

CORTLAND BANCORP

DIVIDEND REINVESTMENT PLAN

Prospectus

**Cortland Bancorp
194 West Main Street
Cortland, Ohio 44410**

1-330-637-8040

**CORTLAND BANCORP
AMENDED AND RESTATED
DIVIDEND REINVESTMENT PLAN
AS OF NOVEMBER 20, 2012**

2,000,000 Common Shares, no par value

Cortland Bancorp (the "Company") is offering existing record shareholders the opportunity to participate in our Amended and Restated Dividend Reinvestment Plan (the "Plan"). The Plan is designed to be a convenient and economical method of purchasing shares of the Company.

If you are an existing holder of our shares, you may elect to have all or a portion of your cash dividends automatically invested in additional shares without payment of any brokerage commission or service charge. Commencing in February 2013, you may also elect to purchase our shares with supplemental cash payments without payment of any brokerage commission or service charge. The current minimum supplemental contribution is \$100 per month, and the maximum is \$2,500 per month, although the Company may change such amounts at any time. Shares will be purchased in the market at the market price as of the investment date or from the Company at a market price determined by the closing sales prices of our shares on the OTC Market over a period of ten trading days, as set forth in the Plan. On November 19, 2012, the closing sale price of our shares on the OTC Market was \$10.10 per share.

Information about our shares is provided on the OTC Market under the symbol "CLDB."

Investments in our shares involve risks. Before purchasing any of our shares, you should read carefully the information set forth under the heading "Risk Factors" beginning on page 4, as well as the risk factors described in our Securities and Exchange Commission filings, including our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.

The shares offered by this Prospectus are not savings accounts, deposits or other obligations of a bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other government agency and are subject to investment risk, including loss of principal.

None of the Securities and Exchange Commission, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is November 21, 2012.



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No person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with the offer contained herein and, if given or made, such information or representation must not be relied upon as having been authorized by us. Neither the delivery of this Prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in our affairs since the date as of which information is set forth herein. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation.

CORTLAND BANCORP

AMENDED AND RESTATED DIVIDEND REINVESTMENT PLAN

2,000,000 Common Shares

The Cortland Bancorp Amended and Restated Dividend Reinvestment Plan (the "Plan"), described herein, offers the holders of common shares of Cortland Bancorp a simple and convenient method of increasing their holdings in our company by directly reinvesting dividends. If you participate in the Plan ("Participants"), the cash dividends paid on your shares will be automatically reinvested in our shares. You may elect to reinvest dividends on either all or a portion of your shares. You may also invest additional amounts in our shares, subject to certain limitations.

This Prospectus relates to 2,000,000 of our shares registered for sale under the Plan, together with any additional shares resulting from any stock splits, dividends, recapitalizations or similar transactions. Shares acquired for the Plan will be purchased in the market, through privately negotiated transactions, or from the Company directly. The purchase price of shares purchased in the market or in negotiated transactions will be the average price per share paid for all of the shares purchased for the Plan with dividends. The purchase price of shares purchased from us will be the fair market value per share, determined as further described herein, on the date of the purchase. Shareholders who do not elect to participate in the Plan will continue to receive dividends, as declared and paid, by check or advice of credit. Participants will have their dividends, as declared and paid, automatically reinvested as further described herein.

Information with respect to transactions in our shares is currently provided on the OTC Market under the symbol "CLDB."

It is suggested that this Prospectus be retained for future reference.

About this Prospectus

This Prospectus is part of a Registration Statement on Form S-3 (the "Registration Statement") that we have filed with the Securities and Exchange Commission (the "SEC"). Under the Registration Statement, we may from time to time sell up to 2,000,000 of our shares under the Cortland Bancorp Dividend Reinvestment Plan. The terms and conditions of the Plan are set forth under the caption "The Dividend Reinvestment Plan" beginning on page 5 of this Prospectus.

Please read this Prospectus carefully. If you own our shares now, or if you decide to invest in our shares in the future, please keep this Prospectus with your permanent investment records because it contains important information about the Plan. This Prospectus supersedes any prior Plan prospectuses, including supplements thereto, in their entirety. You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized anyone to give you any information or make any representation not contained or incorporated by reference in this Prospectus. You must not rely on any unauthorized information or representation. This Prospectus is an offer to buy only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should not assume that the information contained in this Prospectus is accurate on any date subsequent to the date hereof, or that any information we have incorporated herein by reference is correct on any date subsequent to the date of the document incorporated herein by reference, even though this Prospectus is delivered or securities are sold on a later date. As used in this Prospectus, unless the context suggests otherwise, the terms the "Company," "we," "us" and "our" refer to Cortland Bancorp, an Ohio corporation, and, where applicable, its subsidiaries on a consolidated basis.

Cortland Bancorp

Cortland Bancorp was incorporated under the laws of the State of Ohio in 1984, as a one bank holding company registered under the Bank Holding Company Act of 1956, as amended. The principal activity of the company is to own, manage and supervise The Cortland Savings and Banking Company (the Bank"). The Company owns all of the outstanding shares of the Bank. The Bank owns all of the outstanding shares of CSB Mortgage Company, Inc., a mortgage banking subsidiary ("CSB").

The Bank is a full service state chartered bank engaged in commercial and retail banking and wealth management services. The Bank's services include checking accounts, savings accounts, time deposit accounts, commercial, mortgage and installment loans, night depository, automated teller services, safe deposit boxes and other miscellaneous services normally offered by commercial banks. The Bank also offers a variety of Internet Banking products as well as Remote Deposit Capture. The Bank conducts business from 13 offices located in Trumbull, Portage, Mahoning, Ashtabula and Geauga Counties, Ohio.

Our principal executive office is located at 194 West Main Street, Cortland, Ohio 44410. Our telephone number is (330) 637-8040. Our Web site address is www.cortland-banks.com. Information included or referred to on our Web site is not incorporated by reference in or otherwise a part of this Prospectus.

Forward-Looking Statements

This Prospectus and the documents we file or have filed with the SEC that are incorporated herein by reference include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, but not limited to, statements regarding our future business, financial performance and financial condition. We use words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are described under the "Risk Factors" heading of our periodic reports filed with the SEC, which are incorporated by reference in this Prospectus, and include those items set forth below under the caption "Risk Factors." Except as required by applicable laws or the rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or other. However, you should review any further disclosures made on related subjects in our subsequent filings and reports with the SEC. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

Risk Factors

Investing in our shares involves a number of risks. Before purchasing our securities, you should carefully review the risk factors that are described in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, as filed with the SEC on November 13, 2012, as well as any other periodic filings with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act. Although we have tried to disclose key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Each of the risks described could result in a decrease in the value of our securities and your investment in them. Many of the important factors that will determine our future financial performance and financial condition are beyond our ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the dates such forward-looking statements are made.

In addition to the risks described in our Exchange Act filings, you should also consider the following risks specific to your investments under the Plan:

You are subject to the risk of fluctuations in the market price of our shares because you will not have the ability to control the prices or timing of purchases of shares under the Plan.

The prices at which our shares trade in the market fluctuates significantly. Because you do not have the ability to control the timing of purchases made under the Plan or the prices paid for the shares, you bear the market risk associated with the fluctuations in the price of our shares. The effect of Plan purchases may cause the market price to rise before investment dates and to fall after investment dates.

The issuance of additional shares under the Plan could dilute the value of your shares and your voting power.

The issuance of additional shares, or even just the possibility of additional shares being issued, could negatively affect the per share market price of our shares. In addition, the issuance of additional shares could dilute your percentage ownership interest and voting power.

The Dividend Reinvestment Plan

The following questions and answers constitute the Plan. The Plan is supplemented by the Stockholder Investment Services Agreement (the "Agreement") which will exist between the shareholders participating in the Plan (the "Participants") and Illinois Stock Transfer Company, which will administer the Plan (the "Administrator").

1. What is the purpose of the Plan?

The purpose of the Plan is to provide participating shareholders with a simple and convenient method of investing cash dividends paid by us on our shares into additional shares. The Administrator is expected to purchase shares in the open market or in negotiated transactions, but the Administrator may also purchase authorized but unissued or treasury shares directly from us. We will not receive any funds from the purchases of shares made by the Plan in the open market or through privately negotiated transactions. If authorized but unissued shares or treasury shares are purchased from us for use in the Plan, we will use the proceeds for general corporate purposes, to supplement our capital, to support growth or as a contribution to the capital of the Bank, which may use the capital for similar purposes.

The Plan is designed for long-term investors to invest and build their share ownership over time and not for persons to generate short-term profits or to engage in transactions that may cause aberrations in the price or trading volume of our shares. We therefore reserve the right to refuse, modify, suspend or terminate participation by otherwise eligible shareholders who engage in, or who we believe may engage in, practices we consider to be inconsistent with the purposes of the Plan.

2. Who is eligible to participate?

Generally, all holders of record of our shares are eligible to participate in the Plan. Shareholders whose shares are registered in names other than their own (for instance, in the name of a broker or bank nominee) must become holders of record by having their shares transferred into their own names (for instance, having an actual stock certificate(s) issued in their respective name(s)). We reserve the right to deny participation in the Plan to any shareholder who resides in a jurisdiction having laws or regulations that impose conditions upon the Plan that are unacceptable to us, or who fails to provide documentation acceptable to us of the shareholder's state or country of residence. You will be required to certify as to your state or country of residence on the authorization card required for enrollment in the Plan and agree to notify the Administrator if such state or country of residence changes. Upon receipt of the

authorization card, the Administrator will notify you if the Plan is not available where you reside. If you have questions regarding your eligibility to participate in the Plan, please contact the Administrator, whose contact information is provided in Question 4.

3. What are the advantages of the Plan?

- Regular and convenient reinvestment of dividends without service charges or brokerage commissions
- Supplemental direct cash investments for the purchase of additional shares without brokerage fees or commissions
- Increased ownership of Cortland Bancorp shares each time a dividend is paid, regardless of your present level of ownership
- Complete utilization of dividends, since both full and fractional shares are credited to your account and dividends on fractional shares are also reinvested
- Simplified record keeping by means of a statement mailed to you after each investment

4. Who administers the Plan?

Illinois Stock Transfer Company ("IST"), our transfer agent, administers the Plan for us, serves as Administrator for Participants, keeps records, sends statements of account to Participants and performs other duties related to the Plan. Shares purchased under the Plan will be registered in the name of the Administrator (or its nominee) and credited to the account of individual Participants. All communications to the Administrator regarding the Plan should be addressed to:

IST Shareholder Services
433 S. Carlton Ave.
Wheaton, Illinois 60187
Phone: 630-480-0393
800-757-5755
Fax: 630-480-0641
Hours: 7:30 AM to 4:00 PM Central Time
www.illinoisstocktransfer.com

5. How do I participate?

A person who is a record holder of our shares may join the Plan at any time by completing and signing the stockholder authorization card and returning it to the Administrator. Such authorization will be effective as of the first dividend payment date after receipt by the Administrator of the authorization card, provided that it is received at least five business days before the record date for that dividend. All authorizations currently on file are deemed to remain in effect until terminated by the respective shareholders. You may obtain additional authorization cards by writing to the Administrator.

6. What are the features under the Plan?

You may elect to reinvest dividends on either all or a portion of your certificated shares and reinvest dividends paid on all or a portion of your shares held or subsequently held by the Plan.

The Administrator will automatically reinvest all dividends paid on shares held by the Plan until participation with respect to these shares is terminated. Information regarding the termination of participation is provided in Question 21. The authorization card allows you to indicate how you wish to participate in the Plan.

If you are a Participant, you may also send to the Administrator for safekeeping any certificated shares you own (see Question 17).

7. When may I join the Plan?

You may join the Plan at any time. If the Administrator receives an authorization card at least five business days before the record date established for a particular dividend, reinvestment will commence with that dividend. In months in which a dividend is not paid, the deadline is approximately two weeks prior to the investment date. If the authorization card is received after the fifth business day before the record date established for a particular dividend, then the reinvestment of dividends will not begin until the next dividend payment date.

8. How does the reinvestment of dividends work?

The Plan works automatically. Instead of sending dividend payments on participating shares to Participants, we forward these payments to the Administrator. The Administrator will automatically reinvest such funds, reduced by any required withholding for federal income tax purposes (see Question 23), in additional shares. We do not guarantee that dividends will be paid in the future or when dividends will be paid.

9. When and at what price will shares be purchased under the Plan?

Shares will be purchased by the Administrator commencing on the dividend payment date or on or about the 26th day of each month in which dividends are not paid. Any shares purchased with supplemental payments during a month in which dividends are not paid will be purchased on the open market or in negotiated transactions. In months in which dividends are paid, we may in our discretion make available all or any portion of the shares needed to satisfy the Plan's needs for shares. To the extent the Plan purchases shares on the open market or in negotiated transactions, neither the Company nor any affiliate of the Company will exercise any direct or indirect control or influence over the times when, or the prices at which, the Administrator may purchase shares for the Plan, the number of shares to be purchased, the persons from or through whom the shares are purchased, or the manner in which the shares are purchased.

If any shares are purchased by the Administrator in the market or in negotiated transactions for a particular dividend payment date, the purchase price for such shares will be the weighted average price per share of all shares purchased for the Plan in the open market or by negotiated transactions for the relevant dividend payment date. If some shares are purchased in the open market or by negotiated transactions and some are purchased directly from the Company, the purchase price of the shares acquired directly from the Company will be the weighted average price per share paid for the shares purchased in the open market or by negotiated transactions for that dividend payment date. If all shares for a particular dividend payment date are purchased directly from the Company, the purchase price for the shares will be determined by averaging the closing sale prices of our shares as reported on the OTC Market for a period of 10 trading days. The calculation period will begin 10 trading days before the dividend payment date and end the day before the dividend payment date. For example, if a dividend payment date was February 26, 2013, the purchase price will be determined by the average of the closing sales prices of our shares starting on February 11, 2013, and ending on February 25, 2013. If there are no sales of our shares reported on the OTC Market during the measurement period or if the Board of Directors determines that such price does not accurately reflect fair market value as of the date on which the dividend is paid, the Company will issue no shares.

If at any time the Administrator is unable to purchase shares (by reason of the unavailability of shares to purchase, the operation of applicable laws, the closing of the securities markets or any other temporary curtailment or suspension of purchases), neither the Company nor the Administrator shall have any liability to any participant arising out of the inability to make purchases at such time. If the Administrator is able to purchase shares but not a sufficient number to invest all dividends and supplemental payments, priority will be given to the investment of dividends. Other than such priority for dividends, amounts will be invested pro rata.

10. How many shares of common stock will be purchased for Participants?

The number of shares to be purchased depends upon the number of shares the Participants have participating in the Plan, the amount of dividends paid on those shares, as reduced by any withholding for federal income tax purposes (see Question 23), and the purchase price of the shares. Each Participant's account will be credited with the number of shares, including fractions computed to three decimal places, that results from dividing the total funds to be invested for the Participant by the applicable purchase price. If the Administrator is able to purchase some shares but not a sufficient number to invest all dividends and supplemental investments, priority will be given to the investment of dividends. Other than such priority for dividends, amounts will be invested pro rata.

11. Are there any expenses to me in connection with purchases under the Plan?

You pay no commissions, service charges or fees in connection with share purchases. We pay all commissions, service charges and fees for purchases as long as you are enrolled in the Plan. However, if you withdraw from the Plan and request that your shares be sold, you will pay a brokerage commission, liquidation or termination fee, and any applicable transfer tax. The current termination fee is \$15.00. Commissions fluctuate. Such commissions, fees and other charges may change. You may obtain current information on such amounts from the Administrator at any time.

12. What type of reports will I receive?

Following each purchase of shares or other transaction (such as a sale of shares) for your account, the Administrator will mail to you a statement of account showing the amount invested, purchase price, number of shares purchased, service charges (which will generally be zero on purchases of shares) and other similar information for the year to date. These statements will be a complete record of your purchases and should be retained for income tax and other purposes. In addition, you will receive copies of all communications sent to record holders of our shares, including our annual report to shareholders, a notice of the annual meeting, proxy statements and Internal Revenue Service (the "IRS") information for reporting dividend income received.

13. May I purchase additional shares through supplemental cash contributions?

Once you have been enrolled in the Plan and commencing in February 2013, you may begin to make supplemental cash payments to your account for the purchase of additional shares. The minimum amount you may contribute for supplemental investment at any time is \$100, and you may invest up to \$2,500 per month in addition to your reinvestment of dividends. The purchase of shares through supplemental contributions is completely voluntary, and you need not send the same amount each time. Supplemental contributions must be received by the Administrator by the 15th day of a month in which a dividend is paid (or the next business day if the 15th day is not a business day) for investment beginning on the Company's normal dividend payment date, along with the reinvestment of cash dividends, or by the 15th day of a month in which no dividend will be paid (or the next business day if the 15th day of the month is not a business day). No interest will be paid on funds pending investment in shares. A detachable form for use in making supplemental contributions will be attached to each Plan statement you receive. If you do not have a Plan statement available, you may simply send your supplemental contribution to the Administrator with a letter that contains your Plan account number, Taxpayer ID Number (social security number), and the name(s) in which your shares are held. The letter should instruct the Administrator to purchase additional shares for your account. Supplemental contributions must be made by check or money order in U.S. funds, payable to the order of the Administrator. If a supplemental payment is received after the 15th day of a month and before the regularly scheduled investment date in that month, such supplemental payment will be held by the Administrator and invested after the regularly scheduled investment date promptly after sufficient supplemental payments are accumulated to direct the investment of at least 100 shares. If a supplemental payment is received after the regularly scheduled investment date and before the 15th of the following month, generally such payment will be held and invested on the regularly scheduled investment date in the next month. If, however, a supplemental payment is received after the regularly scheduled investment date and more than 30 days before the next regularly scheduled investment date, the Administrator may invest the payment before the 15th day of the next month if all such supplemental payments received after the regular investment date and more than 30 days before the next regularly scheduled investment date are sufficient to purchase at least 100 shares.

You may obtain a refund of any supplemental contribution not already invested if a written request for such a refund is received by the Administrator more than 48 hours prior to the next succeeding investment date. Any supplemental contributions not invested within 30 days after such funds are received by the Administrator will be returned to the shareholder. **You are encouraged, therefore, to make supplemental payments as close as possible to the 15th day of the month.** Shares purchased with supplemental payments will be held, and the dividends from such shares will be reinvested, in the same manner as all other shares purchased through the Plan. You should note that shares received by the Administrator during the month prior to a dividend record date may not be invested in time to entitle such shares to the next dividend.

14. If I am an employee of the Company or one of its subsidiaries, may I make supplemental contributions through payroll deductions?

Yes, employees of the Company and its subsidiaries who are enrolled in the Plan may make supplemental contributions to their accounts under the Plan of not less than \$20 per pay period by means of payroll deductions. To initiate payroll deductions, an employee must complete a payroll deduction authorization form and return it to the Human Resources Department at the Bank. Forms will be processed and become effective as promptly as practical.

Once an employee has begun payroll deductions, the funds represented by such payroll deductions will be forwarded by the Human Resources Department for investment as supplemental investments under the Plan at such time as payroll deductions accumulated for the employee equal or exceed the minimum amount for supplemental contributions, currently \$100.

An employee may increase, decrease or cease his or her payroll deductions at any time by giving written notice to the Human Resources Department at the Bank and by completing a new payroll deduction authorization form indicating the changes.

No interest will be paid on payroll deductions pending investment.

Payroll deductions can be commenced beginning in January 2013.

15. May I change my participation under the Plan?

You may elect at any time to change your level of participation by requesting and executing a new authorization card (or instructions in written form will also be accepted) and returning it to the Administrator. You may obtain stockholder authorization cards by contacting the Administrator. Changes in the level of participation will be effective in the same manner as the initial authorization for participation.

16. Will certificates be issued for shares purchased under the Plan?

Shares purchased by the Administrator for your account will be registered in the name of the Administrator or its nominee and will be held by the Administrator for safekeeping. This feature protects against loss, theft or destruction of certificates. The number of shares credited to your account under the Plan will be shown on the statement of account sent to you. No certificates will be issued for the shares purchased with the dividends unless you request it. Certificates representing fractional shares will not be issued under any circumstances.

17. How does the "safekeeping program" work?

In addition to retaining the shares purchased under the Plan, the Administrator provides a "safekeeping program" under which any certificated shares you send to the Administrator for safekeeping are held for you in a custodial account until certificates are requested. Only Participants in the Plan may participate in the "safekeeping program." If you would like the Administrator to hold shares that you currently hold or subsequently acquire, you should send the certificates to the Administrator at the address provided in Question 4. There is no charge for the safekeeping service. You may at any time request that certificates be issued for all or a portion of your shares held for safekeeping by contacting the Administrator in writing. Certificates for fractional shares will not be issued.

18. May I receive certificated shares purchased under the Plan?

You may at any time withdraw all or a portion of the shares credited to your account under the Plan and receive certificates representing such shares by notifying the Administrator in writing that you wish to withdraw shares and specifying the number of whole shares to be received. This notice should be mailed to the Administrator at the address provided in Question 4. Certificates for whole shares which are withdrawn will be registered in the name of and issued to the Participant. In no case will certificates representing fractional shares be issued. All future dividends paid on shares withdrawn as described in this paragraph and on shares remaining in the Participant's account will continue to be reinvested until five days after the Administrator receives written notice of termination (see Question 21).

You may not pledge shares credited to your account under the Plan. If you wish to pledge shares credited to your account, you must request that a certificate for such shares be issued in your name.

19. What happens to any fractional share when I request certificated shares from the Plan?

Upon your termination of participation in the Plan, a certificate for all whole shares held in your account will be issued. Fractional shares will be liquidated and paid by check. The per share price for the fractional liquidation will be the price paid for shares in the Plan on the most recent dividend payment date.

20. What happens to my Plan account if all certificated shares in my own name are transferred or sold?

If you dispose of all shares for which you hold certificates or which are held by a broker on your behalf (i.e., shares which are not held by the Plan), dividends on all shares held by the Administrator in your account, including dividends paid on shares held by the Administrator for safekeeping, will continue to be reinvested until the Administrator is notified that you wish to completely or partially terminate your participation in the Plan.

21. How do I terminate participation in the Plan?

You may completely or partially discontinue the reinvestment of dividends under the Plan at any time by notifying the Administrator in writing to that effect. Notice of complete termination of participation in the Plan should be sent to the Administrator at the address provided in Question 4. To prevent the reinvestment of dividends in accordance with the Plan, notice of termination must be received by the Administrator at least five days prior to the dividend record date for the next dividend to be paid. Participants may decrease (or increase) their level of participation in the Plan by returning to the Administrator a properly completed authorization card at least five business days before the record date for which the change is to be effective.

22. May I re-join the Plan after terminating participation?

Once you have terminated participation in the Plan and a certificate has been issued, you may not enroll in the Plan for one year.

23. What are the federal income tax consequences of Participation in the Plan?

The following is a brief summary of certain federal income tax consequences, applicable as of the date of this Prospectus, of participation in the Plan. The information in this summary is based upon the Internal Revenue Code of 1986, as amended, regulations of the U.S. Department of Treasury promulgated thereunder, current administrative interpretations and practices of the IRS and court decisions, all as of the date of this Prospectus. Future legislation, Treasury Department regulations, administrative interpretations and practices or court decisions could significantly change the current law or adversely affect existing interpretations of current law. Any change could apply retroactively to transactions preceding the date of the change. This summary is for general information purposes only and does not constitute tax advice. This summary also does not address state, local or foreign income or other tax laws or the tax consequences to types of persons subject to special treatment under the federal tax laws (for example, partnerships or tax-exempt organizations) or Participants residing outside of the United States.

In general Participants in the Plan will have the same federal income tax consequences with respect to dividends as shareholders not participating in the Plan. A Participant generally will be treated for federal income tax purposes as having received, on each dividend payment date, a distribution equal to the full amount of the cash dividends payable on both the shares registered in the Participant's own name and the shares held through the Plan. In addition, the amount of brokerage commissions the Company pays on a Participant's behalf will be treated as a distribution to the Participant which is subject to federal income tax in the same manner as dividends. The sum of these amounts will be the Participant's tax basis in these shares.

Each employee who purchases shares through payroll deductions will recognize the same amount of compensation and other income for federal income tax purposes as such employee would have recognized had he or she not purchased shares through payroll deductions. Generally, an employee's payroll deductions will be made on an "after-tax" basis.

A Participant's holding period for shares purchased under the Plan generally will begin on the date following the date on which the shares are credited to the Participant's Plan account. Each Participant who makes a supplemental investment under the Plan will not be treated for federal income tax purposes as having received income by virtue of the purchase of the shares with the supplemental investment. A Participant's supplemental investment will be made on an "after-tax" basis; therefore, the amount of any such investment

will not be deducted or excluded from the Participant's compensation or other income otherwise paid by the Company. The Participant's cost basis in any shares purchased with supplemental investments will be the cost of the shares, including any brokerage commissions paid by the Company on the Participant's behalf.

Each statement of account under the Plan will show the price per share to the Participant of shares purchased with reinvested dividends and supplemental investments. That price, which will include the brokerage commissions paid by the Company on behalf of the Participant on Plan purchases of shares, is the federal income tax cost basis to the Participant of shares acquired under the Plan. The statement of account will also show the date on which shares purchased under the Plan were credited to the Participant's account.

Information forms (Forms 1099-DIV) will be mailed to Plan Participants each year and will set forth the taxable dividends and brokerage commissions reportable for federal income tax purposes. These dividends and brokerage commissions must be reported on the Participant's federal income tax return.

Reinvested dividends are not subject to U.S. backup withholding unless (a) a Participant fails to give the Participant's social security or tax identification number to the Company, (b) the IRS notifies the Company that the Participant is subject to tax withholding or (c) the Participant fails to certify, under penalties of perjury, that the Participant is not subject to backup withholding if such certification is required. If a Participant is a shareholder whose dividends are subject to tax withholding, the Company will apply toward the purchase of shares under the Plan an amount equal to the dividends being reinvested less the amount of tax required to be withheld. The Participant's statement of account under the Plan will indicate the amount of tax withheld.

A Participant will not recognize any taxable income upon receipt of a certificate for whole shares credited to the Participant's account under the Plan, whether upon request for such a certificate, upon the Participant's termination of an account under the Plan or upon termination of the Plan. However, a Participant may recognize a gain or loss upon receipt of a cash payment for shares credited to a Plan account when the account is terminated by the Participant, when shares credited to the account are sold or exchanged or when the Plan is terminated. The amount of any such gain or loss will be the difference between the amount received for the shares and the Participant's tax basis in the shares and generally will be treated as a capital gain or loss, if the Participant held such shares as a capital asset.

You should consult your personal tax advisor with specific reference to your tax situation and potential changes in the applicable law as to all federal, state, local, foreign and other tax matters in connection with the reinvestment of dividends and purchases of shares under the Plan, your cost basis and holding period for shares acquired under the Plan, and the character, amount and tax treatment of any gain or loss realized on the disposition of shares. Unless a participant elects a different method, the Administrator will report the cost basis of shares purchased under the Plan after January 1, 2011 using the first-in, first out method. This means that when a participant elects to sell or dispose of shares acquired under the Plan on or after January 1, 2011, the amount of gain or loss will be calculated using the tax basis of the oldest shares acquired by the participant on or after January 1, 2011. A participant may be able to elect that the cost basis of shares acquired under the dividend reinvestment plan after January 1, 2011 be determined using a different method. The participant should consult with the participant's personal tax advisors for more information on whether and how to elect a different method of determining the cost basis of shares acquired under the Plan after January 1, 2011.

24. What happens if the Company issues a share dividend or declares a stock split?

Any share dividend or shares resulting from stock splits with respect to shares held in your account will be credited to your account in book entry form, and all dividends paid on such shares will be reinvested until you terminate your participation in the Plan with respect to such shares (see Question 21).

25. How will my shares be voted at each meeting of shareholders?

We will send to you proxy forms representing both the shares registered in your own name and the shares held in your Plan account. When completed, signed and returned, such proxies will be voted as directed. If you sign and return a proxy card but no instructions are provided, the shares will be voted as management indicates on the card. If you do not return the proxy card or instruction form, or if you return it unsigned, none of your shares to which the proxy pertains will be voted unless you attend the meeting and vote in person. If you do not have shares registered in your own name, we will send to you a proxy form on which to indicate how the shares held in your Plan account are to be voted.

26. Can I sell shares through the Administrator?

You may sell any or all shares you own in the Plan by notifying the Administrator in writing. Shares enrolled in the Plan but held by you in certificated form may also be sold through the Administrator after depositing those shares with the Administrator in the Safekeeping Program. Any brokerage commission or service charge (see Question 11), any amount required to be withheld for income tax purposes and any applicable transfer taxes incurred in connection with the sale of shares by the Administrator will be deducted from the proceeds of such sale. Sales will generally be made within five business days following receipt of the written request to sell, but the Administrator reserves the right to delay such sales for up to 30 days if market conditions or administrative factors make an earlier sale impracticable. Proceeds will be sent to you as soon as is practicable following the settlement for the sale of the shares. If all shares in the account are sold and the account is terminated, a termination fee will be required, currently \$15.00. If less than all of the shares in the account are sold and the account remains open, no service charge or fee will be charged. Brokerage commissions fluctuate. You may obtain information about current service charges and commissions from the Administrator.

27. May I transfer shares I own in the Plan to someone else?

You are permitted to change the ownership of all or part of your shares held under the Plan. If you wish to change the ownership of all or part of your shares held under the Plan through gift, private sale or otherwise, you may effect the transfer by mailing a properly completed and executed transfer of stock form to the Administrator. Transfers of less than all of your shares must be made in whole share amounts. You may not transfer a fraction of a share unless you transfer your entire account under the Plan. Requests for transfer are subject to the same requirements as for the transfer of common share certificates, including the requirement of a signature guarantee by an eligible guarantor institution. You may obtain transfer of stock forms from the Administrator. Shares you transfer to another person will continue to be held under the Plan. The Administrator will open an account in the name of the transferee, if he or she is not already a Participant in the Plan. The transferee will automatically be enrolled in the Plan. If the transferee is not already a Participant in the Plan, all dividends on shares transferred to the transferee's account under the Plan will be reinvested under the terms of the Plan.

The Administrator will provide to the transferee a statement showing the number of shares transferred to, and held in, his or her account under the Plan.

28. Are there any restrictions on the transferability of shares purchased under the Plan?

In general, no resale restrictions should apply to the resale or other transfer of shares purchased under the Plan. The shares to be purchased by the Administrator for Participants generally will have been registered by us pursuant to the federal securities laws, although the Administrator may purchase shares in the open market or in private transactions which have not been so registered. In either case, certain resale restrictions may apply if you are an affiliate of the Company (for example, an executive officer, director, major shareholder, or a relative of any such person).

29. What happens in the event of my death?

In the event of death, your account under the Plan will continue and dividends will continue to be reinvested until the Administrator receives instructions from a duly authorized representative of your estate.

30. Who interprets the Plan?

We interpret and regulate the Plan, and any determinations made by us will be final and binding on all parties, including Plan Participants. We may adopt rules and regulations to facilitate administration of the Plan. The terms and conditions of the Plan and its operation are governed by the laws of the State of Ohio applicable to agreements made and to be performed within such jurisdiction.

31. May the Plan be changed or discontinued?

While we hope to continue the Plan indefinitely, we may modify, amend, suspend, or terminate the Plan, or any shareholder's interest therein, at any time, including the period between a dividend record date and the related dividend payment date for any reason. If the Plan is amended or restated, a current Participant will automatically be enrolled unless the Participant gives written notice to the contrary. We and/or the Plan Administrator also reserve the right to terminate any shareholder's participation in the Plan at any time. We will provide notice to you of any modification, amendment, suspension or termination.

32. What is the responsibility of the Company, the Administrator, and the Bank?

In administering the Plan, none of the Company, the Administrator or the Bank will be liable for any act done in good faith or for any good faith omission to act, including, without limitation, any claim or liability arising from:

- the failure to terminate a deceased Participant's account prior to receipt by the Administrator of written notice of such death;
- the prices at which shares are purchased for a Participant's account;
- the inability to purchase shares at any time;
- the Company's decision not to issue shares for purchase under the Plan;
- the time when purchases are made; or
- any fluctuations in the market value of shares.

None of the Company, the Administrator, the Bank or their respective employees can provide any assurance of a profit or protection against a loss with respect to any shares purchased or held for safekeeping under the Plan.

Plan of Distribution

Except to the extent that the Administrator purchases shares in open market transactions, the shares acquired under the Plan will be sold directly by us through the Plan. We will pay most costs of administering the Plan. You will incur no brokerage commissions or services charges in connection with your purchases of our shares. Commissions, service charges and fees in connection with the Plan are as set forth in Question 11. Such commissions, service charges and fees may change. You may obtain a current list of applicable commissions, service charges and fees at any time from the Administrator.

Subject to the availability of shares registered for issuance under the Plan, there is no total maximum number of shares that can be issued pursuant to the reinvestment of dividends.

Use of Proceeds

Shares purchased by the Administrator in open market or negotiated transactions will provide no cash proceeds to the Company. All shares purchased directly from the Company will provide cash proceeds to the Company, which proceeds will be used for general corporate purposes, to supplement our capital, to support growth or as a contribution to the capital of the Bank, which may use the capital for similar purposes. We have no basis for estimating either the number of shares that will ultimately be purchased directly from us, if any, under the Plan or the prices at which such shares will be sold.

Indemnification of Directors and Officers

Article FIVE of the Company's Regulations authorizes the Company to indemnify any officer or director who was or is a party or is threatened to be made a party to any civil, criminal, administrative or investigative action, suite or proceeding by reason of the fact that the person is the Company as a director, trustee, officer employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The Company may indemnify any such officer or director for expenses, judgments and fines incurred and amounts paid in settlement by that person only if the director or officer acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company or had no reasonable cause to believe his conduct was unlawful in a criminal action.

Indemnification can only be provided (1) by the majority vote of a quorum of directors of the Company who were not and are not parties to, or threatened with, any such action, suite or proceeding, or (2) if such a quorum is not obtainable or if a majority of a quorum of disinterested directors so directs, in a written opinion by disinterested, independent legal counsel, or (3) by a majority vote of a quorum of shareholders of the Company, or (4) by the Court of Common Pleas of Trumbull County, Ohio, or, if the Company is a party thereto, the court in which such action, suit or proceeding was brought.

The Company has purchased insurance coverage under a policy which insures directors and officers against certain liabilities which might be incurred by them in such capacity.

Division (E) of Section 1701.13 of the Ohio Revised Code also provides for the authority of the Company to indemnify a director, officer, employee or agent of the Company. The statutory provision is very similar, but not identical, to the language contained in Article FIVE of the Regulations.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable.

Legal Opinion

On behalf of the Company, the law firm of Vorys, Sater, Seymour and Pease LLP, 301 East Fourth Street, Suite 3500, Great American Tower, Cincinnati, Ohio 45202, is giving an opinion upon the validity of the shares to be issued under the Plan.

Experts

S. R. Snodgrass A.C., our independent registered public accounting firm, has audited our financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which are incorporated by reference into this Prospectus and elsewhere in the Registration Statement of which this Prospectus is a part. Our financial statements are incorporated by reference in reliance on S. R. Snodgrass A. C.'s report, given on their authority as experts in accounting and auditing.

Where You Can Find More Information

This Prospectus is a part of a Registration Statement on Form S-3 that we filed with the SEC to register the shares that will be available for purchase under the Plan. As permitted by SEC rules, this Prospectus does not contain all of the information included in the Registration Statement or the exhibits to the Registration Statement. You should refer to the Registration Statement and the documents filed or incorporated by reference as exhibits to the Registration Statement for more information about us and our shares.

We are subject to the reporting requirements of the Exchange Act and file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room,

located at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC also maintains an internet site that contains reports, proxy and information statements and other information about issuers, like us, who file such material electronically with the commission. The address of the SEC's Web site is <http://www.sec.gov>. Our principal Internet address is www.cortland-banks.com. We make available, free of charge, on or through our Web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with or furnished to the SEC, and amendments to those reports, as soon as reasonably practicable after we electronically file such report with, or furnish them to, the SEC. The contents of our Web site are not part of this Prospectus, and the reference to our Web site does not constitute incorporation by reference into this Prospectus of the information included or referred to on our Web site.

Documents Incorporated By Reference

The rules and regulations of the SEC allow us to "incorporate by reference" certain information in this Prospectus, which means that we can disclose important information to you by referring you to other documents that we have filed with the SEC. The following documents that we have filed with the SEC are incorporated in this Prospectus by reference and considered a part of this Prospectus:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2011;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, June 30, and September 30, 2012;
- our Current Reports on Form 8-K filed with the SEC on April 27, May 24, July 31, October 3, October 25, and October 31, 2012; and
- the description of our shares contained in our Current Report on Form 8-K filed with the SEC on November 21, 2012.

We are also incorporating by reference in this Prospectus all documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information in the documents that is deemed to have been furnished and not filed) after the date of this Prospectus and prior to the termination or completion of the offering described herein.

You can obtain copies of any of the documents incorporated by reference in this Prospectus (including any exhibits that are specifically incorporated by reference in such documents), without charge, by writing or phoning us at the following address and phone number: Investor Relations Officer; Cortland Bancorp; 194 West Main Street; Cortland, Ohio 44410; (330) 637-8040.

Because we are incorporating by reference in this Prospectus our future filings with the SEC, this Prospectus is continuously updated and our future filings may modify or supersede some of the information included or incorporated by reference in this Prospectus. This means that you must look at all of the SEC filings that we incorporate herein by reference to determine if any of the statements in this Prospectus or in any document previously incorporated herein by reference have been modified or superseded. In case of a conflict or inconsistency between information contained in this Prospectus and information incorporated by reference in this Prospectus, you should rely on the information that was filed later.