UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

Commission file number 0-13814

Cortland Bancorp

(Exact name of registrant as specified in its charter)

Ohio	34-1451118
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

194 West Main Street, Cortland, Ohio 44410

(Address of principal executive offices) (Zip Code)

(330) 637-8040

(Registrant's telephone number, including area code)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 7, 2002
Common Stock, No Par Value	3,897,892 Shares

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share data)

	JUNE 30, 2002	DECEMBER 31, 2001
ASSETS		
Cash and due from banks	**$ 11,705**	$ 11,970
Federal funds sold	**7,550**	14,750
Total cash and cash equivalents	**19,255**	26,720
Investment securities available for sale (Note 2)	**120,763**	121,430
Investment securities held to maturity (approximate market value of $ 87,611 in 2002 and $72,155 in 2001) (Note 2)	**86,498**	71,994
Total loans (Note 4)	**202,394**	206,255
Less allowance for loan losses (Note 4)	**(3,013)**	(2,998)
Net loans	**199,381**	203,257
Premises and equipment	**5,618**	5,710
Other assets	**11,047**	10,810
Total assets	**$ 442,562**	$ 439,921
LIABILITIES		
Noninterest-bearing deposits	**$ 53,408**	$ 53,229
Interest-bearing deposits (Note 6)	**286,930**	284,432
Total deposits	**340,338**	337,661
Federal Home Loan Bank advances and other borrowings	**47,836**	49,362
Other liabilities	**2,631**	2,374
Total liabilities	**390,805**	389,397
Commitments and contingent liabilities (Notes 8 & 16)		
SHAREHOLDERS' EQUITY		
Common stock - $5.00 stated value - authorized 20,000,000 shares; issued 4,003,702 shares in 2002 and 4,003,702 in 2001 (Note 1)	**20,020**	20,020
Additional paid-in capital (Note1)	**11,012**	10,945
Retained earnings	**20,431**	19,172
Accumulated other comprehensive income (loss) (Note 1)	**2,257**	1,834
Treasury stock, at cost, 96,428 shares in 2002 and 81,626 shares in 2001	**(1,963)**	(1,447)
Total shareholders' equity (Notes 15 and 17)	**51,757**	50,524
Total liabilities and shareholders' equity	**$ 442,562**	$ 439,921

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except per share data)

	THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
INTEREST INCOME				
Interest and fees on loans	**$ 3,943**	$ 4,433	**$ 7,948**	$ 8,867
Interest and dividends on investment securities:				
Taxable interest income	**878**	981	**1,645**	2,169
Nontaxable interest income	**620**	498	**1,221**	940
Dividends	**49**	81	**89**	153
Interest on mortgage-backed securities	**1,357**	1,419	**2,768**	2,765
Other interest income	**54**	111	**100**	187
Total interest income	**6,901**	7,523	**13,771**	15,081
INTEREST EXPENSE				
Deposits	**1,976**	2,974	**4,004**	5,996
Borrowed funds	**624**	662	**1,245**	1,344
Total interest expense	**2,600**	3,636	**5,249**	7,340
Net interest income	**4,301**	3,887	**8,522**	7,741
Provision for loan losses	**60**	25	**175**	100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**4,241**	3,862	**8,347**	7,641
OTHER INCOME				
Fees for other customer services	**338**	386	**652**	753
Investment securities gains - net	**63**	48	**174**	174
Gain on sale of loans - net	**24**	82	**74**	92
Other non-interest income	**180**	125	**318**	268
Total other income	**605**	641	**1,218**	1,287
OTHER EXPENSES				
Salaries and employee benefits	**1,614**	1,447	**3,225**	2,983
Net occupancy expense	**216**	207	**434**	419
Equipment expense	**304**	321	**603**	626
State and local taxes	**129**	155	**259**	310
Office supplies	**77**	82	**186**	209
Marketing expense	**42**	31	**86**	51
Other operating expenses	**475**	437	**918**	828
Total other expenses	**2,857**	2,680	**5,711**	5,426
INCOME BEFORE FEDERAL INCOME TAXES	**1,989**	1,823	**3,854**	3,502
Federal income taxes	**450**	434	**873**	840
NET INCOME	**$ 1,539**	$ 1,389	**$ 2,981**	$ 2,662
BASIC EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.39**	$ 0.35	**$ 0.76**	$ 0.68
DILUTED EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.39**	$ 0.35	**$ 0.76**	$ 0.68

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Amounts in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AT JANUARY 1, 2002	**$ 20,020**	**$ 10,945**	**$ 19,172**	**$ 1,834**	**($1,447)**	**$ 50,524**
Comprehensive income:						
Net income			2,981			2,981
Other comprehensive income, net of tax:						
Unrealized gains or (losses) on available-for-sale securities, net of reclassification adjustment				423		423
Total comprehensive income						3,404
Common stock transactions:						
Shares sold						
Treasury shares reissued		67			608	675
Treasury shares purchased					(1,124)	(1,124)
Cash dividends declared			(1,722)			(1,722)
BALANCE AT JUNE 30, 2002	**$ 20,020**	**$ 11,012**	**$ 20,431**	**$ 2,257**	**($1,963)**	**$ 51,757**

DISCLOSURE OF RECLASSIFICATION FOR AVAILABLE FOR SALE SECURITY GAINS AND LOSSES:

Net unrealized holding gains or (losses) on available-for-sale securities arising during the period, net of tax	$ 538
Less: Reclassification adjustment for net gains realized in net income, net of tax	115
Net unrealized gains on available-for-sale securities, net of tax	$ 423

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	FOR THE SIX MONTHS ENDED JUNE 30, 2002	2001
NET CASH FLOWS FROM OPERATING ACTIVITIES	**$ 3,199**	$ 3,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held to maturity	**(31,163)**	(15,511)
Purchases of securities available for sale	**(16,525)**	(16,939)
Proceeds from sales of securities available for sale		
Proceeds from call, maturity and principal payments on securities	**34,515**	33,488
Net decrease (increase) in loans made to customers	**3,701**	(3,499)
Proceeds from disposition of other real estate	**167**	
Proceeds from sale of fixed assets	**0**	10
Purchase of premises and equipment	**(339)**	(440)
Net cash flows from investing activities	**(9,644)**	(2,891)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	**2,677**	6,255
Net increase (decrease) in borrowings	**(1,526)**	591
Dividends paid	**(1,722)**	(1,680)
Purchases of treasury stock	**(1,124)**	(591)
Treasury shares reissued	**675**	749
Net cash flows from financing activities	**(1,020)**	5,324
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(7,465)**	5,944
CASH AND CASH EQUIVALENTS		
Beginning of period	**26,720**	14,887
End of period	**$ 19,255**	$ 20,831
SUPPLEMENTAL DISCLOSURES		
Interest paid	**$ 5,307**	$ 7,409
Income taxes paid	**$ 950**	$ 875

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

1.) Management Representation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

2.) Reclassifications:

Certain items contained in the 2001 financial statements have been reclassified to conform to the presentation for 2002. Such reclassifications had no effect on the net results of operations.

3.) Investment Securities:

Securities classified as held to maturity are those that management has the positive intent and ability to hold to maturity. Securities held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, with such amortization or accretion included in interest income.

Securities classified as available for sale are those that could be sold for liquidity, investment management, or similar reasons even though management has no present intentions to do so. Securities available for sale are carried at fair value using the specific identification method. Changes in the unrealized gains and losses on available for sale securities are recorded net of tax effect as a component of comprehensive income.

Trading securities are principally held with the intention of selling in the near term. Trading securities are carried at fair value with changes in fair value reported in the Consolidated Statements of Income.

(Dollars in thousands)

Realized gains or losses on dispositions are based on net proceeds and the adjusted carrying amount of securities sold, using the specific identification method. The table below sets forth the proceeds, gains and losses realized on securities sold or called for the period ended:

	SIX MONTHS June 30,		THREE MONTHS June 30,	
	2002	2001	2002	2001
Proceeds on securities sold	$ 0	$ 0	$ 0	$ 0
Gross realized gains	0	0	0	0
Gross realized losses	0	0	0	0
Proceeds on securities called	$ 11,020	$ 8,660	$ 5,960	$ 3,915
Gross realized gains	174	174	63	48
Gross realized losses	0	0	0	0

Securities available for sale, carried at fair value, totalled $120,763 at June 30, 2002 and $121,430 at December 31, 2001 representing 58.3% and 62.8%, respectively, of all investment securities. These levels provide an adequate level of liquidity in management's opinion.

Investment securities with a carrying value of approximately $41,028 at June 30, 2002 and $41,739 at December 31, 2001 were pledged to secure deposits and for other purposes.

(Dollars in thousands)

The amortized cost and estimated market value of debt securities at June 30, 2002, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Investment securities available for sale	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 3,121	$ 3,174
Due after one year through five years	5,781	6,055
Due after five years through ten years	14,346	14,900
Due after ten years	22,925	23,496
	46,173	47,625
Mortgage-backed securities	67,519	69,481
	$ 113,692	$ 117,106

Investment securities held to maturity	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 2,300	$ 2,312
Due after one year through five years	262	268
Due after five years through ten years	22,167	22,653
Due after ten years	37,130	37,506
	61,859	62,739
Mortgage-backed securities	24,639	24,872
	$ 86,498	$ 87,611

(Dollars in thousands)

The amortized cost and estimated fair value of investment securities available for sale and investment securities held to maturity as of June 30, 2002, are as follows:

Securities available for sale	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Securities	$ 5,744	$ 466	$	$ 6,210
U.S. Government agencies and corporations	18,177	730	2	18,905
Obligations of states and political subdivisions	22,252	350	92	22,510
Mortgage-backed and related securities	67,519	1,984	22	69,481
Total	113,692	3,530	116	117,106
Marketable equity Securities	715	122	122	715
Other securities	2,942			2,942
Total available for sale	$ 117,349	$ 3,652	$ 238	$ 120,763

Securities held for maturity	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Government agencies and corporations	$ 33,262	$ 591	$ 16	$ 33,837
Obligations of states and political subdivisions	28,597	448	143	28,902
Mortgage-backed and related securities	24,639	247	14	24,872
Total held to maturity	$ 86,498	$ 1,286	$ 173	$ 87,611

(Dollars in thousands)

The following provides a summary of the amortized cost and estimated fair value of investment securities available for sale and investment securities held to maturity as of December 31, 2001:

Securities available for sale	**AMORTIZED COST**	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
U.S. Treasury Securities	$ 5,790	$ 445	$	$ 6,235
U.S. Government agencies and corporations	13,107	722	3	13,826
Obligations of states and political subdivisions	21,791	228	290	21,729
Mortgage-backed and related securities	74,376	1,676	14	76,038
Total	115,064	3,071	307	117,828
Marketable equity securities	714	116	109	721
Other securities	2,881			2,881
Total available for sale	$ 118,659	$ 3,187	$ 416	$ 121,430

Securities held to maturity	**AMORTIZED COST**	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
U.S. Government agencies and corporations	$ 25,204	$ 489	$ 41	$ 25,652
Obligations of states and political subdivisions	26,222	189	466	25,945
Mortgage-backed and related securities	20,568	127	137	20,558
Total held to maturity	$ 71,994	$ 805	$ 644	$ 72,155

(Dollars in thousands)

4.) Concentration of Credit Risk and Off Balance Sheet Risk:

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Such instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

In the event of nonperformance by the other party, the Company's exposure to credit loss on these financial instruments is represented by the contract or notional amount of the instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. The amount and nature of collateral obtained, if any, is based on management's credit evaluation.

	CONTRACT OR NOTIONAL AMOUNT	
	June 30, 2002	**December 31, 2001**
Financial instruments whose contract amount represents credit risk:		
Commitments to extend credit:		
Fixed rate	$ 2,313	$ 2,321
Variable	36,172	35,242
Standby letters of credit	611	485

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Generally these financial arrangements have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

(Dollars in thousands)

The Company, through its subsidiary bank, grants residential, consumer and commercial loans, and also offers a variety of saving plans to customers located primarily in Northeast Ohio and Western Pennsylvania. The following represents the composition of the loan portfolio:

	June 30, 2002	December 31, 2001
1–4 family residential mortgages	36.3%	37.6%
Commercial mortgages	42.3%	40.6%
Consumer loans	5.9%	7.2%
Commercial loans	11.3%	10.8%
Home equity loans	4.2%	3.8%

There are no mortgage loans held for sale included in 1-4 family residential mortgages as of June 30, 2002, or at December 31, 2001.

The following table sets forth the aggregate balance of underperforming loans for each of the following categories at June 30, 2002 and December 31, 2001:

	June 30, 2002	December 31, 2001
Loans accounted for on a nonaccrual basis	$ 1,230	$ 829
Loans contractually past due 90 days or more as to interest or principal payments (not included in nonaccrual loans above)	None	None
Loans considered troubled debt restructurings (not included in nonaccrual loans or loans contractually past due above)	133	134

(Dollars in thousands)

The following shows the amounts of contractual interest income and interest income actually reflected in income on loans accounted for on a nonaccrual basis and loans considered troubled debt restructuring as of June 30, 2002.

	June 30, 2002	June 30, 2001
Gross interest income that would have been recorded if the loans had been current in accordance with their original terms	$ 77	$ 118
Interest income actually included in income on the loan	36	61

A loan is placed on a nonaccrual basis whenever sufficient information is received to question the collectibility of the loan or any time legal proceedings are initiated involving a loan. When a loan is placed on nonaccrual status, any interest that has been accrued and not collected on the loan is charged against earnings. Cash payments received while a loan is classified as nonaccrual are recorded as a reduction to principal or reported as interest income according to management's judgement as to collectibility of principal.

Impaired loans are generally included in nonaccrual loans. Management does not individually evaluate certain smaller balance loans for impairment as such loans are evaluated on an aggregate basis. These loans include 1 - 4 family, consumer and home equity loans. Impaired loans were evaluated using the fair value of collateral as the measurement method. At June 30, 2002, there were no loans considered impaired.

As of June 30, 2002, there were $1,494 in loans not included in the above categories and not considered impaired, but which can be considered potential problem loans.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed above do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

(Dollars in thousands)

The following is an analysis of the allowance for loan losses for the sixmonth periods ended June 30, 2002 and June 30, 2001:

	2002	2001
Balance at beginning of period	$ 2,998	$ 2,974
Loan charge-offs:		
1-4 family residential mortgages	–	–
Commercial mortgages	–	–
Consumer loans	93	96
Commercial loans	117	–
Home equity loans	–	3
	210	99
Recoveries on previous loan losses:		
1 - 4 family residential mortgages	–	–
Commercial mortgages	–	–
Consumer loans	41	37
Commercial loans	9	2
Home equity loans	–	2
	50	41
Net charge-offs	(160)	(58)
Provision charged to operations	175	100
Balance at end of period	$ 3,013	$ 3,016
Ratio of annualized net charge-offs to average loans outstanding	0.16%	0.06%

For each of the periods presented above, the provision for loan losses charged to operations is based on management's judgment after taking into consideration all known factors connected with the collectibility of the existing portfolio. Management evaluates the portfolio in light of economic conditions, changes in the nature and volume of the portfolio, industry standards and other relevant factors. Specific factors considered by management in determining the amounts charged to operations include previous loan loss experience, the status of past due interest and principal payments, the quality of financial information supplied by customers and the general economic conditions present in the lending area of the Company's bank subsidiary.

5.) Legal Proceedings:

The Company's subsidiary bank was a defendant in federal district court in a class action lawsuit Frank Slentz, et al. v. Cortland Savings and Banking Company, involving purchased interests in two campgrounds.

(Dollars in thousands except per share data)

On October 20, 1997 the judge presiding over this case filed a judgment entry dismissing all claims against the Bank without prejudice. The judgment was appealed by the plaintiffs. On March 2, 1999, the United States Court of Appeals for the Sixth Circuit affirmed the decision of the district court to grant summary judgment in favor of the defendant Bank. Plaintiffs have refiled a similar suit in the Common Pleas Court of Trumbull County seeking damages of approximately $4.3 million. Based on the decision of the United States Court of Appeals and the facts of the case, management believes that a reasonable probability exists that the Bank can prevail in Common Pleas Court. While it is not feasible to predict the ultimate resolution of this case, an outcome unfavorable to the Company's bank subsidiary could have a material effect on the Company's quarterly and annual operating results for that period.

The Bank is also involved in other legal actions arising in the ordinary course of business. In the opinion of management, the outcome of these matters is not expected to have any material effect on the Company.

6.) Earnings Per Share and Capital Transactions:

The following table sets forth the computation of basic earnings per common share and diluted earnings per common share.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Net Income	$ 1,539	$ 1,389	$ 2,981	$ 2,662
Weighted average common shares outstanding *	3,921,889	3,928,033	3,927,122	3,928,975
Basic earnings per share *	$ 0.39	$ 0.35	$ 0.76	$ 0.68
Diluted earnings per share *	$ 0.39	$ 0.35	$ 0.76	$ 0.68

*Average shares outstanding and resultant per share amounts have been restated to give retroactive effect to the 3% stock dividend of January 1, 2002.

(Dollars in thousands except per share data)

7.) Stock Repurchase Program

On January 23, 2001 the Company's Board of Directors approved a Stock Repurchase Program (the "2001 Program"), which allowed the Company to repurchase up to 187,000 shares (or approximately 4.9% of the 3,815,125 shares outstanding as of January 31, 2001) of the Company's outstanding common stock. The program expired February 6, 2002. On January 22, 2002, the Company's Board of Directors approved a new program (the "2002 Program") which allows the Company to repurchase up to 193,000 shares (or approximately 4.9% of the 3,943,151 shares outstanding as of January 31, 2002) of the Company's outstanding common stock. This program will expire not later than February 6, 2003, with results depending on market conditions. Repurchased shares are designated as treasury shares, available for general corporate purposes, including possible use in connection with the Company's dividend reinvestment program, employee benefit plans, acquisitions or other distributions.

Repurchase amounts are effected through open market transactions or in privately negotiated agreements in accordance with applicable regulations of the Securities and Exchange Commission. Under the 2001 program based on the value of the Company's stock on January 31, 2001, the commitment to repurchase the stock over the next year was approximately $3,179. The Company repurchased 5,587 shares between January 1 and February 6, 2002, bringing the total repurchased shares to 51,321 under the 2001 Program. The Company also reissued 21,484 shares to existing shareholders under it's dividend reinvestment program in January 2002.

Under the 2002 program, based on the value of the Company's stock on January 31, 2002, the commitment to repurchase the stock over the next year was $4,053. At June 30, 2002, the remaining commitment to repurchase the stock was approximately $3,825. As of June 30, 2002 the Company had repurchased 42,719 shares under the 2002 Program. The Company also reissued 12,020 shares to existing shareholders under its 2002 program.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands)

The following is management's discussion and analysis of the financial condition and results of operations of Cortland Bancorp (the "Company"). The discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this report.

Note Regarding Forward-looking Statements

In addition to historical information contained herein, the following discussion may contain forward-looking statements that involve risks and uncertainties. Economic circumstances, the Company's operations and actual results could differ significantly from those discussed in any forward-looking statements. Some of the factors that could cause or contribute to such differences are changes in the economy and interest rates either nationally or in the Company's market area; increased competitive pressures or changes in either the nature or composition of competitors; changes in the legal and regulatory environment; changes in factors influencing liquidity such as expectations regarding the rate of inflation or deflation, currency exchange rates, and other factors influencing market volatility; unforeseen risks associated with other global economic and financial factors.

Liquidity

The central role of the Company's liquidity management is to (1) ensure sufficient liquid funds to meet the normal transaction requirements of its customers, (2) take advantage of market opportunities requiring flexibility and speed, and (3) provide a cushion against unforeseen liquidity needs.

Principal sources of liquidity for the Company include assets considered relatively liquid, such as interest-bearing deposits in other banks, federal funds sold, cash and due from banks, as well as cash flows from maturities and repayments of loans, investment securities and mortgage-backed securities.

(Dollars in thousands)

Along with its liquid assets, the Company has other sources of liquidity available to it which help to ensure that adequate funds are available as needed. These other sources include, but are not limited to, the ability to obtain deposits through the adjustment of interest rates, the purchasing of federal funds, borrowings from the Federal Home Loan Bank of Cincinnati and access to the Federal Reserve Discount Window.

Cash and cash equivalents decreased compared to year-end 2001. Operating activities provided cash of $3,199 and $3,511 during the six months ended June 30, 2002 and 2001, respectively. Refer to the Consolidated Statements of Cash Flows for a summary of the sources and uses of cash for June 30, 2002 and 2001.

Capital Resources

The capital management function is a continuous process which consists of providing capital for both the current financial position and the anticipated future growth of the Company. Central to this process is internal equity generation, particularly through earnings retention. Internal capital generation is measured as the annualized rate of return on equity, exclusive of any appreciation or depreciation relating to available for sale securities, multiplied by the percentage of earnings retained. Internally generated capital retained by the Company measured 5.1% for the six months ended June 30, 2002, as compared to 4.1% for the like period during 2001. Overall capital (a figure which reflects earnings, dividends paid, common stock issued, treasury shares purchased, treasury shares reissued and the net change in the estimated fair value of available for sale securities) was at an annual rate of 4.9%, reflecting a growth in the estimated fair value of available for sale securities and an increase in the amount and cost of Treasury stock held.

Risk-based standards for measuring capital adequacy require banks and bank holding companies to maintain capital based on "risk-adjusted" assets. Categories of assets with potentially higher credit risk require more capital than assets with lower risk. In addition, banks and bank holding companies are required to maintain capital to support, on a risk-adjusted basis, certain off-balance sheet activities such as standby letters of credit and interest rate swaps.

(Dollars in thousands)

These standards also classify capital into two tiers, referred to as Tier 1 and Tier 2. The Company's Tier 1 capital consists of common shareholders' equity (excluding any gain or loss on available for sale debt securities) less intangible assets and the net unrealized loss on equity securities with readily determinable fair values. Tier 2 capital is the allowance for loan and lease losses reduced for certain regulatory limitations. Risk based capital standards require a minimum ratio of 8% of qualifying total capital to risk-adjusted total assets with at least 4% constituting Tier 1 capital. Capital qualifying as Tier 2 capital is limited to 100% of Tier 1 capital. All banks and bank holding companies are also required to maintain a minimum leverage capital ratio (Tier 1 capital to total average assets) in the range of 3% to 4%, subject to regulatory guidelines.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required banking regulatory agencies to revise risk-based capital standards to ensure that they adequately account for the following additional risks: interest rate, concentration of credit, and nontraditional activities. Accordingly, regulators will subjectively consider an institution's exposure to declines in the economic value of its capital due to changes in interest rates in evaluating capital adequacy. The table below illustrates the Company's risk weighted capital ratios at June 30, 2002 and December 31, 2001.

	June 30, 2002	**December 31, 2001**
Tier 1 Capital	$ 49,200	$ 48,372
Tier 2 Capital	2,815	2,853
TOTAL QUALIFYING CAPITAL	$ 52,015	$ 51,225
Risk Adjusted Total Assets (*)	$ 225,008	$ 227,829
Tier 1 Risk-Based Capital Ratio	21.87%	21.23%
Total Risk-Based Capital Ratio	23.12%	22.48%
Tier 1 Risk-Based Capital to Average Assets (Leverage Capital Ratio)	11.28%	11.18%

(*) Includes off-balance sheet exposures.

(Dollars in thousands)

Assets, less intangibles and the net unrealized market value adjustment of investment securities available for sale, averaged $436,146 for the six months ended June 30, 2002 and $432,696 for the year ended December 31, 2001.

First Six Months of 2002 as Compared to First Six Months of 2001

During the first six months of 2002, net interest income after provision for loan losses increased by $706 compared to the first six months of 2001. Total interest income decreased by $1,310 or 8.7%, from the level recorded in 2001. This was accompanied by a decrease in interest expense of $2,091 or 28.5%, and a $75 increase in the provision for loan losses.

The average rate paid on interest sensitive liabilities decreased by 129 basis points year-over-year. The average balance of interest sensitive liabilities increased by $1,918 or 0.6%. Compared to the first six months of last year, average borrowings, primarily with the Federal Home Loan Bank, decreased by $1,460 while the average rate paid on borrowings decreased by 25 basis points, from 5.4% to 5.2%. Average interest bearing demand deposits increased by $2,803, while savings and money market accounts increased by $7,474 and $2,918 respectively. The average rate paid on these products decreased by 118 basis points in the aggregate. The average balance on time deposit products decreased by $9,817 as the average rate paid decreased by 152 basis points, from 5.9% to 4.4%.

Interest and dividend income on securities registered a decrease of $304, or 5.0%, during the first six months of 2002 when compared to 2001, while on a fully tax equivalent basis income on securities decreased by $152 or 2.4 %. The average invested balances increased by 3.1%, increasing by $ 6,015 over the levels of a year ago. The increase in the average balance of investment securities was accompanied by a 36 basis point decrease in the tax equivalent yield of the portfolio.

Interest and fees on loans decreased by $919 for the first six months of 2002 compared to 2001. A $2,813 decrease in the average balance of the loan portfolio, or 1.4%, was accompanied by an 81 basis point decrease in the portfolio's tax equivalent yield.

Other interest income decreased by $87 from the same period a year ago. The average balance of Federal Funds sold and other money market funds increased by $3,913. The yield on federal funds decreased by 219 basis points reflecting the change in Federal Reserve policy initiated early in 2001. The yield on Federal Funds sold is anticipated to remain stable throughout the balance of 2002 as the Federal Reserve awaits convincing evidence that the economic recovery is sustainable.

(Dollars in thousands)

Other income from all sources decreased by $69 from the same period a year ago. Gains on 1–4 residential mortgage loans in the secondary mortgage market decreased by $18 from the same period a year ago. Gains on securities called and gains on the sale of available for sale investment securities remained the same as year ago levels. Fees for other customer services decreased by $101, due mainly to a reduction in deposit account service charge income resulting from a restructuring of product offerings to better serve our customers. Other sources of non-recurring non-interest income increased by $50 from the same period a year ago.

Loan charge-offs during the first six months were $210 in 2002 and $99 in 2001, while the recovery of previously charged-off loans amounted to $50 in 2002 compared to $41 in 2001. A provision for loan loss of $175 was charged to operations in 2002, compared to $100 charged in 2001. At June 30, 2002, the loan loss allowance of $3,013 represented 1.5% of outstanding loans. Non accrual loans at June 30, 2002 represented 0.6% of the loan portfolio compared to 0.4% at December 31, 2001 and 0.7% a year ago.

Total other expenses in the first six months were $5,711 in 2002 compared to $5,426 in 2001, an increase of $285 or 5.3%. Full time equivalent employment during the first six months averaged 169 employees in 2002, a 1.2% increase from the 167 employed in the same quarter of 2001, as the Company expanded its branch network by one office. Salaries and benefits increased by $242 or 8.1% compared to the similar period a year ago, primarily due to the increased cost of benefits, and the opening of the aforementioned new branch in the first quarter of 2002. Excluding the new office, total expenses were up 2.7% over last year.

For the first six months of 2002, state and local taxes decreased by $51 or 16.5%. Occupancy and equipment expense remained stable, decreasing by $8 or 0.1%. All other expense categories increased by 9.4% or $102 as a group, with the Company's new office and certain other non-recurring items accounting for the increase.

Income before income tax expense amounted to $3,854 for the first six months of 2002 compared to $3,502 for the similar period of 2001. The effective tax rate for the first six months was 22.7% in 2002 compared to 24.0% in 2001, resulting in income tax expense of $873 and $840 respectively. Net income for the first six months registered $2,981 in 2002 compared to $2,662 in 2001, representing per share amounts of $0.76 in 2002 and $0.68 in 2001.

(Dollars in thousands)

Second Quarter of 2002 as compared to Second Quarter 2001

During the second quarter of 2002 net interest income after provision for loan losses increased by $379 as compared to second quarter 2001. Average earning assets increased by 1.4% while average interest-bearing liabilities increased by 0.7%. Average loans decreased by 2.8%, while average investments increased by 4.7%.

The tax equivalent yield on earning assets decreased by 66 basis points from the same quarter a year ago. The tax equivalent yield of the investment portfolio measured 6.4% a 32 basis point decrease from the same quarter a year ago, while the loan portfolio yielded 7.8%, down 77 basis points from last year's rate. Meanwhile, the rate paid on interest-bearing liabilities decreased 128 basis points compared to a year ago. The net effect of these changes was that the tax equivalent net interest margin increased to 4.4%, an increase of 39 basis points from that achieved during last year's second quarter, and more in line with the Company's recent historical performance over the past ten years.

Loans net of the allowance for losses decreased by $6,012 during the period. Gross loans as a percentage of earning assets stood at 48.5% as of June 30, 2002 as compared to 50.4% on June 30, 2001. The loan to deposit ratio at the end of the first six months of 2002 was 59.5% compared to 62.0% at the end of the same period a year ago. The investment portfolio represented 60.9% of each deposit dollar, up from 58.1% a year ago.

Loan charge-offs during the second quarter were $135 in 2002 and $46 in 2001, while the recovery of previously charged-off loans amounted to $27 during the second quarter of 2002 compared to $16 in the same period of 2001.

Other income for the quarter decreased by $36 or 5.6% compared to the same period a year ago. The net gain on loans sold during the quarter amounted to $24 compared to $82 a year ago. There were $63 in gains on investment and trading securities transactions in the second quarter of 2002 compared to the $48 gain realized in 2001. Fees from other customer services decreased by $48, primarily due to the restructuring of deposit product offerings earlier in the year. Income from non-recurring items increased by $55 from the level of a year ago.

(Dollars in thousands)

Total other expenses in the second quarter were $2,857 in 2002 and $2,680 in 2001, an increase of $177 or 6.6%. Employee salaries and benefits increased by $167 or 11.5%, reflecting a 22% increase in the cost of providing group medical coverage and payroll costs associated with staffing the Company's newest office. Occupancy and equipment expense showed an $8 decrease. Other expenses as a group increased by $18 or 2.6% compared to the same period last year.

Income before tax for the quarter increased by 9.1% to $1,989 in 2002 from the $1,823 recorded in 2001. Net income for the quarter of $1,539 represented a 10.8% increase from the $1,389 earned a year ago. Earnings per share amounted to $0.39 and $0.35 for the second quarter of 2002 and 2001 respectively.

Regulatory Matters

On March 13, 2000, the Board of Governors of the Federal Reserve System approved the Company's application to become a financial holding company. As a financial holding company, the Company may engage in activities that are financial in nature or incidental to a financial activity, as authorized by the Gramm-Leach-Bliley Act of 1999 (The Financial Services Reform Act). Under the Financial Services Reform Act, the Company may continue to claim the benefits of financial holding company status as long as each depository institution that it controls remains well capitalized and well managed.

The Company is required to provide notice to the Board of Governors of the Federal Reserve System when it becomes aware that any depository institution controlled by the Company ceases to be well capitalized or well managed. Furthermore, current regulation specifies that prior to initiating or engaging in any new activities that are authorized for financial holding companies, the Company's insured depository institutions must be rated "satisfactory" or better under the Community Reinvestment Act (CRA). As of June 30, 2002, the Company's bank subsidiary was rated "satisfactory" for CRA purposes, and remained well capitalized and well managed, in management's opinion.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(Dollars in thousands)

Management considers interest rate risk to be the Company's principal source of market risk. Since December 31, 2001, short-term interest rates, as measured by U. S. Treasury securities with maturities of one year or less, have increased by 1 basis point at the one month horizon and decreased by 4 to 11 basis points in the three to twelve month horizon, reflecting a decrease in the market's concern over imminent increases by the Federal Reserve. Intermediate interest rates, as measured by U.S. Treasury securities with maturities of two to five years, have decreased by 17 to 29 basis points as investors avoided the distress in global equity markets and sought the quality and safety of the U.S. Treasury market. Long-term interest rates as measured by U.S. Treasury securities with maturities of ten to twenty years also declined reflecting diminished long-run inflation concerns.

Over the past twelve months, the Federal Reserve has decreased its target rate for overnight federal funds by 200 basis points. During the quarter ended June 30, 2002, the yield curve became slightly less steep as the difference between the yield on the ten-year Treasury and the three- month Treasury decreased to 316 basis points from the 333 basis points at December 31, 2001, with interest rates continuing to peak in the long-end of the Treasury curve.

The net effect of these changes in the level of interest rates and the shape of the yield curve have had minimal effect on the Company's risk position. When these changes are incorporated into the Company's risk analysis, simulated results for an unchanged rate environment indicate a $54 increase in net interest income for the twelve month horizon subsequent to June 30, 2002 compared to the simulated results for a similar twelve month horizon subsequent to December 31, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(CONTINUED)

(Dollars in thousands)

The following table indicates the Company’s current estimate of interest rate sensitivity based on the composition of the balance sheet at June 30, 2002 and December 31, 2001. For purposes of this analysis, short term interest rates as measured by the federal funds rate and the prime lending rate are assumed to increase (decrease) gradually over the subsequent twelve month period, reaching a level 300 basis points higher (lower) than the rates in effect at June 30, 2002 and December 31, 2001. Under both the rising rate scenario and the falling rate scenario, the yield curve is assumed to exhibit a parallel shift. The analysis assumes no growth in assets and liabilities and no change in asset or liability mix over the subsequent twelve month period.

	Simulated Net Interest Income (NII) Scenarios For the Twelve Months Ending					
	Net Interest Income		$ Change in NII		% Change in NII	
Changes in Interest Rates	June 30, 2003	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002
Graduated increase of +300 basis points	17,091	16,848	(635)	(824)	(3.6)%	(4.7)%
Short term rates unchanged	17,726	17,672				
Graduated decrease of -300 basis points	17,162	17,266	(564)	(406)	(3.2)%	(2.3)%

The Company’s sensitivity to a decreasing rate environment increased marginally, reflecting a slightly larger decline in the Company’s expected net interest income, while sensitivity to the rising rate environment decreased with a smaller decline in net interest income expected. Overall, the Company’s sensitivity to a change in interest rates is now more balanced, with simulated net interest income declining by 3.6% in the case of rising rates and 3.2% in the case of falling rates.

The level of interest rate risk indicated remains within limits that management considers acceptable. However, given that interest rate movements can be sudden and unanticipated, and are increasingly influenced by global events and circumstances beyond the purview of the Federal Reserve, no assurance can be made that interest rate movements will not impact key assumptions and relationships in a manner not presently anticipated.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See Note (5) of the financial statements.

Item 2. Changes in Securities

Not applicable

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

(a.) On April 16, 2002, Cortland Bancorp held its annual meeting of shareholders.
(b.) The following directors were elected for three-year terms ending in 2005.

Lawrence A. Fantauzzi

David C. Cole

Directors whose term of office continued after the annual meeting:
George A. Gessner

James E. Hoffman III

Timothy K. Woofter

William A. Hagood

K. Ray Mahan

Rodger W. Platt

Richard B. Thompson

(c.) At the close of business on the record date, 3,927,314 Cortland Bancorp shares were outstanding and entitled to vote.

The result of the election of directors was as follows:

	Votes Cast For	**Votes Cast Against**	**Votes Abstained**
Lawrence A. Fantauzzi	2,779,882	26,885	0
David C. Cole	2,750,754	71,253	0

PART II - OTHER INFORMATION

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

2. Not applicable

4. Not applicable

10. Not applicable

11. See Note (6) of the Financial Statements

15. Not applicable

18. Not applicable

19. Not applicable

22. Not applicable

23. Not applicable

24. Not applicable

99.1 Certifications of Chief Executive Officer and Chief Financial Officer (Filed herewith)

PART II - OTHER INFORMATION

(b) Reports on Form 8-K

Form 8-K was filed with the United States Securities and -Exchange Commission, dated February 1, 2002. The 8-K applied to Item 5 - Other Events, per the 8-K instructions, and announced that the Board of Directors had approved a stock repurchase program authorizing the acquisition of up to 4.9% of Cortland Bancorp’s outstanding common stock. No financial statements were filed with this report.

SIGNATURES

Pursuant to the requirements 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.

	Cortland Bancorp
	(Registrant)
DATED: August 7, 2002	Lawrence A. Fantauzzi
	Secretary/Treasurer (Chief Financial Officer)
DATED: August 7, 2002	Rodger W. Platt
	Chairman and President (Duly Authorized Officer)