TRUSTCO BANK CORP N Y
Form 10-Q
August 04, 2017

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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 June 30, 2017 Commission File Number 0-10592

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. Yes No

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

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

| Large accelerated filer | Accelerated filer | Non-accelerated filer |
|---|---|---|
| Smaller reporting company | Emerging growth company | |

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

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

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

| Common Stock | Number of Shares Outstanding as of July 31, 2017 |
| --- | --- |
| $1 Par Value | 96,101,978 |

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, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest and dividend income: | | | | |
| Interest and fees on loans | $ 36,662 | 35,652 | 72,706 | 71,257 |
| Interest and dividends on securities available for sale: | | | | |
| U. S. government sponsored enterprises | 607 | 404 | 1,202 | 659 |
| State and political subdivisions | 11 | 13 | 23 | 27 |
| Mortgage-backed securities and collateralized mortgage obligations-residential | 1,944 | 2,169 | 3,902 | 4,285 |
| Corporate bonds | 154 | - | 305 | - |
| Small Business Administration-guaranteed participation securities | 394 | 450 | 809 | 926 |
| Mortgage-backed securities and collateralized mortgage obligations-commercial | 21 | 38 | 44 | 74 |
| Other securities | 4 | 4 | 8 | 8 |
| Total interest and dividends on securities available for sale | 3,135 | 3,078 | 6,293 | 5,979 |
| Interest on held to maturity securities: | | | | |
| Mortgage-backed securities and collateralized mortgage obligations-residential | 296 | 374 | 612 | 775 |
| Corporate bonds | 154 | 154 | 308 | 308 |
| Total interest on held to maturity securities | 450 | 528 | 920 | 1,083 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 134 | 118 | 268 | 238 |
| Interest on federal funds sold and other short-term investments | 1,727 | 832 | 2,973 | 1,677 |
| Total interest income | 42,108 | 40,208 | 83,160 | 80,234 |
| Interest expense: | | | | |
| Interest on deposits: | | | | |
| Interest-bearing checking | 134 | 116 | 258 | 230 |
| Savings | 435 | 604 | 865 | 1,208 |
| Money market deposit accounts | 468 | 467 | 934 | 962 |
| Time deposits | 2,181 | 2,460 | 4,464 | 4,833 |
| Interest on short-term borrowings | 349 | 262 | 698 | 519 |
| Total interest expense | 3,567 | 3,909 | 7,219 | 7,752 |
| Net interest income | 38,541 | 36,299 | 75,941 | 72,482 |
| Provision for loan losses | 550 | 800 | 1,150 | 1,600 |
| Net interest income after provision for loan losses | 37,991 | 35,499 | 74,791 | 70,882 |
| Noninterest income: | | | | |
| Trustco financial services income | 1,425 | 1,512 | 3,283 | 3,117 |
| Fees for services to customers | 2,797 | 2,737 | 5,434 | 5,398 |
| Net gain on securities transactions | - | 668 | - | 668 |
| Other | 282 | 282 | 514 | 588 |

| | | | | |
|---|---|---|---|---|
| Total noninterest income | 4,504 | 5,199 | 9,231 | 9,771 |
| | | | | |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | 9,559 | 8,934 | 19,769 | 17,937 |
| Net occupancy expense | 4,267 | 3,918 | 8,376 | 8,006 |
| Equipment expense | 1,428 | 1,840 | 2,984 | 3,354 |
| Professional services | 1,963 | 2,098 | 3,891 | 4,244 |
| Outsourced services | 1,500 | 1,425 | 3,000 | 2,976 |
| Advertising expense | 607 | 570 | 1,320 | 1,299 |
| FDIC and other insurance | 1,012 | 1,949 | 2,059 | 3,939 |
| Other real estate (income) expense, net | (4 ) | 423 | 495 | 942 |
| Other | 2,581 | 2,817 | 5,038 | 4,715 |
| Total noninterest expenses | 22,913 | 23,974 | 46,932 | 47,412 |
| | | | | |
| Income before taxes | 19,582 | 16,724 | 37,090 | 33,241 |
| Income taxes | 7,342 | 6,260 | 13,903 | 12,366 |
| | | | | |
| Net income | $ 12,240 | 10,464 | 23,187 | 20,875 |
| | | | | |
| Net income per share: | | | | |
| - Basic | $ 0.127 | 0.110 | 0.242 | 0.219 |
| | | | | |
| - Diluted | $ 0.127 | 0.109 | 0.241 | 0.219 |

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Comprehensive Income (Unaudited)
(dollars in thousands)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | $ 12,240 | 10,464 | 23,187 | 20,875 |
| Net unrealized holding gain on securities available for sale | 3,343 | 4,565 | 4,522 | 12,600 |
| Reclassification adjustments for net gain recognized in income | - | (668) | - | (668) |
| Tax effect | (1,337) | (1,559) | (1,809) | (4,773) |
| Net unrealized gain on securities available for sale, net of tax | 2,006 | 2,338 | 2,713 | 7,159 |
| Amortization of net actuarial gain | (73) | (50) | (136) | (17) |
| Amortization of prior service cost | 22 | 22 | 45 | 45 |
| Tax effect | 20 | 12 | 36 | (11) |
| Amortization of net actuarial gain and prior service cost on pension and postretirement plans, net of tax | (31) | (16) | (55) | 17 |
| Other comprehensive income, net of tax | 1,975 | 2,322 | 2,658 | 7,176 |
| Comprehensive income | $ 14,215 | 12,786 | 25,845 | 28,051 |

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, except per share data)

| ASSETS: | June, 2017 (Unaudited) | December 31, 2016 (Audited) |
|---|---|---|
| Cash and due from banks | $43,783 | 48,719 |
| Federal funds sold and other short term investments | 663,360 | 658,555 |
| Total cash and cash equivalents | 707,143 | 707,274 |
| Securities available for sale | 605,457 | 620,360 |
| Held to maturity securities (fair value 2017 $42,803; 2016 $47,526) | 41,208 | 45,490 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,723 | 9,579 |
| Loans, net of deferred net costs | 3,507,473 | 3,430,586 |
| Less: | | |
| Allowance for loan losses | 44,162 | 43,890 |
| Net loans | 3,463,311 | 3,386,696 |
| Bank premises and equipment, net | 35,174 | 35,466 |
| Other assets | 58,466 | 63,941 |
| Total assets | $4,920,482 | 4,868,806 |
| LIABILITIES: | | |
| Deposits: | | |
| Demand | $390,120 | 377,755 |
| Interest-bearing checking | 871,004 | 815,534 |
| Savings accounts | 1,285,886 | 1,271,449 |
| Money market deposit accounts | 572,580 | 571,962 |
| Time deposits | 1,088,824 | 1,159,463 |
| Total deposits | 4,208,414 | 4,196,163 |
| Short-term borrowings | 233,621 | 209,406 |
| Accrued expenses and other liabilities | 31,081 | 30,551 |
| Total liabilities | $4,473,116 | 4,436,120 |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock par value $1; 150,000,000 shares authorized; 99,510,682 and 99,214,382 shares issued at June 30, 2017 and December 31, 2016, respectively | 99,511 | 99,214 |
| Surplus | 172,603 | 171,425 |
| Undivided profits | 212,112 | 201,517 |
| Accumulated other comprehensive loss, net of tax | (3,593) | (6,251) |
| Treasury stock at cost - 3,495,799 and 3,434,205 shares at | | |

| | | |
|---|---|---|
| June 30, 2017 and December 31, 2016, respectively | (33,267 ) | (33,219 ) |
| Total shareholders' equity | 447,366 | 432,686 |
| Total liabilities and shareholders' equity | $4,920,482 | 4,868,806 |

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 (Loss) Income | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Beginning balance, January 1, 2016 | $98,973 | 171,443 | 184,009 | (4,781) | (36,334) | 413,310 |
| Net income | - | - | 20,875 | - | - | 20,875 |
| Other comprehensive income, net of tax | - | - | - | 7,176 | - | 7,176 |
| Cash dividend declared, $.1312 per share | - | - | (12,528) | - | - | (12,528) |
| Stock options exercised (97,600 shares) | 98 | 404 | - | - | - | 502 |
| Purchase of treasury stock (80,769 shares) | - | - | - | - | (489) | (489) |
| Sale of treasury stock (213,748 shares) | - | (785) | - | - | 2,092 | 1,307 |
| Stock based compensation expense | - | 112 | - | - | - | 112 |
| Ending balance,June 30, 2016 | $99,071 | 171,174 | 192,356 | 2,395 | (34,731) | 430,265 |
| Beginning balance, January 1, 2017 | $99,214 | 171,425 | 201,517 | (6,251) | (33,219) | 432,686 |
| Net income | - | - | 23,187 | - | - | 23,187 |
| Other comprehensive income, net of tax | - | - | - | 2,658 | - | 2,658 |
| Cash dividend declared, $.1312 per share | - | - | (12,592) | - | - | (12,592) |
| Stock options exercised (296,300 shares) | 297 | 1,298 | - | - | - | 1,595 |
| Purchase of treasury stock (213,356 shares) | - | - | - | - | (1,503) | (1,503) |
| Sale of treasury stock (151,762 shares) | - | (199) | - | - | 1,455 | 1,256 |
| Stock based compensation expense | - | 79 | - | - | - | 79 |
| Ending balance, June 30, 2017 | $99,511 | 172,603 | 212,112 | (3,593) | (33,267) | 447,366 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | $ 23,187 | 20,875 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,898 | 2,071 |
| Net gain on sale of other real estate owned | (507) | (363) |
| Writedown of other real estate owned | 362 | 606 |
| Provision for loan losses | 1,150 | 1,600 |
| Deferred tax expense | 693 | 1,211 |
| Net amortization of securities | 2,244 | 2,453 |
| Stock based compensation expense | 79 | 112 |
| Net loss on sale of bank premises and equipment | - | (62) |
| Net gain on sales of securities | - | (668) |
| Decrease in taxes receivable | 4,087 | 1,996 |
| Decrease in interest receivable | (213) | (442) |
| (Decrease) increase in interest payable | (64) | 17 |
| Increase in other assets | (1,639) | (1,530) |
| Increase (decrease) in accrued expenses and other liabilities | 910 | (599) |
| Total adjustments | 9,000 | 6,402 |
| Net cash provided by operating activities | 32,187 | 27,277 |
| Cash flows from investing activities: | | |
| Proceeds from sales and calls of securities available for sale | 73,569 | 134,550 |
| Proceeds from calls and maturities of held to maturity securities | 4,282 | 5,781 |
| Purchases of securities available for sale | (56,388) | (144,422) |
| Proceeds from maturities of securities available for sale | - | 550 |
| Purchases of Federal Reserve Bank and Federal Home Loan Bank stock | (144) | (99) |
| Net increase in loans | (80,030) | (54,636) |
| Proceeds from dispositions of other real estate owned | 3,093 | 4,058 |
| Proceeds from dispositions of bank premises and equipment | - | 58 |
| Purchases of bank premises and equipment | (1,606) | (1,217) |
| Net cash (used in) provided by investing activities | (57,224) | (55,377) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 12,251 | 80,249 |
| Net increase (decrease) in short-term borrowings | 24,215 | (684) |
| Proceeds from exercise of stock options | 1,595 | 502 |
| Stock based award tax withholding payments | (333) | (32) |
| Proceeds from sale of treasury stock | 1,256 | 1,307 |
| Purchases of treasury stock | (1,503) | (489) |

| | | |
|---|---|---|
| Dividends paid | (12,575 ) | (12,513 ) |
| Net cash provided by financing activities | 24,906 | 68,340 |
| Net (decrease) increase in cash and cash equivalents | (131 ) | 40,240 |
| Cash and cash equivalents at beginning of period | 707,274 | 718,156 |
| Cash and cash equivalents at end of period | $ 707,143 | 758,396 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for: | | |
| Interest paid | $ 7,283 | 7,735 |
| Income taxes paid | 9,808 | 10,485 |
| Other non cash items: | | |
| Transfer of loans to other real estate owned | 2,265 | 2,448 |
| Increase in dividends payable | 17 | 15 |
| Change in unrealized gain on securities available for sale-gross of deferred taxes | 4,522 | 11,932 |
| Change in deferred tax effect on unrealized gain on securities available for sale | (1,809 ) | (4,773 ) |
| Amortization of net actuarial (gain) loss and prior service cost on pension and postretirement plans | (91 ) | 28 |
| Change in deferred tax effect of amortization of net actuarial (gain) loss and prior service cost on pension and postretirement plans | 36 | (11 ) |

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 and six months ended June 30, 2017 is not necessarily indicative of the results that may be expected for the year ending December 31, 2017, 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 for fair presentation. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the Company’s year-end Consolidated Financial Statements, including notes thereto, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. 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.

Effective January 1, 2017, the Company adopted FASB issued ASU No. 2016-09, “Improvement to Employee Share-Based Payment Accounting” which amended existing guidance to simplify aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. The adoption of these amendments did not have a material impact on the Consolidated Interim Financial Statements.

(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”). A reconciliation of the component parts of earnings per share for the three and six months ended June 30, 2017 and 2016 is as follows:

| (in thousands, except per share data) | For the three months ended June 30: | | For the six months ended June 30: | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | $ 12,240 | 10,464 | $ 23,187 | 20,875 |
| Weighted average common shares | 96,003 | 95,487 | 95,944 | 95,426 |
| Stock Options | 70 | 93 | 90 | 70 |
| Weighted average common shares including potential dilutive shares | 96,073 | 95,580 | 96,034 | 95,496 |
| Basic EPS | $ 0.127 | 0.110 | $ 0.242 | 0.219 |
| Diluted EPS | $ 0.127 | 0.109 | $ 0.241 | 0.219 |

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For the three and six months ended June 30, 2017, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 412 thousand. For the three and six months ended June 30, 2016 the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 1.6 million. 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 and six months ended June 30, 2017 and 2016 for its pension and other postretirement benefit plans:

| | For the three months ended June 30, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Postretirement Benefits | |
| (dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| Service cost | $ 11 | 16 | 23 | 32 |
| Interest cost | 322 | 349 | 54 | 61 |
| Expected return on plan assets | (686 ) | (681 ) | (190 ) | (180 ) |
| Amortization of net loss (gain) | 10 | 5 | (83 ) | (55 ) |
| Amortization of prior service cost | - | - | 22 | 22 |
| Net periodic benefit | $ (343 ) | (311 ) | (174 ) | (120 ) |

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Postretirement Benefits | |
| (dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| Service cost | $ 22 | 31 | 51 | 64 |
| Interest cost | 651 | 686 | 110 | 123 |
| Expected return on plan assets | (1,372 ) | (1,325 ) | (381 ) | (360 ) |
| Amortization of net loss (gain) | 33 | 92 | (169 ) | (109 ) |
| Amortization of prior service cost | - | - | 45 | 45 |
| Net periodic benefit | $ (666 ) | (516 ) | (344 ) | (237 ) |

The Company does not expect to make contributions to its pension and postretirement benefit plans in 2017. As of June 30, 2017, 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.

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(4) Investment Securities

(a) Securities available for sale

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

| (dollars in thousands) | June 30, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government sponsored enterprises | $129,939 | 71 | 1,624 | 128,386 |
| State and political subdivisions | 523 | 13 | - | 536 |
| Corporate bonds | 40,613 | - | 115 | 40,498 |
| Mortgage backed securities and collateralized mortgage obligations - residential | 355,966 | 177 | 3,552 | 352,591 |
| Small Business Administration- guaranteed participation securities | 74,514 | - | 1,656 | 72,858 |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 9,960 | - | 57 | 9,903 |
| Other | 650 | - | - | 650 |
| Total debt securities | 612,165 | 261 | 7,004 | 605,422 |
| Equity securities | 35 | - | - | 35 |
| Total securities available for sale | $612,200 | 261 | 7,004 | 605,457 |

| (dollars in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government sponsored enterprises | $119,887 | - | 2,621 | 117,266 |
| State and political subdivisions | 873 | 13 | - | 886 |
| Mortgage backed securities and collateralized mortgage obligations - residential | 378,068 | 123 | 5,883 | 372,308 |
| Corporate bonds | 40,956 | - | 251 | 40,705 |
| Small Business Administration- guaranteed participation securities | 81,026 | - | 2,527 | 78,499 |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 10,130 | - | 119 | 10,011 |
| Other | 650 | - | - | 650 |
| Total debt securities | 631,590 | 136 | 11,401 | 620,325 |
| Equity securities | 35 | - | - | 35 |
| Total securities available for sale | $631,625 | 136 | 11,401 | 620,360 |

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The following table distributes the debt securities included in the available for sale portfolio as of June 30, 2017, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

| (dollars in thousands) | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 50,482 | 50,397 |
| Due in one year through five years | 111,183 | 109,607 |
| Due after five years through ten years | 10,060 | 10,066 |
| Due after ten years | - | - |
| Mortgage backed securities and collateralized mortgage obligations - residential | 355,966 | 352,591 |
| Small Business Administration- guaranteed participation securities | 74,514 | 72,858 |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 9,960 | 9,903 |
| | $ 612,165 | 605,422 |

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, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 88,286 | 1,602 | 14,978 | 22 | 103,264 | 1,624 |
| Mortgage backed securities and collateralized mortgage obligations - residential | 320,377 | 3,361 | 11,024 | 191 | 331,401 | 3,552 |
| Corporate bonds | 40,498 | 115 | - | - | 40,498 | 115 |
| Small Business Administration- guaranteed participation securities | 60,095 | 1,200 | 12,763 | 456 | 72,858 | 1,656 |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 9,903 | 57 | - | - | 9,903 | 57 |
| Total | $ 519,159 | 6,335 | 38,765 | 669 | 557,924 | 7,004 |

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| (dollars in thousands) | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $102,266 | 2,621 | - | - | 102,266 | 2,621 |
| Mortgage backed securities and collateralized mortgage obligations - residential | 359,622 | 5,766 | 4,713 | 117 | 364,335 | 5,883 |
| Corporate bonds | 40,705 | 251 | - | - | 40,705 | 251 |
| Small Business Administration- guaranteed participation securities | 64,560 | 1,960 | 13,940 | 567 | 78,500 | 2,527 |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 10,011 | 119 | - | - | 10,011 | 119 |
| Total | $577,164 | 10,717 | 18,653 | 684 | 595,817 | 11,401 |

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 and six months ended June 30, 2017 and 2016 are as follows:

| (dollars in thousands) | Three months ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Proceeds from sales | $ - | 44,829 |
| Proceeds from calls | 52,799 | 40,808 |
| Gross realized gains | - | 668 |
| Gross realized losses | - | - |

| (dollars in thousands) | Six months ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Proceeds from sales | $ - | 44,829 |
| Proceeds from calls | 73,569 | 89,721 |
| Gross realized gains | - | 668 |
| Gross realized losses | - | - |

There were no sales of securities available for sale during the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016, income tax expense recognized on net gains on sales of securities available for sale was approximately $267 thousand.

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(b) Held to maturity securities

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

| (dollars in thousands) | June 30, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
| Mortgage backed securities and collateralized mortgage obligations - residential | $31,211 | 1,520 | - | 32,731 |
| Corporate bonds | 9,997 | 75 | - | 10,072 |
| Total held to maturity | $41,208 | 1,595 | - | 42,803 |

| (dollars in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
| Mortgage backed securities and collateralized mortgage obligations - residential | $35,500 | 1,736 | - | 37,236 |
| Corporate bonds | 9,990 | 300 | - | 10,290 |
| Total held to maturity | $45,490 | 2,036 | - | 47,526 |

The following table distributes the debt securities included in the held to maturity portfolio as of June 30, 2017, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

| (dollars in thousands) | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 9,997 | 10,072 |
| Mortgage backed securities and collateralized mortgage obligations - residential | 31,211 | 32,731 |
| | $ 41,208 | 42,803 |

There were no held to maturity securities in an unrecognized loss position as of June 30, 2017 or December 31, 2016.

There were no sales or transfers of held to maturity securities during the three and six months ended June 30, 2017 and 2016.

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(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 evaluated for OTTI under FASB ASC Topic 320, Investments – Debt and Equity Securities ("ASC 320").

In determining OTTI under the 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 any 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, 2017, the Company's security portfolios included certain securities which were in an unrealized loss position. The declines in fair value are 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, 2017.

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(5) Loans and Allowance for Loan Losses

The following table presents the recorded investment in loans by loan class:

| (dollars in thousands) | June 30, 2017<br>New York and other states* | Florida | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $149,245 | 11,099 | 160,344 |
| Other | 22,342 | 349 | 22,691 |
| Real estate mortgage - 1 to 4 family: | | | |
| First mortgages | 2,208,078 | 714,360 | 2,922,438 |
| Home equity loans | 64,387 | 12,481 | 76,868 |
| Home equity lines of credit | 271,480 | 45,194 | 316,674 |
| Installment | 7,061 | 1,397 | 8,458 |
| Total loans, net | $2,722,593 | 784,880 | 3,507,473 |
| Less: Allowance for loan losses | | | 44,162 |
| Net loans | | | $3,463,311 |

| (dollars in thousands) | December 31, 2016<br>New York and other states* | Florida | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $151,366 | 12,243 | 163,609 |
| Other | 27,539 | 46 | 27,585 |
| Real estate mortgage - 1 to 4 family: | | | |
| First mortgages | 2,158,904 | 665,183 | 2,824,087 |
| Home equity loans | 60,892 | 10,754 | 71,646 |
| Home equity lines of credit | 286,586 | 48,255 | 334,841 |
| Installment | 7,048 | 1,770 | 8,818 |
| Total loans, net | $2,692,335 | 738,251 | 3,430,586 |
| Less: Allowance for loan losses | | | 43,890 |
| Net loans | | | $3,386,696 |

*Includes New York, New Jersey, Vermont and Massachusetts

At June 30, 2017 and December 31, 2016, the Company had approximately $23.8 million and $24.8 million of real estate construction loans, respectively. Of the $23.8 million in real estate construction loans at June 30, 2017, approximately $14.6 million are secured by first mortgages to residential borrowers while approximately $9.2 million were to commercial borrowers for residential construction projects. Of the $24.8 million in real estate construction loans at December 31, 2016, approximately $16.3 million are secured by first mortgages to residential borrowers while approximately $8.5 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.



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

| (dollars in thousands) | June 30, 2017 New York and other states | Florida | Total |
|---|---|---|---|
| Loans in non-accrual status: | | | |
| Commercial: | | | |
| Commercial real estate | $1,611 | - | 1,611 |
| Other | 100 | - | 100 |
| Real estate mortgage - 1 to 4 family: | | | |
| First mortgages | 17,178 | 1,870 | 19,048 |
| Home equity loans | 48 | - | 48 |
| Home equity lines of credit | 3,413 | 242 | 3,655 |
| Installment | 25 | - | 25 |
| Total non-accrual loans | 22,375 | 2,112 | 24,487 |
| Restructured real estate mortgages - 1 to 4 family | 41 | - | 41 |
| Total nonperforming loans | $22,416 | 2,112 | 24,528 |

| (dollars in thousands) | December 31, 2016 New York and other states | Florida | Total |
|---|---|---|---|
| Loans in non-accrual status: | | | |
| Commercial: | | | |
| Commercial real estate | $1,843 | - | 1,843 |
| Other | - | - | - |
| Real estate mortgage - 1 to 4 family: | | | |
| First mortgages | 17,727 | 1,659 | 19,386 |
| Home equity loans | 95 | - | 95 |
| Home equity lines of credit | 3,376 | 270 | 3,646 |
| Installment | 48 | - | 48 |
| Total non-accrual loans | 23,089 | 1,929 | 25,018 |
| Restructured real estate mortgages - 1 to 4 family | 42 | - | 42 |
| Total nonperforming loans | $23,131 | 1,929 | 25,060 |

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of June 30, 2017 and December 31, 2016, other estate owned included $2.9 million and $3.5 million of residential foreclosed properties, respectively. In addition, non-accrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $11.1 million and $12.5 million as of June 30, 2017 and December 31, 2016, respectively.

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The following tables present the aging of the recorded investment in past due loans by loan class and by region as of June 30, 2017 and December 31, 2016:

New York and other states:

| (dollars in thousands) | June 30, 2017<br>30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $133 | - | 1,523 | 1,656 | 147,589 | 149,245 |
| Other | - | - | 100 | 100 | 22,242 | 22,342 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 3,997 | 2,101 | 9,106 | 15,204 | 2,192,874 | 2,208,078 |
| Home equity loans | 107 | 40 | 18 | 165 | 64,222 | 64,387 |
| Home equity lines of credit | 554 | 600 | 2,076 | 3,230 | 268,250 | 271,480 |
| Installment | 45 | 13 | 22 | 80 | 6,981 | 7,061 |
| Total | $4,836 | 2,754 | 12,845 | 20,435 | 2,702,158 | 2,722,593 |

Florida:

| (dollars in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $ - | - | - | - | 11,099 | 11,099 |
| Other | - | - | - | - | 349 | 349 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 793 | 72 | 928 | 1,793 | 712,567 | 714,360 |
| Home equity loans | - | 53 | - | 53 | 12,428 | 12,481 |
| Home equity lines of credit | 50 | - | - | 50 | 45,144 | 45,194 |
| Installment | 7 | 5 | - | 12 | 1,385 | 1,397 |
| Total | $ 850 | 130 | 928 | 1,908 | 782,972 | 784,880 |

Total:

| (dollars in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $ 133 | - | 1,523 | 1,656 | 158,688 | 160,344 |
| Other | - | - | 100 | 100 | 22,591 | 22,691 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 4,790 | 2,173 | 10,034 | 16,997 | 2,905,441 | 2,922,438 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Home equity loans | 107 | 93 | 18 | 218 | 76,650 | 76,868 |
| Home equity lines of credit | 604 | 600 | 2,076 | 3,280 | 313,394 | 316,674 |
| Installment | 52 | 18 | 22 | 92 | 8,366 | 8,458 |
| Total | $ 5,686 | 2,884 | 13,773 | 22,343 | 3,485,130 | 3,507,473 |

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New York and other states:

| (dollars in thousands) | December 31, 2016<br>30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $50 | 43 | 1,706 | 1,799 | 149,567 | 151,366 |
| Other | - | - | - | - | 27,539 | 27,539 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 6,379 | 2,924 | 9,643 | 18,946 | 2,139,958 | 2,158,904 |
| Home equity loans | 50 | 3 | 74 | 127 | 60,765 | 60,892 |
| Home equity lines of credit | 685 | 111 | 1,839 | 2,635 | 283,951 | 286,586 |
| Installment | 34 | 32 | 15 | 81 | 6,967 | 7,048 |
| Total | $7,198 | 3,113 | 13,277 | 23,588 | 2,668,747 | 2,692,335 |

Florida:

| (dollars in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $ - | - | - | - | 12,243 | 12,243 |
| Other | - | - | - | - | 46 | 46 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 1,942 | 69 | 1,255 | 3,266 | 661,917 | 665,183 |
| Home equity loans | 19 | - | - | 19 | 10,735 | 10,754 |
| Home equity lines of credit | - | - | 156 | 156 | 48,099 | 48,255 |
| Installment | 30 | 6 | - | 36 | 1,734 | 1,770 |
| Total | $ 1,991 | 75 | 1,411 | 3,477 | 734,774 | 738,251 |

Total:

| (dollars in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | 90 + Days Past Due | Total 30+ days Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial real estate | $ 50 | 43 | 1,706 | 1,799 | 161,810 | 163,609 |
| Other | - | - | - | - | 27,585 | 27,585 |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 8,321 | 2,993 | 10,898 | 22,212 | 2,801,875 | 2,824,087 |
| Home equity loans | 69 | 3 | 74 | 146 | 71,500 | 71,646 |
| Home equity lines of credit | 685 | 111 | 1,995 | 2,791 | 332,050 | 334,841 |
| Installment | 64 | 38 | 15 | 117 | 8,701 | 8,818 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ 9,189 | 3,188 | 14,688 | 27,065 | 3,403,521 | 3,430,586 |

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At June 30, 2017 and December 31, 2016, there were no loans that were 90 days past due and still accruing interest. As a result, non-accrual loans include all loans 90 days or more past due 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:

| (dollars in thousands) | For the three months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Commercial | Real Estate Mortgage-1 to 4 Family | Installment | Total |
| Balance at beginning of period | $ 4,810 | 38,581 | 657 | 44,048 |
| Loans charged off: | | | | |
| New York and other states* | - | 522 | 40 | 562 |
| Florida | - | 52 | 13 | 65 |
| Total loan chargeoffs | - | 574 | 53 | 627 |
| Recoveries of loans previously charged off: | | | | |
| New York and other states* | - | 188 | 3 | 191 |
| Florida | - | - | - | - |
| Total recoveries | - | 188 | 3 | 191 |
| Net loans charged off | - | 386 | 50 | 436 |
| Provision for loan losses | (214 ) | 676 | 88 | 550 |
| Balance at end of period | $ 4,596 | 38,871 | 695 | 44,162 |

| (dollars in thousands) | For the three months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Commercial | Real Estate Mortgage-1 to 4 Family | Installment | Total |
| Balance at beginning of period | $ 4,919 | 39,017 | 462 | 44,398 |
| Loans charged off: | | | | |
| New York and other states* | 68 | 1,090 | 92 | 1,250 |
| Florida | - | 17 | 1 | 18 |
| Total loan chargeoffs | 68 | 1,107 | 93 | 1,268 |
| Recoveries of loans previously charged off: | | | | |
| New York and other states* | 1 | 117 | 15 | 133 |
| Florida | - | 1 | - | 1 |
| Total recoveries | 1 | 118 | 15 | 134 |
| Net loans charged off | 67 | 989 | 78 | 1,134 |
| Provision (credit) for loan losses | 194 | 561 | 45 | 800 |
| Balance at end of period | $ 5,046 | 38,589 | 429 | 44,064 |

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| (dollars in thousands) | For the six months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Commercial | Real Estate Mortgage-1 to 4 Family | Installment | Total |
| Balance at beginning of period | $ 4,929 | 38,231 | 730 | 43,890 |
| Loans charged off: | | | | |
| New York and other states* | 72 | 952 | 81 | 1,105 |
| Florida | - | 136 | 15 | 151 |
| Total loan chargeoffs | 72 | 1,088 | 96 | 1,256 |
| | | | | |
| Recoveries of loans previously charged off: | | | | |
| New York and other states* | 8 | 357 | 13 | 378 |
| Florida | - | - | - | - |
| Total recoveries | 8 | 357 | 13 | 378 |
| Net loans charged off | 64 | 731 | 83 | 878 |
| Provision for loan losses | (269 ) | 1,371 | 48 | 1,150 |
| Balance at end of period | $ 4,596 | 38,871 | 695 | 44,162 |

| (dollars in thousands) | For the six months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Commercial | Real Estate Mortgage-1 to 4 Family | Installment | Total |
| Balance at beginning of period | $ 4,491 | 39,753 | 518 | 44,762 |
| Loans charged off: | | | | |
| New York and other states* | 332 | 1,979 | 173 | 2,484 |
| Florida | - | 101 | 17 | 118 |
| Total loan chargeoffs | 332 | 2,080 | 190 | 2,602 |
| | | | | |
| Recoveries of loans previously charged off: | | | | |
| New York and other states* | 41 | 235 | 26 | 302 |
| Florida | - | 2 | - | 2 |
| Total recoveries | 41 | 237 | 26 | 304 |
| Net loans charged off | 291 | 1,843 | 164 | 2,298 |
| Provision for loan losses | 846 | 679 | 75 | 1,600 |
| Balance at end of period | $ 5,046 | 38,589 | 429 | 44,064 |

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 as a TDR.

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, 2017 and December 31, 2016:

| (dollars in thousands) | June 30, 2017 | | | |
|---|---|---|---|---|
| | 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 | 4,596 | 38,871 | 695 | 44,162 |
| Total ending allowance balance | $4,596 | 38,871 | 695 | 44,162 |
| Loans: | | | | |
| Individually evaluated for impairment | $4,008 | 21,782 | - | 25,790 |
| Collectively evaluated for impairment | 179,027 | 3,294,198 | 8,458 | 3,481,683 |
| Total ending loans balance | $183,035 | 3,315,980 | 8,458 | 3,507,473 |

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| (dollars in thousands) | December 31, 2016 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 | 4,929 | 38,231 | 730 | 43,890 |
| Total ending allowance balance | $4,929 | 38,231 | 730 | 43,890 |
| Loans: | | | | |
| Individually evaluated for impairment | $2,418 | 21,607 | - | 24,025 |
| Collectively evaluated for impairment | 188,776 | 3,208,967 | 8,818 | 3,406,561 |
| Total ending loans balance | $191,194 | 3,230,574 | 8,818 | 3,430,586 |

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, 2017 and December 31, 2016 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.

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The following tables present impaired loans by loan class as of June 30, 2017 and December 31, 2016:

New York and other states:

| (dollars in thousands) | June 30, 2017 Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $3,908 | 4,955 | - | 2,883 |
| Other | 100 | 100 | - | 100 |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 16,350 | 17,019 | - | 16,939 |
| Home equity loans | 265 | 301 | - | 270 |
| Home equity lines of credit | 2,042 | 2,226 | - | 2,060 |
| Total | $22,665 | 24,601 | - | 22,251 |

Florida:

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $ - | - | - | - |
| Other | - | - | - | - |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 2,446 | 2,538 | - | 2,177 |
| Home equity loans | 92 | 92 | - | 93 |
| Home equity lines of credit | 587 | 659 | - | 579 |
| Total | $ 3,125 | 3,289 | - | 2,849 |

Total:

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $ 3,908 | 4,955 | - | 2,883 |
| Other | 100 | 100 | - | 100 |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 18,796 | 19,557 | - | 19,116 |
| Home equity loans | 357 | 393 | - | 363 |
| Home equity lines of credit | 2,629 | 2,885 | - | 2,639 |
| Total | $ 25,790 | 27,890 | - | 25,100 |

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New York and other states:

| (dollars in thousands) | December 31, 2016<br>Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $2,418 | 3,470 | - | 2,214 |
| Other | - | - | - | - |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 16,675 | 17,439 | - | 15,665 |
| Home equity loans | 269 | 305 | - | 251 |
| Home equity lines of credit | 1,999 | 2,160 | - | 1,806 |
| Total | $21,361 | 23,374 | - | 19,936 |

Florida:

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $ - | - | - | - |
| Other | - | - | - | - |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 2,009 | 2,100 | - | 1,800 |
| Home equity loans | 94 | 94 | - | 81 |
| Home equity lines of credit | 561 | 633 | - | 591 |
| Total | $ 2,664 | 2,827 | - | 2,472 |

Total:

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| Commercial: | | | | |
| Commercial real estate | $ 2,418 | 3,470 | - | 2,214 |
| Other | - | - | - | - |
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 18,684 | 19,539 | - | 17,465 |
| Home equity loans | 363 | 399 | - | 332 |
| Home equity lines of credit | 2,560 | 2,793 | - | 2,397 |
| Total | $ 24,025 | 26,201 | - | 22,408 |

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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 and six months ended June 30, 2017 and 2016.

As of June 30, 2017 and December 31, 2016 impaired loans included approximately $14.0 million and $11.5 million of loans in accruing status that were identified as TDR's in accordance with regulatory guidance related to Chapter 7 bankruptcy loans, respectively.

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, 2017 and December 31, 2016, 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*: | Three months ended 6/30/2017 | | | Three months ended 6/30/2016 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial: | | | | | | |
| Commercial real estate | 3 | $ 747 | 747 | - | $ - | - |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 7 | $ 1,098 | $ 1,098 | 10 | $ 753 | $ 753 |
| Home equity loans | - | - | - | - | - | - |
| Home equity lines of credit | 1 | 3 | 3 | 5 | 66 | 66 |
| Total | 11 | $ 1,848 | $ 1,848 | 15 | $ 819 | $ 819 |

| Florida: | | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial: | | | | | | |
| Commercial real estate | - | $ - | - | - | $ - | - |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 4 | $ 387 | $ 387 | 1 | $ 298 | $ 298 |
| Home equity loans | - | - | - | 1 | 46 | 46 |
| Home equity lines of credit | - | - | - | 1 | 6 | 6 |
| Total | 4 | $ 387 | $ 387 | 3 | $ 350 | $ 350 |

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| New York and other states*: | Six months ended 6/30/2017 | | | Six months ended 6/30/2016 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial: | | | | | | |
| Commercial real estate | 3 | $ 747 | $ 747 | - | $ - | $ - |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 18 | $ 3,045 | 3,045 | 22 | $ 1,807 | 1,807 |
| Home equity loans | 1 | 13 | 13 | - | - | - |
| Home equity lines of credit | 5 | 161 | 161 | 9 | 157 | 157 |
| Total | 27 | $ 3,966 | $ 3,966 | 31 | $ 1,964 | $ 1,964 |

| Florida: | | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial: | | | | | | |
| Commercial real estate | - | $ - | - | - | $ - | - |
| Real estate mortgage - 1 to 4 family: | | | | | | |
| First mortgages | 5 | $ 467 | $ 467 | 3 | $ 525 | $ 525 |
| Home equity loans | - | - | - | 1 | 46 | 46 |
| Home equity lines of credit | 1 | 70 | 70 | 1 | 6 | 6 |
| Total | 6 | $ 537 | $ 537 | 5 | $ 577 | $ 577 |

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

In situations where the Company 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 following table presents, by class, TDR's that defaulted during the three and six months ended June 30, 2017 and 2016 which had been modified within the last twelve months:

| New York and other states*: (dollars in thousands) | Three months ended 6/30/2017 Number of Contracts | Three months ended 6/30/2017 Recorded Investment | Three months ended 6/30/2016 Number of Contracts | Three months ended 6/30/2016 Recorded Investment |
|---|---|---|---|---|
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | - | $ - | 1 | $ 107 |
| Home equity lines of credit | 1 | 3 | - | - |
| Total | 1 | $ 3 | 1 | $ 107 |

Florida:

| (dollars in thousands) | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
|---|---|---|---|---|
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | - | $ - | 1 | $ 46 |
| Total | - | $ - | 1 | $ 46 |

| New York and other states*: (dollars in thousands) | Six months ended 6/30/2017 Number of Contracts | Six months ended 6/30/2017 Recorded Investment | Six months ended 6/30/2016 Number of Contracts | Six months ended 6/30/2016 Recorded Investment |
|---|---|---|---|---|
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | - | $ - | 3 | $ 268 |
| Home equity loans | - | - | 1 | 48 |
| Home equity lines of credit | 1 | 3 | - | - |
| Total | 1 | $ 3 | 4 | $ 316 |

Florida:

| (dollars in thousands) | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
|---|---|---|---|---|
| Real estate mortgage - 1 to 4 family: | | | | |
| First mortgages | 1 | $ 77 | - | $ - |
| Home equity lines of credit | 1 | $ 70 | 1 | $ 46 |
| Total | 2 | $ 147 | 1 | $ 46 |

The TDR's that subsequently defaulted described above did not have a material impact on the allowance for loan losses.

The Company categorizes non-homogenous 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, such as commercial and commercial real estate loans, individually by grading the loans based on credit risk. The loan grades assigned to all loan types are tested by the Company’s internal loan review department in accordance with the Company’s internal loan review policy.

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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 classified as such 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, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

June 30, 2017

New York and other states:

(dollars in thousands)

| | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $139,103 | 10,142 | 149,245 |
| Other | 20,623 | 1,719 | 22,342 |
| | $159,726 | 11,861 | 171,587 |

Florida:

(dollars in thousands)

| | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $11,099 | - | 11,099 |
| Other | 349 | - | 349 |
| | $11,448 | - | 11,448 |

Total:

(dollars in thousands)

| | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $150,202 | 10,142 | 160,344 |
| Other | 20,972 | 1,719 | 22,691 |

| $171,174 | 11,861 | 183,035 |
| --- | --- | --- |

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December 31, 2016

New York and other states:

| (dollars in thousands) | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $136,676 | 14,690 | 151,366 |
| Other | 25,442 | 2,097 | 27,539 |
| | $162,118 | 16,787 | 178,905 |

Florida:

| (dollars in thousands) | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $12,243 | - | 12,243 |
| Other | 46 | - | 46 |
| | $12,289 | - | 12,289 |

Total:

| (dollars in thousands) | Pass | Classified | Total |
|---|---|---|---|
| Commercial: | | | |
| Commercial real estate | $148,919 | 14,690 | 163,609 |
| Other | 25,488 | 2,097 | 27,585 |
| | $174,407 | 16,787 | 191,194 |

Included in classified loans in the above tables are non-accrual loans of $1.7 million and $1.8 million at June 30, 2017 and December 31, 2016, 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 Company’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 as of June 30, 2017 and December 31, 2016 is included in the aging of the recorded investment of the past due loans table. In addition, the total nonperforming portion of these homogeneous loan pools as of June 30, 2017 and December 31, 2016 is presented in the non-accrual loans table.

(6) Fair Value of Financial Instruments

FASB Topic 820, Fair Value Measurement (“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:

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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, the fair value of equity securities 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.

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.

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

| | Fair Value Measurements at June 30, 2017 Using: | | | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Securities available for sale: | | | | |
| U.S. government sponsored enterprises | $ 128,386 | $ - | $ 128,386 | $ - |
| State and political subdivisions | 536 | - | 536 | - |
| Corporate bonds | 40,498 | - | 40,498 | - |
| Mortgage backed securities and collateralized mortgage obligations - residential | 352,591 | - | 352,591 | - |
| Small Business Administration- guaranteed participation securities | 72,858 | - | 72,858 | - |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 9,903 | - | 9,903 | - |
| Other securities | 685 | 35 | 650 | - |
| Total securities available for sale | $ 605,457 | $ 35 | $ 605,422 | $ - |

| | Fair Value Measurements at December 31, 2016 Using: | | | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Securities available for sale: | | | | |
| U.S. government sponsored enterprises | $ 117,266 | $ - | $ 117,266 | $ - |
| State and political subdivisions | 886 | - | 886 | - |
| Mortgage backed securities and collateralized mortgage obligations - residential | 372,308 | - | 372,308 | - |
| Corporate bonds | 40,705 | - | 40,705 | - |
| Small Business Administration- guaranteed participation securities | 78,499 | - | 78,499 | - |
| Mortgage backed securities and collateralized mortgage obligations - commercial | 10,011 | - | 10,011 | - |
| Other securities | 685 | 35 | 650 | - |
| Total securities available for sale | $ 620,360 | $ 35 | $ 620,325 | $ - |

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There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2017 and 2016.

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

| (dollars in thousands) | Fair Value Measurements at June 30, 2017 Using: Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation technique | Unobservable inputs | Range (Weighted Average) |
|---|---|---|---|---|---|---|---|
| Other real estate owned | $ 3,585 | $ - | $ - | $ 3,585 | Sales comparison approach | Adjustments for differences between comparable sales | 2% - 10% (4%) |
| Impaired loans: | | | | | | | |
| Real estate mortgage - 1 to 4 family | 466 | - | - | 466 | Sales comparison approach | Adjustments for differences between comparable sales | 2% - 5% (4%) |

| (dollars in thousands) | Fair Value Measurements at December 31, 2016 Using: Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation technique | Unobservable inputs | Range (Weighted Average) |
|---|---|---|---|---|---|---|---|
| Other real estate owned | $ 4,268 | $ - | $ - | $ 4,268 | Sales comparison approach | Adjustments for differences between comparable sales | 1% - 14% (7%) |
| Impaired loans: | | | | | | | |
| Commercial real estate | 1,250 | - | - | 1,250 | Sales comparison approach | Adjustments for differences between comparable sales | 7% - 35% (23%) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Real estate mortgage - 1 to 4 family | 458 | - | - | 458 | Sales comparison approach | Adjustments for differences between comparable sales | 5% - 14% (10%) |

Other real estate owned, that is carried at fair value less costs to sell was approximately $3.6 million at June 30, 2017 and consisted of $707 thousand of commercial real estate and $2.9 million of residential real estate properties. Valuation charges of $174 thousand and $362 thousand are included in earnings for the three and six months ended June 30, 2017, respectively.

Of the total impaired loans of $25.8 million at June 30, 2017, $466 thousand are collateral dependent 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, 2017. Gross charge offs related to residential impaired loans included in the table above were $10 thousand and $26 thousand for the three and six months ended June 30, 2017, respectively.

Other real estate owned, that is carried at fair value less costs to sell, was approximately $4.3 million at December 31, 2016 and consisted of $756 thousand of commercial real estate and $3.5 million of residential real estate properties. A valuation charge of $1.2 million is included in earnings for the year ended December 31, 2016.

Of the total impaired loans of $25.8 million at December 31, 2016, $1.7 million are collateral dependent 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, 2016. Gross charge offs related to commercial impaired loans included in the table above were $482 thousand for the year ended December 31, 2016, while gross charge offs related to residential impaired loans included in the table above amounted to $226 thousand.

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In accordance with FASB Topic 825, Financial Instruments ("ASC 825"), the carrying amounts and estimated fair values of financial instruments, at June 30, 2017 and December 31, 2016 are as follows:

| (dollars in thousands) | Carrying Value | Fair Value Measurements at June 30, 2017 Using: | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | |
| Cash and cash equivalents | $707,143 | 707,143 | - | - | 707,143 |
| Securities available for sale | 605,457 | 35 | 605,422 | - | 605,457 |
| Held to maturity securities | 41,208 | - | 42,803 | - | 42,803 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,723 | N/A | N/A | N/A | N/A |
| Net loans | 3,463,311 | - | - | 3,471,697 | 3,471,697 |
| Accrued interest receivable | 11,283 | 238 | 2,811 | 8,234 | 11,283 |
| Financial liabilities: | | | | | |
| Demand deposits | 390,120 | 390,120 | - | - | 390,120 |
| Interest bearing deposits | 3,818,294 | 2,729,470 | 1,082,006 | - | 3,811,476 |
| Short-term borrowings | 233,621 | - | 233,621 | - | 233,621 |
| Accrued interest payable | 462 | 76 | 385 | - | 462 |

| (dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2016 Using: | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | |
| Cash and cash equivalents | $707,274 | 707,274 | - | - | 707,274 |
| Securities available for sale | 620,360 | 35 | 620,325 | - | 620,360 |
| Held to maturity securities | 45,490 | - | 47,526 | - | 47,526 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,579 | N/A | N/A | N/A | N/A |
| Net loans | 3,386,696 | - | - | 3,370,976 | 3,370,976 |
| Accrued interest receivable | 11,070 | 145 | 2,654 | 8,271 | 11,070 |
| Financial liabilities: | | | | | |
| Demand deposits | 377,755 | 377,755 | - | - | 377,755 |
| Interest bearing deposits | 3,818,408 | 2,658,945 | 1,156,025 | - | 3,814,970 |
| Short-term borrowings | 209,406 | - | 209,406 | - | 209,406 |
| Accrued interest payable | 526 | 82 | 444 | - | 526 |

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

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.

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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.

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.

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(7) Accumulated Other Comprehensive Income (Loss)

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

| (dollars in thousands) | Three months ended 6/30/17 | | | | |
|---|---|---|---|---|---|
| | Balance at 4/1/2017 | Other Comprehensive Income (loss)- Before Reclassifications | Amount reclassified from Accumulated Other Comprehensive Income | Other Comprehensive Income (loss)- Three months ended 6/30/2017 | Balance at 6/30/2017 |
| Net unrealized holding gain (loss) on securities available for sale, net of tax | $(6,055) | 2,006 | - | 2,006 | (4,049) |
| Net change in net actuarial gain and prior service cost on pension and postretirement benefit plans, net of tax | 487 | - | (31) | (31) | 456 |
| Accumulated other comprehensive income (loss), net of tax | (5,568) | 2,006 | (31) | 1,975 | (3,593) |

| (dollars in thousands) | Three months ended 6/30/2016 | | | | |
|---|---|---|---|---|---|
| | Balance at 4/1/2016 | Other Comprehensive Income (loss)- Before Reclassifications | Amount reclassified from Accumulated Other Comprehensive Income | Other Comprehensive Income (loss)- Three months ended 6/30/2016 | Balance at 6/30/2016 |
| Net unrealized holding gain (loss) on securities available for sale, net of tax | $329 | 2,739 | (401) | 2,338 | 2,667 |
| Net change in net actuarial gain and prior service cost on pension and postretirement benefit plans, net of tax | (256) | - | (16) | (16) | (272) |
| Accumulated other comprehensive income (loss), net of tax | 73 | 2,739 | (417) | 2,322 | 2,395 |

| (dollars in thousands) | Six months ended 6/30/17 | | | | |
|---|---|---|---|---|---|
| | Balance at 1/1/2017 | Other Comprehensive Income (loss)- Before Reclassifications | Amount reclassified from Accumulated Other Comprehensive Loss | Other Comprehensive Income (loss)- Six months ended 6/30/2017 | Balance at 6/30/2017 |

| | | | | | |
|---|---|---|---|---|---|
| Net unrealized holding gain (loss) on securities available for sale, net of tax | $(6,762) | 2,713 | - | 2,713 | (4,049) |
| Net change in net actuarial gain and prior service cost on pension and postretirement benefit plans, net of tax | 511 | - | (55) | (55) | 456 |
| Accumulated other comprehensive income (loss), net of tax | (6,251) | 2,713 | (55) | 2,658 | (3,593) |

| (dollars in thousands) | Six months ended 6/30/16 | | | | |
|---|---|---|---|---|---|
| | Balance at 1/1/2016 | Other Comprehensive Income (loss)- Before Reclassifications | Amount reclassified from Accumulated Other Comprehensive Income | Other Comprehensive Income (loss)- Six months ended 6/30/2016 | Balance at 6/30/2016 |
| Net unrealized holding gain (loss) on securities available for sale, net of tax | $(4,492) | 7,560 | (401) | 7,159 | 2,667 |
| Net change in net actuarial gain and prior service cost on pension and postretirement benefit plans, net of tax | (289) | - | 17 | 17 | (272) |
| Accumulated other comprehensive income (loss), net of tax | (4,781) | 7,560 | (384) | 7,176 | 2,395 |

The following represents the reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016:

| (dollars in thousands) | Three months ended June 30, | | Six months ended June 30, | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | Affected Line Item in Statements |
| Net unrealized holding gain on securities available for sale | | | | | |
| Realized gain on securities transactions | $ - | 668 | $ - | 668 | Net gain on securities transactions |
| Income tax effect | - | (267) | - | (267) | Income taxes |
| Net of tax | - | 401 | - | 401 | |
| Amortization of pension and postretirement benefit items | | | | | |
| Amortization of net actuarial gain | 73 | 50 | 136 | 17 | Salaries and employee benefits |

| | | | | | |
|---|---|---|---|---|---|
| Amortization of prior service cost | (22 ) | (22 ) | (45 ) | (45 ) | Salaries and employee benefits |
| Income tax effect | (20 ) | (12 ) | (36 ) | 11 | Income taxes |
| Net of tax | 31 | 16 | 55 | (17 ) | |
| | | | | | |
| Total reclassifications, net of tax | $ 31 | 417 | $ 55 | 384 | |

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(8) Agreement with the Office of the Comptroller of the Currency

On July 21, 2015 Trustco Bank (the "Bank"), the wholly owned subsidiary of the Company, entered into a formal agreement (the "Agreement") with the Comptroller of the Currency of the United States (the "OCC").

The Agreement relates to the findings of the OCC following an examination of the Bank. Since the completion of the examination and entry into the Agreement, the Bank believes it has been working diligently to address the findings of the examination and to develop and implement appropriate formal action plans.

The Agreement requires the Bank to take various actions, within prescribed time frames, with respect to certain areas of the Bank. These include, among others, (i) establishment of a committee of at least three Directors to monitor and coordinate the Bank's response to the Agreement; (ii) adoption of compliance plans to respond to the Agreement with the assistance of an independent qualified consultant; (iii) evaluation and implementation of improvements in corporate governance with the assistance of an independent qualified consultant; (iv) evaluation and implementation of improvements in internal audit; (v) development of a strategic plan; (vi) development of a revised capital plan consistent with the strategic plan; (vii) development and implementation of improvements to the Bank's loan review system; and (viii) such other necessary steps to address the issues and questions noted by the OCC in the Agreement.

(9) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" which implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, FASB deferred the effective date of the ASU by one year which means ASU 2014-09 will be effective for the Company on January 1, 2018. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08 - Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10 - Identifying Performance Obligations and Licensing and ASU No. 2016-12 - Narrow-Scope Improvements and Practical Expedients. The ASU is not expected to significantly impact the Company's financial position or the results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" which amended existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. The ASU is not expected to significantly impact the Company's consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, “Leases” which amended existing guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2018. It is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date which will impact the financial position and capital ratios of the Company. As of December 31, 2016, the Company has approximately $69.7 million in minimum lease payments for existing operating leases of branch locations with varying expiration dates from 2017 and after. The Company does not expect the ASU to have a material impact on the Company’s results of operations.

In June 2016, the FASB released ASU No. 2016-13, “Financial Instruments – Credit Losses” which amended existing guidance to replace current generally accepted accounting principles used to measure a reporting entity’s credit losses. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2019. The ASU represents a significant departure from current GAAP and the Company is evaluating the impact of the ASU on its consolidated financial statements. The Company has established a roadmap for implementation and is currently evaluating vendor solutions that will assist in implementing required changes to loan loss estimation model.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350)” which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The ASU is not expected to significantly impact the Company’s consolidated financial statements.

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In March 2017, the FASB issued ASU No. 2017-07, “Compensation-Retirement Benefits (Topic 715)”. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this ASU are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The ASU is not expected to significantly impact the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)”. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is evaluating the impact of ASU No. 2017-08 on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation – Scope of Modification Accounting (Topic 718)”. The amendments in this ASU clarifies the application of the guidance in Topic 718, Compensation – Stock Compensation, by providing guidance about which changes in terms or conditions of a share-based payment award require and entity to apply modification accounting. An entity should account for the effects of a modification unless all the following are met: 1) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; 3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The ASU is not expected to significantly impact the Company’s consolidated financial statements.

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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, 2017, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016 and the related changes in shareholders’ equity and cash flows for the six-month periods ended June 30, 2017 and 2016. 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, 2017

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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, costs associated with the Formal Agreement that the Company’s subsidiary, Trustco Bank (or the “Bank”) has entered into with the Office of the Comptroller of the Currency (“OCC”), the Company’s ability to grow its balance sheet and the profitability of such growth, the ability of its loan products to continue to attract customers if long-term rates rise and the ability to secure new sources of liquidity should the need arise. 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, 2016, 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 and to otherwise maintain or increase its market share in the areas in which it operates;
- TrustCo’s ability to continue to maintain noninterest expense and other overhead costs at reasonable levels relative to income;
- TrustCo’s ability to comply with the Formal Agreement entered into with Trustco Bank’s regulator, the OCC, and potential regulatory actions if TrustCo or Trustco Bank fails to comply;
- restrictions or conditions imposed by TrustCo’s and Trustco Bank’s regulators on their operations that may make it more difficult to achieve TrustCo’s and Trustco Bank’s goals;
- the future earnings and capital levels of TrustCo and Trustco Bank and the continued receipt of approvals from TrustCo’s and Trustco Bank’s primary federal banking regulators under regulatory rules and the Formal Agreement to distribute capital from Trustco Bank to TrustCo, which could affect the ability of TrustCo to pay dividends;
- the results of supervisory monitoring or 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 allowance or to take other actions that reduce capital or income;

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- 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 chargeoffs, 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;
- adverse conditions in the securities markets that lead to impairment in the value of securities in TrustCo's investment portfolio;
- changes in law and policy accompanying the new presidential administration and uncertainty or speculation pending the enactment of such changes;
- 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;
- changes in consumer spending, borrowing and savings habits;
- 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, including new regulatory capital requirements that took effect beginning in 2016;
- changes in management personnel;
- 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;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- technological changes and electronic, cyber and physical security breaches;
- 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, 2016.

You should not rely upon forward-looking statements as predictions of future events. Although TrustCo believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. 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 are the tables "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, 2017 and 2016.

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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, 2017, with comparisons to the corresponding period in 2016, 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 2016 Annual Report to Shareholders on Form 10-K, which was filed with the SEC on March 3, 2017, 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.

During the second quarter of 2017 financial markets were influenced by both underlying economic conditions and by political developments, in particular expectations arising from initiatives expected to be pursued by the Trump administration.  Equity markets ended the second quarter up, with most of the gain coming early in the quarter.  For the full second quarter, the S&P 500 Index was up 2.6% and the Dow Jones Industrial Average was up 3.3%.  Credit markets continue to be driven by worldwide economic news and decreasing liquidity in some segments of the bond market.  The shape of the yield curve continued to flatten during the quarter, with average yields declining for the second quarter as compared to the first quarter.  The 10-year Treasury bond averaged 2.26% during Q2 compared to 2.45% in Q1, a decrease of 19 basis points.  The 2-year Treasury bond average rate increased 6 basis points to 1.30%, resulting in flattening of the curve.  The spread between the 10-year and the 2-year Treasury bonds contracted from 1.20% on average in Q1 to 0.96% in Q2.  This spread had been depressed in recent years, and compares to 2.42% during its most recent peak in Q4 of 2013.  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 was increased by 25 basis points on June 14, 2017 to a range of 1.00% to 1.25%.  This increase follows a similar 25 basis point increases announced in December of 2016 and March of 2017.  Spreads of most asset classes, including agency securities, corporates, municipals and mortgage-backed securities, were down by the end of the quarter as compared to the levels seen a year earlier, but generally roughly flat with levels seen at the end of the first quarter of 2017.  Changes in rates and spreads during the current quarter were due to a number of factors; however, uncertainty about the timing of any actions that the Federal Reserve Board (“FRB”) 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.  Low risk free rates in major nations have also caused investors to shift into alternative fixed income instruments, contributing to the compression of spreads over the risk free rate.

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| | | 3 Month Yield (%) | 2 Year Yield (%) | 5 Year Yield (%) | 10 Year Yield (%) | 10 - 2 Year Spread (%) |
|---|---|---|---|---|---|---|
| | Beg of Q2 | 0.23 | 0.76 | 1.24 | 1.78 | 1.03 |
| | Peak | 0.35 | 0.92 | 1.41 | 1.94 | 1.08 |
| Q2/16 | Trough | 0.19 | 0.58 | 1.00 | 1.46 | 0.85 |
| | End of Q2 | 0.26 | 0.58 | 1.01 | 1.49 | 0.91 |
| | Average in Q2 | 0.26 | 0.77 | 1.24 | 1.75 | 0.98 |
| | Beg of Q3 | 0.28 | 0.59 | 1.00 | 1.46 | 0.87 |
| | Peak | 0.37 | 0.84 | 1.26 | 1.73 | 0.97 |
| Q3/16 | Trough | 0.18 | 0.56 | 0.94 | 1.37 | 0.76 |
| | End of Q3 | 0.29 | 0.77 | 1.14 | 1.60 | 0.83 |
| | Average in Q3 | 0.30 | 0.73 | 1.13 | 1.56 | 0.84 |
| | Beg of Q4 | 0.32 | 0.80 | 0.91 | 1.63 | 0.83 |
| | Peak | 0.55 | 1.29 | 1.61 | 2.60 | 1.34 |
| Q4/16 | Trough | 0.30 | 0.80 | 0.91 | 1.63 | 0.83 |
| | End of Q4 | 0.51 | 1.20 | 1.47 | 2.45 | 1.25 |
| | Average in Q4 | 0.43 | 1.01 | 1.24 | 2.14 | 1.13 |
| | Beg of Q1 | 0.16 | 1.06 | 1.76 | 2.27 | 1.21 |
| | Peak | 0.79 | 1.40 | 2.14 | 2.62 | 1.30 |
| Q1/17 | Trough | 0.50 | 1.12 | 1.80 | 2.31 | 1.11 |
| | End of Q1 | 0.76 | 1.27 | 1.93 | 2.40 | 1.13 |
| | Average in Q1 | 0.60 | 1.24 | 1.95 | 2.45 | 1.20 |
| | Beg of Q2 | 0.76 | 1.27 | 1.93 | 2.40 | 1.13 |
| | Peak | 1.04 | 1.38 | 1.94 | 2.42 | 1.11 |
| Q2/17 | Trough | 0.79 | 1.18 | 1.71 | 2.14 | 0.78 |
| | End of Q2 | 1.03 | 1.38 | 1.89 | 2.31 | 0.93 |
| | Average in Q2 | 0.91 | 1.30 | 1.81 | 2.26 | 0.96 |

The United States economy continues to show some modest improvements in some areas, but continues to face challenges. Employment metrics have generally improved, but remain inconsistent and not particularly robust. Economic conditions vary significantly over geographic areas, with strength concentrated in and around major population centers on the coasts and in certain areas where economic activity has been driven by specific regional factors. The unprecedented intervention by governments in markets and attempts to stimulate the economy, including the sharp easing of monetary policy during 2007-2008, will eventually be reversed. How and when the Federal Reserve resolves its own balance sheet expansion has been an area of significant focus of economists and market participants. During the second quarter, the FRB provided some insight on plans for shrinking its balance sheet but the start of that program remains uncertain. Economic activity in Europe, China and elsewhere has also improved in some aspects, but remains mixed. Finally, regulatory changes that have been enacted are expected to continue to impact the banking industry going forward. These regulatory changes have added significant operating expense and operational burden and have fundamentally changed the way banks conduct business. The new presidential administration has set policy initiatives that include attempts to reduce the regulatory burden; the timing and extent of any success on that front is yet to be determined. Fiscal policy initiatives, particularly a plan to significantly reduce corporate tax rates could have a major impact on the economy and on TrustCo, but there is no certainty that those initiatives will take effect at all or will result in any timely and/or significant change.

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TrustCo believes that its long-term focus on traditional banking services and practices has enabled the Company to avoid significant impact from asset quality problems and that the Company's strong liquidity and solid capital positions have allowed the Company to continue to conduct business in a manner consistent with its past practice. TrustCo has not engaged in the types of high risk loans and investments that have led to the widely reported problems in the industry. Nevertheless, the Company may experience increases in nonperforming loans ("NPLs") relative to historical levels from time to time. While the Company does not expect to see a significant change in the inherent risk of loss in its loan portfolio at June 30, 2017, should general housing prices and other economic measures, such as unemployment in the Company's market areas, deteriorate, the Company may experience an increase in the level of credit risk and in the amount of its classified and nonperforming loans.

Overview

TrustCo recorded net income of $12.2 million, or $0.127 of diluted earnings per share, for the three months ended June 30, 2017, compared to net income of $10.5 million, or $0.109 of diluted earnings per share, in the same period in 2016. Return on average assets was 1.00% and 0.88%, respectively, for the three months ended June 30, 2017 and 2016. Return on average equity was 11.05% and 9.88%, respectively, for the three months ended June 30, 2017 and 2016.

For the six months ended June 30, 2017, net income was $23.2 million or $0.241 of diluted earnings per share, compared to $20.9 million and $0.219 per share, respectively, in the same period in 2016. Return on average assets was 0.96% and 0.88%, respectively, for the six months ended June 30, 2017 and 2016. Return on average equity was 10.62% and 9.93%, respectively, for the six months ended June 30, 2017 and 2016.

The primary factors accounting for the change in net income for the three months ended June 30, 2017 compared to the same period of the prior year were:

- An increase in the average balance of interest earning assets of $105.7 million to $4.81 billion for the second quarter of 2017 compared to the same period in 2016.

- An increase in taxable equivalent net interest margin for the second quarter of 2017 to 3.21% from 3.09% in the prior year period. The increase in the margin, coupled with the increase in average earning assets, resulted in an increase of $2.2 million in taxable equivalent net interest income in the second quarter of 2017 compared to the second quarter of 2016.

- A decrease of $668 thousand in securities gains for the second quarter of 2017 as compared to the prior year period.

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- An increase of $625 thousand in salaries and benefits expense for the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher staffing levels.

- A decrease of $937 thousand in Federal Deposit Insurance Corporation (FDIC) and other insurance expense for the second quarter of 2017 compared to the second quarter of 2016 due to a change in premiums charged by the FDIC.

- A decrease of $412 thousand in Equipment expense for the second quarter of 2017 compared to the second quarter of 2016 due to decreased equipment maintenance and depreciation expense.

- A decrease of $427 thousand in Other Real Estate expense for the second quarter of 2017 compared to the second quarter of 2016.

- An increase of $1.1 million in income taxes in the second quarter of 2017 compared to the prior year due primarily to higher pre-tax earnings.

The primary factors accounting for the change in net income for the six months ended June 30, 2017 compared to the same periods of the prior year were:

- An increase in the average balance of interest earning assets of $127.6 million to $4.79 billion for the first six months of 2017 compared to the same period in 2016.

- An increase in taxable equivalent net interest margin for the first six months of 2017 to 3.17% from 3.11% in the prior year period.  The increase in the margin coupled with the increase in average earning assets, resulted in an increase of $3.5 million in taxable equivalent net interest income in the first six months of 2017 compared to the same period in 2016.

- A decrease of $668 thousand in securities gains for the first six months of 2017 as compared to the prior year period.

- An increase of $1.8 million in salaries and benefits for the first six months of 2017 as compared to the prior year period.

- A decrease of $1.9 million in FDIC and other insurance expense and a decrease of $447 thousand in net other real estate (“ORE”) expense, for the first six months of 2017 compared to the same period in 2016.

- An increase of $1.5 million in income taxes, in the first six months of 2017 compared to the same period in 2016.

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Regulatory Agreement

On July 21, 2015 Trustco Bank, the wholly owned subsidiary of the Company, entered into a formal agreement with the OCC (the “Agreement”).

The Agreement relates to the findings of the OCC following its regularly scheduled examination of the Bank in January 2015. Since the completion of the examination and entry into the Agreement, the Bank believes it has been working diligently to address the findings of the examination and to develop and implement appropriate formal action plans.

The Agreement requires the Bank to take various actions, within prescribed time frames, with respect to certain activities of the Bank. These include, among others, (i) establishment of a committee of at least three Directors to monitor and coordinate the Bank’s response to the Formal Agreement; (ii) adoption of compliance plans to respond to the Formal Agreement with the assistance of an independent qualified consultant; (iii) evaluation and implementation of improvements in corporate governance with the assistance of an independent qualified consultant; (iv) evaluation and implementation of improvements in internal audit; (v) development of a strategic plan; (vi) development of a revised capital plan, including dividends, consistent with the strategic plan; (vii) development and implementation of improvements to the Bank’s loan review system; and (viii) such other necessary steps to address the issues and questions noted by the OCC in the Agreement. The costs to implement the recommendations in the agreement are expected to remain elevated, reflecting the Company’s investment in additional personnel and systems within the retail loan, deposit and regulatory compliance areas.

Asset/Liability Management

The Company strives to generate its earnings capabilities through a mix of core deposits funding a prudent mix of earning assets. Additionally, TrustCo attempts to maintain adequate liquidity and reduce the sensitivity of net interest income to changes in interest rates to an acceptable level while enhancing profitability both on a short-term and long-term basis.

TrustCo’s results are affected by a variety of factors including competitive and economic conditions in the specific markets in which the Company operates and, more generally, in the national economy, financial market conditions and the regulatory environment. Each of these factors is dynamic, and changes in any area can have an impact on TrustCo’s results. Included in the Annual Report to Shareholders on Form 10-K for the year ended December 31, 2016 is a description of the effect interest rates had on the results for the year 2016 compared to 2015. Many of the same market factors discussed in the 2016 Annual Report continued to have a significant impact on results through the second quarter of 2017.

TrustCo competes with other financial service providers based upon many factors including quality of service, convenience of operations and rates paid on deposits and charged on loans. In the experience of management, the absolute level of interest rates, changes in interest rates and customers’ expectations with respect to the direction of interest rates have a significant impact on the volume of loan and deposit originations in any particular period.

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Interest rates have a significant impact on the operations and financial results of all financial services companies. One of the most important interest rates used to implement national economic policy is the Federal Funds rate. This is the interest rate utilized within the banking system for overnight borrowings for institutions with the highest credit rating. The Federal Funds target rate decreased from 4.25% at the beginning of 2008 to a target range of 0.00% to 0.25% by the end of 2008. In December 2015, the target increased to a range of 0.25% to 0.50%, and 25 basis point increases in the target range were also announced in December of 2016 and March and June of 2017, producing the current range of 1.00% to 1.25%. Additional increases in 2017 and beyond will largely be dependent on the strength of economic conditions. In the July statement from the Federal Open Market Committee, it was noted that, "In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."

Traditionally, interest rates on bank deposit accounts are heavily influenced by the Federal Funds rate. The average rate on interest bearing deposits was 4 basis points lower in the second quarter of 2017 relative to the prior year period. Rates were flat or lower on all deposit categories as compared to the same period in 2016. Please refer to the statistical disclosures in the table below entitled "Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential."

The interest rate on the 10-year Treasury bond and other long-term interest rates have significant influence on the rates for new residential real estate loans. The FRB has attempted to influence rates on mortgage loans by means other than targeting a lower Federal Funds rate, including direct intervention in the mortgage-backed securities market through purchasing these securities in an attempt to raise prices and reduce yields. In recent periods this includes the reinvestment of principal payments received on its holdings of agency securities, agency mortgage-backed securities and Treasury securities. While no longer increasing its holdings of these securities, the reinvestment of principal means that the existing holdings are not being unwound. The FRB has stated its intent to unwind these positions, which would likely put upward pressure on rates, although other factors may mitigate this pressure. These changes in interest rates can have an effect on the Company relative to the interest income on loans, securities and Federal Funds sold and other short term instruments, as well as on interest expense on deposits and borrowings. The timing of the FRB plan to reduce its holdings has not been set, but is generally expected to begin in the fall of 2017.

TrustCo's principal loan products are residential real estate loans. As noted above, residential real estate loans and longer-term investments are most affected by the changes in longer term market interest rates such as the 10-year Treasury. The 10-year Treasury yield was down 19 basis points, on average, during the second quarter of 2017 compared to the first quarter of 2017 but was up 51 basis points as compared to the second quarter of 2016.

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Interest rates on new residential real estate loan originations are also influenced by the rates established by secondary market participants such as Freddie Mac and Fannie Mae. As a portfolio lender, TrustCo does not sell loans into the secondary market in the normal course of business and is able to establish rates that management determines are appropriate in light of the long-term nature of residential real estate loans while remaining competitive with the secondary market rates. Financial market volatility and the problems faced by the financial services industry have lessened the influence of the secondary market; however, various programs initiated by arms of the federal government have had an impact on rate levels for certain products. Most importantly, a government goal of keeping mortgage rates low has been supported by targeted buying of certain securities, thus supporting prices and constraining yields, as noted above. Very low interest rates in many markets around the world have also increased demand for US fixed income assets, which has also contributed to the decline of yields on these assets.

The Federal Funds sold and other short term investments portfolios are affected primarily by changes in the Federal Funds target rate. Also, changes in interest rates have an effect on the recorded balance of the securities available for sale portfolio, which is recorded at fair value. Generally, as interest rates increase the fair value of these securities will decrease.

Interest rates generally remained below historic norms on both short term and longer term investments during the second quarter of 2017 despite the increases seen during the quarter.

While TrustCo has been affected by changes in financial markets over time, the impact of the financial crisis that began in 2007 was mitigated by the Company’s generally conservative approach to banking. The Company utilizes a traditional underwriting process in evaluating loan applications, and since originated loans are retained in the portfolio, there is a strong incentive to be conservative in making credit decisions. For additional information concerning TrustCo’s loan portfolio and nonperforming loans, please refer to the discussions under “Loans” and “Nonperforming Assets,” respectively. Further, the Company does not rely on borrowed funds to support its assets and maintains a significant level of liquidity on the asset side of the balance sheet. These characteristics provide the Company with increased flexibility and stability during periods of market disruption and interest rate volatility.

A fundamental component of TrustCo’s strategy has been to grow customer relationships and the deposits and loans that are part of those relationships. The Company has significant capacity to grow its balance sheet given its existing infrastructure. The Company expects that growth to be profitable. The current interest rate environment, however, has narrowed the margin on incremental balance sheet expansion. While the Company has not changed its fundamental long term strategy in regard to utilizing its excess capacity, management continually evaluates changing conditions and may seek to limit growth or reduce the size of the balance sheet if its analysis indicates that doing so would be beneficial.

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For the second quarter of 2017, the net interest margin was 3.21%, up 12 basis points versus the prior year's quarter. The quarterly results reflect the following significant factors:

- The average balance of Federal Funds sold and other short-term investments decreased by $24.8 million while the average yield increased 57 basis points in the second quarter of 2017 compared to the same period in 2016. The decrease in the average balance helped to fund increases in loans.

- The average balance of securities available for sale decreased by $9.7 million while the average yield increased 7 basis points to 1.96%. The average balance of held to maturity securities decreased by $10.0 million and the average yield increased 22 basis points to 4.27% for the second quarter of 2017 compared to the same period in 2016, with the increase due to a combination of slower prepayment speeds on mortgage-backed securities and the fact that corporate securities, which have higher yields, comprised a larger component of the portfolio in the 2017 period than in the 2016 period.

- The average loan portfolio grew by $150.1 million to $3.47 billion and the average yield decreased 6 basis points to 4.23% in the second quarter of 2017 compared to the same period in 2016. The decline in the average yield primarily reflects the decline in market interest rates on new loan originations as older, higher rate loans pay down or are paid off, as well as declines in higher yielding commercial and installment loans.

- The average balance of interest bearing liabilities (primarily deposit accounts) increased $71.4 million and the average rate paid decreased 4 basis points to 0.35% in the second quarter of 2017 compared to the same period in 2016.

During the second quarter of 2017, the Company continued to focus on its strategy to expand the loan portfolio by offering competitive interest rates. Management believes the TrustCo residential real estate loan product is very competitive compared to local and national competitors. Competition remains strong in the Company's market areas.

The strategy on the funding side of the balance sheet continues to be to attract and retain deposit customers to the Company based upon a combination of service, convenience and interest rate.

Earning Assets

Total average interest earning assets increased from $4.70 billion in the second quarter of 2016 to $4.81 billion in the same period of 2017 with an average yield of 3.50% in the second quarter of 2017 and 3.42% in the second quarter of 2016. The shift in the mix of assets towards a higher proportion of loans, along with the increase in yield on cash, partly offset the declining yields on loans. Interest income on average earning assets increased from $40.2 million in the second quarter of 2016 to $42.1 million in the second quarter of 2017, on a tax equivalent basis. The increase was the result of higher volume and yield.

Loans

The average balance of loans was $3.47 billion in the second quarter of 2017 and $3.32 billion in the comparable period in 2016. The yield on loans decreased 6 basis points to 4.23%. The higher average balances more than offset the lower yield, leading to an increase in interest income on loans from $35.7 million in the second quarter of 2016 to $36.7 million in the second quarter of 2017.

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Compared to the second quarter of 2016, the average balance of residential mortgage loans increased, however other loan categories decreased. The average balance of residential mortgage loans was $2.96 billion in 2017 compared to $2.76 billion in 2016, an increase of 7.2%. The average yield on residential mortgage loans decreased by 13 basis points to 4.18% in the second quarter of 2017 compared to 2016.

TrustCo actively markets the residential loan products within its market territories. Mortgage loan rates are affected by a number of factors including rates on Treasury securities, the Federal Funds rate and rates set by competitors and secondary market participants. TrustCo aggressively markets the unique aspects of its loan products thereby attempting to create a differentiation from other lenders. These unique aspects include low closing costs, fast turn-around time on loan approvals, no escrow or mortgage insurance requirements for qualified borrowers and the fact that the Company typically holds these loans in portfolio and does not sell them into the secondary markets. Assuming a rise in long-term interest rates, the Company would anticipate that the unique features of its loan products will continue to attract customers in the residential mortgage loan area.

Commercial loans, which consist primarily of loans secured by commercial real estate, decreased $15.6 million to an average balance of $183.4 million in the second quarter of 2017 compared to the same period in the prior year. The average yield on this portfolio was up 9 basis points to 5.24% compared to the prior year period, primarily reflecting the increase in the prime rate. The Company has been selective in underwriting commercial loans in recent periods as the apparent risk/reward balance has been less favorable in many cases.

The average yield on home equity credit lines increased 32 basis points to 3.90% during the second quarter of 2017 compared to the year earlier period. The increase in yield is the result of prime rate increases which impacted some loans and a smaller proportion of lower yielding initial rate balances. The average balances of home equity lines decreased 9.6% to $320.9 million in the second quarter of 2017 as compared to the prior year. Some customers with home equity lines have refinanced their balances into fixed rate mortgage loans.

Securities Available for Sale

The average balance of the securities available for sale portfolio for the second quarter of 2017 was $642.4 million compared to $652.1 million for the comparable period in 2016. The balance reflects routine paydowns, calls and maturities, offset by new investment purchases. The average yield was 1.96% for the second quarter of 2017 compared to 1.89% for the second quarter of 2016. This portfolio is primarily comprised of agency issued residential mortgage backed securities, bonds issued by government sponsored enterprises (such as Fannie Mae, the Federal Home Loan Bank, and Freddie Mac), agency-issued commercial mortgage backed securities, Small Business Administration participation certificates, corporate bonds and municipal bonds. These securities are recorded at fair value with any adjustment in fair value included in other comprehensive income (loss), net of tax.

The net unrealized loss in the available for sale securities portfolio was $6.7 million as of June 30, 2017 compared to a net unrealized loss of $11.3 million as of December 31, 2016. The unrealized loss in the portfolio is primarily the result of changes in market interest rate levels.

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Held to Maturity Securities

The average balance of held to maturity securities was $42.2 million for the second quarter of 2017 compared to $52.2 million in the second quarter of 2016. The decrease in balances reflects routine paydowns and calls. No new securities were added to this portfolio during the period. The average yield was 4.27% for the second quarter of 2017 compared to 4.05% for the year earlier period. The higher yield reflects a change in mix and slower prepayments on mortgage-backed securities (MBS), which reduced premium amortization. TrustCo expects to hold the securities in this portfolio until they mature or are called.

As of June 30, 2017, the securities in this portfolio include residential mortgage-backed securities and corporate bonds. The balances for these securities are recorded at amortized cost.

Federal Funds Sold and Other Short-term Investments

The 2017 second quarter average balance of Federal Funds sold and other short-term investments was $643.6 million, a $24.8 million decrease from the $668.4 million average for the same period in 2016. The yield was 1.07% for the second quarter of 2017 and 0.50% for the comparable period in 2016. Interest income from this portfolio increased $895 thousand from $832 thousand in 2016 to $1.7 million in 2017, reflecting the target rate increases that took effect in December of 2016 and March of 2017, as well as the partial impact of the June 2017 target rate increase, partly offset by the decreased in balances.

The Federal Funds sold and other short-term investments portfolio is utilized to generate additional interest income and liquidity as funds are waiting to be deployed into the loan and securities portfolios.

Funding Opportunities

TrustCo utilizes various funding sources to support its earning asset portfolio. The vast majority of the Company's funding comes from traditional deposit vehicles such as savings, demand deposits, interest-bearing checking, money market and time deposit accounts.

Total average interest bearing deposits (which includes interest bearing checking, money market accounts, savings and certificates of deposit) increased $26.2 million to $3.82 billion for the second quarter of 2017 versus the second quarter in the prior year, and the average rate paid decreased from 0.38% for 2016 to 0.34% for 2017. Total interest expense on these deposits decreased $429 thousand to $3.2 million in the second quarter of 2017 compared to the year earlier period. From the second quarter of 2016 to the second quarter of 2017, interest bearing demand account average balances were up 11.9%, certificates of deposit average balances were down 6.3%, non-interest demand average balances were up 2.7%, average savings balances increased 1.0% and money market balances were down 0.5%.

The Company has a number of contingent funding alternatives available in addition to the large cash and cash equivalents position and the investment securities positions it maintains on its balance sheet. The Bank is a member of the Federal Home Loan Bank of New York (FHLBNY) and is an eligible borrower at the Federal Reserve Bank of New York (FRBNY) and has the ability to borrow utilizing securities and/or loans as collateral at either. The Bank does not utilize brokered deposits as a part of its funding strategy, but does incorporate them as a contingent funding source within its Asset/Liability Policy. Like other contingent funding sources, brokered CDs may be tested from time to time to ensure operational and market readiness.

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At June 30, 2017, the maturity of total time deposits is as follows:

| (dollars in thousands) | |
|---|---|
| Under 1 year | $801,777 |
| 1 to 2 years | 241,916 |
| 2 to 3 years | 40,857 |
| 3 to 4 years | 2,508 |
| 4 to 5 years | 1,547 |
| Over 5 years | 219 |
| | $1,088,824 |

Average short-term borrowings for the quarter were $226.5 million in 2017 compared to $181.2 million in 2016. The average rate increased during this time period from 0.58% in 2016 to 0.62% in 2017. The short-term borrowings of the Company are cash management accounts, which represent retail accounts with customers for which the Bank has pledged certain assets as collateral.

Net Interest Income

Taxable equivalent net interest income increased by $2.2 million to $38.6 million in the second quarter of 2017 compared to the same period in 2016. The net interest spread was up 12 basis points to 3.15% in the second quarter of 2017 compared to the same in 2016. As previously noted, the net interest margin was up 12 basis points to 3.21 for the second quarter of 2017 compared to the same period in 2016.

Nonperforming Assets

Nonperforming assets include nonperforming loans (“NPLs”), which are those loans in a non-accrual status and loans past due three payments or more and still accruing interest. Also included in the total of nonperforming assets are foreclosed real estate properties, which are included in other assets and categorized as other real estate owned.

The following describes the nonperforming assets of TrustCo as of June 30, 2017:

Nonperforming loans and foreclosed real estate: Total NPLs were $24.5 million at June 30, 2017, compared to $25.1 million at December 31, 2016 and $28.2 million at June 30, 2016. There were $24.5 million of non-accrual loans at June 30, 2017 compared to $25.0 million at December 31, 2016 and $28.2 million at June 30, 2016. There were no loans at June 30, 2017 and 2016 and December 31, 2016 that were past due 90 days or more and still accruing interest.

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At June 30, 2017, nonperforming loans primarily include a mix of commercial and residential loans. Of total nonperforming loans of $24.5 million at June 30, 2017, $22.8 million were residential real estate loans, $1.7 million were commercial mortgages and $25 thousand were installment loans, compared to $23.1 million, $1.8 million and $48 thousand, respectively at December 31, 2016.

A significant percentage of nonperforming loans are residential real estate loans, which are historically lower-risk than most other types of loans. Annualized net chargeoffs were 0.05% of average residential real estate loans (including home equity lines of credit) for the second quarter of 2017 compared to 0.13% for the second quarter of 2016. Management believes that these loans have been appropriately written down where required.

Ongoing portfolio management is intended to result in early identification and disengagement from deteriorating credits. TrustCo has a diversified loan portfolio that includes a significant balance of residential mortgage loans to borrowers in the Capital Region of New York and avoids concentrations to any one borrower or any single industry. TrustCo has no advances to borrowers or projects located outside the United States. TrustCo continues to identify delinquent loans as quickly as possible and to move promptly to resolve problem loans. Efforts to resolve delinquencies begin immediately after the payment grace period expires, with repeated, automatically generated notices, as well as personalized phone calls and letters. Loans are placed in nonaccrual status once they are 90 days past due, or earlier if management has determined that such classification is appropriate. Once in nonaccrual status, loans are either brought current and maintained current, at which point they may be returned to accrual status, or they proceed through the foreclosure process. The collateral on nonaccrual loans is evaluated periodically, and the loan value is written down if the collateral value is insufficient.

The Company originates loans throughout its deposit franchise area. At June 30, 2017, 77.6% of its gross loan portfolio balances were in New York State and the immediately surrounding areas (including New Jersey, Vermont and Massachusetts), and 22.4% were in Florida. Those figures compare to 78.5% and 21.5%, respectively at December 31, 2016. Within these two geographic regions, commercial loans constitute a larger component of the local outstandings in New York than in Florida, at 6.3% and 1.5%, respectively, as of June 30, 2017.

Economic conditions vary widely by geographic location. Florida experienced a more significant downturn than New York during the recession, however conditions in Florida have improved more than in New York in recent periods. As a percentage of the total nonperforming loans as of June 30, 2017, 8.6% were to Florida borrowers, compared to 91.4% to borrowers in New York and surrounding areas. For the three months ended June 30, 2017, New York and surrounding areas experienced net chargeoffs of approximately $371 thousand, compared to $65 thousand in Florida.

Other than loans currently identified as nonperforming, management is aware of no other loans in the Bank’s portfolio that pose material risk of the eventual non-collection of principal and interest. Also as of June 30, 2017, there were no other loans classified for regulatory purposes that management reasonably expects will materially impact future operating results, liquidity, or capital resources.

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TrustCo has identified nonaccrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring (TDR), as impaired loans.  There were $4.0 million of commercial mortgages and commercial loans classified as impaired as of June 30, 2017 compared to $2.4 million at December 31, 2016.  There were $21.8 million of impaired residential loans at June 30, 2017 and $21.6 million at December 31, 2016.  The average balances of all impaired loans were $25.1 million for the six months of 2017 and $22.4 million for the full year 2016.

As of June 30, 2017 and December 31, 2016, the Company's loan portfolio did not include any subprime mortgages or loans acquired with deteriorated credit quality.

At June 30, 2017 there was $3.6 million of foreclosed real estate compared to $4.3 million at December 31, 2016.

Allowance for loan losses: The balance of the allowance for loan losses is maintained at a level that is, in management's judgment, representative of the amount of probable incurred losses in the loan portfolio.

Management's Discussion and Analysis

Allocation of the Allowance for Loan Losses

The allocation of the allowance for loans losses is as follows:

| (dollars in thousands) | As of June 30, 2017 | | | As of December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Loans to Total Loans | | Amount | Percent of Loans to Total Loans | |
| Commercial | $4,480 | 4.96 | % | $4,820 | 5.32 | % |
| Real estate - construction | $300 | 0.68 | % | 318 | 0.72 | % |
| Real estate mortgage - 1 to 4 family | $33,204 | 85.09 | % | 32,452 | 83.94 | % |
| Home equity lines of credit | $5,483 | 9.03 | % | 5,570 | 9.76 | % |
| Installment Loans | $695 | 0.24 | % | 730 | 0.26 | % |
| | $44,162 | 100.00 | % | $43,890 | 100.00 | % |

At June 30, 2017, the allowance for loan losses was $44.2 million, compared to $44.1 million at June 30, 2016 and $43.9 million at December 31, 2016.  The allowance represents 1.26% of the loan portfolio as of June 30, 2017 compared to 1.32% at June 30, 2016 and 1.28% at December 31, 2016.

The provision for loan losses was $550 thousand for the quarter ended June 30, 2017 and $800 thousand for the quarter ended June 30, 2016.  Net chargeoffs for the three-month period ended June 30, 2017 were $436 thousand and were $1.1 million in the prior year period.

During the second quarter of 2017, there were no commercial loan chargeoffs and $627 thousand of gross residential mortgage and consumer loan chargeoffs compared with $68 thousand of gross commercial loan chargeoffs and $1.2 million of residential mortgage and consumer loan chargeoffs in the second quarter of 2016.  Gross recoveries during the second quarter of 2017 were zero for commercial loans and $191 thousand for residential mortgage and consumer loans, compared to $1 thousand for commercial loans and $133 thousand for residential and consumer in the second quarter of 2016.

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In determining the adequacy of the allowance for loan losses, management reviews the current nonperforming loan portfolio as well as loans that are past due and not yet categorized as nonperforming for reporting purposes. Also, there are a number of other factors that are taken into consideration, including:

- The magnitude and nature of recent loan chargeoffs and recoveries;
- The growth in the loan portfolio and the implication that it has in relation to the economic climate in the Bank's market territories, and;
- The economic environment in the Upstate New York and Florida territories over the last several years, as well as in the Company's other market areas.

Management continues to monitor these factors in determining the provision for loan losses in relation to loan chargeoffs, recoveries, the level and trends of nonperforming loans and overall economic conditions in the Company's market territories.

Liquidity and Interest Rate Sensitivity

TrustCo seeks to obtain favorable sources of funding and to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. Management believes that TrustCo's earnings performance and strong capital position enable the Company to easily secure new sources of liquidity. The Company actively manages its liquidity through target ratios established under its liquidity policies. Continual monitoring of both historical and prospective ratios allows TrustCo to employ strategies necessary to maintain adequate liquidity. Management has also defined various degrees of adverse liquidity situations which could potentially occur and has prepared appropriate contingency plans should such a situation arise. As noted, the Company has a number of contingent funding alternatives available in addition to the large cash and cash equivalents position and the investment securities positions it maintains on its balance sheet. As previously stated, the Bank is a member of the FHLBNY and is an eligible borrower at the FRBNY and has the ability to borrow utilizing securities and/or loans as collateral at either institution. The Bank does not utilize brokered deposits as a part of its funding strategy, but does incorporate them as a contingent funding source within its Asset/Liability Policy. Like other contingent funding sources, brokered CDs may be tested from time to time to ensure operational and market readiness.

The Company uses an industry standard external model as the primary tool to identify, quantify and project changes in interest rates and prepayment speeds taken both from industry sources and internally generated data based upon historical trends in the Bank's balance sheet. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in market interest rates are also incorporated into the model. This model calculates an economic or fair value amount with respect to non-time deposit categories since these deposits are part of the core deposit products of the Company. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure the fair value of capital or precisely predict the impact of fluctuations in interest rates on the fair value of capital.

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Using this model, the fair value of capital projections as of June 30, 2017 are referenced below. The base case (current rates) scenario shows the present estimate of the fair value of capital assuming no change in the operating environment or operating strategies and no change in interest rates from those existing in the marketplace as of June 30, 2017. The table indicates the impact on the fair value of capital assuming interest rates were to instantaneously increase by 100 bp, 200 bp, 300 bp and 400 bp or to decrease by 100 bp.

| As of June 30, 2017 | Estimated Percentage of Fair value of Capital to Fair value of Assets | |
|---|---|---|
| +400 BP | 20.31 | % |
| +300 BP | 21.47 | |
| +200 BP | 22.58 | |
| +100 BP | 23.53 | |
| Current rates | 23.66 | |
| -100 BP | 22.09 | |

Noninterest Income

Total noninterest income for the second quarter of 2017 was $4.5 million, compared to $5.2 million in the prior year period.  The decrease of $695 thousand was due to a decrease in gains on net gains on securities transactions.  There were no securities gains in the second quarter of 2017, compared to gains of $668 thousand in the prior year period.  A nominal decrease in Trustco Financial Services income was approximately offset by an increase in fees for services to customers.  The fair value of assets under management was $845 million at June 30, 2017 and $846 million as of December 31, 2016 and $851 million at June 30, 2016.

For the six months through June 30, 2017 total noninterest income was $9.2 million, compared to $9.8 million for the prior year period.  The decline was due to the same decrease in net gains on securities transactions noted above.  Excluding gains, noninterest income was up $128 thousand due to a $166 thousand in Financial Services revenue increase.

Noninterest Expenses

Total noninterest expenses were $22.9 million for the three months ended June 30, 2017, compared to $24.0 million for the three months ended June 30, 2016.  The largest cause of the decrease in expenses was a $937 thousand decrease in FDIC and other insurance expenses.  This change was due to a change in the premium charged by the FDIC beginning in the third quarter of 2016.  Going forward we expect that the quarterly FDIC expense will approximate the level recorded in the second quarter of 2017, excluding the impact of balance sheet growth.  Other significant decreases were other real estate expense and equipment expense, down $427 thousand and $412 thousand, respectively. The only expense categories to see meaningful increases were salaries and benefits, up $625 thousand in the second quarter of 2017 compared to the year-ago period and net occupancy expense, up $349 thousand over the same periods.  Full time equivalent headcount increased from 801 as of June 30, 2016 to 813 as of June 30, 2017, which was the primary cause of the increase.

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For the six months through June 30, 2017 total noninterest expense was $46.9 million, compared to $47.4 million for the prior year period. The largest cause of the decrease in expenses was a $1.9 million decrease in FDIC and other insurance expenses, as described above. Decreases in other real estate expense, equipment expense and professional services expense also contributed. These were mostly offset by an increase of $1.8 million in salaries and benefits, as well as smaller increases in net occupancy expense and other expense.

Income Taxes

In the second quarter of 2017, TrustCo recognized income tax expense of $7.3 million compared to $6.3 million for the second quarter of 2016. The effective tax rates were 37.5% and 37.4% for the second quarters of 2017 and 2016, respectively. For the six month periods through June 30, income taxes increased $1.5 million, with effective tax rates of 37.5% and 37.2%, respectively, for the six months ended June 30, 2017 and 2016.

Capital Resources

Consistent with its long-term goal of operating a sound and profitable financial organization, TrustCo strives to maintain strong capital ratios.

Banking regulators have moved towards higher required capital requirements due to the standards included in the Basel III reform measures and the Dodd-Frank Act, as well as a general trend towards reducing risk in the banking system by providing a greater capital margin.

Trustco Bank's Agreement with the OCC requires the Bank to develop and comply with a capital plan, and the Bank may declare or pay a dividend or make a capital distribution only (a) when the Bank is in compliance with its approved written capital plan, and would remain in compliance with such capital plan immediately following the declaration or payment of any dividend or capital distribution and (b) following OCC approval under OCC capital distribution rules.

Total shareholders' equity at June 30, 2017 was $447.4 million compared to $430.3 million at June 30, 2016. TrustCo declared a dividend of $0.065625 per share in the second quarter of 2017. This results in a dividend payout ratio of 51.48% based on second quarter 2017 earnings of $12.2 million.

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The Bank and the Company reported the following capital ratios as of June 30, 2017 and December 31, 2016:

(Bank Only)

| (dollars in thousands) | As of June 30, 2017 | | Well | Adequately |
|---|---|---|---|---|
| | Amount | Ratio | Capitalized(1) | Capitalized(1)(2) |
| Tier 1 leverage capital | $436,264 | 8.911 % | 5.000 % | 4.000 % |
| Common equity tier 1 capital | 436,264 | 17.363 | 6.500 | 5.750 |
| Tier 1 risk-based capital | 436,264 | 17.363 | 8.000 | 7.250 |
| Total risk-based capital | 467,832 | 18.620 | 10.000 | 9.250 |

| (dollars in thousands) | As of December 31, 2016 | | Well | Adequately |
|---|---|---|---|---|
| | Amount | Ratio | Capitalized(1) | Capitalized(1)(3) |
| Tier 1 (core) capital | $ 424,802 | 8.829 % | 5.000 % | 4.000 % |
| Common equity tier 1 capital | 424,802 | 17.238 | 6.500 | 5.125 |
| Tier 1 risk-based capital | 424,802 | 17.238 | 8.000 | 6.625 |
| Total risk-based capital | 455,772 | 18.492 | 10.000 | 8.625 |

(1) Federal regulatory minimum requirements to be considered to be Well Capitalized and Adequately Capitalized

(2) The June 30, 2017 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a transition capital conservation buffer of 1.25 percent

(3) The December 31, 2016 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a transition capital conservation buffer of 0.625 percent

(Consolidated)

| (dollars in thousands) | As of June 30, 2017 | |
|---|---|---|
| | Amount | Ratio |
| Tier 1 leverage capital | $450,406 | 9.194 % |
| Common equity tier 1 capital | 450,406 | 17.921 |
| Tier 1 risk-based capital | 450,406 | 17.921 |
| Total risk-based capital | 481,984 | 19.178 |

| (dollars in thousands) | As of December 31, 2016 | |
|---|---|---|
| | Amount | Ratio |
| Leverage capital | $ 438,426 | 9.110 % |
| Common equity tier 1 capital | 438,426 | 17.782 |
| Tier 1 risk-based capital | 438,426 | 17.782 |
| Total risk-based capital | 469,411 | 19.038 |

In addition, at June 30, 2017, the consolidated equity to total assets ratio was 9.09%, compared to 8.89% at December 31, 2016 and 8.91% at June 30, 2016.

Both TrustCo and Trustco Bank are subject to regulatory capital requirements. On January 1, 2015, a new capital rule took effect that revised the federal bank regulatory agencies' risk-based capital requirements and subjected the Company to consolidated regulatory capital requirements. Among other matters, the rule also established a new

common equity Tier 1 minimum capital requirement of 4.5% of risk-weighted assets, increased the minimum Tier 1 capital to risk-based assets requirement from 4.0% to 6.0% of risk-weighted assets, changed the risk-weightings of certain assets, and changed what qualifies as capital for purposes of meeting the various capital requirements. In addition, the Company and the Bank are required to maintain additional levels of Tier 1 common equity (the capital conservation buffer) over the minimum risk-based capital levels before they may pay dividends, repurchase shares, or pay discretionary bonuses. The new rule will be phased-in over several years and will be fully in effect in 2019. Calendar year 2016 was the second year of implementation of the new capital rules. Prior to January 2015, the Company had not been subject to consolidated regulatory capital requirements.

As of June 30, 2017, the capital levels of both TrustCo and the Bank exceeded the minimum standards, including if the current (and also if the fully phased-in) capital conservation buffer is taken into account.



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Under the OCC's "prompt corrective action" regulations, a bank is deemed to be "well-capitalized" when its CET1, Tier 1, total risk-based, and leverage capital ratios are at least 6.5%, 8%, 10%, and 5%, respectively. A bank is deemed to be "adequately capitalized" or better if its capital ratios meet or exceed the minimum federal regulatory capital requirements, and "undercapitalized" if it fails to meet these minimal capital requirements. A bank is "significantly undercapitalized" if its CET1, Tier 1, total risk-based and leverage capital ratios fall below 3%, 4%, 6%, and 3%, respectively and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%. At June 30, 2017 and 2016, Trustco Bank met the definition of "well-capitalized."

As noted, the Company's dividend payout ratio was 51.48% of net income for the second quarter of 2017 and 59.89% of net income for the second quarter of 2016. The per-share dividend paid in both the second quarters of 2016 and 2017 was $0.065625. The Company's ability to pay dividends to its shareholders is dependent upon the ability of the Bank to pay dividends to the Company. The payment of dividends by the Bank to the Company is subject to continued compliance with minimum regulatory capital requirements and the Bank's compliance with the capital plan required under the terms of the Agreement. Under the OCC agreement, the Bank may declare or pay a dividend or make a capital distribution only (a) when the Bank is in compliance with its approved written capital plan, and would remain in compliance with such capital plan immediately following the declaration or payment of any dividend or capital distribution, and (b) following OCC approval under OCC capital distribution rules. The OCC may disapprove a dividend if: the Bank would be undercapitalized following the distribution; the proposed capital distribution raises safety and soundness concerns; or the capital distribution would violate a prohibition contained in any statue, regulation or agreement. In addition, under the Agreement, the payment of dividends by the Bank are subject to prior approval.

TrustCo maintains a dividend reinvestment plan (DRP) with approximately 12,000 participants. The DRP allows participants to reinvest dividends in shares of the Company. The DRP also allows for additional purchases by participants and has a discount feature (up to a 5% for safe harbor provisions) that can be activated by management as a tool to raise capital. To date, the discount feature has not been utilized.

Critical Accounting Policies

Pursuant to Securities and Exchange Commission (SEC) guidance, management of the Company is encouraged to evaluate and disclose those accounting policies judged to be critical policies - those most important to the portrayal of the Company's financial condition and results, and that require management's most difficult subjective or complex judgments.

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the inherent uncertainty in evaluating the levels of the allowance required to cover the inherent risk of losses in the loan portfolio and the material effect that such judgments can have on the results of operations. Included in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 is a description of the significant accounting policies that are utilized by the Company in the preparation of the Consolidated Financial Statements.

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TrustCo Bank Corp NY
Management's Discussion and Analysis
STATISTICAL DISCLOSURE

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY:
INTEREST RATES AND INTEREST DIFFERENTIAL

The following table summarizes the component distribution of the average balance sheet, related interest income and expense and the average annualized yields on interest earning assets and annualized rates on interest bearing liabilities of TrustCo (adjusted for tax equivalency) for each of the reported periods. Nonaccrual loans are included in loans for this analysis. The average balances of securities available for sale and held to maturity are calculated using amortized costs for these securities. Included in the average balance of shareholders' equity is the unrealized (loss) gain, net of tax, in the available for sale portfolio of ($3.6) million in 2017 and $0.7 million in 2016. The subtotals contained in the following table are the arithmetic totals of the items contained in that category. Increases and decreases in interest income and expense due to both rate and volume have been allocated to the categories of variances (volume and rate) based on the percentage relationship of such variances to each other.

| | Three months ended June 30, 2017 | | | Three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Change in Interest Income/ Expense | Variance Balance Change | Variance Rate Change |
| Assets | | | | | | | | | |
| Securities available for sale: | | | | | | | | | |
| U. S. government sponsored enterprises | $153,552 | 607 | 1.58% | $107,190 | 404 | 1.51% | $203 | 56 | 147 |
| Mortgage backed securities and collateralized mortgage obligations-residential | 359,085 | 1,944 | 2.17% | 445,162 | 2,169 | 1.95% | (225) | (1,364) | 1,139 |
| State and political subdivisions | 816 | 16 | 7.84% | 955 | 19 | 7.96% | (3) | (1) | (2) |
| Corporate bonds | 42,699 | 154 | 1.44% | - | - | - % | 154 | - | - |
| Small Business Administration-guaranteed participation securities | 75,561 | 394 | 2.09% | 87,801 | 450 | 2.05% | (56) | (106) | 50 |
| Mortgage backed securities and collateralized mortgage obligations-commercial | 10,003 | 21 | 0.84 | 10,321 | 38 | 1.47 | (17) | (9) | (8) |
| Other | 685 | 4 | 2.34% | 677 | 4 | 2.36% | - | - | - |
| Total securities available for sale | 642,401 | 3,140 | 1.96% | 652,106 | 3,084 | 1.89% | 56 | (1,423) | 1,325 |
| Federal funds sold and other short-term Investments | 643,557 | 1,727 | 1.07% | 668,395 | 832 | 0.50% | 895 | (30) | 925 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Held to maturity securities: | | | | | | | | | |
| Corporate bonds | 9,996 | 154 | 6.16% | 9,981 | 154 | 6.17% | - | - | - |
| Mortgage backed securities and collateralized mortgage obligations-residential | 32,188 | 296 | 3.68% | 42,188 | 374 | 3.55% | (78) | (162) | 84 |
| Total held to maturity securities | 42,184 | 450 | 4.27% | 52,169 | 528 | 4.05% | (78) | (162) | 84 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,709 | 134 | 5.52% | 9,576 | 118 | 4.93% | 16 | 2 | 14 |
| Commercial loans | 183,382 | 2,401 | 5.24% | 198,938 | 2,563 | 5.15% | (162) | (418) | 256 |
| Residential mortgage loans | 2,958,994 | 30,943 | 4.18% | 2,759,024 | 29,725 | 4.31% | 1,218 | 5,850 | (4,632) |
| Home equity lines of credit | 320,872 | 3,131 | 3.90% | 354,897 | 3,179 | 3.58% | (48) | (819) | 771 |
| Installment loans | 8,029 | 194 | 9.66% | 8,316 | 191 | 9.19% | 3 | (30) | 33 |
| Loans, net of unearned income | 3,471,277 | 36,669 | 4.23% | 3,321,175 | 35,658 | 4.29% | 1,011 | 4,582 | (3,571) |
| Total interest earning assets | 4,809,128 | 42,120 | 3.50% | 4,703,421 | 40,220 | 3.42% | 1,900 | 2,970 | (1,224) |
| Allowance for loan losses | (44,429) | | | (44,754) | | | | | |
| Cash & non-interest earning assets | 130,998 | | | 136,724 | | | | | |
| Total assets | $4,895,697 | | | $4,795,391 | | | | | |
| Liabilities and shareholders' equity | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Interest bearing checking accounts | $849,965 | 134 | 0.06% | $759,546 | 116 | 0.06% | 18 | 13 | 5 |
| Money market accounts | 577,464 | 468 | 0.32% | 580,100 | 467 | 0.32% | 1 | (1) | 2 |
| Savings | 1,286,282 | 435 | 0.14% | 1,273,575 | 604 | 0.19% | (169) | 41 | (210) |
| Time deposits | 1,102,777 | 2,181 | 0.79% | 1,177,084 | 2,460 | 0.84% | (279) | 11,224 | (11,503) |
| Total interest bearing deposits | 3,816,488 | 3,218 | 0.34% | 3,790,305 | 3,647 | 0.38% | (429) | 11,277 | (11,706) |
| Short-term borrowings | 226,455 | 349 | 0.62% | 181,247 | 262 | 0.58% | 87 | 69 | 18 |
| Total interest bearing liabilities | 4,042,943 | 3,567 | 0.35% | 3,971,552 | 3,909 | 0.39% | (342) | 11,347 | (11,689) |
| Demand deposits | 380,611 | | | 370,781 | | | | | |
| Other liabilities | 28,026 | | | 27,121 | | | | | |
| Shareholders' equity | 444,117 | | | 425,937 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total liabilities and shareholders' equity | $4,895,697 | | | $4,795,391 | | | | |
| Net interest income , tax equivalent | | 38,553 | | | 36,311 | | $2,242 | (8,377 ) | 10,465 |
| Net interest spread | | | 3.15% | | | 3.03% | | | |
| Net interest margin (net interest income to total interest earning assets) | | | 3.21% | | | 3.09% | | | |
| Tax equivalent adjustment | | (12 ) | | | (12 ) | | | | |
| Net interest income | | 38,541 | | | 36,299 | | | | |

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TrustCo Bank Corp NY
Management's Discussion and Analysis
STATISTICAL DISCLOSURE

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY:
INTEREST RATES AND INTEREST DIFFERENTIAL

The following table summarizes the component distribution of the average balance sheet, related interest income and expense and the average annualized yields on interest earning assets and annualized rates on interest bearing liabilities of TrustCo (adjusted for tax equivalency) for each of the reported periods. Nonaccrual loans are included in loans for this analysis. The average balances of securities available for sale and held to maturity are calculated using amortized costs for these securities. Included in the average balance of shareholders' equity is the unrealized loss, net of tax, in the available for sale portfolio of ($4.8) million in 2017 and ($0.5) million in 2016. The subtotals contained in the following table are the arithmetic totals of the items contained in that category. Increases and decreases in interest income and expense due to both rate and volume have been allocated to the categories of variances (volume and rate) based on the percentage relationship of such variances to each other.

| | Six months ended June 30, 2017 | | | Six months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Change in Interest Income/ Expense | Variance Balance Change | Variance Rate Change |
| Assets | | | | | | | | | |
| Securities available for sale: | | | | | | | | | |
| U. S. government sponsored enterprises | $148,054 | 1,202 | 1.62% | $91,111 | 659 | 1.45% | $543 | 280 | 263 |
| Mortgage backed securities and collateralized mortgage obligations-residential | 363,496 | 3,902 | 2.15% | 428,831 | 4,285 | 2.00% | (383) | (740) | 357 |
| State and political subdivisions | 844 | 35 | 8.29% | 1,034 | 41 | 7.93% | (6) | (11) | 5 |
| Corporate bonds | 42,143 | 305 | 1.45% | - | - | - % | 305 | - | - |
| Small Business Administration-guaranteed participation securities | 77,068 | 809 | 2.10% | 89,206 | 926 | 2.08% | (117) | (142) | 25 |
| Mortgage backed securities and collateralized mortgage obligations-commercial | 10,046 | 44 | 0.88% | 10,357 | 74 | 1.43% | (30) | (7) | (23) |
| Other | 685 | 8 | 2.34% | 682 | 8 | 2.35% | - | - | - |
| Total securities available for sale | 642,336 | 6,305 | 1.96% | 621,221 | 5,993 | 1.93% | 312 | (619) | 626 |
| Federal funds sold and other short-term Investments | 642,348 | 2,973 | 0.93% | 671,990 | 1,677 | 0.50% | 1,296 | (70) | 1,366 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Held to maturity securities: | | | | | | | | | |
| Corporate bonds | 9,994 | 308 | 6.16% | 9,979 | 308 | 6.17% | - | 1 | (1) |
| Mortgage backed securities and collateralized mortgage obligations-residential | 33,240 | 612 | 3.68% | 43,650 | 775 | 3.55% | (163) | (240) | 77 |
| Total held to maturity securities | 43,234 | 920 | 4.26% | 53,629 | 1,083 | 4.04% | (163) | (239) | 76 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,645 | 268 | 5.56% | 9,527 | 238 | 5.00% | 30 | 3 | 27 |
| Commercial loans | 185,474 | 4,830 | 5.21% | 200,152 | 5,180 | 5.18% | (350) | (431) | 81 |
| Residential mortgage loans | 2,935,620 | 61,310 | 4.18% | 2,742,918 | 59,348 | 4.33% | 1,962 | 6,891 | (4,929) |
| Home equity lines of credit | 325,579 | 6,216 | 3.82% | 356,857 | 6,358 | 3.56% | (142) | (1,087) | 945 |
| Installment loans | 8,128 | 363 | 8.93% | 8,488 | 383 | 9.02% | (20) | (7) | (13) |
| Loans, net of unearned income | 3,454,801 | 72,719 | 4.21% | 3,308,415 | 71,269 | 4.31% | 1,450 | 5,366 | (3,916) |
| Total interest earning assets | 4,792,364 | 83,185 | 3.47% | 4,664,782 | 80,260 | 3.44% | 2,925 | 4,441 | (1,821) |
| Allowance for loan losses | (44,333) | | | (45,013) | | | | | |
| Cash & non-interest earning assets | 130,575 | | | 136,138 | | | | | |
| Total assets | $4,878,606 | | | $4,755,907 | | | | | |
| Liabilities and shareholders' equity | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Interest bearing checking accounts | $829,615 | 258 | 0.06% | $747,322 | 230 | 0.06% | 28 | 21 | 7 |
| Money market accounts | 578,728 | 934 | 0.32% | 591,937 | 962 | 0.33% | (28) | (14) | (14) |
| Savings | 1,280,552 | 865 | 0.14% | 1,268,021 | 1,208 | 0.19% | (343) | 35 | (378) |
| Time deposits | 1,118,274 | 4,464 | 0.80% | 1,155,773 | 4,833 | 0.84% | (369) | (146) | (223) |
| Total interest bearing deposits | 3,807,169 | 6,521 | 0.34% | 3,763,053 | 7,233 | 0.38% | (712) | (104) | (608) |
| Short-term borrowings | 228,078 | 698 | 0.61% | 178,683 | 519 | 0.58% | 179 | 152 | 27 |
| Total interest bearing liabilities | 4,035,247 | 7,219 | 0.36% | 3,941,736 | 7,752 | 0.39% | (533) | 47 | (580) |
| Demand deposits | 375,610 | | | 364,503 | | | | | |
| Other liabilities | 27,408 | | | 27,019 | | | | | |
| Shareholders' equity | 440,341 | | | 422,649 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total liabilities and shareholders' equity | $4,878,606 | | | $4,755,907 | | | | |
| Net interest income , tax equivalent | | 75,966 | | | 72,508 | | $3,458 | 4,394 | (1,241) |
| Net interest spread | | | 3.11% | | | 3.05% | | | |
| Net interest margin (net interest income to total interest earning assets) | | | 3.17% | | | 3.11% | | | |
| Tax equivalent adjustment | | (25) | | | (26) | | | | |
| Net interest income | | 75,941 | | | 72,482 | | | | |

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

As detailed in the Annual Report to Shareholders as of December 31, 2016, the Company is subject to interest rate risk as its principal market risk. As noted in the Management's Discussion and Analysis for the three and six month periods ended June 30, 2017 and 2016, the Company continues to respond to changes in interest rates in such a way that positions the Company to meet short term earning goals and also allows the Company to respond to changes in interest rates in the future. Consequently, for the second quarter of 2017, the Company had an average balance of Federal Funds sold and other short-term investments of $643.6 million compared to $668.4 million in the second quarter of 2016. As investment opportunities present themselves, management plans to invest funds from the Federal Funds sold and other short-term investment portfolio into the securities available for sale, securities held to maturity and loan portfolios. Additional disclosure of interest rate risk can be found under "Liquidity and Interest Rate Sensitivity" and "Asset/Liability Management" in the Management's Discussion and Analysis section of this document.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report.

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon this evaluation of those disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer of the Company concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Further, no evaluation of a cost-effective system of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected.

There have been no changes in internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or are reasonably likely to materially affect, the internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There were no material changes to the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety

None.

Item 5. Other Information

None.

Item 6. Exhibits

| Reg S-K Exhibit No. | Description |
|---|---|
| 15 | Crowe Horwath LLP Letter Regarding Unaudited Interim Financial Information |
| 31(a) | Rule 13a-15(e)/15d-15(e) Certification of Robert J. McCormick, principal executive officer. |
| 31(b) | Rule 13a-15(e)/15d-15(e) Certification of Michael M. Ozimek, principal financial officer. |
| 32 | Section 1350 Certifications of Robert J. McCormick, principal executive officer and Michael M. Ozimek, principal financial officer. |
| 101.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |

101.PRE XBRLTaxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TrustCo Bank Corp NY

By: /s/ Robert J. McCormick
Robert J. McCormick
President and Chief Executive Officer

By: /s/ Michael M. Ozimek
Michael M. Ozimek
Senior Vice President and Chief Financial Officer

Date: August 4, 2017

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Exhibits Index

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| --- | --- |
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