

TRUSTCO BANK CORP N Y  
Form 10-Q  
November 04, 2016

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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 September 30, 2016 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 (I.R.S. Employer  
or organization) 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 Web site, 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

	Number of Shares Outstanding
Common Stock as of October 31, 2016	
\$1 Par Value	95,705,176

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TrustCo Bank Corp NY

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## TRUSTCO BANK CORP NY

Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Interest and fees on loans	\$ 36,171	35,631	107,428	105,957
Interest and dividends on securities available for sale:				
U. S. government sponsored enterprises	408	584	1,067	1,162
State and political subdivisions	13	23	40	71
Mortgage-backed securities and collateralized mortgage obligations-residential	1,829	2,230	6,114	6,899
Corporate bonds	97	-	97	1
Small Business Administration-guaranteed participation securities	445	497	1,371	1,522
Mortgage-backed securities and collateralized mortgage obligations-commercial	36	37	110	112
Other securities	4	4	12	12
Total interest and dividends on securities available for sale	2,832	3,375	8,811	9,779
Interest on held to maturity securities:				
Mortgage-backed securities and collateralized mortgage obligations-residential	347	461	1,123	1,419
Corporate bonds	156	153	464	461
Total interest on held to maturity securities	503	614	1,587	1,880
Federal Reserve Bank and Federal Home Loan Bank stock	131	113	369	347
Interest on federal funds sold and other short-term investments	866	408	2,542	1,231
Total interest income	40,503	40,141	120,737	119,194
Interest expense:				
Interest on deposits:				
Interest-bearing checking	120	117	350	333
Savings	504	603	1,712	1,860
Money market deposit accounts	463	537	1,426	1,701
Time deposits	2,468	2,544	7,301	7,478
Interest on short-term borrowings	281	290	800	936
Total interest expense	3,836	4,091	11,589	12,308
Net interest income	36,667	36,050	109,148	106,886
Provision for loan losses	750	800	2,350	2,400
Net interest income after provision for loan losses	35,917	35,250	106,798	104,486
Noninterest income:				

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Trustco financial services income	1,347	1,351	4,464	4,482
Fees for services to customers	2,664	2,770	8,062	7,985
Net gain on securities transactions	-	-	668	249
Other	718	244	1,306	726
Total noninterest income	4,729	4,365	14,500	13,442
Noninterest expenses:				
Salaries and employee benefits	8,995	7,834	26,932	24,479
Net occupancy expense	3,887	3,929	11,893	11,915
Equipment expense	1,596	1,596	4,950	5,341
Professional services	1,959	2,238	6,203	5,811
Outsourced services	1,465	1,425	4,441	4,275
Advertising expense	489	668	1,788	2,001
FDIC and other insurance	1,127	2,202	5,066	4,284
Other real estate expense, net	895	806	1,837	1,431
Other	2,636	2,766	7,352	7,915
Total noninterest expenses	23,049	23,464	70,462	67,452
Income before taxes	17,597	16,151	50,836	50,476
Income taxes	6,667	5,535	19,033	18,418
Net income	\$ 10,930	10,616	31,803	32,058
Net income per share:				
- Basic	\$ 0.114	0.112	0.333	0.337
- Diluted	\$ 0.114	0.111	0.333	0.337

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Net income	\$ 10,930	10,616	31,803	32,058
Net unrealized holding (loss) gain on securities available for sale	(125 )	7,855	12,475	5,682
Reclassification adjustments for net gain recognized in income	-	-	(668 )	(249 )
Tax effect	50	(3,142 )	(4,723 )	(2,171 )
Net unrealized (loss) gain on securities available for sale, net of tax	(75 )	4,713	7,084	3,262
Amortization of net actuarial (gain) loss	(8 )	43	(25 )	53
Amortization of prior service cost	22	23	67	68
Tax effect	(6 )	(26 )	(17 )	(48 )
Amortization of net actuarial (gain) loss and prior service cost on pension and postretirement plans, net of tax	8	40	25	73
Other comprehensive (loss) income, net of tax	(67 )	4,753	7,109	3,335
Comprehensive income	\$ 10,863	15,369	38,912	35,393

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Financial Condition

(dollars in thousands)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>ASSETS:</b>		
Cash and due from banks	\$ 42,296	41,698
Federal funds sold and other short term investments	622,132	676,458
Total cash and cash equivalents	664,428	718,156
Securities available for sale	654,502	601,037
Held to maturity securities (fair value 2016 \$50,991; 2015 \$59,439)	48,030	56,465
Federal Reserve Bank and Federal Home Loan Bank stock	9,579	9,480
Loans, net of deferred net costs	3,387,631	3,293,304
Less:		
Allowance for loan losses	43,950	44,762
Net loans	3,343,681	3,248,542
Bank premises and equipment, net	36,110	37,643
Other assets	56,519	63,669
Total assets	\$ 4,812,849	4,734,992
<b>LIABILITIES:</b>		
Deposits:		
Demand	\$ 380,090	365,081
Interest-bearing checking	785,118	754,347
Savings accounts	1,277,734	1,262,194
Money market deposit accounts	566,097	610,826
Time deposits	1,159,199	1,107,930
Total deposits	4,168,238	4,100,378
Short-term borrowings	179,204	191,226
Accrued expenses and other liabilities	29,799	30,078
Total liabilities	\$ 4,377,241	4,321,682
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock par value \$1; 150,000,000 shares authorized; 99,121,082 and 98,973,452 shares issued at September 30, 2016 and December 31, 2015, respectively	99,121	98,973
Surplus	171,093	171,443
Undivided profits	197,013	184,009
Accumulated other comprehensive income (loss), net of tax	2,328	(4,781 )

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Treasury stock at cost - 3,506,797 and 3,711,228 shares at September 30, 2016 and December 31, 2015, respectively	(33,947	) (36,334	)
Total shareholders' equity	435,608	413,310	
Total liabilities and shareholders' equity	\$ 4,812,849	4,734,992	

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

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

(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Beginning balance, January 1, 2015	\$98,945	172,353	166,745	(4,509 )	(40,090 )	393,444
Net income	-	-	32,058	-	-	32,058
Other comprehensive income, net of tax	-	-	-	3,335	-	3,335
Cash dividend declared, \$.1969 per share	-	-	(18,710 )	-	-	(18,710 )
Stock options exercised and related tax benefits (19,429 shares)	19	80	-	-	-	99
Purchase of treasury stock (14,881 shares)	-	-	-	-	(99 )	(99 )
Sale of treasury stock (286,844 shares)	-	(789 )	-	-	2,810	2,021
Stock based compensation expense	-	144	-	-	-	144
Ending balance, September 30, 2015	\$98,964	171,788	180,093	(1,174 )	(37,379 )	412,292
Beginning balance, January 1, 2016	\$98,973	171,443	184,009	(4,781 )	(36,334 )	413,310
Net income	-	-	31,803	-	-	31,803
Other comprehensive income, net of tax	-	-	-	7,109	-	7,109
Cash dividend declared, \$.1969 per share	-	-	(18,799 )	-	-	(18,799 )
Stock options exercised and related tax benefits (147,630 shares)	148	612	-	-	-	760
Purchase of treasury stock (111,906 shares)	-	-	-	-	(701 )	(701 )
Sale of treasury stock (316,337 shares)	-	(1,130 )	-	-	3,088	1,958
Stock based compensation expense	-	168	-	-	-	168
Ending balance, September 30, 2016	\$99,121	171,093	197,013	2,328	(33,947 )	435,608

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

## Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 31,803	32,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,071	3,469
Net gain on sale of other real estate owned	(281	) (354
Writedown of other real estate owned	911	781
Provision for loan losses	2,350	2,400
Deferred tax expense	3,899	2,832
Net amortization of securities	3,702	4,134
Stock based compensation expense	168	144
Net gain on sale of bank premises and equipment	(480	) -
Net gain on sales of securities	(668	) (249
Decrease in taxes receivable	2,320	3,599
(Increase) decrease in interest receivable	(610	) 453
Decrease in interest payable	(5	) (40
Increase in other assets	(4,844	) (3,400
(Decrease) increase in accrued expenses and other liabilities	(297	) 2,713
Total adjustments	9,236	16,482
Net cash provided by operating activities	41,039	48,540
Cash flows from investing activities:		
Proceeds from sales and calls of securities available for sale	205,312	185,159
Proceeds from calls and maturities of held to maturity securities	8,435	10,948
Purchases of securities available for sale	(250,554	) (132,898
Proceeds from maturities of securities available for sale	550	1,499
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(99	) (252
Net increase in loans	(101,292	) (132,594
Proceeds from dispositions of other real estate owned	4,860	5,464
Proceeds from dispositions of bank premises and equipment	674	107
Purchases of bank premises and equipment	(1,732	) (2,517
Net cash used in investing activities	(133,846	) (65,084
Cash flows from financing activities:		
Net increase in deposits	67,860	64,552
Net decrease in short-term borrowings	(12,022	) (4,711
Proceeds from exercise of stock options and related tax benefits	760	99
Proceeds from sale of treasury stock	1,958	2,021
Purchases of treasury stock	(701	) (99
Dividends paid	(18,776	) (18,694

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Net cash provided by financing activities	39,079		43,168
Net increase in cash and cash equivalents	(53,728	)	26,624
Cash and cash equivalents at beginning of period	718,156		671,448
Cash and cash equivalents at end of period	\$ 664,428		698,072

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid	\$ 11,594		12,348
Income taxes paid	16,944		14,859
Other non cash items:			
Transfer of loans to other real estate owned	3,803		5,343
Increase in dividends payable	23		16
Change in unrealized gain on securities available for sale-gross of deferred taxes	11,807		5,433
Change in deferred tax effect on unrealized gain on securities available for sale	(4,723	)	(2,171
Amortization of net actuarial loss and prior service credit on pension and postretirement plans	42		121
Change in deferred tax effect of amortization of net actuarial loss and prior service credit	(17	)	(48

See accompanying notes to unaudited consolidated interim financial statements.

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## (1) Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the “Company” or “TrustCo”) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and nine months ended September 30, 2016 is not necessarily indicative of the results that may be expected for the year ending December 31, 2016, 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 September 30, 2016, the results of operations and cash flows for the three months and nine months ended September 30, 2016 and 2015. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the Company’s year-end Consolidated Financial Statements, including notes thereto, which are included in the Company’s 2015 Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States.

## (2) Earnings Per Share

The Company computes earnings per share in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, Earnings Per Share (“ASC 260”). A reconciliation of the component parts of earnings per share for the three months and nine months ended September 30, 2016 and 2015 is as follows:

(in thousands, except per share data)	For the three months ended		For the nine months ended	
	September 30:		September 30:	
	2016	2015	2016	2015
Net income	\$ 10,930	10,616	\$ 31,803	32,058
Weighted average common shares	95,603	95,149	95,486	95,051
Stock Options	119	85	86	116
Weighted average common shares including potential dilutive shares	95,722	95,234	95,572	95,167
Basic EPS	\$ 0.114	0.112	\$ 0.333	0.337
Diluted EPS	\$ 0.114	0.111	\$ 0.333	0.337

For the three months and nine months ended September 30, 2016, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 1.6 million. For the three and nine months ended September 30, 2015 the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 1.4 million. The stock options are antidilutive because the strike price is greater than the average fair value of the Company’s common stock for the periods presented.

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## (3) Benefit Plans

The table below outlines the components of the Company's net periodic benefit recognized during the three months and nine months ended September 30, 2016 and 2015 for its pension and other postretirement benefit plans:

(dollars in thousands)	For the three months ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 15	15	32	47
Interest cost	343	337	61	72
Expected return on plan assets	(669 )	(684 )	(180 )	(182 )
Amortization of net loss (gain)	46	77	(54 )	(34 )
Amortization of prior service cost	-	-	22	23
Net periodic benefit	\$ (265 )	(255 )	(119 )	(74 )

(dollars in thousands)	For the nine months ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 46	45	96	125
Interest cost	1,029	997	184	201
Expected return on plan assets	(1,994 )	(2,052 )	(540 )	(543 )
Amortization of net loss (gain)	138	158	(163 )	(105 )
Amortization of prior service cost	-	-	67	68
Net periodic benefit	\$ (781 )	(852 )	(356 )	(254 )

The Company does not expect to make contributions to its pension and postretirement benefit plans in 2016. As of September 30, 2016, no contributions have been made, however, this decision is reviewed each quarter and is subject to change based upon market conditions.

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

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## (4) Investment Securities

## (a) Securities available for sale

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

(dollars in thousands)	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$116,285	46	4	116,327
State and political subdivisions	953	17	-	970
Corporate bonds	41,127	-	102	41,025
Mortgage backed securities and collateralized mortgage obligations - residential	396,647	4,072	144	400,575
Small Business Administration-guaranteed participation securities	84,268	531	112	84,687
Mortgage backed securities and collateralized mortgage obligations - commercial	10,214	19	-	10,233
Other	650	-	-	650
Total debt securities	650,144	4,685	362	654,467
Equity securities	35	-	-	35
Total securities available for sale	\$650,179	4,685	362	654,502

(dollars in thousands)	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$86,899	19	181	86,737
State and political subdivisions	1,270	20	-	1,290
Mortgage backed securities and collateralized mortgage obligations - residential	416,625	430	5,326	411,729
Small Business Administration-guaranteed participation securities	92,620	-	2,204	90,416
Mortgage backed securities and collateralized mortgage obligations - commercial	10,422	-	242	10,180
Other	650	-	-	650
Total debt securities	608,486	469	7,953	601,002
Equity securities	35	-	-	35
Total securities available for sale	\$608,521	469	7,953	601,037

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The following table distributes the debt securities included in the available for sale portfolio as of September 30, 2016, 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	Fair
	Cost	Value
Due in one year or less	\$ 1,406	1,408
Due in one year through five years	142,461	142,415
Due after five years through ten years	15,139	15,140
Due after ten years	9	9
Mortgage backed securities and collateralized mortgage obligations - residential	396,647	400,575
Small Business Administration-guaranteed participation securities	84,268	84,687
Mortgage backed securities and collateralized mortgage obligations - commercial	10,214	10,233
	\$ 650,144	654,467

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)	September 30, 2016					
	Less than		12 months		Total	
	12 months		or more			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal. Loss	Value	Unreal. Loss	Value	Unreal. Loss
U.S. government sponsored enterprises	\$14,996	4	-	-	14,996	4
Mortgage backed securities and collateralized mortgage obligations - residential	29,252	116	5,138	28	34,390	144
Corporate bonds	41,025	102	-	-	41,025	102
Small Business Administration -guaranteed participation securities	-	-	15,332	112	15,332	112
Total	\$85,273	222	20,470	140	105,743	362

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(dollars in thousands)

	December 31, 2015					
	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	\$41,786	113	9,932	68	51,718	181
Mortgage backed securities and collateralized mortgage obligations - residential	187,605	2,147	167,549	3,179	355,153	5,326
Small Business Administration-guaranteed participation securities	7,529	111	82,888	2,093	90,417	2,204
Mortgage backed securities and collateralized mortgage obligations - commercial	5,553	130	4,627	112	10,180	242
Total	\$242,473	2,501	264,996	5,452	507,468	7,953

The proceeds from sales and calls of securities available for sale, gross realized gains and gross realized losses from sales and calls during the three months and nine months ended September 30, 2016 and 2015 are as follows:

(dollars in thousands) Three months ended September 30,  
2016                      2015

Proceeds from sales	\$ -	-
Proceeds from calls	70,762	106,555
Gross realized gains	-	-
Gross realized losses	-	-

(dollars in thousands) Nine months ended September 30,  
2016                      2015

Proceeds from sales	\$ 44,829	22,945
Proceeds from calls	160,483	162,214
Gross realized gains	668	249
Gross realized losses	-	-

For the nine months ended September 30, 2016, income tax expense recognized on net gains on sales of securities available for sale was approximately \$267 thousand. For the nine months ended September 30, 2015, income tax expense recognized on net gains on sales of securities available for sale was approximately \$100 thousand. There were no sales of securities available for sale during the three months ended September 30, 2016 and 2015.



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## (b) Held to maturity securities

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

(dollars in thousands)	September 30, 2016			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$38,044	2,547	-	40,591
Corporate bonds	9,986	414	-	10,400
Total held to maturity	\$48,030	2,961	-	50,991

(dollars in thousands)	December 31, 2015			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$46,490	2,308	-	48,798
Corporate bonds	9,975	666	-	10,641
Total held to maturity	\$56,465	2,974	-	59,439

The following table distributes the debt securities included in the held to maturity portfolio as of September 30, 2016, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year through five years	\$ 9,986	10,400
Mortgage backed securities and collateralized mortgage obligations - residential	38,044	40,591
	\$ 48,030	50,991

There were no held to maturity securities in an unrecognized loss position as of September 30, 2016 or December 31, 2015.

There were no sales or transfers of held to maturity securities during the three months and nine months ended September 30, 2016 and 2015.

## (c) Other-Than-Temporary Impairment

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

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In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether 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 September 30, 2016, the Company's security portfolio included certain securities which were in an unrealized loss position. The declines in fair value are attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2016.

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## (5) Loans and Allowance for Loan Losses

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

(dollars in thousands)	September 30, 2016		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 154,747	12,505	167,252
Other	22,543	-	22,543
Real estate mortgage - 1 to 4 family:			
First mortgages	2,138,783	636,753	2,775,536
Home equity loans	59,512	10,828	70,340
Home equity lines of credit	293,459	49,986	343,445
Installment	6,849	1,666	8,515
Total loans, net	\$2,675,893	711,738	3,387,631
Less: Allowance for loan losses			43,950
Net loans			\$3,343,681

(dollars in thousands)	December 31, 2015		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 160,965	14,908	175,873
Other	27,449	93	27,542
Real estate mortgage - 1 to 4 family:			
First mortgages	2,093,957	566,715	2,660,672
Home equity loans	52,251	8,250	60,501
Home equity lines of credit	308,165	51,160	359,325
Installment	8,000	1,391	9,391
Total loans, net	\$2,650,787	642,517	3,293,304
Less: Allowance for loan losses			44,762
Net loans			\$3,248,542

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

At September 30, 2016 and December 31, 2015, the Company had approximately \$23.5 million and \$26.6 million of real estate construction loans, respectively. Of the \$23.5 million in real estate construction loans at September 30, 2016, approximately \$14.0 million are secured by second mortgages to residential borrowers while approximately \$9.5 million were to commercial borrowers for residential construction projects. Of the \$26.6 million in real estate construction loans at December 31, 2015, approximately \$16.0 million are secured by second mortgages to residential borrowers while approximately \$10.6 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company's New York market.

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

the economic conditions prevailing in the respective geographic territory.

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

(dollars in thousands)	September 30, 2016		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$2,366	-	2,366
Real estate mortgage - 1 to 4 family:			
First mortgages	18,361	1,503	19,864
Home equity loans	94	45	139
Home equity lines of credit	3,223	296	3,519
Installment	70	-	70
Total non-accrual loans	24,114	1,844	25,958
Restructured real estate mortgages - 1 to 4 family	44	-	44
Total nonperforming loans	\$24,158	1,844	26,002

(dollars in thousands)	December 31, 2015		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$3,024	-	3,024
Other	-	-	-
Real estate mortgage - 1 to 4 family:			
First mortgages	19,488	1,488	20,976
Home equity loans	212	-	212
Home equity lines of credit	3,573	329	3,902
Installment	90	8	98
Total non-accrual loans	26,387	1,825	28,212
Restructured real estate mortgages - 1 to 4 family	48	-	48
Total nonperforming loans	\$26,435	1,825	28,260

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 September 30, 2016 and December 31, 2015, other estate owned included \$4.1 million and \$5.4 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 \$12.8 million and \$13.2 million as of September 30, 2016 and December 31, 2015, respectively.

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The following tables present the aging of the recorded investment in past due loans by loan class and by region as of September 30, 2016 and December 31, 2015:

New York and other states:

(dollars in thousands)	September 30, 2016				Current	Total Loans
	30-59	60-89	90 +	Total		
	Days Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$ 301	-	2,323	2,624	152,123	154,747
Other	-	-	-	-	22,543	22,543
Real estate mortgage - 1 to 4 family:						
First mortgages	3,415	2,243	10,629	16,287	2,122,496	2,138,783
Home equity loans	71	30	42	143	59,369	59,512
Home equity lines of credit	672	182	1,476	2,330	291,129	293,459
Installment	18	10	48	76	6,773	6,849
Total	\$ 4,477	2,465	14,518	21,460	2,654,433	2,675,893

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	\$ -	-	-	-	12,505	12,505
Other	-	-	-	-	-	-
Real estate mortgage - 1 to 4 family:						
First mortgages	608	-	1,085	1,693	635,060	636,753
Home equity loans	-	-	-	-	10,828	10,828
Home equity lines of credit	50	-	180	230	49,756	49,986
Installment	25	1	-	26	1,640	1,666
Total	\$ 683	1	1,265	1,949	709,789	711,738

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	\$ 301	-	2,323	2,624	164,628	167,252
Other	-	-	-	-	22,543	22,543
Real estate mortgage - 1 to 4 family:						
First mortgages	4,023	2,243	11,714	17,980	2,757,556	2,775,536
Home equity loans	71	30	42	143	70,197	70,340
Home equity lines of credit	722	182	1,656	2,560	340,885	343,445
Installment	43	11	48	102	8,413	8,515

Total	\$ 5,160	2,466	15,783	23,409	3,364,222	3,387,631
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New York and other states:

(dollars in thousands)	December 31, 2015					
	30-59					
	Days	60-89	90 +	Total	Current	Total
	Past Due	Days Past Due	Days Past Due	30+ days Past Due		
Commercial:						
Commercial real estate	\$-	-	2,340	2,340	158,625	160,965
Other	-	-	-	-	27,449	27,449
Real estate mortgage - 1 to 4 family:						
First mortgages	4,321	2,037	12,529	18,887	2,075,070	2,093,957
Home equity loans	43	-	149	192	52,059	52,251
Home equity lines of credit	572	204	1,418	2,194	305,971	308,165
Installment	34	19	88	141	7,859	8,000
Total	\$4,970	2,260	16,524	23,754	2,627,033	2,650,787

Florida:

(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total
	Days	Days	Days	30+ days		
	Past Due	Past Due	Past Due	Past Due		
Commercial:						
Commercial real estate	\$ 10	-	-	10	14,898	14,908
Other	-	-	-	-	93	93
Real estate mortgage - 1 to 4 family:						
First mortgages	665	271	851	1,787	564,928	566,715
Home equity loans	-	-	-	-	8,250	8,250
Home equity lines of credit	159	-	240	399	50,761	51,160
Installment	1	21	-	22	1,369	1,391
Total	\$ 835	292	1,091	2,218	640,299	642,517

Total:

(dollars in thousands)	30-59	60-89	90 +	Total	Current	Total
	Days	Days	Days	30+ days		
	Past Due	Past Due	Past Due	Past Due		
Commercial:						
Commercial real estate	\$ 10	-	2,340	2,350	173,523	175,873
Other	-	-	-	-	27,542	27,542
Real estate mortgage - 1 to 4 family:						
First mortgages	4,986	2,308	13,380	20,674	2,639,998	2,660,672
Home equity loans	43	-	149	192	60,309	60,501
Home equity lines of credit	731	204	1,658	2,593	356,732	359,325
Installment	35	40	88	163	9,228	9,391
Total	\$ 5,805	2,552	17,615	25,972	3,267,332	3,293,304



At September 30, 2016 and December 31, 2015, 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.

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

(dollars in thousands)	For the three months ended September 30, 2016			
	Real Estate			Total
	Commercial	1 to 4 Family	Installment	
Balance at beginning of period	\$ 5,046	38,589	429	44,064
Loans charged off:				
New York and other states*	356	549	57	962
Florida	-	2	3	5
Total loan chargeoffs	356	551	60	967
Recoveries of loans previously charged off:				
New York and other states*	3	78	20	101
Florida	-	2	-	2
Total recoveries	3	80	20	103
Net loans charged off	353	471	40	864
Provision for loan losses	505	(51 )	296	750
Balance at end of period	\$ 5,198	38,067	685	43,950

(dollars in thousands)	For the three months ended September 30, 2015			
	Real Estate			Total
	Commercial	1 to 4 Family	Installment	
Balance at beginning of period	\$ 4,022	41,087	462	45,571
Loans charged off:				
New York and other states*	3	1,300	50	1,353
Florida	-	35	4	39
Total loan chargeoffs	3	1,335	54	1,392
Recoveries of loans previously charged off:				
New York and other states*	-	141	24	165
Florida	3	2	-	5
Total recoveries	3	143	24	170
Net loans charged off	-	1,192	30	1,222
Provision (credit) for loan losses	34	752	14	800
Balance at end of period	\$ 4,056	40,647	446	45,149

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(dollars in thousands)

For the nine months ended September 30, 2016

	Real Estate			Total
	Commercial	Mortgage- 1 to 4 Family	Installment	
Balance at beginning of period	\$ 4,491	39,753	518	44,762
Loans charged off:				
New York and other states*	688	2,528	230	3,446
Florida	-	103	20	123
Total loan chargeoffs	688	2,631	250	3,569
Recoveries of loans previously charged off:				
New York and other states*	44	313	46	403
Florida	-	4	-	4
Total recoveries	44	317	46	407
Net loans charged off	644	2,314	204	3,162
Provision for loan losses	1,351	628	371	2,350
Balance at end of period	\$ 5,198	38,067	685	43,950

(dollars in thousands)

For the nine months ended September 30, 2015

	Real Estate			Total
	Commercial	Mortgage- 1 to 4 Family	Installment	
Balance at beginning of period	\$ 4,071	42,088	168	46,327
Loans charged off:				
New York and other states*	103	3,480	126	3,709
Florida	-	313	4	317
Total loan chargeoffs	103	3,793	130	4,026
Recoveries of loans previously charged off:				
New York and other states*	16	384	39	