

TRUSTCO BANK CORP N Y  
Form 10-Q  
August 06, 2013

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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, 2013 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. xYes o No

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

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

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

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

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

Number of Shares Outstanding  
Common Stock as of July 31, 2013

\$1 Par Value 94,334,383

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TrustCo Bank Corp NY

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## TRUSTCO BANK CORP NY

Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share data)

|  | Three Months<br>Ended<br>June 30,<br>2013 |        | Six Months<br>Ended<br>June 30,<br>2013 |        |
|--|---|--------|---|--------|
|  | 2012                                      | 2013   | 2012                                    | 2013   |
| Interest and dividend income:  |   |        |   |        |
| Interest and fees on loans   | \$31,639                                  | 32,277 | 63,120                                  | 64,702 |
| Interest and dividends on securities available for sale:                       |   |        |   |        |
| U. S. government sponsored enterprises   | 627                                       | 2,606  | 1,443                                   | 4,910  |
| State and political subdivisions   | 148                                       | 368    | 339                                     | 778    |
| Mortgage-backed securities and collateralized mortgage obligations-residential | 2,701                                     | 1,364  | 5,470                                   | 2,457  |
| Corporate bonds  | 233                                       | 648    | 451                                     | 1,470  |
| Small Business Administration-guaranteed participation securities              | 564                                       | -      | 1,060                                   | -      |
| Mortgage-backed securities and collateralized mortgage obligations-commercial  | 38  | -      | 67                                      | -      |
| Other securities   | 3   | 5      | 8                                       | 10     |
| Total interest and dividends on securities available for sale                  | 4,314                                     | 4,991  | 8,838                                   | 9,625  |
| Interest on held to maturity securities:                                       |   |        |   |        |
| U. S. government sponsored enterprises   | -   | -      | -                                       | 25     |
| Mortgage-backed securities and collateralized mortgage obligations-residential | 716                                       | 1,198  | 1,505                                   | 2,488  |
| Corporate bonds  | 214                                       | 387    | 526                                     | 896    |
| Total interest on held to maturity securities                                  | 930                                       | 1,585  | 2,031                                   | 3,409  |
| Federal Reserve Bank and Federal Home Loan Bank stock                          | 121                                       | 149    | 240                                     | 239    |
| Interest on federal funds sold and other short-term investments                | 327                                       | 299    | 572                                     | 619    |
| Total interest income  | 37,331                                    | 39,301 | 74,801                                  | 78,594 |
| Interest expense:  |   |        |   |        |
| Interest on deposits:  |   |        |   |        |
| Interest-bearing checking  | 82  | 78     | 162                                     | 156    |
| Savings  | 829                                       | 979    | 1,745                                   | 2,081  |
| Money market deposit accounts  | 630                                       | 770    | 1,315                                   | 1,693  |
| Time deposits  | 1,883                                     | 3,230  | 3,703                                   | 6,648  |
| Interest on short-term borrowings  | 367                                       | 378    | 731                                     | 766    |
| Total interest expense   | 3,791                                     | 5,435  | 7,656                                   | 11,344 |
| Net interest income  | 33,540                                    | 33,866 | 67,145                                  | 67,250 |
| Provision for loan losses  | 2,000                                     | 3,000  | 4,000                                   | 6,100  |
| Net interest income after provision for loan losses                            | 31,540                                    | 30,866 | 63,145                                  | 61,150 |
| Noninterest income:  |   |        |   |        |
| Trustco financial services income  | 1,287                                     | 1,407  | 2,708                                   | 2,801  |
| Fees for services to customers   | 2,968                                     | 2,939  | 5,855                                   | 5,670  |
| Net gain on securities transactions  | 1,432                                     | 55     | 1,434                                   | 732    |
| Other  | 229                                       | 176    | 511                                     | 383    |

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|                                |         |        |        |        |
|--------------------------------|---------|--------|--------|--------|
| Total noninterest income       | 5,916   | 4,577  | 10,508 | 9,586  |
| Noninterest expenses:          |         |        |        |        |
| Salaries and employee benefits | 7,647   | 7,519  | 15,825 | 15,262 |
| Net occupancy expense          | 3,910   | 3,817  | 7,963  | 7,612  |
| Equipment expense              | 1,582   | 1,600  | 3,300  | 3,120  |
| Professional services          | 1,565   | 1,489  | 2,985  | 2,925  |
| Outsourced services            | 1,350   | 1,347  | 2,700  | 2,597  |
| Advertising expense            | 714     | 1,060  | 1,444  | 1,869  |
| FDIC and other insurance       | 1,004   | 953    | 2,014  | 1,833  |
| Other real estate expense, net | 1,473   | 665    | 2,222  | 1,631  |
| Other                          | 2,624   | 2,599  | 4,973  | 5,335  |
| Total noninterest expenses     | 21,869  | 21,049 | 43,426 | 42,184 |
| Income before taxes            | 15,587  | 14,394 | 30,227 | 28,552 |
| Income taxes                   | 5,824   | 5,328  | 11,296 | 10,577 |
| Net income                     | \$9,763 | 9,066  | 18,931 | 17,975 |
| Net income per Common Share:   |         |        |        |        |
| - Basic                        | \$0.104 | 0.097  | 0.201  | 0.192  |
| - Diluted                      | \$0.104 | 0.097  | 0.201  | 0.192  |

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

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

(dollars in thousands, except per share data)

|   | Three Months<br>Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|-----------------------------------|----------|------------------------------|----------|
|   | 2013                              | 2012     | 2013                         | 2012     |
| Net income  | \$9,763                           | 9,066    | \$18,931                     | 17,975   |
| Net unrealized holding gain (loss) on securities available for sale   | (26,315)                          | 2,571    | (29,254)                     | 7,451    |
| Reclassification adjustments for net gain recognized in income  | (1,432 )                          | (55 )    | (1,434 )                     | (732 )   |
| Tax effect  | 11,064                            | (1,003 ) | 12,237                       | (2,679 ) |
| Net unrealized gain (loss) on securities available for sale   | (16,683)                          | 1,513    | (18,451)                     | 4,040    |
| Amortization of net actuarial loss  | 101                               | 97       | 233                          | 194      |
| Amortization of prior service credit  | (65 )                             | (65 )    | (131 )                       | (131 )   |
| Tax effect  | (15 )                             | (13 )    | (40 )                        | (25 )    |
| Amortization of net actuarial loss and prior service credit on pension and postretirement plans, net of tax | 21                                | 19       | 62                           | 38       |
| Other comprehensive income (loss), net of tax   | (16,662)                          | 1,532    | (18,389)                     | 4,078    |
| Comprehensive income (loss)   | (6,899 )                          | 10,598   | 542                          | 22,053   |

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Financial Condition (Unaudited)

(dollars in thousands, except per share data)

|   | June 30,<br>2013 | December<br>31, 2012 |
|---|------------------|----------------------|
| <b>ASSETS:</b>  |                  |                      |
| Cash and due from banks   | \$40,580         | 55,789               |
| Federal funds sold and other short term investments   | 588,252          | 488,227              |
| Total cash and cash equivalents   | 628,832          | 544,016              |
| Securities available for sale   | 878,188          | 912,092              |
| Held to maturity securities (fair value 2013 \$103,331; 2012 \$151,126)   | 98,789           | 143,426              |
| Federal Reserve Bank and Federal Home Loan Bank stock   | 10,500           | 9,632                |
| Loans, net of deferred fees and costs   | 2,762,426        | 2,684,733            |
| Less:   |                  |                      |
| Allowance for loan losses   | 47,589           | 47,927               |
| Net loans   | 2,714,837        | 2,636,806            |
| Bank premises and equipment, net  | 38,301           | 36,239               |
| Other assets  | 73,757           | 64,402               |
| Total assets  | \$4,443,204      | 4,346,613            |
| <b>LIABILITIES:</b>   |                  |                      |
| Deposits:   |                  |                      |
| Demand  | \$314,985        | 300,544              |
| Interest-bearing checking   | 591,844          | 560,064              |
| Savings accounts  | 1,228,281        | 1,198,517            |
| Money market deposit accounts   | 634,804          | 667,589              |
| Certificates of deposit (in denominations of \$100,000 or more)   | 397,707          | 352,734              |
| Other time accounts   | 725,255          | 724,745              |
| Total deposits  | 3,892,876        | 3,804,193            |
| Short-term borrowings   | 176,325          | 159,846              |
| Accrued expenses and other liabilities  | 25,380           | 23,776               |
| Total liabilities   | 4,094,581        | 3,987,815            |
| <b>SHAREHOLDERS' EQUITY:</b>  |                  |                      |
| Capital stock par value \$1; 150,000,000 shares authorized; 98,912,423 shares issued at June 30, 2013 and December 31, 2012 | 98,912           | 98,912               |
| Surplus   | 173,897          | 174,899              |
| Undivided profits   | 138,953          | 132,378              |

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|  |             |           |
|--|-------------|-----------|
| Accumulated other comprehensive income (loss), net of tax  | (16,831 )   | 1,558     |
| Treasury stock at cost - 4,708,670 and 4,977,179 shares at June 30, 2013 and December 31, 2012, respectively | (46,308 )   | (48,949 ) |
| Total shareholders' equity   | 348,623     | 358,798   |
| Total liabilities and shareholders' equity   | \$4,443,204 | 4,346,613 |

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<br>Stock | Surplus  | Undivided<br>Profits | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total     |
|--|------------------|----------|----------------------|--|-------------------|-----------|
| Beginning balance, January 1, 2012                         | \$98,912         | 176,638  | 119,465              | (2,493 )   | (54,006 )         | 338,516   |
| Net Income   | -                | -        | 17,975               | -  | -                 | 17,975    |
| Change in other comprehensive income (loss),<br>net of tax | -                | -        | -                    | 4,078  | -                 | 4,078     |
| Cash dividend declared, \$.1312 per share                  | -                | -        | (12,287 )            | -  | -                 | (12,287 ) |
| Sale of treasury stock (236,700 shares)                    | -                | (1,044 ) | -                    | -  | 2,490             | 1,446     |
| Stock based compensation expense                           | -                | 179      | -                    | -  | -                 | 179       |
| Ending balance, June 30, 2012                              | \$98,912         | 175,773  | 125,153              | 1,585  | (51,516 )         | 349,907   |
| Beginning balance, January 1, 2013                         | \$98,912         | 174,899  | 132,378              | 1,558  | (48,949 )         | 358,798   |
| Net Income   | -                | -        | 18,931               | -  | -                 | 18,931    |
| Change in other comprehensive income (loss),<br>net of tax | -                | -        | -                    | (18,389 )  | -                 | (18,389 ) |
| Cash dividend declared, \$.1312 per share                  | -                | -        | (12,356 )            | -  | -                 | (12,356 ) |
| Sale of treasury stock (268,509 shares)                    | -                | (1,173 ) | -                    | -  | 2,641             | 1,468     |
| Stock based compensation expense                           | -                | 171      | -                    | -  | -                 | 171       |
| Ending balance, June 30, 2013                              | \$98,912         | 173,897  | 138,953              | (16,831 )  | (46,308 )         | 348,623   |

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<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2013                         | 2012      |
| Cash flows from operating activities:   |                              |           |
| Net income  | \$18,931                     | 17,975    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Depreciation and amortization   | 2,541                        | 2,507     |
| Loss on sale of other real estate owned   | 36                           | 356       |
| Writedown of other real estate owned  | 1,098                        | 474       |
| Provision for loan losses   | 4,000                        | 6,100     |
| Deferred tax benefit  | (27 )                        | (160 )    |
| Stock based compensation expense  | 171                          | 179       |
| Net gain on sale of bank premises and equipment                                   | (16 )                        | (2 )      |
| Net gain on sales and calls of securities   | (1,434 )                     | (732 )    |
| Increase in taxes receivable  | (1,329 )                     | (1,883 )  |
| Decrease (increase) in interest receivable  | (332 )                       | 1,044     |
| Decrease in interest payable  | (24 )                        | (120 )    |
| Decrease in other assets  | 6,272                        | 1,583     |
| Increase in accrued expenses and other liabilities                                | 1,610                        | 635       |
| Total adjustments   | 12,566                       | 9,981     |
| Net cash provided by operating activities   | 31,497                       | 27,956    |
| Cash flows from investing activities:   |                              |           |
| Proceeds from sales and calls of securities available for sale                    | 323,974                      | 601,747   |
| Proceeds from calls and maturities of held to maturity securities                 | 44,637                       | 57,836    |
| Purchases of securities available for sale  | (329,374)                    | (795,544) |
| Proceeds from maturities of securities available for sale                         | 10,050                       | 914       |
| Purchases of held to maturity securities  | -                            | (10,303 ) |
| Purchases of Federal Reserve Bank and Federal Home Loan Bank stock                | (868 )                       | -         |
| Net increase in loans   | (89,783 )                    | (50,131 ) |
| Proceeds from dispositions of other real estate owned                             | 4,978                        | 5,579     |
| Proceeds from dispositions of bank premises and equipment                         | 16                           | 2         |
| Purchases of bank premises and equipment  | (4,603 )                     | (3,369 )  |
| Net cash used in investing activities   | (40,973 )                    | (193,269) |
| Cash flows from financing activities:   |                              |           |
| Net increase in deposits  | 88,683                       | 162,677   |
| Net increase in short-term borrowings   | 16,479                       | 3,155     |
| Proceeds from sale of treasury stock  | 1,468                        | 1,446     |
| Dividends paid  | (12,338 )                    | (12,270 ) |
| Net cash provided by financing activities   | 94,292                       | 155,008   |

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|  |           |           |
|--|-----------|-----------|
| Net decrease in cash and cash equivalents        | 84,816    | (10,305 ) |
| Cash and cash equivalents at beginning of period | 544,016   | 532,943   |
| Cash and cash equivalents at end of period       | \$628,832 | 522,638   |

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

|   |           |          |
|---|-----------|----------|
| Interest paid   | \$7,680   | 11,464   |
| Income taxes paid   | 12,691    | 12,461   |
| Other non cash items:   |           |          |
| Transfer of loans to other real estate owned  | 7,752     | 5,014    |
| Increase in dividends payable   | 18        | 17       |
| Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes       | (30,688 ) | 6,719    |
| Change in deferred tax effect on unrealized gain (loss)on securities available for sale         | 12,237    | (2,679 ) |
| Amortization of net actuarial loss and prior service credit on pension and postretirement plans | 102       | 63       |
| Change in deferred tax effect of amortization of net actuarial loss and prior service credit    | (40 )     | (25 )    |

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) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and six months ended June 30, 2013 is not necessarily indicative of the results that may be expected for the year ending December 31, 2013, 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 adjustments necessary to present fairly the financial position as of June 30, 2013, the results of operations for the three months and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the TrustCo Bank Corp NY year-end Consolidated Financial Statements, including notes thereto, which are included in TrustCo Bank Corp NY's 2012 Annual Report to Shareholders on Form 10-K. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States.

(2) Earnings Per Share

The Company computes earnings per share in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, Earnings Per Share ("ASC 260"). TrustCo adopted FASB Staff Position on Emerging Issues Task Force 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, as codified in FASB ASC 260-10 ("ASC 260-10"), which clarified that unvested share-based payment awards that contain nonforfeitable rights to receive dividends or divided equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share ("EPS"). Participating securities under this statement include the unvested employees' and directors' restricted stock awards with time-based vesting, which receive nonforfeitable dividend payments.

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A reconciliation of the component parts of earnings per share for the three months and six months ended June 30, 2013 and 2012 follows:

(dollars in thousands, except per share data)

|   | 2013    | 2012    |
|---|---------|---------|
| For the quarter ended June 30:  |         |         |
| Net income  | \$9,763 | \$9,066 |
| Less: Net income allocated to participating securities                        | 11      | 10      |
| Net income allocated to common shareholders                                   | \$9,752 | \$9,056 |
| Basic EPS:  |         |         |
| Distributed earnings allocated to common stock                                | \$6,182 | \$6,139 |
| Undistributed earnings allocated to common stock                              | 3,570   | 2,917   |
| Net income allocated to common shareholders                                   | \$9,752 | \$9,056 |
| Weighted average common shares outstanding including participating securities | 94,204  | 93,667  |
| Less: Participating securities  | 106     | 106     |
| Weighted average common shares  | 94,098  | 93,561  |
| Basic EPS   | 0.104   | 0.097   |
| Diluted EPS:  |         |         |
| Net income allocated to common shareholders                                   | \$9,752 | \$9,056 |
| Weighted average common shares for basic EPS                                  | 94,098  | 93,561  |
| Effect of Dilutive Securities:  |         |         |
| Stock Options   | 7       | 1       |
| Weighted average common shares including potential dilutive shares            | 94,105  | 93,562  |
| Diluted EPS   | 0.104   | 0.097   |

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(dollars in thousands, except per share data)

|   | 2013     | 2012     |
|---|----------|----------|
| For the six months ended June 30:   |          |          |
| Net income  | \$18,931 | \$17,975 |
| Less: Net income allocated to participating securities                        | 21       | 20       |
| Net income allocated to common shareholders                                   | \$18,910 | \$17,955 |
| Basic EPS:  |          |          |
| Distributed earnings allocated to common stock                                | \$12,356 | \$12,287 |
| Undistributed earnings allocated to common stock                              | 6,554    | 5,668    |
| Net income allocated to common shareholders                                   | \$18,910 | \$17,955 |
| Weighted average common shares outstanding including participating securities | 94,134   | 93,609   |
| Less: Participating securities  | 106      | 106      |
| Weighted average common shares  | 94,028   | 93,503   |
| Basic EPS   | 0.201    | 0.192    |
| Diluted EPS:  |          |          |
| Net income allocated to common shareholders                                   | \$18,910 | \$17,955 |
| Weighted average common shares for basic EPS                                  | 94,028   | 93,503   |
| Effect of Dilutive Securities:  |          |          |
| Stock Options   | 6        | 1        |
| Weighted average common shares including potential dilutive shares            | 94,034   | 93,504   |
| Diluted EPS   | 0.201    | 0.192    |

For both the three months and six months ended June 30, 2013 and 2012, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 2.7 million and 3.1 million, respectively.

The stock options are antidilutive because the strike price is greater than the average fair value of the Company's common stock for the periods presented.

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## (3)Benefit Plans

The table below outlines the components of the Company's net periodic expense (benefit) recognized during the three month and six month periods ended June 30, 2013 and 2012 for its pension and other postretirement benefit plans:

| (dollars in thousands)               | For the three months ended<br>June 30, |       |                                     |        |
|--------------------------------------|--|-------|-------------------------------------|--------|
|                                      | Pension<br>Benefits                    |       | Other<br>Postretirement<br>Benefits |        |
|                                      | 2013                                   | 2012  | 2013                                | 2012   |
| Service cost                         | \$20                                   | 12    | 14                                  | 8      |
| Interest cost                        | 322                                    | 365   | 27                                  | 25     |
| Expected return on plan assets       | (597)                                  | (474) | (126 )                              | (112 ) |
| Amortization of net loss (gain)      | 111                                    | 102   | (10 )                               | (5 )   |
| Amortization of prior service credit | -                                      | -     | (65 )                               | (65 )  |
| Net periodic expense (benefit)       | \$(144)                                | 5     | (160 )                              | (149 ) |
|                                      | For the six months ended June<br>30,   |       |                                     |        |
| (dollars in thousands)               | Pension<br>Benefits                    |       | Other<br>Postretirement<br>Benefits |        |
|                                      | 2013                                   | 2012  | 2013                                | 2012   |
| Service cost                         | \$ 34                                  | 24    | 26                                  | 16     |
| Interest cost                        | 637                                    | 730   | 51                                  | 51     |
| Expected return on plan assets       | (1,095)                                | (948) | (249 )                              | (225 ) |
| Amortization of net loss (gain)      | 258                                    | 204   | (25 )                               | (10 )  |
| Amortization of prior service credit | -                                      | -     | (131 )                              | (131 ) |
| Net periodic expense (benefit)       | \$ (166 )                              | 10    | (328 )                              | (299 ) |

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2012, that it did not expect to make contributions to its pension and postretirement benefit plans in 2013. As of June 30, 2013, 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, 2013  |                        |                         |            |
|--|----------------|------------------------|-------------------------|------------|
|  | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government sponsored enterprises  | \$191,032      | 78                     | 2,977                   | 188,133    |
| State and political subdivisions   | 11,851         | 308                    | -                       | 12,159     |
| Mortgage backed securities and collateralized mortgage obligations - residential | 520,391        | 340                    | 15,938                  | 504,793    |
| Corporate bonds  | 53,352         | 137                    | 436                     | 53,053     |
| Small Business Administration-guaranteed participation securities                | 114,247        | -                      | 5,582                   | 108,665    |
| Mortgage backed securities and collateralized mortgage obligations - commercial  | 11,097         | -                      | 372                     | 10,725     |
| Other  | 650            | -                      | -                       | 650        |
| Total debt securities  | 902,620        | 863                    | 25,305                  | 878,178    |
| Equity securities  | 10             | -                      | -                       | 10         |
| Total securities available for sale  | \$902,630      | 863                    | 25,305                  | 878,188    |

  

| (dollars in thousands)   | December 31, 2012 |                        |                         |            |
|--|-------------------|------------------------|-------------------------|------------|
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government sponsored enterprises  | \$262,063         | 1,055                  | 10                      | 263,108    |
| State and political subdivisions   | 25,815            | 642                    | -                       | 26,457     |
| Mortgage backed securities and collateralized mortgage obligations - residential | 515,322           | 3,982                  | 528                     | 518,776    |
| Corporate bonds  | 26,312            | 336                    | 119                     | 26,529     |
| Small Business Administration-guaranteed participation securities                | 75,674            | 888                    | -                       | 76,562     |
| Other  | 650               | -                      | -                       | 650        |
| Total debt securities  | 905,836           | 6,903                  | 657                     | 912,082    |
| Equity securities  | 10                | -                      | -                       | 10         |
| Total securities available for sale  | \$905,846         | 6,903                  | 657                     | 912,092    |

The following table distributes the debt securities included in the available for sale portfolio as of June 30, 2013, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using an estimated average life):

| (dollars in thousands)                 | Amortized Cost | Fair Value |
|--|----------------|------------|
| Due in one year or less                | \$10,598       | 10,730     |
| Due in one year through five years     | 739,312        | 720,947    |
| Due after five years through ten years | 147,646        | 141,325    |
| Due after ten years                    | 5,064          | 5,176      |



\$902,620 878,178

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Actual maturities may differ from the above because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Gross unrealized losses on securities available for sale and the related fair values aggregated by the length of time that individual securities have been in an unrealized loss position, were as follows:

| (dollars in thousands)   | June 30, 2013          |                          |                      |                          |                |                          |
|--|------------------------|--------------------------|----------------------|--------------------------|----------------|--------------------------|
|  | Less than<br>12 months |                          | 12 months<br>or more |                          | Total          |                          |
|  | Fair<br>Value          | Gross<br>Unreal.<br>Loss | Fair<br>Value        | Gross<br>Unreal.<br>Loss | Fair<br>Value  | Gross<br>Unreal.<br>Loss |
| U.S. government sponsored enterprises  | \$166,770              | 2,977                    | -                    | -                        | 166,770        | 2,977                    |
| Mortgage backed securities and collateralized mortgage obligations - residential | 475,756                | 15,938                   | -                    | -                        | 475,756        | 15,938                   |
| Corporate bonds  | 32,427                 | 435                      | 401                  | 1                        | 32,828         | 436                      |
| Small Business Administration-guaranteed participation securities                | 108,665                | 5,582                    | -                    | -                        | 108,665        | 5,582                    |
| Mortgage backed securities and collateralized mortgage obligations - commercial  | 10,725                 | 372                      | -                    | -                        | 10,725         | 372                      |
| <b>Total</b>   | <b>\$794,343</b>       | <b>25,304</b>            | <b>401</b>           | <b>1</b>                 | <b>794,744</b> | <b>25,305</b>            |
|  | December 31, 2012      |                          |                      |                          |                |                          |
|  | Less than<br>12 months |                          | 12 months<br>or more |                          | Total          |                          |
|  | Fair<br>Value          | Gross<br>Unreal.<br>Loss | Fair<br>Value        | Gross<br>Unreal.<br>Loss | Fair<br>Value  | Gross<br>Unreal.<br>Loss |
| U.S. government sponsored enterprises  | \$15,491               | 10                       | -                    | -                        | 15,491         | 10                       |
| Mortgage backed securities and collateralized mortgage obligations - residential | 178,689                | 528                      | -                    | -                        | 178,689        | 528                      |
| Corporate bonds  | 10,283                 | 119                      | -                    | -                        | 10,283         | 119                      |
| <b>Total</b>   | <b>\$204,463</b>       | <b>657</b>               | <b>-</b>             | <b>-</b>                 | <b>204,463</b> | <b>657</b>               |

The proceeds from sales and calls of securities available for sale, gross realized gains and gross realized losses from sales and calls during the three months and six months ended June 30, 2013 and 2012 are as follows:

| (dollars in thousands) | Three months ended |                  | Six months ended |                  |
|------------------------|--------------------|------------------|------------------|------------------|
|                        | June 30,<br>2013   | June 30,<br>2012 | June 30,<br>2013 | June 30,<br>2012 |
| Proceeds from sales    | \$118,560          | 16,141           | \$118,560        | 53,998           |
| Proceeds from calls    | 96,417             | 313,024          | 205,414          | 547,749          |
| Gross realized gains   | 1,512              | 157              | 1,514            | 932              |
| Gross realized losses  | 80                 | 102              | 80               | 200              |

Tax expense recognized on net gains on sales of securities available for sale were approximately \$573 thousand and \$22 thousand for the three months ended June 30, 2013 and 2012 respectively. Tax expense recognized on net gains on sales of securities available for sale were approximately \$574 thousand and \$293 thousand for the six months ended June 30, 2013 and 2012 respectively.



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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, 2013     |                          |                           |            |
|--|-------------------|--------------------------|---------------------------|------------|
|  | Amortized Cost    | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
| Mortgage backed securities and collateralized mortgage obligations |                   |                          |                           |            |
| - residential  | \$88,852          | 3,426                    | 124                       | 92,154     |
| Corporate bonds  | 9,937             | 1,240                    | -                         | 11,177     |
| Total held to maturity   | \$98,789          | 4,666                    | 124                       | 103,331    |
|  | December 31, 2012 |                          |                           |            |
|  | Amortized Cost    | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
| Mortgage backed securities and collateralized mortgage obligations |                   |                          |                           |            |
| - residential  | \$108,471         | 5,724                    | -                         | 114,195    |
| Corporate bonds  | 34,955            | 1,976                    | -                         | 36,931     |
| Total held to maturity   | \$143,426         | 7,700                    | -                         | 151,126    |

The following table distributes the debt securities included in the held to maturity portfolio as of June 30, 2013, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using an estimated average life):

| (dollars in thousands)              | Amortized Cost | Fair Value |
|-------------------------------------|----------------|------------|
| Due in one year or less             | \$ -           | -          |
| Due in one year through five years  | 98,789         | 103,331    |
| Due in five years through ten years | -              | -          |
|                                     | \$ 98,789      | 103,331    |

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

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Gross unrecognized losses on securities held to maturity 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, 2013          |                         | 12 months     |                         | Total         |                         |
|--|------------------------|-------------------------|---------------|-------------------------|---------------|-------------------------|
|  | Less than<br>12 months | Gross<br>Unrec.<br>Loss | Fair<br>Value | Gross<br>Unrec.<br>Loss | Fair<br>Value | Gross<br>Unrec.<br>Loss |
| Mortgage backed securities and collateralized mortgage obligations - residential | \$28,053               | 124                     | -             | -                       | 28,053        | 124                     |
| Total  | \$28,053               | 124                     | -             | -                       | 28,053        | 124                     |

There were no held to maturity securities in an unrealized loss position at December 31, 2012. There were no sales or transfers of held to maturity securities during 2013 and 2012.

(c) Other-Than-Temporary-Impairment

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

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

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether management intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If management intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI would 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 would 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, 2013, the Company’s security portfolio consisted of 222 securities, 102 of which were in an unrealized loss position, and are discussed below.

U.S. government-sponsored enterprises

In the case of unrealized losses on U.S. government-sponsored enterprises, because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

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Mortgage-backed securities and collateralized mortgage obligations - residential

At June 30, 2013, all of the mortgage-backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

Corporate bonds

In the case of corporate bonds, the Company exposure is primarily in bonds of firms in the financial sector. All of the corporate bonds owned continue to be rated investment grade, all are current as to the payment of interest and the Company expects to collect the full amount of the principal balance at maturity. The Company actively monitors the firms and the bonds. The Company has concluded that the decline in fair value is not attributable to 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, 2013.

Small Business Administration (SBA) - guaranteed participation securities

At June 30, 2013, all of the SBA securities held by the Company were issued and guaranteed by U.S. Small Business Administration. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

Mortgage-backed securities and collateralized mortgage obligations - commercial

As of June 30, 2013, all of the mortgage-backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, are current as to the payment of interest and principal and the Company expects to collect the full amount of the principal and interest payments. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

As a result of the above analysis, for the year ended June 30, 2013, the Company did not recognize any other-than-temporary impairment losses for credit or any other reason.

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## (5) Loans and Allowance for Loan Losses

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

| (dollars in thousands)                | June 30, 2013                       |         |             |
|---------------------------------------|-------------------------------------|---------|-------------|
|                                       | New York<br>and<br>other<br>states* | Florida | Total       |
| Commercial:                           |                                     |         |             |
| Commercial real estate                | \$ 168,308                          | 21,370  | 189,678     |
| Other                                 | 27,248                              | 51      | 27,299      |
| Real estate mortgage - 1 to 4 family: |                                     |         |             |
| First mortgages                       | 1,833,212                           | 330,403 | 2,163,615   |
| Home equity loans                     | 39,508                              | 2,211   | 41,719      |
| Home equity lines of credit           | 301,023                             | 33,548  | 334,571     |
| Installment                           | 4,910                               | 634     | 5,544       |
| Total loans, net                      | \$2,374,209                         | 388,217 | 2,762,426   |
| Less: Allowance for loan losses       |                                     |         | 47,589      |
| Net loans                             |                                     |         | \$2,714,837 |

| (dollars in thousands)                | December 31, 2012                   |         |             |
|---------------------------------------|-------------------------------------|---------|-------------|
|                                       | New York<br>and<br>other<br>states* | Florida | Total       |
| Commercial:                           |                                     |         |             |
| Commercial real estate                | \$ 167,249                          | 18,882  | 186,131     |
| Other                                 | 33,381                              | 65      | 33,446      |
| Real estate mortgage - 1 to 4 family: |                                     |         |             |
| First mortgages                       | 1,814,214                           | 275,764 | 2,089,978   |
| Home equity loans                     | 35,601                              | 1,089   | 36,690      |
| Home equity lines of credit           | 301,338                             | 32,571  | 333,909     |
| Installment                           | 4,183                               | 396     | 4,579       |
| Total loans, net                      | \$2,355,966                         | 328,767 | 2,684,733   |
| Less: Allowance for loan losses       |                                     |         | 47,927      |
| Net loans                             |                                     |         | \$2,636,806 |

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

At June 30, 2013 and December 31, 2012, the Company had approximately \$35.5 million and \$37.2 million of real estate construction loans, respectively. As of June 30, 2013, approximately \$15.5 million are secured by first mortgages to residential borrowers while approximately \$20.0 million were to commercial borrowers for residential construction projects. Of the \$37.2 million in real estate construction loans at December 31, 2012, approximately \$16.4 million were secured by first mortgages to residential borrowers and the remaining \$20.8 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 nonaccrual loans by loan class:

| (dollars in thousands)                             | June 30, 2013              |         |        |
|--|----------------------------|---------|--------|
|  | New York and other states* | Florida | Total  |
| Loans in nonaccrual status:                        |                            |         |        |
| Commercial:  |                            |         |        |
| Commercial real estate                             | \$5,768                    | 583     | 6,351  |
| Other  | 123                        | -       | 123    |
| Real estate mortgage - 1 to 4 family:              |                            |         |        |
| First mortgages                                    | 26,219                     | 5,512   | 31,731 |
| Home equity loans                                  | 549                        | -       | 549    |
| Home equity lines of credit                        | 3,968                      | 510     | 4,478  |
| Installment  | 36                         | -       | 36     |
| Total non-accrual loans                            | 36,663                     | 6,605   | 43,268 |
| Restructured real estate mortgages - 1 to 4 family | 174                        | -       | 174    |
| Total nonperforming loans                          | \$36,837                   | 6,605   | 43,442 |

| (dollars in thousands)                             | December 31, 2012          |         |        |
|--|----------------------------|---------|--------|
|  | New York and other states* | Florida | Total  |
| Loans in nonaccrual status:                        |                            |         |        |
| Commercial:  |                            |         |        |
| Commercial real estate                             | \$6,511                    | 2,698   | 9,209  |
| Other  | 124                        | -       | 124    |
| Real estate mortgage - 1 to 4 family:              |                            |         |        |
| First mortgages                                    | 30,329                     | 7,319   | 37,648 |
| Home equity loans                                  | 694                        | -       | 694    |
| Home equity lines of credit                        | 4,263                      | 501     | 4,764  |
| Installment  | 6                          | 1       | 7      |
| Total non-accrual loans                            | 41,927                     | 10,519  | 52,446 |
| Restructured real estate mortgages - 1 to 4 family | 231                        | -       | 231    |
| Total nonperforming loans                          | \$42,158                   | 10,519  | 52,677 |

As of June 30, 2013 and December 31, 2012, the Company's loan portfolio did not include any subprime mortgages or loans acquired with deteriorated credit quality.

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The following tables present the aging of the recorded investment in past due loans by loan class and by region:

New York and other states:

| (dollars in thousands)                | June 30, 2013  |              |               | Total<br>30+<br>days<br>Past<br>Due | Current          | Total<br>Loans   |
|---------------------------------------|----------------|--------------|---------------|-------------------------------------|------------------|------------------|
|                                       | 30-59          | 60-89        | 90+           |                                     |                  |                  |
|                                       | Days           | Days         | Days          |                                     |                  |                  |
|                                       | Past<br>Due    | Past<br>Due  | Past<br>Due   |                                     |                  |                  |
| Commercial:                           |                |              |               |                                     |                  |                  |
| Commercial real estate                | \$1,986        | 112          | 4,126         | 6,224                               | 162,084          | 168,308          |
| Other                                 | -              | -            | 123           | 123                                 | 27,125           | 27,248           |
| Real estate mortgage - 1 to 4 family: |                |              |               |                                     |                  |                  |
| First mortgages                       | 5,780          | 1,927        | 18,525        | 26,232                              | 1,806,980        | 1,833,212        |
| Home equity loans                     | 112            | 40           | 398           | 550                                 | 38,958           | 39,508           |
| Home equity lines of credit           | 791            | 523          | 2,552         | 3,866                               | 297,157          | 301,023          |
| Installment                           | 47             | 30           | 7             | 84                                  | 4,826            | 4,910            |
| <b>Total</b>                          | <b>\$8,716</b> | <b>2,632</b> | <b>25,731</b> | <b>37,079</b>                       | <b>2,337,130</b> | <b>2,374,209</b> |

Florida:

| (dollars in thousands)                | 30-59        | 60-89      | 90+          | Total<br>30+<br>days<br>Past<br>Due | Current        | Total<br>Loans |
|---------------------------------------|--------------|------------|--------------|-------------------------------------|----------------|----------------|
|                                       | Days         | Days       | Days         |                                     |                |                |
|                                       | Past         | Past       | Past         |                                     |                |                |
|                                       | Due          | Due        | Due          |                                     |                |                |
| Commercial:                           |              |            |              |                                     |                |                |
| Commercial real estate                | \$-          | -          | 583          | 583                                 | 20,787         | 21,370         |
| Other                                 | -            | -          | -            | -                                   | 51             | 51             |
| Real estate mortgage - 1 to 4 family: |              |            |              |                                     |                |                |
| First mortgages                       | 584          | 244        | 3,843        | 4,671                               | 325,732        | 330,403        |
| Home equity loans                     | -            | -          | -            | -                                   | 2,211          | 2,211          |
| Home equity lines of credit           | -            | -          | 420          | 420                                 | 33,128         | 33,548         |
| Installment                           | 9            | -          | -            | 9                                   | 625            | 634            |
| <b>Total</b>                          | <b>\$593</b> | <b>244</b> | <b>4,846</b> | <b>5,683</b>                        | <b>382,534</b> | <b>388,217</b> |

Total:

| (dollars in thousands) | 30-59 | 60-89 | 90+  | Total<br>30+<br>days<br>Past<br>Due | Current | Total<br>Loans |
|------------------------|-------|-------|------|-------------------------------------|---------|----------------|
|                        | Days  | Days  | Days |                                     |         |                |
|                        | Past  | Past  | Past |                                     |         |                |
|                        | Due   | Due   | Due  |                                     |         |                |
| Commercial:            |       |       |      |                                     |         |                |

Commercial:

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|                                       |         |       |        |        |           |           |
|---------------------------------------|---------|-------|--------|--------|-----------|-----------|
| Commercial real estate                | \$1,986 | 112   | 4,709  | 6,807  | 182,871   | 189,678   |
| Other                                 | -       | -     | 123    | 123    | 27,176    | 27,299    |
| Real estate mortgage - 1 to 4 family: |         |       |        |        |           |           |
| First mortgages                       | 6,364   | 2,171 | 22,368 | 30,903 | 2,132,712 | 2,163,615 |
| Home equity loans                     | 112     | 40    | 398    | 550    | 41,169    | 41,719    |
| Home equity lines of credit           | 791     | 523   | 2,972  | 4,286  | 330,285   | 334,571   |
| Installment                           | 56      | 30    | 7      | 93     | 5,451     | 5,544     |
| Total                                 | \$9,309 | 2,876 | 30,577 | 42,762 | 2,719,664 | 2,762,426 |

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New York and other states:

| (dollars in thousands)                | December 31, 2012   |                     |                     |                     | Current   | Total<br>Loans |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|-----------|----------------|
|                                       | 30-59               | 60-89               | 90+                 | Total<br>30+        |           |                |
|                                       | Days<br>Past<br>Due | Days<br>Past<br>Due | Days<br>Past<br>Due | days<br>Past<br>Due |           |                |
|                                       |                     |                     |                     |                     |           |                |
| Commercial:                           |                     |                     |                     |                     |           |                |
| Commercial real estate                | \$-                 | -                   | 3,225               | 3,225               | 164,024   | 167,249        |
| Other                                 | -                   | -                   | 4                   | 4                   | 33,377    | 33,381         |
| Real estate mortgage - 1 to 4 family: |                     |                     |                     |                     |           |                |
| First mortgages                       | 6,364               | 2,248               | 21,341              | 29,953              | 1,784,261 | 1,814,214      |
| Home equity loans                     | 177                 | 216                 | 464                 | 857                 | 34,744    | 35,601         |
| Home equity lines of credit           | 604                 | 350                 | 3,044               | 3,998               | 297,340   | 301,338        |
| Installment                           | 40                  | 27                  | -                   | 67                  | 4,116     | 4,183          |
| Total                                 | \$7,185             | 2,841               | 28,078              | 38,104              | 2,317,862 | 2,355,966      |

Florida:

| (dollars in thousands)                | December 31, 2012   |                     |                     |                     | Current | Total<br>Loans |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------|----------------|
|                                       | 30-59               | 60-89               | 90+                 | Total<br>30+        |         |                |
|                                       | Days<br>Past<br>Due | Days<br>Past<br>Due | Days<br>Past<br>Due | days<br>Past<br>Due |         |                |
|                                       |                     |                     |                     |                     |         |                |
| Commercial:                           |                     |                     |                     |                     |         |                |
| Commercial real estate                | \$-                 | -                   | 2,698               | 2,698               | 16,184  | 18,882         |
| Other                                 | -                   | -                   | -                   | -                   | 65      | 65             |
| Real estate mortgage - 1 to 4 family: |                     |                     |                     |                     |         |                |
| First mortgages                       | 862                 | 452                 | 5,390               | 6,704               | 269,060 | 275,764        |
| Home equity loans                     | -                   | -                   | -                   | -                   | 1,089   | 1,089          |
| Home equity lines of credit           | 59                  | 29                  | 442                 | 530                 | 32,041  | 32,571         |
| Installment                           | 9                   | -                   | 1                   | 10                  | 386     | 396            |
| Total                                 | \$930               | 481                 | 8,531               | 9,942               | 318,825 | 328,767        |

Total:

| (dollars in thousands) | December 31, 2012   |                     |                     |                     | Current | Total<br>Loans |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------|----------------|
|                        | 30-59               | 60-89               | 90+                 | Total<br>30+        |         |                |
|                        | Days<br>Past<br>Due | Days<br>Past<br>Due | Days<br>Past<br>Due | days<br>Past<br>Due |         |                |
|                        |                     |                     |                     |                     |         |                |
| Commercial:            |                     |                     |                     |                     |         |                |
| Commercial real estate | \$-                 | -                   | 5,923               | 5,923               | 180,208 | 186,131        |
| Other                  | -                   | -                   | 4                   | 4                   | 33,442  | 33,446         |

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Real estate mortgage - 1 to 4 family:

|                             |         |       |        |        |           |           |
|-----------------------------|---------|-------|--------|--------|-----------|-----------|
| First mortgages             | 7,226   | 2,700 | 26,731 | 36,657 | 2,053,321 | 2,089,978 |
| Home equity loans           | 177     | 216   | 464    | 857    | 35,833    | 36,690    |
| Home equity lines of credit | 663     | 379   | 3,486  | 4,528  | 329,381   | 333,909   |
| Installment                 | 49      | 27    | 1      | 77     | 4,502     | 4,579     |
| Total                       | \$8,115 | 3,322 | 36,609 | 48,046 | 2,636,687 | 2,684,733 |

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At June 30, 2013 and December 31, 2012, there were no loans that are 90 days past due and still accruing interest. As a result, nonaccrual loans includes all loans 90 days past due and greater as well as certain loans less than 90 days past due that were placed in non-accruing status for reasons other than delinquent status. There are no commitments to extend further credit on nonaccrual or restructured loans.

Transactions in the allowance for loan losses are summarized as follows:

| (dollars in thousands)                      | For the three months ended June 30, 2013 |                             |        |             |        |
|---|--|-----------------------------|--------|-------------|--------|
|   | Commercial                               | Real Estate Mortgage-1 to 4 | Family | Installment | Total  |
| Balance at beginning of period              | \$3,964                                  | 43,595                      | 99     |             | 47,658 |
| Loans charged off:                          |  |                             |        |             |        |
| New York and other states*                  | 49                                       | 2,008                       | 16     |             | 2,073  |
| Florida                                     | -  | 162                         | -      |             | 162    |
| Total loan chargeoffs                       | 49                                       | 2,170                       | 16     |             | 2,235  |
| Recoveries of loans previously charged off: |  |                             |        |             |        |
| New York and other states*                  | -  | 123                         | 3      |             | 126    |
| Florida                                     | 1  | 39                          | -      |             | 40     |
| Total recoveries                            | 1  | 162                         | 3      |             | 166    |
| Net loans charged off                       | 48                                       | 2,008                       | 13     |             | 2,069  |
| Provision for loan losses                   | (197 )                                   | 2,179                       | 18     |             | 2,000  |
| Balance at end of period                    | \$3,719                                  | 43,766                      | 104    |             | 47,589 |

| (dollars in thousands)                      | For the three months ended June 30, 2012 |                             |        |             |        |
|---|--|-----------------------------|--------|-------------|--------|
|   | Commercial                               | Real Estate Mortgage-1 to 4 | Family | Installment | Total  |
| Balance at beginning of period              | \$3,602                                  | 44,851                      | 82     |             | 48,535 |
| Loans charged off:                          |  |                             |        |             |        |
| New York and other states*                  | 715                                      | 1,956                       | 22     |             | 2,693  |
| Florida                                     | 288                                      | 674                         | -      |             | 962    |
| Total loan chargeoffs                       | 1,003                                    | 2,630                       | 22     |             | 3,655  |
| Recoveries of loans previously charged off: |  |                             |        |             |        |
| New York and other states*                  | 2  | 112                         | 15     |             | 129    |
| Florida                                     | -  | 9                           | -      |             | 9      |
| Total recoveries                            | 2  | 121                         | 15     |             | 138    |
| Net loans charged off                       | 1,001                                    | 2,509                       | 7      |             | 3,517  |
| Provision for loan losses                   | 1,191                                    | 1,805                       | 4      |             | 3,000  |
| Balance at end of period                    | \$3,792                                  | 44,147                      | 79     |             | 48,018 |

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(dollars in thousands)

For the six months ended June 30, 2013

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

(dollars in thousands)

For the six months ended June 30, 2012

|   | Commercial | Family | Real Estate Mortgage-1 to 4 | Installment | Total  |
|---|------------|--------|-----------------------------|-------------|--------|
| Balance at beginning of period              | \$4,140    | 44,479 |                             | 98          | 48,717 |
| Loans charged off:                          |            |        |                             |             |        |
| New York and other states*                  | 1,039      | 3,213  |                             | 30          | 4,282  |
| Florida                                     | 456        | 2,349  |                             | -           | 2,805  |
| Total loan chargeoffs                       | 1,495      | 5,562  |                             | 30          | 7,087  |
| Recoveries of loans previously charged off: |            |        |                             |             |        |
| New York and other states*                  | 5          | 233    |                             | 31          | 269    |
| Florida                                     | 8          | 11     |                             | -           | 19     |
| Total recoveries                            | 13         | 244    |                             | 31          | 288    |
| Net loans charged off                       | 1,482      | 5,318  |                             | (1)         | 6,799  |
| Provision for loan losses                   | 1,134      | 4,986  |                             | (20)        | 6,100  |
| Balance at end of period                    | \$3,792    | 44,147 |                             | 79          | 48,018 |

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:

|   | June 30, 2013    |                                |                                 |       |
|---|------------------|--------------------------------|---------------------------------|-------|
|   | Commercial Loans | Family Residential Real Estate | 1-to-4 Family Installment Loans | Total |
| Allowance for loan losses:                      |                  |                                |                                 |       |
| Ending allowance balance attributable to loans: |                  |                                |                                 |       |



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|   |            |             |             |           |
|---|------------|-------------|-------------|-----------|
| Individually evaluated for impairment           | \$-        | -           | -           | -         |
| Collectively evaluated for impairment           | 3,719      | 43,766      | 104         | 47,589    |
| Total ending allowance balance                  | \$3,719    | 43,766      | 104         | 47,589    |
| Loans:  |            |             |             |           |
| Individually evaluated for impairment           | \$6,474    | 18,891      | -           | 25,365    |
| Collectively evaluated for impairment           | 210,503    | 2,521,014   | 5,544       | 2,737,061 |
| Total ending loans balance                      | \$216,977  | 2,539,905   | 5,544       | 2,762,426 |
| December 31, 2012                               |            |             |             |           |
| 1-to-4  |            |             |             |           |
| Family  |            |             |             |           |
|   | Commercial | Residential | Installment |           |
|   | Loans      | Real Estate | Loans       | Total     |
| Allowance for loan losses:                      |            |             |             |           |
| Ending allowance balance attributable to loans: |            |             |             |           |
| Individually evaluated for impairment           | \$-        | -           | -           | -         |
| Collectively evaluated for impairment           | 3,771      | 44,069      | 87          | 47,927    |
| Total ending allowance balance                  | \$3,771    | 44,069      | 87          | 47,927    |
| Loans:  |            |             |             |           |
| Individually evaluated for impairment           | \$9,333    | 16,740      | -           | 26,073    |
| Collectively evaluated for impairment           | 210,244    | 2,443,837   | 4,579       | 2,658,660 |
| Total ending loans balance                      | \$219,577  | 2,460,577   | 4,579       | 2,684,733 |

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

A loan for which the terms have been modified, and for which the borrower is experiencing financial difficulties, is considered a TDR and is classified as impaired. TDR's at June 30, 2013 and December 31, 2012 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:

New York and other states:

| (dollars in thousands)                | June 30, 2013          |                                |                      | Average<br>Recorded<br>Investment |
|---------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |                                   |
| Commercial:                           |                        |                                |                      |                                   |
| Commercial real estate                | \$5,768                | 6,696                          | -                    | 6,058                             |
| Other                                 | 123                    | 123                            | -                    | 124                               |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                                   |
| First mortgages                       | 14,868                 | 15,826                         | -                    | 13,339                            |
| Home equity loans                     | 687                    | 819                            | -                    | 636                               |
| Home equity lines of credit           | 1,807                  | 1,980                          | -                    | 1,744                             |
| Total                                 | \$23,253               | 25,444                         | -                    | 21,901                            |

Florida:

| (dollars in thousands)                | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average                |
|---------------------------------------|------------------------|--------------------------------|----------------------|------------------------|
|                                       |                        |                                |                      | Recorded<br>Investment |
| Commercial:                           |                        |                                |                      |                        |
| Commercial real estate                | \$ 583                 | 1,038                          | -                    | 1,942                  |
| Other                                 | -                      | -                              | -                    | -                      |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                        |
| First mortgages                       | 1,498                  | 2,110                          | -                    | 1,212                  |
| Home equity loans                     | -                      | -                              | -                    | -                      |
| Home equity lines of credit           | 31                     | 49                             | -                    | 11                     |
| Total                                 | \$ 2,112               | 3,197                          | -                    | 3,165                  |

Total:

| (dollars in thousands)                | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average                |
|---------------------------------------|------------------------|--------------------------------|----------------------|------------------------|
|                                       |                        |                                |                      | Recorded<br>Investment |
| Commercial:                           |                        |                                |                      |                        |
| Commercial real estate                | \$ 6,351               | 7,734                          | -                    | 8,000                  |
| Other                                 | 123                    | 123                            | -                    | 124                    |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                        |
| First mortgages                       | 16,366                 | 17,936                         | -                    | 14,551                 |
| Home equity loans                     | 687                    | 819                            | -                    | 636                    |
| Home equity lines of credit           | 1,838                  | 2,029                          | -                    | 1,755                  |
| Total                                 | \$ 25,365              | 28,641                         | -                    | 25,066                 |



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New York and other states:

| (dollars in thousands)                | December 31, 2012      |                                |                      | Average<br>Recorded<br>Investment |
|---------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |                                   |
| Commercial:                           |                        |                                |                      |                                   |
| Commercial real estate                | \$6,511                | 7,169                          | -                    | 5,615                             |
| Other                                 | 124                    | 124                            | -                    | 107                               |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                                   |
| First mortgages                       | 12,964                 | 14,143                         | -                    | 6,075                             |
| Home equity loans                     | 623                    | 664                            | -                    | 260                               |
| Home equity lines of credit           | 1,633                  | 1,735                          | -                    | 458                               |
| Total                                 | \$21,855               | 23,835                         | -                    | 12,515                            |

Florida:

| (dollars in thousands)                | December 31, 2012      |                                |                      | Average<br>Recorded<br>Investment |
|---------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |                                   |
| Commercial:                           |                        |                                |                      |                                   |
| Commercial real estate                | \$ 2,698               | 3,890                          | -                    | 5,871                             |
| Other                                 | -                      | -                              | -                    | -                                 |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                                   |
| First mortgages                       | 1,472                  | 2,665                          | -                    | 948                               |
| Home equity lines of credit           | 48                     | 176                            | -                    | 24                                |
| Total                                 | \$ 4,218               | 6,731                          | -                    | 6,843                             |

Total:

| (dollars in thousands)                | December 31, 2012      |                                |                      | Average<br>Recorded<br>Investment |
|---------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |                                   |
| Commercial:                           |                        |                                |                      |                                   |
| Commercial real estate                | \$ 9,209               | 11,059                         | -                    | 11,486                            |
| Other                                 | 124                    | 124                            | -                    | 107                               |
| Real estate mortgage - 1 to 4 family: |                        |                                |                      |                                   |
| First mortgages                       | 14,436                 | 16,808                         | -                    | 7,023                             |
| Home equity loans                     | 623                    | 664                            | -                    | 260                               |
| Home equity lines of credit           | 1,681                  | 1,911                          | -                    | 482                               |
| Total                                 | \$ 26,073              | 30,566                         | -                    | 19,358                            |

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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 in 2013 or 2012.

Management evaluates impairment on commercial and commercial real estate loans that are on nonaccrual status as well as in situations where circumstances dictate that an evaluation is prudent. 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, 2013 and December 31, 2012, based upon management's evaluation of the adequacy of the underlying collateral, if any, and due to the sufficiency of chargeoffs taken, none of the allowance for loan losses has been allocated to impaired loan(s), including TDR's.

During the three months ended June 30, 2013 and 2012, there were \$103 thousand and \$233 thousand of chargeoffs on loans identified as TDR's. For the six months ended June 30, 2013 and 2012, there were \$275 thousand and \$295 thousand of chargeoffs on loans identified as TDR's.

The following table presents modified loans by class that were determined to be TDR's that occurred during the three months and twelve months ended June 30, 2013 and 2012:

| New York and other states*:<br><br>(dollars in thousands) | During the three months ended<br>6/30/2013                            |  |       | During the three months ended<br>6/30/2012                            |  |     |
|---|---|--|-------|---|--|-----|
|   | Pre-Modification<br>Outstanding<br>Number<br>of Recorded<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment |       | Pre-Modification<br>Outstanding<br>Number<br>of Recorded<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment |     |
| Commercial:   |   |  |       |   |  |     |
| Commercial real estate                                    | -   | \$ -   | -     | -   | \$ -   | -   |
| Real estate mortgage - 1 to 4<br>family:                  |   |  |       |   |  |     |
| First mortgages   | 14  | 2,014  | 2,014 | 9   | 890  | 853 |
| Home equity loans   | 4   | 87   | 87    | 1   | 5  | 5   |
| Home equity lines of credit                               | 2   | 87   | 87    | 1   | 106  | 106 |
| Total   | 20  | \$ 2,188   | 2,188 | 11  | \$ 1,001   | 964 |
| Florida:  |   |  |       |   |  |     |
| Commercial:   |   |  |       |   |  |     |
| Commercial real estate                                    | -   | \$ -   | -     | -   | \$ -   | -   |
| Real estate mortgage - 1 to 4<br>family:                  |   |  |       |   |  |     |
| First mortgages   | 2   | 290  | 290   | 4   | 403  | 386 |
| Home equity lines of credit                               | 1   | 31   | 31    | -   | -  | -   |
| Total   | 3   | \$ 321   | 321   | 4   | \$ 403   | 386 |



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| New York and other states*:<br><br>(dollars in thousands) | During the twelve months ended<br>6/30/2013                           |  |  | During the twelve months ended<br>6/30/2012                           |  |  |
|---|---|--|--|---|--|--|
|   | Pre-Modification<br>Outstanding<br>Number<br>of Recorded<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment |  | Pre-Modification<br>Outstanding<br>Number of<br>Recorded<br>Contracts | Post-Modification<br>Outstanding<br>Recorded<br>Investment |  |
| Commercial:   |   |  |  |   |  |  |
| Commercial real estate                                    | 2   | \$ 131   | 131  | 1   | \$ 91  | 90   |
| Real estate mortgage - 1 to 4<br>family:                  |   |  |  |   |  |  |
| First mortgages   | 106   | 12,462   | 12,462   | 27  | 3,348  | 2,831  |
| Home equity loans   | 23  | 563  | 563  | 4   | 125  | 103  |
| Home equity lines of credit                               | 32  | 1,495  | 1,495  | 1   | 106  | 106  |
| Total   | 163   | \$ 14,651  | 14,651   | 33  | \$ 3,670   | 3,130  |
| Florida:  |   |  |  |   |  |  |
| (dollars in thousands)                                    | Number<br>of<br>Contracts   | Pre-Modification<br>Outstanding<br>Recorded<br>Investment  | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Number<br>of<br>Contracts   | Pre-Modification<br>Outstanding<br>Recorded<br>Investment  | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| Commercial:   |   |  |  |   |  |  |
| Commercial real estate                                    | -   | \$ -   | -  | -   | \$ -   | -  |
| Real estate mortgage - 1 to 4<br>family:                  |   |  |  |   |  |  |
| First mortgages   | 13  | 1,583  | 1,583  | 9   | 1,085  | 926  |
| Home equity lines of credit                               | 2   | 31   | 31   | -   | -  | -  |
| Total   | 15  | \$ 1,614   | 1,614  | 9   | \$ 1,085   | 926  |

The following table presents loans by class modified as TDR's that occurred during the twelve months ended June 30, 2013 and 2012 for which there was a payment default during the same period:

| New York and other states*:<br>(dollars in thousands) | Twelve months<br>ended<br>6/30/2013 |                        | Twelve months<br>ended<br>6/30/2012 |                        |
|---|-------------------------------------|------------------------|-------------------------------------|------------------------|
|   | Number<br>of Recorded<br>Contracts  | Recorded<br>Investment | Number<br>of Recorded<br>Contracts  | Recorded<br>Investment |
| Commercial:   |                                     |                        |                                     |                        |
| Commercial real estate                                | -                                   | \$ -                   | -                                   | \$ -                   |
| Real estate mortgage - 1 to 4 family:                 |                                     |                        |                                     |                        |
| First mortgages                                       | 21                                  | 2,634                  | 24                                  | 2,560                  |
| Home equity loans                                     | 3                                   | 78                     | 3                                   | 98                     |
| Home equity lines of credit                           | 9                                   | 532                    | -                                   | -                      |



|       |    |          |    |          |
|-------|----|----------|----|----------|
| Total | 33 | \$ 3,244 | 27 | \$ 2,658 |
|-------|----|----------|----|----------|

## Florida:

| (dollars in thousands)                | Number<br>of<br>Contracts | Recorded<br>Investment | Number<br>of<br>Contracts | Recorded<br>Investment |
|---------------------------------------|---------------------------|------------------------|---------------------------|------------------------|
| Commercial:                           |                           |                        |                           |                        |
| Commercial real estate                | -                         | \$ -                   | -                         | \$ -                   |
| Real estate mortgage - 1 to 4 family: |                           |                        |                           |                        |
| First mortgages                       | 3                         | 375                    | 9                         | 926                    |
| Home equity lines of credit           | -                         | -                      | -                         | -                      |
| Total                                 | 3                         | \$ 375                 | 9                         | \$ 926                 |

In situations where the Bank considers a loan modification, management determines whether the borrower is experiencing financial difficulty by performing an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's underwriting policy. Generally, the modification of the terms of loans was the result of the borrower filing for bankruptcy protection. Chapter 13 bankruptcies generally include the deferral of all past due amounts for a period of generally 60 months in accordance with the bankruptcy court order. In the case of Chapter 7 bankruptcies, even though there is no modification of terms, the borrowers' debt to the Company was discharged and they did not reaffirm the debt.

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

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

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

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

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.

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As of June 30, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| June 30, 2013              |            |            |         |
|----------------------------|------------|------------|---------|
| New York and other states: |            |            |         |
| (dollars in thousands)     |            |            |         |
|                            | Pass       | Classified | Total   |
| Commercial:                |            |            |         |
| Commercial real estate     | \$ 157,697 | 10,611     | 168,308 |
| Other                      | 26,935     | 313        | 27,248  |
|                            | \$ 184,632 | 10,924     | 195,556 |
| Florida:                   |            |            |         |
| (dollars in thousands)     |            |            |         |
|                            | Pass       | Classified | Total   |
| Commercial:                |            |            |         |
| Commercial real estate     | \$ 17,220  | 4,150      | 21,370  |
| Other                      | 51         | -          | 51      |
|                            | \$ 17,271  | 4,150      | 21,421  |
| December 31, 2012          |            |            |         |
| New York and other states: |            |            |         |
| (dollars in thousands)     |            |            |         |
|                            | Pass       | Classified | Total   |
| Commercial:                |            |            |         |
| Commercial real estate     | \$ 155,981 | 11,268     | 167,249 |
| Other                      | 33,067     | 314        | 33,381  |
|                            | \$ 189,048 | 11,582     | 200,630 |
| Florida:                   |            |            |         |
| (dollars in thousands)     |            |            |         |
|                            | Pass       | Classified | Total   |
| Commercial:                |            |            |         |
| Commercial real estate     | \$ 12,454  | 6,428      | 18,882  |
| Other                      | 65         | -          | 65      |
|                            | \$ 12,519  | 6,428      | 18,947  |

For homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a daily basis by the Bank's collection area and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools at June 30, 2013 and December 31, 2012 is included

in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these homogeneous loan pools at June 30, 2013 and December 31, 2012 is presented in the recorded investment in nonaccrual loans table.

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(6) Fair Value of Financial Instruments

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

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

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices or 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 included in the income statement in the respective investment class under total interest income. Also classified as available for sale securities are equity securities where fair value is determined by quoted market prices and these are designated as Level 1. The Company does not have any securities that would be designated as Level 3.

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

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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<br>June 30, 2013 Using: |   |   |  |
|--|--|---|---|--|
|  | Carrying<br>Value                                  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (Dollars in thousands)   |  |   |   |  |
| Securities available-for sale:   |  |   |   |  |
| U.S. government-sponsored enterprises  | \$188,133  | -   | 188,133   | -  |
| State and political subdivisions   | 12,159   | -   | 12,159  | -  |
| Mortgage-backed securities and collateralized mortgage obligations - residential | 504,793  | -   | 504,793   | -  |
| Corporate bonds  | 53,053   | -   | 53,053  | -  |
| Small Business Administration-guaranteed participation securities                | 108,665  | -   | 108,665   | -  |
| Mortgage-backed securities and collateralized mortgage obligations - commercial  | 10,725   | -   | 10,725  | -  |
| Other securities   | 660  | 10  | 650   | -  |
| Total securities available-for-sale  | \$878,188  | 10  | 878,178   | -  |

|  | Fair Value Measurements at<br>December 31, 2012 Using: |   |   |  |
|--|--|---|---|--|
|  | Carrying<br>Value                                      | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (Dollars in thousands)   |  |   |   |  |
| Securities available-for sale:   |  |   |   |  |
| U.S. government-sponsored enterprises  | \$263,108  | -   | 263,108   | -  |
| State and political subdivisions   | 26,457   | -   | 26,457  | -  |
| Mortgage-backed securities and collateralized mortgage obligations - residential | 518,776  | -   | 518,776   | -  |

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|   |           |    |         |   |
|---|-----------|----|---------|---|
| Corporate bonds   | 26,529    | -  | 26,529  | - |
| Small Business Administration-guaranteed participation securities | 76,562    | -  | 76,562  | - |
| Other securities  | 660       | 10 | 650     | - |
| Total securities available-for-sale                               | \$912,092 | 10 | 912,082 | - |

There were no transfers between Level 1 and Level 2 in 2013 and 2012.

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

Fair Value Measurements at  
June 30, 2013 Using:

|                                       | Carrying<br>Value | Significant  |  |  |
|---------------------------------------|-------------------|--|--|--|
|                                       |                   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (Dollars in thousands)                |                   |  |  |  |
| Other real estate owned               | \$10,345          | -  | -  | 10,345   |
| Impaired Loans:                       |                   |  |  |  |
| Commercial real estate                | 2,303             | -  | -  | 2,303  |
| Real estate mortgage - 1 to 4 family: |                   |  |  |  |
| First mortgages                       | 4,849             | -  | -  | 4,849  |
| Home Equity Loans                     | 66                | -  | -  | 66   |
| Home Equity Lines of Credit           | 639               | -  | -  | 639  |

Other real estate owned, which is carried at fair value less costs to sell, approximates \$10.3 million at June 30, 2013 and consisted of \$6.1 million of commercial real estate and \$4.2million of residential real estate properties. Valuation charges of \$941 thousand and \$1.1 million are included in earnings for the three months and six months ended June 30, 2013, respectively.

Of the total impaired loans of \$25.4 million at June 30, 2013, \$7.9 million are collateral dependent and have had a chargeoff taken and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of charge-offs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at June 30, 2013. Gross charge-offs related to commercial impaired loans were \$20 thousand and \$170 thousand for the three months and six months ended June 30, 2013, respectively, while gross residential impaired loan charge-offs amounted to \$109 thousand and \$276 thousand for the three months and six months ended June 30, 2013, respectively.

Fair Value Measurements at  
December 31, 2012 Using:

|  | Carrying<br>Value | Significant  |  |  |
|--|-------------------|--|--|--|
|  |                   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |

(Level  
1)

(Dollars in thousands)

|                                       |         |   |   |       |
|---------------------------------------|---------|---|---|-------|
| Other real estate owned               | \$8,705 | - | - | 8,705 |
| Impaired Loans:                       |         |   |   |       |
| Commercial real estate                | 4,690   | - | - | 4,690 |
| Real estate mortgage - 1 to 4 family: |         |   |   |       |
| First mortgages                       | 5,421   | - | - | 5,421 |
| Home Equity Loans                     | 67      | - | - | 67    |
| Home Equity Lines of Credit           | 581     | - | - | 581   |

Other real estate owned, which is carried at fair value less costs to sell, approximates \$8.7 million at December 31, 2012 and consisted of \$4.8 million of commercial real estate and \$3.9 million of residential real estate properties. A valuation charge of \$1.1 million is included in earnings for the year ended December 31, 2012.

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Of the total impaired loans of \$26.1 million at December 31, 2012, \$10.8 million are collateral dependent and have had a chargeoff taken and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of charge-offs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at December 31, 2012. Gross charge-offs related to commercial impaired loans were \$2.5 million for the year ended December 31, 2012, while gross residential impaired loan charge-offs amounted to \$1.7 million.

In accordance with ASC 825, the carrying amounts and estimated fair values of financial instruments, at June 30, 2013 and December 31, 2012 are as follows:

| (dollars in thousands)                                | Carrying Value | Fair Value Measurements at |           |           |      | Total     |
|---|----------------|----------------------------|-----------|-----------|------|-----------|
|   |                | June 30, 2013 Using:       |           |           |      |           |
|   |                | Level 1                    | Level 2   | Level 3   |      |           |
| Financial assets:                                     |                |                            |           |           |      |           |
| Cash and cash equivalents                             | \$628,832      | 628,832                    | -         | -         | -    | 628,832   |
| Securities available for sale                         | 878,188        | 10                         | 878,178   | -         | -    | 878,188   |
| Held to maturity securities                           | 98,789         | -                          | 103,331   | -         | -    | 103,331   |
| Federal Reserve Bank and Federal Home Loan Bank stock | 10,500         | N/                         | A N/      | A N/      | A N/ | A N/      |
| Net loans   | 2,714,837      | -                          | -         | 2,736,474 | -    | 2,736,474 |
| Accrued interest receivable                           | 12,084         | -                          | 3,844     | 8,240     | -    | 12,084    |
| Financial liabilities:                                |                |                            |           |           |      |           |
| Demand deposits                                       | 314,985        | 314,985                    | -         | -         | -    | 314,985   |
| Interest bearing deposits                             | 3,577,891      | 2,454,929                  | 1,123,988 | -         | -    | 3,578,917 |
| Short-term borrowings                                 | 176,325        | -                          | 176,325   | -         | -    | 176,325   |
| Accrued interest payable                              | 425            | 96                         | 329       | -         | -    | 425       |

| (dollars in thousands)                                | Carrying Value | Fair Value Measurements at |           |           |      | Total     |
|---|----------------|----------------------------|-----------|-----------|------|-----------|
|   |                | December 31, 2012 Using:   |           |           |      |           |
|   |                | Level 1                    | Level 2   | Level 3   |      |           |
| Financial assets:                                     |                |                            |           |           |      |           |
| Cash and cash equivalents                             | \$544,016      | 544,016                    | -         | -         | -    | 544,016   |
| Securities available for sale                         | 912,092        | 10                         | 912,082   | -         | -    | 912,092   |
| Held to maturity securities                           | 143,426        | -                          | 151,126   | -         | -    | 151,126   |
| Federal Reserve Bank and Federal Home Loan Bank stock | 9,632          | N/                         | A N/      | A N/      | A N/ | A N/      |
| Net loans   | 2,636,806      | -                          | -         | 2,771,705 | -    | 2,771,705 |
| Accrued interest receivable                           | 11,752         | -                          | 4,114     | 7,638     | -    | 11,752    |
| Financial liabilities:                                |                |                            |           |           |      |           |
| Demand deposits                                       | 300,544        | 300,544                    | -         | -         | -    | 300,544   |
| Interest bearing deposits                             | 3,503,649      | 2,426,170                  | 1,079,663 | -         | -    | 3,505,833 |
| Short-term borrowings                                 | 159,846        | -                          | 159,846   | -         | -    | 159,846   |
| Accrued interest payable                              | 449            | 103                        | 346       | -         | -    | 449       |

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

## Cash and Cash Equivalents

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

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### Federal Reserve Bank and Federal Home Loan Bank stock

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

### Securities Held to Maturity

Similar to securities available for sale, 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 income statement in the respective investment class under total interest 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.

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

## (7) Other Comprehensive Income (Loss)

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

|   | Balance at<br>3/31/2013 | Other<br>Comprehensive<br>Income<br>(loss)-<br>Before<br>Reclassification | Amount<br>reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income | Other<br>Comprehensive<br>Income<br>(loss)-<br>Three<br>months<br>ended<br>3/31/13 | Balance at<br>6/30/2013 |
|---|-------------------------|---|---|--|-------------------------|
| Net unrealized holding gain (loss) on securities available for sale, net of tax                                   | 1,987                   | (15,824 )   | (859 )  | (16,683 )  | (14,696 )               |
| Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax | (2,156 )                | -   | 21  | 21   | (2,135 )                |
| Accumulated other comprehensive income (loss), net of tax   | (169 )                  | (15,824 )   | (838 )  | (16,662 )  | (16,831 )               |

|   | Balance<br>at<br>3/31/2012 | Other<br>Comprehensive<br>Income<br>(loss)-<br>Before<br>Reclassification | Amount<br>reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income | Other<br>Comprehensive<br>Income<br>(loss)-<br>Three<br>months<br>ended<br>6/30/12 | Balance<br>at<br>6/30/2012 |
|---|----------------------------|---|---|--|----------------------------|
| Net unrealized holding gain (loss) on securities available for sale, net of tax                                   | \$ 1,509                   | 1,546   | (33 )   | 1,513  | 3,022                      |
| Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax | (1,456 )                   | -   | 19  | 19   | (1,437 )                   |
| Accumulated other comprehensive income (loss), net of tax   | \$ 53                      | 1,546   | (14 )   | 1,532  | 1,585                      |

Other  
Comprehensive  
Amount  
reclassified  
Other  
Comprehensive

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|   | Balance<br>at<br>12/31/2012 | Income<br>(loss)-<br>Before<br>Reclassification                           | from<br>Accumulated<br>Other<br>Comprehensive<br>Income            | Income<br>(loss)-<br>Three<br>months<br>ended<br>3/31/13                      | Balance<br>at<br>6/30/2013 |
|---|-----------------------------|---|--|---|----------------------------|
| Net unrealized holding gain (loss) on securities available for sale, net of tax                                   | 3,755                       | (17,591 )   | (860 )   | (18,451 )   | (14,696 )                  |
| Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax | (2,197 )                    | -   | 62   | 62  | (2,135 )                   |
| Accumulated other comprehensive income (loss), net of tax   | 1,558                       | (17,591 )   | (798 )   | (18,389 )   | (16,831 )                  |
|   | Balance<br>at<br>12/31/2011 | Other<br>Comprehensive<br>Income<br>(loss)-<br>Before<br>Reclassification | Amount<br>reclassified<br>from<br>Other<br>Comprehensive<br>Income | Other<br>Comprehensive<br>Income<br>(loss)-<br>Six months<br>ended<br>6/30/12 | Balance<br>at<br>6/30/2012 |
| Net unrealized holding gain (loss) on securities available for sale, net of tax                                   | \$ (1,018 )                 | 4,479   | (439 )   | 4,040   | 3,022                      |
| Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax | (1,475 )                    | -   | 38   | 38  | (1,437 )                   |
| Accumulated other comprehensive income (loss), net of tax   | \$ (2,493 )                 | 4,479   | (401 )   | 4,078   | 1,585                      |



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The following represents the reclassifications out of accumulated other comprehensive income (loss) for the three months and six months ended June 30, 2013 and 2012:

|  | Three<br>Months<br>Ended<br>June 30,<br>2013 |       | Six Months<br>Ended<br>June 30,<br>2012 |        |
|--|--|-------|---|--------|
| Unrealized gains (losses) on securities available for sale |  |       |   |        |
| Realized gain on securities transactions                   | 1,432  | 55    | 1,434                                   | 732    |
| Income tax expense   | (573 )                                       | (22 ) | (574 )                                  | (293 ) |
| Net of tax   | 859  | 33    | 860                                     | 439    |
| Amortization of pension and postretirement benefit items   |  |       |   |        |
| Amortization of net actuarial loss                         | (101 )                                       | (97 ) | (233 )                                  | (194 ) |
| Amortization of prior service credit                       | 65   | 65    | 131                                     | 131    |
| Income tax benefit   | 15   | 13    | 40                                      | 25     |
| Net of tax   | (21 )  | (19 ) | (62 )                                   | (38 )  |
| Total reclassifications, net of tax                        | 838  | 14    | 798                                     | 401    |

## (8) Subsequent Event

Subsequent to June 30, 2013, Trustco entered into a definitive agreement to sell a planned regional operations center in Florida to a third party purchaser for approximately \$5.0 million. In addition, Trustco may lease back a small portion of the building to be used as a branch location. The carrying value of the building was approximately \$3.2 million as of June 30, 2013. This transaction is expected to be completed during the third quarter of 2013.

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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, 2013, and the related consolidated statements of income and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2013 and 2012, and the related consolidated statements of changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2013 and 2012. 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

Livingston, New Jersey  
August 6, 2013

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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. 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 the factors described under Part II, Item 1A, Risk Factors, and under the Risk Factor discussion in TrustCo’s Annual Report on Form 10-K for the year ended December 31, 2012, 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:

• Credit risk,

• 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,

• Competition,

• The effect of changes in financial services laws and regulations (including laws concerning taxation, banking and securities),

• 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,

• Changes in local market areas and general business and economic trends, and

• The matters described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012 and in our subsequent securities filings.

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.

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Following this discussion is the table "Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential" which gives a detailed breakdown of TrustCo's average interest earning assets and interest bearing liabilities for the three and six-month periods ended June 30, 2013 and 2012.

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, 2013, with comparisons to the corresponding periods in 2012 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 2012 Annual Report to Shareholders should also be read in conjunction with this review. Amounts in prior period consolidated interim financial statements are reclassified whenever necessary to conform to the current period's presentation.

Financial markets exhibited significant volatility during the second quarter of 2013. For the second quarter, the S&P 500 Index was up 2.4% and the Dow Jones Industrial Average was up 2.3%, however both had wide swings during the quarter. Credit markets showed significant volatility during the quarter with a number of sharp moves in rates both up and down during the period. Measured at quarter-end, rates were up sharply, from 1.86% for the 10 year Treasury at the end of the first quarter of 2013 to 2.52% at the end of the second quarter. Proportionate shifts in rates occurred across the yield curve, except for very short maturities. The table below illustrates the range of these movements for both short term and longer term rates. The target Fed Funds range remained unchanged at zero to 0.25% during the second quarter. Spreads of certain asset classes, including agency securities and mortgage-backed securities, widened relative to the Treasury curve. The changes in rates and spreads during the quarter were due to a number of factors, however comments by Federal Reserve Board officials that implied that the extraordinary accommodations designed to help the economy but that most directly served to influence certain interest rates could be backed off in the foreseeable future.

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|                    | 3 Month<br>Yield (%) | 2 Year<br>Yield (%) | 5 Year<br>Yield (%) | 10 Year<br>Yield (%) |
|--------------------|----------------------|---------------------|---------------------|----------------------|
| Beginning of Q1/12 | 0.02                 | 0.27                | 0.89                | 1.97                 |
| Q1/12 Peak         | 0.12                 | 0.41                | 1.22                | 2.39                 |
| Trough             | 0.01                 | 0.21                | 0.71                | 1.83                 |
| End of Q1/12       | 0.07                 | 0.33                | 1.04                | 2.23                 |
| Beginning of Q4/12 | 0.09                 | 0.25                | 0.62                | 1.64                 |
| Q4/12 Peak         | 0.14                 | 0.32                | 0.82                | 1.86                 |
| Trough             | 0.01                 | 0.23                | 0.60                | 1.58                 |
| End of Q4/12       | 0.05                 | 0.25                | 0.72                | 1.78                 |
| Beginning of Q1/13 | 0.08                 | 0.27                | 0.76                | 1.86                 |
| Q1/13 Peak         | 0.14                 | 0.30                | 0.92                | 2.07                 |
| Trough             | 0.06                 | 0.23                | 0.75                | 1.84                 |
| End of Q1/13       | 0.07                 | 0.25                | 0.77                | 1.87                 |
| Beginning of Q2/13 | 0.08                 | 0.23                | 0.76                | 1.86                 |
| Q2/13 Peak         | 0.08                 | 0.43                | 1.49                | 2.60                 |
| Trough             | 0.03                 | 0.20                | 0.65                | 1.66                 |
| End of Q2/13       | 0.04                 | 0.36                | 1.41                | 2.52                 |

Underlying national economic conditions remain subdued, with persistent issues in regard to unemployment and continued high levels of financial leverage in some sectors. While there have been some encouraging economic reports, the level of persistent strength needed to significantly change the overall condition of the economy has not materialized. There has been some improvement in recent months, including gains in home values in some areas, but the housing market remains troubled in other areas and job creation, while improved, has continued to lag.

Government budget deficits and debt levels in the United States remains a concern, and sovereign fiscal issues in a number of European nations, as well as slowing economies in both Europe and China continue to contribute to global economic issues.

The pace of bank failures has continued to decline and is no longer a significant issue. The 2008 through early 2010 period saw unprecedented intervention by governments in markets and the financial services industry as the United States saw the two largest bank failures in its history in 2008, as well as failures of other major financial institutions, forced mergers and massive government bailouts. The United States Government responded to these events with legislation, including the Emergency Economic Stabilization Act of 2008, which authorized the Troubled Asset Relief Program (“TARP”), and the American Recovery and Reinvestment Act of 2010 (“ARRA”), more commonly known as the economic stimulus or economic recovery package, which was intended to stimulate the economy and provide for extensive infrastructure, energy, health and education needs. In addition, the Federal Reserve Board (“FRB”), implemented a variety of major initiatives, including a sharp easing of monetary policy and direct intervention in a number of financial markets, and the Federal Deposit Insurance Corporation (“FDIC”), the Treasury Department and other bank regulatory agencies also instituted a wide variety of programs. As noted, uncertainty regarding the eventual need for the FRB to move away from its easy money policy and the need for the FRB and other elements of the government to withdraw various supporting mechanisms remain concerns for both the economy and financial markets, and concerns on that front were significantly to blame for the sharp rise in rates during the second quarter. It is not clear how aggressive the government will be in unwinding some of the programs that are now in place, if any of those programs are to be unwound at all.

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The federal government, primarily through the Treasury Department and the federal banking agencies, is also implementing the financial reform bill, the “Dodd–Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act.”), which has had and will likely continue to have a significant impact on the financial services industry. Regulatory changes that have been implemented to date have reduced interchange revenue level that banks previously earned. In June 2012, the Board of Governors of the FRB approved notices of proposed rulemaking (“NPRs”) to, among other things, implement the Basel III minimum capital requirements and capital conservation buffer. On July 9, 2013, interim final rules were published jointly by the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency, as well as an NPR to strengthen the supplementary leverage requirements for the largest most systemically important banking organizations. The changes implemented with these rules will be effective over a phase-in period through 2019. We are evaluating the impact of the rules on the Company and the Bank and we expect to continue to meet the definition of “well capitalized” under the new rules.

TrustCo believes that its long-term focus on traditional banking services 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 has experienced an increase in nonperforming loans, although management believes the level remains manageable. While the Company does not expect to see a significant change in the inherent risk of loss in its loan portfolios at June 30, 2013, 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.

In addition, the natural flight to quality that occurs in financial crises as investors focus on the safest possible investments, cuts in targeted interest rates and liquidity injections by the Federal government have all served to reduce yields available on both short term liquidity (Fed Funds and other short term investments) as well as the low risk types of securities typically invested in by the Company. As noted, during the quarter, the level of rates moved up sharply across most of the curve, however the average slope of the curve did not change materially when comparing the second quarter of 2013 to the first quarter of 2013. The slope of the curve, as measured by the difference between the 10 year Treasury and the 2 year Treasury, averaged 1.72% in the second quarter of 2013, compared to 1.69% during the first quarter of 2013. The slope did steepen late in the quarter, ending the period at 2.16%. The slope of the yield curve is generally better for mortgage lenders profitability when it is steeper. The future course of interest rates is subject to significant uncertainty, as various indicators are providing contradicting signals. For example, future changes in the FRB’s quantitative easing and related programs or gains in the level of economic activity could potentially lead to higher rates. Potentially offsetting these issues is that Treasuries continue to be viewed as a safe haven by many investors around the world, with their demand serving to dampen or completely outweigh any upward pressure on yields. Finally, the Dodd-Frank Act creates additional uncertainty for the Company and the Bank. This law significantly changes the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

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The level of home foreclosures nationally remains an area of political and media interest. Problems such as instances of foreclosures where the paperwork or process may not have met legal requirements have created significant legal and public relations problems for banks and other mortgage lenders. Much of this has been related to mortgages that were sold one or more times, and in many cases were eventually securitized. The changes of ownership and the securitization process may have contributed to the reported errors. Also recently, efforts by mortgage servicers and secondary market purchasers of mortgage loans to require mortgage originators to repurchase troubled loans have also increased. TrustCo's mortgage loan portfolio consists of loans it and its employees have originated and serviced. Files with the relevant documents are retained and monitored by staff members on Bank premises. As a result, management believes the Company is unlikely to be significantly affected by errors in foreclosing on its mortgage loans. In addition, because TrustCo generally originates loans to be held in its portfolio, the exposure that can come with being forced to buy back nonperforming loans that have been sold is limited.

Overview

TrustCo recorded net income of \$9.8 million, or \$0.104 of diluted earnings per share for the three months ended June 30, 2013, as compared to net income of \$9.1 million or \$0.097 of diluted earnings per share in the same period in 2012.

For the first half of 2013, TrustCo recorded net income of \$18.9 million, or \$0.201 of diluted earnings per share, as compared to net income of \$18.0 million or \$0.192 of diluted earnings per share in the same period in 2012.

The primary factors accounting for the change in net income for three and six-month periods ended June 30, 2013 as compared to the prior year were:

An increase in the average balance of interest earning assets of \$30.9 million to \$4.34 billion for the second quarter of 2013 compared to the same period in 2012. For the six-months ended June 30, 2013, the average balance of interest earning assets increased \$45.5 million compared to the prior year period.

An increase in the average balance of interest bearing liabilities of \$2.1 million to \$3.75 billion for the second quarter of 2013 as compared to 2012 and \$15.2 million for the first six months.

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A decrease in taxable equivalent net interest margin for the second quarter of 2013 to 3.10% from 3.16% in the prior year period. The decline in the margin was only partially offset by the beneficial impact of the increase in average earning assets, resulting in a decrease of \$363 thousand in taxable equivalent net interest income in the second quarter of 2013 compared to the second quarter of 2012. For the six-month period, the margin declined to 3.15% from 3.19%.

A decrease in the provision for loan losses to \$2.0 million in the second quarter of 2013 from \$3.0 million in the second quarter of 2012. For the six-month period, the provision for loan losses declined by \$2.1 million.

An increase of \$1.4 million in net gains on securities transactions for the second quarter of 2013 as compared to same period in 2012. Securities gains increased by \$702 thousand for the first six months of 2013 compared to the prior period.

An increase of \$820 thousand in noninterest expense for the second quarter of 2013 as compared to 2012 and an increase of \$1.2 million for the first six months of 2013 versus the prior year period.

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 is dynamic and changes in any area can have an impact on TrustCo's results. Included in the Annual Report to Shareholders for the year ended December 31, 2012 is a description of the effect interest rates had on the results for the year 2012 compared to 2011. Many of the same market factors discussed in the 2012 Annual Report continued to have a significant impact on the second quarter results for 2013.

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.

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. The target range has not been changed since. FRB officials have not been completely consistent or clear in regard to expectations for the future, contributing to the rate volatility noted earlier.



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Traditionally interest rates on bank deposit accounts are heavily influenced by the Federal Funds rate. Deposit rates generally continued to decline in the second quarter of 2013 relative to prior periods, but at a slower pace as rates reach extremely low levels and market rates began to rise. 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 has a significant influence on the rates for new residential real estate loans. The Federal Reserve Board 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. Currently this includes the purchase of agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month, as well as the reinvestment of principal payments from its holdings. Eventually, management believes, the FRB will have to unwind these positions by selling mortgage-backed securities, which would likely have the opposite effect, putting upward pressure on rates, although other factors may mitigate this pressure. Alternatively, the FRB could ratchet down purchases gradually and gradually stop reinvesting principal payments. This approach would likely be less disruptive to markets in an immediate sense, but would take a relatively long time to complete. These changes in interest rates 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 principal loan products for TrustCo 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. As noted previously, the 10 year Treasury yield rose significantly during the second quarter, although the yield remains at relative modest levels as compared to historical yields.

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. Because TrustCo is a portfolio lender and does not generally sell loans into the secondary market, the Company establishes 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.

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.

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Interest rates generally remained below historic norms on both short term and longer term investments despite the increases seen during the second quarter. As noted, deposit costs have generally continued to decline over the second quarter of 2013, although the rate of decline has slowed.

While TrustCo has been affected by aspects of the overall changes in financial markets, it has not been affected to the degree the mortgage crisis affected some banks and financial institutions in the United States. Generally, the crisis revolved around actual and future levels of delinquencies and defaults on mortgage loans, in many cases arising, in management's view, from lenders with overly liberal underwriting standards, changes in the types of mortgage loans offered, significant upward resets on adjustable rate loans and fraud, among other factors. The Company utilizes a traditional underwriting process in evaluating loan applications, and since originated loans are retained in portfolio there is a strong incentive to be conservative in making credit decisions. For additional information concerning TrustCo's loan portfolio and non-performing 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 very 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.

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 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 in the short term. In line with this view, balance sheet expansion did slow in the second quarter as compared to recent quarters.

For the second quarter of 2013, the net interest margin was 3.10%, down 6 basis points versus the prior year quarter. The quarterly results reflect the following significant factors:

The average balance of federal funds sold and other short-term investments increased by \$40.4 million while the average yield was flat at 25 basis points. The increase in the average balance reflects the sale of some securities available-for-sale during the quarter to take advantage of very favorable pricing when rates declined early in the quarter.

The average balance of securities available for sale decreased by \$130.5 million and the average yield decreased to 1.83% for the second quarter of 2013 compared to 1.88% for the same period in 2012. The average balance of held-to-maturity securities decreased by \$66.1 million and the average yield decreased to 3.46% for the second quarter of 2013 compared to 3.65% for the same period in 2012.

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The average loan portfolio grew by \$186.1 million to \$2.73 billion and the average yield decreased 44 basis points to 4.64% in the second quarter of 2013 compared to the same period in 2012. 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.

The average balance of interest bearing liabilities (primarily deposit accounts) increased \$2.1 million and the average rate paid decreased 17 basis points to 0.41% in the second quarter of 2013 compared to the same period in 2012. The decline in the rates paid on interest bearing liabilities reflects the Bank's decision to lower rates offered in response to market interest rates and changes in competitive conditions.

During the second quarter of 2013, the Company continued to focus on its strategy to expand the loan portfolio by offering competitive interest rates as the rate environment changed. Management believes the TrustCo residential real estate loan product is very competitive compared to local and national competitors. As noted, the widespread disruptions in the mortgage market as a result of the financial crisis have not had a significant impact on TrustCo, partly because the Company has not originated the types of loans that have been responsible for many of the problems causing the disruptions as well as the fact that housing prices in the Company's primary market of the Capital Region of New York have not experienced the declines realized in other areas of the country. The withdrawal from the market of some of the troubled lenders that did focus on subprime and similar loans slightly improved competitive conditions for the type of residential mortgage loans focused on by TrustCo; however, competition remains strong.

The strategy on the funding side of the balance sheet continues to be to attract deposit customers to the Company based upon a combination of service, convenience and interest rate. The Company has periodically offered attractive long-term deposit rates as part of a strategy to lengthen deposit lives. However, the decline in deposit costs, which initially lagged the decline in the Federal Funds target rate, has continued since the Federal Funds target was stabilized in late 2008.

### Earning Assets

Total average interest earning assets increased from \$4.31 billion in the second quarter of 2012 to \$4.34 billion in the same period of 2013 with an average yield of 3.67% in 2012 and 3.45% in 2013. Interest income on average earning assets declined from \$39.4 million in the second quarter of 2012 to \$37.4 million in the second quarter of 2013, on a tax equivalent basis, as the increase in average earning assets only partly offset the decline in average yield.

### Loans

The average balance of loans was \$2.73 billion in the second quarter of 2013 and \$2.54 billion in the comparable period in 2012. The yield on loans decreased 44 basis points to 4.64%. The higher average balances were more than offset by the lower yield, leading to a decrease in the interest income on loans from \$32.3 million in the second quarter of 2012 to \$31.6 million in the second quarter of 2013.

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Compared to the second quarter of 2012, the average balance of the loan portfolio during the second quarter of 2013 increased in the residential mortgage, home equity and installment loan categories, but declined in the commercial loan category. The average balance of residential mortgage loans was \$2.18 billion in 2013 compared to \$1.99 billion in 2012, an increase of 9.5%. The average yield on residential mortgage loans decreased by 51 basis points to 4.75% in the second quarter of 2013 compared to 2012.

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. As noted earlier, market interest rates have changed significantly in recent years as a result of national economic policy in the United States, as well as due to disruptions in the mortgage market. During this period of changing interest rates, TrustCo aggressively marketed the unique aspects of its loan products thereby attempting to create a differentiation from other lenders. These unique aspects include extremely 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 product will continue to attract customers in the residential mortgage loan area.

Commercial loans, which consist primarily of loans secured by commercial real estate, decreased \$21.5 million to an average balance of \$214.2 million in the second quarter of 2013 compared to the prior year. The average yield on this portfolio decreased 8 basis points to 5.25% over the same period.

The average yield on home equity credit lines declined 29 basis points to 3.37% during the second quarter of 2013 compared to 3.66% in the year earlier period. The average balances of home equity lines increased 5.4% to \$333.5 million in the second quarter of 2013 as compared to the prior year.

Securities Available-for-Sale

The average balance of the securities available-for-sale portfolio for the second quarter of 2013 was \$958.6 million compared to \$1.09 billion for the comparable period in 2012. The decreased balances reflect both the sale of securities during the second quarter of 2013 and limited new investment purchases. The average yield was 1.83% for the second quarter of 2013 and 1.88% for the second quarter of 2012. The decline in yield reflects that the reinvestment of funds from the sales, calls and maturities of securities into new securities was at lower market yields.

This portfolio is primarily comprised of bonds issued by government sponsored enterprises (such as Fannie Mae, the Federal Home Loan Bank, and Freddie Mac), agency issued residential mortgage-backed securities, agency issued commercial mortgage-backed securities, Small Business Administration participation certificates, municipal bonds and corporate bonds. These securities are recorded at fair value with any adjustment included in other comprehensive income.

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The net unrealized loss in the available-for-sale securities portfolio was \$24.4 million as of June 30, 2013 compared to a net unrealized gain of \$3.3 million as of March 31, 2013, with the change due primarily to an increase in long term interest rates. In the case of corporate bonds, pricing can be affected by the market's view of the creditworthiness of the issuing companies. All of the corporate bonds owned continue to be rated investment grade and are performing in accordance with the contractual term of the bonds.

### Held-to-Maturity Securities

The average balance of held-to-maturity securities was \$107.6 million for the second quarter of 2013 compared to \$173.7 million in the second quarter of 2012. The decrease in balances reflects a shift towards the available-for-sale portfolio in order to maintain flexibility in the current rate environment. The average yield was 3.46% for the 2013 period compared to 3.65% for the year earlier period. TrustCo expects to hold the securities in this portfolio until they mature or are called.

As of June 30, 2013, 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 2013 second quarter average balance of federal funds sold and other short-term investments was \$529.7 million, a \$40.4 million increase from the \$489.2 million average for the same period in 2012. The yield was flat at 0.25%.

Interest income from this portfolio increased \$28 thousand from \$299 thousand in 2012 to \$327 thousand in 2013, reflecting the average balance increase and flat yield.

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) decreased \$24.7 million to \$3.57 billion for the second quarter of 2013 versus the prior year, and the average rate paid decreased from 0.57% for 2012 to 0.38% for 2013. Total interest expense on these deposits decreased \$1.6 million to \$3.4 million in the second quarter of 2013 compared to the year earlier period. The decrease in deposits versus the prior year was due to strong growth in core deposits being more than offset by a decline in certificates of deposit. The decline in certificates was due to both the low rate environment leading more consumers to hold funds in money market, savings and demand accounts as well as a decision by management to adjust pricing to encourage such a shift and let more volatile certificate balances roll off. From the second quarter of 2012 to the second quarter of 2013, interest bearing demand account average balances were up 13.1%, money market account average balances were up 2.3% and savings account average balances were up 10.3%, while non-interest demand average balances were up 7.6%. Average balances in certificates of deposits declined 16.5% over the same time frame, but still constitute 28.9% of total average deposits. The Company does not accept brokered deposits and does not pay premium rates on certificates with balances over \$100,000.

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At June 30, 2013, the maturity of total time deposits is as follows:

|                        |             |
|------------------------|-------------|
| (dollars in thousands) |             |
| Under 1 year           | \$904,280   |
| 1 to 2 years           | 142,591     |
| 2 to 3 years           | 68,622      |
| 3 to 4 years           | 2,038       |
| 4 to 5 years           | 5,228       |
| Over 5 years           | 203         |
|                        | \$1,122,962 |

Average short-term borrowings for the quarter were \$179.9 million in 2013 compared to \$153.1 million in 2012. The average rate decreased during this time period from 0.99% in 2012 to 0.82% in 2013. 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 decreased by \$363 thousand to \$33.6 million in the second quarter of 2013 as compared to the same period in 2012. The net interest spread was down 5 basis points to 3.04% in the second quarter of 2013 as compared to the year ago period. As previously noted, the net interest margin was down 6 basis points to 3.10% for the second quarter of 2013 as compared to the same period in 2012.

**Nonperforming Assets**

Nonperforming assets include nonperforming loans (NPLs), which are those loans in a nonaccrual status, loans that have been restructured in a troubled debt restructuring (TDR), 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 categorized as other real estate owned. The OCC issued new guidance in the third quarter of 2012 in regard to the accounting treatment of loans where the borrowers have had their debt to the Company discharged in Chapter 7 bankruptcy and the borrower has not reaffirmed the debt. That guidance has been implemented and is reflected in the figures below. Management will continue to monitor this new guidance as further clarifications develop.

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Impaired loans are considered to be those commercial and commercial real estate loans in a nonaccrual status and TDRs. The following describes the nonperforming assets of TrustCo as of June 30, 2013:

Nonperforming loans: Total NPLs were \$43.4 million at June 30, 2013, compared to \$51.5 million at June 30, 2012 and \$49.9 million at March 31, 2013. Contributing to the decline in NPLs was the sale of 17 nonperforming residential loans with total net principal balances of \$855 thousand for a gain of \$50 thousand during the second quarter of 2013. There were \$43.3 million of nonaccrual loans at June 30, 2013 compared to \$51.2 million at June 30, 2012 and \$49.6 million at March 31, 2013. There were no loans at June 30, 2013 and 2012, or March 31, 2012 that were past due 90 days or more and still accruing interest.

At June 30, 2013, nonperforming loans primarily include a mix of commercial and residential loans. Of total nonperforming loans of \$43.4 million, \$36.9 million were residential real estate loans and \$6.5 million were commercial mortgages and commercial loans, compared to \$41.3 million and \$8.6 million, respectively at March 31, 2013.

As previously noted, a significant percentage of non-performing loans are residential real estate loans, which are historically lower-risk than most other types of loans. The Bank's loan loss experience on these loans has generally been strong with net charge-offs of 0.32% of average residential real estate loans (including home equity lines of credit) for the second quarter of 2013 (annualized), compared to 0.43% for the second quarter of 2012. These levels remain elevated compared to historical levels, reflecting current economic conditions. 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, 2013, 85.9% of its gross loan portfolio balances were in New York State and the immediately surrounding areas (including New Jersey, Vermont and Massachusetts), and 14.1% were in Florida. Those figures compare to 87.0% and 13.0%, respectively at March 31, 2013. Within these two geographic regions, commercial loans constitute a larger component of the local outstandings in New York than in Florida, at 8.2% and 5.5%, respectively, as of June 30, 2013. The Florida and New York levels of commercial loans as a percent of total loans within each geography were roughly flat with the March 31, 2013 numbers of 8.2% in New York and 5.6% in Florida.

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Economic conditions vary widely by geographic location. Florida experienced a more significant downturn than New York. Reflecting that, nonperforming loans are more heavily weighted towards Florida. As of June 30, 2013, 15.2% of nonperforming loans were to Florida borrowers, compared to 84.8% in New York and surrounding areas. The level of Florida based nonperforming loans declined from 19.3% as of March 31, 2013. For the three months ended June 30, 2013, Florida net charge-offs were equal to 5.9% of total net charge-offs, compared to 94.1% for New York and surrounding areas. For the first three months of 2013, Florida net charge-offs were 19.5% of total net charge-offs, and New York and surrounding area net charge-offs were 80.5%. The decline in the level of net charge-offs relative to loan outstandings in Florida reflects improvement in real estate conditions within our market territory over the last several quarters as well as the growth in post-recession loan originations.

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, 2013, there were no other loans classified for regulatory purposes that management reasonably expects will materially impact future operating results, liquidity, or capital resources.

TrustCo has identified nonaccrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring, as impaired loans. There were \$6.5 million of nonaccrual commercial mortgages and loans classified as impaired as of June 30, 2013, compared to \$8.6 million at March 31, 2013. There were \$18.9 million of impaired retail loans at June 30, 2013, compared to \$18.0 million at March 31, 2013. The average balances of all impaired loans were \$26.0 million during the second quarter of 2013 and \$19.4 million for the full year 2012. The increase in the average balance in 2013 versus 2012 is due to the adoption of OCC guidance on Chapter 7 bankruptcy loans in the third quarter of 2012.

At June 30, 2013 there was \$10.3 million of foreclosed real estate as compared to \$9.9 million at March 31, 2013.

During the second quarter of 2013, there were \$49 thousand of gross commercial loan charge offs and \$2.2 million of gross residential mortgage and consumer loan charge-offs as compared with \$1.0 million of gross commercial loan charge-offs and \$2.7 million of residential mortgage and consumer loan charge-offs in the second quarter of 2012. Gross recoveries during the second quarter of 2013 were \$1 thousand for commercial loans and \$165 thousand for residential mortgage and consumer loans, compared to \$2 thousand for commercial loans and \$136 thousand for residential and consumer in the second quarter of 2012.

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.



IndexAllocation of the Allowance for Loan Losses

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

|                                      | As of<br>June 30, 2013 |                                       | As of<br>December 31,<br>2012 |                                       |
|--------------------------------------|------------------------|---------------------------------------|-------------------------------|---------------------------------------|
|                                      | Amount                 | Percent<br>of<br>Loans<br>to<br>Total | Amount                        | Percent<br>of<br>Loans<br>to<br>Total |
| Commercial                           | \$3,374                | 7.13 %                                | \$3,399                       | 7.40 %                                |
| Real estate - construction           | 618                    | 1.29 %                                | 667                           | 1.39 %                                |
| Real estate mortgage - 1 to 4 family | 36,857                 | 79.27 %                               | 36,789                        | 78.60 %                               |
| Home equity lines of credit          | 6,636                  | 12.11 %                               | 6,985                         | 12.44 %                               |
| Installment Loans                    | 104                    | 0.20 %                                | 87                            | 0.17 %                                |
|                                      | \$47,589               | 100.00 %                              | \$47,927                      | 100.00 %                              |

At June 30, 2013, the allowance for loan losses was \$47.6 million, compared to the March 31, 2013 balance of \$47.7 million and \$47.9 million at December 31, 2012. The allowance represents 1.72% of the loan portfolio as of June 30, 2013 compared to 1.76% at March 31, 2013 and 1.79% at December 31, 2012.

The provision for loan losses was \$2.0 million for the quarter ended June 30, 2013 compared to \$3.0 million for the second quarter of 2012. Net charge-offs for the three-month period ended June 30, 2013 were \$2.1 million, compared to \$3.5 million in the year earlier period. The decrease in the provision for loan losses in 2013, as compared to net charge-offs, was primarily related to declining NPLs and charge-offs and generally improving conditions in Florida, where loss severity was particularly high in recent years.

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 charge offs 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 territory primarily (the Company's largest geographical market) over the last several years, as well as in the Company's other market areas.

Management continues to monitor these factors in determining future provisions or credits for loan losses in relation to the economic environment, loan charge-offs, recoveries and the level and trends of nonperforming loans.

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## 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. 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.

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.

Using this model, the fair value of capital projections as of June 30, 2013 are referenced below. The base case 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, 2013. 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.

| <u>As of June 30, 2013</u> | Estimated<br>Percentage<br>of<br>Fair value<br>of Capital<br>to<br>Fair value<br>of Assets |   |
|----------------------------|--|---|
| +400 BP                    | 11.63  | % |
| +300 BP                    | 13.47  |   |
| +200 BP                    | 15.23  |   |
| +100 BP                    | 16.77  |   |
| Current rates              | 18.19  |   |
| -100 BP                    | 17.19  |   |

## Noninterest Income

Total noninterest income for the second quarter of 2013 was \$5.9 million, compared to \$4.6 million in the prior year period. Excluding net securities transactions, non-interest income decreased \$38 thousand in the second quarter of 2013 to \$4.5 million, compared to the second quarter of 2012. Net gains on securities transactions were \$1.4 million in the second quarter of 2013, compared to net gains of \$55 thousand in the second quarter of 2012.

Trustco Financial Services income decreased \$120 thousand to \$1.3 million for the second quarter of 2013 compared to the second quarter of 2012, as the decline in non-recurring fees more than offset the increase in recurring fees. Assets under management were \$773 million at June 30, 2013 compared to \$825 million at December 31, 2012 and \$773 million at March 31, 2013. The decrease in assets as compared to December 31, 2012 was due to a single large account that was moved as the customer consolidated assets at one non-local provider.



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The total of fees for other services to customers plus other income was \$3.2 million in the second quarter of 2013, up \$82 thousand compared to the same period in 2012 reflecting the \$50 thousand gain on the sale of nonperforming loans, growth in the number of customers and accounts, as well as some increases in existing fees.

Noninterest Expenses

Total noninterest expenses were \$21.9 million for the three months ended June 30, 2013, compared to \$21.0 million for the three months ended June 30, 2012. The increase of \$820 thousand is primarily due to an increase in net other real estate (“ORE”) expenses which were up \$808 thousand to \$1.5 million. ORE expenses tend to show significant fluctuation from period-to-period. In the second quarter of 2013 the increase was the result of a large write down on a commercial ORE property. Moderate increases in salaries and benefits, net occupancy expenses, professional services and other expenses were roughly offset by a \$346 thousand decrease in advertising expense to \$714 thousand.

Advertising costs may rise or fall from period-to-period depending on the number and type of campaigns and promotions being run. Full time equivalent headcount was 710 as of June 30, 2013, compared to 742 as of June 30, 2012. During the second quarter of 2013 the Company implemented changes in its branch staffing model that emphasizes the use of part time employees to meet peak demand without overstaffing during periods of lower demand.

Income Taxes

In the second quarter of 2013, TrustCo recognized income tax expense of \$5.8 million as compared to \$5.3 million for the same period in 2012. The effective tax rates were 37.4% and 37.0% for the second quarters of 2013 and 2012, respectively. The tax expense on the Company’s income was different than tax expense at the statutory rate of 35%, due to tax exempt income and the effect of state income taxes.

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 are beginning to move towards higher required capital requirements due to the standards included in the Basel III reform measures as well as a general trend towards reducing risk in the banking system by providing a greater capital margin.

Total shareholders’ equity at June 30, 2013 was \$348.6 million, compared to \$349.9 million at June 30, 2012. TrustCo declared a dividend of \$0.065625 per share in the second quarter of 2013. This results in a dividend payout ratio of 63.3% based on second quarter 2013 earnings per share of \$0.104.

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The Company and the Bank achieved the following capital ratios as of June 30, 2013 and 2012:

## Trustco Bank

| (dollars in thousands)    | As of June 30, |        | Well<br>Capitalized* | Adequately<br>Capitalized* |
|---------------------------|----------------|--------|----------------------|----------------------------|
|                           | 2013           | 2012   |                      |                            |
| Tier 1 leverage capital   | 8.00 %         | 7.73 % | 5.00 %               | 4.00 %                     |
| Tier 1 risk-based capital | 16.41          | 15.92  | 6.00                 | 4.00                       |
| Total risk-based capital  | 17.67          | 17.18  | 10.00                | 8.00                       |

\*Federal regulatory minimum requirements to be considered to be Well Capitalized and Adequately Capitalized

## TrustCo Bank Corp NY

| (dollars in thousands)    | As of June 30, |        |
|---------------------------|----------------|--------|
|                           | 2013           | 2012   |
| Tier 1 leverage capital   | 8.18 %         | 7.86 % |
| Tier 1 risk-based capital | 16.77          | 16.19  |
| Total risk-based capital  | 18.04          | 17.45  |

In addition, at June 30, 2013, the consolidated tangible equity to total tangible assets ratio was 7.83%, compared to 7.90% at June 30, 2012. As a savings and loan holding company, TrustCo is not currently subject to formal capital requirements; however, under the Dodd-Frank Act, it will become subject to Federal Reserve regulations requiring minimum capital requirements in July 2015. The table above for TrustCo Bank Corp NY is a summary of actual capital amounts and ratios as of June 30, 2013 and 2012 for TrustCo on a consolidated basis, with the calculations done on the same basis as for Trustco Bank. Such capital amounts and ratios are not necessarily comparable to the amounts and ratios TrustCo will report when it becomes subject to regulatory capital requirements.

## Critical Accounting Policies:

Pursuant to 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 2012 Annual Report on Form 10-K 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  
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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 unrealized appreciation (depreciation), net of tax, in the available for sale portfolio of (\$3.9 million) in 2013 and \$2.6 million in 2012. 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.

| (dollars in thousands)   | Three months ended<br>June 30, 2013 |          |                 | Three months ended<br>June 30, 2012 |          |                 | Change<br>in<br>Interest<br>Income/<br>Expense | Variance<br>Balance<br>Change | Variance<br>Rate<br>Change |
|--|-------------------------------------|----------|-----------------|-------------------------------------|----------|-----------------|--|-------------------------------|----------------------------|
|  | Average<br>Balance                  | Interest | Average<br>Rate | Average<br>Balance                  | Interest | Average<br>Rate |  |                               |                            |
| Assets   |                                     |          |                 |                                     |          |                 |  |                               |                            |
| Securities available for sale:   |                                     |          |                 |                                     |          |                 |  |                               |                            |
| U. S. government sponsored enterprises   | \$218,199                           | 627      | 1.15 %          | \$719,590                           | 2,606    | 1.45 %          | \$(1,979)                                      | (1,526 )                      | (453 )                     |
| Mortgage backed securities and collateralized mortgage obligations-residential | 545,989                             | 2,701    | 1.98 %          | 255,039                             | 1,364    | 2.14 %          | 1,337  | 2,026                         | (689 )                     |
| State and political subdivisions   | 13,098                              | 231      | 7.05 %          | 36,730                              | 489      | 5.33 %          | (258 )   | (1,013 )                      | 755                        |
| Corporate bonds  | 54,724                              | 233      | 1.70 %          | 77,020                              | 648      | 3.37 %          | (415 )   | (153 )                        | (262 )                     |
| Small Business Administration-guaranteed participation securities              | 114,760                             | 564      | 1.97 %          | -                                   | -        | 0.00 %          | 564  | 282                           | 282                        |
| Mortgage backed securities and collateralized mortgage obligations-commercial  | 11,136                              | 38       | 1.36 %          | -                                   | -        | 0.00 %          | 38   | 19                            | 19                         |
| Other  | 660                                 | 3        | 1.82 %          | 660                                 | 5        | 3.03 %          | (2 )   | -                             | (2 )                       |
| Total securities available for sale  | 958,566                             | 4,397    | 1.83 %          | 1,089,039                           | 5,112    | 1.88 %          | (715 )   | (366 )                        | (349 )                     |
| Federal funds sold and other short-term Investments                            | 529,672                             | 327      | 0.25 %          | 489,228                             | 299      | 0.25 %          | 28   | 28                            | -                          |

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|  |             |        |        |             |        |        |         |          |          |  |
|--|-------------|--------|--------|-------------|--------|--------|---------|----------|----------|--|
| Held to maturity securities:   |             |        |        |             |        |        |         |          |          |  |
| Corporate bonds  | 13,947      | 214    | 6.14 % | 35,251      | 387    | 4.39 % | (173 )  | (848 )   | 675      |  |
| Mortgage backed securities and collateralized mortgage obligations-residential | 93,644      | 716    | 3.06 % | 138,419     | 1,198  | 3.46 % | (482 )  | (355 )   | (127 )   |  |
| Total held to maturity securities  | 107,591     | 930    | 3.46 % | 173,670     | 1,585  | 3.65 % | (655 )  | (1,203 ) | 548      |  |
| Federal Reserve Bank and Federal Home Loan Bank stock                          |             |        |        |             |        |        |         |          |          |  |
|  | 10,434      | 121    | 4.64 % | 9,432       | 149    | 6.32 % | (28 )   | 82       | (110 )   |  |
| Commercial loans   | 214,158     | 2,812  | 5.25 % | 235,651     | 3,138  | 5.33 % | (326 )  | (280 )   | (46 )    |  |
| Residential mortgage loans   | 2,177,171   | 25,866 | 4.75 % | 1,988,017   | 26,124 | 5.26 % | (258 )  | 9,916    | (10,174) |  |
| Home equity lines of credit  | 333,510     | 2,806  | 3.37 % | 316,289     | 2,875  | 3.66 % | (69 )   | 719      | (788 )   |  |
| Installment loans  | 4,930       | 162    | 13.16% | 3,762       | 146    | 15.60% | 16      | 133      | (117 )   |  |
| Loans, net of unearned income  | 2,729,769   | 31,646 | 4.64 % | 2,543,719   | 32,283 | 5.08 % | (637 )  | 10,487   | (11,124) |  |
| Total interest earning assets  | 4,336,032   | 37,421 | 3.45 % | 4,305,088   | 39,428 | 3.67 % | (2,007) | 9,029    | (11,036) |  |
| Allowance for loan losses  | (48,298 )   |        |        | (49,386 )   |        |        |         |          |          |  |
| Cash & non-interest earning assets   | 146,387     |        |        | 138,964     |        |        |         |          |          |  |
| Total assets   | \$4,434,121 |        |        | \$4,394,666 |        |        |         |          |          |  |
| Liabilities and shareholders' equity   |             |        |        |             |        |        |         |          |          |  |
| Deposits:  |             |        |        |             |        |        |         |          |          |  |
| Interest bearing checking accounts   | \$581,785   | 82     | 0.06 % | \$514,219   | 78     | 0.06 % | 4       | 4        | -        |  |
| Money market accounts  | 650,927     | 630    | 0.39 % | 636,171     | 770    | 0.49 % | (140 )  | 116      | (256 )   |  |
| Savings  | 1,218,683   | 829    | 0.27 % | 1,104,422   | 979    | 0.36 % | (150 )  | 538      | (688 )   |  |
| Time deposits  | 1,119,710   | 1,883  | 0.67 % | 1,341,038   | 3,230  | 0.97 % | (1,347) | (469 )   | (878 )   |  |
| Total interest bearing deposits  | 3,571,105   | 3,424  | 0.38 % | 3,595,850   | 5,057  | 0.57 % | (1,633) | 189      | (1,822 ) |  |
| Short-term borrowings  | 179,878     | 367    | 0.82 % | 153,082     | 378    | 0.99 % | (11 )   | 257      | (268 )   |  |
| Total interest bearing liabilities   | 3,750,983   | 3,791  | 0.41 % | 3,748,932   | 5,435  | 0.58 % | (1,644) | 447      | (2,091 ) |  |
| Demand deposits  | 301,123     |        |        | 279,761     |        |        |         |          |          |  |

|  |             |             |          |                |
|--|-------------|-------------|----------|----------------|
| Other liabilities  | 20,590      | 18,435      |          |                |
| Shareholders' equity   | 361,425     | 347,538     |          |                |
| <br>   |             |             |          |                |
| Total liabilities and shareholders' equity                                 | \$4,434,121 | \$4,394,666 |          |                |
| <br>   |             |             |          |                |
| Net interest income , tax equivalent                                       | 33,630      | 33,993      | \$(363 ) | 8,582 (8,945 ) |
| <br>   |             |             |          |                |
| Net interest spread  |             | 3.04 %      |          | 3.09 %         |
| <br>   |             |             |          |                |
| Net interest margin (net interest income to total interest earning assets) |             | 3.10 %      |          | 3.16 %         |
| <br>   |             |             |          |                |
| Tax equivalent adjustment  | (90 )       | (127 )      |          |                |
| <br>   |             |             |          |                |
| Net interest income  | 33,540      | 33,866      |          |                |



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TrustCo Bank Corp NY  
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### 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 unrealized appreciation (depreciation), net of tax, in the available for sale portfolio of (\$1.6 million) in 2013 and \$2.0 million in 2012. 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.

| (dollars in thousands)   | Six months ended<br>June 30, 2013 |          | Six months ended<br>June 30, 2012 |                    | Interest | Average<br>Rate | Change<br>in<br>Interest<br>Income/<br>Expense | Variance<br>Balance<br>Change | Variance<br>Rate<br>Change |   |
|--|-----------------------------------|----------|-----------------------------------|--------------------|----------|-----------------|--|-------------------------------|----------------------------|---|
|  | Average<br>Balance                | Interest | Average<br>Rate                   | Average<br>Balance |          |                 |  |                               |                            |   |
| Assets   |                                   |          |                                   |                    |          |                 |  |                               |                            |   |
| Securities available for sale:   |                                   |          |                                   |                    |          |                 |  |                               |                            |   |
| U. S. government sponsored enterprises   | \$244,430                         | 1,443    | 1.18 %                            | \$655,168          | 4,910    | 1.50 %          | \$(3,467)                                      | (2,587)                       | (880)                      | ) |
| Mortgage backed securities and collateralized mortgage obligations-residential | 551,667                           | 5,470    | 1.98 %                            | 229,849            | 2,457    | 2.14 %          | 3,013  | 3,549                         | (536)                      | ) |
| State and political subdivisions   | 15,812                            | 516      | 6.53 %                            | 38,371             | 1,092    | 5.69 %          | (576)  | (976)                         | 400                        | ) |
| Corporate bonds  | 51,061                            | 451      | 1.76 %                            | 85,094             | 1,470    | 3.46 %          | (1,019)  | (457)                         | (562)                      | ) |
| Small Business Administration-guaranteed participation securities              | 107,263                           | 1,060    | 1.98 %                            | -                  | -        | 0.00 %          | 1,060  | 530                           | 530                        | ) |
| Mortgage backed securities and collateralized mortgage obligations-commercial  | 9,764                             | 67       | 1.37 %                            | -                  | -        | 0.00 %          | 67   | 34                            | 33                         | ) |
| Other  | 660                               | 8        | 2.42 %                            | 660                | 10       | 3.03 %          | (2)  | -                             | (2)                        | ) |
| Total securities available for sale  | 980,657                           | 9,015    | 1.84 %                            | 1,009,142          | 9,939    | 1.97 %          | (924)  | 93                            | (1,017)                    | ) |
| Federal funds sold and other short-term Investments                            | 468,154                           | 572      | 0.25 %                            | 501,617            | 619      | 0.25 %          | (47)   | (47)                          | -                          | ) |

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|  |             |        |         |             |        |         |          |          |          |   |
|--|-------------|--------|---------|-------------|--------|---------|----------|----------|----------|---|
| Held to maturity securities:   |             |        |         |             |        |         |          |          |          |   |
| U. S. government   |             |        |         |             |        |         |          |          |          |   |
| sponsored enterprises  | -           | -      | 0.00 %  | 2,143       | 25     | 2.38 %  | (25 )    | (13 )    | (12 )    | ) |
| Corporate bonds  | 18,086      | 526    | 5.81 %  | 44,074      | 896    | 4.06 %  | (370 )   | (1,105 ) | 735      | ) |
| Mortgage backed securities and collateralized mortgage obligations-residential |             |        |         |             |        |         |          |          |          |   |
|  | 98,598      | 1,505  | 3.05 %  | 140,783     | 2,488  | 3.53 %  | (983 )   | (676 )   | (307 )   | ) |
| Total held to maturity securities  |             |        |         |             |        |         |          |          |          |   |
|  | 116,684     | 2,031  | 3.48 %  | 187,000     | 3,409  | 3.65 %  | (1,378 ) | (1,794 ) | 416      | ) |
| Federal Reserve Bank and Federal Home Loan Bank stock                          |             |        |         |             |        |         |          |          |          |   |
|  | 10,035      | 240    | 4.78 %  | 9,218       | 239    | 5.19 %  | 1        | 8        | (7 )     | ) |
| Commercial loans   |             |        |         |             |        |         |          |          |          |   |
|  | 215,178     | 5,659  | 5.26 %  | 238,460     | 6,501  | 5.45 %  | (842 )   | (620 )   | (222 )   | ) |
| Residential mortgage loans   | 2,156,733   | 51,550 | 4.79 %  | 1,975,333   | 52,236 | 5.30 %  | (686 )   | 9,504    | (10,190) | ) |
| Home equity lines of credit  | 333,472     | 5,606  | 3.39 %  | 315,644     | 5,740  | 3.66 %  | (134 )   | 681      | (815 )   | ) |
| Installment loans  | 4,730       | 320    | 13.65 % | 3,688       | 291    | 15.87 % | 29       | 129      | (100 )   | ) |
| Loans, net of unearned income  |             |        |         |             |        |         |          |          |          |   |
|  | 2,710,113   | 63,135 | 4.67 %  | 2,533,125   | 64,768 | 5.12 %  | (1,633 ) | 9,693    | (11,326) | ) |
| Total interest earning assets  |             |        |         |             |        |         |          |          |          |   |
|  | 4,285,643   | 74,993 | 3.51 %  | 4,240,102   | 78,974 | 3.73 %  | (3,981 ) | 7,953    | (11,934) | ) |
| Allowance for loan losses  |             |        |         |             |        |         |          |          |          |   |
|  | (48,377 )   |        |         | (49,613 )   |        |         |          |          |          | ) |
| Cash & non-interest earning assets   |             |        |         |             |        |         |          |          |          |   |
|  | 149,670     |        |         | 140,522     |        |         |          |          |          | ) |
| Total assets   |             |        |         |             |        |         |          |          |          |   |
|  | \$4,386,936 |        |         | \$4,331,011 |        |         |          |          |          | ) |
| Liabilities and shareholders' equity   |             |        |         |             |        |         |          |          |          |   |
| Deposits:  |             |        |         |             |        |         |          |          |          |   |
| Interest bearing checking accounts   |             |        |         |             |        |         |          |          |          |   |
|  | \$567,261   | 162    | 0.06 %  | \$498,290   | 156    | 0.06 %  | 6        | 6        | -        | ) |
| Money market accounts  | 655,027     | 1,315  | 0.40 %  | 634,032     | 1,693  | 0.54 %  | (378 )   | 158      | (536 )   | ) |
| Savings  | 1,211,173   | 1,745  | 0.29 %  | 1,062,010   | 2,081  | 0.39 %  | (336 )   | 633      | (969 )   | ) |
| Time deposits  | 1,104,379   | 3,703  | 0.68 %  | 1,353,072   | 6,648  | 0.99 %  | (2,945 ) | (1,089 ) | (1,856 ) | ) |
| Total interest bearing deposits  |             |        |         |             |        |         |          |          |          |   |
|  | 3,537,840   | 6,925  | 0.39 %  | 3,547,404   | 10,578 | 0.60 %  | (3,653 ) | (292 )   | (3,361 ) | ) |
| Short-term borrowings  | 174,001     | 731    | 0.85 %  | 149,283     | 766    | 1.03 %  | (35 )    | 244      | (279 )   | ) |
| Total interest bearing liabilities   |             |        |         |             |        |         |          |          |          |   |
|  | 3,711,841   | 7,656  | 0.42 %  | 3,696,687   | 11,344 | 0.62 %  | (3,688 ) | (48 )    | (3,640 ) | ) |

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|  |             |             |          |                |
|--|-------------|-------------|----------|----------------|
| Demand deposits  | 294,449     | 270,706     |          |                |
| Other liabilities  | 20,339      | 18,333      |          |                |
| Shareholders' equity   | 360,307     | 345,285     |          |                |
| Total liabilities and shareholders' equity                                 | \$4,386,936 | \$4,331,011 |          |                |
| Net interest income , tax equivalent                                       | 67,337      | 67,630      | \$(293 ) | 8,001 (8,294 ) |
| Net interest spread  | 3.09 %      | 3.11 %      |          |                |
| Net interest margin (net interest income to total interest earning assets) | 3.15 %      | 3.19 %      |          |                |
| Tax equivalent adjustment  | (192 )      | (380 )      |          |                |
| Net interest income  | 67,145      | 67,250      |          |                |

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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, 2012 the Company is subject to interest rate risk as its principal market risk. As noted in detail throughout this Management's Discussion and Analysis for the three and six-month periods ended June 30, 2013, the Company continues to respond to changes in interest rates in a fashion to position the Company to meet short term earning goals and to also allow the Company to respond to changes in interest rates in the future. Consequently, for the second quarter of 2013, the Company had an average balance of federal funds sold and other short-term investments of \$529.7 million compared to \$489.2 million in the second quarter of 2012. 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 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.

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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.

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, 2012.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

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Item 6. Exhibits

Reg S-K (Item 601)

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 Robert T. Cushing, principal financial officer.   |
| 32           | Section 1350 Certifications of Robert J. McCormick, principal executive officer and Robert T. Cushing, 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 XBRL | Taxonomy 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/ Robert T. Cushing  
Robert T. Cushing  
Executive Vice President and Chief Financial Officer

Date: August 6, 2013

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