	0
Long-term debt	80,310	79,579	0	70,486	9,093
Interest payable	842	842	0	842	0
Off-balance sheet instruments	0	0	0	0	0

(1) Excludes leases included in long-term debt.

Note 17—Assets and Liabilities Subject to Offsetting

Securities Sold Under Agreements to Repurchase
PeoplesBank enters into agreements with clients in which it sells securities subject to an obligation to repurchase the same securities ("repurchase agreements"). The contractual maturity of the repurchase agreement is overnight and continues until either party terminates the agreement. These repurchase agreements are accounted for as a collateralized financing arrangement (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability (short-term borrowings) in the Corporation's consolidated financial statements of condition, while the securities underlying the repurchase agreements are appropriately segregated for safekeeping purposes and remain in the respective securities asset accounts.

				Gross amounts Not Offset in the Statements of Condition			
				Financial Instruments			
(dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	U.S Agency mortgage-backed, residential	U.S. agency	Cash Collateral Pledged	Net Amount
December 31, 2020							
Repurchase Agreements	$ 8,540	$ 0	$ 8,540	$ (10,255)	$ 0	$ 0	$ (1,715)
December 31, 2019							
Repurchase Agreements	$ 7,925	$ 0	$ 7,925	$ (9,601)	$ 0	$ 0	$ (1,676)

Note 18-Condensed Financial Information-Parent Company Only

(dollars in thousands)	December 31, 2020	2019
Assets		
Cash and due from banks	$ 31,128	$ 530
Investment in bank subsidiary	204,281	197,277
Investment in other subsidiaries	314	314
Premises and equipment, net	2,841	3,006
Other assets	458	436
Total assets	$ 239,022	$ 201,563
Liabilities		
Long-term debt	$ 10,310	$ 10,310
Subordinated debentures	30,602	0
Other liabilities	150	85
Total liabilities	41,062	10,395
Shareholders' equity	197,960	191,168
Total liabilities and shareholders' equity	$ 239,022	$ 201,563

Condensed Statements of Income and Comprehensive Income

(dollars in thousands)	Years ended December 31, 2020	2019
Income		
Interest from investment securities	$ 8	$ 13
Dividends from bank subsidiary	4,430	4,940
Total income	4,438	4,953
Expense		
Interest expense on long-term debt	267	433
Interest expense on subordinated debentures	92	0
Occupancy of premises, net	179	179
Other	541	355
Total expense	1,079	967
Income before applicable income tax benefit and undistributed earnings of subsidiaries	3,359	3,986
Applicable income tax benefit	250	231
Income before undistributed earnings of subsidiaries	3,609	4,217
Equity in undistributed earnings of bank subsidiary	4,833	14,430
Net income	$ 8,442	$ 18,647
Comprehensive income	$ 10,700	$ 22,182

Note 18-Condensed Financial Information-Parent Company Only (continued)

Condensed Statements of Cash Flows

	Years ended December 31,	
(dollars in thousands)	2020	2019
Cash flows from operating activities		
Net income	$ 8,442	$ 18,647
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	193	207
Equity in undistributed earnings of subsidiaries, net	(4,746)	(9,430)
Other, net	556	747
Net cash provided by operating activities	4,445	10,171
Cash flows from investing activities		
Purchases of premises and equipment	(26)	(15)
Net cash used in investing activities	(26)	(15)
Cash flows from financing activities		
Repayments of long-term debt	0	(169)
Cash dividends paid to shareholders	(5,081)	(6,017)
Proceeds from issuance of subordinated debentures	30,602	0
Treasury stock repurchased	(87)	(4,993)
Net issuance of stock	745	796
Cash paid in lieu of fractional shares	0	(13)
Net cash provided by (used in) financing activities	26,179	(10,396)
Net increase (decrease) in cash and cash equivalents	30,598	(240)
Cash and cash equivalents at beginning of year	530	770
Cash and cash equivalents at end of year	$ 31,128	$ 530

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

The Corporation maintains controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon their evaluation of those controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act performed as of December 31, 2020, the Chief Executive and Chief Financial Officers of the Corporation concluded that the Corporation's disclosure controls and procedures were effective. There was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended December 31, 2020 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. A Report of Management's Assessment of Internal Control Over Financial Reporting is located on page 50 of this Annual Report, and incorporated herein by reference.

The Chief Executive and Chief Financial Officers are not aware of any changes in internal controls over financial reporting or in other factors that has materially affected these controls subsequent to December 31, 2020, the date of their evaluation.

Item 9B: Other information

None.

PART III

Item 10: Directors, executive officers and corporate governance

Information appearing in the Proxy Statement relating to the 2021 Annual Meeting of Shareholders to be held May 18, 2021 (“Proxy Statement”), under the heading, “Proposal 1-Election of Directors” and the caption “Information about Nominees and Continuing Directors,” under the heading “Information Concerning Security Ownership” and the caption “Executive Officers,” and under the heading “Governance of the Corporation” is incorporated by reference in response to this item.

The Corporation has adopted a Code of Business Conduct and Ethics (“Code of Ethics”) as defined in Item 406 of Regulation S-K. The Code of Ethics is also accessible on PeoplesBank’s website at **www.peoplesbanknet.com**. Select “Investor Relations” at the bottom of the page and then select “Governance Documents”.

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

Item 11: Executive compensation

Information appearing in the Proxy Statement, under the captions “Executive Compensation”, “Director Compensation” and “Compensation Committee Interlocks and Insider Participation” is incorporated by reference in response to this item.

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

Information appearing on page 22 of this report under the caption “Securities Authorized for Issuance under Equity Compensation Plans” and in the Proxy Statement, under the caption “Information Concerning Security Ownership” is incorporated by reference in response to this item.

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

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

Item 14: Principal accounting fees and services

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

PART IV

Item 15: Exhibits and financial statement schedules

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

1. Financial Statements

   The following consolidated statements of Codorus Valley Bancorp, Inc. are incorporated by reference to Part II, Item 8 hereof:
   Reports of Independent Registered Public Accounting Firm
   Consolidated Balance Sheets
   Consolidated Statements of Income
   Consolidated Statements of Comprehensive Income
   Consolidated Statements of Cash Flows
   Consolidated Statements of Changes in Shareholders' Equity
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

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

   See Exhibit Index.

Signatures

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

Codorus Valley Bancorp, Inc. (Registrant)

/s/ Larry J. Miller
Larry J. Miller, Chair,
President and Chief Executive Officer

Date: March 9, 2021

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

Signature and Capacity		
/s/ Larry J. Miller Larry J. Miller (Principal Executive Officer)	President, Chief Executive Officer, Chair of the Board of Directors and Director	3/9/2021
/s/ Harry R. Swift Harry R. Swift, Esq.	Vice-Chair of the Board of Directors and Lead Director	3/9/2021
/s/ Sarah M. Brown Sarah M. Brown	Director	3/9/2021
/s/ Brian D. Brunner Brian D. Brunner	Director	3/9/2021
/s/ Cynthia A. Dotzel Cynthia A. Dotzel, CPA	Director	3/9/2021
/s/ John W. Giambalvo John W. Giambalvo, Esq.	Director	3/9/2021
/s/ Jeffrey R. Hines Jeffrey R. Hines, P.E.	Director	3/9/2021
/s/ Craig L. Kauffman Craig L. Kauffman	Director	3/9/2021
/s/ J. Rodney Messick J. Rodney Messick	Director	3/9/2021
/s/ Larry D. Pickett Larry D. Pickett, CPA (Principal Financial and Accounting Officer)	Treasurer	3/9/2021

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Amended Articles of Incorporation (Incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for June 30, 2018, filed with the Commission on August 6, 2018)
3.2	Amended By-laws (Incorporated by reference to Exhibit 3.II of the Amended Quarterly Report on Form 10-Q/A for March 30, 2020, filed with the Commission on May 15, 2020)
4.(vi)	Description of registrant's securities (Incorporated by reference to Exhibit 4.(vi) of the Registrant's Annual Report on Form 10-K for December 31, 2019, filed with the Commission on March 11, 2020)
10.1	Employment Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Larry J. Miller, dated December 27, 2005 and amendment dated August 9, 2011(Incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for December 31, 2015, filed with the Commission on March 8, 2016) and second amendment dated March 8, 2016 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 8, 2016) *
10.2	Change of Control Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Larry D. Pickett, dated August 9, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 9, 2018)*
10.3	2001 Employee Stock Bonus Plan (Incorporated by reference to Exhibit 99.1 of Registration Statement No. 333-68410 on Form S-8, filed with the Commission on August 27, 2001) *
10.4	Dividend Reinvestment and Stock Purchase Plan (Incorporated by reference to Exhibit 10.1 of Registration Statement No. 333-179179 on Form S-3D, filed with the Commission on January 26, 2012)
10.5	Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller dated October 1, 1998 (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015)
10.6	Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Harry R. Swift dated October 1, 1998 (Incorporated by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.7	Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller dated December 27, 2005 (Incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.8	Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Harry R. Swift dated December 27, 2005 (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.9	Second Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller dated December 23, 2008 (Incorporated by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.10	Second Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Harry R. Swift dated December 23, 2008 (Incorporated by reference to Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.11	Third Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Larry J. Miller dated May 10, 2016 (Incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 8-K filed with the Commission on May 16, 2016) *
10.12	Form of Group Term Replacement Plan, dated January 1, 2009 pertaining to senior officers of the Corporation's subsidiary, PeoplesBank, A Codorus Valley Company (Incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.13	Form of Director Group Term Replacement Plan, dated December 1, 1998, including Split Dollar Policy Endorsements pertaining to non-employee directors of the Corporation's subsidiary, PeoplesBank, A Codorus Valley Company (Incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form 10-K for December 31, 2014, filed with the Commission on March 10, 2015) *
10.14	Long-Term Nursing Care Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Larry J. Miller, dated December 27, 2005 (Incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form 10-K for December 31, 2015, filed with the Commission on March 8, 2016) *
10.15	Codorus Valley Bancorp, Inc. Change in Control and Supplemental Benefit Trust Agreement between Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Hershey Trust Company, dated January 25, 2006 and Resignation and Appointment of Trustee (Incorporated by reference to Exhibit 10.17 of the Registrant's Annual Report on Form 10-K for December 31, 2015, filed with the Commission on March 8, 2016) *
10.16	Amended and Restated Declaration of Trust of CVB Statutory Trust No. 2, dated as of June 28, 2006, among Codorus Valley Bancorp, Inc., as sponsor, the Delaware and institutional trustee named therein, and the administrators named therein (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)
10.17	Indenture, dated as of June 28, 2006, between Codorus Valley Bancorp, Inc., as issuer, and the trustee named therein, relating to the Junior Subordinated Debt Securities due 2036 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)

10.18	Guarantee Agreement, dated as of June 28, 2006, between Codorus Valley Bancorp, Inc. and guarantee trustee named therein (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Commission on June 30, 2006)
10.19	2007 Long-Term Incentive Plan of Codorus Valley Bancorp, Inc. (Incorporated by reference to Exhibit A of the Registrant's definitive proxy statement, dated April 6, 2012) *
10.20	2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit B of the Registrant's definitive proxy statement, dated April 6, 2012) *
10.21	Executive Incentive Plan – filed herewith *
10.22	Form of Change of Control Agreement dated June 23, 2016 by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and each of Diane E. Baker and Amy L. Doll (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 28, 2016)
10.23	Employment Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Craig L. Kauffman, dated August 6, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 16, 2018)*
10.24	Change of Control Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Matthew A. Clemens, dated July 14, 2016 (Incorporated by reference to Exhibit 10.29 to the Registrant's Current Report on Form 10-K, filed with the Commission on March, 15, 2017) *
10.25	Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Matthew A. Clemens, dated October 1, 2002 (Incorporated by reference to Exhibit 10.30 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 15, 2017) *
10.26	Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Matthew A. Clemens, dated December 27, 2005 (Incorporated by reference to Exhibit 10.31 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 15, 2017) *
10.27	Second Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Matthew A. Clemens, dated December 23, 2008 (Incorporated by reference to Exhibit 10.32 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 15, 2017) *
10.28	Third Amendment to Salary Continuation Agreement between PeoplesBank, A Codorus Valley Company and Matthew A. Clemens, dated March 11, 2014 (Incorporated by reference to Exhibit 10.33 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 15, 2017) *
10.29	2017 Long Term Incentive Plan (Incorporated by reference to Exhibit 10.1 of Registration Statement No. 333-218031 on Form S-8, filed with the Commission on May 16, 2017) *
10.30	Change of Control Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Timothy J. Nieman, dated February 5, 2018 (Incorporated by reference to Exhibit 10.35 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 13, 2018) *
10.31	Supplemental Executive Retirement Plan by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Diane Baker, dated January 29, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 4, 2019)*
10.32	Bank Contribution Deferred Compensation Agreement by and among Codorus Valley Bancorp, Inc., PeoplesBank, A Codorus Valley Company and Craig L. Kauffman, dated February 21, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 27, 2019)*
10.33	Elective Deferred Compensation Plan, dated February 21, 2019 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on February 27, 2019)*
14	Code of Ethics, dated March 13, 2018 (incorporated by reference to Exhibit 14 to the Registrant's Current Report on Form 10-K, filed with the Commission on March 15, 2019)
21	List of subsidiaries of Codorus Valley Bancorp, Inc. – filed herewith.
23	Consents of Independent Registered Public Accounting Firms – filed herewith.
24	Power of Attorney – filed herewith.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – filed herewith
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – filed herewith
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith
101	Interactive data file containing the following financial statements of Codorus Valley Bancorp, Inc. formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2020 and 2019, (ii) Consolidated Statements of Income for the years ended December 31, 2020 and 2019, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2020 and 2019, (iv) Consolidated Statements of Cash Flow for the years ended December 31, 2020 and 2019, (v) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020 and 2019, and (vi) Notes to Consolidated Financial Statements – filed herewith.
104	Cover page interactive data file (formatted as inline XBRL and contained in Exhibit 101)
	* Management contract or compensation plan or arrangement required to be filed or incorporated as an exhibit. Portions of this exhibit which

are not material have been omitted because they would likely cause competitive harm to the registrant if publicly disclosed.

Exhibit 10.21

PeoplesBank, A Codorus Valley Company
Executive Incentive Plan
January 2021

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND LIKELY WOULD CAUSE COMPETITIVE HARM TO THE REGISTRANT

I. Introduction

The success of both PeoplesBank and Codorus Valley Bancorp, Inc. ("the Company") is dependent upon the Company's ability to meet and exceed financial and strategic objectives, increase the value of the franchise and operate in the best long-term interests of the shareholders. This success is dependent upon the contributions of each individual executive which collectively impact the Company's performance and results.

PeoplesBank intends to provide executives with a structured incentive compensation opportunity in order to recognize the contribution that each makes to the overall performance of the Company. The purpose of this incentive plan is to motivate, reward and reinforce performance and achievement of corporate goals and individual performance/contributions in support of the Company's strategic objective for growth and profitability.

While risk is an inherent aspect of business, this compensation plan is designed to reward executives for certain levels of performance without encouraging undue risk-taking which could materially threaten the safety and soundness of the Company or business unit.

This Executive Incentive Plan ("the Plan") has been developed as a meaningful compensation tool to encourage and reward participants for the part that they play in the overall success of the Company. The Plan is designed to:

- provide a form of results-oriented variable compensation which is directly linked to overall Company performance, and,
- provide for recognition of individual contribution to the Company's performance

II. Plan Year

The plan year for this program will be the calendar year, January 1 – December 31. The Plan will pay out annually based on achievement of established goals and performance measures. The performance measures for the Plan will be determined, calculated and approved annually.

III. Eligibility for Participation

All PeoplesBank executives who meet the criteria below will be eligible to participate in the Executive Incentive Plan. A listing of participant categories by grouping appears in Exhibit A.

Eligibility for incentive payout will be determined by the participant's most recent performance rating. To be eligible, individual performance must meet expectations for the role and not be subject to a performance plan. Newly hired executives will be eligible to participate in the Plan provided they start employment prior to October 1 of the plan year. Payout for current year hires will be pro-rated based on their actual pay during the plan year. If the individual started employment after October 1, the executive will be eligible for the next plan year.

A participant's eligibility ceases at termination of employment (except in the case of retirement, death or disability) and the participant will not receive any awards under the Plan beyond those already received. To be eligible for an award, an executive must be employed as of the payout date.

IV. Incentive Opportunities

Each participant will have a target incentive opportunity based on his/her role and competitive market practice. Incentive opportunities will be defined as a percentage of base pay. Base pay is actual base salary earned as of December 31 of the plan year. See Exhibit A for targets by participant categories.

V. Payout Range

Actual awards will pay out at a reduced level (i.e.50% of target) for threshold performance, at 100% for target performance and at higher level (i.e.150% of target) for stretch/maximum or above performance. Performance below threshold will be zero.

VI. Performance Goals

Each participant will have defined performance goals. The goals and weights are determined at the beginning of each plan year and may change from year to year. The goals are established by the Compensation Committee and Executive Management in conjunction with the annual budget process. Company goals are selected to be aligned with business/strategic plan and may reflect annual financial measures such as Pre-Tax,Pre-Provision income, net income, return on assets, return on equity, efficiency ratio, earnings per share, balance sheet growth, asset quality and other risk considerations as well as other indicators as appropriate. Personal goals generally reflect each participant's unique role and responsibilities and may include Action Plan objectives as deemed appropriate. Threshold, target, and maximum goals will be defined as quantifiable goals.

The performance goals for the plan year are found in Exhibit A. Individual participant performance measures will be documented in the format that is specific, measurable, time bound, and directly tied to the budget and or action plan item for the calendar year.

VII. Award Calculation and Distribution

Payout amounts are calculated according to the level of overall performance achievement as compared to goals as explained in Exhibit A. Payout for performance between the threshold and target and target and maximum is interpolated.

Incentive payouts will be approved by the Compensation Committee. Final incentive payouts can be adjusted downward based on credit, regulatory, or any other assessment of risk by the Compensation Committee.

Actual individual payouts are then distributed to eligible participants based on payout percentage of base pay (defined as actual base salary earned as of December 31 of the plan year) for the year. Any payout is subject to the Bank's Clawback Policy.

Payment will be made following the release of the prior year financials by the external auditors. This will occur no later than March 15 of the following year. The Company will deduct from all payments under this plan any federal, state or local taxes required by law to be withheld from such payments. Any participant terminating employment (except retirement, death, or disability) prior to actual payment of award will forfeit that award.

VIII. Administration

Effective Date

This Plan is effective January 1, 2021 for the performance period of January 1, 2021 to December 31, 2021. The Plan will be reviewed annually by the Compensation Committee to ensure proper alignment with the Company's objectives. The Company's Compensation Committee retains the right as described below to amend, modify or discontinue the Plan at any time during the specified period. The Plan will remain in effect until earned incentive compensation is paid to participants.

Plan Authorization and Oversight

This Plan is authorized by the Board of Directors. The Compensation Committee has the sole authority to interpret the Plan and to make or nullify any rules and procedures, as necessary, for proper administration. The Compensation Committee has the authority to make adjustments for non-recurring and extraordinary items that they deemed are outside management's control. Any determination by the Committee and/or Board of Directors will be final and binding. The Compensation Committee may, in its sole discretion, terminate, modify or amend any aspect of the Plan. Amendments can include adjustments to award calculations for any significant extraordinary financial items occurring in any given time period. However, no Plan amendment or termination will adversely affect an outstanding award.

The Compensation Committee shall have full power and authority to construe, interpret, manage and control this plan. The plan administrator shall be designated at the discretion of the Compensation Committee.

Any decisions made or action taken by the Committee arising out of, or in connection with, the administration, interpretation and effect of the Plan shall be at their absolute discretion and will be conclusive and binding on all parties. The Company reserves the right to amend, suspend, reinstate or terminate all or any part of the Plan at any time.

The Company will give prompt written notice to each participant of any amendment, suspension, termination or any material modification of the Plan. The Compensation Committee also reserves the right to withhold or amend award payments based on performance or circumstances deemed highly unusual.

Risk Assessment
At least annually, the Director of Human Resources or Chief Administrative Officer and Chief Risk Officer (who has responsibility for risk assessment) will review this plan and provide a report including a detailed assessment regarding any risk issues inherent in the Plan. This risk report and the plan document in full will be reviewed by the Compensation Committee of the Board of Directors to ensure that the plan design is consistent with the compensation philosophy of the Company and that the Plan does not motivate undue risk taking. The annual review will also include the market competitiveness of the Plan, the plan's alignment with the Company's strategic plan, an assessment of how the Plan meets the objectives in the Introduction of this document, plus the Plan's impact on the overall safety and soundness of the Company. The Committee will then provide a report and recommendations to the full Board of Directors who are responsible to approve the Plan.

Leave of Absence
Employees on a leave of absence (including FMLA, Long Term Disability, Short Term Disability, etc.) will be eligible; however, their distribution will be pro-rated based upon the number of full months of work completed during the plan year under consideration.

Termination of Employment
If a participant is terminated by the Company or resigns, no incentive award will be distributed except death, disability or retirement.

If a participant ceases to be employed by the Company due to death, disability or retirement, his/her incentive award distribution for the Plan year will be pro-rated based on the number of full months of work completed during the plan year under consideration.

Miscellaneous
The Plan does not constitute a contract of employment, and participation in the Plan does not give any employee the right to be retained in the service of the Company or any right or claim to an award under the Plan unless specifically accrued under the terms of this plan. Designation as a plan participant conveys the opportunity, but not the right, to any awards conferred under the Plan.

Any right of a participant or his or her beneficiary to the payment of an award under this plan may not be assigned, transferred, pledged or encumbered.

IX. Governing Law
Except as preempted under federal law, the provisions of the Plan shall be construed, administered and enforced in accordance with the domestic internal law of the Commonwealth of Pennsylvania.

X. Plan Approval
This plan has been approved by the Board of Directors of Codorus Valley Bancorp, Inc. on January 29, 2021.

By ____
Board of Directors
Codorus Valley Bancorp, Inc.

____
Compensation Committee
Codorus Valley Bancorp, Inc.

Exhibit A
Performance Goals - Plan Year 2021

Category	Performance Measure	Weight	Performance Goals		
			Threshold	Target	Stretch
Corporate	Pre-Tax, Pre-Prov. Income	*	$[redacted]**	$[redacted]**	$[redacted]**
	ROE	*	[redacted]**%	[redacted]**%	[redacted]**%
	Efficiency Ratio	*	[redacted]**%	[redacted]**%	[redacted]**%
Individual	Individual Performance	*	TBD		
Total		100%			

*Assigned per below

2021 Performance Measure Weightings

All Participants receive the same weighting	**Performance Measure**	**2020 Weight**
	Pre-Tax, Pre-Provision Income	40%
	ROE	25%
	Efficiency Ratio	20%
	Individual	15%
		100%

Parameters for 2021

1. The Compensation Committee has the discretion to adjust incentive payments down by as much as 100% if it is determined that excessive risk has been taken. This can be done on an individual or overall basis, as appropriate.
2. Base pay is defined as actual base salary earned as of December 31 of plan year.
3. Generally, Company performance factor(s) must meet or exceed threshold to initiate an award in the Plan. Each performance factor is assessed independently from the other performance factors.
4. Awards for performance above threshold but between defined points (threshold, target, maximum) will be interpolated.
5. Performance above maximum level will be paid at maximum award level.
6. Pre-Tax, Pre-Provision Income is defined as net income after all expenses including the dividend paid on the preferred shares and the expense of the awards under this plan and before taxes and provision for loan loss.
7. Return on Equity is the amount of Net Income available to common shareholders as a percentage of average common shareholders' equity.
8. Efficiency Ratio is the amount of the Bank's total noninterest expenses ("overhead") as a percentage of total revenues. The determination of total revenues excludes the impact of ALLL provision and gain on sales of investment securities

2021 Participant Target Awards

Participant	Threshold	Target	Maximum
Executive Chairman	15.00%	30%	45.00%
President & CEO	15.00%	30%	45.00%
Executive Leadership Team	12.50%	25%	37.50%
Grandfathered Leadership	10.00%	20%	30.00%

EXHIBIT 21

SUBSIDIARIES OF CODORUS VALLEY BANCORP, INC.

1. PeoplesBank, A Codorus Valley Company – 100% owned
   (chartered in Pennsylvania)
   105-109 Leader Heights Road
   York, PA 17403

2. SYC Realty Company, Inc. – 100% owned
   (incorporated in Pennsylvania)
   1 Manchester Street, P.O. Box 67
   Glen Rock, Pennsylvania 17327

3. CVB Statutory Trust I – 100% owned (1)
   (formed in Delaware)
   Trustee:
   Wilmington Trust Company
   Rodney Square North
   1100 North Market Street
   Wilmington, Delaware 19890
   Attn: Corporate Trust Administration

4. CVB Statutory Trust 2 – 100% owned (1)
   (formed in Delaware)
   Trustee:
   Wells Fargo Bank, National Association
   919 Market Street
   Suite 700
   Wilmington, Delaware 19801
   Attn: Corporate Trust Division

(1) The Statutory Trusts have not been consolidated into the financial statements of the Corporation in accordance with ASC Topic 810, "Consolidation".

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Codorus Valley Bancorp, Inc.
York, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-46171, 333-157145, 333-179179, 333-192474, 333-195484, 333-214084, 333-240165) and Forms S-8 (Nos. 333-40532, 333-68410, 333-143682, 333-143683, 333-182800, 333-182801, 333-09277, 333-61851 and 333-218031) of Codorus Valley Bancorp, Inc. of our report dated March 11, 2020, relating to the consolidated financial statements of Codorus Valley Bancorp, Inc., which appears in this Form 10-K.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania
March 9, 2021

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement Nos. 333-09277, 333-61851, 333-40532, 333-68410, 333-143682, 333-143683, 333-182800, 333-182801, 333-61851 and 333-218031 on Form S-8 and in Registration Nos. 033-46171, 333-157145, 333-179179, 333-192474, 333-195484, 333-214084, and 333-240165 on Form S-3 of Codorus Valley Bancorp, Inc. of our report dated March 9, 2021, relating to the 2020 financial statements, appearing in this Annual Report on Form 10-K.

Crowe LLP

Columbus, Ohio
March 9, 2021

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Larry J. Miller and Larry D. Pickett, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities (including his capacity as a director and/or officer of Codorus Valley Bancorp, Inc.), to sign this Form 10-K and any or all amendments to this Form 10-K and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Larry J. Miller Larry J. Miller (Principal Executive Officer)	President, Chief Executive Officer, Chair of the Board of Directors and Director	3/9/2021
/s/ Harry R. Swift Harry R. Swift, Esq.	Vice-Chair of the Board of Directors and Lead Director	3/9/2021
/s/ Sarah M. Brown Sarah M. Brown	Director	3/9/2021
/s/ Brian D. Brunner Brian D. Brunner	Director	3/9/2021
/s/ Cynthia A. Dotzel Cynthia A. Dotzel, CPA	Director	3/9/2021
/s/ John W. Giambalvo John W. Giambalvo, Esq.	Director	3/9/2021
/s/ Jeffrey R. Hines Jeffrey R. Hines, P.E.	Director	3/9/2021
/s/ Craig L. Kauffman Craig L. Kauffman	Director	3/9/2021
/s/ J. Rodney Messick J. Rodney Messick	Director	3/9/2021
/s/ Larry D. Pickett Larry D. Pickett, CPA (Principal Financial and Accounting Officer)	Treasurer	3/9/2021

EXHIBIT 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Codorus Valley Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: March 9, 2021

/s/ Larry J. Miller
Larry J. Miller, Chair,
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry D. Pickett, certify that:

1. I have reviewed this annual report on Form 10-K of Codorus Valley Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: March 9, 2021

/s/ Larry D. Pickett
Larry D. Pickett, CPA
Treasurer

EXHIBIT 32

Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted in connection with the Annual Report of Codorus Valley Bancorp, Inc. (the "Company") on Form 10-K for the period ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Larry J. Miller, the Principal Executive Officer, and Larry D. Pickett, the Principal Financial Officer of the Company, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2021

/s/ Larry J. Miller
Larry J. Miller,
Chair, President
and Chief Executive Officer

/s/ Larry D. Pickett
Larry D. Pickett,
CPA
Treasurer