

HARRIS CORP /DE/  
Form 10-Q  
October 31, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-3863

HARRIS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 34-0276860

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

1025 West NASA Boulevard 32919  
Melbourne, Florida  
(Address of principal executive offices) (Zip Code)

(321) 727-9100  
(Registrant's telephone number, including area code)

No changes  
(Former name, former address and former fiscal year, if changed since last report)

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 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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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.

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

The number of shares outstanding of the registrant's common stock as of October 27, 2017 was 119,200,550 shares.

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This Quarterly Report on Form 10-Q contains trademarks, service marks and registered marks of Harris Corporation and its subsidiaries.	

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## HARRIS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Quarter Ended	
	September	September
	29,	30, 2016
	2017	
	(In millions, except per share amounts)	
Revenue from product sales and services	\$1,413	\$ 1,420
Cost of product sales and services	(898 )	(897 )
Engineering, selling and administrative expenses	(243 )	(277 )
Operating income	272	246
Non-operating income	—	1
Interest expense	(41 )	(44 )
Income from continuing operations before income taxes	231	203
Income taxes	(64 )	(58 )
Income from continuing operations	167	145
Discontinued operations, net of income taxes	(6 )	15
Net income	\$161	\$ 160
Net income per common share		
Basic		
Continuing operations	\$1.40	\$ 1.17
Discontinued operations	(0.05 )	0.12
	\$1.35	\$ 1.29
Diluted		
Continuing operations	\$1.38	\$ 1.16
Discontinued operations	(0.06 )	0.11
	\$1.32	\$ 1.27
Cash dividends paid per common share	\$0.57	\$ 0.53
Basic weighted average common shares outstanding	119.1	123.9
Diluted weighted average common shares outstanding	121.2	125.5

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HARRIS CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 (Unaudited)

	Quarter Ended September 29, 2017	September 30, 2016
	(In millions)	
Net income	\$ 161	\$ 160
Other comprehensive income (loss):		
Foreign currency translation gain (loss), 25 net of income taxes		(3 )
Net unrealized gain on hedging derivatives, 1 net of income taxes		—
Net unrecognized gain on postretirement obligations, net of income taxes	—	1
Other comprehensive income (loss), net of 26 income taxes		(2 )
Total comprehensive income	\$ 187	\$ 158

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HARRIS CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (Unaudited)

	September 29, 2017	June 30, 2017
	(In millions, except shares)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 388	\$ 484
Receivables	706	623
Inventories	896	841
Income taxes receivable	24	24
Other current assets	113	101
Total current assets	2,127	2,073
Non-current Assets		
Property, plant and equipment	890	904
Goodwill	5,376	5,366
Other intangible assets	1,077	1,104
Non-current deferred income taxes	409	409
Other non-current assets	220	234
Total non-current assets	7,972	8,017
	\$ 10,099	\$ 10,090
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 80	\$ 80
Accounts payable	452	540
Compensation and benefits	130	140
Other accrued items	342	329
Advance payments and unearned income	264	252
Income taxes payable	128	31
Current portion of long-term debt	522	554
Total current liabilities	1,918	1,926
Non-current Liabilities		
Defined benefit plans	1,237	1,278
Long-term debt, net	3,395	3,396
Non-current deferred income taxes	35	34
Other long-term liabilities	527	528
Total non-current liabilities	5,194	5,236
Equity		
Shareholders' Equity:		
Preferred stock, without par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$1.00 par value; 500,000,000 shares authorized; issued and outstanding 119,045,836 shares at September 29, 2017 and 119,628,884 shares at June 30, 2017	119	120
Other capital	1,731	1,741
Retained earnings	1,387	1,343
Accumulated other comprehensive loss	(250)	(276)
Total shareholders' equity	2,987	2,928
	\$ 10,099	\$ 10,090

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).



HARRIS CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (Unaudited)

	Quarter Ended	
	September 29, 2017	September 30, 2016
	(In millions)	
Operating Activities		
Net income	\$161	\$ 160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40	53
Amortization of intangible assets from Exelis Inc. acquisition	25	33
Share-based compensation	11	11
Qualified pension plan contributions	—	(64 )
Pension income	(34 )	(24 )
(Increase) decrease in:		
Accounts receivable	(83 )	(39 )
Inventories	(56 )	2
Increase (decrease) in:		
Accounts payable	(88 )	(90 )
Advance payments and unearned income	12	(31 )
Income taxes	126	63
Other	(19 )	(31 )
Net cash provided by operating activities	95	43
Investing Activities		
Net additions of property, plant and equipment	(23 )	(21 )
Adjustment to proceeds from sale of business	—	(25 )
Net cash used in investing activities	(23 )	(46 )
Financing Activities		
Proceeds from borrowings	—	8
Repayments of borrowings	(35 )	(38 )
Proceeds from exercises of employee stock options	14	15
Repurchases of common stock	(75 )	(100 )
Cash dividends	(69 )	(68 )
Other financing activities	(9 )	(18 )
Net cash used in financing activities	(174 )	(201 )
Effect of exchange rate changes on cash and cash equivalents	6	1
Net decrease in cash and cash equivalents	(96 )	(203 )
Cash and cash equivalents, beginning of year	484	487
Cash and cash equivalents, end of quarter	\$388	\$ 284
See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).		



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A — Significant Accounting Policies and Recent Accounting Standards

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements (Unaudited) include the accounts of Harris Corporation and its consolidated subsidiaries. As used in these Notes to Condensed Consolidated Financial Statements (Unaudited) (these “Notes”), the terms “Harris,” “Company,” “we,” “our” and “us” refer to Harris Corporation and its consolidated subsidiaries. Intracompany transactions and accounts have been eliminated in consolidation. The accompanying Condensed Consolidated Financial Statements (Unaudited) have been prepared by Harris, without an audit, in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, such interim financial statements do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP for annual financial statements. In the opinion of management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented therein. The results for the first quarter of fiscal 2018 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at June 30, 2017 has been derived from our audited financial statements, but does not include all of the information and footnotes required by GAAP for annual financial statements. We provide complete, audited financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this “Report”) should be read in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (our “Fiscal 2017 Form 10-K”).

In connection with our divestitures in fiscal 2017 of two significant businesses that were part of our former Critical Networks segment, our remaining operations that had been part of our former Critical Networks segment were integrated with our Electronic Systems segment effective for the third quarter of fiscal 2017, and our Critical Networks segment was eliminated. The historical results, discussion and presentation of our business segments as set forth in our Condensed Consolidated Financial Statements (Unaudited) and these Notes reflect the impact of these changes for all periods presented in order to present all segment information on a comparable basis. There is no impact on our previously reported consolidated statements of income, balance sheets or statements of cash flows resulting from these segment changes. See Note B: Discontinued Operations in these Notes and Note 3: “Discontinued Operations and Divestitures” in the Notes to Consolidated Financial Statements in our Fiscal 2017 Form 10-K for additional information. Our historical results for all periods presented have been restated to account for businesses reported as discontinued operations in our Condensed Consolidated Financial Statements (Unaudited) and these Notes. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in our Condensed Consolidated Financial Statements (Unaudited) and these Notes relate solely to our continuing operations.

Amounts contained in this Report may not always add to totals due to rounding.

Reclassifications

Certain prior-year amounts have been reclassified in our Condensed Consolidated Financial Statements (Unaudited) to conform with current-year classifications. Reclassifications include certain human resources and information technology (“IT”) costs from the “Cost of product sales and services” line item to the “Engineering, selling and administrative expenses” line item in our Condensed Consolidated Statement of Income (Unaudited) and in these Notes.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes and related disclosures. These estimates and assumptions are based on experience and other information available prior to issuance of the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes. Materially different results can occur as circumstances change and additional information becomes known.

Restructuring, Exelis Acquisition-Related Integration and Other Charges

We record restructuring charges for sales or terminations of product lines, closures or relocations of business activities, changes in management structure, and fundamental reorganizations that affect the nature and focus of operations. Such charges include termination benefits, contract termination costs and costs to consolidate facilities or relocate employees. We record these charges at their fair value when incurred. In cases where employees are required to render service until they are

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terminated in order to receive the termination benefits and will be retained beyond the minimum retention period, we record the expense ratably over the future service period. These charges are included as a component of the “Cost of product sales and services” and “Engineering, selling and administrative expenses” line items in our Condensed Consolidated Statement of Income (Unaudited).

In fiscal 2017, we recorded \$58 million of charges for integration and other costs in connection with our acquisition of Exelis Inc. (collectively with its subsidiaries, “Exelis”), substantially all of which were included as a component of the “Engineering, selling and administrative expenses” line item in our Consolidated Statement of Income in our Fiscal 2017 Form 10-K. We had liabilities of \$39 million at September 29, 2017 and \$43 million at June 30, 2017 associated with this integration activity and with previous restructuring actions. The majority of the remaining liabilities as of September 29, 2017 will be paid within the next twelve months.

#### Adoption of New Accounting Standards

In the first quarter of fiscal 2018, we adopted an accounting standards update issued by the Financial Accounting Standards Board (“FASB”) that requires recognition of the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. Consequently, this update eliminates the exception to the recognition of current and deferred income taxes for intra-entity transfers of assets other than for inventory until the assets have been sold to an outside party. This update requires entities to apply a modified retrospective approach with a cumulative catch-up adjustment to beginning retained earnings in the period of adoption. In addition, entities are required to record deferred tax balances with an offset to retained earnings for unrecognized amounts that will be recognized under this update. We applied all changes required by this update using the modified retrospective approach from the beginning of fiscal 2018. Adopting this update resulted in a \$27 million reduction of prepaid income tax assets from the “Other current assets” and “Other non-current assets” line items and a \$27 million increase in the “Non-current deferred income taxes” line item in our Condensed Consolidated Balance Sheet (Unaudited).

#### Accounting Standards Issued But Not Yet Effective

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes nearly all revenue recognition guidance under GAAP and International Financial Reporting Standards and supersedes some cost guidance for construction-type and production-type contracts. The guidance in this standard is principles-based and, consequently, entities will be required to use more judgment and make more estimates than under prior guidance, including identifying contract performance obligations, estimating variable consideration to include in the contract price and allocating the transaction price to separate performance obligations. The core principle of this standard is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To help financial statement users better understand the nature, amount, timing and potential uncertainty of the revenue that is recognized, this standard requires significantly more interim and annual disclosures. This standard allows for either “full retrospective” adoption (application to all periods presented) or “modified retrospective” adoption (application to only the most current period presented in the financial statements, with certain additional required footnote disclosures). In August 2015, the FASB issued an accounting standards update that deferred the effective date of the standard by one year, while continuing to permit entities to elect to adopt the standard as early as the original effective date. As a result, this standard is now effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, which for us is our fiscal 2019.

In preparation for the adoption of this standard, the project team we formed has made progress against the detailed implementation plan we developed, including in the following areas:

Completing an accounting guidance gap analysis, consisting of a review of significant revenue streams and

- representative contracts to determine potential changes to our existing accounting policies and potential impacts to our consolidated financial statements;
- Completing an inventory of our outstanding contracts and revenue streams;
- Drafting a Company-wide revenue recognition policy reflecting the requirements of this standard and tailored to our businesses;
- Providing Company-wide training to affected employees, including in the areas of accounting, finance, contracts, tax and segment management;
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Applying the five-step model of this standard to our contracts and revenue streams to evaluate the quantitative and qualitative impacts this standard will have on our consolidated financial statements, accounting and operating policies, accounting systems, internal control structure and business practices; and

• Initiating the process of reviewing the additional disclosure requirements of this standard and the potential impact on our accounting systems and internal control structure.

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Although we are still in the process of evaluating and quantifying the impact of this standard as described above, we have identified certain changes we expect this standard to have on our consolidated financial statements. A significant portion of our revenue is derived from contracts with the U.S. Government, with revenue recognized using the percentage-of-completion (“POC”) method. We expect to recognize revenue on an “over time” basis for most of these contracts by using cost inputs to measure progress toward the completion of our performance obligations, which is similar to the POC cost-to-cost method currently used on the majority of these contracts. Consequently, we expect the adoption of this standard primarily to impact certain of these contracts that recognize revenue using the POC units-of-delivery or milestone methods, resulting in recognition of revenue (and costs) earlier in the performance period as costs are incurred, as opposed to when units are delivered or milestones are achieved. We also are continuing to evaluate the impact of this standard in other areas, including:

- The number of distinct performance obligations within our contractual arrangements;
- Contract modifications;
- The potential impact to timing of revenue recognition for certain non-U.S. Government contracts based on existing contractual language; and
- Estimation and recognition of variable consideration for contracts to provide services.

Because of the broad scope of this standard, it could impact revenue and cost recognition across all of our business segments as well as related business processes and IT systems. As a result, our evaluation of the impact of this standard will continue over future periods. We also have not yet made a determination regarding the use of a full retrospective or modified retrospective adoption approach for this standard, as this determination is primarily dependent on the completion of our analysis.

In February 2016, the FASB issued a new lease standard that supersedes existing lease guidance under GAAP. This standard requires lessees to record most leases on their balance sheets but recognize expenses on their income statements in a manner similar to existing lease guidance under GAAP. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with the option to use certain relief. Full retrospective application is prohibited. This standard is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2018, which for us is our fiscal 2020. We are currently evaluating the impact this standard will have on our financial position, results of operations and cash flows.

In March 2017, the FASB issued an accounting standards update to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. This update requires that entities present components of net periodic pension cost and net periodic postretirement benefit cost other than the service cost component separately from the service cost component and outside the subtotal of income from operations. This update must be applied retrospectively and is effective for fiscal years beginning after December 15, 2017, which for us is our fiscal 2019. Adopting this update will result in a decrease in operating income and an increase in the net non-operating components of income from continuing operations of \$164 million and \$183 million for fiscal 2017 and 2018, respectively. We do not expect that adopting this update will have a material impact on our financial position or cash flows.

#### Note B — Discontinued Operations

We completed two significant divestitures during fiscal 2017, the divestiture of our government IT services business (“IT Services”) and the divestiture of our Harris CapRock Communications commercial business (“CapRock”), which are described in more detail below. These divestitures individually and collectively represented a strategic shift away from non-core markets (for example, energy, maritime and government IT services). The decision to divest these businesses was part of our strategy to simplify our operating model to focus on technology-differentiated, high-margin businesses, and had a major effect on our operations and financial results.

As a result, IT Services and CapRock are reported as discontinued operations in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes, and our historical financial results have been restated to account for IT Services and CapRock as discontinued operations for all periods presented in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes relate solely to our continuing operations.



The major components of discontinued operations in our Condensed Consolidated Statement of Income (Unaudited) included the following:

Quarter Ended  
 September 30,  
 2017 2016

(In millions)

Revenue from product sales and services	\$ 351	
Cost of product sales and services	(289)	)
Engineering, selling and administrative expenses	(38)	)
Non-operating loss	(3)	)
Income (loss) before income taxes	24	
Loss on sale of discontinued operations	(2)	)
Income tax expense	(3)	)
Discontinued operations, net of income taxes	(6)	)
	\$ 15	

(1) Loss on sale of discontinued operations in the quarter ended September 30, 2016 consisted of transaction costs associated with the divestiture of IT Services.

Depreciation and amortization and capital expenditures of discontinued operations in our Condensed Consolidated Statement of Income (Unaudited) included the following:

Quarter  
 Ended  
 September 30,  
 2016

(In millions)

Depreciation and amortization \$ 17

Capital expenditures 3

IT Services

On April 28, 2017, we completed the divestiture to an affiliate of Veritas Capital Fund Management, L.L.C. (“Veritas”) of IT Services, which primarily provided IT and engineering managed services to U.S. Government customers, for net cash proceeds of \$646 million, after estimated transaction expenses and estimated purchase price adjustments in respect of net cash and working capital, and subject to post-closing finalization of those adjustments as set forth in the definitive sales agreement entered into January 26, 2017. We recognized a pre-tax loss of \$28 million on the sale of IT Services (a gain of \$55 million after certain tax benefits related to the transaction or \$.44 per diluted share). The decision to divest IT Services was part of our strategy to simplify our operating model to focus on technology-differentiated, high-margin businesses. IT Services was part of our former Critical Networks segment and in connection with the definitive agreement to sell IT Services, as described above, the remaining operations that had been part of the Critical Networks segment, including our air traffic management (“ATM”) business, primarily serving the Federal Aviation Administration (“FAA”), were integrated with our Electronic Systems segment effective for the third quarter of fiscal 2017, and our Critical Networks segment was eliminated. We agreed to provide various transition services to Veritas for a period of up to 18 months following the closing of the transaction pursuant to a separate agreement.



The following table presents the key financial results of IT Services included in “Discontinued operations, net of income taxes” in our Condensed Consolidated Statement of Income (Unaudited):

	Quarter Ended	
	September 29, 2017	September 30, 2016
	(In millions)	
Revenue from product sales and services	\$ —	\$ 275
Cost of product sales and services	—	(234 )
Engineering, selling and administrative expenses	—	(24 )
Non-operating loss	(2 )	—
Income (loss) before income taxes	(2 )	17
Loss on sale of discontinued operation	—	(2 )
Income tax expense	(3 )	(6 )
Discontinued operations, net of income taxes	\$ (5 )	\$ 9

#### CapRock

On January 1, 2017, we completed the divestiture to SpeedCast International Ltd. (“SpeedCast”) of CapRock, which provided wireless, terrestrial and satellite communications services to energy and maritime customers, for net cash proceeds of \$370 million, after transaction expenses and purchase price adjustments in respect of net cash and working capital as set forth in the definitive sales agreement entered into November 1, 2016. We recognized a pre-tax gain of \$14 million on the sale of CapRock (a gain of \$61 million after certain tax benefits related to the transaction, including reversal of valuation allowances on capital losses and net operating losses, or \$.49 per diluted share). We agreed to provide various transition services to SpeedCast for a period of up to 12 months following the closing of the transaction pursuant to a separate agreement.

The following table presents the key financial results of CapRock included in “Discontinued operations, net of income taxes” in our Condensed Consolidated Statement of Income (Unaudited):

	Quarter Ended	
	September 29, 2017	September 30, 2016
	(In millions)	
Revenue from product sales and services	\$ —	\$ 76
Cost of product sales and services	—	(55 )
Engineering, selling and administrative expenses	—	(14 )
Non-operating loss	(1 )	—
Income (loss) before income taxes	(1 )	7
Income tax expense	—	(1 )
Discontinued operations, net of income taxes	\$ (1 )	\$ 6

#### Note C — Stock Options and Other Share-Based Compensation

During the quarter ended September 29, 2017, we had options or other share-based compensation outstanding under two shareholder-approved employee stock incentive plans (“SIPs”), the Harris Corporation 2005 Equity Incentive Plan (As Amended and Restated Effective August 27, 2010) and the Harris Corporation 2015 Equity Incentive Plan (the “2015 EIP”). Grants of share-based awards after October 23, 2015 were made under our 2015 EIP. We believe that share-based awards more closely align the interests of participants with those of shareholders. Certain share-based awards provide for accelerated vesting if there is a change in control (as defined under our SIPs). The compensation cost related to our share-based awards that was charged against income was \$11 million and \$10 million for the quarters ended September 29, 2017 and September 30, 2016, respectively.

The aggregate number of shares of our common stock that we issued under the terms of our SIPs, net of shares withheld for tax purposes and inclusive of both continuing and discontinued operations, was 331,215 and 542,213 during the quarters ended September 29, 2017 and September 30, 2016, respectively. Awards granted to participants

under our 2015 EIP during the quarter ended September 29, 2017 consisted of 411,587 stock options, 713,919 restricted shares and restricted units and 173,407 performance units. The fair value as of the grant date of each stock option award was determined using the Black-

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Scholes-Merton option-pricing model and the following assumptions: expected dividend yield of 1.82 percent; expected volatility of 19.32 percent; risk-free interest rates averaging 1.77 percent; and expected term in years of 5.00. The fair value as of the grant date of each restricted share award and restricted unit award was based on the closing price of our common stock on the grant date. The fair value as of the grant date of each performance unit award was determined based on the fair value from a multifactor Monte Carlo valuation model that simulates our stock price and total shareholder return (“TSR”) relative to companies in our TSR peer group, less a discount to reflect the delay in payments of cash dividend-equivalents that are made only upon vesting.

Note D — Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are summarized below:

September	June
29,	30,
2017	2017 <sup>(1)</sup>

(In millions)

Foreign currency translation, net of income taxes of \$2 million and \$(88 ) \$(113 ) \$1 million at September 29, 2017 and June 30, 2017, respectively Net unrealized loss on hedging derivatives, net of income taxes of \$11 million
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at  
 September  
 29,  
 2017  
 and  
 June 30,  
 2017  
 Unrecognized  
 postretirement  
 obligations,  
 net  
 of  
 income  
 taxes  
 of  
 \$89  
 million  
 (146 ) (146 )  
 at  
 September  
 29,  
 2017  
 and  
 June  
 30,  
 2017  
 \$(250) \$(276 )

Accumulated foreign currency translation losses of \$52 million (net of income taxes of \$14 million) were reclassified to earnings in fiscal 2017 as a result of the divestitures of IT Services and CapRock and are included in (1) “Discontinued operations, net of income taxes” in our Consolidated Statement of Income in our Fiscal 2017 Form 10-K.

Note E — Receivables

Receivables are summarized below:

	September 2017	June 30, 2017
	(In millions)	
Accounts receivable	\$422	\$ 368
Unbilled costs and accrued earnings on cost-plus contracts	287	258
	709	626
Less allowances for collection losses	(3 )	(3 )
	\$706	\$ 623

Note F — Inventories

Inventories are summarized below:

	September 2017	June 30, 2017
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	\$ 483	\$ 454
Finished products	100	96

Work in process	106	96
Raw materials and supplies	207	195
	\$ 896	\$ 841

Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of \$107 million and \$90 million at September 29, 2017 and June 30, 2017, respectively.

## Note G — Property, Plant and Equipment

Property, plant and equipment are summarized below:

	September 29, 2017		June 30, 2017	
	2017	2017	2017	2017
	(In millions)			
Land	\$43	\$43		
Software capitalized for internal use	160	155		
Buildings	619	617		
Machinery and equipment	1,275	1,256		
	2,097	2,071		
Less accumulated depreciation and amortization	(1,207)	(1,167)		
	\$890	\$904		

Depreciation and amortization expense related to property, plant and equipment was \$37 million and \$39 million for the quarters ended September 29, 2017 and September 30, 2016, respectively.

## Note H — Accrued Warranties

Changes in our liability for standard product warranties, which is included as a component of the “Other accrued items” and “Other long-term liabilities” line items in our Condensed Consolidated Balance Sheet (Unaudited), during the quarter ended September 29, 2017 were as follows:

	(In millions)	
Balance at June 30, 2017	\$	26
Warranty provision for sales	3	
Settlements	(4	)
Balance at September 29, 2017	\$	25

We also sell extended product warranties and recognize revenue from these arrangements over the warranty period. Costs of warranty services under these arrangements are recognized as incurred. Deferred revenue associated with extended product warranties was \$21 million at September 29, 2017 and \$23 million at June 30, 2017 and is included as a component of the “Advance payments and unearned income” and “Other long-term liabilities” line items in our Condensed Consolidated Balance Sheet (Unaudited).

Note I — Postretirement Benefit Plans

The following tables provide the components of our net periodic benefit income for our defined benefit plans, including defined benefit pension plans and other postretirement defined benefit plans:

Quarter Ended		
September 29, 2017		
Pension	Other Benefits	Total
(In millions)		
Net periodic benefit income		
Service cost	\$ —	\$ 10
Interest cost	48	2
Expected return on plan assets	(92 )	(4 )
Total net periodic benefit income	\$ (44 )	\$ (2 )

Quarter Ended		
September 30, 2016		
Pension	Other Benefits	Total
(In millions)		
Net periodic benefit income		
Service cost <sup>(1)</sup>	\$ —	\$ 15
Interest cost	46	2
Expected return on plan assets	(85 )	(4 )
Total net periodic benefit income	\$ (44 )	\$ (2 )

benefit  
income

(1) \$1 million of the service cost component of net periodic benefit income is included as a component of the “Discontinued operations, net of income taxes” line item in our Condensed Consolidated Statement of Income (Unaudited) for the quarter ended September 30, 2016.

We made a \$400 million voluntary contribution to our U.S. qualified pension plans during fiscal 2017. As a result, we made no contributions to our U.S. qualified defined benefit pension plans during the quarter ended September 29, 2017 and minor contributions to a non-U.S. pension plan. We currently anticipate making no contributions to our U.S. qualified defined benefit pension plans and contributions of approximately \$1 million to a non-U.S. pension plan during the remainder of fiscal 2018. We contributed \$64 million to our qualified pension plans during the quarter ended September 30, 2016.

(18,639

)

Stock options exercised and related tax benefits (15,000 shares)

15

63

-

-

-

78

Sale of treasury stock (306,778 shares)

-

(869

)

-

-

3,016

2,147

Stock based compensation expense

-

260

-



-

-

260

Ending balance, September 30, 2014

\$

98,942

172,598

162,326

(3,508

)

(40,871

)

389,487

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, 2014	2013
Cash flows from operating activities:		
Net income	\$ 33,533	29,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,601	3,797
Net gain on sale of other real estate owned	(2,501 )	(87 )
Writedown of other real estate owned	1,447	1,721
Net gain on sale of building held for sale	(1,556 )	-
Provision for loan losses	4,100	5,500
Deferred tax expense (benefit)	1,546	(360 )
Stock based compensation expense	260	246
Net gain on sale of bank premises and equipment	(1 )	(16 )
Net gain on sales and calls of securities	(382 )	(1,434 )
Decrease (increase) in taxes receivable	(662 )	2,747
Decrease in interest receivable	407	52
Increase (decrease) in interest payable	32	(11 )
Decrease (increase) in other assets	(2,900 )	6,292
Increase (decrease) in accrued expenses and other liabilities	(678 )	1,634
Total adjustments	2,713	20,081
Net cash provided by operating activities	36,246	49,264

Cash flows from  
investing activities:

Proceeds from sales and calls of securities available for sale	268,499	355,678
Proceeds from calls and maturities of held to maturity securities	12,036	52,148
Purchases of securities available for sale	(118,755 )	(389,877 )
Proceeds from maturities of securities available for sale	9,002	10,052
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(451 )	(868 )
Proceeds from redemption of Federal Reserve Bank and Federal Home Loan Bank stock	1,723	-
Net increase in loans	(188,009 )	(165,626 )
Net proceeds from sale of building held for sale	4,745	-
Proceeds from dispositions of other real estate owned	11,276	6,929
Proceeds from dispositions of bank premises and equipment	98	16
Purchases of bank premises and equipment	(6,171 )	(5,306 )
Net cash used in investing activities	(6,007 )	(136,854 )

Cash flows from  
financing activities:

Net increase in deposits	57,970	90,175
Net (decrease) increase in short-term borrowings	(24,205 )	25,380
Proceeds from exercise of stock	78	-

options and related tax benefits		
Proceeds from sale of treasury stock	2,147	2,188
Dividends paid	(18,618 )	(18,520 )
Net cash provided by financing activities	17,372	99,223
Net increase in cash and cash equivalents	47,611	11,633
Cash and cash equivalents at beginning of period	583,044	544,016
Cash and cash equivalents at end of period	\$ 630,655	555,649

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## Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid	\$11,360	11,446
Income taxes paid	21,602	14,691
Other non cash items:		
Transfer of loans to other real estate owned	8,487	9,685
Transfer of other real estate owned to fixed assets	568	-
Transfer of building to other assets	-	3,189
Increase in dividends payable	21	26
Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes	17,233	(29,227)
Change in deferred tax effect on unrealized gain (loss) on securities available for sale	(6,893 )	11,654
Amortization of net actuarial loss and prior service credit on pension and postretirement plans	(74 )	153
Change in deferred tax effect of amortization of net actuarial loss and prior service credit	29	(61 )

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, 2014 is not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or any interim periods. These financial statements consider events that occurred through the date of filing.

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

(2) Earnings Per Share

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

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

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

(dollars in thousands, except per share data)

	2014	2013
For the three months ended September 30:		
Net income	\$10,714	\$10,252
Less: Net income allocated to participating securities	12	11
Net income allocated to common shareholders	\$10,702	\$10,241
Basic EPS:		
Distributed earnings allocated to common stock	\$6,220	\$6,191
Undistributed earnings allocated to common stock	4,482	4,050
Net income allocated to common shareholders	\$10,702	\$10,241
Weighted average common shares outstanding including participating securities	94,734	94,334
Less: Participating securities	106	106
Weighted average common shares	94,628	94,228
Basic EPS	0.113	0.109
Diluted EPS:		
Net income allocated to common shareholders	\$10,702	\$10,241
Weighted average common shares for basic EPS	94,628	94,228
Effect of Dilutive Securities:		
Stock Options	124	47
Weighted average common shares including potential dilutive shares	94,752	94,275
Diluted EPS	0.113	0.109

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(dollars in thousands, except per share data)

	2014	2013
For the nine months ended September 30:		
Net income	\$33,533	\$29,183
Less: Net income allocated to participating securities	38	33
Net income allocated to common shareholders	\$33,495	\$29,150
Basic EPS:		
Distributed earnings allocated to common stock	\$18,639	\$18,546
Undistributed earnings allocated to common stock	14,856	10,604
Net income allocated to common shareholders	\$33,495	\$29,150
Weighted average common shares outstanding including participating securities	94,668	94,202
Less: Participating securities	106	106
Weighted average common shares	94,562	94,096
Basic EPS	0.354	0.310
Diluted EPS:		
Net income allocated to common shareholders	\$33,495	\$29,150
Weighted average common shares for basic EPS	94,562	94,096
Effect of Dilutive Securities:		
Stock Options	123	19
Weighted average common shares including potential dilutive shares	94,685	94,115
Diluted EPS	0.354	0.310

For the three months ended September 30, 2014 and 2013, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 2.4 million and 2.1 million, respectively. For the nine months ended September 30, 2014 and 2013, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 2.4 million and 2.5 million, respectively. The stock options are antidilutive because the strike price is greater than the average fair value of the Company's common stock for the periods presented.

**(3) Benefit Plans**

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

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(dollars in thousands)	For the three months ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Service cost	8	17	46	12
Interest cost	359	318	99	25
Expected return on plan assets	(660)	(547)	(166 )	(122 )
Amortization of net (gain) loss	-	129	(77 )	(12 )
Amortization of prior service credit	-	-	239	(66 )
Net periodic benefit	(293)	(83 )	141	(163 )

(dollars in thousands)	For the nine months ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Service cost	44	51	75	38
Interest cost	1,031	955	163	76
Expected return on plan assets	(1,878)	(1,642)	(504 )	(371 )
Amortization of net (gain) loss	-	387	(223 )	(37 )
Amortization of prior service credit	-	-	149	(197 )
Net periodic benefit	(803 )	(249 )	(340 )	(491 )

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

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

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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, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$83,805	17	735	83,087
State and political subdivisions	2,681	88	-	2,769
Mortgage backed securities and collateralized mortgage obligations - residential	530,688	704	7,613	523,779
Corporate bonds	1,403	-	2	1,401
Small Business Administration- guaranteed participation securities	105,430	-	4,939	100,491
Mortgage backed securities and collateralized mortgage obligations - commercial	10,765	-	348	10,417
Other	650	-	6	644
Total debt securities	735,422	809	13,643	722,588
Equity securities	35	-	-	35
Total securities available for sale	\$735,457	809	13,643	722,623

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

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

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 2,195	2,210
Due in one year through five years	512,543	507,031
Due after five years through ten years	220,164	212,822
Due after ten years	520	525
	\$ 735,422	722,588

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

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

(dollars in thousands)	September 30, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	\$27,422	98	54,863	637	82,285	735
Mortgage backed securities and collateralized mortgage obligations - residential	81,269	630	339,676	6,983	420,945	7,613
Corporate bonds	501	2	-	-	501	2
Small Business Administration- guaranteed participation securities	-	-	100,491	4,939	100,491	4,939
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	10,417	348	10,417	348
Other	594	6	-	-	594	6
Total	\$ 109,786	736	505,447	12,907	615,233	13,643

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

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

(dollars in thousands)	Three months ended September		Nine months ended	
	30, 2014	2013	2014	2013
Proceeds from sales	\$42,228	-	\$42,228	118,560
Proceeds from calls	45,648	31,704	226,271	237,118
Gross realized gains	376	-	382	1,514
Gross realized losses	-	-	-	80

Tax expense recognized on net gains on sales of securities available for sale were approximately \$151 thousand for the three months ended September 30, 2014. There were no sales in the third quarter of 2013. Tax expense recognized on net gains on sales of securities available for sale were approximately \$153 thousand and \$574 thousand for the nine months ended September 30, 2014 and 2013 respectively.

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## (b) Held to maturity securities

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

(dollars in thousands)	September 30, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$64,223	3,333	-	67,556
Corporate bonds	9,956	1,181	-	11,137
Total held to maturity	\$74,179	4,514	-	78,693

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

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

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year through five years	72,733	77,152
Due in five years through ten years	1,446	1,541
	\$ 74,179	78,693

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

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

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

(dollars in thousands)	December 31, 2013					
	Less than 12 months		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	\$27,091	138	-	-	27,091	138
Total	\$27,091	138	-	-	27,091	138

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

## (c) Other-Than-Temporary Impairment

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

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

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

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As of September 30, 2014, the Company's security portfolio consisted of 187 securities, 84 of which were in an unrealized loss position, and are discussed below.

### U.S. government sponsored enterprises

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

### Mortgage backed securities and collateralized mortgage obligations - residential

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

### Corporate bonds

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

### Small Business Administration (SBA) - guaranteed participation securities

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

### Mortgage backed securities and collateralized mortgage obligations – commercial

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

### Other securities

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

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

## (5) Loans and Allowance for Loan Losses

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

(dollars in thousands)	September 30, 2014		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 172,457	19,712	192,169
Other	27,595	61	27,656
Real estate mortgage - 1 to 4 family:			
First mortgages	2,002,935	450,495	2,453,430
Home equity loans	51,430	5,291	56,721
Home equity lines of credit	306,138	40,358	346,496
Installment	5,934	623	6,557
Total loans, net	\$2,566,489	516,540	3,083,029
Less: Allowance for loan losses			46,512
Net loans			\$3,036,517

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

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

At September 30, 2014 and December 31, 2013, the Company had approximately \$35.8 million and \$35.4 million of real estate construction loans, respectively. Of the \$35.8 million in real estate construction loans at September 30, 2014, approximately \$14.3 million are secured by first mortgages to residential borrowers while approximately \$21.5 million were to commercial borrowers for residential construction projects. Of the \$35.4 million in real estate construction loans at December 31, 2013, approximately \$13.9 million are secured by first mortgages to residential borrowers while approximately \$21.5 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company's New York market.



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

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

(dollars in thousands)	September 30, 2014		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$4,226	517	4,743
Other	-	-	-
Real estate mortgage - 1 to 4 family:			
First mortgages	25,113	2,251	27,364
Home equity loans	520	-	520
Home equity lines of credit	4,103	144	4,247
Installment	95	1	96
Total non-accrual loans	34,057	2,913	36,970
Restructured real estate mortgages - 1 to 4 family	155	-	155
Total nonperforming loans	\$34,212	2,913	37,125

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

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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, 2014 and December 31, 2013:

## New York and other states:

(dollars in thousands)	September 30, 2014				+ Total 30+	Current	Total Loans
	30-59	60-89	90	Days Past Due			
Commercial:							
Commercial real estate	\$698	53	3,015	3,766	168,691	172,457	
Other	-	-	-	-	27,595	27,595	
Real estate mortgage - 1 to 4 family:							
First mortgages	3,999	1,489	19,076	24,564	1,978,371	2,002,935	
Home equity loans	74	-	507	581	50,849	51,430	
Home equity lines of credit	161	254	2,146	2,561	303,577	306,138	
Installment	20	30	53	103	5,831	5,934	
Total	\$4,952	1,826	24,797	31,575	2,534,914	2,566,489	

## Florida:

(dollars in thousands)	September 30, 2014				+ Total 30+	Current	Total Loans
	30-59	60-89	90	Days Past Due			
Commercial:							
Commercial real estate	\$-	-	-	-	19,712	19,712	
Other	-	-	-	-	61	61	
Real estate mortgage - 1 to 4 family:							
First mortgages	458	549	1,642	2,649	447,846	450,495	
Home equity loans	-	-	-	-	5,291	5,291	
Home equity lines of credit	176	-	13	189	40,169	40,358	
Installment	13	16	-	29	594	623	
Total	\$647	565	1,655	2,867	513,673	516,540	

## Total:

(dollars in thousands)	September 30, 2014				+ Total 30+	Current	Total Loans
	30-59	60-89	90	Days Past Due			

Commercial:						
Commercial real estate	\$698	53	3,015	3,766	188,403	192,169
Other	-	-	-	-	27,656	27,656
Real estate mortgage - 1 to 4 family:						
First mortgages	4,457	2,038	20,718	27,213	2,426,217	2,453,430
Home equity loans	74	-	507	581	56,140	56,721
Home equity lines of credit	337	254	2,159	2,750	343,746	346,496
Installment	33	46	53	132	6,425	6,557
Total	\$5,599	2,391	26,452	34,442	3,048,587	3,083,029

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New York and other states:

(dollars in thousands)	December 31, 2013				Current	Total Loans
	30-59	60-89	90	+ Total 30+		
	Days Past Due	Days Past Due	Days Past Due	days Past Due		
	Commercial:					
Commercial real estate	\$583	1,426	3,379	5,388	164,334	169,722
Other	209	-	123	332	31,991	32,323
Real estate mortgage - 1 to 4 family:						
First mortgages	4,664	2,042	17,624	24,330	1,885,117	1,909,447
Home equity loans	46	18	552	616	46,878	47,494
Home equity lines of credit	1,014	331	1,897	3,242	300,802	304,044
Installment	85	12	77	174	5,118	5,292
Total	\$6,601	3,829	23,652	34,082	2,434,240	2,468,322

Florida:

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

Total:

(dollars in thousands)	30-59				Current	Total Loans
	60-89	90	+ Total 30+			
	Days Past Due	Days Past Due	Days Past Due	days Past Due		
	Commercial:					
Commercial real estate	\$583	1,426	3,379	5,388	185,738	191,126
Other	209	-	123	332	32,023	32,355

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Real estate mortgage - 1 to 4 family:

First mortgages	5,216	2,042	21,853	29,111	2,258,697	2,287,808
Home equity loans	46	18	552	616	50,520	51,136
Home equity lines of credit	1,123	331	2,144	3,598	336,891	340,489
Installment	85	14	77	176	5,719	5,895
Total	\$7,262	3,831	28,128	39,221	2,869,588	2,908,809

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

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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, 2014				
	Commercial	Real Estate Mortgage-1 to 4	Family	Installment	Total
Balance at beginning of period	\$4,073	42,752	110		46,935
Loans charged off:					
New York and other states	124	1,187	67		1,378
Florida	-	278	-		278
Total loan chargeoffs	124	1,465	67		1,656
Recoveries of loans previously charged off:					
New York and other states	-	82	10		92
Florida	1	36	4		41
Total recoveries	1	118	14		133
Net loans charged off	123	1,347	53		1,523
Provision for loan losses	95	935	70		1,100
Balance at end of period	\$4,045	42,340	127		46,512

(dollars in thousands)	For the three months ended September 30, 2013				
	Commercial	Real Estate Mortgage-1 to 4	Family	Installment	Total
Balance at beginning of period	\$3,719	43,766	104		47,589
Loans charged off:					
New York and other states	585	1,638	30		2,253
Florida	-	234	3		237
Total loan chargeoffs	585	1,872	33		2,490
Recoveries of loans previously charged off:					
New York and other states	-	423	5		428
Florida	502	193	-		695
Total recoveries	502	616	5		1,123
Net loans charged off	83	1,256	28		1,367
Provision for loan losses	228	1,240	32		1,500
Balance at end of period	\$3,864	43,750	108		47,722

(dollars in thousands)	For the nine months ended September 30, 2014		
	Commercial	Real Estate Mortgage-1 to 4	Installment



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		1 to 4 Family		
Balance at beginning of period	\$4,019	43,597	98	47,714
Loans charged off:				
New York and other states	397	3,804	148	4,349
Florida	613	820	12	1,445
Total loan chargeoffs	1,010	4,624	160	5,794
Recoveries of loans previously charged off:				
New York and other states	18	352	23	393
Florida	4	91	4	99
Total recoveries	22	443	27	492
Net loans charged off	988	4,181	133	5,302
Provision for loan losses	1,014	2,924	162	4,100
Balance at end of period	\$4,045	42,340	127	46,512

(dollars in thousands) For the nine months ended September 30, 2013

	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$3,771	44,069	87	47,927
Loans charged off:				
New York and other states	884	5,283	65	6,232
Florida	100	801	3	904
Total loan chargeoffs	984	6,084	68	7,136
Recoveries of loans previously charged off:				
New York and other states	2	620	12	634
Florida	504	293	-	797
Total recoveries	506	913	12	1,431
Net loans charged off	478	5,171	56	5,705
Provision for loan losses	571	4,852	77	5,500
Balance at end of period	\$3,864	43,750	108	47,722

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

(dollars in thousands)	September 30, 2014			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	4,045	42,340	127	46,512
Total ending allowance balance	\$4,045	42,340	127	46,512
Loans:				
Individually evaluated for impairment	\$5,043	22,627	-	27,670
Collectively evaluated for impairment	214,782	2,834,020	6,557	3,055,359
Total ending loans balance	\$219,825	2,856,647	6,557	3,083,029
(dollars in thousands)	December 31, 2013			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$-	-	-	-
Collectively evaluated for impairment	4,019	43,597	98	47,714
Total ending allowance balance	\$4,019	43,597	98	47,714
Loans:				
Individually evaluated for impairment	\$8,082	21,258	-	29,340
Collectively evaluated for impairment	215,399	2,658,175	5,895	2,879,469
Total ending loans balance	\$223,481	2,679,433	5,895	2,908,809

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

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

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

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

New York and other states:

(dollars in thousands)	September 30, 2014			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$4,526	6,012	-	4,978
Other	-	-	-	82
Real estate mortgage - 1 to 4 family:				
First mortgages	17,657	18,738	-	17,131
Home equity loans	440	484	-	476
Home equity lines of credit	2,627	2,982	-	2,604
Total	\$25,250	28,216	-	25,271

Florida:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average
				Recorded Investment
Commercial:				
Commercial real estate	\$ 517	1,130	-	653
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	1,278	1,462	-	1,451
Home equity loans	-	-	-	-
Home equity lines of credit	625	774	-	566
Total	\$ 2,420	3,366	-	2,670

Total:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average
				Recorded Investment
Commercial:				
Commercial real estate	\$ 5,043	7,142	-	5,631
Other	-	-	-	82
Real estate mortgage - 1 to 4 family:				
First mortgages	18,935	20,200	-	18,582
Home equity loans	440	484	-	476
Home equity lines of credit	3,252	3,756	-	3,170
Total	\$ 27,670	31,582	-	27,941



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New York and other states:

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

Florida:

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

Total:

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

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

ended September 30, 2014 and 2013.

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As of September 30, 2014 and December 31, 2013 impaired loans included approximately \$9.7 million and \$8.6 million of 1 to 4 family residential real estate loans in accruing status that were identified as TDR's in accordance with regulatory guidance related to Chapter 7 bankruptcy loans.

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

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

New York and other states:	During the three months ended 9/30/2014			During the three months ended 9/30/2013		
	Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Number of Recorded Contracts	Post-Modification Outstanding Recorded Investment	
(dollars in thousands)						
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	13	1,830	1,830	14	1,461	1,461
Home equity loans	2	12	12	1	9	9
Home equity lines of credit	-	-	-	7	787	787
Total	15	\$ 1,842	1,842	22	\$ 2,257	2,257
Florida:						
(dollars in thousands)						
Commercial:						
Commercial real estate	-	\$ -	-	-	\$ -	-
Real estate mortgage - 1 to 4 family:						
First mortgages	1	60	60	4	536	536
Home equity lines of credit	1	14	14	1	63	63
Total	2	\$ 74	74	5	\$ 599	599

New York and other states:	During nine months ended 9/30/2014			During the nine months ended 9/30/2013		
	Pre-Modification Outstanding Number of Recorded	Post-Modification Outstanding Recorded		Pre-Modification Outstanding Number of Recorded	Post-Modification Outstanding Recorded	
(dollars in thousands)						



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(dollars in thousands)	Contracts	Investment	Contracts	Investment
Commercial:				
Commercial real estate	1	\$ 300	-	\$ -
Real estate mortgage - 1 to 4 family:				
First mortgages	31	4,523	47	5,579
Home equity loans	4	63	9	166
Home equity lines of credit	3	565	15	1,062
Total	39	\$ 5,451	71	\$ 6,807

(dollars in thousands)	Number of Contracts	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment	Outstanding Recorded Investment	Outstanding Recorded Investment
Florida:					
Commercial:					
Commercial real estate	-	\$ -	-	\$ -	-
Real estate mortgage - 1 to 4 family:					
First mortgages	5	423	7	1,121	1,121
Home equity lines of credit	3	368	2	93	93
Total	8	\$ 791	9	\$ 1,214	1,214

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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.

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 and nine months ended September 30, 2014 and 2013 which had been modified within the last twelve months:

	Three months ended 9/30/2014		Three months ended 9/30/2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
New York and other states:				
(dollars in thousands)				
Real estate mortgage - 1 to 4 family:				
First mortgages	2	\$ 203	-	\$ -
Home equity loans	-	-	-	-
Home equity lines of credit	-	-	-	-
Total	2	\$ 203	-	\$ -
Florida:				
(dollars in thousands)				
Real estate mortgage - 1 to 4 family:				
First mortgages	1	\$ 60	-	\$ -
Home equity lines of credit	-	-	-	-
Total	1	\$ 60	-	\$ -
New York and other states:				

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(dollars in thousands)

	Number of Contracts	Investment	Number of Contracts	Investment
Real estate mortgage - 1 to 4 family:				
First mortgages	6	\$ 509	6	\$ 589
Home equity loans	-	-	1	44
Home equity lines of credit	-	-	3	94
Total	6	\$ 509	10	\$ 727

Florida:

(dollars in thousands)

	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Real estate mortgage - 1 to 4 family:				
First mortgages	1	\$ 60	1	\$ 138
Home equity lines of credit	1	279	-	-
Total	2	\$ 339	1	\$ 138

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

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

The Company uses the following definitions for classified loans:

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

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

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

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

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

September 30, 2014

New York and other states:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 163,137	9,320	172,457
Other	27,090	505	27,595
	\$ 190,227	9,825	200,052

Florida:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	\$ 19,195	517	19,712
Other	61	-	61
	\$ 19,256	517	19,773

December 31, 2013

New York and other states:

(dollars in thousands)

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

Florida:

(dollars in thousands)

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

Included in classified loans in the above tables are impaired loans of \$5.0 million and \$8.1 million at September 30, 2014 and December 31, 2013, respectively.

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

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(6) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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





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

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

Fair Value Measurements at  
September 30, 2014 Using:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Securities available for sale:				
U.S. government sponsored enterprises	\$83,087	-	83,087	-
State and political subdivisions	2,769	-	2,769	-
Mortgage backed securities and collateralized mortgage obligations - residential	523,779	-	523,779	-
Corporate bonds	1,401	-	1,401	-
Small Business Administration-guaranteed participation securities	100,491	-	100,491	-
Mortgage backed securities and collateralized mortgage obligations - commercial	10,417	-	10,417	-
Other securities and equity securities	679	35	644	-
Total securities available for sale	\$722,623	35	722,588	-

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December 31, 2013 Using:

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

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

IndexFair Value Measurements at  
September 30, 2014 Using:

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

	Carrying Value	Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Other real estate owned	\$ 6,426	-	-	6,426
Impaired Loans:				
Commercial real estate	207	-	-	207
Real estate mortgage - 1 to 4 family:				
First mortgages	1,777	-	-	1,777
Home Equity Loans	13	-	-	13
Home Equity Lines of Credit	721	-	-	721

Fair Value Measurements at  
December 31, 2013 Using:

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

Other real estate owned, which is carried at fair value less costs to sell, approximated \$6.4 million at September 30, 2014 and consisted of \$2.3 million of commercial real estate and \$4.1 million of residential real estate properties. Valuation charges of \$449 thousand and \$1.4 million are included in earnings for the three months and nine months ended September 30, 2014, respectively.

Of the total impaired loans of \$27.7 million at September 30, 2014, \$2.7 million are collateral dependent and have had a charge off taken and are carried at fair value measured on a non-recurring basis. Due to the sufficiency of charge offs taken on these loans and the adequacy of the underlying collateral, there were no specific valuation allowances for these loans at September 30, 2014. Gross charge offs related to commercial impaired loans included in the table above were \$4 thousand for the three months ended September 30, 2014, while gross charge offs related to residential impaired loans included in the table above amounted to \$71 thousand. For the nine months ended September 30, 2014, gross charge offs related to commercial impaired loans included in the table above were \$17 thousand while gross charge offs related to residential impaired loans included in the table above amounted to \$200 thousand.

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

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

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

(dollars in thousands)

	Carrying Value	Fair Value Measurements at September 30, 2014 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$630,655	630,655	-	-	630,655
Securities available for sale	722,623	35	722,588	-	722,623
Held to maturity securities	74,179	-	78,693	-	78,693
Federal Reserve Bank and Federal Home Loan Bank stock	9,228	N/A	N/A	N/A	N/A
Net loans	3,036,517	-	-	3,085,228	3,085,228
Accrued interest receivable	10,791	-	2,766	8,025	10,791
Financial liabilities:					
Demand deposits	327,527	327,527	-	-	327,527
Interest bearing deposits	3,657,514	2,517,595	1,140,473	-	3,658,068
Short-term borrowings	179,957	-	179,957	-	179,957
Accrued interest payable	500	98	402	-	500

(dollars in thousands)

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

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

### Cash and Cash Equivalents

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

### Federal Reserve Bank and Federal Home Loan Bank Stock

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

### Securities Held to Maturity

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

### Loans

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

### Deposit Liabilities

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

### Accrued Interest Receivable/Payable

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

### Short-Term Borrowings and Other Financial Instruments

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



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Financial Instruments with Off-Balance Sheet Risk

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

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



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## (7) Other Comprehensive Income (Loss)

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

(dollars in thousands)	For the three months ended 9/30/2014				
	Balance at 6/30/2014	Other Comprehensive Income (Loss)- Before Reclassification	Amount reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Three months ended 9/30/2014	Balance at 9/30/2014
Net unrealized holding loss on securities available for sale, net of tax	(6,743)	(770)	(225)	(995)	(7,738)
Net change in net actuarial loss and prior service credit on pension and postretirement benefit plans, net of tax	4,132	-	98	98	4,230
Accumulated other comprehensive loss, net of tax	(2,611)	(770)	(127)	(897)	(3,508)

(dollars in thousands)	For the three months ended 9/30/2013				
	Balance at 6/30/2013	Other Comprehensive Income (Loss)- Before Reclassification	Amount reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Three months ended 9/30/2013	Balance at 9/30/2013
Net unrealized holding gain (loss) on securities available for sale, net of tax	\$(14,696)	878	-	878	(13,818)
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	(2,135)	-	30	30	(2,105)
Accumulated other comprehensive income (loss), net of tax	\$(16,831)	878	30	908	(15,923)

(dollars in thousands)	For the nine months ended 9/30/2014				
	Balance at 12/31/2013	Other Comprehensive Income (Loss)- Before Reclassification	Amount reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income (Loss)- Nine months ended 9/30/2014	Balance at 9/30/2014
Net unrealized holding gain (loss) on securities available for sale, net of tax	(18,078)	10,569	(229)	10,340	(7,738)
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement	4,275	-	(45)	(45)	4,230

benefit plans, net of tax

Accumulated other comprehensive income (loss),  
net of tax (13,803) 10,569 (274 ) 10,295 (3,508 )

For the nine months ended 9/30/2013

(dollars in thousands)	Balance at 12/31/2012	Other Comprehensive Income (Loss)- Reclassifications	Amount reclassified from Other Comprehensive Income	Other Comprehensive Income (Loss)- Nine months ended 9/30/2013	Balance at 9/30/2013
Net unrealized holding gain (loss) on securities available for sale, net of tax	\$3,755	(16,713 )	(860 )	(17,573 )	(13,818 )
Net change in net actuarial loss (gain) and prior service credit on pension and postretirement benefit plans, net of tax	(2,197)	-	92	92	(2,105 )
Accumulated other comprehensive income (loss), net of tax	\$1,558	(16,713 )	(768 )	(17,481 )	(15,923 )

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The following represents the reclassifications out of accumulated other comprehensive loss for the three months and nine months ended September 30, 2014 and 2013:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item In Statements
	2014	2013	2014	2013	
Unrealized gains (losses) on securities available for sale					
Realized gain on securities transactions	376	-	382	1,434	Net gain on securities transactions
Income taxes	(151)	-	(153)	(574)	Income taxes
Net of tax	225	-	229	860	
Amortization of pension and postretirement benefit items					
Amortization of net actuarial gain (loss)	77	(117)	223	(350)	Salaries and employee benefits
Amortization of prior service credit	(239)	66	(149)	197	Salaries and employee benefits
Income taxes	64	21	(29)	61	Income taxes
Net of tax	(98)	(30)	45	(92)	
Total reclassifications, net of tax	127	(30)	274	768	

## (8) New Accounting Pronouncements

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

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to

achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments in ASU 2014-9 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. The Company is currently evaluating the effects of ASU 2014-04 on its financial statements and disclosures, if any.

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Crowe Horwath LLP  
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ Crowe Horwath LLP

New York, New York  
November 3, 2014  
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

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

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

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

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

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

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

## Introduction

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

Financial markets exhibited increasing volatility during the third quarter of 2014, following relative stability in the first half of 2014. For the third quarter, the S&P 500 Index was up 0.6% and the Dow Jones Industrial Average was up 1.3%, with both indices moving up and down during the quarter, generally in the range of +2.7% to -2.7%. Credit markets also showed increased volatility during the quarter. Volatility increased further following the end of the quarter. On average, the shape of the curve flattened considerably. The 10 year Treasury bond averaged 2.49% during Q3 compared to 2.62% in Q2. However, 2 and 5 year average rates rose 10 and 4 basis points, respectively. As a result, the spread between the 10 year and the 2 year bonds declined from 2.20% on average in Q2 to 1.98% in Q3. That spread is the lowest since Q2 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 unchanged at zero to 0.25% during the third quarter of 2014. Spreads of certain asset classes, including agency securities and mortgage-backed securities, were consistent with recent quarters, remaining relatively narrow compared to the Treasury curve during the third quarter of 2014. Spreads generally remain well below the levels seen a year ago. Changes in rates and spreads during the current quarter were due to a number of factors; however, uncertainty about the direction that the Federal Reserve Board would take in regard to the extraordinary accommodations that have influenced markets in recent years and further uncertainty regarding the economy and related issues were key factors.

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	3 Month Yield (%)	2 Year Yield (%)	5 Year Yield (%)	10 Year Yield (%)	10 - 2 Year Spread(%)
Q3/13 Beg of Q3	0.04	0.34	1.39	2.50	2.16
Peak	0.06	0.52	1.85	2.98	2.52
Trough	0.00	0.30	1.31	2.48	2.14
End of Q3	0.02	0.33	1.39	2.64	2.31
Average in Q3	0.03	0.37	1.50	2.71	2.34
Q4/13 Beg of Q4	0.02	0.33	1.42	2.66	2.33
Peak	0.14	0.42	1.75	3.04	2.66
Trough	0.02	0.28	1.29	2.51	2.20
End of Q4	0.07	0.38	1.75	3.04	2.66
Average in Q4	0.06	0.33	1.44	2.74	2.42
Q1/14 Beg of Q1	0.07	0.39	1.72	3.00	2.61
Peak	0.08	0.47	1.77	3.01	2.61
Trough	0.02	0.30	1.44	2.60	2.24
End of Q1	0.05	0.44	1.73	2.73	2.29
Average in Q1	0.05	0.37	1.60	2.77	2.39
Q2/14 Beg of Q2	0.04	0.44	1.74	2.77	2.33
Peak	0.04	0.51	1.80	2.82	2.35
Trough	0.01	0.35	1.50	2.44	2.06
End of Q2	0.04	0.47	1.62	2.53	2.06
Average in Q2	0.03	0.42	1.66	2.62	2.20
Q3/14 Beg of Q3	0.02	0.47	1.66	2.58	2.11
Peak	0.04	0.59	1.85	2.63	2.11
Trough	0.01	0.42	1.55	2.34	1.84
End of Q3	0.02	0.58	1.78	2.52	1.94
Average in Q3	0.03	0.52	1.70	2.49	1.98

Underlying national economic conditions remain subdued. Significant progress has been made in terms of reducing the unemployment rate, however, labor market conditions remain difficult in many regards. Underemployment levels remain very high and the level of labor force participation continues to generally decline. Job creation has come mainly from lower wage jobs and the trend towards greater use of part-time positions has been problematic for many individuals. Recently, slowing economies in Europe and elsewhere have contributed to global economic issues.



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

The federal government, primarily through the Treasury Department and the federal banking agencies, is also implementing the financial reform bill, the “Dodd–Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act.”), which has had and will likely continue to have a significant impact on the financial services industry. In July 2013, the FDIC and the FRB approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which will be effective for the Company and the Bank on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to average consolidated assets ratio (known as the “leverage ratio”) of 4% (unchanged from current rules). The final rule also establishes a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios and when fully phased in, effectively, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase in increments of 0.625% each year until fully implemented in January 2019. We will be subject to limitations, as stipulated in the new rules, on paying dividends, engaging in share repurchases and paying discretionary bonuses if our capital level falls below the buffer amount.

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The application of more stringent capital requirements for the Company and the Bank could, among other things, result in lower returns on equity, require the raising of additional capital and result in regulatory actions, such as the inability to pay dividends or repurchase shares, if we were to be unable to comply with such requirements. Management is currently evaluating the provisions of the final rules and their expected impact on the Company. Based on the Company's current balance sheet composition and capital levels, management believes that the Company will be in compliance with the new requirements.

The Dodd-Frank Act also included provisions that created a new agency, the Consumer Financial Protection Bureau (the "CFPB"), to centralize responsibility for consumer financial protection and be responsible for implementing, examining and enforcing compliance with federal consumer financial laws such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others. Depository institutions that have assets of \$10 billion or less, such as the Bank, will continue to be supervised by their primary federal regulators (in the case of the Bank, the Office of the Comptroller of the Currency or "OCC"). The CFPB will also have data collecting powers for fair lending purposes for both small business and mortgage loans, as well as authority to prevent unfair, deceptive and abusive acts and practices. These new and revised rules have and may continue to increase our regulatory compliance burden and costs and restrict the financial products and services we offer to our customers.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet Government-Sponsored Enterprise ("GSE"), Federal Housing Administration ("FHA") and United States Department of Veterans Affairs ("VA") underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective on January 10, 2014.

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 has experienced an increase in nonperforming loans ("NPLs") relative to historical levels, although NPLs have declined over recent quarters, and management believes the current level remains manageable. While the Company does not expect to see a significant change in the inherent risk of loss in its loan portfolios at September 30, 2014, 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.

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In addition, the natural flight to quality that occurs in financial crises as investors focus on the safest possible investments, cuts in targeted interest rates and liquidity injections by the Federal government have all served to reduce yields available on both short term liquidity (Fed Funds and other short term investments), as well as the low risk types of securities typically invested in by the Company. Also, as noted, the shape of the curve narrowed during the quarter. The average slope of the curve (measured by the 10 year Treasury versus the 2 year Treasury) declined 22 basis points to 1.98% in the third quarter of 2014 compared to the second quarter of 2014 and is now 41 basis points below the level seen in the first quarter of 2014. As noted, a steeper slope in the yield curve is generally better for mortgage lender profitability. The future course of interest rates is subject to significant uncertainty, as various indicators are providing contradicting signals. For example, the FRB has been reducing asset purchases under its quantitative easing program over recent months and is currently expecting to end purchases in the coming months. The end of that program, combined with gains in the level of economic activity could potentially lead to higher rates. Potentially offsetting these issues is that Treasuries continue to be viewed as a safe haven by many investors around the world, with their demand serving to dampen or completely outweigh any upward pressure on yields. Subsequent to quarter-end, Treasury prices rallied significantly, further reducing the slope of the yield curve. Finally, the Dodd-Frank Act creates additional uncertainty for the Company and the Bank. This law significantly changed the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

Home foreclosures have declined nationally over the last year but remain an area of political, regulatory and media interest. Problems such as instances of foreclosures where the paperwork or process may not have met legal requirements have created significant legal and public relations problems for banks and other mortgage lenders. Since the financial crisis began in 2008, numerous government and private actions have been undertaken relative to home lending, resulting in billions of dollars of fines against major industry participants for issues involving various aspects of their mortgage businesses, including foreclosure process issues. TrustCo's mortgage loan portfolio consists of loans it and its employees have originated and serviced. Files with the relevant documents are retained and monitored by staff members on Bank premises. As a result, management believes the Company is unlikely to be significantly affected by errors in foreclosing on its mortgage loans. In addition, because TrustCo generally originates loans to be held in its portfolio, the exposure that can come with being forced to buy back nonperforming loans that have been sold is extremely limited.

## Overview

TrustCo recorded net income of \$10.7 million, or \$0.113 of diluted earnings per share for the three months ended September 30, 2014, as compared to net income of \$10.3 million or \$0.109 of diluted earnings per share in the same period in 2013. Return on average assets was 0.92% and 0.91%, respectively, for the three months ended September 30, 2014 and 2013. Return on average equity was 10.96% and 11.64%, respectively, for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014, net income was \$33.5 million versus \$29.2 million for the year earlier period, while earnings per share were \$0.354 compared to \$0.310, for the same periods.

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The primary factors accounting for the change in net income for three and nine month periods ended September 30, 2014 compared to the same periods of the prior year were:

An increase in the average balance of interest earning assets of \$133.2 million to \$4.51 billion for the third quarter of 2014 compared to the same period in 2013, and an increase of \$166.2 million for the first nine months of 2014 compared to the prior year period.

An increase in the average balance of interest bearing liabilities of \$93.0 million to \$3.87 billion for the third quarter of 2014 compared to the same period in 2013, and an increase of \$116.7 million for the first nine months of 2014 compared to the prior year period.

An increase in taxable equivalent net interest margin for the third quarter of 2014 to 3.16% from 3.12% in the prior year period. The increase in the margin coupled with the increase in average earning assets, resulted in an increase of \$1.5 million in taxable equivalent net interest income in the third quarter of 2014 compared to the third quarter of 2013. For the nine month period, taxable net interest income was up \$4.4 million, due to the increase in average earning assets and a one basis point increase in the net interest margin to 3.15% versus the year earlier period.

A decrease in the provision for loan losses to \$1.1 million in the third quarter of 2014 from \$1.5 million in the third quarter of 2013 and a decrease in the provision to \$4.1 million from \$5.5 million for the nine month periods.

An increase of \$476 thousand in noninterest income, including securities gains, for the third quarter of 2014 compared to the prior year. Excluding securities gains, noninterest income was up \$100 thousand for the quarter. For the nine month periods, noninterest income was up \$232 thousand. The nine month period in 2014 included a \$1.6 million gain on the sale of the Company's planned regional administrative building in Florida and securities gains of \$382 thousand, while the same period in 2013 included securities gains of \$1.4 million.

An increase of \$1.5 million in noninterest expense, including other real estate (ORE) expense, for the third quarter of 2014 compared to the third quarter of 2013. ORE costs were up \$55 thousand over that time period. For the nine months ended September 30, 2014, noninterest expense declined \$1.7 million to \$62.4 million. The primary reason for the decline was a \$3.0 million swing in the ORE line, which was due to a gain of \$2.4 million gain recorded on the sale of owned real estate in the second quarter of 2014.

An increase of \$455 thousand in income taxes, resulting from higher pre-tax profits for the third quarter of 2014 compared to the prior year and a higher effective tax rate. For the nine months ended September 30, 2014, income taxes were up \$3.5 million compared the year earlier period, resulting from higher pre-tax profits and a higher effective tax rate.

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Asset/Liability Management

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

TrustCo's results are affected by a variety of factors including competitive and economic conditions in the specific markets in which the Company operates, and more generally in the national economy, financial market conditions and the regulatory environment. Each of these factors is dynamic, and changes in any area can have an impact on TrustCo's results. Included in the Annual Report to Shareholders on Form 10-K for the year ended December 31, 2013 is a description of the effect interest rates had on the results for the year 2013 compared to 2012. Many of the same market factors discussed in the 2013 Annual Report continued to have a significant impact on the third quarter results for 2014.

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

Interest rates have a significant impact on the operations and financial results of all financial services companies. One of the most important interest rates used to implement national economic policy is the "Federal Funds" rate. This is the interest rate utilized within the banking system for overnight borrowings for institutions with the highest credit rating. The Federal Funds target rate decreased from 4.25% at the beginning of 2008 to a target range of 0.00% to 0.25% by the end of 2008. The target range has not been changed since. FRB officials have not been completely consistent or clear in regard to expectations for the future but have generally stressed the need to be accommodative given economic conditions.

Traditionally, interest rates on bank deposit accounts are heavily influenced by the Federal Funds rate. The average rate on deposits was one basis point higher in the third quarter of 2014 relative to the prior year period, with lower rates on savings deposits more than offset by small rate increases in other account types. Please refer to the statistical disclosures in the table below entitled "Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential."

The interest rate on the 10 year Treasury bond and other long-term interest rates have significant influence on the rates for new residential real estate loans. The FRB has attempted to influence rates on mortgage loans by means other than targeting a lower Federal Funds rate, including direct intervention in the mortgage-backed securities market through purchasing these securities in an attempt to raise prices and reduce yields. Currently (based on the FRB's statement released September 17, 2014) this includes the purchase of agency mortgage-backed securities and longer-term Treasury securities at a pace of \$15 billion per month, compared to \$85 billion per month at the peak, as well as the reinvestment of principal payments from FRB holdings. Purchase levels have been scaled down by the FRB in recent months. The FRB has also indicated that it expects to cease its buying program later this year, subject to economic conditions. Eventually, management believes, the FRB will have to unwind these positions by selling mortgage-backed securities, which would likely have the opposite effect, putting upward pressure on rates, although other factors may mitigate this pressure. Alternatively, the FRB could gradually stop reinvesting principal payments once it concludes its buying program. This approach would likely be less disruptive to markets in an immediate sense, but would take a relatively long time to complete. These changes in interest rates can have an effect on the Company relative to the interest income on loans, securities and Federal Funds sold and other short term instruments, as well as on interest expense on deposits and borrowings.



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The principal loan product for TrustCo are residential real estate loans. As noted above, residential real estate loans and longer-term investments are most affected by the changes in longer term market interest rates such as the 10 year Treasury. As noted previously, the 10 year Treasury yield was down somewhat, on average, during the third quarter of 2014 compared to the second quarter of 2014, and the yield remains at relatively modest levels compared to historical yields.

Interest rates on new residential real estate loan originations are also influenced by the rates established by secondary market participants such as Freddie Mac and Fannie Mae. As a portfolio lender, TrustCo does not sell loans into the secondary market in the normal course of business, and is able to establish rates that management determines are appropriate in light of the long-term nature of residential real estate loans while remaining competitive with the secondary market rates. Financial market volatility and the problems faced by the financial services industry have lessened the influence of the secondary market; however, various programs initiated by arms of the Federal government have had an impact on rate levels for certain products. Most importantly, a government goal of keeping mortgage rates low has been supported by targeted buying of certain securities, thus supporting prices and constraining yields, as noted above. The futures of Freddie Mac and Fannie Mae remain uncertain as Congress debates the structure of both entities.

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

Interest rates generally remained below historic norms on both short term and longer term investments during the third quarter of 2014. Deposit costs were nominally higher in the third quarter of 2014 compared to the prior year quarter, although they are slightly lower for the first nine months of 2014 versus the prior year period.

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

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

For the third quarter of 2014, the net interest margin was 3.16%, up 4 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 increased by \$46.9 million while the average yield was flat at 25 basis points in the third quarter of 2014 as compared to the same period in 2013. The increase in the average balance reflects the decision to temporarily limit purchases of additional investment securities to make funds available for lending given the relative attractiveness of loans versus securities.

The average balance of securities available for sale decreased by \$136.9 million while the average yield increased to 2.03% for the third quarter of 2014 compared to 1.94% for the same period in 2013. The average balance of held to maturity securities decreased by \$19.2 million and the average yield increased to 3.67% for the third quarter of 2014 compared to 3.52% for the same period in 2013.

The average loan portfolio grew by \$243.0 million to \$3.04 billion and the average yield decreased 7 basis points to 4.52% in the third quarter of 2014 compared to the same period in 2013. The decline in the average yield primarily reflects the decline in market interest rates on new loan originations as older, higher rate loans pay down.

The average balance of interest bearing liabilities (primarily deposit accounts) increased \$93.0 million and the average rate paid was flat at 0.40% in the third quarter of 2014 compared to the same period in 2013.



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During the third quarter of 2014, the Company continued to focus on its strategy to expand the loan portfolio by offering competitive interest rates as the rate environment changed. Management believes the TrustCo residential real estate loan product is very competitive compared to local and national competitors. As noted, the widespread disruptions in the mortgage market as a result of the financial crisis have not had a significant impact on TrustCo, partly because the Company has not originated the types of loans that have been responsible for many of the problems causing the disruptions as well as the fact that housing prices in the Company's primary market of the Capital Region of New York have not experienced the declines realized in other areas of the country. The withdrawal from the market of some of the troubled lenders that did focus on subprime and similar loans slightly improved competitive conditions for the type of residential mortgage loans focused on by TrustCo; however, competition remains strong.

The strategy on the funding side of the balance sheet continues to be to attract deposit customers to the Company based upon a combination of service, convenience and interest rate. The Company has periodically offered attractive long-term deposit rates as part of a strategy to lengthen deposit lives.

## Earning Assets

Total average interest earning assets increased from \$4.38 billion in the third quarter of 2013 to \$4.51 billion in the same period of 2014 with an average yield of 3.46% in 2013 and 3.51% in 2014. Interest income on average earning assets increased from \$38.0 million in the third quarter of 2013 to \$39.6 million in the third quarter of 2014, on a tax equivalent basis, benefiting from both the increase in average earning assets and the improved yield earned.

## Loans

The average balance of loans was \$3.04 billion in the third quarter of 2014 and \$2.80 billion in the comparable period in 2013. The yield on loans decreased 7 basis points to 4.52%. The higher average balances more than offset the lower yield, leading to an increase in the interest income on loans from \$32.2 million in the third quarter of 2013 to \$34.4 million in the third quarter of 2014.

Compared to the third quarter of 2013, the average balance of the loan portfolio during the third quarter of 2014 increased in all categories, including residential mortgage, commercial loan, home equity and installment loan categories. The average balance of residential mortgage loans was \$2.47 billion in 2014 compared to \$2.25 billion in 2013, an increase of 10.2%. The average yield on residential mortgage loans decreased by 11 basis points to 4.58% in the third quarter of 2014 compared to 2013.

TrustCo actively markets the residential loan products within its market territories. Mortgage loan rates are affected by a number of factors including rates on Treasury securities, the federal funds rate and rates set by competitors and secondary market participants. As noted earlier, market interest rates have changed significantly in recent years as a result of national economic policy in the United States, as well as due to disruptions in the mortgage market. During this period of changing interest rates, TrustCo aggressively marketed the unique aspects of its loan products thereby attempting to create a differentiation from other lenders. These unique aspects include 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.

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Commercial loans, which consist primarily of loans secured by commercial real estate, increased \$6.8 million to an average balance of \$220.3 million in the third quarter of 2014 compared to the same period in the prior year. The average yield on this portfolio decreased 6 basis points to 5.16% over the same period.

The average yield on home equity credit lines increased 17 basis points to 3.59% during the third quarter of 2014 compared to 3.42% in the prior period. This was the result of both a higher introductory rate offered on new lines as well as older lines repricing to the product's floor rate. The average balances of home equity lines increased 2.1% to \$342.5 million in the third quarter of 2014 as compared to the prior year.

Securities Available for Sale

The average balance of the securities available for sale portfolio for the third quarter of 2014 was \$784.8 million compared to \$921.6 million for the comparable period in 2013. The decreased balances reflect routine paydowns, calls, maturities, sales and limited new investment purchases. During the quarter, continued low market yields on securities eligible to be added to the portfolio resulted in loans being a more attractive option for the deployment of cash. The average yield was 2.03% for the third quarter of 2014 and 1.94% for the third quarter of 2013 for the available for sale portfolio. The improvement in yield primarily reflects the change in the portfolio mix and the impact of slowing prepayment rates on mortgage backed securities. 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, municipal bonds and corporate bonds. These securities are recorded at fair value with any adjustment included in other comprehensive income (loss), net of tax.

The net unrealized loss in the available for sale securities portfolio was \$12.8 million as of September 30, 2014 compared to a net unrealized loss of \$30.1 million as of December 31, 2013. The unrealized gain or loss in the portfolio is primarily the result of changes in market interest rate levels.

Held to Maturity Securities

The average balance of held to maturity securities was \$76.2 million for the third quarter of 2014 compared to \$95.3 million in the third quarter of 2013. The decrease in balances reflects routine paydowns, calls and maturities and follows the overall decline in securities with a shift towards cash for more flexibility and loans for greater yield. The average yield was 3.67% for the third quarter of 2014 compared to 3.52% for the year earlier period. The improvement in yield primarily reflects the impact of slowing prepayment rates on mortgage backed securities. TrustCo expects to hold the securities in this portfolio until they mature or are called.

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As of September 30, 2014, the securities in this portfolio include residential mortgage backed securities and corporate bonds. The balances for these securities are recorded at amortized cost.

Federal Funds Sold and Other Short-term Investments

The 2014 third quarter average balance of federal funds sold and other short-term investments was \$598.3 million, a \$46.9 million increase from the \$551.4 million average for the same period in 2013. The yield was unchanged at 0.25%. Interest income from this portfolio increased \$30 thousand from \$344 thousand in 2013 to \$374 thousand in 2014, reflecting the average balance increase.

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

Funding Opportunities

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

Total average interest bearing deposits (which includes interest bearing checking, money market accounts, savings and certificates of deposit) increased \$96.3 million to \$3.69 billion for the third quarter of 2014 versus the prior year, and the average rate paid increased from 0.38% for 2013 to 0.39% for 2014. Total interest expense on these deposits increased \$190 thousand to \$3.6 million in the third quarter of 2014 compared to the year earlier period. The increase in deposits versus the prior year was due to strong growth in both core deposits and certificates of deposit. From the third quarter of 2013 to the third quarter of 2014, interest bearing demand account average balances were up 9.8%, money market account average balances were up 2.4% and certificates of deposit average balances were up 2.4%, while non-interest demand average balances were up 4.6%. Average savings balances declined 0.03% over the same period. Certificates of deposits constitute 28.7% of total average deposits. The Company does not accept brokered deposits and does not pay premium rates on certificates with balances over \$100,000.

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At September 30, 2014, the maturity of total time deposits is as follows:

(dollars in thousands)

Under 1 year	\$504,306
1 to 2 years	589,612
2 to 3 years	26,352
3 to 4 years	5,482
4 to 5 years	14,062
Over 5 years	105
	\$1,139,919

Average short-term borrowings for the quarter were \$180.1 million in 2014 compared to \$183.4 million in 2013. The average rate decreased during this time period from 0.80% in 2013 to 0.72% in 2014. The short-term borrowings of the Company are cash management accounts, which represent retail accounts with customers for which the Bank has pledged certain assets as collateral.

#### Net Interest Income

Taxable equivalent net interest income increased by \$1.5 million to \$35.7 million in the third quarter of 2014 compared to the same period in 2013. The net interest spread was up 5 basis points to 3.11% in the third quarter of 2014 compared to the year ago period. As previously noted, the net interest margin was up 4 basis points to 3.16% for the third quarter of 2014 compared to the same period in 2013. For the first nine months of 2014 taxable equivalent net interest income increased by \$4.4 million to \$105.9 million compared to the same period in 2013.

#### 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 categorized as other real estate owned.

Impaired loans are considered to be those commercial and commercial real estate loans in non-accrual status and loans classified as troubled debt restructurings (TDRs). The following describes the nonperforming assets of TrustCo as of September 30, 2014:

Nonperforming loans and foreclosed real estate: Total NPLs were \$37.1 million at September 30, 2014, compared to \$43.4 million at December 31, 2013 and \$41.7 million at September 30, 2013. There were \$37.0 million of non-accrual loans at September 30, 2014 compared to \$43.2 million at December 31, 2013 and \$41.6 million at September 30, 2013. There were no loans at September 30, 2014 and 2013 and December 31, 2013 that were past due 90 days or more and still accruing interest.

At September 30, 2014, nonperforming loans primarily include a mix of commercial and residential loans. Of total nonperforming loans of \$37.1 million at September 30, 2014, \$32.3 million were residential real estate loans, \$4.7 million were commercial mortgages and \$96 thousand were installment loans, compared to \$36.2 million, \$7.0 million and \$93 thousand, respectively at December 31, 2013.

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As previously noted, a significant percentage of nonperforming loans are residential real estate loans, which are historically lower-risk than most other types of loans. The Bank's loan loss experience on these loans has generally been favorable with net charge-offs of 0.19% of average residential real estate loans (including home equity lines of credit) for the third quarter of 2014 (annualized) and for the third quarter of 2013. Management believes that these loans have been appropriately written down where required.

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

The Company originates loans throughout its deposit franchise area. At September 30, 2014, 83.2% of its gross loan portfolio balances were in New York State and the immediately surrounding areas (including New Jersey, Vermont and Massachusetts), and 16.8% were in Florida. Those figures compare to 84.9% and 15.1%, respectively at December 31, 2013. Within these two geographic regions, commercial loans constitute a larger component of the local outstandings in New York than in Florida, at 7.8% and 3.8%, respectively, as of September 30, 2014. The Florida and New York levels of commercial loans as a percent of total loans within each geographic region were similar to the December 31, 2013 numbers of 8.2% in New York and 4.9% in Florida.

Economic conditions vary widely by geographic location. Florida experienced a more significant downturn than New York during the recession. Reflecting that, nonperforming loans (NPLs as a percentage of total NPL's) had generally been more heavily weighted towards Florida in recent years. However, as of September 30, 2014, NPLs were roughly in line with regional outstandings, as 7.8% of nonperforming loans were to Florida borrowers, compared to 92.2% in New York and surrounding areas. The level of Florida based NPLs was 11.8% of total NPLs as of December 31, 2013. For the three months ended September 30, 2014, New York and surrounding areas experienced net charge-offs of approximately \$1.3 million, compared to \$237 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 September 30, 2014, there were no other loans classified for regulatory purposes that management reasonably expects will materially impact future operating results, liquidity, or capital resources.

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TrustCo has identified nonaccrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring, as impaired loans. There were \$5.0 million of nonaccrual commercial mortgages and loans classified as impaired as of September 30, 2014, compared to \$8.1 million at December 31, 2013. There were \$22.6 million of impaired residential loans at September 30, 2014, compared to \$21.3 million at December 31, 2013. The average balances of all impaired loans were \$27.9 million during the first nine months of 2014 and \$26.7 million for the full year 2013.

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

At September 30, 2014 there was \$6.4 million of foreclosed real estate compared to \$8.7 million at December 31, 2013.

During the third quarter of 2014, there were \$124 thousand of gross commercial loan charge-offs and \$1.5 million of gross residential mortgage and consumer loan charge-offs as compared with \$585 thousand of gross commercial loan charge-offs and \$1.9 million of residential mortgage and consumer loan charge-offs in the third quarter of 2013. Gross recoveries during the third quarter of 2014 were \$1 thousand for commercial loans and \$132 thousand for residential mortgage and consumer loans, compared to \$502 thousand for commercial loans and \$621 thousand for residential and consumer in the third quarter of 2013.

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.

Allocation of the Allowance for Loan Losses

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

(dollars in thousands)	As of September 30, 2014		As of December 31, 2013	
	Amount	Percent of Loans to Total	Amount	Percent of Loans to Total
Commercial	\$3,720	6.43 %	\$3,667	6.95 %
Real estate - construction	546	1.16	585	1.22
Real estate mortgage - 1 to 4 family	35,596	80.96	36,678	79.92
Home equity lines of credit	6,523	11.24	6,686	11.71
Installment loans	127	0.21	98	0.20
	\$46,512	100.00 %	\$47,714	100.00 %

At September 30, 2014, the allowance for loan losses was \$46.5 million, compared to the September 30, 2013 and December 31, 2013 balance of \$47.7 million. The allowance represents 1.51% of the loan portfolio as of September 30, 2014 compared to 1.68% at September 30, 2013 and 1.64% at December 31, 2013.

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The provision for loan losses was \$1.1 million for the quarter ended September 30, 2014 compared to \$1.5 million for the third quarter of 2013. Net charge-offs for the three-month period ended September 30, 2014 were \$1.5 million, compared to \$1.4 million in the year earlier period. The decrease in the provision for loan losses in 2014 was primarily related to improving trends in NPLs and charge-offs and generally better conditions in Florida, where loss severity was particularly high during the financial crisis.

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

- The magnitude and nature of recent loan charge-offs and recoveries,
- The growth in the loan portfolio and the implication that it has in relation to the economic climate in the Bank's market territories, and
- The economic environment in the Upstate New York territory primarily (the Company's largest geographical market) over the last several years, as well as in the Company's other market areas.

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

## 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.

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 values of capital projections as of September 30, 2014 are referenced below. The base case (or current rate) 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 September 30, 2014. 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.

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	Estimated Percentage of Fair value of Capital to Fair value of Assets	
As of September 30, 2014		
+400 BP	20.15	%
+300 BP	21.22	
+200 BP	22.19	
+100 BP	22.81	
Current rates	22.98	
-100 BP	20.82	

**Noninterest Income**

Total noninterest income for the third quarter of 2014 was \$4.9 million, compared to \$4.4 million in the prior year period. Excluding gains on securities sales, noninterest income was up \$100 thousand to \$4.5 million in the third quarter versus the prior year.

For the first nine months of 2014, noninterest income was up \$232 thousand to \$15.2 million. Net gains on securities of \$382 thousand were included in the 2014 period, compared to \$1.4 million in the 2013 period. A gain of \$1.6 million on the sale of the Company's planned Florida regional administrative center was also included in the first nine months of 2014.

Trustco Financial Services income increased \$154 thousand to \$1.5 million for the third quarter of 2014 compared to the third quarter of 2013. Assets under management were \$879 million at September 30, 2014 compared to \$840 million at December 31, 2013 and \$789 million at September 30, 2013. The increase in assets as compared to December 31, 2013 was due to market value gains and net account acquisition. For the first nine months of 2014, Trustco Financial Services income was \$4.4 million, up \$361 thousand, primarily due to higher assets under management.

The total of fees for other services to customers plus other income was \$3.0 million in the third quarter of 2014, down a nominal \$54 thousand versus the same period in 2013. The decline was due primarily to lower interchange fees and lower overdraft charges. Similarly, excluding the \$1.6 million gain on the sale of the Company's planned regional administrative building in Florida, total fees for other services plus other income for the first nine months of 2014 was down \$633 thousand to \$8.8 million, also due to lower interchange and overdraft fee income.

**Noninterest Expenses**

Total noninterest expenses were \$22.2 million for the three months ended September 30, 2014, compared to \$20.7 million for the three months ended September 30, 2013. The increase was due to higher costs in all expense categories. Excluding the ORE line, noninterest expenses were up \$1.4 million in the third quarter of 2014 compared to the prior year. Increases in salaries and benefits (up \$337 thousand), professional services expenses (up \$292 thousand), and "other" expenses (up \$409 thousand) were the primary reasons for the increase. Other categories exhibited smaller changes, but all were up. Full time equivalent headcount was 733 as of September 30, 2014, compared to 708 as of September 30, 2013.



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For the first nine months of 2014, total noninterest expenses were \$62.4 million compared to \$64.1 million for the nine months ended September 30, 2013. The year to date decline was primarily the result of the \$3.0 million swing in other real estate (income) expense primarily due to the \$2.4 million gain in the second quarter of 2014 mentioned previously. Excluding the ORE line, noninterest expenses were up \$1.3 million for the first nine months of 2014 compared to the prior year.

Income Taxes

In the third quarter of 2014, TrustCo recognized income tax expense of \$6.5 million, compared to \$6.1 million for the third quarter of 2013. The effective tax rates were 37.9% and 37.2% for the third quarters of 2014 and 2013, respectively. The increase in taxes reflects higher pre-tax income levels.

For the first nine months of 2014, TrustCo recognized income tax expense of \$20.9 million, compared to \$17.4 million for the prior year period. The effective tax rates were 38.4% and 37.3% for the 2014 and 2013 periods, respectively. The increase in taxes and effective tax rate reflect higher pre-tax income levels and the impact of New York State tax law changes which required a deferred tax asset write-down of \$200 thousand during the first quarter of 2014.

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 as well as a general trend towards reducing risk in the banking system by providing a greater capital margin.

Total shareholders' equity at September 30, 2014 was \$389.5 million, compared to \$354.4 million at September 30, 2013. TrustCo declared a dividend of \$0.065625 per share in the third quarter of 2014. This results in a dividend payout ratio of 58.1% based on third quarter 2014 earnings per share of \$0.113.

The Company and the Bank achieved the following capital ratios as of September 30, 2014 and December 31, 2013:

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## Trustco Bank

	As of 9/30/2014		As of 12/31/2013		Well Capitalized*		Adequately Capitalized*	
Tier 1 leverage capital	8.33	%	8.07	%	5.00	%	4.00	%
Tier 1 risk-based capital	16.60		16.34		6.00		4.00	
Total risk-based capital	17.86		17.60		10.00		8.00	

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

## TrustCo Bank Corp NY

	As of 9/30/2014		As of 12/31/2013	
Tier 1 leverage capital	8.56	%	8.27	%
Tier 1 risk-based capital	17.05		16.74	
Total risk-based capital	18.30		18.00	

In addition, at September 30, 2014, the consolidated equity to total assets ratio was 8.50%, compared to 7.95% at December 31, 2013. As a savings and loan holding company, TrustCo is not currently subject to formal capital requirements; however, under the Dodd-Frank Act, it will become subject to Federal Reserve regulations requiring minimum capital requirements in January 2015. The table above for TrustCo Bank Corp NY is a summary of actual capital amounts and ratios as of September 30, 2014 and December 31, 2013 for TrustCo on a consolidated basis, with the calculations done on the same basis as for Trustco Bank. Such capital amounts and ratios are not necessarily comparable to the amounts and ratios TrustCo will report when it becomes subject to regulatory capital requirements.

As discussed previously, in July 2013, federal banking agencies, including the Federal Reserve and the OCC approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the “Basel III” regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act.

The following chart compares the risk-based capital ratios required under existing rules to those prescribed under the new final rules:

	Current Rules		Final Rules	
Common Equity Tier 1 Capital	N/A		4.50	%
Tier 1 Risk-Based Capital	4.00	%	6.00	%
Total Risk-Based Capital	8.00	%	8.00	%
Common Equity Tier 1 Capital Conservation Buffer	N/A		2.50	%*

\* When fully phased in, which will occur on January 1, 2019.

The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses and instruments that will no longer qualify as Tier 1 capital. The final rules set forth certain changes for the calculation of risk-weighted assets that the Company and the Bank will be required to implement beginning January 1, 2015.



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Finally, the new rule would require the Company and the Bank to hold common equity Tier 1 capital in excess of minimum risk-based capital ratios by at least 25% to avoid limits on capital distributions and certain discretionary payments to executive officers and similar employees. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016.

In addition to the updated capital requirements, the final rules also contain revisions to the prompt corrective action framework. Beginning January 1, 2015, the minimum ratios for the Company and the Bank to be considered well-capitalized will be updated as follows:

	Current Rules	Final Rules
Common Equity Tier 1 Capital	N/A	6.50 %
Tier 1 Risk-Based Capital	6.00 %	8.00 %
Total Risk-Based Capital	10.00 %	10.00 %
Tier 1 Leverage Ratio	5.00 %	5.00 %

**Critical Accounting Policies:**

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

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the inherent uncertainty in evaluating the levels of the allowance required to cover the inherent risk of losses in the loan portfolio and the material effect that such judgments can have on the results of operations. Included in Note 1 to the Consolidated Financial Statements contained in the Company's 2013 Annual Report on Form 10-K is a description of the significant accounting policies that are utilized by the Company in the preparation of the Consolidated Financial Statements.

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TrustCo Bank Corp NY  
 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 unrealized depreciation, net of tax, in the available for sale portfolio of \$3.3 million in 2014 and \$16.2 million in 2013. 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 September 30, 2014			Three months ended September 30, 2013			Change in Interest Income/ Expense	Variance Balance Change	Variance Rate Change
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate			
Assets									
Securities available for sale:									
U. S. government sponsored enterprises	\$93,098	297	1.27 %	\$197,336	571	1.16 %	\$(274 )	(600 )	326
Mortgage backed securities and collateralized mortgage obligations-residential	569,352	3,040	2.14 %	534,773	2,888	2.16 %	152	320	(168 )
State and political subdivisions	3,307	60	7.26 %	11,272	197	7.01 %	(137 )	(184 )	47
Corporate bonds	1,403	2	0.48 %	53,238	223	1.68 %	(221 )	(127 )	(94 )
Small Business Administration-guaranteed participation securities	106,109	535	2.02 %	113,298	558	1.97 %	(23 )	(97 )	74
Mortgage backed securities and collateralized mortgage obligations-commercial	10,803	38	1.40 %	11,070	39	1.41 %	(1 )	(1 )	(0 )
Other	685	4	2.34 %	660	5	3.03 %	(1 )	1	(2 )
Total securities available for sale	784,757	3,976	2.03 %	921,647	4,481	1.94 %	(505 )	(689 )	184
Federal funds sold and other short-term Investments	598,318	374	0.25 %	551,409	344	0.25 %	30	30	-

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Held to maturity securities:										
Corporate bonds	9,954	153	6.18 %	9,939	154	6.19 %	(1 )	0	(1 )	
Mortgage backed securities and collateralized mortgage obligations-residential	66,206	545	3.29 %	85,388	686	3.21 %	(141 )	(250 )	109	
Total held to maturity securities	76,160	698	3.67 %	95,327	840	3.52 %	(142 )	(249 )	107	
Federal Reserve Bank and Federal Home Loan Bank stock	9,884	127	5.14 %	10,500	121	4.61 %	6	(36 )	42	
Commercial loans	220,347	2,842	5.16 %	213,541	2,785	5.22 %	57	230	(173 )	
Residential mortgage loans	2,473,857	28,315	4.58 %	2,245,284	26,325	4.69 %	1,990	5,632	(3,642)	
Home equity lines of credit	342,456	3,102	3.59 %	335,391	2,892	3.42 %	210	63	147	
Installment loans	6,048	168	11.02 %	5,494	171	12.33 %	(3 )	69	(72 )	
Loans, net of unearned income	3,042,708	34,427	4.52 %	2,799,710	32,173	4.59 %	2,254	5,993	(3,739)	
Total interest earning assets	4,511,827	39,602	3.51 %	4,378,593	37,959	3.46 %	1,643	5,050	(3,407)	
Allowance for loan losses	(47,115 )			(48,649 )						
Cash & non-interest earning assets	134,110			122,130						
Total assets	\$4,598,822			\$4,452,074						
Liabilities and shareholders' equity										
Deposits:										
Interest bearing checking accounts	\$650,132	94	0.06 %	\$592,264	84	0.06 %	10	10	-	
Money market accounts	656,935	648	0.39 %	641,597	590	0.36 %	58	13	45	
Savings	1,229,712	644	0.21 %	1,233,284	798	0.26 %	(154 )	(2 )	(152 )	
Time deposits	1,148,419	2,213	0.76 %	1,121,737	1,937	0.69 %	276	52	224	
Total interest bearing deposits	3,685,198	3,599	0.39 %	3,588,882	3,409	0.38 %	190	73	117	
Short-term borrowings	180,063	327	0.72 %	183,414	370	0.80 %	(43 )	(7 )	(36 )	
Total interest bearing liabilities	3,865,261	3,926	0.40 %	3,772,296	3,779	0.40 %	147	66	81	
Demand deposits	322,083			307,910						
Other liabilities	23,783			22,435						

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Shareholders' equity	387,695	349,433			
Total liabilities and shareholders' equity	\$4,598,822	\$4,452,074			
Net interest income, tax equivalent	35,676	34,180	\$1,496	4,983	(3,487)
Net interest spread	3.11 %	3.06 %			
Net interest margin (net interest income to total interest earning assets)	3.16 %	3.12 %			
Tax equivalent adjustment	(28 )	(77 )			
Net interest income	35,648	34,103			

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

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 INTEREST RATES AND INTEREST DIFFERENTIAL

The following table summarizes the component distribution of the average balance sheet, related interest income and expense and the average annualized yields on interest earning assets and annualized rates on interest bearing liabilities of TrustCo (adjusted for tax equivalency) for each of the reported periods. Nonaccrual loans are included in loans for this analysis. The average balances of securities available for sale and held to maturity are calculated using amortized costs for these securities. Included in the average balance of shareholders' equity is unrealized depreciation, net of tax, in the available for sale portfolio of \$6.1 million in 2014 and \$6.1 million in 2013. 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)	Nine months ended September 30, 2014			Nine months ended September 30, 2013			Change in Interest Income/ Expense	Variance Balance Change	Variance Rate Change
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate			
Assets									
Securities available for sale:									
U. S. government sponsored enterprises	\$124,133	1,184	1.27 %	\$228,560	2,014	1.17 %	\$(830 )	(1,084)	254
Mortgage backed securities and collateralized mortgage obligations-residential	568,257	9,417	2.21 %	545,974	8,358	2.04 %	1,059	348	711
State and political subdivisions	4,411	235	7.10 %	14,282	713	6.66 %	(478 )	(551 )	73
Corporate bonds	3,758	63	2.23 %	51,795	674	1.74 %	(611 )	(858 )	247
Small Business									
Administration-guaranteed participation securities	108,078	1,630	2.01 %	109,297	1,618	1.97 %	12	(27 )	39
Mortgage backed securities and collateralized mortgage obligations-commercial	10,870	114	1.40 %	10,204	106	1.39 %	8	7	1
Other	670	12	2.39 %	660	13	2.63 %	(1 )	0	(1 )
Total securities available for sale	820,177	12,655	2.06 %	960,772	13,496	1.87 %	(841 )	(2,164)	1,323
Federal funds sold and other									



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short-term Investments	593,577	1,101	0.25 %	496,211	916	0.25 %	185	185	-
Held to maturity securities:									
Corporate bonds	9,950	461	6.18 %	15,340	680	5.91 %	(219 )	(267 )	48
Mortgage backed securities and collateralized mortgage obligations-residential	70,273	1,747	3.31 %	94,146	2,191	3.10 %	(444 )	(662 )	218
Total held to maturity securities	80,223	2,208	3.67 %	109,486	2,871	3.50 %	(663 )	(930 )	267
Federal Reserve Bank and Federal Home Loan Bank stock	10,438	388	4.96 %	10,192	361	4.72 %	27	9	18
Commercial loans	221,492	8,481	5.11 %	214,626	8,444	5.25 %	37	348	(311 )
Residential mortgage loans	2,410,435	82,845	4.59 %	2,186,574	77,875	4.75 %	4,970	9,004	(4,034 )
Home equity lines of credit	341,014	9,102	3.57 %	334,119	8,498	3.40 %	604	176	428
Installment loans	5,825	502	11.52 %	4,988	491	13.16 %	11	100	(89 )
Loans, net of unearned income	2,978,766	100,930	4.52 %	2,740,307	95,308	4.64 %	5,622	9,629	(4,007 )
Total interest earning assets	4,483,181	117,282	3.49 %	4,316,968	112,952	3.49 %	4,330	6,729	(2,399 )
Allowance for loan losses	(47,570 )			(48,469 )					
Cash & non-interest earning assets	133,456			140,432					
Total assets	\$4,569,067			\$4,408,931					
Liabilities and shareholders' equity									
Deposits:									
Interest bearing checking accounts	\$629,542	267	0.06 %	\$575,687	246	0.06 %	21	21	-
Money market accounts	652,886	1,865	0.38 %	650,501	1,905	0.39 %	(40 )	11	(51 )
Savings	1,231,761	1,999	0.22 %	1,218,625	2,543	0.28 %	(544 )	44	(588 )
Time deposits	1,144,164	6,199	0.72 %	1,110,229	5,640	0.68 %	559	191	368
Total interest bearing deposits	3,658,353	10,330	0.38 %	3,555,042	10,334	0.39 %	(4 )	267	(271 )
Short-term borrowings	190,599	1,062	0.74 %	177,173	1,101	0.83 %	(39 )	115	(154 )
Total interest bearing liabilities	3,848,952	11,392	0.40 %	3,732,215	11,435	0.41 %	(43 )	383	(426 )
Demand deposits	318,306			298,986					
Other liabilities	23,074			21,087					

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Shareholders' equity	378,735	356,643			
Total liabilities and shareholders' equity	\$4,569,067	\$4,408,931			
Net interest income, tax equivalent	105,890	101,517	\$4,373	6,346	(1,973)
Net interest spread		3.09 %			3.08 %
Net interest margin (net interest income to total interest earning assets)		3.15 %			3.14 %
Tax equivalent adjustment	(106 )	(269 )			
Net interest income	105,784	101,248			

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Item 3.

Quantitative and Qualitative Disclosures about Market Risk

As detailed in the Annual Report to Shareholders as of December 31, 2013 the Company is subject to interest rate risk as its principal market risk. As noted in detail throughout this Management's Discussion and Analysis for the three and nine month periods ended September 30, 2014 and 2013, the Company continues to respond to changes in interest rates in a fashion to position the Company to meet short term earning goals and to also allow the Company to respond to changes in interest rates in the future. Consequently, for the third quarter of 2014, the Company had an average balance of Federal Funds sold and other short-term investments of \$598.3 million compared to \$551.4 million in the third quarter of 2013. As investment opportunities present themselves, management plans to invest funds from the Federal Funds sold and other short-term investment portfolio into the securities available for sale, securities held to maturity and loan portfolios. Additional disclosure of interest rate risk can be found under "Liquidity and Interest Rate Sensitivity" and "Asset/Liability Management" in the Management's Discussion and Analysis section of this document.

Item 4.

Controls and Procedures

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

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

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

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

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There were no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 or subsequent Form 10-Qs as of March 31, 2014 and June 30, 2014.

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.

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Item 6. Exhibits

Reg S-K (Item 601)

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

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SIGNATURES

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

TrustCo Bank Corp NY

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

By: /s/ Robert T. Cushing  
Robert T. Cushing  
Executive Vice President  
and Chief Financial Officer

Date: November 3, 2014

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Exhibits Index

Reg S-K

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

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