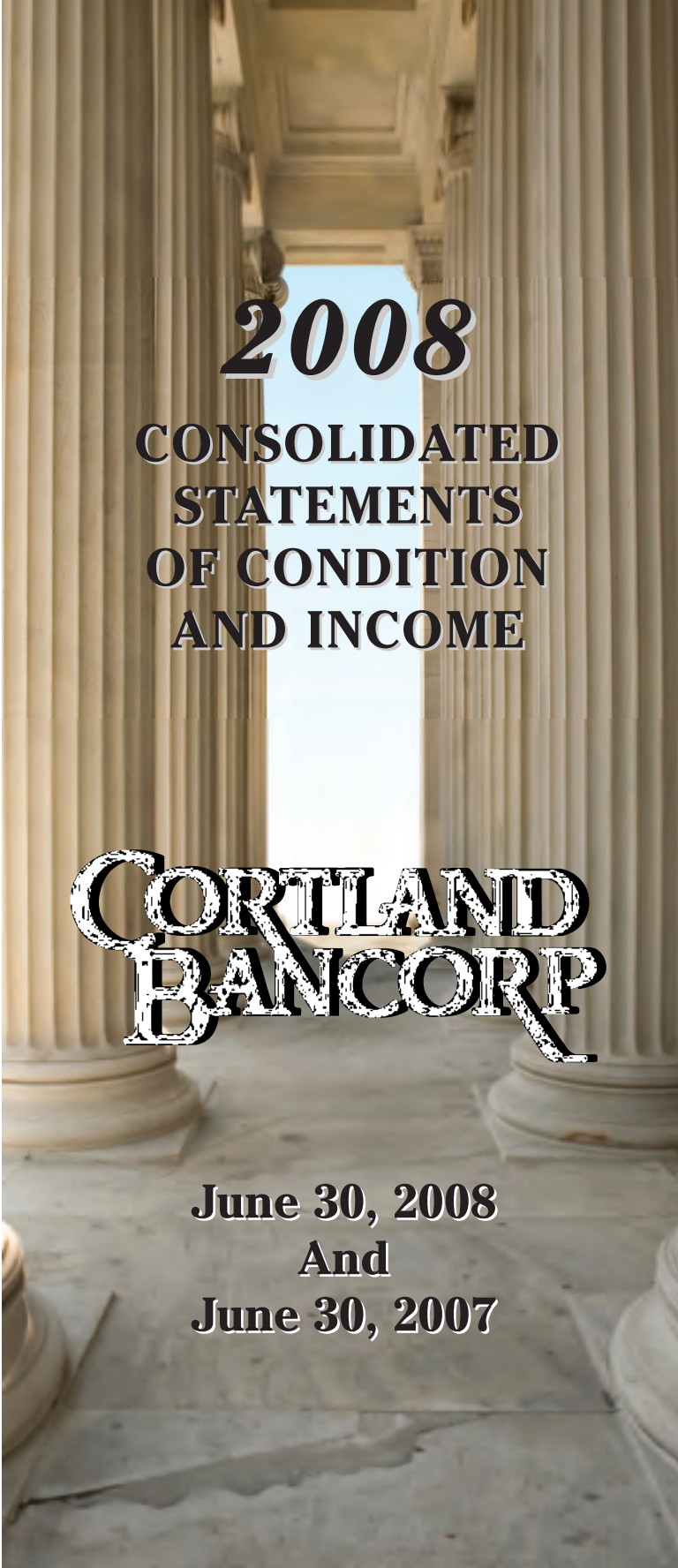


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**CORTLAND
BANCORP**

194 West Main Street
Cortland, Ohio 44410



2008

**CONSOLIDATED
STATEMENTS
OF CONDITION
AND INCOME**

**CORTLAND
BANCORP**

**June 30, 2008
And
June 30, 2007**

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Data)

	June 30	June 30
	2008	2007
ASSETS		
Cash and due from banks	\$ 9,443	\$ 8,267
Federal funds sold	10,100	325
Investment securities available for sale	136,387	119,060
Investment securities held to maturity (Approximate market value of \$79,576 in 2008 and \$119,966 in 2007)	78,949	121,211
Total loans and leases	228,411	215,665
Less allowance for loan losses	<u>(1,554)</u>	<u>(2,041)</u>
NET LOANS & LEASES	<u>226,857</u>	<u>213,624</u>
Premises and equipment	7,109	5,275
Other assets	<u>20,625</u>	<u>17,874</u>
TOTAL ASSETS	<u><u>\$489,470</u></u>	<u><u>\$485,636</u></u>
LIABILITIES		
Deposits (all domestic):		
Noninterest-bearing	\$ 56,202	\$ 57,259
Interest-bearing	<u>306,866</u>	<u>314,550</u>
TOTAL DEPOSITS	363,068	371,809
Federal Home Loan Bank advances and other borrowings	68,829	61,188
Subordinated debt	5,155	
Other liabilities	<u>10,382</u>	<u>3,380</u>
TOTAL LIABILITIES	<u>447,434</u>	<u>436,377</u>
SHAREHOLDERS' EQUITY		
Common stock – \$5 stated value per share – Authorized 20,000,000 shares with 4,639,973 shares issued in 2008 and 4,594,344 shares issued in 2007	23,200	22,972
Additional paid-in capital	20,802	20,666
Retained earnings	8,748	9,740
Accumulated other comprehensive income	(6,184)	(873)
Treasury stock, at cost, 251,531 shares at June 30, 2008 and 154,502 at June 30, 2007	<u>(4,530)</u>	<u>(3,246)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>42,036</u>	<u>49,259</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$489,470</u></u>	<u><u>\$485,636</u></u>
Book value per share	\$ 9.58	\$ 10.98

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Per Share Data)

	For the Six Months Ended June 30	
	2008	2007
INTEREST INCOME		
Interest and fees on loans	\$ 7,754	\$ 7,701
Interest and dividends on investment securities:		
Taxable interest income	5,141	5,141
Nontaxable interest income	774	939
Dividends	97	114
Other interest income	144	286
TOTAL INTEREST INCOME	13,910	14,181
INTEREST EXPENSE		
Interest on deposits	4,701	5,040
Subordinated debt	135	
Interest on borrowed funds	1,604	1,671
TOTAL INTEREST EXPENSE	6,440	6,711
NET INTEREST INCOME	7,470	7,470
Provision for loan losses	390	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,080	7,470
OTHER INCOME		
Fees for other customer services	1,134	1,116
Gains on investment securities (net)	82	32
Other real estate gains (losses) (net)	51	(1)
Gains on sale of loans (net)	21	43
Other non-interest income	331	299
TOTAL OTHER INCOME	1,619	1,489
8,699	8,959	
OTHER EXPENSES		
Salaries and employee benefits	3,583	3,632
Net occupancy and equipment expense	971	926
Other operating expenses	1,860	1,711
TOTAL OTHER EXPENSES	6,414	6,269
INCOME BEFORE FEDERAL INCOME TAX EXPENSE	2,285	2,690
FEDERAL INCOME TAX EXPENSE	446	531
NET INCOME	\$ 1,839	\$ 2,159
NET INCOME PER SHARE, BOTH BASIC AND DILUTED	\$ 0.42	\$ 0.48
CASH DIVIDEND PER COMMON SHARE	\$ 0.44	\$ 0.44

PER SHARE AMOUNTS: The Board of Directors declared a 1% common stock dividend which was issued on January 1, 2008. Per share amounts as of June 30, 2007 have been restated to give retroactive effect to the 1% stock dividend.

DIRECTORS

K. RAY MAHAN
*President, Mahan Packing Co. and
Chairman of the Board*

JERRY A. CARLETON
President, Carleton Enterprises Inc.

DAVID C. COLE
Partner and President, Cole Valley Motor Co.

LAWRENCE A. FANTAUZZI
President and Chief Executive Officer

JAMES M. GASIOR
Senior Vice President, Chief Financial Officer and Secretary

GEORGE E. GESSNER
Attorney

JAMES E. HOFFMAN, III
Attorney

NEIL J. KABACK
Partner, Cohen & Co.

RICHARD B. THOMPSON
Executive, Therm-O-Link Inc.

TIMOTHY K. WOOFER
President, Stan-Wade Metal Products

* * * * *

WILLIAM A. HAGOOD
Director Emeritus

RODGER W. PLATT
Director Emeritus

* * * * *

CORTLAND BANKS OFFICES AND LOCATIONS

Fourteen Offices Serving These Fine Communities

BOARDMAN
8580 South Avenue
Youngstown, Ohio 44514
330-758-5884

BOARDMAN
Victor Hills Plaza
6538 South Avenue
Boardman, Ohio 44512
330-629-9151

BRISTOL
6090 State Route 45
Bristolville, Ohio 44402
330-889-3062

BROOKFIELD
7202 Warren-Sharon Road
Brookfield, Ohio 44403
330-448-6814

CORTLAND
194 West Main Street
Cortland, Ohio 44410
330-637-8040

HUBBARD
890 West Liberty Street
Hubbard, Ohio 44425
330-534-2265

MANTUA
11661 State Route 44
Mantua, Ohio 44255
330-274-3111

MIDDLEFIELD
15561 West High Street
Middlefield, Ohio 44062
440-632-0099

NILES PARK PLAZA
815 Youngstown-Warren Road
Suite 1
Niles, Ohio 44446
330-652-8700

NORTH BLOOMFIELD
8837 State Route 45
North Bloomfield, Ohio 44450
440-685-4731

VIENNA
4434 Warren-Sharon Road
Vienna, Ohio 44473
330-394-1438

WARREN
2935 Elm Road
Warren, Ohio 44483
330-372-1520

WILLIAMSFIELD
5917 U.S. Route 322
Williamsfield, Ohio 44093
440-293-7502

WINDHAM
8950 Maplegrove Road
Windham, Ohio 44288
330-326-2340

Member
Federal Reserve System
and

Federal Deposit Insurance Corporation

Visit us at our home page on the world wide web at
www.cortland-banks.com
or e-mail us at cbinfo@cortland-banks.com