

TRUSTCO BANK CORP N Y  
Form 10-Q  
May 03, 2019

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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 March 31, 2019 Commission File Number 0-10592

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Trading Symbol (s)	Name of each exchange on which registered
Common Stock, \$1.00 par value	TRST	Nasdaq Global Select Market

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

<u>Common Stock</u>	Number of Shares Outstanding as of <u>April 30, 2019</u>
\$1.00 Par Value	96,822,301

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TrustCo Bank Corp NY

INDEX

	PAGE NO.
Part I. FINANCIAL INFORMATION	
Item 1. Consolidated Interim Financial Statements (Unaudited):	
<u>Consolidated Statements of Income for the three month periods ended March 31, 2019 and 2018</u>	3
<u>Consolidated Statements of Comprehensive Income for the three month periods ended March 31, 2019 and 2018</u>	4
<u>Consolidated Statements of Financial Condition as of March 31, 2019 and December 31, 2018</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity for the three month periods ended March 31, 2019 and 2018</u>	6
<u>Consolidated Statements of Cash Flows for the three month periods ended March 31, 2019 and 2018</u>	7
<u>Notes to Consolidated Interim Financial Statements</u>	8– 35
<u>Report of Independent Registered Public Accounting Firm</u>	36
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37-55
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
Item 4. <u>Controls and Procedures</u>	56
Part II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	57
Item 1A. <u>Risk Factors</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3. <u>Defaults Upon Senior Securities</u>	57
Item 4. <u>Mine Safety</u>	57
Item 5. <u>Other Information</u>	57
Item 6. <u>Exhibits</u>	57

Index

## TRUSTCO BANK CORP NY

## Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share data)

	Three months ended March 31,	
	2019	2018
Interest and dividend income:		
Interest and fees on loans	\$ 41,253	38,091
Interest and dividends on securities available for sale:		
U. S. government sponsored enterprises	783	750
State and political subdivisions	1	7
Mortgage-backed securities and collateralized mortgage obligations-residential	1,555	1,763
Corporate bonds	208	133
Small Business Administration-guaranteed participation securities	297	352
Mortgage-backed securities and collateralized mortgage obligations-commercial	-	42
Other securities	5	5
Total interest and dividends on securities available for sale	2,849	3,052
Interest on held to maturity securities:		
Mortgage-backed securities and collateralized mortgage obligations-residential	217	260
Total interest on held to maturity securities	217	260
Federal Reserve Bank and Federal Home Loan Bank stock	85	77
Interest on federal funds sold and other short-term investments	3,009	2,017
Total interest income	47,413	43,497
Interest expense:		
Interest on deposits:		
Interest-bearing checking	121	106
Savings accounts	377	419
Money market deposit accounts	826	439
Time deposits	5,976	2,860
Interest on short-term borrowings	381	358
Total interest expense	7,681	4,182
Net interest income	39,732	39,315
Provision for loan losses	300	300
Net interest income after provision for loan losses	39,432	39,015
Noninterest income:		
Trustco financial services income	1,733	1,815
Fees for services to customers	2,520	2,645
Other	384	219
Total noninterest income	4,637	4,679
Noninterest expenses:		
Salaries and employee benefits	11,451	10,422
Net occupancy expense	4,167	4,315
Equipment expense	1,902	1,751

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Professional services	1,650	1,430
Outsourced services	1,925	1,925
Advertising expense	785	630
FDIC and other insurance	648	1,023
Other real estate (income) expense, net	(24 )	372
Other	2,363	2,287
Total noninterest expenses	24,867	24,155
Income before taxes	19,202	19,539
Income taxes	4,644	4,731
Net income	\$ 14,558	14,808
Net income per share:		
- Basic	\$ 0.150	0.154
- Diluted	\$ 0.150	0.153

See accompanying notes to unaudited consolidated interim financial statements.

3

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Index

## TRUSTCO BANK CORP NY

## Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)

	Three months ended March 31,	
	2019	2018
Net income	\$ 14,558	14,808
Net unrealized holding gain (loss) on securities available for sale	4,588	(7,160 )
Tax effect	(1,192 )	1,858
Net unrealized gain (loss) on securities available for sale, net of tax	3,396	(5,302 )
Amortization of net actuarial gain	(48 )	(72 )
Amortization of prior service (credit) cost	(85 )	23
Tax effect	35	13
Amortization of net actuarial gain and prior service credit on pension and postretirement plans, net of tax	(98 )	(36 )
Other comprehensive income (loss), net of tax	3,298	(5,338 )
Comprehensive income	\$ 17,856	9,470

See accompanying notes to unaudited consolidated interim financial statements.

Index

## TRUSTCO BANK CORP NY

## Consolidated Statements of Financial Condition (Unaudited)

(dollars in thousands, except per share data)

	March 31, 2019	December 31, 2018
<b>ASSETS:</b>		
Cash and due from banks	\$ 43,064	49,260
Federal funds sold and other short term investments	576,123	454,449
Total cash and cash equivalents	619,187	503,709
Securities available for sale	546,466	501,463
Held to maturity securities (fair value 2019 \$22,283; 2018 \$22,924)	21,609	22,501
Federal Reserve Bank and Federal Home Loan Bank stock	8,953	8,953
Loans, net of deferred net costs	3,861,153	3,874,096
Less:		
Allowance for loan losses	44,671	44,766
Net loans	3,816,482	3,829,330
Bank premises and equipment, net	34,428	34,694
Operating lease right-of-use assets	51,559	-
Other assets	57,637	58,263
Total assets	\$ 5,156,321	4,958,913
<b>LIABILITIES:</b>		
Deposits:		
Demand	\$ 408,417	405,069
Interest-bearing checking	895,099	904,678
Savings accounts	1,150,329	1,182,683
Money market deposit accounts	538,043	507,311
Time deposits	1,421,181	1,274,506
Total deposits	4,413,069	4,274,247
Short-term borrowings	159,778	161,893
Operating lease liabilities	56,723	-
Accrued expenses and other liabilities	25,033	32,902
Total liabilities	4,654,603	4,469,042
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock par value \$1; 150,000,000 shares authorized; 100,180,132 and 100,175,032 shares issued at March 31, 2019 and December 31, 2018, respectively	100,180	100,175
Surplus	176,510	176,710

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Undivided profits	264,364	256,397
Accumulated other comprehensive loss, net of tax	(7,011 )	(10,309 )
Treasury stock at cost - 3,434,274 and 3,516,440 shares at March 31, 2019 and December 31, 2018, respectively	(32,325 )	(33,102 )
Total shareholders' equity	501,718	489,871
Total liabilities and shareholders' equity	\$ 5,156,321	4,958,913

See accompanying notes to unaudited consolidated interim financial statements.

5

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Index

## TRUSTCO BANK CORP NY

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

(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Beginning balance, January 1, 2018	\$99,998	175,651	219,436	(1,806 )	(34,971)	458,308
Net income	-	-	14,808	-	-	14,808
Tax Cuts and Jobs Act of 2017, Reclassification from AOCI to Retained Earnings, Tax Effect	-	-	1,346	(1,346 )	-	-
Other comprehensive income, net of tax	-	-	-	(5,338 )	-	(5,338 )
Stock options exercised (4,000 shares)	4	16	-	-	-	20
Cash dividend declared, \$0.0656 per share	-	-	(6,323 )	-	-	(6,323 )
Sale of treasury stock (65,289 shares)	-	(21 )	-	-	615	594
Stock based compensation expense	-	28	-	-	-	28
Ending balance, March 31, 2018	\$100,002	175,674	229,267	(8,490 )	(34,356)	462,097
Beginning balance, January 1, 2019	\$100,175	\$176,710	\$256,397	\$ (10,309 )	\$(33,102)	\$489,871
Net income	-	-	14,558	-	-	14,558
Other comprehensive income, net of tax	-	-	-	3,298	-	3,298
Stock options exercised (5,100 shares)	5	30	-	-	-	35
Cash dividend declared, \$0.068125 per share	-	-	(6,591 )	-	-	(6,591 )
Purchase of treasury stock (4,131 shares)	-	-	-	-	(35 )	(35 )
Sale of treasury stock (86,297 shares)	-	(218 )	-	-	812	594
Stock based compensation expense	-	(12 )	-	-	-	(12 )
Ending balance, March 31, 2019	\$100,180	176,510	264,364	(7,011 )	(32,325)	501,718

See accompanying notes to unaudited consolidated interim financial statements.

Index

## TRUSTCO BANK CORP NY

## Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 14,558	14,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,010	942
Amortization of right-of-use asset	1,470	-
Net gain on sale of other real estate owned	(306)	(137)
Writedown of other real estate owned	140	199
Provision for loan losses	300	300
Deferred tax expense (benefit)	498	(305)
Net amortization of securities	688	915
Stock based compensation expense	(12)	28
Increase in taxes receivable	(18)	(1,787)
(Increase) decrease in interest receivable	(13)	862
Increase in interest payable	448	128
Increase in other assets	(1,545)	(946)
Decrease in operating lease liabilities	(1,488)	-
Decrease in accrued expenses and other liabilities	(3,141)	(3,039)
Total adjustments	(1,969)	(2,840)
Net cash provided by operating activities	12,589	11,968
Cash flows from investing activities:		
Proceeds from calls of securities available for sale	16,041	25,028
Proceeds from calls and maturities of held to maturity securities	851	1,377
Proceeds from maturities of securities available for sale	10,000	25,000
Purchases of securities available for sale	(67,103)	(45,224)
Net decrease (increase) in loans	11,863	(31,151)
Proceeds from dispositions of other real estate owned	1,265	1,486
Purchases of bank premises and equipment	(744)	(1,025)
Net cash used in investing activities	(27,827)	(24,509)
Cash flows from financing activities:		
Net increase in deposits	138,822	61,754
Net decrease in short-term borrowings	(2,115)	(39,081)
Proceeds from exercise of stock options	35	20
Proceeds from sale of treasury stock	594	594
Purchases of treasury stock	(35)	-
Dividends paid	(6,585)	(6,316)
Net cash provided by financing activities	130,716	16,971
Net increase in cash and cash equivalents	115,478	4,430
Cash and cash equivalents at beginning of period	503,709	612,740
Cash and cash equivalents at end of period	\$ 619,187	617,170

## Supplemental Disclosure of Cash Flow Information:

## Cash paid during the year for:

Interest paid	\$ 7,233		4,054
Income taxes paid	4,662		6,524
Other non cash items:			
Transfer of loans to other real estate owned	685		492
Increase in dividends payable	6		7
Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes	4,588		(7,160 )
Change in deferred tax effect on unrealized (loss) gain on securities available for sale	(1,192	)	1,858
Amortization of net actuarial gain and prior service cost on pension and postretirement plans	(133	)	(49 )
Change in deferred tax effect of amortization of net actuarial gain postretirement benefit plans	35		13
In conjunction with the adoption of ASU 2016-02 as detailed in Note 9 to the Unaudited Consolidated Financial Statements, the following assets were recorded and liabilities were assumed:			
Operating lease right-of-use assets	53,029		-
Operating lease liabilities	58,211		-

See accompanying notes to unaudited consolidated interim financial statements.

Index

## (1) Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the “Company” or “TrustCo”) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months ended March 31, 2019 is not necessarily indicative of the results that may be expected for the year ending December 31, 2019, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all recurring adjustments necessary to present fairly the financial position as of March 31, 2019, the results of operations and cash flows for the three months ended March 31, 2019 and 2018. The accompanying unaudited Consolidated Interim Financial Statements should be read in conjunction with the Company’s year end Consolidated Financial Statements, including notes thereto, which are included in the Company’s Annual Report on Form 10 K for the year ended December 31, 2018. The accompanying unaudited Consolidated Interim 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”). A reconciliation of the component parts of earnings per share for the three months ended March 31, 2019 and 2018 is as follows:

(in thousands, except per share data)	For the three months ended	
	March 31, 2019	2018
Net income	\$ 14,558	14,808
Weighted average common shares	96,744	96,353
Stock Options	78	131
Weighted average common shares including potential dilutive shares	96,822	96,484
Basic EPS	\$ 0.150	0.154
Diluted EPS	\$ 0.150	0.153

For the three months ended March 31, 2019 and 2018, there were no antidilutive stock options excluded from diluted earnings.

Index

## (3) Benefit Plans

The table below outlines the components of the Company's net periodic benefit recognized during the three months ended March 31, 2019 and 2018 for its pension and other postretirement benefit plans:

(dollars in thousands)	For the three months ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Service cost	\$ 8	11	18	26
Interest cost	315	326	60	54
Expected return on plan assets	(752 )	(687 )	(248 )	(190 )
Amortization of net loss (gain)	-	17	(48 )	(89 )
Amortization of prior service (credit) cost	-	-	(85 )	23
Net periodic benefit	\$ (429 )	(333 )	(303 )	(176 )

The Company does not expect to make contributions to its pension and postretirement benefit plans in 2019. As of March 31, 2019, 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 medical benefits and postretirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

Index

## (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)	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$149,870	26	1,604	148,292
State and political subdivisions	168	4	-	172
Mortgage backed securities and collateralized mortgage obligations - residential	318,864	198	6,116	312,946
Corporate bonds	30,299	89	130	30,258
Small Business Administration - guaranteed participation securities	56,060	-	1,947	54,113
Other	685	-	-	685
<b>Total Securities Available for Sale</b>	<b>\$555,946</b>	<b>317</b>	<b>9,797</b>	<b>546,466</b>

(dollars in thousands)	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$154,868	-	2,708	152,160
State and political subdivisions	168	5	-	173
Mortgage backed securities and collateralized mortgage obligations - residential	271,386	53	9,407	262,032
Corporate bonds	30,048	-	110	29,938
Small Business Administration - guaranteed participation securities	58,376	-	1,901	56,475
Other	685	-	-	685
<b>Total securities available for sale</b>	<b>\$515,531</b>	<b>58</b>	<b>14,126</b>	<b>501,463</b>

The schedule of maturities of securities available for sale is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$5,165	5,166
Due in one year through five years	175,796	174,180
Due after five years through ten years	61	61
Mortgage backed securities and collateralized mortgage obligations	318,864	312,946
Small Business Administration - guaranteed participation securities	56,060	54,113
	<b>\$555,946</b>	<b>546,466</b>



Index

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)	March 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	\$-	-	123,289	1,604	123,289	1,604
Mortgage backed securities and collateralized mortgage obligations - residential	27,597	215	251,395	5,901	278,992	6,116
Corporate bonds	4,870	130	-	-	4,870	130
Small Business Administration - guaranteed participation securities	-	-	54,113	1,947	54,113	1,947
<b>Total</b>	<b>\$32,467</b>	<b>345</b>	<b>428,797</b>	<b>9,452</b>	<b>461,264</b>	<b>9,797</b>

  

(dollars in thousands)	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	\$29,870	106	112,291	2,602	142,161	2,708
Mortgage backed securities and collateralized mortgage obligations - residential	1,102	11	259,729	9,396	260,831	9,407
Corporate bonds	14,943	98	9,995	12	24,938	110
Small Business Administration - guaranteed participation securities	-	-	56,475	1,901	56,475	1,901
<b>Total</b>	<b>\$45,915</b>	<b>215</b>	<b>438,490</b>	<b>13,911</b>	<b>484,405</b>	<b>14,126</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 ended March 31, 2019 and 2018 are as follows:

(dollars in thousands)	Three months ended March 31,	
	2019	2018
Proceeds from sales	\$ -	-
Proceeds from calls/paydowns	16,041	25,028
Proceeds from maturities	10,000	25,000

There were no gross realized gains or losses from calls of available for sale securities during the three months ended March 31, 2019 and 2018.

There were no sales or transfers of securities available for sale during the three months ended March 31, 2019 and 2018.





Index

(b) Held to maturity securities

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

(dollars in thousands)	March 31, 2019			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$21,609	710	36	22,283
Total held to maturity	\$21,609	710	36	22,283

(dollars in thousands)	December 31, 2018			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$22,501	577	154	22,924
Total held to maturity	\$22,501	577	154	22,924

The following table distributes the held to maturity portfolio as of March 31, 2019, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

(dollars in thousands)	Amortized Cost	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$ 21,609	22,283
	\$ 21,609	22,283

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 unrecognized loss position, were as follows:

(dollars in thousands)	March 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrec. Loss	Fair Value	Gross Unrec. Loss	Fair Value	Gross Unrec. Loss
Mortgage backed securities and collateralized mortgage obligations - residential	\$-	-	6,501	36	6,501	36
Total	\$-	-	6,501	36	6,501	36

(dollars in thousands)	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrec. Loss	Fair Value	Gross Unrec. Loss	Fair Value	Gross Unrec. Loss
Mortgage backed securities and collateralized mortgage obligations - residential	\$-	-	6,501	36	6,501	36
Total	\$-	-	6,501	36	6,501	36

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		Loss		Loss		Loss
Mortgage backed securities and collateralized mortgage obligations - residential	\$10,958	154	-	-	10,958	154
Total	\$10,958	154	-	-	10,958	154

12

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Index

All held to maturity securities are held at cost on the financial statements.

There were no sales or transfers of held to maturity securities during the three months ended March 31, 2019 and 2018.

(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.

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

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

As of March 31, 2019, the Company’s security portfolio included certain securities 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 March 31, 2019.

Mortgage backed securities and collateralized mortgage obligations – residential: At March 31, 2019, all 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 March 31, 2019.

Corporate Bonds: March 31, 2019, corporate bonds held by the Company are investment grade quality. 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 March 31, 2019.

Small Business Administration (SBA) - guaranteed participation securities: March 31, 2019, 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 March 31, 2019.

Index

## (5) Loans and Allowance for Loan Losses

(dollars in thousands)	March 31, 2019		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 152,731	15,386	168,117
Other	21,983	247	22,230
Real estate mortgage - 1 to 4 family:			
First mortgages	2,438,732	847,444	3,286,176
Home equity loans	71,753	18,264	90,017
Home equity lines of credit	237,874	44,160	282,034
Installment	10,043	2,536	12,579
Total loans, net	\$2,933,116	\$928,037	3,861,153
Less: Allowance for loan losses			44,671
Net loans			\$3,816,482

(dollars in thousands)	December 31, 2018		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 156,278	15,275	171,553
Other	24,330	263	24,593
Real estate mortgage - 1 to 4 family:			
First mortgages	2,442,711	845,166	3,287,877
Home equity loans	71,523	17,308	88,831
Home equity lines of credit	243,765	45,775	289,540
Installment	9,462	2,240	11,702
Total loans, net	\$2,948,069	926,027	3,874,096
Less: Allowance for loan losses			44,766
Net loans			\$3,829,330

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

At March 31, 2019 and December 31, 2018, the Company had approximately \$27.2 million and \$26.7 million of real estate construction loans, respectively. Of the \$27.2 million in real estate construction loans at March 31, 2019, approximately \$13.8 million are secured by first mortgages to residential borrowers while approximately \$13.4 million were to commercial borrowers for residential construction projects. Of the \$26.7 million in real estate construction loans at December 31, 2018, approximately \$14.2 million are secured by first mortgages to residential borrowers while approximately \$12.5 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company's New York market.

The Company 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.



Index

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

(dollars in thousands)	March 31, 2019		
	New York and other states*	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$ 696	-	696
Other	5	-	5
Real estate mortgage - 1 to 4 family:			
First mortgages	18,282	1,542	19,824
Home equity loans	363	-	363
Home equity lines of credit	3,698	102	3,800
Installment	26	-	26
Total non-accrual loans	23,070	1,644	24,714
Restructured real estate mortgages - 1 to 4 family	33	-	33
Total nonperforming loans	\$23,103	1,644	24,747

(dollars in thousands)	December 31, 2018		
	New York and other states*	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$ 639	-	639
Other	6	-	6
Real estate mortgage - 1 to 4 family:			
First mortgages	18,202	1,812	20,014
Home equity loans	247	-	247
Home equity lines of credit	3,924	103	4,027
Installment	4	15	19
Total non-accrual loans	23,022	1,930	24,952
Restructured real estate mortgages - 1 to 4 family	34	-	34
Total nonperforming loans	\$23,056	1,930	24,986

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

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of March 31, 2019 and December 31, 2018, other real estate owned included \$703 thousand and \$1.1 million of residential foreclosed properties, respectively. In addition, non-accrual residential mortgage loans that are in the process of foreclosure had a recorded investment of \$12.4 million as of March 31, 2019 and December 31, 2018.



Index

The following tables present the aging of the recorded investment in past due loans by loan class and by region as of March 31, 2019 and December 31, 2018:

March 31, 2019						
New York and other states*:  (dollars in thousands)	30-59	60-89	90 +	Total	Current	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$96	-	565	661	152,070	152,731
Other	-	-	-	-	21,983	21,983
Real estate mortgage - 1 to 4 family:						
First mortgages	2,798	780	13,471	17,049	2,421,683	2,438,732
Home equity loans	16	27	209	252	71,501	71,753
Home equity lines of credit	913	341	1,999	3,253	234,621	237,874
Installment	70	47	26	143	9,900	10,043
<b>Total</b>	<b>\$3,893</b>	<b>1,195</b>	<b>16,270</b>	<b>21,358</b>	<b>2,911,758</b>	<b>2,933,116</b>
Florida:						
(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$ -	-	-	-	15,386	15,386
Other	-	-	-	-	247	247
Real estate mortgage - 1 to 4 family:						
First mortgages	603	158	571	1,332	846,112	847,444
Home equity loans	-	50	-	50	18,214	18,264
Home equity lines of credit	120	-	50	170	43,990	44,160
Installment	5	19	-	24	2,512	2,536
<b>Total</b>	<b>\$ 728</b>	<b>227</b>	<b>621</b>	<b>1,576</b>	<b>926,461</b>	<b>928,037</b>
Total:						
(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$ 96	-	565	661	167,456	168,117
Other	-	-	-	-	22,230	22,230
Real estate mortgage - 1 to 4 family:						
First mortgages	3,401	938	14,042	18,381	3,267,795	3,286,176
Home equity loans	16	77	209	302	89,715	90,017
Home equity lines of credit	1,033	341	2,049	3,423	278,611	282,034
Installment	75	66	26	167	12,412	12,579

Total	\$ 4,621	1,422	16,891	22,934	3,838,219	3,861,153
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\* Includes New York, New Jersey, Vermont and Massachusetts.

16

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Index

December 31, 2018

New York and other states\*:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total 30+ days Past Due	Current	Total Loans
(dollars in thousands)						
Commercial:						
Commercial real estate	\$ 198	-	370	568	155,710	156,278
Other	-	-	-	-	24,330	24,330
Real estate mortgage - 1 to 4 family:						
First mortgages	3,276	898	13,267	17,441	2,425,270	2,442,711
Home equity loans	158	94	212	464	71,059	71,523
Home equity lines of credit	963	348	1,691	3,002	240,763	243,765
Installment	44	29	2	75	9,387	9,462
Total	\$4,639	1,369	15,542	21,550	2,926,519	2,948,069

Florida:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total 30+ days Past Due	Current	Total Loans
(dollars in thousands)						
Commercial:						
Commercial real estate	\$ -	-	-	-	15,275	15,275
Other	-	-	-	-	263	263
Real estate mortgage - 1 to 4 family:						
First mortgages	417	407	721	1,545	843,621	845,166
Home equity loans	50	-	-	50	17,258	17,308
Home equity lines of credit	40	-	50	90	45,685	45,775
Installment	12	7	15	34	2,206	2,240
Total	\$ 519	414	786	1,719	924,308	926,027

Total:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total 30+ days Past Due	Current	Total Loans
(dollars in thousands)						
Commercial:						
Commercial real estate	\$ 198	-	370	568	170,985	171,553
Other	-	-	-	-	24,593	24,593
Real estate mortgage - 1 to 4 family:						
First mortgages	3,693	1,305	13,988	18,986	3,268,891	3,287,877
Home equity loans	208	94	212	514	88,317	88,831
Home equity lines of credit	1,003	348	1,741	3,092	286,448	289,540
Installment	56	36	17	109	11,593	11,702
Total	\$ 5,158	1,783	16,328	23,269	3,850,827	3,874,096

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

At March 31, 2019 and December 31, 2018, there were no loans that were 90 days past due and still accruing interest. As a result, non-accrual loans include all loans 90 days or more past due as well as certain loans less than 90 days past due that were placed on non-accrual status for reasons other than delinquent status. There are no commitments to extend further credit on non-accrual or restructured loans.

17

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Index

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

(dollars in thousands)	For the three months ended March 31, 2019			
	Real Estate		Installment	Total
	Commercial	1 to 4 Family Mortgage-		
Balance at beginning of period	\$ 4,048	39,772	946	44,766
Loans charged off:				
New York and other states*	7	392	29	428
Florida	-	29	31	60
Total loan chargeoffs	7	421	60	488
Recoveries of loans previously charged off:				
New York and other states*	3	74	6	83
Florida	-	10	-	10
Total recoveries	3	84	6	93
Net loans charged off	4	337	54	395
Provision for loan losses	(310 )	550	60	300
Balance at end of period	\$ 3,734	39,985	952	44,671

(dollars in thousands)	For the three months ended March 31, 2018			
	Real Estate		Installment	Total
	Commercial	1 to 4 Family Mortgage-		
Balance at beginning of period	\$ 4,324	39,077	769	44,170
Loans charged off:				
New York and other states*	-	131	71	202
Florida	-	-	3	3
Total loan chargeoffs	-	131	74	205
Recoveries of loans previously charged off:				
New York and other states*	6	103	6	115
Florida	-	-	-	-
Total recoveries	6	103	6	115
Net loans charged off (recoveries)	(6 )	28	68	90
Provision for loan losses	(75 )	310	64	300
Balance at end of period	\$ 4,255	39,359	765	44,379

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

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

Index

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2019 and December 31, 2018:

(dollars in thousands)	March 31, 2019			
	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	3,734	39,985	952	44,671
Total ending allowance balance	\$3,734	39,985	952	44,671
Loans:				
Individually evaluated for impairment	\$1,467	19,694	-	21,161
Collectively evaluated for impairment	188,880	3,638,533	12,579	3,839,992
Total ending loans balance	\$190,347	3,658,227	12,579	3,861,153
(dollars in thousands)	December 31, 2018			
	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	4,048	39,772	946	44,766
Total ending allowance balance	\$4,048	39,772	946	44,766
Loans:				
Individually evaluated for impairment	\$1,424	20,864	-	22,288
Collectively evaluated for impairment	194,722	3,645,384	11,702	3,851,808
Total ending loans balance	\$196,146	3,666,248	11,702	3,874,096

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 March 31, 2019 and December 31, 2018 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.

Index

The following tables present impaired loans by loan class as of March 31, 2019 and December 31, 2018:

## March 31, 2019

New York and other states*: (dollars in thousands)	Unpaid Recorded Principal		Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	\$1,319	\$1,490	-	1,281
Other	37	87	-	132
Real estate mortgage - 1 to 4 family:				
First mortgages	14,922	15,233	-	14,944
Home equity loans	247	267	-	252
Home equity lines of credit	2,161	2,301	-	2,585
<b>Total</b>	<b>\$18,686</b>	<b>19,378</b>	<b>-</b>	<b>19,194</b>
 Florida:				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	\$ 111	111	-	84
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	2,030	2,030	-	2,291
Home equity loans	82	82	-	85
Home equity lines of credit	252	252	-	253
<b>Total</b>	<b>\$ 2,475</b>	<b>2,475</b>	<b>-</b>	<b>2,713</b>
 Total:				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	\$ 1,430	1,601	-	1,365
Other	37	87	-	132
Real estate mortgage - 1 to 4 family:				
First mortgages	16,952	17,263	-	17,235
Home equity loans	329	349	-	337
Home equity lines of credit	2,413	2,553	-	2,838
<b>Total</b>	<b>\$ 21,161</b>	<b>21,853</b>	<b>-</b>	<b>21,907</b>

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





Index

December 31, 2018

New York and other states\*:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
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Commercial:

Commercial real estate	\$1,274	1,444	-	1,503
Other	38	88	-	123
Real estate mortgage - 1 to 4 family:				
First mortgages	15,210	15,661	-	15,577
Home equity loans	252	272	-	262
Home equity lines of credit	2,772	2,996	-	2,772

Total	\$19,546	20,461	-	20,237
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Florida:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
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Commercial:

Commercial real estate	\$ 112	112	-	57
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	2,293	2,399	-	2,455
Home equity loans	84	84	-	86
Home equity lines of credit	253	253	-	326

Total	\$ 2,742	2,848	-	2,924
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Total:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
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Commercial:

Commercial real estate	\$ 1,386	1,556	-	1,560
Other	38	88	-	123
Real estate mortgage - 1 to 4 family:				
First mortgages	17,503	18,060	-	18,032
Home equity loans	336	356	-	348
Home equity lines of credit	3,025	3,249	-	3,098

Total	\$ 22,288	23,309	-	23,161
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\* Includes New York, New Jersey, Vermont and Massachusetts.

Index

The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as impaired. Interest income recognized on impaired loans was not material during the three months ended March 31, 2019 and 2018.

As of March 31, 2019 and December 31, 2018 impaired loans included approximately \$10.9 million and \$11.1 million of loans in accruing status that were identified as TDR's in accordance with regulatory guidance related to Chapter 7 bankruptcy loans.

Management evaluates impairment on impaired loans on a quarterly basis. If, during this evaluation, impairment of the loan is identified, a chargeoff is taken at that time. As a result, as of March 31, 2019 and December 31, 2018, based upon management's evaluation and due to the sufficiency of chargeoffs taken, none of the allowance for loan losses has been allocated to a specific impaired loan(s).

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

	Three months ended 3/31/2019			Three months ended 3/31/2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
New York and other states*:						
(dollars in thousands)						
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	4	\$ 656	656	4	\$ 642	642
Home equity loans	-	-	-	-	-	-
Home equity lines of credit	-	-	-	3	240	240
Total	4	\$ 656	\$ 656	7	\$ 882	\$ 882
Florida:						
(dollars in thousands)						
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	-	\$ -	-	-	\$ -	-
Home equity loans	-	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-
Total	-	\$ -	-	-	\$ -	-

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

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

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

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

Index

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

The following table presents, by class, TDR's that defaulted during the three months ended March 31, 2019 and 2018 which had been modified within the last twelve months:

New York and other states*: (dollars in thousands)	Three months ended 3/31/2019		Three months ended 3/31/2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	-	\$ -	-	\$ -
Home equity lines of credit	-	-	1	3
Total	-	\$ -	1	\$ 3

Florida: (dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial:				
Commercial real estate	-	\$ -	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	-	\$ -	1	\$ 72
Home equity lines of credit	-	-	-	-
Total	-	\$ -	1	\$ 72

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

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

The Company categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. On at least an annual basis, the Company's loan grading process analyzes non-homogeneous loans, such as commercial and commercial real estate loans, individually by grading the loans based on credit risk. The loan grades assigned to all loan types are tested by the Company's internal loan review department in accordance with the Company's internal loan review policy.

The Company uses the following definitions for classified loans:

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

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

Index

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

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

As of March 31, 2019 and December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

March 31, 2019

New York and other states\*:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 148,784	3,947	152,731
Other	20,985	998	21,983
	\$ 169,769	4,945	174,714

Florida:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 15,386	-	15,386
Other	247	-	247
	\$ 15,633	-	15,633

Total:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 164,170	3,947	168,117
Other	21,232	998	22,230
	\$ 185,402	4,945	190,347

\* Includes New York, New Jersey and Massachusetts.

Index

December 31, 2018

## New York and other states:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 152,045	4,233	156,278
Other	23,331	999	24,330
	\$ 175,376	5,232	180,608

## Florida:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 15,163	112	15,275
Other	263	-	263
	\$ 15,426	112	15,538

## Total:

(dollars in thousands)	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 167,208	4,345	171,553
Other	23,594	999	24,593
	\$ 190,802	5,344	196,146

\* Includes New York, New Jersey and Massachusetts.

Included in classified loans in the above tables are impaired loans of \$1.5 million and \$1.4 million at March 31, 2019 and December 31, 2018, respectively.

For homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a daily basis by the Bank's collection area and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools as of March 31, 2019 and December 31, 2018 is included in the aging of the recorded investment of the past due loans table. In addition, the total nonperforming portion of these homogeneous loan pools as of March 31, 2019 and December 31, 2018 is presented in the non-accrual loans table.

Index

(6) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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





Index

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

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

(dollars in thousands)	Fair Value Measurements at March 31, 2019 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. government sponsored enterprises	\$ 148,292	\$ -	\$ 148,292	\$ -
State and political subdivisions	172	-	172	-
Mortgage backed securities and collateralized mortgage obligations - residential	312,946	-	312,946	-
Corporate bonds	30,258	-	30,258	-
Small Business Administration- guaranteed participation securities	54,113	-	54,113	-
Other securities	685	-	685	-
Total securities available for sale	\$546,466	\$ -	\$ 546,466	\$ -

(dollars in thousands)	Fair Value Measurements at December 31, 2018 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. government sponsored enterprises	\$ 152,160	\$ -	\$ 152,160	\$ -
State and political subdivisions	173	-	173	-
Mortgage backed securities and collateralized mortgage obligations - residential	262,032	-	262,032	-
Corporate bonds	29,938	-	29,938	-
Small Business Administration- guaranteed participation securities	56,475	-	56,475	-
Other securities	685	-	685	-

Total securities available for sale	\$501,463	\$	-	\$501,463	\$	-
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There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2019 and 2018.

Index

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

Fair Value Measurements at March 31, 2019 Using:							
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation technique	Unobservable inputs	Range (Weighted Average)
Other real estate owned	\$1,261	\$ -	\$ -	\$ 1,261	Sales comparison approach	Adjustments for differences between comparable sales	1% - 14% (7 %)
Impaired loans:							
Real estate mortgage - 1 to 4 family	439	-	-	439	Sales comparison approach	Adjustments for differences between comparable sales	5% - 14% (10 %)
Fair Value Measurements at December 31, 2018 Using:							
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation technique	Unobservable inputs	Range (Weighted Average)
Other real estate owned	\$1,675	\$ -	\$ -	\$ 1,675	Sales comparison approach	Adjustments for differences between comparable sales	1% - 14% (7 %)
Impaired loans:							
Real estate mortgage - 1 to 4 family	459	-	-	459	Sales comparison approach	Adjustments for differences between comparable sales	5% - 14% (10 %)

Other real estate owned, that is carried at fair value less costs to sell was approximately \$1.3 million at March 31, 2019 and consisted of \$560 thousand of commercial real estate and \$703 thousand of residential real estate properties. Valuation charges of \$140 thousand are included in earnings for the three months ended March 31, 2019.

Of the total impaired loans of \$21.2 million at March 31, 2019, \$439 thousand of residential mortgages are collateral dependent and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of chargeoffs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at March 31, 2019. Gross chargeoffs related to residential impaired loans included in the table above were \$19 thousand for the three months ended March 31, 2019.

Other real estate owned, that is carried at fair value less costs to sell, was approximately \$1.7 million at December 31, 2018 and consisted of \$560 thousand of commercial real estate and \$1.1 million of residential real estate properties. A valuation charge of \$769 thousand is included in earnings for the year ended December 31, 2018.

Of the total impaired loans of \$22.3 million at December 31, 2018, \$459 thousand are collateral dependent and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of chargeoffs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at December 31, 2018. Gross chargeoffs related to residential impaired loans included in the table above amounted to \$67 thousand at December 31, 2018.

Index

The carrying amounts and estimated fair values (represents exit price) of financial instruments, at March 31, 2019 and December 31, 2018 are as follows:

(dollars in thousands)

	Carrying Value	Fair Value Measurements at March 31, 2019 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$619,187	619,187	-	-	619,187
Securities available for sale	546,466	-	546,466	-	546,466
Held to maturity securities	21,609	-	22,283	-	22,283
Federal Reserve Bank and Federal Home Loan Bank stock	8,953	N/A	N/A	N/A	N/A
Net loans	3,861,153	-	-	3,781,951	3,781,951
Accrued interest receivable	11,354	149	2,214	8,991	11,354
Financial liabilities:					
Demand deposits	408,417	408,417	-	-	408,417
Interest bearing deposits	4,004,652	2,583,471	1,415,390	-	3,998,861
Short-term borrowings	159,778	-	159,778	-	159,778
Accrued interest payable	1,472	176	1,296	-	1,472

(dollars in thousands)

	Carrying Value	Fair Value Measurements at December 31, 2018 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$503,709	503,709	-	-	503,709
Securities available for sale	501,463	-	501,463	-	501,463
Held to maturity securities	22,501	-	22,924	-	22,924
Federal Reserve Bank and Federal Home Loan Bank stock	8,953	N/A	N/A	N/A	N/A
Net loans	3,829,330	-	-	3,753,966	3,753,966
Accrued interest receivable	11,341	353	2,371	8,617	11,341
Financial liabilities:					
Demand deposits	405,069	405,069	-	-	405,069
Interest bearing deposits	3,869,178	2,594,672	1,264,772	-	3,859,444
Short-term borrowings	161,893	-	161,893	-	161,893
Accrued interest payable	1,024	104	920	-	1,024

Index

## (7) Accumulated Other Comprehensive Income (Loss)

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

	Three months ended 3/31/2019				
	Balance at 12/31/2018	Other Comprehensive Income (loss)- Before Reclassification	Amount reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income (loss)- Three months ended 3/31/2019	Balance at 3/31/2019
(dollars in thousands)					
Net unrealized holding loss on securities available for sale, net of tax	\$(10,416)	3,396	-	3,396	(7,020 )
Net change in overfunded position in pension and postretirement plans arising during the year, net of tax	423	-	-	-	423
Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax	(316 )	-	(98 )	(98 )	(414 )
Accumulated other comprehensive loss, net of tax	\$(10,309)	3,396	(98 )	3,298	(7,011 )
	Three months ended 3/31/2018				
	Balance at 12/31/2017	Other Comprehensive Income (loss)- Before Reclassification	Amount reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income (loss)- Three months ended 3/31/2018	Balance at 3/31/2018
(dollars in thousands)					
Net unrealized holding (gain) loss on securities available for sale, net of tax	\$(5,030)	(5,302 )	-	(5,302 )	(10,332 )
Net change in overfunded position in pension and postretirement plans arising during the year, net of tax	3,054	-	-	-	3,054
Net change in net actuarial (gain) loss and prior service cost on pension and postretirement benefit plans, net of tax	170	-	(36 )	(36 )	134
Tax Cuts and Jobs Act of 2017, Reclassification from AOCI to Retained Earnings, Tax Effect	-	-	(1,346 )	-	(1,346 )
Accumulated other comprehensive income (loss), net of tax	\$(1,806)	(5,302 )	(1,382 )	(5,338 )	(8,490 )

The following represents the reclassifications out of accumulated other comprehensive income (loss) for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Three months ended March 31,		Affected Line Item in Financial Statements
	2019	2018	
Amortization of pension and postretirement benefit items:			
Amortization of net actuarial gain (loss)	\$ 48	(72 )	Salaries and employee benefits
Amortization of prior service cost	85	23	Salaries and employee benefits
Income tax benefit	(35 )	13	Income taxes
Net of tax	98	(36 )	
Total reclassifications, net of tax	\$ 98	(36 )	



Index

## (8) Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the three months ended March 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

(dollars in thousands)	Three months ended	
	2019	2018
Non-interest income		
Service Charges on Deposits		
Overdraft fees	\$ 850	\$ 827
Other	110	114
Interchange Income	1,531	1,306
Wealth management fees	1,733	1,815
Other (a)	413	617
Total non-interest income	\$ 4,637	\$ 4,679

(a) Not within the scope of ASC 606.

A description of the Company's revenue streams accounted for ASC 606 follows:

**Service charges on Deposit Accounts:** The Company earns fees from its deposit customers for transaction based, account maintenance and overdraft services. Transaction based fees, which include services such as stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

**Interchange Income:** Interchange revenue primarily consists of interchange fees, volume related incentives and ATM charges. As the card-issuing bank, interchange fees represent our portion of discount fees paid by merchants for credit / debit card transactions processed through the interchange network. The levels and structure of interchange rates are set by the card processing companies and are based on cardholder purchase volumes. The Company earns interchange income as cardholder transactions occur and interchange fees are settled on a daily basis concurrent with the transaction processing services provided to the cardholder.

**Wealth Management fees:** TrustCo Financial Services provides a comprehensive suite of trust and wealth management products and services, including financial and estate planning, trustee and custodial services, investment management, corporate retirement plan recordkeeping and administration of which a fee is charged to manage assets for investment or transact on accounts. These fees are earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed over the period in which services are performed based on a percentage of the fair value of assets under management or administration. Other services are based on a fixed fee for certain account types, or based on transaction activity and are recognized when services are rendered. Fees are withdrawn from the customer's account balance.

**Gains/Losses on Sales of Other real Estate Owned "OREO":** The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed.

When the company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain/(loss) on sale if a significant financing component is present.

31

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Index

## (9) Operating Leases

The Company adopted Topic 842 “Leases” effective January 1, 2019 and has applied the guidance to all operating leases within the scope of Topic 842 at that date. The company elected to adopt practical expedients, which among other things, does not require reassessment of lease classification.

The Company has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities on the Company’s balance sheets.

Operating lease ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company’s leases do not provide an implicit rate, therefore the Company used its incremental collateralized borrowing rates commensurate with the underlying lease terms to determine present value of operating lease liabilities. Additionally, the Company does allocate the consideration between lease and non-lease components. The Company’s lease terms may include options to extend when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Variable lease components, such as fair market value adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. As of January 1, 2019 the Company did not have any leases with terms of twelve months or less.

As of March 31, 2019 the Company does not have leases that have not yet commenced. At March 31, 2019 lease expiration dates ranged from two months to 25.5 years and have a weighted average remaining lease term of 9.8 years. Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements. As mentioned above the leases generally also include variable lease components which include real estate taxes, insurance, and common area maintenance (“CAM”) charges in the annual rental payments.

Other information related to leases was as follows:

(dollars in thousands)	Three months ended	
	March 31,	
	2019	2018
Operating lease cost	\$ 1,891	\$ 1,912
Variable lease cost	466	586
Total Lease costs	\$ 2,357	\$ 2,498

(dollars in thousands)	Three months ended
	March 31,
	2019
Supplemental cash flows information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,949
Right-of-use assets obtained in exchange for lease obligations:	53,029
Weighted average remaining lease term	9.8 years

Weighted average discount rate	3.30	%
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32

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Index

Future minimum lease payments under non-cancellable leases as of March 31, 2019 were as follows:

(dollars in thousands)

Year ending December 31, 2019 <sup>(a)</sup>	\$5,799
2020	7,675
2021	7,613
2022	7,139
2023	6,812
Thereafter	32,254
Total lease payments	\$67,292
Less: Interest	10,569

Present value of lease liabilities \$56,723

<sup>(a)</sup> Excluding three months ended March 31, 2019.

The company has not recognized any options to extend as part of its ROU assets or lease liabilities.

The following table presents the minimum annual lease payments under the terms of these leases, exclusive of renewal provisions at December 31, 2018:

(dollars in thousands)

2019	\$7,799
2020	7,622
2021	7,555
2022	7,048
2023	6,673
2024 and after	32,722
	\$69,419

At December 31, 2018, lease expiration dates ranged from five months to 25.8 years.

#### (10) Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy regulations and, additionally for banks, the prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and became fully phased in on January 1, 2019. The capital rules include a capital conservation buffer that is designed to absorb losses during periods of economic stress and to require increased capital levels before capital distributions and certain other payments can be made. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers. The buffer was fully implemented at 2.5% as of January 1, 2019. Management

believes, as of March 31, 2019, the Company and Bank meet all capital adequacy requirements to which they are subject.

33

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Index

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If a bank is not classified as well capitalized, regulatory approval is required to accept brokered deposits. If a bank is undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. The federal banking agencies are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution or its holding company. Such actions could have a direct material effect on an institution's or its holding company's financial statements. As of March 31, 2019 and December 31, 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank and the Company reported the following capital ratios as of March 31, 2019 and December 31, 2018:

(Bank Only)

(dollars in thousands)	As of March 31, 2019			Well Capitalized <sup>(1)</sup>		Adequately Capitalized <sup>(1)(2)</sup>	
	Amount	Ratio					
Tier 1 leverage capital	\$ 492,918	9.760	%	5.000	%	4.000	%
Common equity tier 1 capital	492,918	18.299		6.500		7.000	
Tier 1 risk-based capital	492,918	18.299		8.000		8.500	
Total risk-based capital	526,727	19.555		10.000		10.500	
(dollars in thousands)	As of December 31, 2018			Well Capitalized <sup>(1)</sup>		Adequately Capitalized <sup>(1)(3)</sup>	
	Amount	Ratio					
Tier 1 (core) capital	\$ 484,581	9.767	%	5.000	%	4.000	%
Common equity tier 1 capital	484,581	18.233		6.500		6.380	
Tier 1 risk-based capital	484,581	18.233		8.000		7.880	
Total risk-based capital	517,948	19.489		10.000		9.880	

(Consolidated)

(dollars in thousands)	As of March 31, 2019			Minimum for Capital Adequacy plus Capital Conservation Buffer <sup>(1)(2)</sup>	
	Amount	Ratio			
Tier 1 leverage capital	\$ 508,176	10.057	%	4.000	%
Common equity tier 1 capital	508,176	18.856		7.000	
Tier 1 risk-based capital	508,176	18.856		8.500	
Total risk-based capital	542,003	20.111		10.500	
(dollars in thousands)	As of December 31, 2018			Minimum for Capital Adequacy plus Capital Conservation Buffer <sup>(1)(2)</sup>	
	Amount	Ratio			
Tier 1 leverage ratio	\$ 499,626	10.129	%	4.000	%
Common equity Tier 1 capital	499,626	18.790		6.380	
Tier 1 risk-based capital	499,626	18.790		7.880	

Total risk-based capital	533,009	20.046	9.880
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- (1) Federal regulatory minimum requirements to be considered to be Well Capitalized and Adequately Capitalized
- (2) The March 31, 2019 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a capital conservation buffer of 2.50 percent
- (3) The December 31, 2018 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a transition capital conservation buffer of 1.88 percent



Index

## (11) New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016 02, Leases (Topic 842) (“ASU 2016 02”). ASU 2016 02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the balance sheet. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016 02 is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Company elected to adopt ASU 2016 02 as of January 1, 2019. The Company has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Company accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. The company has also elected the practical expedient to use hindsight in determining the lease term. As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2019 (a) a lease liability of approximately \$58.2 million, which represents the present value of the remaining lease payments of approximately \$69.4 million, discounted using the Company’s incremental borrowing rate, and (b) a ROU asset of approximately \$53.0 million which represents the lease liability of \$58.2 million adjusted for accrued rent of approximately \$5.2 million. This standard did not have a material impact on the Company’s balance sheets or cash flows from operations and had no impact on the Company’s operating results. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

In June 2016, the FASB released ASU 2016-13, “Financial Instruments – Credit Losses” which amended existing guidance to replace current generally accepted accounting principles used to measure a reporting entity’s credit losses. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2019. The ASU represents a significant departure from current GAAP and the Company is evaluating the impact of the ASU on its consolidated financial statements, which includes developing a roadmap for implementation of the new standard. The Company’s committee meets regularly to evaluate the provisions of the ASU, to address the additional data requirements necessary, to determine the approach for implementation and to identify new internal controls over enhanced processes that will be put into place for estimating the allowance under ASU 2016-13. This has included assessing the adequacy of existing loan loss data, as well as developing models for default and loss estimates. The Company expects to continue the validation of models, the development of accounting policies and internal controls and the execution of “trial” or “parallel” runs of its ASU 2016-13 compliant methodology throughout 2019.

In February 2018, the FASB issued ASU 2018-02, “Income statement – Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” which will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. These amendments are effective for all entities for fiscal years beginning after December 15, 2018. For Interim periods within those fiscal years, early adoption of the amendment is permitted including public business entities for reporting periods for which financial statements have not yet been issued. The Company did adopt the ASU in the first quarter of 2018 and reclassified the stranded tax effect in accumulated other comprehensive income to retained earnings in the period ended March 31, 2018.



Index

Crowe LLP  
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Results of Review of Interim Financial Information

We have reviewed the consolidated statement of financial condition of TrustCo Bank Corp NY (the “Company”) as of March 31, 2019, and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2019 and March 31, 2018 and the related changes in shareholders’ equity and cash flows for the three month periods ended March 31, 2019 and March 31, 2018, and the related notes (collectively referred to as the “interim financial information or statements”). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated statement of financial condition of the Company as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of financial condition as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company’s management. We conducted our review in accordance with the standards of the PCAOB. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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 PCAOB, 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.

/s/ Crowe LLP

New York, New York  
May 3, 2019

Index

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 with the Securities and Exchange Commission, in TrustCo's press releases, and in oral statements made with the approval of an authorized executive officer, that 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 factors described under Part II, Item 1A, Risk Factors, if any, and under the Risk Factor discussion in TrustCo's Annual Report on Form 10-K for the year ended December 31, 2018, the following important factors, among others, in some cases have affected and in the future could affect TrustCo's actual results and could cause TrustCo's actual financial performance to differ materially from that expressed in any forward-looking statement:

- TrustCo's ability to continue to originate a significant volume of one- to- four family mortgage loans in its market areas and to otherwise maintain or increase its market share in the areas in which it operates;
- TrustCo's ability to continue to maintain noninterest expense and other overhead costs at reasonable levels relative to income;
- TrustCo's ability to make accurate assumptions and judgments regarding the credit risks associated with its lending and investing activities, including changes in the level and direction of loan delinquencies and charge-offs, changes in property values, and changes in estimates of the adequacy of the allowance for loan and lease losses;
- the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations;
- restrictions or conditions imposed by TrustCo's and Trustco Bank's regulators on their operations that may make it more difficult to achieve TrustCo's and Trustco Bank's goals;
- the future earnings and capital levels of TrustCo and Trustco Bank and the continued non objection from TrustCo's and Trustco Bank's primary federal banking regulators under regulatory rules to distribute capital from Trustco Bank to TrustCo, which could affect the ability of TrustCo to pay dividends;
  - the results of supervisory monitoring or examinations of Trustco Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our loss allowances or to take other actions that reduce capital or income;
- adverse conditions in the securities markets that lead to impairment in the value of securities in TrustCo's investment portfolio;

Index

the perceived overall value of TrustCo's products and services by users, including the features, pricing and quality compared to competitors' products and services and the willingness of current and prospective customers to substitute competitors' products and services for TrustCo's products and services;

changes in consumer spending, borrowing and savings habits;

the effect of changes in financial services laws and regulations (including laws concerning taxation, banking and securities) and the impact of other governmental initiatives affecting the financial services industry, including regulatory capital requirements;

changes in management personnel;

real estate and collateral values;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, Financial Accounting Standards Board ("FASB") or the Public Company Accounting Oversight Board;

disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;

technological changes and electronic, cyber and physical security breaches;

changes in local market areas and general business and economic trends;

TrustCo's success at managing the risks involved in the foregoing and managing its business; and

other risks and uncertainties included under "Risk Factors" in our Form 10-K for the year ended December 31, 2018.

You should not rely upon forward-looking statements as predictions of future events. Although TrustCo believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Following this discussion are the tables "Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential" which gives a detailed breakdown of TrustCo's average interest earning assets and interest bearing liabilities for the three month periods ended March 31, 2019 and 2018.

Introduction

The review that follows focuses on the factors affecting the financial condition and results of operations of TrustCo during the three month periods ended March 31, 2019, with comparisons to the corresponding period in 2018, 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 2018 Annual Report on Form 10-K, which was filed with the SEC on March 1, 2019, 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.

Index

During the first quarter of 2019 financial markets were influenced by both underlying economic conditions and by political developments. For the full first quarter, the S&P 500 Index was up 13.07% and the Dow Jones Industrial Average was up 11.15%. Credit markets continue to be driven by worldwide economic news and demand shifts between segments of the bond market as investors seek to capture yield. The shape of the yield curve continued to flatten during the quarter. The 10 year Treasury bond averaged 2.65% during Q1 2019 compared to 3.04% in Q4 2018, a decrease of 39 basis points. The 2 year Treasury bond average rate decreased 31 basis points to 2.49%, resulting in flattening of the curve. The spread between the 10 year and the 2-year Treasury bonds contracted from 0.24% on average in Q4 to 0.16% in Q1. This spread had been depressed in recent years, and compares to 2.42% during its most recent peak in Q4 of 2013. Steeper yield curves are favorable for portfolio mortgage lenders like TrustCo. The table below illustrates the range of rate movements for both short term and longer term rates. The target Fed Funds range remained flat in the first quarter, remaining at a range of 2.25% to 2.50%. Spreads of most asset classes to the comparative treasury yield, including agency securities, corporates, municipals and mortgage-backed securities, were down by the end of the quarter as compared to the levels seen a year earlier. Changes in rates and spreads during the current quarter were due to a number of factors; however, uncertainty about the timing of additional actions that the Federal Reserve Board (“FRB”) would take in regard to the extraordinary accommodations that have influenced markets in recent years and further uncertainty regarding the economy and related issues were key factors.

Index

	3 Month Yield (%)	2 Year Yield (%)	5 Year Yield (%)	10 Year Yield (%)	10 - 2 Year Spread (%)	
	Beg of Q1	1.39	1.89	2.20	2.40	0.51
	Peak	1.81	2.34	2.69	2.94	0.78
Q1/18	Trough	1.39	1.89	2.20	2.40	0.47
	End of Q1	1.73	2.27	2.56	2.74	0.47
	Average in Q1	1.58	2.15	2.53	2.75	0.60
	Beg of Q2	1.73	2.27	2.56	2.74	0.47
	Peak	1.95	2.59	2.94	3.11	0.54
Q2/18	Trough	1.71	2.25	2.55	2.73	0.31
	End of Q2	1.93	2.52	2.73	2.85	0.33
	Average in Q2	1.87	2.47	2.76	2.92	0.44
	Beg of Q3	1.93	2.52	2.73	2.85	0.33
	Peak	2.22	2.83	2.99	3.10	0.27
Q3/18	Trough	1.96	2.53	2.70	2.82	0.29
	End of Q3	2.19	2.81	2.94	3.05	0.24
	Average in Q3	2.07	2.67	2.81	2.92	0.25
	Beg of Q4	2.19	2.81	2.94	3.05	0.24
	Peak	2.45	2.98	3.09	3.24	0.26
Q4/18	Trough	2.19	2.48	2.51	2.69	0.21
	End of Q4	2.45	2.48	2.51	2.69	0.21
	Average in Q4	2.35	2.80	2.88	3.04	0.24
	Beg of Q1	2.45	2.48	2.51	2.69	0.21
	Peak	2.49	2.62	2.62	2.79	0.17
Q1/19	Trough	2.37	2.22	2.18	2.39	0.17
	End of Q1	2.40	2.27	2.23	2.41	0.14
	Average in Q1	2.44	2.49	2.46	2.65	0.16

The United States economy continues to show some modest improvements in some areas. Economic conditions vary significantly over geographic areas, with strength concentrated in and around major population centers on the coasts and in certain areas where economic activity has been driven by specific regional factors. Regulatory changes that have been enacted are expected to continue to impact the banking industry going forward. These regulatory changes have added significant operating expense and operational burden and have fundamentally changed the way banks conduct business. The current presidential administration has set policy initiatives that include attempts to reduce the regulatory burden; the timing and extent of any success on that front is yet to be determined.

## Index

TrustCo believes that its long-term focus on traditional banking services and practices has enabled the Company to avoid significant impact from asset quality problems, and that the Company's strong liquidity and solid capital positions have allowed the Company to continue to conduct business in a manner consistent with its past practice. TrustCo has not engaged in the types of high risk loans and investments that have led to the widely reported problems in the industry. Nevertheless, the Company may experience increases in nonperforming loans ("NPLs") relative to historical levels from time to time. While the Company does not expect to see a significant change in the inherent risk of loss in its loan portfolio at March 31, 2019, should general housing prices and other economic measures, such as unemployment in the Company's market areas, deteriorate, the Company may experience an increase in the level of credit risk and in the amount of its classified and nonperforming loans.

## Overview

TrustCo recorded net income of \$14.6 million, or \$0.150 of diluted earnings per share, for the three months ended March 31, 2019, compared to net income of \$14.8 million, or \$0.153 of diluted earnings per share, in the same period in 2018. Return on average assets was 1.17% and 1.23%, respectively, for the three months ended March 31, 2019 and 2018. Return on average equity was 11.93% and 13.07%, respectively, for the three months ended March 31, 2019 and 2018.

The primary factors accounting for the change in net income for the three months ended March 31, 2019 compared to the same period of the prior year were:

• An increase in the average balance of interest earning assets of \$117.5 million to \$4.91 billion for the first quarter of 2019 compared to the same period in 2018.

• A decrease in taxable equivalent net interest margin for the first quarter of 2019 to 3.24% from 3.29% in the prior year period. The decrease in the margin, coupled with the increase in average earning assets, resulted in an increase of \$414 thousand in taxable equivalent net interest income in the first quarter of 2019 compared to the first quarter of 2018.

• An increase of \$1.0 million in salaries and benefits expense for the first quarter of 2019 compared to the first quarter 2018.

• An increase of \$375 thousand in professional services and advertising expense for the first quarter of 2019 compared to the first quarter of 2018.

• A decrease of \$375 thousand in FDIC assessments for the first quarter 2019 compared to the first quarter 2018.

• A decrease of \$396 thousand in Other real estate expense, net for the first quarter 2019 compared to the first quarter 2018.

## 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.



## Index

TrustCo's results are affected by a variety of factors including competitive and economic conditions in the specific markets in which the Company operates and, more generally, in the national economy, financial market conditions and the regulatory environment. Each of these factors is dynamic, and changes in any area can have an impact on TrustCo's results. Included in the Annual Report on Form 10-K for the year ended December 31, 2018 is a description of the effect interest rates had on the results for the year 2018 compared to 2017. Many of the same market factors discussed in the 2018 Annual Report continued to have a significant impact on results through the first quarter of 2019.

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 control 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. During 2007-2008 the FRB aggressively reduced the Federal Funds rate, including a decrease 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 remained at that level until December 2016 when the range was increased from 0.25% to 0.50%. Subsequent increases have resulted in the current range of 2.25% to 2.50%.

Traditionally, interest rates on bank deposit accounts are heavily influenced by the Federal Funds rate. The average rate on interest bearing deposits was 35 basis points higher in the first quarter of 2019 relative to the prior year period. Rates were flat or slightly higher on interest bearing checking accounts and savings accounts but higher on money market accounts and certificates. 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 ten-year Treasury bond and other long-term interest rates have significant influence on the rates for new residential real estate loans. These changes in interest rates have an effect on the Company relative to the interest income on loans, securities, and Federal Funds sold and on other short-term instruments as well as the interest expense on deposits and borrowings. Residential real estate loans and longer term investments are most affected by the changes in longer term market interest rates such as the ten-year Treasury. The Federal Funds sold portfolio and other short-term investments are affected primarily by changes in the Federal Funds target rate. Deposit interest rates are most affected by short-term market interest rates. Also, changes in interest rates have an effect on the recorded balance of the securities available for sale portfolio, which are recorded at fair value. Generally, as market interest rates increase, the fair value of the securities will decrease and the reverse is also generally applicable. 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 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. Higher market interest rates also generally increase the value of retail deposits.

Index

TrustCo's principal loan products are residential real estate loans. As noted above, residential real estate loans and longer term investments are most affected by the changes in longer term market interest rates such as the ten-year Treasury. The 10 year Treasury yield was down 39 basis points, on average, during the first quarter of 2019 compared to the fourth quarter of 2018 and was down 10 basis points as compared to the first quarter of 2018.

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.

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

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

For the first quarter of 2019, the net interest margin was 3.24%, down 5 basis points versus the prior year's quarter. The quarterly results reflect the following significant factors:

The average balance of Federal Funds sold and other short-term investments decreased by \$26.0 million while the average yield increased 35 basis points in the first quarter of 2019 compared to the same period in 2018. The decrease in the average balance helped to fund the \$217.8 million increase in loans.

The average balance of securities available for sale decreased by \$69.7 million while the average yield increased 11 basis points to 2.23%. The average balance of held to maturity securities decreased by \$4.8 million and the average yield increased 6 basis points to 3.94% for the first quarter of 2019 compared to the same period in 2018, with the decrease due to the maturity of a corporate bond.

## Index

The average loan portfolio grew by \$217.8 million to \$3.87 billion and the average yield increased 9 basis points to 4.28% in the first quarter of 2019 compared to the same period in 2018.

The average balance of interest bearing liabilities (primarily deposit accounts) increased \$70.3 million and the average rate paid increased 35 basis points to 0.77% in the first quarter of 2019 compared to the same period in 2018.

During the first quarter of 2019, the Company continued to focus on its strategy to expand the loan portfolio by offering competitive interest rates. Management believes the TrustCo residential real estate loan product is very competitive compared to local and national competitors. Competition remains strong in the Company's market areas.

The strategy on the funding side of the balance sheet is to offer competitive shorter term rates which allowed the Bank to gain market share as well as retain our existing time deposits. This strategy drove growth at a relatively low cost that will sustain TrustCo's strong liquidity position and continue to allow us to cross sell new relationships and take advantage of opportunities as they arise.

## Earning Assets

Total average interest earning assets increased from \$4.80 billion in the first quarter of 2018 to \$4.91 billion in the same period of 2019 with an average yield of 3.87% in the first quarter of 2019 and 3.64% in the first quarter of 2018. The shift in the mix of assets towards a higher proportion of loans and the increase in yield on cash drove the overall yield increase. Interest income on average earning assets increased from \$43.5 million in the first quarter of 2018 to \$47.4 million in the first quarter of 2019, on a tax equivalent basis. The increase was the result of higher volume and yield.

## Loans

The average balance of loans was \$3.87 billion in the first quarter of 2019 and \$3.65 billion in the comparable period in 2018. The yield on loans increased 9 basis points to 4.28%. The higher average balances led to an increase in interest income on loans from \$38.1 million in the first quarter of 2018 to \$41.3 million in the first quarter of 2019.

Compared to the first quarter of 2018, the average balance of residential mortgage loans, commercial and installment loans increased while home equity lines of credit decreased. The average balance of residential mortgage loans was \$3.38 billion in 2019 compared to \$3.15 billion in 2018, an increase of 7.2%. The average yield on residential mortgage loans increased by 3 basis points to 4.14% in the first quarter of 2019 compared to 2018.

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

## Index

Commercial loans, which consist primarily of loans secured by commercial real estate, increased \$8.1 million to an average balance of \$193.7 million in the first quarter of 2019 compared to the same period in the prior year. The average yield on this portfolio was up 12 basis points to 5.33% compared to the prior year period, primarily reflecting the increase in the prime rate. The Company has been selective in underwriting commercial loans in recent periods as the apparent risk/reward balance has been less favorable in many cases.

The average yield on home equity credit lines increased 76 basis points to 5.01% during the first quarter of 2019 compared to the year earlier period. The increase in yield is the result of prime rate increases which impacted some loans as well as a smaller percentage of lower yielding initial rate balances. The average balances of home equity lines decreased 6.6% to \$286.2 million in the first quarter of 2019 as compared to the prior year. Some customers with home equity lines have refinanced their balances into fixed rate mortgage loans.

## Securities Available for Sale

The average balance of the securities available for sale portfolio for the first quarter of 2019 was \$512.0 million compared to \$581.7 million for the comparable period in 2018. The balance reflects routine paydowns, calls and maturities, offset by new investment purchases. The average yield was 2.23% for the first quarter of 2019 compared to 2.12% for the first quarter of 2018. This portfolio is primarily comprised of agency issued residential mortgage backed securities, bonds issued by government sponsored enterprises (such as Fannie Mae, the Federal Home Loan Bank, and Freddie Mac), agency-issued commercial mortgage backed securities, Small Business Administration participation certificates, corporate bonds and municipal bonds. These securities are recorded at fair value with any adjustment in fair value included in other comprehensive income (loss), net of tax.

The net unrealized loss in the available for sale securities portfolio was \$9.5 million as of March 31, 2019 compared to a net unrealized loss of \$14.1 million as of December 31, 2018. The unrealized loss in the portfolio is the result of changes in market interest rate levels.

## Held to Maturity Securities

The average balance of held to maturity securities was \$22.0 million for the first quarter of 2019 compared to \$26.8 million in the first quarter of 2018. The decrease in balances reflects routine paydowns and calls. No new securities were added to this portfolio during the period. The average yield was 3.94% for the first quarter of 2019 compared to 3.88% for the year earlier period. TrustCo expects to hold the securities in this portfolio until they mature or are called.

As of March 31, 2019, this portfolio consisted solely of residential mortgage-backed securities. The balances for these securities are recorded at amortized cost.

Index

## Federal Funds Sold and Other Short-term Investments

The 2019 first quarter average balance of Federal Funds sold and other short-term investments was \$503.0 million, a \$26.0 million decrease from the \$528.9 million average for the same period in 2018. The yield was 2.43% for the first quarter of 2019 and 1.55% for the comparable period in 2018. Interest income from this portfolio increased \$992 thousand from \$2.0 million in 2018 to \$3.0 million in 2019, reflecting the target rate increases, partly offset by the decrease in balances.

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

## Funding Opportunities

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

Total average interest bearing deposits (which includes interest bearing checking, money market accounts, savings and time deposits) increased \$145.6 million to \$3.9 billion for the first quarter of 2019 versus the first quarter in the prior year, and the average rate paid increased from 0.41% for 2018 to 0.76% for 2019. Total interest expense on these deposits increased \$3.5 million to \$7.3 million in the first quarter of 2019 compared to the year earlier period. From the first quarter of 2018 to the first quarter of 2019, interest bearing account average balances were up 3.9%, certificates of deposit average balances were up 25.2%, non interest demand average balances were up 2.8%, average savings balances decreased 8.0% and money market balances were down 5.3%. Our growth in deposits came at a comparably low cost and continues to be offset by higher earnings on cash reserves, increased loan yields and returns in the investment portfolio. Because we offered competitive shorter term rates, we would expect margin to begin to stabilize in the later part of 2019 particularly in third and fourth quarter as our shorter term time deposits could reprice lower and provide opportunity for increased margin expansion.

At March 31, 2019, the maturity of total time deposits is as follows:

(dollars in thousands)

Under 1 year	\$1,038,795
1 to 2 years	362,146
2 to 3 years	11,768
3 to 4 years	5,628
4 to 5 years	2,567
Over 5 years	277
	\$1,421,181

Average short-term borrowings for the first quarter of 2019 were \$159.1 million compared to \$234.4 million in the same period in 2018. The average rate increased during this time period from 0.62% in 2018 to 0.97% in 2019. 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.

## Index

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

### Net Interest Income

Taxable equivalent net interest income increased by \$414 thousand to \$39.7 million in the first quarter of 2019 compared to the same period in 2018. The net interest spread was down 11 basis points to 3.11% in the first quarter of 2019 compared to the same period in 2018. As previously noted, the net interest margin was down 5 basis points to 3.24 for the first quarter of 2019 compared to the same period in 2018.

### Nonperforming Assets

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

The following describes the nonperforming assets of TrustCo as of March 31, 2019:

Nonperforming loans and foreclosed real estate: Total NPLs were \$24.7 million at March 31, 2019, compared to \$25.0 million at December 31, 2018 and \$24.9 million at March 31, 2018. There were \$24.7 million of non-accrual loans at March 31, 2019 compared to \$25.0 million at December 31, 2018 and \$24.8 million at March 31, 2018. There were no loans at March 31, 2019 and 2018 and December 31, 2018 that were past due 90 days or more and still accruing interest.

At March 31, 2019, nonperforming loans primarily include a mix of commercial and residential loans. Of total nonperforming loans of \$24.7 million at March 31, 2019, \$24.0 million were residential real estate loans, \$701 thousand were commercial loans and mortgages and \$26 thousand were installment loans, compared to \$24.3 million, \$645 thousand and \$19 thousand, respectively at December 31, 2018.

A significant percentage of nonperforming loans are residential real estate loans, which are historically lower-risk than most other types of loans. Net chargeoffs were \$337 thousand on residential real estate loans (including home equity lines of credit) for the first quarter of 2019 compared to \$28 thousand for the first quarter of 2018. Management believes that these loans have been appropriately written down where required.

Index

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 March 31, 2019, 76.0% of its gross loan portfolio balances were in New York State and the immediately surrounding areas (including New Jersey, Vermont and Massachusetts), and 24.0% were in Florida. Those figures compare to 76.1% and 23.9%, respectively at December 31, 2018.

Economic conditions vary widely by geographic location. Florida experienced a more significant downturn than New York during the recession, however conditions in Florida have improved more than in New York in recent periods. As a percentage of the total nonperforming loans as of March 31, 2019, 6.7% were to Florida borrowers, compared to 93.3% to borrowers in New York and surrounding areas. For the three months ended March 31, 2019, New York and surrounding areas experienced net chargeoffs of approximately \$345 thousand, compared to net chargeoffs of \$50 thousand in Florida.

Other than loans currently identified as nonperforming, management is aware of no other loans in the Bank's portfolio that pose material risk of the eventual non-collection of principal and interest. Also as of March 31, 2019, 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 (TDR), as impaired loans. There were \$1.5 million of commercial mortgages and commercial loans classified as impaired as of March 31, 2019 compared to \$1.4 million at December 31, 2018. There were \$19.7 million of impaired residential loans at March 31, 2019 and \$20.9 million at December 31, 2018. The average balances of all impaired loans were \$21.9 million for the three months of 2019 and \$23.2 million for the full year 2018.

As of March 31, 2019 and December 31, 2018, the Company's loan portfolio did not include any subprime mortgages or loans acquired with deteriorated credit quality.

At March 31, 2019 there was \$1.3 million of foreclosed real estate compared to \$1.7 million at December 31, 2018.

Index

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.

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

(dollars in thousands)	As of March 31, 2019		As of December 31, 2018		
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	
Commercial	\$ 3,579	4.58	% \$ 3,903	4.74	%
Real estate - construction	318	0.71	% 310	0.69	%
Real estate mortgage - 1 to 4 family	35,301	87.08	% 34,918	86.80	%
Home equity lines of credit	4,521	7.30	% 4,689	7.47	%
Installment Loans	952	0.33	% 946	0.30	%
	\$ 44,671	100.00	% \$ 44,766	100.00	%

At March 31, 2019, the allowance for loan losses was \$44.7 million, compared to \$44.4 million at March 31, 2018 and \$44.8 million at December 31, 2018. The allowance represents 1.16% of the loan portfolio as of March 31, 2019 compared to 1.21% at March 31, 2018 and 1.16% at December 31, 2018.

The provision for loan losses was \$300 thousand for the quarter ended March 31, 2019 and for the quarter ended March 31, 2018. Net chargeoffs for the three-month period ended March 31, 2019 were \$395 thousand primarily driven by a loan sale in the current quarter and were \$90 thousand for the prior year period.

During the first quarter of 2019, there were \$7 thousand commercial loan chargeoffs and \$481 thousand of gross residential mortgage and consumer loan chargeoffs compared with no gross commercial loan chargeoffs and \$205 thousand of residential mortgage and consumer loan chargeoffs in the first quarter of 2018. Gross recoveries during the first quarter of 2019 were \$3 thousand for commercial loans and \$90 thousand for residential mortgage and consumer loans, compared to \$6 thousand for commercial loans and \$109 thousand for residential and consumer in the first quarter of 2018.

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

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



Index

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

Liquidity and Interest Rate Sensitivity

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

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

Using this model, the fair value of capital projections as of March 31, 2019 are referenced below. The base case (current rates) scenario shows the present estimate of the fair value of capital assuming no change in the operating environment or operating strategies and no change in interest rates from those existing in the marketplace as of March 31, 2019. 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 and 200 bp.

As of March 31, 2019	Estimated Percentage of Fair value of Capital to Fair value of Assets	
+400 BP	18.12	%
+300 BP	19.04	
+200 BP	19.91	
+100 BP	20.69	
Current rates	21.24	
-100 BP	19.97	
-200 BP	16.90	

Index

Noninterest Income

Total noninterest income for both the first quarter of 2019 and 2018 was \$4.6 million and \$4.7 million, respectively. There were no significant changes in the components of noninterest income. The fair value of assets under management was \$867 million at March 31, 2019 and \$803 million as of December 31, 2018 and \$876 million at March 31, 2018.

Noninterest Expenses

Total noninterest expenses were \$24.9 million for the three months ended March 31, 2019, compared to \$24.2 million for the three months ended March 31, 2018. Significant changes included a \$1.0 million increase in Salaries and benefits, offset by a \$771 thousand decrease in ORE expense, net and FDIC and other insurance costs. Full time equivalent headcount increased from 827 as of March 31, 2018 to 899 as of March 31, 2019. Salaries and benefits expense increased for the first quarter as the Bank successfully executed a targeted effort to hire and expand certain functions which has now been largely completed.

Income Taxes

In the first quarter of 2019, TrustCo recognized income tax expense of \$4.6 million compared to \$4.7 million for the first quarter of 2018. The effective tax rates were 24.2% for the first quarters of 2019 and 2018.

Capital Resources

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

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

Total shareholders' equity at March 31, 2019 was \$501.7 million compared to \$462.1 million at March 31, 2018. TrustCo declared a dividend of \$0.068125 per share in the first quarter of 2019. This results in a dividend payout ratio of 45.23% based on first quarter 2019 earnings of \$14.6 million.

Index

The Bank and the Company reported the following capital ratios as of March 31, 2019 and December 31, 2018:

## (Bank Only)

(dollars in thousands)	As of March 31, 2019		Well Capitalized <sup>(1)</sup>		Adequately Capitalized <sup>(1)(2)</sup>		
	Amount	Ratio					
Tier 1 leverage capital	\$ 492,918	9.760	%	5.000	%	4.000	%
Common equity tier 1 capital	492,918	18.299		6.500		7.000	
Tier 1 risk-based capital	492,918	18.299		8.000		8.500	
Total risk-based capital	526,727	19.555		10.000		10.500	

(dollars in thousands)	As of December 31, 2018		Well Capitalized <sup>(1)</sup>		Adequately Capitalized <sup>(1)(3)</sup>		
	Amount	Ratio					
Tier 1 (core) capital	\$ 484,581	9.767	%	5.000	%	4.000	%
Common equity tier 1 capital	484,581	18.233		6.500		6.380	
Tier 1 risk-based capital	484,581	18.233		8.000		7.880	
Total risk-based capital	517,948	19.489		10.000		9.880	

## (Consolidated)

(dollars in thousands)	As of March 31, 2019		Minimum for Capital Adequacy plus Capital Conservation Buffer <sup>(1)(2)</sup>		
	Amount	Ratio			
Tier 1 leverage capital	\$ 508,176	10.057	%	4.000	%
Common equity tier 1 capital	508,176	18.856		7.000	
Tier 1 risk-based capital	508,176	18.856		8.500	
Total risk-based capital	542,003	20.111		10.500	

(dollars in thousands)	As of December 31, 2018		Minimum for Capital Adequacy plus Capital Conservation Buffer <sup>(1)(2)</sup>		
	Amount	Ratio			
Tier 1 leverage ratio	\$ 499,626	10.129	%	4.000	%
Common equity Tier 1 capital	499,626	18.790		6.380	
Tier 1 risk-based capital	499,626	18.790		7.880	
Total risk-based capital	533,009	20.046		9.880	

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

(2) The March 31, 2019 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a capital conservation buffer of 2.50 percent

(3) The December 31, 2018 common equity tier 1, tier 1 risk-based, and total risk-based capital ratios include a transition capital conservation buffer of 1.88 percent

In addition, at March 31, 2019, Trustco's consolidated equity to total assets ratio was 9.73% compared to 9.88% at December 31, 2018 and 9.37% at March 31, 2018.

Both TrustCo and Trustco Bank are subject to regulatory capital requirements. On January 1, 2015, a new capital rule took effect that revised the federal bank regulatory agencies' risk based capital requirements and, for the first time, subjected the Company to consolidated regulatory capital requirements. Among other matters, the rule also established a new common equity Tier 1 minimum capital requirement of 4.5% of risk-weighted assets, increased the minimum Tier 1 capital to risk-based assets requirement from 4.0% to 6.0% of risk-weighted assets, changed the risk-weightings of certain assets, and changed what qualifies as capital for purposes of meeting the various capital requirements. In addition, the Company and the Bank are required to maintain additional levels of Tier 1 common equity (the capital conservation buffer) over the minimum risk-based capital levels before they may pay dividends, repurchase shares or pay discretionary bonuses. The new rule was phased-in over several years and took in full effect for 2019.

As of March 31, 2019, the capital levels of both TrustCo and the Bank exceeded the minimum standards, including with the current, fully phased-in capital conservation buffer taken into account.

## Index

Under the OCC's "prompt corrective action" regulations, a bank is deemed to be "well capitalized" when its CET1, Tier 1, total risk-based and leverage capital ratios are at least 6.5%, 8%, 10% and 5%, respectively. A bank is deemed to be "adequately capitalized" or better if its capital ratios meet or exceed the minimum federal regulatory capital requirements, and "undercapitalized" if it fails to meet these minimal capital requirements. A bank is "significantly undercapitalized" if its CET1, Tier 1, total risk-based and leverage capital ratios fall below 3%, 4%, 6% and 3%, respectively and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%. At March 31, 2019 and 2018, Trustco Bank met the definition of "well capitalized."

As noted, the Company's dividend payout ratio was 45.23% of net income for the first quarter of 2019 and 42.70% of net income for the first quarter of 2018. The per-share dividend paid in both the first quarter of 2019 and the fourth quarter of 2018 was \$0.068125, and \$0.065625 in the first quarter of 2018. The Company's ability to pay dividends to its shareholders is dependent upon the ability of the Bank to pay dividends to the Company. The payment of dividends by the Bank to the Company is subject to continued compliance with minimum regulatory capital requirements. The OCC may disapprove a dividend if: the Bank would be undercapitalized following the distribution; the proposed capital distribution raises safety and soundness concerns; or the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

TrustCo maintains a dividend reinvestment plan (DRP) with approximately 11,500 participants. The DRP allows participants to reinvest dividends in shares of the Company. The DRP also allows for additional purchases by participants and has a discount feature (up to a 5% for safe harbor provisions) that can be activated by management as a tool to raise capital. To date, the discount feature has not been utilized.

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's 2018 consolidated financial statements contains a summary of the Company's significant accounting policies.

Management believes that the Company's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

Index

The provision for loan losses is based upon Management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated fair value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although Management uses current and relevant information available in relation to their loan portfolio, the adequacy of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in primarily New York, and Florida. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and may experience adverse economic conditions. Future adjustments to the provision for loan losses and allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

Pursuant to recent Securities and Exchange Commission ("SEC") guidance, management of the Company is encouraged to evaluate and disclose those accounting policies that are 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 credit losses in the 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 2018 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.

Recent Accounting Pronouncements

Please refer to Note 11 to the consolidated financial statements for a detailed discussion of new accounting pronouncements and their impact on the Company.

Index

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

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

The following table summarizes the component distribution of the average balance sheet, related interest income and expense and the average annualized yields on interest earning assets and annualized rates on interest bearing liabilities of TrustCo (adjusted for tax equivalency) for each of the reported periods. Nonaccrual loans are included in loans for this analysis. The average balances of securities available for sale and held to maturity are calculated using amortized costs for these securities. Included in the average balance of shareholders' equity is the unrealized gain (loss), net of tax, in the available for sale portfolio of (\$9.2) million in 2019 and (\$12.2) million in 2018. 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 March 31, 2019		Three months ended March 31, 2018		Average Interest	Change in Average Rate	Variance Balance Change	Variance Rate Change
	Average Balance	Interest	Average Rate	Average Balance				
Assets								
Securities available for sale:								
U. S. government sponsored enterprises	\$154,258	783	2.03%	\$156,593	750	1.92%	\$33	(65 ) 98
Mortgage backed securities and collateralized mortgage obligations-residential	273,004	1,555	2.28%	313,753	1,763	2.25%	(208 )	(359 ) 151
State and political subdivisions	168	2	7.85%	515	10	7.81%	(8 )	(8 ) -
Corporate bonds	26,862	208	3.09%	33,297	133	1.60%	75	(158 ) 233
Small Business Administration-guaranteed participation securities	57,057	297	2.08%	67,106	352	2.10%	(55 )	(52 ) (3 )
Mortgage backed securities and collateralized mortgage obligations-commercial	-	-	- %	9,775	42	1.71%	(42 )	(21 ) (21 )
Other	685	5	2.92%	685	5	2.52%	-	- -
Total securities available for sale	512,034	2,850	2.23%	581,724	3,055	2.12%	(205 )	(663 ) 458
Federal funds sold and other short-term Investments	502,976	3,009	2.43%	528,947	2,017	1.55%	992	(662 ) 1,654

## Held to maturity securities:

Mortgage backed securities  
and collateralized mortgage  
obligations-residential

22,037	217	3.94%	26,799	260	3.88%	(43 )	(69 )	26
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Total held to maturity  
securities

22,037	217	3.94%	26,799	260	3.88%	(43 )	(69 )	26
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Federal Reserve Bank and  
Federal Home Loan Bank  
stock

8,953	85	3.80%	8,779	77	3.51%	8	2	6
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## Commercial loans

193,738	2,583	5.33%	185,646	2,420	5.21%	163	107	56
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## Residential mortgage loans

3,374,990	34,864	4.14%	3,148,735	32,257	4.11%	2,607	2,367	240
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## Home equity lines of credit

286,199	3,537	5.01%	306,290	3,210	4.25%	327	(1,162)	1,489
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## Installment loans

11,897	269	9.17%	8,365	205	9.90%	64	158	(94 )
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Loans, net of unearned  
income

3,866,824	41,253	4.28%	3,649,036	38,092	4.19%	3,161	1,470	1,691
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Total interest earning  
assets

4,912,824	47,414	3.87%	4,795,285	43,501	3.64%	3,913	78	3,835
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## Allowance for loan losses

(44,947 )			(44,393 )					
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Cash & non-interest  
earning assets

176,009			124,867					
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## Total assets

\$5,043,886			\$4,875,759					
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Liabilities and shareholders'  
equity

## Deposits:

## Interest bearing checking

accounts	\$880,474	121	0.06%	\$877,776	106	0.05%	15	-	15
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## Money market accounts

517,995	826	0.65%	547,136	439	0.33%	387	(162 )	549
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## Savings

1,160,142	377	0.13%	1,260,360	419	0.13%	(42 )	(42 )	-
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## Time deposits

1,353,160	5,976	1.79%	1,080,893	2,860	1.07%	3,116	849	2,267
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Total interest bearing  
deposits

3,911,771	7,300	0.76%	3,766,165	3,824	0.41%	3,476	645	2,831
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## Short-term borrowings

159,076	381	0.97%	234,384	358	0.62%	23	(587 )	610
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Total interest bearing  
liabilities

4,070,847	7,681	0.77%	4,000,549	4,182	0.42%	3,499	58	3,441
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## Demand deposits

397,522			386,563					
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Other liabilities	80,579	29,129			
Shareholders' equity	494,938	459,519			
Total liabilities and shareholders' equity	\$5,043,886	\$4,875,760			
Net interest income , tax equivalent	39,733	39,319	\$414	20	394
Net interest spread	3.11 %	3.22 %			
Net interest margin (net interest income to total interest earning assets)	3.24 %	3.29 %			
Tax equivalent adjustment	(1 )	(4 )			
Net interest income	39,732	39,315			

55

Index

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As detailed in the Annual Report on Form 10-K as of December 31, 2018, the Company is subject to interest rate risk as its principal market risk. As noted in the Management’s Discussion and Analysis for the three month periods ended March 31, 2019 and 2018, the Company continues to respond to changes in interest rates in such a way that positions the Company to meet short term earning goals and also allows the Company to respond to changes in interest rates in the future. Consequently, for the first quarter of 2019, the Company had an average balance of Federal Funds sold and other short-term investments of \$503.0 million compared to \$528.9 million in the first quarter of 2018. As investment opportunities present themselves, management plans to invest funds from the Federal Funds sold and other short-term investment portfolio into the securities available for sale, securities held to maturity and loan portfolios. Additional disclosure of interest rate risk can be found under “Liquidity and Interest Rate Sensitivity” and “Asset/Liability Management” in the Management’s Discussion and Analysis section of this document.

Item 4. Controls and Procedures

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

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

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

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

Index

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, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety

None.

Item 5. Other Information

None.

Item 6. Exhibits

57

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Index

Reg S-K (Item 601)

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

58

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Index

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

Chairman, President and

Chief Executive Officer

By:

/s/ Michael M. Ozimek

Michael M. Ozimek

Executive Vice President

and Chief Financial

Officer

Date: May 3, 2019

Index

Exhibits Index

Reg S-K

Exhibit Description  
No.

15 Crowe LLP Letter Regarding Unaudited Interim Financial Information

31(a) Rule 13a-15(e)/15d-15(e) Certification of Robert J. McCormick, principal executive officer.

31(b) Rule 13a-15(e)/15d-15(e) Certification of Michael M. Ozimek, principal financial officer.

32 Section 1350 Certifications of Robert J. McCormick, principal executive officer and Michael M. Ozimek, principal financial officer.

101.INS Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

60

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