

TRUSTCO BANK CORP N Y  
Form 10-Q  
August 03, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended  
June 30, 2012

Commission File Number 0-10592

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

NEW YORK  
(State or other jurisdiction of incorporation or  
organization)

14-1630287  
(I.R.S. Employer Identification No.)

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

12302  
(Zip Code)

Registrant's telephone number, including area code:

(518) 377-3311

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Number of Shares Outstanding

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Common Stock	as of July 31, 2012
\$1 Par Value	93,807,298

## TrustCo Bank Corp NY

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TRUSTCO BANK CORP NY  
 Consolidated Statements of Income (Unaudited)  
 (dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest and dividend income:				
Interest and fees on loans	\$32,277	32,184	64,702	63,861
Interest and dividends on securities available for sale:				
U. S. government sponsored enterprises	2,606	3,791	4,910	6,990
State and political subdivisions	368	640	778	1,424
Mortgage-backed securities and collateralized mortgage obligations-residential	1,364	622	2,457	1,230
Corporate bonds	648	1,081	1,470	2,220
Other securities	154	89	249	150
Total interest and dividends on securities available for sale	5,140	6,223	9,864	12,014
Interest on held to maturity securities:				
U. S. government sponsored enterprises	-	-	25	-
Mortgage-backed securities and collateralized mortgage obligations-residential	1,198	1,240	2,488	2,428
Corporate bonds	387	595	896	1,310
Total interest on held to maturity securities	1,585	1,835	3,409	3,738
Interest on federal funds sold and other short-term investments				
	299	254	619	500
Total interest income	39,301	40,496	78,594	80,113
Interest expense:				
Interest on deposits:				
Interest-bearing checking	78	70	156	135
Savings	979	885	2,081	1,818
Money market deposit accounts	770	1,184	1,693	2,411
Time deposits	3,230	4,099	6,648	8,542
Interest on short-term borrowings	378	382	766	789
Total interest expense	5,435	6,620	11,344	13,695
Net interest income	33,866	33,876	67,250	66,418
Provision for loan losses	3,000	4,850	6,100	9,450
Net interest income after provision for loan losses	30,866	29,026	61,150	56,968
Noninterest income:				
Trustco financial services income	1,407	1,186	2,801	2,760
Fees for services to customers	2,388	2,325	4,628	4,419
Net gain on securities transactions	55	851	732	1,138
Other	176	209	383	525
Total noninterest income	4,026	4,571	8,544	8,842

Noninterest expenses:				
Salaries and employee benefits	7,519	7,000	15,262	14,026
Net occupancy expense	3,817	3,672	7,612	7,409
Equipment expense	1,600	1,481	3,120	2,813
Professional services	1,489	1,681	2,925	3,166
Outsourced services	1,347	1,350	2,597	2,700
Advertising expense	1,060	708	1,869	1,414
FDIC and other insurance	953	1,392	1,833	3,243
Other real estate expense, net	665	2,095	1,631	3,685
Other	2,048	2,173	4,293	3,942
Total noninterest expenses	20,498	21,552	41,142	42,398
Income before taxes	14,394	12,045	28,552	23,412
Income taxes	5,328	4,279	10,577	8,264
Net income	\$9,066	7,766	17,975	15,148
Net income per Common Share:				
- Basic	\$0.097	0.100	0.192	0.196
- Diluted	\$0.097	0.100	0.192	0.196

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY  
 Consolidated Statements of Comprehensive Income (Unaudited)  
 (dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income	\$9,066	7,766	\$17,975	15,148
Net unrealized holding gain on securities available for sale	2,571	12,535	7,451	12,810
Reclassification adjustments for net gain recognized in income	(55 )	(851 )	(732 )	(1,138 )
Tax effect	(1,003 )	(4,657 )	(2,679 )	(4,653 )
Net unrealized gain on securities available for sale	1,513	7,027	4,040	7,019
Amortization of net actuarial loss	97	22	194	42
Amortization of prior service credit	(65 )	(30 )	(131 )	(131 )
Tax effect	(13 )	3	(25 )	35
Amortization of net actuarial loss and prior service credit on pension and postretirement plans, net of tax	19	(5 )	38	(54 )
Other comprehensive income, net of tax	1,532	7,022	4,078	6,965
Comprehensive income	\$10,598	14,788	\$22,053	22,113

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY  
 Consolidated Statements of Financial Condition (Unaudited)  
 (dollars in thousands, except per share data)

	June 30, 2012	December 31, 2011
<b>ASSETS:</b>		
Cash and due from banks	\$ 36,589	44,395
Federal funds sold and other short term investments	486,049	488,548
Total cash and cash equivalents	522,638	532,943
Securities available for sale	1,118,055	917,722
Held to maturity securities (fair value 2012 \$177,358; 2011 \$224,440)	168,755	216,288
Loans, net of deferred fees and costs	2,559,621	2,521,303
Less:		
Allowance for loan losses	48,018	48,717
Net loans	2,511,603	2,472,586
Bank premises and equipment, net	37,868	37,006
Other assets	62,480	67,099
Total assets	\$ 4,421,399	4,243,644
<b>LIABILITIES:</b>		
<b>Deposits:</b>		
Demand	\$ 283,873	267,776
Interest-bearing checking	528,101	489,227
Savings accounts	1,122,208	978,819
Money market deposit accounts	644,627	635,434
Certificates of deposit (in denominations of \$100,000 or more)	452,043	460,971
Other time accounts	867,798	903,746
Total deposits	3,898,650	3,735,973
Short-term borrowings	150,718	147,563
Accrued expenses and other liabilities	22,124	21,592
Total liabilities	4,071,492	3,905,128
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock par value \$1; 150,000,000 shares authorized; 98,912,423 shares issued at June 30, 2012 and December 31, 2011	98,912	98,912
Surplus	175,773	176,638
Undivided profits	125,153	119,465
Accumulated other comprehensive income (loss), net of tax	1,585	(2,493 )
	(51,516 )	(54,006 )

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Treasury stock at cost - 5,238,064 and 5,491,276 shares at June 30, 2012 and December 31, 2011, respectively

Total shareholders' equity	349,907	338,516
Total liabilities and shareholders' equity	\$ 4,421,399	4,243,644

See accompanying notes to unaudited consolidated interim financial statements.



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TRUSTCO BANK CORP NY  
 Consolidated Statements of Changes in Shareholders' Equity (Unaudited)  
 (dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Beginning balance, January 1, 2011	\$83,166	126,982	108,780	(4,119 )	(59,369 )	255,440
Net Income - Six Months Ended June 30, 2011	-	-	15,148	-	-	15,148
Change in other comprehensive income, net of tax				6,965		6,965
Cash dividend declared, \$.1312 per share	-	-	(10,146 )	-	-	(10,146 )
Sale of treasury stock (236,700 shares)	-	(860 )	-	-	2,328	1,468
Stock based compensation expense	-	74	-	-	-	74
Ending balance, June 30, 2011	\$83,166	126,196	113,782	2,846	(57,041 )	268,949
Beginning balance, January 1, 2012	\$98,912	176,638	119,465	(2,493 )	(54,006 )	338,516
Net Income - Six Months Ended June 30, 2012	-	-	17,975	-	-	17,975
Change in other comprehensive income, net of tax				4,078		4,078
Cash dividend declared, \$.1312 per share	-	-	(12,287 )	-	-	(12,287 )
Sale of treasury stock (253,212 shares)	-	(1,044 )	-	-	2,490	1,446
Stock based compensation expense	-	179	-	-	-	179
Ending balance, June 30, 2012	\$98,912	175,773	125,153	1,585	(51,516 )	349,907

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY  
Consolidated Statements of Cash Flows (Unaudited)  
(dollars in thousands)

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$17,975	15,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,507	2,411
Loss on sale of other real estate owned	356	232
Writedown of other real estate owned	474	2,675
Provision for loan losses	6,100	9,450
Deferred tax benefit	(160)	(1,394 )
Stock based compensation expense	179	74
Net gain on sale of bank premises and equipment	(2 )	-
Net gain on sales and calls of securities	(732 )	(1,138 )
Decrease (increase) in taxes receivable	(1,883 )	1,542
Decrease in interest receivable	1,044	312
Decrease in interest payable	(120 )	(215 )
Decrease in other assets	1,583	3,799
Increase (decrease) in accrued expenses and other liabilities ...	635	(404 )
Total adjustments	9,981	17,344
Net cash provided by operating activities	27,956	32,492
Cash flows from investing activities:		
Proceeds from sales and calls of securities available for sale	601,747	403,637
Proceeds from calls and maturities of held to maturity securities	57,836	37,184
Purchases of securities available for sale	(795,544 )	(419,085 )
Proceeds from maturities of securities available for sale	914	9,079
Purchases of held to maturity securities	(10,303 )	-
Net increase in loans	(50,131 )	(81,961 )
Proceeds from dispositions of other real estate owned	5,579	3,117
Proceeds from dispositions of bank premises and equipment	2	-
Purchases of bank premises and equipment	(3,369 )	(1,811 )
Net cash used in investing activities	(193,269 )	(49,840 )
Cash flows from financing activities:		
Net increase in deposits	162,677	98,444
Net increase in short-term borrowings	3,155	4,192
Proceeds from sale of treasury stock	1,446	1,468
Dividends paid	(12,270 )	(10,130 )
Net cash provided by financing activities	155,008	93,974
Net increase (decrease) in cash and cash equivalents	(10,305 )	76,626
Cash and cash equivalents at beginning of period	532,943	444,250

Cash and cash equivalents at end of period	\$522,638	520,876
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## Supplemental Disclosure of Cash Flow Information:

## Cash paid during the year for:

Interest paid	\$11,464	13,910
Income taxes paid	12,461	6,722
Other non cash items:		
Transfer of loans to other real estate owned	5,014	3,452
Increase in dividends payable	17	16
Change in unrealized gain on securities available for sale-gross of deferred taxes	6,718	11,673
Change in deferred tax effect on unrealized gain on securities available for sale	(2,678 )	(4,654 )
Amortization of net actuarial loss and prior service credit on pension and postretirement plans	63	(89 )
Change in deferred tax effect of amortization of net actuarial loss and prior service credit	(25 )	35

See accompanying notes to unaudited consolidated financial statements.

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TrustCo Bank Corp NY  
Notes to Consolidated Interim Financial Statements  
(Unaudited)

1. Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the Company) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and six months ended June 30, 2012 is not necessarily indicative of the results that may be expected for the year ending December 31, 2012, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of June 30, 2012 and the results of operations for the three months and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011. 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 2011 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

A reconciliation of the component parts of earnings per share (EPS) for the three months and six months ended June 30, 2012 and 2011 is as follows:

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(dollars in thousands, except per share data)

	For the three months ended June 30, 2012:	For the six months ended June 30, 2012:
Net income	\$ 9,066	\$ 17,975
Less: Net income allocated to participating securities	10	20
Net income allocated to common shareholders	\$ 9,056	\$ 17,955
Basic EPS:		
Distributed earnings allocated to common stock	\$ 6,139	\$ 12,287
Undistributed earnings allocated to common stock	2,917	5,668
Net income allocated to common shareholders	\$ 9,056	\$ 17,955
Weighted average common shares outstanding including participating securities		
	93,667	93,609
Less: Participating securities	106	106
Weighted average common shares	93,561	93,503
Basic EPS		
	0.097	0.192
Diluted EPS:		
Net income allocated to common shareholders	\$ 9,056	\$ 17,955
Weighted average common shares for basic EPS	93,561	93,503
Effect of Dilutive Securities:		
Stock Options	1	1
Weighted average common shares including potential dilutive shares	93,562	93,504
Diluted EPS		
	0.097	0.192

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(dollars in thousands, except per share data)

	Income	Weighted Average Shares Outstanding	Per Share Amounts
For the quarter ended June 30, 2011:			
Basic EPS:			
Income available to common shareholders	\$7,766	77,363	\$0.100
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$7,766	77,363	\$0.100

(dollars in thousands, except per share data)

	Income	Weighted Average Shares Outstanding	Per Share Amounts
For the six months ended June 30, 2011:			
Basic EPS:			
Income available to common shareholders	\$15,148	77,302	\$0.196
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$15,148	77,302	\$0.196

For the three months ended June 30, 2012 and 2011, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 3.1 million and 2.6 million, respectively. For the six months ended June 30, 2012 and 2011, the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 3.1 million and 2.8 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 expense (benefit) recognized during the three month and six month periods ended June 30, 2012 and 2011 for its pension and other postretirement benefit plans:

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(dollars in thousands)	For the three months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$12	12	8	4
Interest cost	365	379	25	33
Expected return on plan assets	(474 )	(497 )	(112 )	(112 )
Amortization of net loss (gain)	102	39	(5 )	(17 )
Amortization of prior service credit	-	-	(65 )	(30 )
Net periodic expense (benefit)	\$5	(67 )	(149 )	(122 )

(dollars in thousands)	For the six months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$24	23	16	13
Interest cost	730	758	51	49
Expected return on plan assets	(948 )	(993 )	(225 )	(224 )
Amortization of net loss (gain)	204	78	(10 )	(36 )
Amortization of prior service credit	-	-	(131 )	(131 )
Net periodic expense (benefit)	\$10	(134 )	(299 )	(329 )

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2011, that it did not expect to make contributions to its pension and postretirement benefit plans in 2012. As of June 30, 2012, no contributions have been made.

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.

#### 4. Investment Securities

##### (a) Securities available for sale

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

(dollars in thousands)	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$ 641,497	1,692	-	643,189
State and political subdivisions	36,046	932	-	36,978
Mortgage backed securities and collateralized mortgage obligations - residential	351,025	3,410	150	354,285



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Corporate bonds	74,170	236	1,095	73,311
Other	650	-	-	650
Total debt securities	1,103,388	6,270	1,245	1,108,413
Equity securities	9,642	-	-	9,642
Total securities available for sale	\$ 1,113,030	6,270	1,245	1,118,055

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(dollars in thousands) Available for sale	December 31, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$ 562,588	1,171	300	563,459
State and political subdivisions	42,812	1,156	-	43,968
Mortgage backed securities and collateralized mortgage obligations - residential	202,103	2,335	415	204,023
Corporate bonds	102,248	70	5,710	96,608
Other	650	-	-	650
Total debt securities	910,401	4,732	6,425	908,708
Equity securities	9,014	-	-	9,014
Total securities available for sale	\$ 919,415	4,732	6,425	917,722

Federal Home Loan Bank stock and Federal Reserve Bank stock included in equity securities at June 30, 2012 and December 31, 2011, totaled \$9.6 million and \$9.0 million, respectively.

The following table distributes the debt securities included in the available for sale portfolio as of June 30, 2012, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using an estimated average life):

(dollars in thousands) Available for sale	June 30, 2012	
	Amortized Cost	Fair Value
Due in one year or less	\$ 11,632	11,733
Due in one year through five years	824,740	828,350
Due after five years through ten years	250,078	250,771
Due after ten years	16,938	17,559
	\$ 1,103,388	1,108,413

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 investment 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:

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(dollars in thousands)

Available for sale	Less than		June 30, 2012		Total	
	12 months		12 months			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Loss		Loss		Loss
Mortgage backed securities and collateralized mortgage obligations - residential	38,314	150	-	-	38,314	150
Corporate bonds	10,615	20	41,011	1,075	51,626	1,095
Total available for sale	\$48,929	170	41,011	1,075	89,940	1,245

(dollars in thousands)

Available for sale	Less than		December 31, 2011		Total	
	12 months		12 months			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Loss		Loss		Loss
U.S. government sponsored enterprises	\$147,881	300	-	-	147,881	300
Mortgage backed securities and collateralized mortgage obligations - residential	107,369	369	781	46	108,150	415
Corporate bonds	72,077	4,487	19,467	1,223	91,544	5,710
Total available for sale	\$327,327	5,156	20,248	1,269	347,575	6,425

Proceeds from sales and calls of securities available for sale, gross realized gains and gross realized losses for the three months and six months ended June 30, 2012 and 2011 were as follows:

(dollars in thousands)	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2012	2011	2012	2011
Proceeds from sales	16,141	40,427	53,998	45,976
Proceeds from calls	313,024	341,214	547,749	357,661
Gross realized gains	157	888	932	1,175
Gross realized losses	102	37	200	37

Income tax expense recognized on net gains on sales and calls of securities available for sale were approximately \$22 thousand and \$340 thousand for the three months ended June 30, 2012 and 2011, respectively, while income tax expense recognized on net gains on sales and calls of securities available for sale were approximately \$293 thousand and \$455 thousand for the six months ended June 30, 2012 and 2011, respectively.

## (b) Held to maturity securities

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



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(dollars in thousands)		June 30, 2012		
Held to maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations – residential	133,562	7,197	-	140,759
Corporate bonds	35,193	1,406	-	36,599
Total held to maturity securities	\$ 168,755	8,603	-	177,358

(dollars in thousands)		December 31, 2011		
Held to maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government sponsored enterprises	\$ 15,000	19	-	15,019
Mortgage backed securities and collateralized mortgage obligations - residential	141,857	7,727	46	149,538
Corporate bonds	59,431	834	382	59,883
Total held to maturity securities	\$ 216,288	8,580	428	224,440

The following table distributes the debt securities included in the held to maturity portfolio as of June 30, 2012, based on the securities' final maturity (mortgage-backed securities and collateralized mortgage obligations are stated using estimated average life):

(dollars in thousands)		June 30, 2012	
Held to maturity	Amortized Cost	Fair Value	
Due in one year or less	\$25,271	25,822	
Due in one year through five years	115,652	122,369	
Due in five years through ten years	27,832	29,167	
	\$168,755	177,358	

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.

As of June 30, 2012, there were no held to maturity securities in an unrecognized loss position.

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, 2011, were as follows:

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(dollars in thousands)

December 31, 2011

	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	\$19,328	46	-	-	19,328	46
Corporate bonds	9,532	382	-	-	9,532	382
Total	\$28,860	428	-	-	28,860	428

There were no sales or transfers of held to maturity securities during 2012 and 2011.

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

As of June 30, 2012, the Company’s security portfolio consisted of 279 securities, 14 of which were in an unrealized loss position, and are discussed below.

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## Mortgage-backed Securities and Collateralized Mortgage Obligations - Residential

At June 30, 2012, all of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily GNMA (Ginnie Mae), FNMA (Fannie Mae) and FHLMC (Freddie Mac), institutions which the government has affirmed its commitment to support. Because the decline in fair value is not attributable to credit quality and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2012.

## Corporate bonds

In the case of corporate bonds, the Company's exposure is primarily in bonds of firms in the financial sector. Changing market perceptions of that sector and of some specific firms has had a negative impact on bond pricing. All of the corporate bonds owned continue to be rated investment grade, all are current as to the payment of interest and the Company expects to collect the full amount of the principal balance at maturity. The Company actively monitors the firms and the bonds. The Company has concluded that the decline in fair value is not attributable to credit quality and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2012.

As a result of the above analysis, for the three months and six months ended June 30, 2012, 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 table presents the recorded investment in loans by loan class:

(dollars in thousands)	June 30, 2012		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 183,365	24,696	208,061
Other	27,170	116	27,286
Real estate mortgage - 1 to 4 family:			
First mortgages	1,756,019	205,547	1,961,566
Home equity loans	40,493	987	41,480
Home equity lines of credit	288,915	28,242	317,157
Installment	4,009	62	4,071
Total loans, net	\$ 2,299,971	259,650	2,559,621
Less: Allowance for loan losses			48,018
Net loans			\$ 2,511,603

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(dollars in thousands)	December 31, 2011		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 189,101	25,226	214,327
Other	33,734	102	33,836
Real estate mortgage - 1 to 4 family:			
First mortgages	1,731,127	177,518	1,908,645
Home equity loans	46,082	1,224	47,306
Home equity lines of credit	285,762	27,276	313,038
Installment	4,078	73	4,151
Total loans, net	\$ 2,289,884	231,419	2,521,303
Less: Allowance for loan losses			48,717
Net loans			\$ 2,472,586

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

At June 30, 2012 and December 31, 2011, the Company had approximately \$35.3 million and \$32.5 million of real estate construction loans, respectively. As of June 30, 2012, approximately \$12.9 million are secured by first mortgages to residential borrowers while approximately \$22.4 million were to commercial borrowers for residential constructions projects. Of the \$32.5 million in real estate construction loans at December 31, 2011, approximately \$11.6 million were secured by first mortgages to residential borrowers with the remaining \$20.9 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are secured by residential real estate in the Company's New York market area.

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)	June 30, 2012		
	New York and other states*	Florida	Total
Loans in nonaccrual status:			
Commercial:			
Commercial real estate	\$ 5,530	8,435	13,965
Other	126	-	126
Real estate mortgage - 1 to 4 family:			
First mortgages	25,296	7,525	32,821
Home equity loans	582	42	624
Home equity lines of credit	3,289	387	3,676
Installment	1	1	2
Total non-accrual loans	34,824	16,390	51,214
Other nonperforming real estate mortgages - 1 to 4 family	243	-	243
Total nonperforming loans	\$ 35,067	16,390	51,457





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(dollars in thousands)	December 31, 2011		
	New York and other states*	Florida	Total
Loans in nonaccrual status:			
Commercial:			
Commercial real estate	\$4,968	5,000	9,968
Other	13	-	13
Real estate mortgage - 1 to 4 family:			
First mortgages	24,392	9,862	34,254
Home equity loans	968	57	1,025
Home equity lines of credit	2,460	743	3,203
Installment	3	-	3
Total non-accrual loans	32,804	15,662	48,466
Other nonperforming real estate mortgages - 1 to 4 family	312	-	312
Total nonperforming loans	\$33,116	15,662	48,778

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

As of June 30, 2012 and December 31, 2011, the Company's loan portfolio did not include any subprime loans or loans acquired with deteriorated credit quality.

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

New York and other states*:	June 30, 2012			Total
	30-59 Days	60-89 Days	90+ Days	