

TRUSTCO BANK CORP N Y  
Form 10-Q  
August 04, 2014

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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 Commission File Number 0-10592  
June 30, 2014

TRUSTCO BANK CORP NY  
(Exact name of registrant as specified in its charter)

NEW YORK 14 1630287  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5 SARNOWSKI DRIVE, GLENVILLE, NEW YORK 12302  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (518) 377 3311

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. x Yes o No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o  
Smaller reporting company o

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

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

Number of Shares Outstanding  
Common Stock as of August 1, 2014

\$1 Par Value 94,676,409

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TrustCo Bank Corp NY

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2013	2014	2013	2014
Interest and dividend income:				
Interest and fees on loans	\$33,614	31,639	66,488	63,120
Interest and dividends on securities available for sale:				
U. S. government sponsored enterprises	381	627	887	1,443
State and political subdivisions	44	148	112	339
Mortgage-backed securities and collateralized mortgage obligations-residential	3,299	2,701	6,377	5,470
Corporate bonds	2	233	61	451
Small Business Administration-guaranteed participation securities	539	564	1,095	1,060
Mortgage-backed securities and collateralized mortgage obligations-commercial	38	38	76	67
Other securities	4	3	8	8
Total interest and dividends on securities available for sale	4,307	4,314	8,616	8,838
Interest on held to maturity securities:				
Mortgage-backed securities and collateralized mortgage obligations-residential	577	716	1,202	1,505
Corporate bonds	154	214	308	526
Total interest on held to maturity securities	731	930	1,510	2,031
Federal Reserve Bank and Federal Home Loan Bank stock	128	121	261	240
Interest on federal funds sold and other short-term investments	376	327	727	572
Total interest income	39,156	37,331	77,602	74,801
Interest expense:				
Interest on deposits:				
Interest-bearing checking	89	82	173	162
Savings	592	829	1,355	1,745
Money market deposit accounts	618	630	1,217	1,315
Time deposits	2,035	1,883	3,986	3,703
Interest on short-term borrowings	342	367	735	731
Total interest expense	3,676	3,791	7,466	7,656
Net interest income	35,480	33,540	70,136	67,145
Provision for loan losses	1,500	2,000	3,000	4,000
Net interest income after provision for loan losses	33,980	31,540	67,136	63,145
Noninterest income:				
Trustco financial services income	1,405	1,287	2,915	2,708
Fees for services to customers	2,732	2,968	5,253	5,855
Net gain on securities transactions	-	1,432	6	1,434
Other	368	229	2,090	511
Total noninterest income	4,505	5,916	10,264	10,508

Noninterest expenses:				
Salaries and employee benefits	8,012	7,647	15,604	15,825
Net occupancy expense	4,110	3,910	8,369	7,963
Equipment expense	1,823	1,582	3,575	3,300
Professional services	1,438	1,565	2,724	2,985
Outsourced services	1,425	1,350	2,750	2,700
Advertising expense	657	714	1,256	1,444
FDIC and other insurance	1,000	1,004	1,904	2,014
Other real estate (income) expense, net	(1,688 )	1,473	(833 )	2,222
Other	2,660	2,624	4,889	4,973
Total noninterest expenses	19,437	21,869	40,238	43,426
Income before taxes	19,048	15,587	37,162	30,227
Income taxes	7,240	5,824	14,343	11,296
Net income	\$11,808	9,763	22,819	18,931
Net income per Common Share:				
- Basic	\$0.125	0.104	0.241	0.201
- Diluted	\$0.125	0.104	0.241	0.201

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$11,808	9,763	22,819	18,931
Net unrealized holding gain (loss) on securities available for sale	11,429	(26,315)	18,884	(29,254)
Reclassification adjustments for net gain recognized in income	-	(1,432)	(6)	(1,434)
Tax effect	(4,517)	11,064	(7,543)	12,237
Net unrealized gain (loss) on securities available for sale, net of tax	6,912	(16,683)	11,335	(18,451)
Amortization of net actuarial (gain) loss	(74)	101	(146)	233
Amortization of prior service credit	(45)	(65)	(90)	(131)
Tax effect	48	(15)	93	(40)
Amortization of net actuarial (gain) loss and prior service credit on pension and postretirement plans, net of tax	(71)	21	(143)	62
Other comprehensive income (loss), net of tax	6,841	(16,662)	11,192	(18,389)
Comprehensive income (loss)	\$18,649	(6,899)	34,011	542

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Financial Condition

(dollars in thousands)

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
<b>ASSETS:</b>		
Cash and due from banks	\$48,034	46,453
Federal funds sold and other short term investments	573,514	536,591
Total cash and cash equivalents	621,548	583,044
Securities available for sale	811,770	863,754
Held to maturity securities (fair value 2014 \$82,895; 2013 \$90,305)	77,926	86,215
Federal Reserve Bank and Federal Home Loan Bank stock	10,951	10,500
Loans, net of deferred fees and costs	3,006,150	2,908,809
Less:		
Allowance for loan losses	46,935	47,714
Net loans	2,959,215	2,861,095
Bank premises and equipment, net	36,658	34,414
Other assets	71,061	82,430
Total assets	\$4,589,129	4,521,452
<b>LIABILITIES:</b>		
Deposits:		
Demand	\$324,277	318,456
Interest-bearing checking	643,473	611,127
Savings accounts	1,233,347	1,218,038
Money market deposit accounts	651,367	648,402
Certificates of deposit (in denominations of \$100,000 or more)	436,785	419,301
Other time accounts	705,938	711,747
Total deposits	3,995,187	3,927,071
Short-term borrowings	181,516	204,162
Accrued expenses and other liabilities	27,409	28,406
Total liabilities	4,204,112	4,159,639
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock par value \$1; 150,000,000 shares authorized; 98,927,123 shares issued at June 30, 2014 and December 31, 2013	98,927	98,927
Surplus	172,769	173,144
Undivided profits	157,832	147,432
Accumulated other comprehensive loss, net of tax	(2,611 )	(13,803 )

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Treasury stock at cost - 4,261,714 and 4,463,786 shares at June 30, 2014 and December 31, 2013, respectively	(41,900 )	(43,887 )
Total shareholders' equity	385,017	361,813
Total liabilities and shareholders' equity	\$4,589,129	4,521,452

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Beginning balance, January 1, 2013	\$98,912	174,899	132,378	1,558	(48,949)	358,798
Net Income	-	-	18,931	-	-	18,931
Other comprehensive loss, net of tax	-	-	-	(18,389)	-	(18,389)
Cash dividend declared, \$.1312 per share	-	-	(12,356)	-	-	(12,356)
Sale of treasury stock (268,509 shares)	-	(1,173)	-	-	2,641	1,468
Stock based compensation expense	-	171	-	-	-	171
Ending balance, June 30, 2013	\$98,912	173,897	138,953	(16,831)	(46,308)	348,623
Beginning balance, January 1, 2014	\$98,927	173,144	147,432	(13,803)	(43,887)	361,813
Net Income	-	-	22,819	-	-	22,819
Other comprehensive income, net of tax	-	-	-	11,192	-	11,192
Cash dividend declared, \$.1312 per share	-	-	(12,419)	-	-	(12,419)
Sale of treasury stock (202,072 shares)	-	(548)	-	-	1,987	1,439
Stock based compensation expense	-	173	-	-	-	173
Ending balance, June 30, 2014	\$98,927	172,769	157,832	(2,611)	(41,900)	385,017

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Six months ended June 30, 2014		2013
Cash flows from operating activities:			
Net income	\$ 22,819		18,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,432		2,541
Net (gain) loss on sale of other real estate owned	(2,482 )		36
Writedown of other real estate owned	998		1,098
Net gain on sale of building held for sale	(1,556 )		-
Provision for loan losses	3,000		4,000
Deferred tax expense (benefit)	1,508		(27 )
Stock based compensation expense	173		171
Net gain on sale of bank premises and equipment	(1 )		(16 )
Net gain on sales and calls of securities	(6 )		(1,434 )
Decrease (increase) in taxes receivable	1,265		(1,329 )
Increase in interest receivable	(152 )		(332 )
Decrease in interest payable	(2 )		(24 )
Decrease (increase) in other assets	(2,561 )		6,272
Increase (decrease) in accrued expenses and other liabilities	(1,009 )		1,610
Total adjustments	1,607		12,566
	24,426		31,497

Net cash provided by  
operating activities

Cash flows from  
investing activities:

Proceeds from sales and calls of securities available for sale	180,623		323,974	
Proceeds from calls and maturities of held to maturity securities	8,289		44,637	
Purchases of securities available for sale	(118,755	)	(329,374	)
Proceeds from maturities of securities available for sale	9,000		10,050	
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(451	)	(868	)
Net increase in loans	(107,000	)	(89,783	)
Net proceeds from sale of building held for sale	4,745		-	
Proceeds from dispositions of other real estate owned	7,230		4,978	
Proceeds from dispositions of bank premises and equipment	53		16	
Purchases of bank premises and equipment	(4,160	)	(4,603	)
Net cash used in investing activities	(20,426	)	(40,973	)

Cash flows from  
financing activities:

Net increase in deposits	68,116		88,683	
Net (decrease) increase in short-term borrowings	(22,646	)	16,479	
Proceeds from sale of treasury stock	1,439		1,468	
Dividends paid	(12,405	)	(12,338	)

Net cash provided by financing activities	34,504	94,292
Net increase in cash and cash equivalents	38,504	84,816
Cash and cash equivalents at beginning of period	583,044	544,016
Cash and cash equivalents at end of period	\$ 621,548	628,832

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## Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid	\$7,468	7,680
Income taxes paid	13,142	12,691
Other non cash items:		
Transfer of loans to other real estate owned	5,880	7,752
Transfer of other real estate owned to fixed assets	568	-
Increase in dividends payable	14	18
Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes	18,878	(30,688)
Change in deferred tax effect on unrealized gain (loss) on securities available for sale	(7,543 )	12,237
Amortization of net actuarial loss and prior service credit on pension and postretirement plans	(236 )	102
Change in deferred tax effect of amortization of net actuarial loss and prior service credit	93	(40 )

See accompanying notes to unaudited consolidated interim financial statements.

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(1) Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the “Company” or “TrustCo”) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and six months ended June 30, 2014 is not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all recurring adjustments necessary to present fairly the financial position as of June 30, 2014, the results of operations for the three months and six months ended June 30, 2014 and 2013, and the cash flows for the six months ended June 30, 2014 and 2013. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the TrustCo Bank Corp NY year-end Consolidated Financial Statements, including notes thereto, which are included in TrustCo Bank Corp NY's 2013 Annual Report to Shareholders on Form 10-K. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States.

(2) Earnings Per Share

The Company computes earnings per share in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, Earnings Per Share (“ASC 260”). TrustCo adopted FASB ASC 260-10 (“ASC 260-10”), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which clarified that unvested share-based payment awards that contain nonforfeitable rights to receive dividends or divided equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (“EPS”).

Participating securities under this statement include the unvested employees’ and directors’ restricted stock awards with time-based vesting, which receive nonforfeitable dividend payments.

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A reconciliation of the component parts of earnings per share for the three months and six months ended June 30, 2014 and 2013 is as follows:

(dollars in thousands, except per share data)

	2014	2013
For the three months ended June 30:		
Net income	\$11,808	\$9,763
Less: Net income allocated to participating securities	13	11
Net income allocated to common shareholders	\$11,795	\$9,752
Basic EPS:		
Distributed earnings allocated to common stock	\$6,213	\$6,182
Undistributed earnings allocated to common stock	5,582	3,570
Net income allocated to common shareholders	\$11,795	\$9,752
Weighted average common shares outstanding including participating securities	94,665	94,204
Less: Participating securities	106	106
Weighted average common shares	94,559	94,098
Basic EPS	0.125	0.104
Diluted EPS:		
Net income allocated to common shareholders	\$11,795	\$9,752
Weighted average common shares for basic EPS	94,559	94,098
Effect of Dilutive Securities:		
Stock Options	116	7
Weighted average common shares including potential dilutive shares	94,675	94,105
Diluted EPS	0.125	0.104

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(dollars in thousands, except per share data)

	2014	2013
For the six months ended June 30:		
Net income	\$22,819	\$18,931
Less: Net income allocated to participating securities	26	21
Net income allocated to common shareholders	\$22,793	\$18,910
Basic EPS:		
Distributed earnings allocated to common stock	\$12,419	\$12,356
Undistributed earnings allocated to common stock	10,374	6,554
Net income allocated to common shareholders	\$22,793	\$18,910
Weighted average common shares outstanding including participating securities	94,642	94,134
Less: Participating securities	106	106
Weighted average common shares	94,536	94,028
Basic EPS	0.241	0.201
Diluted EPS:		
Net income allocated to common shareholders	\$22,793	\$18,910
Weighted average common shares for basic EPS	94,536	94,028
Effect of Dilutive Securities:		
Stock Options	122	6
Weighted average common shares including potential dilutive shares	94,658	94,034
Diluted EPS	0.241	0.201

For both the three months and six months ended June 30, 2014 and 2013, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 2.4 million and 2.7 million, respectively. The stock options are antidilutive because the strike price is greater than the average fair value of the Company's common stock for the periods presented.

**(3) Benefit Plans**

The table below outlines the components of the Company's net periodic benefit recognized during the three month and six month periods ended June 30, 2014 and 2013 for its pension and other postretirement benefit plans:

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(dollars in thousands)	For the three months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Service cost	18	20	15	14
Interest cost	336	322	32	27
Expected return on plan assets	(609)	(597)	(169 )	(126 )
Amortization of net (gain) loss	-	111	(74 )	(10 )
Amortization of prior service credit	-	-	(45 )	(65 )
Net periodic benefit	(255)	(144)	(241 )	(160 )

  

(dollars in thousands)	For the six months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Service cost	36	34	29	26
Interest cost	672	637	64	51
Expected return on plan assets	(1,218)	(1,095)	(338 )	(249 )
Amortization of net (gain) loss	-	258	(146 )	(25 )
Amortization of prior service credit	-	-	(90 )	(131 )
Net periodic benefit	(510 )	(166 )	(481 )	(328 )

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2013, that it did not expect to make contributions to its pension and postretirement benefit plans in 2014. As of June 30, 2014, no contributions have been made, however, this decision is reviewed each quarter and is subject to change based upon market conditions.

Since 2003, the Company has not subsidized retiree medical insurance premiums. However, it continues to provide postretirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

## (4) Investment Securities

## (a) Securities available for sale

The amortized cost and fair value of the securities available for sale are as follows:

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(dollars in thousands)	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$103,805	56	521	103,340
State and political subdivisions	3,823	98	-	3,921
Mortgage backed securities and collateralized mortgage obligations - residential	594,869	1,885	7,237	589,517
Corporate bonds	1,403	-	1	1,402
Small Business Administration-guaranteed participation securities	107,542	-	5,175	102,367
Mortgage backed securities and collateralized mortgage obligations - commercial	10,832	-	288	10,544
Other	650	-	6	644
Total debt securities	822,924	2,039	13,228	811,735
Equity securities	35	-	-	35
Total securities available for sale	\$822,959	2,039	13,228	811,770

(dollars in thousands)	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$200,531	22	1,724	198,829
State and political subdivisions	7,623	135	-	7,758
Mortgage backed securities and collateralized mortgage obligations - residential	552,230	267	20,048	532,449
Corporate bonds	10,429	43	1	10,471
Small Business Administration-guaranteed participation securities	111,383	-	8,354	103,029
Mortgage backed securities and collateralized mortgage obligations - commercial	10,965	-	407	10,558
Other	650	-	-	650
Total debt securities	893,811	467	30,534	863,744
Equity securities	10	-	-	10
Total securities available for sale	\$893,821	467	30,534	863,754

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The following table distributes the debt securities included in the available for sale portfolio as of June 30, 2014, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using an estimated average life):

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 2,195	2,213
Due in one year through five years	360,427	360,596
Due after five years through ten years	458,992	447,603
Due after ten years	1,310	1,323
	\$ 822,924	811,735

Actual maturities may differ from the above because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty.

Gross unrealized losses on securities available for sale and the related fair values aggregated by the length of time that individual securities have been in an unrealized loss position, were as follows:

(dollars in thousands)	June 30, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	\$22,503	17	54,995	504	77,498	521
Mortgage backed securities and collateralized mortgage obligations - residential	49,195	242	353,561	6,995	402,756	7,237
Corporate bonds	501	1	-	-	501	1
Small Business Administration-guaranteed participation securities	-	-	102,367	5,175	102,367	5,175
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	10,543	288	10,543	288
Other	594	6	-	-	594	6
Total	\$72,793	266	521,466	12,962	594,259	13,228

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(dollars in thousands)	December 31, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	\$198,023	1,724	-	-	198,023	1,724
Mortgage backed securities and collateralized mortgage obligations - residential	466,056	17,698	54,835	2,350	520,891	20,048
Corporate bonds	902	1	-	-	902	1
Small Business Administration-guaranteed participation securities	103,029	8,354	-	-	103,029	8,354
Mortgage backed securities and collateralized mortgage obligations - commercial	10,558	407	-	-	10,558	407
Total	\$778,568	28,184	54,835	2,350	833,403	30,534

The proceeds from sales and calls of securities available for sale, gross realized gains and gross realized losses from sales and calls during the three months and six months ended June 30, 2014 and 2013 are as follows:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Proceeds from sales	\$-	118,560	\$-	118,560
Proceeds from calls	39,301	96,417	180,623	205,414
Gross realized gains	-	1,512	6	1,514
Gross realized losses	-	80	-	80

Tax expense recognized on net gains on sales of securities available for sale were approximately \$573 thousand for the three months ended June 30, 2013. There were no net gains on sales of securities available for sale during the three months ended June 30, 2014. Tax expense recognized on net gains on sales of securities available for sale were approximately \$2 thousand and \$574 thousand for the six months ended June 30, 2014 and 2013 respectively.

## (b) Held to maturity securities

The amortized cost and fair value of the held to maturity securities are as follows:

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(dollars in thousands)	June 30, 2014			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$67,974	3,614	-	71,588
Corporate bonds	9,952	1,355	-	11,307
Total held to maturity	\$77,926	4,969	-	82,895

(dollars in thousands)	December 31, 2013			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$76,270	2,744	138	78,876
Corporate bonds	9,945	1,484	-	11,429
Total held to maturity	\$86,215	4,228	138	90,305

The following table distributes the debt securities included in the held to maturity portfolio as of June 30, 2014, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using an estimated average life):

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year through five years	76,333	81,192
Due in five years through ten years	1,593	1,703
	\$ 77,926	82,895

Actual maturities may differ from the above because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty.

There were no held to maturity securities in an unrecognized loss position as of June 30, 2014.

Gross unrecognized losses on held to maturity securities and the related fair values aggregated by the length of time that individual securities have been in an unrecognized loss position as of December 31, 2013 were as follows:

(dollars in thousands)	December 31, 2013					
	Less than 12 months	Gross Unrec. Loss	12 months or more	Gross Unrec. Loss	Total Fair Value	Gross Unrec. Loss
Mortgage backed securities and collateralized mortgage obligations - residential	\$27,091	138	-	-	27,091	138
Total	\$27,091	138	-	-	27,091	138

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There were no sales or transfers of held to maturity securities during the three months and six months ended June 30, 2014 and 2013.

(c) Other-Than-Temporary Impairment

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio by type and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under ASC 320 “Investments – Debt and Equity Securities.”

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether management intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If management intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. If management does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the OTTI on debt securities shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of June 30, 2014, the Company’s security portfolio consisted of 202 securities, 79 of which were in an unrealized loss position, and are discussed below.

U.S. government sponsored enterprises

In the case of unrealized losses on U.S. government sponsored enterprises, because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

Mortgage backed securities and collateralized mortgage obligations - residential

All of the mortgage backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac, which are institutions the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

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Corporate bonds

The Company's exposure is primarily in bonds of firms in the financial sector. All of the corporate bonds owned continue to be rated investment grade, all are current as to the payment of interest and the Company expects to collect the full amount of the principal balance at maturity. The Company actively monitors the firms and the bonds. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

Small Business Administration (SBA) - guaranteed participation securities

All of the SBA securities held by the Company were issued and guaranteed by U.S. Small Business Administration. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

Mortgage backed securities and collateralized mortgage obligations - commercial

All of the mortgage backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, are current as to the payment of interest and principal and the Company expects to collect the full amount of the principal and interest payments. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

Other securities

In the case of unrealized losses on other securities, because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

As a result of the above analysis, during the three and six months ended June 30, 2014, the Company did not recognize any other-than-temporary impairment losses for credit or any other reason.

(5) Loans and Allowance for Loan Losses

The following tables present the recorded investment in loans by loan class:

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(dollars in thousands)	June 30, 2014		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$167,815	21,908	189,723
Other	32,864	68	32,932
Real estate mortgage - 1 to 4 family:			
First mortgages	1,960,668	422,564	2,383,232
Home equity loans	49,695	4,573	54,268
Home equity lines of credit	301,236	38,661	339,897
Installment	5,466	632	6,098
Total loans, net	\$2,517,744	488,406	3,006,150
Less: Allowance for loan losses			46,935
Net loans			\$2,959,215

(dollars in thousands)	December 31, 2013		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$169,722	21,404	191,126
Other	32,323	32	32,355
Real estate mortgage - 1 to 4 family:			
First mortgages	1,909,447	378,361	2,287,808
Home equity loans	47,494	3,642	51,136
Home equity lines of credit	304,044	36,445	340,489
Installment	5,292	603	5,895
Total loans, net	\$2,468,322	440,487	2,908,809
Less: Allowance for loan losses			47,714
Net loans			\$2,861,095

\* Includes New York, New Jersey, Vermont, and Massachusetts.

At June 30, 2014 and December 31, 2013, the Company had approximately \$34.3 million and \$35.4 million of real estate construction loans, respectively. Of the \$34.3 million in real estate construction loans at June 30, 2014, approximately \$15.4 million are secured by first mortgages to residential borrowers while approximately \$18.9 million were to commercial borrowers for residential construction projects. Of the \$35.4 million in real estate construction loans at December 31, 2013, approximately \$13.9 million are secured by first mortgages to residential borrowers while approximately \$21.5 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company's New York market.

TrustCo lends in the geographic territory of its branch locations in New York, Florida, Massachusetts, New Jersey and Vermont. Although the loan portfolio is diversified, a portion of its debtors' ability to repay depends significantly on the economic conditions prevailing in the respective geographic territory.

The following tables present the recorded investment in non-accrual loans by loan class:





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(dollars in thousands)	June 30, 2014		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$5,010	517	5,527
Other	122	-	122
Real estate mortgage - 1 to 4 family:			
First mortgages	26,886	3,140	30,026
Home equity loans	517	-	517
Home equity lines of credit	4,030	438	4,468
Installment	87	1	88
Total non-accrual loans	36,652	4,096	40,748
Restructured real estate mortgages - 1 to 4 family	159	-	159
Total nonperforming loans	\$36,811	4,096	40,907

(dollars in thousands)	December 31, 2013		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$6,620	-	6,620
Other	332	-	332
Real estate mortgage - 1 to 4 family:			
First mortgages	26,713	4,781	31,494
Home equity loans	691	-	691
Home equity lines of credit	3,641	356	3,997
Installment	93	-	93
Total non-accrual loans	38,090	5,137	43,227
Restructured real estate mortgages - 1 to 4 family	166	-	166
Total nonperforming loans	\$38,256	5,137	43,393

As of June 30, 2014 and December 31, 2013, the Company's loan portfolio did not include any subprime mortgages or loans acquired with deteriorated credit quality.

The following tables present the aging of the recorded investment in past due loans by loan class and by region as of June 30, 2014 and December 31, 2013:

New York and other states:

(dollars in thousands)	June 30, 2014				Current	Total Loans
	30-59 Days	60-89 Days	90+ Days	Total 30+ days		

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	Past Due	Past Due	Past Due	Past Due		
Commercial:						
Commercial real estate	\$54	-	3,493	3,547	164,268	167,815
Other	-	-	122	122	32,742	32,864
Real estate mortgage - 1 to 4 family:						
First mortgages	3,515	1,620	20,018	25,153	1,935,515	1,960,668
Home equity loans	57	56	452	565	49,130	49,695
Home equity lines of credit	619	334	2,364	3,317	297,919	301,236
Installment	75	38	74	187	5,279	5,466
Total	\$4,320	2,048	26,523	32,891	2,484,853	2,517,744

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## Florida:

(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$-	-	-	-	21,908	21,908
Other	-	-	-	-	68	68
Real estate mortgage - 1 to 4 family:						
First mortgages	726	-	2,504	3,230	419,334	422,564
Home equity loans	-	-	-	-	4,573	4,573
Home equity lines of credit	34	-	28	62	38,599	38,661
Installment	14	-	-	14	618	632
Total	\$ 774	-	2,532	3,306	485,100	488,406

## Total:

(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$54	-	3,493	3,547	186,176	189,723
Other	-	-	122	122	32,810	32,932
Real estate mortgage - 1 to 4 family:						
First mortgages	4,241	1,620	22,522	28,383	2,354,849	2,383,232
Home equity loans	57	56	452	565	53,703	54,268
Home equity lines of credit	653	334	2,392	3,379	336,518	339,897
Installment	89	38	74	201	5,897	6,098
Total	\$5,094	2,048	29,055	36,197	2,969,953	3,006,150

## New York and other states:

(dollars in thousands)	December 31, 2013				Current	Total Loans
	30-59	60-89	90 +	Total		
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$583	1,426	3,379	5,388	164,334	169,722
Other	209	-	123	332	31,991	32,323

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Real estate mortgage - 1 to 4 family:

First mortgages	4,664	2,042	17,624	24,330	1,885,117	1,909,447
Home equity loans	46	18	552	616	46,878	47,494
Home equity lines of credit	1,014	331	1,897	3,242	300,802	304,044
Installment	85	12	77	174	5,118	5,292
Total	\$6,601	3,829	23,652	34,082	2,434,240	2,468,322

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Florida:

(dollars in thousands)	30-59	60-89	90 +	Total		
	Days	Days	Days	30+		Total
	Past	Past	Past	days		
	Due	Due	Due	Past	Current	Loans
				Due		
Commercial:						
Commercial real estate	\$-	-	-	-	21,404	21,404
Other	-	-	-	-	32	32
Real estate mortgage - 1 to 4 family:						
First mortgages	552	-	4,229	4,781	373,580	378,361
Home equity loans	-	-	-	-	3,642	3,642
Home equity lines of credit	109	-	247	356	36,089	36,445
Installment	-	2	-	2	601	603
Total	\$ 661	2	4,476	5,139	435,348	440,487

Total:

(dollars in thousands)	30-59	60-89	90 +	Total		
	Days	Days	Days	30+		Total
	Past	Past	Past	days		
	Due	Due	Due	Past	Current	Loans
				Due		
Commercial:						
Commercial real estate	\$583	1,426	3,379	5,388	185,738	191,126
Other	209	-	123	332	32,023	32,355
Real estate mortgage - 1 to 4 family:						
First mortgages	5,216	2,042	21,853	29,111	2,258,697	2,287,808
Home equity loans	46	18	552	616	50,520	51,136
Home equity lines of credit	1,123	331	2,144	3,598	336,891	340,489
Installment	85	14	77	176	5,719	5,895
Total	\$7,262	3,831	28,128	39,221	2,869,588	2,908,809

At June 30, 2014 and December 31, 2013, there were no loans that are 90 days past due and still accruing interest. As a result, non-accrual loans includes all loans 90 days past due and greater as well as certain loans less than 90 days past due that were placed on non-accrual status for reasons other than delinquent status. There are no commitments to extend further credit on non-accrual or restructured loans.

Activity in the allowance for loan losses by portfolio segment is summarized as follows:

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(dollars in thousands)

For the three months ended June 30, 2014

	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$3,840	43,091	104	47,035
Loans charged off:				
New York and other states	13	1,691	32	1,736
Florida	-	75	10	85
Total loan chargeoffs	13	1,766	42	1,821
Recoveries of loans previously charged off:				
New York and other states	-	195	8	203
Florida	2	16	-	18
Total recoveries	2	211	8	221
Net loans charged off	11	1,555	34	1,600
Provision for loan losses	244	1,216	40	1,500
Balance at end of period	\$4,073	42,752	110	46,935

(dollars in thousands)

For the three months ended June 30, 2013

	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$3,964	43,595	99	47,658
Loans charged off:				
New York and other states	49	2,008	16	2,073
Florida	-	162	-	162
Total loan chargeoffs	49	2,170	16	2,235
Recoveries of loans previously charged off:				
New York and other states	-	123	3	126
Florida	1	39	-	40
Total recoveries	1	162	3	166
Net loans charged off	48	2,008	13	2,069
Provision (credit) for loan losses	(197 )	2,179	18	2,000
Balance at end of period	\$3,719	43,766	104	47,589

(dollars in thousands)

For the six months ended June 30, 2014

	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$4,019	43,597	98	47,714
Loans charged off:				
New York and other states	273	2,617	81	2,971
Florida	613	542	12	1,167

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Total loan chargeoffs	886	3,159	93	4,138
Recoveries of loans previously charged off:				
New York and other states	18	270	13	301
Florida	3	55	-	58
Total recoveries	21	325	13	359
Net loans charged off	865	2,834	80	3,779
Provision for loan losses	919	1,989	92	3,000
Balance at end of period	\$4,073	42,752	110	46,935

(dollars in thousands)

For the six months ended June 30, 2013

	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$3,771	44,069	87	47,927
Loans charged off:				
New York and other states	299	3,645	35	3,979
Florida	100	567	-	667
Total loan chargeoffs	399	4,212	35	4,646
Recoveries of loans previously charged off:				
New York and other states	2	197	7	206
Florida	2	100	-	102
Total recoveries	4	297	7	308
Net loans charged off	395	3,915	28	4,338
Provision for loan losses	343	3,612	45	4,000
Balance at end of period	\$3,719	43,766	104	47,589

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014			
	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	4,073	42,752	110	46,935
Total ending allowance balance	\$4,073	42,752	110	46,935
Loans:				
Individually evaluated for impairment	\$5,949	21,405	-	27,354
Collectively evaluated for impairment	216,706	2,755,992	6,098	2,978,796
Total ending loans balance	\$222,655	2,777,397	6,098	3,006,150
(dollars in thousands)	December 31, 2013			
	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	4,019	43,597	98	47,714
Total ending allowance balance	\$4,019	43,597	98	47,714
Loans:				
Individually evaluated for impairment	\$8,082	21,258	-	29,340
Collectively evaluated for impairment	215,399	2,658,175	5,895	2,879,469
Total ending loans balance	\$223,481	2,679,433	5,895	2,908,809

The Company did not acquire any loans with deteriorated credit quality during the three months or six months ended June 30, 2014 and 2013.

The Company has identified non-accrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring (TDR), as impaired loans. A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a TDR.

A loan for which the terms have been modified, and for which the borrower is experiencing financial difficulties, is considered a TDR and is classified as impaired. TDR's at June 30, 2014 and December 31, 2013 are measured at the present value of estimated future cash flows using the loan's effective rate at inception or the fair value of the underlying collateral if the loan is considered collateral dependent.

The following tables present impaired loans by loan class as of June 30, 2014 and December 31, 2013:

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New York and other states:

(dollars in thousands)	June 30, 2014			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$5,310	6,792	-	5,152
Other	122	122	-	122
Real estate mortgage - 1 to 4 family:				
First mortgages	16,469	17,463	-	16,872
Home equity loans	438	482	-	492
Home equity lines of credit	2,662	3,036	-	2,583
Total	\$25,001	27,895	-	25,221

Florida:

(dollars in thousands)	June 30, 2014			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$ 517	1,130	-	721
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	1,224	1,408	-	1,533
Home equity loans	-	-	-	-
Home equity lines of credit	612	684	-	538
Total	\$ 2,353	3,222	-	2,792

Total:

(dollars in thousands)	June 30, 2014			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$ 5,827	7,922	-	5,873
Other	122	122	-	122
Real estate mortgage - 1 to 4 family:				
First mortgages	17,693	18,871	-	18,405
Home equity loans	438	482	-	492
Home equity lines of credit	3,274	3,720	-	3,121
Total	\$ 27,354	31,117	-	28,013



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New York and other states:

(dollars in thousands)	December 31, 2013			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$6,620	8,039	-	6,013
Other	332	332	-	165
Real estate mortgage - 1 to 4 family:				
First mortgages	16,257	17,353	-	14,706
Home equity loans	561	614	-	636
Home equity lines of credit	2,528	2,825	-	2,051
Total	\$26,298	29,163	-	23,571

Florida:

(dollars in thousands)	December 31, 2013			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$ 1,130	1,130	-	1,401
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	1,630	1,922	-	1,611
Home equity lines of credit	282	380	-	100
Total	\$ 3,042	3,432	-	3,112

Total:

(dollars in thousands)	December 31, 2013			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$ 7,750	9,169	-	7,414
Other	332	332	-	165
Real estate mortgage - 1 to 4 family:				
First mortgages	17,887	19,275	-	16,317
Home equity loans	561	614	-	636
Home equity lines of credit	2,810	3,205	-	2,151
Total	\$ 29,340	32,595	-	26,683

The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as impaired. Interest income recognized on impaired loans was not material during the three months and six months

ended June 30, 2014 and 2013.

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As of June 30, 2014 and December 31, 2013 impaired loans included approximately \$8.7 million and \$8.6 million of 1 to 4 family residential real estate loans in accruing status that were identified as TDR's in accordance with regulatory guidance related to Chapter 7 bankruptcy loans.

Management evaluates impairment on impaired loans on a quarterly basis. If, during this evaluation, impairment of the loan is identified, a charge off is taken at that time. As a result, as of June 30, 2014 and December 31, 2013, based upon management's evaluation and due to the sufficiency of chargeoffs taken, none of the allowance for loan losses has been allocated to a specific impaired loan(s).

The following table presents, by class, loans that were modified as TDR's:

New York and other states:	During the three months ended 6/30/2014			During the three months ended 6/30/2013		
	Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment	
(dollars in thousands)						
Commercial:						
Commercial real estate	1	\$ 300	300	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	12	1,611	1,611	14	2,014	2,014
Home equity loans	1	47	47	4	87	87
Home equity lines of credit	2	443	443	2	87	87
Total	16	\$ 2,401	2,401	20	\$ 2,188	2,188
Florida:						
(dollars in thousands)						
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	2	192	192	2	290	290
Home equity lines of credit	-	-	-	1	31	31
Total	2	\$ 192	192	3	\$ 321	321
New York and other states:	During six months ended 6/30/2014			During the six months ended 6/30/2013		
(dollars in thousands)	Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment	

Commercial:						
Commercial real estate	1	\$ 300	300	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	20	2,985	2,985	26	3,480	3,480
Home equity loans	2	51	51	7	148	148
Home equity lines of credit	3	565	565	7	221	221
Total	26	\$ 3,901	3,901	40	\$ 3,849	3,849

Florida:		Pre-Modification	Post-Modification		Pre-Modification	Post-Modification
		Outstanding	Outstanding		Outstanding	Outstanding
	Number	Recorded	Recorded	Number	Recorded	Recorded
(dollars in thousands)	of	Investment	Investment	of	Investment	Investment
	Contracts			Contracts		
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	4	364	364	5	677	677
Home equity lines of credit	2	354	354	1	31	31
Total	6	\$ 718	718	6	\$ 708	708



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The addition of these TDR's did not have a significant impact on the allowance for loan losses.

The following table presents, by class, TDR's that defaulted during the three and six months ended June 30, 2014 and 2013 which had been modified within the last twelve months:

New York and other states:

(dollars in thousands)	Three months ended 6/30/2014		Three months ended 6/30/2013	
	Number of Recorded Contracts	Investment	Number of Recorded Contracts	Investment
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	2	161	3	302
Home equity loans	-	-	1	44
Home equity lines of credit	-	-	1	57
Total	2	\$ 161	5	\$ 403

(dollars in thousands)	Six months ended 6/30/2014		Six months ended 6/30/2013	
	Number of Recorded Contracts	Investment	Number of Recorded Contracts	Investment
New York and other states:				
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	4	308	21	2,634
Home equity loans	-	-	3	78
Home equity lines of credit	-	-	9	532
Total	4	\$ 308	33	\$ 3,244

(dollars in thousands)	Six months ended 6/30/2014		Six months ended 6/30/2013	
	Number of Recorded Contracts	Investment	Number of Recorded Contracts	Investment
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	4	308	21	2,634
Home equity loans	-	-	3	78
Home equity lines of credit	-	-	9	532
Total	4	\$ 308	33	\$ 3,244

Florida:

(dollars in thousands)	Number of Recorded Contracts		Number of Recorded Contracts	
	Investment	Investment	Investment	Investment
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	-	-	3	375
Home equity lines of credit	1	279	-	-

Total 1 \$ 279 3 \$ 375

In situations where the Bank considers a loan modification, management determines whether the borrower is experiencing financial difficulty by performing an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's underwriting policy.

Generally, the modification of the terms of loans was the result of the borrower filing for bankruptcy protection. Chapter 13 bankruptcies generally include the deferral of all past due amounts for a period of generally 60 months in accordance with the bankruptcy court order. In the case of Chapter 7 bankruptcies, as previously noted, even though there is no modification of terms, the borrowers' debt to the Company was discharged and they did not reaffirm the debt.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In situations involving a borrower filing for Chapter 13 bankruptcy protection, however, a loan is considered to be in payment default once it is 30 days contractually past due, consistent with the treatment by the bankruptcy court.

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The TDR's that subsequently defaulted described above did not have a material impact on the allowance for loan losses as the underlying collateral was evaluated at the time these loans were identified as TDR's, and a charge off was taken at that time, if necessary. Collateral values on these loans, as well as all non-accrual loans, are reviewed for collateral sufficiency on a quarterly basis.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. On at least an annual basis, the Company's loan grading process analyzes non-homogeneous loans over \$150 thousand, such as commercial and commercial real estate loans, individually by grading the loans based on credit risk. In addition, the Company's internal loan review department reviews non-homogeneous loans over \$250 thousand by testing the loan grades assigned through the Company's grading process.

The Company uses the following definitions for classified loans:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those loans classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. All doubtful loans are considered impaired.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of June 30, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

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June 30, 2014

New York and other states:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 159,539	8,276	167,815
Other	32,258	606	32,864
	\$ 191,797	8,882	200,679

Florida:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 21,391	517	21,908
Other	68	-	68
	\$ 21,459	517	21,976

December 31, 2013

New York and other states:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 159,024	10,698	169,722
Other	31,691	632	32,323
	\$ 190,715	11,330	202,045

Florida:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 20,274	1,130	21,404
Other	32	-	32
	\$ 20,306	1,130	21,436

Included in classified loans in the above tables are impaired loans of \$5.6 million and \$8.1 million at June 30, 2014 and December 31, 2013, respectively.

For homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a daily basis by the Bank's collection area and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools at June 30, 2014 and December 31, 2013 is included in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these

homogeneous loan pools at June 30, 2014 and December 31, 2013 is presented in the recorded investment in non-accrual loans table.

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(6) Fair Value of Financial Instruments

Fair value measurements (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the value that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of assets and liabilities:

Securities Available for Sale: The fair value of securities available for sale is determined utilizing an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. This results in a Level 2 classification of the inputs for determining fair value. Interest and dividend income is recorded on the accrual method and is included in the Consolidated Statements of Income in the respective investment class under total interest and dividend income. Also classified as available for sale securities are equity securities where fair value is determined by quoted market prices and these are designated as Level 1. The Company does not have any securities that would be designated as level 3.

Other Real Estate Owned: Assets acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. This results in a Level 3 classification of the inputs for determining fair value.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally have had a chargeoff through the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value. When obtained, non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.



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Indications of value for both collateral-dependent impaired loans and other real estate owned are obtained from third party providers or the Company's internal Appraisal Department. All indications of value are reviewed for reasonableness by a member of the Appraisal Department for the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value via comparison with independent data sources such as recent market data or industry-wide statistics.

Assets and liabilities measured at fair value under ASC 820 on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2014 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Securities available-for sale:				
U.S. government-sponsored enterprises	\$ 103,340	-	103,340	-
State and political subdivisions	3,921	-	3,921	-
Mortgage-backed securities and collateralized mortgage obligations - residential	589,517	-	589,517	-
Corporate bonds	1,402	-	1,402	-
Small Business Administration-guaranteed participation securities	102,367	-	102,367	-
Mortgage-backed securities and collateralized mortgage obligations - commercial	10,544	-	10,544	-
Other securities and equity securities	679	35	644	-
Total securities available-for-sale	\$ 811,770	35	811,735	-



IndexFair Value Measurements at  
December 31, 2013 Using:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant	
			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Securities available-for sale:				
U.S. government-sponsored enterprises	\$ 198,829	-	198,829	-
State and political subdivisions	7,758	-	7,758	-
Mortgage-backed securities and collateralized mortgage obligations - residential	532,449	-	532,449	-
Corporate bonds	10,471	-	10,471	-
Small Business Administration-guaranteed participation securities	103,029	-	103,029	-
Mortgage-backed securities and collateralized mortgage obligations - commercial	10,558		10,558	
Other securities and equity securities	660	10	650	-
Total securities available-for-sale	\$ 863,754	10	863,744	-

There were no transfers between Level 1 and Level 2 during the three months and six months ended June 30, 2014 and 2013.

Assets measured at fair value on a non-recurring basis are summarized below:

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IndexFair Value Measurements at  
June 30, 2014 Using:

	Carrying Assets (Level 1) Value	Significant		
		Quoted Prices in Active Markets for Identical	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Other real estate owned	\$8,295	-	-	8,295
Impaired Loans:				
Commercial real estate	780	-	-	780
Real estate mortgage - 1 to 4 family:				
First mortgages	1,317	-	-	1,317
Home Equity Loans	13	-	-	13
Home Equity Lines of Credit	202	-	-	202

Fair Value Measurements at  
December 31, 2013 Using:

	Carrying Assets (Level 1) Value	Significant		
		Quoted Prices in Active Markets for Identical	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Other real estate owned	\$8,729	-	-	8,729
Impaired Loans:				
Commercial real estate	1,802	-	-	1,802
Real estate mortgage - 1 to 4 family:				
First mortgages	2,425	-	-	2,425
Home Equity Loans	48	-	-	48
Home Equity Lines of Credit	810	-	-	810

Other real estate owned, which is carried at fair value less costs to sell, approximated \$8.3 million at June 30, 2014 and consisted of \$5.2 million of commercial real estate and \$3.1 million of residential real estate properties. Valuation charges of \$363 thousand and \$998 thousand are included in earnings for the three months and six months ended June 30, 2014, respectively.

Of the total impaired loans of \$27.4 million at June 30, 2014, \$2.3 million are collateral dependent and have had a charge off taken and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of charge offs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at June 30, 2014. Gross charge offs related to commercial impaired loans included in the table above were \$13 thousand for the three months ended June 30, 2014, while gross charge offs related to residential impaired loans included in the table above amounted to \$78 thousand. For the six months ended June 30, 2014, gross charge offs related to commercial impaired loans included in the table above were \$676 thousand while gross charge offs related to residential impaired loans included in the table above amounted to \$109 thousand.

Other real estate owned, which is carried at fair value less costs to sell, approximates \$8.7 million at December 31, 2013 and consisted of \$5.0 million of commercial real estate and \$3.7 million of residential real estate properties. A valuation charge of \$2.2 million is included in earnings for the year ended December 31, 2013.

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Of the total impaired loans of \$29.3 million at December 31, 2013, \$5.1 million are collateral dependent and have had a charge off taken and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of charge offs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at December 31, 2013. Gross charge offs related to commercial impaired loans included in the table above were \$761 thousand for the year ended December 31, 2013, while gross charge offs related to residential impaired loans included in the table above amounted to \$534 thousand.

In accordance with ASC 825, the carrying amounts and estimated fair values of financial instruments, at June 30, 2014 and December 31, 2013 are as follows:

(dollars in thousands)	Carrying Value	Fair Value Measurements at				Total
		June 30, 2014 Using:				
		Level 1	Level 2	Level 3		
Financial assets:						
Cash and cash equivalents	\$621,548	621,548	-	-		621,548
Securities available for sale	811,770	35	811,735	-		811,770
Held to maturity securities	77,926	-	82,895	-		82,895
Federal Reserve Bank and Federal						
Home Loan Bank stock	10,951	N/	A N/	A N/	A N/	A N/
Net loans	2,959,215	-	-	3,002,229		3,002,229
Accrued interest receivable	11,350	-	3,233	8,117		11,350
Financial liabilities:						
Demand deposits	324,277	324,277	-	-		324,277
Interest bearing deposits	3,670,910	2,528,187	1,143,337	-		3,671,524
Short-term borrowings	181,516	-	181,516	-		181,516
Accrued interest payable	466	100	366	-		466

(dollars in thousands)	Carrying Value	Fair Value Measurements at				Total
		December 31, 2013 Using:				
		Level 1	Level 2	Level 3		
Financial assets:						
Cash and cash equivalents	\$583,044	583,044	-	-		583,044
Securities available for sale	863,754	10	863,744	-		863,754
Held to maturity securities	86,215	-	90,305	-		90,305
Federal Reserve Bank and Federal						
Home Loan Bank stock	10,500	N/	A N/	A N/	A N/	A N/
Net loans	2,861,095	-	-	2,910,940		2,910,940
Accrued interest receivable	11,198	-	3,452	7,746		11,198
Financial liabilities:						
Demand deposits	318,456	318,456	-	-		318,456
Interest bearing deposits	3,608,615	2,477,567	1,132,025	-		3,609,592
Short-term borrowings	204,162	-	204,162	-		204,162
Accrued interest payable	468	101	367	-		468

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant methods and assumptions used in estimating fair values:

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Cash and Cash Equivalents

The carrying values of these financial instruments approximate fair values and are classified as Level 1.

Federal Reserve Bank and Federal Home Loan Bank stock

It is not practical to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to their restrictive nature.

Securities Held to Maturity

Similar to securities available for sale described previously, the fair value of securities held to maturity are determined utilizing an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. This results in a Level 2 classification of the inputs for determining fair value. Interest and dividend income is recorded on the accrual method and included in the Consolidated Statements of Income in the respective investment class under total interest and dividend income. The Company does not have any securities that would be designated as Level 3.

Loans

The fair values of all loans are estimated using discounted cash flow analyses with discount rates equal to the interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposit Liabilities

The fair values disclosed for noninterest bearing demand deposits, interest bearing checking accounts, savings accounts, and money market accounts are, by definition, equal to the amount payable on demand at the balance sheet date resulting in a Level 1 classification. The carrying value of all variable rate certificates of deposit approximates fair value resulting in a Level 2 classification. The fair value of fixed rate certificates of deposit is estimated using discounted cash flow analyses with discount rates equal to the interest rates currently being offered on certificates of similar size and remaining maturity resulting in a Level 2 classification.

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 1, Level 2 or Level 3 classification consistent with the asset or liability that they are associated with.

Short-Term Borrowings and Other Financial Instruments

The fair value of all short-term borrowings, and other financial instruments approximates the carrying value resulting in a Level 2 classification.

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## Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk. Such financial instruments consist of commitments to extend financing and standby letters of credit. If the commitments are exercised by the prospective borrowers, these financial instruments will become interest earning assets of the Company. If the commitments expire, the Company retains any fees paid by the prospective borrower. The fair value of commitments is estimated based upon fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the present creditworthiness of the borrower. For fixed rate commitments, the fair value estimation takes into consideration an interest rate risk factor. The fair value of these off-balance sheet items approximates the recorded amounts of the related fees, which are considered to be immaterial.

The Company does not engage in activities involving interest rate swaps, forward placement contracts, or any other instruments commonly referred to as derivatives.

## (7) Other Comprehensive Income (Loss)

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax:

(dollars in thousands)	For the three months ended 6/30/2014				
	Balance at 3/31/2014	Other Comprehensive Income (Loss)- Before Reclassification	Amount from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Three months ended 6/30/2014	Balance at 6/30/2014
Net unrealized holding gain (loss) on securities available for sale, net of tax	(13,655)	6,912	-	6,912	(6,743 )
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	4,203	-	(71 )	(71 )	4,132
Accumulated other comprehensive income (loss), net of tax	(9,452 )	6,912	(71 )	6,841	(2,611 )
(dollars in thousands)	For the three months ended 6/30/2013				
	Balance at 3/31/2013	Other Comprehensive Income (Loss)- Before Reclassification	Amount from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Three months ended 6/30/2013	Balance at 6/30/2013
	\$1,987	(15,824 )	(859 )	(16,683 )	(14,696 )

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Net unrealized holding gain (loss) on securities available for sale, net of tax					
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	(2,156)	-	21	21	(2,135)
Accumulated other comprehensive income (loss), net of tax	\$(169)	(15,824)	(838)	(16,662)	(16,831)

For the six months ended 6/30/2014

(dollars in thousands)

Balance at 12/31/2013	Other Comprehensive Income (Loss)- Before Reclassification	Amount from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Six months ended 6/30/2014	Balance at 6/30/2014
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Net unrealized holding gain (loss) on securities available for sale, net of tax	(18,078)	11,339	(4)	11,335	(6,743)
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	4,275	-	(143)	(143)	4,132
Accumulated other comprehensive income (loss), net of tax	(13,803)	11,339	(147)	11,192	(2,611)

For the six months ended 6/30/2013

(dollars in thousands)

Balance at 12/31/2012	Other Comprehensive Income (Loss)- Before Reclassification	Amount from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Six months ended 6/30/2013	Balance at 6/30/2013
-----------------------	--	--	---	----------------------

Net unrealized holding gain (loss) on securities available for sale, net of tax	\$3,755	(17,591)	(860)	(18,451)	(14,696)
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	(2,197)	-	62	62	(2,135)
Accumulated other comprehensive income (loss), net of tax	\$1,558	(17,591)	(798)	(18,389)	(16,831)

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The following represents the reclassifications out of accumulated other comprehensive income (loss) for the three months and six months ended June 30, 2014 and 2013:

(dollars in thousands)	Three		Six Months		Affected Line Item in Statements
	Months Ended June 30, 2014	2013	Months Ended June 30, 2014	2013	
Unrealized gains (losses) on securities available for sale					
Realized gain on securities transactions	-	1,432	6	1,434	Net gain on securities transactions
Income tax expense	-	(573 )	(2 )	(574 )	Income taxes
Net of tax	-	859	4	860	
Amortization of pension and postretirement benefit items					
Amortization of net actuarial gain (loss)	74	(101 )	146	(233 )	Salaries and employee benefits
Amortization of prior service credit	45	65	90	131	Salaries and employee benefits
Income tax (expense) benefit	(48)	15	(93 )	40	Income taxes
Net of tax	71	(21 )	143	(62 )	
Total reclassifications, net of tax	71	838	147	798	

## (8) New Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-04 -Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage loans upon Foreclosure. This standard provides clarification when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be removed from the balance sheet and other real estate owned recognized. These amendments clarify that when an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. For public business entities (PBEs) this ASU is effective for annual periods, and interim periods within those annual periods, beginning after Dec 15, 2014. For entities that are not PBEs, this ASU is effective for annual periods beginning after Dec 15, 2014, and for interim periods within annual periods beginning after Dec 15, 2015. Early adoption is permitted. The effect of adopting this standard is not expected to have a material effect on the Company's results of operations or financial condition.



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Crowe Horwath LLP  
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
TrustCo Bank Corp NY  
Glenville, New York

We have reviewed the accompanying consolidated statements of financial condition of TrustCo Bank Corp NY as of June 30, 2014, the related consolidated statements of income and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013, and the related changes in shareholders' equity and cash flows for the six-month period ended June 30, 2014 and 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

New York, New York  
August 4, 2014  
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

Statements included in this report and in future filings by TrustCo Bank Corp NY (“TrustCo” or the “Company”) with the Securities and Exchange Commission, in TrustCo’s press releases, and in oral statements made with the approval of an authorized executive officer, which are not historical or current facts, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Forward-looking statements can be identified by the use of such words as may, will, should, could, would, estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. Examples of forward-looking statements include, among others, statements TrustCo makes regarding its expectations for complying with the new regulatory capital rules, the profitability of growth of the Company’s balance sheet and the ability of its loan products to continue to attract customers if long-term rates rise. TrustCo wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

In addition to factors described under Part II, Item 1A, Risk Factors, if any, and under the Risk Factor discussion in TrustCo’s Annual Report on Form 10-K for the year ended December 31, 2013, the following important factors, among others, in some cases have affected and in the future could affect TrustCo’s actual results, and could cause TrustCo’s actual financial performance to differ materially from that expressed in any forward-looking statement:

- TrustCo’s ability to continue to originate a significant volume of one- to four-family mortgage loans in its market areas;
- TrustCo’s ability to continue to maintain noninterest expense and other overhead costs at reasonable levels relative to income;
- the future earnings and capital levels of Trustco Bank and the continued non-objection by TrustCo’s and Trustco Bank’s primary federal banking regulators, to the extent required, to distribute capital from Trustco Bank to the Company, which could affect the ability of the Company to pay dividends;
- TrustCo’s ability to make accurate assumptions and judgments regarding the credit risks associated with its lending and investing activities, including changes in the level and direction of loan delinquencies and charge-offs, changes in property values, and changes in estimates of the adequacy of the allowance for loan losses;
- the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations;
- the perceived overall value of TrustCo’s products and services by users, including the features, pricing and quality compared to competitors’ products and services and the willingness of current and prospective customers to substitute competitors’ products and services for TrustCo’s products and services;
- the effect of changes in financial services laws and regulations (including laws concerning taxation, banking and securities) and the impact of other governmental initiatives affecting the financial services industry;

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- results of examinations of Trustco Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our loss allowances or to take other actions that reduce capital or income;
- real estate and collateral values;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies Financial Accounting Standards Board (“FASB”) or the Public Company Accounting Oversight Board;
- technological changes;
- changes in local market areas and general business and economic trends, as well as changes in consumer spending and saving habits;
- TrustCo’s success at managing the risks involved in the foregoing and managing its business; and
- other risks and uncertainties included under “Risk Factors” in our Form 10-K for the year ended December 31, 2013.

The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Following this discussion is the table "Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential" which gives a detailed breakdown of TrustCo's average interest earning assets and interest bearing liabilities for the three and six month periods ended June 30, 2014 and 2013.

## Introduction

The review that follows focuses on the factors affecting the financial condition and results of operations of TrustCo during the three and six month periods ended June 30, 2014, with comparisons to the corresponding period in 2013, as applicable. Net interest margin is presented on a fully taxable equivalent basis in this discussion. The consolidated interim financial statements and related notes, as well as the 2013 Annual Report to Shareholders on Form 10-K, which was filed with the SEC on March 7, 2014, should also be read in conjunction with this review. Amounts in prior period consolidated interim financial statements are reclassified whenever necessary to conform to the current period's presentation.

Financial markets exhibited relatively moderate volatility during the second quarter of 2014, similar to the first quarter of 2014. For the second quarter, the S&P 500 Index was up 4.7% and the Dow Jones Industrial Average was up 2.2%, with both indices moving generally up during the period after some softness early in the quarter. Credit markets also showed lessened volatility during the quarter. On average, key market rates in the second quarter of 2014 were similar to the first quarter of 2014, however the shape of the curve did change somewhat. For example, the 10 year Treasury bond averaged 2.62% during Q2 compared to 2.77% in Q1. However, 2 and 5 year rates rose 5 and 6 basis points, respectively. As a result, the spread between the 10 year and the 2 year bonds declined from 2.39% on average in Q1 to 2.20% in Q2. The spread remains much better than it was through much of 2013; for example the average spread in the second quarter of 2013 was 1.71%, 49 basis points below the current quarter. Steeper yield curves are favorable for portfolio mortgage lenders like TrustCo. The table below illustrates the range of rate movements for both short term and longer term rates. The target Fed Funds range remained unchanged at zero to 0.25% during the second quarter of 2014. Spreads of certain asset classes, including agency securities and mortgage-backed securities, remained relatively narrow compared to the Treasury curve during the second quarter of 2014, and in fact contracted relative to Q1. Changes in rates and spreads during the current quarter were due to a number of factors; however, uncertainty about the direction that the Federal Reserve Board would take in regard to the extraordinary accommodations that have influenced markets in recent years and further uncertainty regarding the economy and related issues were key factors.

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	3	2	5	10	10 - 2	
	Month	Year	Year	Year	Year	
	Yield	Yield	Yield	Yield	Yield	
	(%)	(%)	(%)	(%)	Spread(%)	
	Beg of Q2	0.08	0.23	0.76	1.86	1.63
	Peak	0.08	0.43	1.49	2.60	2.17
Q2/13	Trough	0.03	0.20	0.65	1.66	1.46
	End of Q2	0.04	0.36	1.41	2.52	2.16
	Average in Q2	0.05	0.27	0.91	1.99	1.71
	Beg of Q3	0.04	0.34	1.39	2.50	2.16
	Peak	0.06	0.52	1.85	2.98	2.52
Q3/13	Trough	0.00	0.30	1.31	2.48	2.14
	End of Q3	0.02	0.33	1.39	2.64	2.31
	Average in Q3	0.03	0.37	1.50	2.71	2.34
	Beg of Q4	0.02	0.33	1.42	2.66	2.33
	Peak	0.14	0.42	1.75	3.04	2.66
Q4/13	Trough	0.02	0.28	1.29	2.51	2.20
	End of Q4	0.07				