

TRUSTCO BANK CORP N Y  
Form 10-Q  
August 11, 2008

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, 2008

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 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.

Class of Common Stock  
\$1 Par Value

Number of Shares Outstanding as of July 31, 2008  
75,851,006



## 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<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2008                           | 2007   | 2008                         | 2007   |
| <b>Interest and dividend income:</b>                                   |                                |        |                              |        |
| Interest and fees on loans   | \$ 30,030                      | 29,566 | 60,814                       | 58,197 |
| <b>Interest and dividends on securities available for sale:</b>        |                                |        |                              |        |
| U. S. treasuries and government sponsored enterprises                  | 2,871                          | 2,753  | 6,126                        | 5,609  |
| States and political subdivisions                                      | 1,336                          | 1,434  | 2,731                        | 2,883  |
| Mortgage-backed securities and collateralized mortgage obligations     | 1,737                          | 1,916  | 3,510                        | 3,880  |
| Other securities   | 159                            | 176    | 337                          | 315    |
| Total interest and dividends on securities available for sale          | 6,103                          | 6,279  | 12,704                       | 12,687 |
| <b>Interest on trading securities:</b>                                 |                                |        |                              |        |
| U. S. government sponsored enterprises                                 | 2,054                          | 4,847  | 6,773                        | 11,650 |
| States and political subdivisions                                      | 48                             | -      | 57                           | -      |
| Total interest on trading securities                                   | 2,102                          | 4,847  | 6,830                        | 11,650 |
| <b>Interest on held to maturity securities:</b>                        |                                |        |                              |        |
| U. S. government sponsored enterprises                                 | 508                            | -      | 733                          | -      |
| States and political subdivisions                                      | 277                            | -      | 277                          | -      |
| Total interest on held to maturity securities                          | 785                            | -      | 1,010                        | -      |
| <b>Interest on federal funds sold and other short term investments</b> |                                |        |                              |        |
|  | 3,037                          | 6,856  | 6,018                        | 10,295 |
| Total interest income  | 42,057                         | 47,548 | 87,376                       | 92,829 |
| <b>Interest expense:</b>   |                                |        |                              |        |
| <b>Interest on deposits:</b>   |                                |        |                              |        |
| Interest-bearing checking  | 172                            | 213    | 376                          | 415    |
| Savings  | 923                            | 2,397  | 2,266                        | 4,821  |
| Money market deposit accounts  | 1,292                          | 3,411  | 3,373                        | 6,715  |
| Time deposits  | 15,748                         | 16,556 | 32,465                       | 31,192 |
| Interest on short-term borrowings                                      | 448                            | 989    | 1,024                        | 1,982  |
| Interest on long-term debt   | 1                              | -      | 1                            | 1      |
| Total interest expense   | 18,584                         | 23,566 | 39,505                       | 45,126 |
| Net interest income  | 23,473                         | 23,982 | 47,871                       | 47,703 |
| Provision for loan losses  | 700                            | -      | 1,000                        | -      |
| Net interest income after provision for loan losses                    | 22,773                         | 23,982 | 46,871                       | 47,703 |
| <b>Noninterest income:</b>   |                                |        |                              |        |
| Trust department income  | 1,350                          | 1,441  | 2,844                        | 2,894  |

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|                                      |          |         |        |        |
|--------------------------------------|----------|---------|--------|--------|
| Fees for other services to customers | 2,286    | 2,289   | 4,426  | 4,595  |
| Net trading (losses) gains           | (960)    | (2,844) | (243)  | 601    |
| Net gain on securities transactions  | 784      | 3       | 418    | 3      |
| Other                                | 477      | 257     | 1,033  | 601    |
| Total noninterest income             | 3,937    | 1,146   | 8,478  | 8,694  |
| Noninterest expenses:                |          |         |        |        |
| Salaries and employee benefits       | 5,517    | 4,893   | 11,157 | 9,802  |
| Net occupancy expense                | 3,033    | 2,408   | 6,043  | 4,825  |
| Equipment expense                    | 978      | 811     | 2,080  | 1,555  |
| Professional services                | 1,167    | 1,071   | 2,268  | 2,009  |
| Outsourced Services                  | 1,171    | 1,074   | 2,280  | 2,147  |
| Other real estate (income) expense   | (9)      | 15      | (17)   | 35     |
| Other                                | 2,490    | 3,186   | 5,100  | 5,791  |
| Total noninterest expenses           | 14,347   | 13,458  | 28,911 | 26,164 |
| Income before taxes                  | 12,363   | 11,670  | 26,438 | 30,233 |
| Income taxes                         | 3,894    | 3,563   | 8,542  | 9,812  |
| Net income                           | \$ 8,469 | 8,107   | 17,896 | 20,421 |
| Net income per Common Share:         |          |         |        |        |
| - Basic                              | \$ 0.112 | 0.108   | 0.237  | 0.272  |
| - Diluted                            | \$ 0.112 | 0.108   | 0.237  | 0.272  |

See accompanying notes to unaudited consolidated interim financial statements.

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

|  | June 30,<br>2008 | December<br>31,<br>2007 |
|--|------------------|-------------------------|
| <b>ASSETS:</b>   |                  |                         |
| Cash and due from banks  | \$ 48,177        | 58,156                  |
| Federal funds sold and other short term investments                              | 466,262          | 286,764                 |
| Total cash and cash equivalents  | 514,439          | 344,920                 |
| Trading securities:  |                  |                         |
| U. S. government sponsored enterprises   | 220,063          | 465,151                 |
| States and political subdivisions  | 6,300            | 0                       |
| Total trading securities   | 226,363          | 465,151                 |
| Securities available for sale:   |                  |                         |
| U. S. treasuries and government sponsored enterprises                            | 270,943          | 289,690                 |
| States and political subdivisions  | 108,617          | 129,271                 |
| Mortgage-backed securities and collateralized mortgage obligations               | 140,794          | 148,858                 |
| Other securities   | 10,969           | 11,073                  |
| Total securities available for sale  | 531,323          | 578,892                 |
| Held to maturity securities:   |                  |                         |
| U. S. government sponsored enterprises (fair value 2008 \$120,125 2007 \$15,175) | 120,085          | 15,000                  |
| Corporate bonds (fair value 2008 \$40,694 2007 \$0)                              | 41,644           | 0                       |
| Total held to maturity securities  | 161,729          | 15,000                  |
| Loans:   |                  |                         |
| Commercial   | 295,440          | 280,248                 |
| Residential mortgage loans   | 1,475,743        | 1,419,231               |
| Home equity line of credit   | 229,781          | 229,570                 |
| Installment loans  | 5,751            | 5,865                   |
| Total loans  | 2,006,715        | 1,934,914               |
| Less:  |                  |                         |
| Allowance for loan losses  | 34,767           | 34,651                  |
| Net loans  | 1,971,948        | 1,900,263               |
| Bank premises and equipment, net   | 31,316           | 29,193                  |
| Other assets   | 52,459           | 44,132                  |
| Total assets   | \$ 3,489,577     | 3,377,551               |
| <b>LIABILITIES:</b>  |                  |                         |
| Deposits:  |                  |                         |
| Demand   | \$ 268,343       | 262,863                 |

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|   |              |           |
|---|--------------|-----------|
| Interest-bearing checking   | 300,476      | 293,027   |
| Savings accounts  | 623,411      | 609,064   |
| Money market deposit accounts   | 314,445      | 341,790   |
| Certificates of deposit (in denominations of \$100,000 or more)   | 425,549      | 390,328   |
| Other time accounts   | 1,167,152    | 1,123,226 |
| Total deposits  | 3,099,376    | 3,020,298 |
| Short-term borrowings   | 97,156       | 92,220    |
| Long-term debt  | 13           | 29        |
| Due to broker   | 30,000       | 0         |
| Accrued expenses and other liabilities  | 23,528       | 27,936    |
| Total liabilities   | 3,250,073    | 3,140,483 |
| <b>SHAREHOLDERS' EQUITY:</b>  |              |           |
| Capital stock par value \$1; 150,000,000 shares authorized and 82,373,165 and 82,373,165 shares issued at June 30, 2008 and December 31, 2007, respectively | 82,373       | 82,373    |
| Surplus   | 122,021      | 121,961   |
| Undivided profits   | 94,363       | 93,099    |
| Accumulated other comprehensive income, net of tax  | 4,991        | 7,230     |
| Treasury stock at cost - 6,697,956 and 7,047,297 shares at June 30, 2008 and December 31, 2007, respectively  | (64,244)     | (67,595)  |
| Total shareholders' equity  | 239,504      | 237,068   |
| Total liabilities and shareholders' equity  | \$ 3,489,577 | 3,377,551 |

See accompanying notes to unaudited consolidated interim financial statements.

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## TRUSTCO BANK CORP NY

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

(dollars in thousands, except per share data)

|   | Capital<br>Stock | Surplus | Undivided<br>Profits | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Comprehensive<br>Income | Treasury<br>Stock | Total    |
|---|------------------|---------|----------------------|---|-------------------------|-------------------|----------|
| Beginning balance,<br>January 1, 2007   | \$ 82,150        | 119,313 | 110,304              | (2,928)   |                         | (69,316)          | 239,523  |
| Adjustment to<br>initially apply FAS<br>No. 159, net of tax   | -                | -       | (8,606)              | 8,606   | -                       | -                 | -        |
| Comprehensive<br>income:  |                  |         |                      |   |                         |                   |          |
| Net Income - Six<br>Months Ended June,<br>2007  | -                | -       | 20,421               | -   | 20,421                  | -                 | 20,421   |
| Other comprehensive<br>loss, net of tax:  |                  |         |                      |   |                         |                   |          |
| Amortization of prior<br>service cost on<br>pension and post<br>retirement plans, net<br>of tax (pretax of<br>\$242)                              | -                | -       | -                    | -   | (146)                   | -                 | -        |
| Unrealized net<br>holding loss on<br>securities<br>available-for-sale<br>arising during the<br>period, net of tax<br>(pretax loss of<br>\$12,295) | -                | -       | -                    | -   | (7,392)                 | -                 | -        |
| Other comprehensive<br>loss   | -                | -       | -                    | (7,538)   | (7,538)                 | -                 | (7,538)  |
| Comprehensive<br>income   |                  |         |                      |   | 12,883                  |                   |          |
| Cash dividend<br>declared, \$.32 per<br>share   | -                | -       | (23,979)             | -   | -                       | -                 | (23,979) |
| Stock options<br>exercised and related<br>excess tax benefits   | 19               | 116     | -                    | -   | -                       | -                 | 135      |
| Treasury stock<br>purchased (280,497<br>shares)   | -                | -       | -                    | -   | -                       | (2,862)           | (2,862)  |



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|  |           |         |          |         |          |          |
|--|-----------|---------|----------|---------|----------|----------|
| Sale of treasury stock<br>(403,953 shares)   | -         | 330     | -        | -       | 3,854    | 4,184    |
| Stock based<br>compensation<br>expense   | -         | 26      | -        | -       | -        | 26       |
| Ending balance, June<br>30, 2007   | \$ 82,169 | 119,785 | 98,140   | (1,860) | (68,324) | 229,910  |
| Beginning balance,<br>January 1, 2008  | \$ 82,373 | 121,961 | 93,099   | 7,230   | (67,595) | 237,068  |
| Comprehensive<br>income:   |           |         |          |         |          |          |
| Net Income - Six<br>Months Ended June<br>30, 2008  | -         | -       | 17,896   | -       | 17,896   | 17,896   |
| Other comprehensive<br>income, net of tax:   |           |         |          |         |          |          |
| Amortization of prior<br>service cost on<br>pension and post<br>retirement plans, net<br>of tax (pretax of<br>\$275)                             | -         | -       | -        | -       | (165)    | -        |
| Unrealized net<br>holding loss on<br>securities<br>available-for-sale<br>arising during the<br>period, net of tax<br>(pretax loss of<br>\$3,031) | -         | -       | -        | -       | (1,822)  | -        |
| Reclassification<br>adjustment for net<br>gain realized in net<br>income during the<br>period (pretax gain<br>\$418)                             | -         | -       | -        | -       | (252)    | -        |
| Other comprehensive<br>income, net of tax:   | -         | -       | -        | (2,239) | (2,239)  | (2,239)  |
| Comprehensive<br>income  |           |         |          |         | 15,657   | -        |
| Cash dividend<br>declared, \$.22 per<br>share  | -         | -       | (16,632) | -       | -        | (16,632) |
| Sale of treasury stock<br>(349,341 shares)   | -         | (26)    | -        | -       | 3,351    | 3,325    |
| Stock based<br>compensation<br>expense   | -         | 86      | -        | -       | -        | 86       |

|                      |    |        |         |        |       |          |         |
|----------------------|----|--------|---------|--------|-------|----------|---------|
| Ending balance, June |    |        |         |        |       |          |         |
| 30, 2008             | \$ | 82,373 | 122,021 | 94,363 | 4,991 | (64,244) | 239,504 |

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<br>30, |           |
|---|------------------------------|-----------|
|   | 2008                         | 2007      |
| Cash flows from operating activities:   |                              |           |
| Net income  | \$ 17,896                    | 20,421    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Depreciation and amortization   | 1,817                        | 1,366     |
| Gain on sale of other real estate owned   | (128)                        | (89)      |
| Provision for loan losses   | 1,000                        | -         |
| Deferred tax expense  | 363                          | 1,492     |
| Stock based compensation expense  | 86                           | 26        |
| Net loss on sale of bank premises and equipment                                   | 6                            | -         |
| Net gain on sale of securities available for sale                                 | (418)                        | (3)       |
| Proceeds from sales and calls of trading securities                               | 344,788                      | 502,944   |
| Purchases of trading securities   | (262,393)                    | (450,296) |
| Proceeds from maturities of trading securities                                    | 156,150                      | -         |
| Net trading losses (gains)  | 243                          | (601)     |
| (Increase) decrease in taxes receivable   | (7,237)                      | 9,322     |
| (Increase) decrease in interest receivable  | (1,950)                      | 3,511     |
| (Decrease) increase in interest payable   | (462)                        | 403       |
| Decrease (increase) in other assets   | 3,062                        | (2,903)   |
| (Decrease) increase in accrued expenses and other liabilities                     | (218)                        | 731       |
| Total adjustments   | 234,709                      | 65,903    |
| Net cash provided by operating activities   | 252,605                      | 86,324    |
| Cash flows from investing activities:   |                              |           |
| Proceeds from sales and calls of securities available for sale                    | 158,970                      | 15,354    |
| Purchases of securities available for sale  | (102,452)                    | (31,034)  |
| Proceeds from maturities of securities available for sale                         | 8,020                        | 46,580    |
| Purchases of held to maturity securities  | (136,729)                    | -         |
| Net increase in loans   | (74,277)                     | (86,571)  |
| Proceeds from dispositions of other real estate owned                             | 365                          | 213       |
| Proceeds from dispositions of bank premises and equipment                         | 10                           | -         |
| Purchases of bank premises and equipment  | (3,956)                      | (5,174)   |
| Net cash provided by investing activities   | (150,049)                    | (60,632)  |
| Cash flows from financing activities:   |                              |           |
| Net increase in deposits  | 79,078                       | 223,153   |
| Net increase (decrease) in short-term borrowings                                  | 4,936                        | (1,652)   |
| Repayment of long-term debt   | (16)                         | (15)      |

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|  |            |          |
|--|------------|----------|
| Proceeds from exercise of stock options and related tax benefits | -          | 135      |
| Proceeds from sale of treasury stock                             | 3,325      | 4,184    |
| Purchase of treasury stock                                       | -          | (2,862)  |
| Dividends paid   | (20,360)   | (23,979) |
| Net cash provided by financing activities                        | 66,963     | 198,964  |
| Net increase in cash and cash equivalents                        | 169,519    | 224,656  |
| Cash and cash equivalents at beginning of period                 | 344,920    | 291,338  |
| Cash and cash equivalents at end of period                       | \$ 514,439 | 515,994  |

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

|  |           |          |
|--|-----------|----------|
| Interest paid  | \$ 39,967 | 44,723   |
| Income taxes paid  | 15,778    | 411      |
| Non cash investing and financing activities:   |           |          |
| Increase in due to broker  | 30,000    | -        |
| Transfer of loans to other real estate owned   | 1,592     | 189      |
| Decrease in dividends payable  | (3,728)   | -        |
| Change in unrealized loss on securities available for sale-gross of deferred taxes (excluding \$14,313 unrealized loss transferred to undivided profits in 2007 from adoption of SFAS No. 159), net of reclassification adjustment | (3,449)   | (12,295) |
| Change in deferred tax effect on unrealized loss on securities available for sale, net of reclassification adjustment  | 1,375     | 4,903    |
| Amortization of prior service cost on pension and post retirement plans  | (275)     | (242)    |
| Change in deferred tax effect of amortization of prior service cost  | 110       | 96       |
| Securities available for sale transferred to trading securities  | -         | 516,558  |
| Cumulative effect of the adoption of SFAS No. 159-net of deferred taxes (\$14,313 gross of deferred taxes)   | -         | 8,606    |

See accompanying notes to unaudited consolidated financial statements.

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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 six months ended June 30, 2008 is not necessarily indicative of the results that may be expected for the year ending December 31, 2008, or any interim periods.

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, 2008 and the results of operations and cash flows for the three months and six months ended June 30, 2008 and 2007. 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 2007 Annual Report to Shareholders on Form 10-K.

## 2. Earnings Per Share

A reconciliation of the component parts of earnings per share (EPS) for the three and six-month periods ended June 30, 2008 and 2007 follows:

| (In thousands, except per share data)       | NetIncome | Weighted<br>Average<br>Shares<br>Outstanding | Per<br>ShareAmounts |
|---|-----------|--|---------------------|
| For the quarter ended June 30, 2008:        |           |  |                     |
| Basic EPS:                                  |           |  |                     |
| Net income available to Common shareholders | \$ 8,469  | 75,675                                       | \$ 0.112            |
| Effect of Dilutive Securities:              |           |  |                     |
| Stock options                               | -----     | 2  | -----               |
| Diluted EPS                                 | \$ 8,469  | 75,677                                       | \$ 0.112            |
| For six months ended June 30, 2008:         |           |  |                     |
| Basic EPS:                                  |           |  |                     |
| Net income available to Common shareholders | \$ 17,896 | 75,591                                       | \$ 0.237            |
| Effect of Dilutive Securities:              |           |  |                     |
| Stock options                               | -----     | 6  | -----               |
| Diluted EPS                                 | \$ 17,896 | 75,597                                       | \$ 0.237            |

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| (In thousands, except per share data)       | Net Income | Weighted<br>Average Shares<br>Outstanding | Per<br>Share<br>Amounts |
|---|------------|---|-------------------------|
| For the quarter ended June 30, 2007:        |            |   |                         |
| Basic EPS:                                  |            |   |                         |
| Net income available to Common shareholders | \$ 8,107   | 75,040                                    | \$ 0.108                |
| Effect of Dilutive Securities:              |            |   |                         |
| Stock options                               | -----      | 28  | -----                   |
| Diluted EPS                                 | \$ 8,107   | 75,068                                    | \$ 0.108                |
| For six months ended June 30, 2007:         |            |   |                         |
| Basic EPS:                                  |            |   |                         |
| Net income available to Common shareholders | \$ 20,421  | 74,996                                    | \$ 0.272                |
| Effect of Dilutive Securities:              |            |   |                         |
| Stock options                               | -----      | 65  | -----                   |
| Diluted EPS                                 | \$ 20,421  | 75,061                                    | \$ 0.272                |

There were approximately 4.5 million and 4.2 million stock options for the three and six months ended June 30, 2008 and 3.1 million and 2.7 million stock options for the three and six months ended June 30, 2007 which if included, would have been antidilutive in the calculation of average shares outstanding, and were therefore excluded from the earnings per share calculations.

### 3. Benefit Plans

The table below outlines the components of the Company's net periodic benefit recognized during the three and six month periods ended June 30, 2008 and 2007 for its pension and other postretirement benefit plans:

Components of Net Periodic Benefit for the three months ended June 30, 2008 and 2007 (dollars in thousands)

|                                    | Pension Benefits |       | Other Postretirement Benefits |       |
|------------------------------------|------------------|-------|-------------------------------|-------|
|                                    | 2008             | 2007  | 2008                          | 2007  |
| Service cost                       | \$ 13            | 22    | 6                             | 8     |
| Interest cost                      | 353              | 347   | 15                            | 13    |
| Expected return on plan assets     | (501)            | (515) | (109)                         | (98)  |
| Amortization of prior service cost | -                | -     | (141)                         | (125) |
| Net periodic benefit               | \$ (135)         | (146) | (229)                         | (202) |



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Components of Net Periodic Benefit for the six months ended June 30, 2008 and 2007 (dollars in thousands)

|                                    | Pension Benefits |       | Other Postretirement Benefits |       |
|------------------------------------|------------------|-------|-------------------------------|-------|
|                                    | 2008             | 2007  | 2008                          | 2007  |
| Service cost                       | 25               | 22    | 13                            | 15    |
| Interest cost                      | 705              | 701   | 29                            | 27    |
| Expected return on plan assets     | (1,002)          | (975) | (233)                         | (205) |
| Amortization of prior service cost | -                | -     | (275)                         | (242) |
| Net periodic benefit               | \$ (272)         | (252) | (467)                         | (405) |

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2007, that it did not expect to make any contributions to its pension and postretirement benefit plans in 2008. As of June 30, 2008, no contributions have been made. The Company presently anticipates that it will not make any contributions in 2008.

#### 4. Adoption of New Accounting Pronouncements

a) Statements of Financial Accounting Standards No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115”, and No. 157 “Fair Value Measurements”.

Effective January 1, 2007 TrustCo elected early adoption of Statements of Financial Accounting Standards (“SFAS”) No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115” (SFAS No. 159), and No. 157 “Fair Value Measurements” (SFAS No. 157). SFAS No. 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. SFAS No. 157 generally establishes the definition of fair value and expands disclosures about fair value measurement. This statement establishes a hierarchy of the levels of fair value measurement techniques. Upon adoption of SFAS No. 159, TrustCo elected to apply the fair value option for certain U.S. government sponsored enterprises securities with lower yields, which generally had longer duration, that were classified in the available for sale portfolio totaling approximately \$517 million (\$502 million at fair value). Prior to the adoption of SFAS No. 159, the Company intended to hold these securities until a market price recovery or possibly to maturity. The Company changed its intent with respect to these securities and therefore recorded these losses directly to undivided profits rather than current income based on the transition provisions of SFAS No. 159 by electing the fair value option for these securities. As a result, unrealized losses, net of taxes, of \$8.6 million were directly recorded to undivided profits. This charge to undivided profits had no overall impact on total shareholders’ equity because the fair value adjustment had previously been included as an element of shareholders’ equity in the accumulated other comprehensive income (loss) account, net of tax.

As a result of TrustCo’s fair value measurement election for the above financial instruments, TrustCo recorded \$3.4 million of pre-tax unrealized trading gains in its first quarter of 2007 earnings for the change in fair value of such instruments from the effective election date of January 1, 2007 to March 31, 2007. Additionally, TrustCo sold in the second quarter of 2007 all of these securities and recognized pre-tax trading losses of \$2.8 million in that quarter. The Company re-invested these proceeds by purchasing securities, primarily U.S. government sponsored enterprises, for its trading portfolio. As of June 30, 2008, \$220 million of U.S. government sponsored enterprises and \$6.3 million of



states and political subdivisions securities were held in the trading portfolio. TrustCo believes that its adoption of the standard has a positive impact on its ability to manage its investment portfolio because it has enabled the Company to sell the securities that it has elected the fair value option for without recording other-than-temporary impairment on the remainder of the available-for-sale portfolio. Additionally, recording the unrealized losses on these securities directly to undivided profits as part of the transition adjustment has benefited subsequent periods' net income because the loss was not realized in the income statement when the securities were sold.

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As already stated, the Company recorded a \$8.6 million charge, net of tax, to undivided profits as a result of adopting SFAS No. 159 as of January 1, 2007. Had the Company not adopted this new accounting standard and reclassified the available for sale securities to trading account assets as of that date, the charge to capital would have been recorded as a charge to net income in 2007.

In determining the fair value for the trading account securities the Company utilized an independent pricing service.

The following table presents information relative to the assets identified for the fair value option of accounting as of the initial implementation date of January 1, 2007:

|  | Statement<br>of 12/31/06<br>Prior to<br>adoption | Net Loss<br>recognized<br>in<br>undivided<br>profits<br>upon<br>adoption | Statement<br>of<br>Condition<br>after<br>adoption of<br>Fair Value<br>Option |
|--|--|--|--|
| (\$ in thousands)  |  |  |  |
| Securities available for sale transferred to trading account assets: |  |  |  |
| Amortized cost   | \$ 516,558                                       | (14,313)   | 502,245  |
| Unrealized depreciation  | (14,313)   | 14,313   | -  |
| Net transferred to trading account assets                            | \$ 502,245                                       | -  | 502,245  |

The securities transferred to trading account assets as of January 1, 2007 were included previously in the available for sale portfolio as Government sponsored enterprises.

TrustCo determined that it would be appropriate to account for certain of the Government sponsored enterprises securities at fair value based upon the relatively low interest rate on these bonds. Government sponsored enterprises bonds held by Trustco Bank in the available for sale portfolio as of January 1, 2007 under a predetermined interest rate (generally 5.45% or below) were identified as bonds to be recorded at fair value (the bonds also had an average life to maturity of approximately 9 years). Interest on trading account securities are recorded in the Consolidated Statements of Income based upon the coupon of the underlying bond and the par value of the securities. Unrealized gains and losses on the trading account securities are recognized based upon the fair value at period end compared to the beginning of that period.

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After the adoption of SFAS 159 as of January 1, 2007 there were \$232.3 million of remaining Government sponsored enterprises obligations classified as available for sale securities which had gross unrealized losses of \$3.3 million. These securities are primarily higher yielding assets and generally had shorter terms to final maturity. It is management's intention that Government sponsored enterprises securities that remain in the Available for Sale portfolio after the adoption of SFAS 159 will be held to generate relatively higher yields or provide liquidity in the form of maturing or called securities. Upon adoption of SFAS 159, the yield on the securities in the available for sale portfolio ranged from 4.30% to 5.82%, and had an average term to maturity of 7 years ranging from 2007 – 2019 final maturity.

The Company adopted Statement of Financial Accounting Standard No. 157 "Fair Value Measurements," (SFAS No. 157) on January 1, 2007. SFAS No. 157 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows.

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables presents the financial instruments recorded at fair value by the Company as of June 30, 2008 and December 31, 2007. There were no financial instruments with fair value estimates considered to be categorized as "Level 1" or "Level 3."

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(dollars in thousands)

Fair value measurements at June 30, 2008 using:

| Description                   | Total carrying amount in statement of financial condition as of 6/30/08 | Fair value measurement as of 6/30/08 | Significant other observable inputs (Level 2) |
|-------------------------------|---|--------------------------------------|---|
| Securities available for sale | \$ 531,323  | 531,323                              | 531,323                                       |
| Trading securities            | 226,363   | 226,363                              | 226,363                                       |
| Other real estate owned       | 1,647   | 1,647                                | 1,647   |

(dollars in thousands)

Fair value measurements at December 31, 2007 using:

| Description                   | Total carrying amount in statement of financial condition as of 12/31/07 | Fair value measurement as of 12/31/07 | Significant other observable inputs (Level 2) |
|-------------------------------|--|---------------------------------------|---|
| Securities available for sale | \$ 578,892   | 578,892                               | 578,892                                       |
| Trading securities            | 465,151  | 465,151                               | 465,151                                       |
| Other real estate owned       | 293  | 293                                   | 293   |

Assets available for sale and trading account securities are fair valued 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. Other real estate owned fair value is determined by observable comparable sales and property valuation techniques. Interest and dividend income is recorded on the accrual method and included in the income statement in the respective investment class under total interest income.

b) Statements of Financial Accounting Standards No. 48 “Accounting for Uncertainty in Income Taxes” as amended by FSB No. 48-1 “Definition of Settlement in FASB Interpretation No. 48”.

TrustCo adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) as of January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. As a result of the Company’s adoption of FIN 48, there were no required adjustments to the Company’s consolidated financial statements.

TrustCo also adopted FASB Staff Position (FSP) No. 48-1 “Definition of Settlement in FASB Interpretation No. 48 (FSP 48-1)”. FSP 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP 48-2 was effective retroactively to January 1, 2007 and did not significantly impact the Corporation’s financial statements.

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In the second quarter of 2008 the Company settled with the Internal Revenue Service and New York State in regard to the audit of the Company's tax returns. As a result, the Company reversed an accrual of interest expense of \$311 thousand, net of federal taxes, as an element of other expenses and \$371 thousand, net of federal taxes, of previously unrecognized tax benefit as a decrease to tax expense in the second quarter of 2008. The settlement amount approximates the Company's prior estimate.

For the six month period ended June 30, 2008 the unrecognized tax benefit and change in that benefit from the beginning of the year is as follows:

(dollars in thousands)

|  |          |
|--|----------|
| Balance January 1, 2008  | \$ 4,023 |
| Amount paid to taxing<br>Authorities for the six month<br>period ended June 30, 2008 | (2,839)  |
| Balance June 30, 2008  | \$ 1,184 |

The Company does not believe the unrecognized tax benefit will significantly increase or decrease within the next twelve months. It is reasonably possible that a reduction in the estimate may occur, however, a quantification of a reasonable range cannot be determined. Open Federal tax years are 2006 and 2007, and for New York State the 2007 tax year is open. During 2008, no interest or penalties were recorded on the unrecognized tax benefit.

#### 5. Guarantees

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled approximately \$4.6 million at June 30, 2008 and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at June 30, 2008 was insignificant.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
TrustCo Bank Corp NY:

We have reviewed the consolidated statement of financial condition of TrustCo Bank Corp NY and subsidiaries (the Company) as of June 30, 2008, and the related consolidated statements of income for the three and six-month periods ended June 30, 2008 and 2007, and the consolidated statements of changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with 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 (United States), 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 review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" as of January 1, 2007.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of TrustCo Bank Corp NY and subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of financial condition as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/KPMG LLP

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KPMG LLP

Albany, New York  
August 8, 2008

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The review that follows focuses on the factors affecting the financial condition and results of operations of TrustCo Bank Corp NY ("TrustCo" or "Company") during the three-month and six-month periods ended June 30, 2008, with comparisons to 2007 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 2007 Annual Report to Shareholders should 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.

Forward-looking Statements

Statements included in this review and in future filings by TrustCo with the Securities and Exchange Commission, in TrustCo's press releases, and in oral statements made with the approval of an authorized executive officer, 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. TrustCo wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. 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: (1) credit risk, (2) interest rate risk, (3) competition, (4) changes in the regulatory environment, (5) real estate and collateral values, and (6) changes in market area and general business and economic trends. 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 six months ended June 30, 2008 and 2007.

Adoption of New Accounting Pronouncements

a) Statements of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115", and No. 157 "Fair Value Measurements".

Effective January 1, 2007 TrustCo elected early adoption of Statements of Financial Accounting Standards ("SFAS") No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (SFAS No. 159), and No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS No. 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. SFAS No. 157 generally establishes the definition of fair value and expands disclosures about fair value measurement. This statement establishes a hierarchy of the levels of fair value measurement techniques. Upon adoption of SFAS No. 159, TrustCo elected to apply the fair value option for certain U.S. government sponsored enterprises securities with lower yields, which generally had longer duration, that were classified in the available for sale portfolio totaling approximately \$517 million (\$502 million at fair value). Prior to the adoption of SFAS No. 159, the Company intended to hold these securities until a market price recovery or possibly to maturity. The Company changed its intent with respect to these securities and therefore recorded these losses directly to undivided profits rather than current income based on the transition provisions of SFAS No. 159 by electing the fair value option for these securities. As a result, unrealized losses, net of taxes, of \$8.6 million were directly recorded to undivided profits. This charge to undivided profits had no overall impact on total shareholders' equity because the fair value adjustment had previously been included as an element of shareholders' equity in the accumulated other comprehensive income (loss) account, net of tax.





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As a result of TrustCo's fair value measurement election for the above financial instruments, TrustCo recorded \$3.4 million of pre-tax unrealized trading gains in its first quarter of 2007 earnings for the change in fair value of such instruments from the effective election date of January 1, 2007 to March 31, 2007. Additionally, TrustCo sold in the second quarter of 2007 all of these securities and recognized pre-tax trading losses of \$2.8 million in that quarter. The Company re-invested these proceeds by purchasing securities, primarily U.S. government sponsored enterprises, for its trading portfolio. As of June 30, 2008, \$220 million of U.S. government sponsored enterprises and \$6.3 million of states and political subdivisions securities were held in the trading portfolio. TrustCo believes that its adoption of the standard has a positive impact on its ability to manage its investment portfolio because it has enabled the Company to sell the securities that it has elected the fair value option for without recording other-than-temporary impairment on the remainder of the available-for-sale portfolio. Additionally, recording the unrealized losses on these securities directly to undivided profits as part of the transition adjustment has benefited subsequent periods' net income because the loss was not realized in the income statement when the securities were sold.

As already stated, the Company recorded a \$8.6 million charge, net of tax, to undivided profits as a result of adopting SFAS No. 159 as of January 1, 2007. Had the Company not adopted this new accounting standard and reclassified the available for sale securities to trading account assets as of that date, the charge to capital would have been recorded as a charge to net income in 2007.

In determining the fair value for the trading account securities the Company utilized an independent pricing service.

The following table presents information relative to the assets identified for the fair value option of accounting as of the initial implementation date of January 1, 2007:

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|  | Statement<br>of<br>Condition<br>12/31/06<br>Prior to<br>adoption | Net Loss<br>recognized<br>in<br>undivided<br>profits<br>upon<br>adoption | Statement<br>of<br>Condition<br>after<br>adoption of<br>Fair Value<br>Option |
|--|--|--|--|
| (\$ in thousands)  |  |  |  |
| Securities available for sale transferred to trading account assets: |  |  |  |
| Amortized cost   | \$ 516,558   | (14,313)   | 502,245  |
| Unrealized depreciation  | (14,313)   | 14,313   | -  |
| Net transferred to trading account assets                            | \$ 502,245   | -  | 502,245  |

The securities transferred to trading account assets as of January 1, 2007 were included previously in the available for sale portfolio as Government sponsored enterprises.

TrustCo determined that it would be appropriate to account for certain of the Government sponsored enterprises securities at fair value based upon the relatively low interest rate on these bonds. Government sponsored enterprises bonds held by Trustco Bank in the available for sale portfolio as of January 1, 2007 under a predetermined interest rate (generally 5.45% or below) were identified as bonds to be recorded at fair value (the bonds also had an average life to maturity of approximately 9 years). Interest on trading account securities are recorded in the Consolidated Statements of Income based upon the coupon of the underlying bond and the par value of the securities. Unrealized gains and losses on the trading account securities are recognized based upon the fair value at period end compared to the beginning of that period.

After the adoption of SFAS 159 as of January 1, 2007 there were \$232.3 million of remaining Government sponsored enterprises obligations classified as available for sale securities which had gross unrealized losses of \$3.3 million. These securities are primarily higher yielding assets and generally had shorter terms to final maturity. It is management's intention that Government sponsored enterprises securities that remain in the Available for Sale portfolio after the adoption of SFAS 159 will be held to generate relatively higher yields or provide liquidity in the form of maturing or called securities. Upon adoption of SFAS 159, the yield on the securities in the available for sale portfolio ranged from 4.30% to 5.82%, and had an average term to maturity of 7 years ranging from 2007 – 2019 final maturity.

The Company adopted Statement of Financial Accounting Standard No. 157 "Fair Value Measurements," (SFAS No. 157) on January 1, 2007. SFAS No. 157 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows.

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



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The following tables presents the financial instruments recorded at fair value by the Company as of June 30, 2008 and December 31, 2007. There were no financial instruments with fair value estimates considered to be categorized as “Level 1” or “Level 3.”

(dollars in thousands)

Fair value measurements at June 30, 2008 using:

| Description                   | Total carrying amount in statement of financial condition as of 6/30/08 | Fair value measurement as of 6/30/08 | Significant other observable inputs (Level 2) |
|-------------------------------|---|--------------------------------------|---|
| Securities available for sale | \$ 531,323  | 531,323                              | 531,323                                       |
| Trading securities            | 226,363   | 226,363                              | 226,363                                       |
| Other real estate owned       | 1,647   | 1,647                                | 1,647   |

(dollars in thousands)

Fair value measurements at December 31, 2007 using:

| Description                   | Total carrying amount in statement of financial condition as of 12/31/07 | Fair value measurement as of 12/31/07 | Significant other observable inputs (Level 2) |
|-------------------------------|--|---------------------------------------|---|
| Securities available for sale | \$ 578,892   | 578,892                               | 578,892                                       |
| Trading securities            | 465,151  | 465,151                               | 465,151                                       |
| Other real estate owned       | 293  | 293                                   | 293   |

Assets available for sale and trading account securities are fair valued 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. Other real estate owned fair value is determined by observable comparable sales and property valuation techniques. Interest and dividend income is recorded on the accrual method and included in the income statement in the respective investment class under total interest income.

b) Statements of Financial Accounting Standards No. 48 “Accounting for Uncertainty in Income Taxes” as amended by FSB No. 48-1 “Definition of Settlement in FASB Interpretation No. 48”.

TrustCo adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) as of January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. As a result of the Company’s adoption of FIN 48, there were no required adjustments to the Company’s consolidated financial statements.

Index

TrustCo also adopted FASB Staff Position (FSP) No. 48-1 “Definition of Settlement in FASB Interpretation No. 48 (FSP 48-1)”. FSP 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP 48-2 was effective retroactively to January 1, 2007 and did not significantly impact the Corporation’s financial statements.

In the second quarter of 2008 the Company settled with the Internal Revenue Service and New York State in regard to the audit of the Company’s tax returns. As a result, the Company reversed an accrual of interest expense of \$311 thousand, net of federal taxes, as an element of other expenses and \$371 thousand, net of federal taxes, of previously unrecognized tax benefit as a decrease to tax expense in the second quarter of 2008. The settlement amount approximates the Company’s prior estimate.

For the six month period ended June 30, 2008 the unrecognized tax benefit and change in that benefit from the beginning of the year is as follows:

(dollars in thousands)

|  |    |         |
|--|----|---------|
| Balance January 1, 2008  | \$ | 4,023   |
| Amount paid to taxing Authorities for the six month period ended June 30, 2008 |    | (2,839) |
| Balance June 30, 2008  | \$ | 1,184   |

The Company does not believe the unrecognized tax benefit will significantly increase or decrease within the next twelve months. It is reasonably possible that a reduction in the estimate may occur, however, a quantification of a reasonable range cannot be determined. Open Federal tax years are 2006 and 2007, and for New York State the 2007 tax year is open. During 2008, no interest or penalties were recorded on the unrecognized tax benefit.

#### Overview

TrustCo recorded net income of \$8.5 million, or \$0.112 of diluted earnings per share for the three months ended June 30, 2008, as compared to net income of \$8.1 million or \$0.108 of diluted earnings per share in the same period in 2007. For the six months ended June 30, 2008 TrustCo recorded net income of \$17.9 million or \$0.237 per share compared to \$20.4 million of net income and \$0.272 earnings per share in the first six months of 2008.

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The primary factors accounting for the year to date changes were:

- o Increase in the average balance of interest earning assets of \$161.6 million to \$3.31 billion for the first six months of 2008 compared to the same period in 2007,
- o Increase in the average balance of interest bearing liabilities of \$144.3 million to \$2.88 billion for the first six months of 2008 as compared to 2007,
- o Decrease in net interest margin from 3.11% for the first six months of 2007 to 2.97% for the six months of 2008,
- o Increase in the provision for loan losses from zero for the first six months of 2007 to \$1.0 million in the comparable period in 2008,
- o Increase in noninterest income (excluding net gains on securities transactions and net trading (losses) / gains) from \$8.1 million for the first six months of 2007 to \$8.3 million for the comparable period in 2008. Excluded from noninterest income were \$418 thousand of net gains on securities transactions for the first six months of 2008 compared to \$3 thousand for the same period in 2007, and \$243 thousand of net trading losses in the 2008 period compared to \$601 thousand of net gains in the first half of 2007, and
- o An increase of \$2.7 million in noninterest expense for the first six months of 2008 as compared to the first six months of 2007.

## 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 effected by a variety of factors including competitive and economic conditions in the specific markets in which the company operates and more generally in the national economy, financial market conditions and the regulatory environment. Each of these is dynamic and changes in any area can have an impact on TrustCo's results. Included in the Annual Report to Shareholders for the year ended December 31, 2007 is a description of the effect interest rates had on the results for the year 2007 compared to 2006. Many of the same market factors discussed in the 2007 Annual Report continued to have a significant impact on the quarterly and year to date 2008 results.

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. The absolute level of interest rates, changes in 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.

One of the most important interest rates used to control national economic policy is the "federal funds" rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions. The Federal Reserve began reducing the targeted federal funds rate beginning in the third quarter of 2007, bringing the target rate down to 2.00%, compared to 5.25% prior to the first reduction in September, 2007. These actions, and other economic conditions have led to a somewhat more positively sloped yield curve, following persistently flat or mildly inverted curves over the prior couple of years. In an inverted curve, short term rates are higher than long term rates and in a positively sloped curve, long term rates are higher than short term rates. The Federal Reserve has indicated that while it remains concerned about economic conditions, uncertainty about the outlook for inflation has increased, and that it "will act as needed to promote sustainable economic growth

and price stability.”

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These changes in interest rates have an effect on the Company relative to the interest income on loans, securities and federal funds sold as well as on interest expense on deposits and borrowings. New originations of residential real estate loans and new purchases of longer-term investments are most affected by the changes in longer term market interest rates such as the 10 year treasury rate. The federal funds sold portfolio and other short term investments are affected primarily by changes in the federal funds target rate. Deposit interest rates are most affected by the short term market interest rates. Also, changes in interest rates have an effect on the recorded balance of the securities available for sale portfolio (with the offset to accumulated other comprehensive income) and trading portfolio (with the offset to earnings), which are recorded at fair value. Generally as interest rates increase the fair value of these securities will decrease.

The principal loan product for TrustCo is residential real estate loans. Interest rates on new residential real estate loan originations are influenced by the rates established by secondary market participants such as Freddie Mac and Fannie Mae. Because TrustCo is a portfolio lender and does not typically sell loans into the secondary market, the Company establishes rates that management determines are appropriate in relation to the long-term nature of a residential real estate loan, while remaining competitive with the secondary market rates.

TrustCo has not been directly effected by the mortgage crisis effecting some banks and financial institutions in the United States in recent months. 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. 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.

For the second quarter of 2008, the net interest margin decreased to 2.88% from 3.07% for the second quarter of 2007. The quarterly results reflect the following significant factors:

- The average balance of securities available for sale, held-to-maturity securities and trading securities decreased by \$46.2 million and the average yield decreased to 4.66% from 5.40% for the second quarter of 2008 compared to the same period in 2007.
- The average balance of federal funds sold and other short-term investments increased by \$20.0 million and the average yield decreased 303 basis points to 2.26% in the second quarter of 2008 compared to the same period in 2007 . The decrease in yield on federal funds sold and other short-term investments is attributable to the decrease in the target federal funds rate.
- The average loan portfolio grew by \$159.8 million to \$1.98 billion and the average yield decreased 43 basis points to 6.07% in the second quarter of 2008 compared to the same period in 2007. The decline in the average yield reflects the decline in market interest rates.
- The average balance of interest bearing liabilities (primarily deposit accounts) increased \$124.4 million and the average rate paid decreased 82 basis points to 2.56% in the first quarter of 2008 compared to the same period in 2007. The decline In the rate paid on interest bearing liabilities reflects the decline in market interest rates.



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During the second quarter of 2008 the Company continued to focus on its strategy to expand the loan portfolio by offering competitive interest rates as the rate environment changed. The TrustCo residential real estate loan product is very competitive compared to local and national competitors. The widespread disruptions in the mortgage market 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. The withdrawal of some of the troubled lenders that did focus on subprime and similar loans has slightly improved competitive conditions for the type of residential mortgage loans that TrustCo focuses on. The average balance of federal funds sold and other short-term investments increased, primarily reflecting the a reduction in the Company's trading securities and continued deposit growth. The reduction in trading securities reflects insufficient premiums over federal funds for the type of securities that the Company has held in that portfolio.

The strategy on the funding side of the balance sheet continues to be to attract customers to the Company based upon a combination of service, convenience and interest rate. The Company offered attractive long-term deposit rates as part of a strategy to lengthen deposit lives. This strategy has been successful but has also resulted in part of the increase in the deposit costs. The decline in the fed funds rate and slightly lessened competitive conditions has led to lower deposit rates offered by most depository institutions, including TrustCo, during much of the quarter.

Earning Assets

Total average interest earning assets increased from \$3.22 billion in the second quarter of 2007 to \$3.36 billion in the same period of 2008 with an average yield of 6.00% in 2007 and 5.10% in 2008. Interest income on average earning assets declined from \$48.3 million in second quarter of 2007 to \$42.8 in the second quarter of 2008, on a tax equivalent basis, as the decline in yields more than offset the growth in average earning assets.

Loans

The average balance of loans was \$1.98 billion in the first quarter of 2008 and \$1.82 billion in the comparable period in 2007. The yield on loans decreased 43 basis points to 6.07%. The higher average balances more than offset the lower yield, leading to a small increase in the interest income on loans from \$29.6 million in the second quarter of 2007 to \$30.0 million in the second quarter of 2008.

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Compared to the second quarter of 2007, the average balance of the loan portfolio during the second quarter of 2008 increased in residential and commercial loans, but declined in home equity loans and installment loans, a pattern consistent with the first quarter of 2008. The average balance of residential mortgage loans was \$1.31 billion in 2007 compared to \$1.46 billion in 2008, an increase of 11.5%. The average yield on residential mortgage loans decreased by 9 basis points to 6.12% in the second quarter of 2008 compared to 2007.

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 as a result of national economic policy in the United States, as well as due to disruptions in the mortgage market. During this period of changing interest rates TrustCo aggressively marketed the unique aspects of its loan products thereby attempting to create a differentiation from other lenders. These unique aspects include extremely low closing costs, fast turn-around time on loan approvals, no escrow or mortgage insurance requirements for qualified borrowers and the fact that the Company typically holds these loans in portfolio and does not sell them into the secondary markets. Assuming a rise in long-term interest rates, the Company would anticipate that the unique features of its loan product will continue to attract customers in the residential mortgage loan area.

Commercial loans, which consist primarily of loans secured by commercial real estate, increased 7.3% to an average balance of \$291.3 million in the second quarter of 2008 over the prior year. The average yield on this portfolio decreased 106 basis points to 6.47% over the same period. The decline in yield reflects the reduction in the federal funds rate and the associated reduction in the prime rate.

The average yield on home equity credit lines of credit decreased 169 basis points to 5.00% during the second quarter of 2008 compared to 2007. The decline in yield was primarily the result of the decline in the underlying index rate in step with the decline in the fed funds rate. The average balances of home equity lines decreased 4.1% to \$227.6 million in the second quarter of 2008 as compared to the prior year.

Securities Available-for-Sale

As discussed previously, TrustCo adopted the accounting requirements of SFAS No. 159 and, as a result, reclassified assets from the available-for-sale portfolio to the trading securities portfolio as of January 1, 2007.

The average balance of the securities available-for-sale portfolio for the second quarter of 2008 was \$521.8 million compared to \$511.8 million for the comparable period in 2007. The average yield was 5.22% for the second quarter of 2008 and 5.50% for the second quarter of 2007.

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### Trading Securities

The average balance of trading securities for the second quarter of 2008 was \$230.6 million, compared to \$369.5 million in the comparable period of 2007. As stated, there were no trading securities prior to 2007. The average yield on trading securities was 3.69% for the second quarter of 2008, compared to 5.26% for the comparable period in 2007. The decline in the average yield was due to the decline in short term interest rates and the sale of securities in the second quarter of 2007. The securities held as trading securities are generally short term. All of the securities in this portfolio are bonds issued by Government Sponsored Enterprises (FNMA, FHLB, and Freddie Mac issued bonds or municipal bonds). The balances for these bonds are recorded at fair value.

As of June 30, 2008 \$220.1 million of the total trading portfolio of \$226.4 million was composed of U.S. government sponsored enterprises securities, with the remaining \$6.3 million composed of short-term municipal securities

### Held-to-Maturity Securities

The average balance of held-to-maturity securities was \$82.7 million for the second quarter of 2008 and the period-end balance was \$161.7 million. There were no held-to-maturity securities in the second quarter of 2007. The average yield was 3.80% for the 2008 period. TrustCo expects to hold the securities in this portfolio until they mature or are called.

The securities in this portfolio include bonds issued by Government Sponsored Enterprises (FNMA, FHLB, and Freddie Mac) as well as corporate bonds. The balances for these bonds are recorded at amortized cost.

### Securities Portfolios

The unrealized loss in the securities portfolios is down primarily due to changes in interest rates and not the result of increasing credit default risk. The Company has the ability and intent to hold these securities until a market recovery, and to maturity if necessary. Consequently no other-than-temporary impairment charge has been recorded.

### Federal Funds Sold and Other Short-term Investments

The 2008 second quarter average balance of federal funds sold and other short-term investments was \$539.6 million, \$20.0 million more than the \$519.7 million average in 2007. The portfolio yield decreased from 5.29% in 2007 to 2.26% in 2008. Changes in the yield resulted from changes in the target rate set by the Federal Reserve Board for federal funds sold. Interest income on this portfolio decreased by approximately \$3.8 million from \$6.9 million in 2007 to \$3.0 million in 2008, as the decline in yield more than offset the higher average balance.

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 and time deposit accounts.

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Total average interest-bearing deposits (which includes interest bearing checking, money market accounts, savings, and certificates of deposit) increased from \$2.70 billion during the second quarter of 2007 to \$2.83 billion in the second quarter of 2008, and the average rate paid decreased from 3.35% for 2007 to 2.58% for 2008. Total interest expense on these deposits decreased \$4.4 million to \$18.1 million in the first quarter of 2008.

Average short-term borrowings for the quarter were \$93.3 million in 2008 compared to \$96.4 million in 2007. The average rate decreased during this time period from 4.12% in 2007 to 1.93% in 2008. Rates on short-term borrowings tend to change with the rates on the target Federal Funds.

Net Interest Income

Taxable equivalent net interest income decreased by \$540 thousand to \$24.2 million in the second quarter of 2008 as compared to the same period in 2007. The net interest spread decreased from 2.63% in the second quarter of 2007 to 2.55% in 2008. The net interest margin decreased by 19 basis points to 2.88% for the second quarter of 2008.

Taxable equivalent net interest income increased by \$104 thousand to \$49.4 million in the first half of 2008 as compared to the same period in 2007. The net interest spread decreased from 2.68% in the first half of 2007 to 2.61% in 2008. The net interest margin decreased by 14 basis points to 2.97% for the first half of 2008.

Nonperforming Assets

Nonperforming assets include nonperforming loans which are those loans in a nonaccrual status, loans that have been restructured in a troubled debt restructuring, 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 real estate owned.

Impaired loans are considered to be those commercial and commercial real estate loans in a nonaccrual status and restructured loans. The following describes the nonperforming assets of TrustCo as of June 30, 2008:

Nonperforming loans: Total nonperforming loans were \$20.5 million at June 30, 2008, an increase from the \$18.0 million of nonperforming loans at March 31, 2008. There were \$19.8 million of nonaccrual loans at June 30, 2008 compared to the \$17.3 million at March 31, 2008. Restructured loans were \$620 thousand at June 30, 2008 compared to \$629 thousand at March 31, 2008. There were \$1 thousand of loans at June 30, 2008 that were past due 90 days or more and still accruing interest, compared to \$101 thousand at March 31, 2008. As of December 31, 2007, total nonperforming loans were \$12.7 million, including nonaccrual loans of \$12.1 million and restructured loans of \$640 thousand. There were \$19 thousand of loans that were past due 90 days or more and still accruing interest at December 31, 2007.

At June 30, 2008, nonperforming loans include a mix of commercial and residential loans. Of total nonperforming loans of \$20.5 million, \$15.8 million were residential real estate loans and \$4.6 million were commercial mortgages, compared to \$13.4 million and \$4.6 million, respectively as of March 31, 2008 and to \$10.6 million and \$2.1 million respectively on December 31, 2007.

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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 has increased its efforts in regard to the identification and resolution of problem loans, reflecting the increase in non-performing loans and the overall weakness in economic conditions.

Management is aware of no other loans in the Bank's portfolio that pose significant risk of the eventual non-collection of principal and interest. Also as of June 30, 2008, there were no other loans classified for regulatory purposes that management reasonably expects will materially impact future operating results, liquidity, or capital resources.

TrustCo has identified nonaccrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring, as impaired loans. There were \$4.6 million of nonaccrual commercial mortgages classified as impaired as of June 30, 2008 and \$4.6 million as of March 31, 2008. There were \$620 thousand of impaired retail loans at June 30, 2008, compared to \$629 thousand at March 31, 2008. The average balances of all impaired loans were \$1.3 million during 2007 and \$5.4 million in the second quarter of 2008. The Company recognized approximately \$19 thousand of interest income on these loans in the second quarter of 2008.

At June 30, 2008 there was \$1.6 million of foreclosed real estate as compared to \$770 thousand at March 31, 2008.

During the second quarter of 2008, there were \$318 thousand of gross commercial loan charge offs and \$1.4 million of gross residential mortgage and consumer loan charge-offs as compared with \$345 thousand commercial loan charge-offs and \$569 thousand of residential mortgage and consumer loan charge-offs in the second quarter of 2007. For the first six months of 2008 there were \$339 thousand of gross commercial loan charge offs and \$2.1 million of gross residential mortgage and consumer loan charge-offs as compared with \$555 thousand commercial loan charge-offs and \$1.4 million of residential mortgage and consumer loan charge-offs in the first half of 2007. Gross recoveries during the second quarter of 2008 were \$418 thousand for commercial loans and \$634 thousand for residential mortgage and consumer loans, compared to \$5 thousand for commercial loans and \$636 thousand in the second quarter of 2007. Gross recoveries during the first half of 2008 were \$452 thousand for commercial loans and \$1.1 million for residential mortgage and consumer loans, compared to \$70 thousand for commercial loans and \$1.4 million in the first half of 2007.

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 risk inherent in the loan portfolio.

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At June 30, 2008, the allowance for loan losses was \$34.8 million, which represents a nominal increase from the March 31, 2008 balance. The allowance represents 1.73% of the loan portfolio as of June 30, 2008 compared to 1.77% at March 31, 2008. The allowance covered 1.79% of the loan portfolio as of December 31, 2007. The decline in this ratio compared to prior periods reflects continued growth in the loan portfolio, the lower inherent risk of loss for newer loans and the fact that less risky residential loans continue to constitute most of the non-accrual loans. The provision for loan losses was \$700 thousand for the quarter ended June 30, 2008 compared to zero for the second quarter in 2007. Net charge-offs for the three-month period ended June 30, 2008 were \$658 thousand compared to net charge-offs of \$273 thousand for the comparable period in 2007. Net charge-offs for the six-month period ended June 30, 2008 were \$884 thousand compared to net charge-offs of \$531 thousand for the comparable period in 2007. The provision for loan losses was increased on a quarter-to-date and year-to-date basis primarily due to increased inherent risk of losses in the portfolio as indicated by increased charge-offs as well as increased non-performing loans. In deciding on 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:

- o The magnitude and nature of the recent loan charge offs and recoveries,
- o The growth in the loan portfolio and the implication that has in relation to the economic climate in the bank's business territory, and
- o The economic environment in the Company's market territories over the last two years.

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

#### Liquidity and Interest Rate Sensitivity

TrustCo seeks to obtain favorable sources of funding and to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. TrustCo's earnings performance and strong capital position enable the Company to raise funds easily in the marketplace and to secure new sources of funding. 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.

#### Noninterest Income

Total noninterest income for the second quarter was \$3.9 million, compared to \$1.1 million in 2007. The increase of \$2.8 million was primarily due to lower trading losses and higher net gains on securities transactions. For the first half of 2008 total noninterest income was \$8.5 million compared to \$8.7 million in the comparable period of 2007. The decline was primarily due to lower trading losses and higher net gains on securities transactions and relatively modest reductions in several categories of other income.

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Trust department income decreased 6.3% to \$1.4 million for the second quarter of 2008 compared to the second quarter of 2007. Trust department assets under management were \$855 million at June 30, 2008 compared to \$914 million at December 31, 2007. The decline in trust assets was due primarily to declines in equity market valuations. For the six months ended June 30, 2008, trust income was \$2.8 million, down \$50 thousand from the prior year.

Fees for other services to customers plus other income increased by 8.5% to \$2.8 million between the second quarter of 2007 and the comparable period in 2008. The increase is the result of changes in fee policies as well as fees being charged on a larger customer base. For the first half of 2008 these revenue lines were \$5.5 million, up 5.1% compared to the prior year.

The Company recognized \$960 thousand of net trading losses in the second quarter of 2008, compared to net trading losses of \$2.8 million in the same period in 2007. A net gain of \$784 thousand was reported in the second quarter 2008 related to net securities transactions on securities available for sale, compared to a nominal gain of \$3 thousand a year ago. In total, the net of gains and losses in the second quarter of 2008 in the available for sale and trading portfolios, relative to the same period in 2007, resulted in an improvement of \$2.7 million in non-interest income. For the first six months of 2008, trading losses of \$243 thousand were recorded, compared to net trading gains of \$601 thousand in 2007 and net securities gains of \$418 thousand were recorded in 2008 compared to \$3 thousand in 2007.

Noninterest Expenses

Total noninterest expense increased from \$13.5 million for the three months ended June 31, 2007 to \$14.3 million for the three months ended June 30, 2008, with increases in each major expense category except "other" expense. Salaries and employee benefits increased \$624 thousand to \$5.5 million for 2008. Higher salaries and benefits are primarily due to increased staffing related to the branch expansion initiative and the impact of extended service hours. Net occupancy expense increased \$625 thousand to \$3.0 million during the second quarter of 2008. The increase is the result of new branch opening costs and the increased cost of utilities and taxes on branch locations. Equipment expense increased by \$167 thousand to \$1.0 million, also reflecting new offices and general growth. Professional services and outsourced services were up modestly and a decline in other expenses partly offset overall cost increases.

Total noninterest expense increased from \$26.2 million for the six months ended June 30, 2007 to \$28.9 million for the six months ended June 30, 2008, with increases in each major expense category except other. Salaries and employee benefits increased \$1.4 million to \$11.2 million for 2008. Higher salaries and benefits are primarily due to increased staffing related to the branch expansion initiative and the impact of extended service hours. Net occupancy expense increased \$1.2 million to \$6.0 million during the first half of 2008. The increase is the result of new branch lease costs and the increased cost of utilities and taxes on branch locations. Other expense categories reflected trends for the first half of 2008 that were similar to the second quarter of 2008.

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## Income Taxes

In the second quarter of 2008, TrustCo recognized income tax expense of \$3.9 million as compared to \$3.6 million for the same period in 2007. The effective tax rates were 31.5% and 30.5% for the second quarters of 2008 and 2007, respectively. For the six months ended June 30, 2008 \$8.5 million of income tax expense was recorded compared to \$9.8 million recorded for the same period in 2007. The effective tax rates were 32.3% and 32.5% for the six months ended June 30, 2008 and 2007, respectively. The tax expense on the Company's income was different than tax expense at the statutory rate of 35%, due primarily to tax exempt income and the effect of state income taxes.

## Capital Resources

Consistent with its long-term goal of operating a sound and profitable financial organization, TrustCo strives to maintain strong capital ratios. New issues of equity securities have not been required since traditionally, most of its capital requirements are met through capital retention.

Total shareholders' equity at June 30, 2008 was \$239.5 million, compared to \$237.1 million at year-end 2007. TrustCo declared a dividend of \$0.110 per share in the first quarter of 2008. This results in a dividend payout ratio of 88.2% based on second quarter 2008 earnings per share of \$0.112.

The Company achieved the following ratios as of June 30, 2008 and 2007:

|                              | June 30,<br>2008 | June 30,<br>2007 | Minimum<br>Regulatory<br>Guidelines |
|------------------------------|------------------|------------------|-------------------------------------|
| Tier 1 risk adjusted capital | 12.59%           | 13.29%           | 4.00%                               |
| Total risk adjusted capital  | 13.84%           | 14.55%           | 8.00%                               |

In addition, at June 30, 2008 and 2007, the consolidated equity to total assets ratio (excluding the mark to market effect of securities available for sale) was 6.73% and 6.87%, respectively, compared to a minimum regulatory requirement of 4.00%.

The decrease in capital ratios reflects growth in the overall consolidated balance sheet.

## Critical Accounting Policies:

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



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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 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 2007 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.

The Company considers the adoption of SFAS No. 157 and 159 and the resulting fair value accounting requirements to be considered critical accounting policies which effect the Company's financial position and results of operations. See Footnote 4 "Adoption of New Accounting Pronouncements" for a description of the Company's implementation.

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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 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. The average balance of trading securities is calculated using fair value for these securities. Included in the average balance of shareholders' equity is unrealized depreciation, net of tax, in the available for sale portfolio of \$1.4 million in 2008 and \$5.4 million in 2007. 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.

|  | Three<br>Month     | 2008     |                 | Three<br>Month     | 2007     |                 | Change<br>in                   | Variance          | Variance       |
|--|--------------------|----------|-----------------|--------------------|----------|-----------------|--------------------------------|-------------------|----------------|
| (dollars in<br>thousands)  | Average<br>Balance | Interest | Average<br>Rate | Average<br>Balance | Interest | Average<br>Rate | Interest<br>Income/<br>Expense | Balance<br>Change | Rate<br>Change |
| Assets   |                    |          |                 |                    |          |                 |                                |                   |                |
| Securities available for sale:   |                    |          |                 |                    |          |                 |                                |                   |                |
| U.S. Treasuries  | \$ 1,650           | 26       | 6.26%           | \$ 247             | 3        | 4.95%           | \$ 23                          | 22                | 1              |
| U. S. Gov't<br>Sponsored<br>Enterprises  | 239,138            | 2,845    | 4.76%           | 206,385            | 2,751    | 5.33%           | 94                             | 1,462             | (1,368)        |
| Mortgage-backed<br>securities and<br>collateralized<br>mortgage<br>obligations | 149,392            | 1,738    | 4.65%           | 163,979            | 1,916    | 4.67%           | (178)                          | (170)             | (8)            |
| States and<br>political<br>subdivisions  | 120,168            | 2,032    | 6.76%           | 128,145            | 2,182    | 6.81%           | (150)                          | (134)             | (16)           |
| Other  | 11,480             | 173      | 6.04%           | 13,023             | 190      | 5.84%           | (17)                           | (54)              | 37             |
| Total securities<br>available for sale   | 521,828            | 6,814    | 5.22%           | 511,779            | 7,042    | 5.50%           | (228)                          | 1,126             | (1,354)        |
| Federal funds<br>sold and other<br>short-term<br>Investments                   | 539,625            | 3,037    | 2.26%           | 519,651            | 6,856    | 5.29%           | (3,819)                        | 1,740             | (5,559)        |

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|                                      |              |        |        |              |        |        |         |         |          |  |
|--------------------------------------|--------------|--------|--------|--------------|--------|--------|---------|---------|----------|--|
| Trading Securities                   |              |        |        |              |        |        |         |         |          |  |
| Trading Securities Agency            | 221,058      | 2,053  | 3.72%  | 369,540      | 4,847  | 5.26%  | (2,794) | (1,616) | (1,178)  |  |
| Trading Securities SCM               | 9,552        | 73     | 3.08%  | -            | -      | 0.00%  | 73      | 73      | -        |  |
| Total Trading Securities             | 230,610      | 2,126  | 3.69%  | 369,540      | 4,847  | 5.26%  | (2,721) | (1,543) | (1,178)  |  |
| Held to Maturity Agencies            | 59,007       | 508    | 3.44%  | -            | -      | 0.00%  | 508     | 508     | -        |  |
| Held to Maturity Corp. Bonds         | 23,716       | 277    | 4.68%  | -            | -      | 0.00%  | 277     | 277     | -        |  |
| Total Held to Maturities             | 82,723       | 785    | 3.80%  | -            | -      | 0.00%  | 785     | 785     | -        |  |
| Commercial Loans                     | 291,327      | 4,711  | 6.47%  | 271,618      | 5,113  | 7.53%  | (402)   | 1,822   | (2,224)  |  |
| Residential mortgage loans           | 1,456,714    | 22,300 | 6.12%  | 1,306,371    | 20,293 | 6.21%  | 2,007   | 3,871   | (1,864)  |  |
| Home equity lines of credit          | 227,585      | 2,829  | 5.00%  | 237,337      | 3,960  | 6.69%  | (1,131) | (158)   | (973)    |  |
| Installment loans                    | 5,232        | 194    | 14.90% | 5,699        | 207    | 14.61% | (13)    | (37)    | 24       |  |
| Loans, net of unearned income        | 1,980,858    | 30,034 | 6.07%  | 1,821,025    | 29,573 | 6.50%  | 461     | 5,498   | (5,037)  |  |
| Total interest earning assets        | 3,355,644    | 42,796 | 5.10%  | 3,221,995    | 48,318 | 6.00%  | (5,522) | 7,606   | (13,128) |  |
| Allowance for loan losses            | (34,609)     |        |        | (35,229)     |        |        |         |         |          |  |
| Cash & non-interest earning assets   | 125,101      |        |        | 123,727      |        |        |         |         |          |  |
| Total assets                         | \$ 3,446,136 |        |        | \$ 3,310,493 |        |        |         |         |          |  |
| Liabilities and shareholders' equity |              |        |        |              |        |        |         |         |          |  |
| Deposits:                            |              |        |        |              |        |        |         |         |          |  |
| Interest Bearing                     |              |        |        |              |        |        |         |         |          |  |
| Checking Accounts                    | \$ 293,566   | 172    | 0.24%  | \$ 282,670   | 213    | 0.30%  | (41)    | 48      | (89)     |  |
| Money market accounts                | 318,178      | 1,292  | 1.63%  | 331,303      | 3,411  | 4.13%  | (2,119) | (130)   | (1,989)  |  |
| Savings                              | 618,301      | 923    | 0.60%  | 652,324      | 2,398  | 1.47%  | (1,475) | (119)   | (1,356)  |  |
| Time deposits                        | 1,599,328    | 15,749 | 3.96%  | 1,435,504    | 16,555 | 4.63%  | (806)   | 8,126   | (8,932)  |  |
|                                      | 2,829,373    | 18,136 | 2.58%  | 2,701,801    | 22,577 | 3.35%  | (4,441) | 7,925   | (12,366) |  |

|  |              |           |       |              |           |       |          |       |          |
|--|--------------|-----------|-------|--------------|-----------|-------|----------|-------|----------|
| Total interest bearing deposits  |              |           |       |              |           |       |          |       |          |
| Short-term borrowings  | 93,315       | 448       | 1.93% | 96,417       | 989       | 4.12% | (541)    | (31)  | (510)    |
| Long-term debt   | 16           | -         | 5.25% | 46           | -         | 5.24% | -        | -     | -        |
| Total Interest Bearing Liabilities   | 2,922,704    | 18,584    | 2.56% | 2,798,264    | 23,566    | 3.38% | (4,982)  | 7,894 | (12,876) |
| Demand deposits  | 262,928      |           |       | 254,920      |           |       |          |       |          |
| Other liabilities  | 21,262       |           |       | 23,977       |           |       |          |       |          |
| Shareholders' equity   | 239,242      |           |       | 233,332      |           |       |          |       |          |
| Total liab. & shareholders' equity   | \$ 3,446,136 |           |       | \$ 3,310,493 |           |       |          |       |          |
| Net Interest Income, tax equivalent  |              | 24,212    |       |              | 24,752    |       | \$ (540) | (288) | (252)    |
| Net Interest Spread  |              |           | 2.55% |              |           | 2.63% |          |       |          |
| Net Interest margin (net interest income to total interest earning assets) |              |           | 2.88% |              |           | 3.07% |          |       |          |
| Tax equivalent adjustment  |              | (739)     |       |              | (770)     |       |          |       |          |
| Net Interest Income  |              | \$ 23,473 |       |              | \$ 23,982 |       |          |       |          |

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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 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. The average balance of trading securities is calculated using fair value for these securities. Included in the average balance of shareholders' equity is unrealized depreciation, net of tax, in the available for sale portfolio of \$294 thousand in 2008 and \$7.0 million in 2007. 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.

|  | Six<br>Month<br>Average<br>Balance | 2008<br>Interest | Average<br>Rate | Six<br>Month<br>Average<br>Balance | 2007<br>Interest | Average<br>Rate | Change<br>in<br>Interest<br>Income/<br>Expense | Variance<br>Balance<br>Change | Variance<br>Rate<br>Change |
|--|------------------------------------|------------------|-----------------|------------------------------------|------------------|-----------------|--|-------------------------------|----------------------------|
| (dollars in thousands)   |                                    |                  |                 |                                    |                  |                 |  |                               |                            |
| Assets   |                                    |                  |                 |                                    |                  |                 |  |                               |                            |
| Securities available for sale:                                     |                                    |                  |                 |                                    |                  |                 |  |                               |                            |
| U.S. Treasuries  | \$ 1,498                           | 35               | 4.62%           | \$ 455                             | 11               | 4.71%           | \$ 24  | 25                            | (1)                        |
| U. S. Gov't Sponsored Enterprises                                  | 240,160                            | 6,091            | 5.07%           | 211,958                            | 5,599            | 5.28%           | 492  | 1,064                         | (572)                      |
| Mortgage-backed securities and collateralized mortgage obligations | 151,171                            | 3,510            | 4.64%           | 166,087                            | 3,880            | 4.67%           | (370)  | (345)                         | (25)                       |
| States and political subdivisions                                  | 122,573                            | 4,154            | 6.78%           | 128,761                            | 4,386            | 6.81%           | (232)  | (213)                         | (19)                       |
| Other  | 11,523                             | 365              | 6.36%           | 12,825                             | 350              | 5.48%           | 15   | (82)                          | 97                         |
| Total securities available for sale                                | 526,925                            | 14,155           | 5.37%           | 520,086                            | 14,226           | 5.47%           | (71)   | 449                           | (520)                      |

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|   |              |        |        |              |        |        |         |         |          |
|---|--------------|--------|--------|--------------|--------|--------|---------|---------|----------|
| Federal funds sold and other short-term Investments | 442,089      | 6,018  | 2.73%  | 393,555      | 10,295 | 5.26%  | (4,277) | 3,191   | (7,468)  |
| Trading Securities                                  |              |        |        |              |        |        |         |         |          |
| Trading Securities Agency                           | 323,498      | 6,773  | 4.19%  | 435,545      | 11,650 | 5.35%  | (4,877) | (2,646) | (2,231)  |
| Trading Securities SCM                              | 5,631        | 87     | 3.09%  | -            | -      | 0.00%  | 87      | 87      | -        |
| Total Trading Securities                            | 329,129      | 6,860  | 4.17%  | 435,545      | 11,650 | 5.35%  | (4,790) | (2,559) | (2,231)  |
| Held to Maturity Agencies                           | 37,003       | 733    | 3.96%  | -            | -      | 0.00%  | 733     | 733     | -        |
| Held to Maturity Corp. Bonds                        | 11,858       | 277    | 4.68%  | -            | -      | 0.00%  | 277     | 277     | -        |
| Total Held to Maturities                            | 48,861       | 1,010  | 4.13%  | -            | -      | 0.00%  | 1,010   | 1,010   | -        |
| Commercial Loans                                    | 287,634      | 9,658  | 6.72%  | 269,029      | 10,135 | 7.54%  | (477)   | 1,530   | (2,007)  |
| Residential mortgage loans                          | 1,443,862    | 44,471 | 6.16%  | 1,286,135    | 39,978 | 6.22%  | 4,493   | 5,596   | (1,103)  |
| Home equity lines of credit                         | 228,173      | 6,292  | 5.55%  | 240,488      | 7,697  | 6.45%  | (1,405) | (377)   | (1,028)  |
| Installment loans                                   | 5,391        | 403    | 15.00% | 5,636        | 403    | 14.43% | -       | (34)    | 34       |
| Loans, net of unearned income                       | 1,965,060    | 60,824 | 6.19%  | 1,801,288    | 58,213 | 6.47%  | 2,611   | 6,715   | (4,104)  |
| Total interest earning assets                       | 3,312,064    | 88,867 | 5.37%  | 3,150,474    | 94,384 | 6.00%  | (5,517) | 8,806   | (14,323) |
| Allowance for loan losses                           | (34,602)     |        |        | (35,409)     |        |        |         |         |          |
| Cash & non-interest earning assets                  | 124,217      |        |        | 130,095      |        |        |         |         |          |
| Total assets  | \$ 3,401,679 |        |        | \$ 3,245,160 |        |        |         |         |          |
| Liabilities and shareholders' equity                |              |        |        |              |        |        |         |         |          |
| Deposits:   |              |        |        |              |        |        |         |         |          |
| Interest Bearing Checking Accounts                  | \$ 287,048   | 376    | 0.26%  | \$ 280,443   | 415    | 0.30%  | (39)    | 28      | (67)     |
|   | 326,494      | 3,373  | 2.08%  | 327,797      | 6,715  | 4.13%  | (3,342) | (27)    | (3,315)  |

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|  |              |           |       |              |           |       |         |       |          |
|--|--------------|-----------|-------|--------------|-----------|-------|---------|-------|----------|
| Money market accounts  |              |           |       |              |           |       |         |       |          |
| Savings  | 612,533      | 2,266     | 0.74% | 654,255      | 4,821     | 1.49% | (2,555) | (287) | (2,268)  |
| Time deposits  | 1,562,903    | 32,465    | 4.18% | 1,377,866    | 31,192    | 4.57% | 1,273   | 7,350 | (6,077)  |
| Total interest bearing deposits  |              |           |       |              |           |       |         |       |          |
|  | 2,788,978    | 38,480    | 2.77% | 2,640,361    | 43,143    | 3.30% | (4,663) | 7,064 | (11,727) |
| Short-term borrowings  |              |           |       |              |           |       |         |       |          |
|  | 92,870       | 1,024     | 2.22% | 97,146       | 1,982     | 4.11% | (958)   | (84)  | (874)    |
| Long-term debt   |              |           |       |              |           |       |         |       |          |
|  | 20           | 1         | 5.25% | 50           | 1         | 5.27% | -       | -     | -        |
| Total Interest Bearing Liabilities   |              |           |       |              |           |       |         |       |          |
|  | 2,881,868    | 39,505    | 2.76% | 2,737,557    | 45,126    | 3.32% | (5,621) | 6,980 | (12,601) |
| Demand deposits  |              |           |       |              |           |       |         |       |          |
|  | 259,837      |           |       | 249,493      |           |       |         |       |          |
| Other liabilities  |              |           |       |              |           |       |         |       |          |
|  | 21,455       |           |       | 23,190       |           |       |         |       |          |
| Shareholders' equity   |              |           |       |              |           |       |         |       |          |
|  | 238,519      |           |       | 234,920      |           |       |         |       |          |
| Total liab. & shareholders' equity   |              |           |       |              |           |       |         |       |          |
|  | \$ 3,401,679 |           |       | \$ 3,245,160 |           |       |         |       |          |
| Net Interest Income , tax equivalent                                       |              |           |       |              |           |       |         |       |          |
|  |              | 49,362    |       |              | 49,258    |       | \$ 104  | 1,826 | (1,722)  |
| Net Interest Spread  |              |           |       |              |           |       |         |       |          |
|  |              |           | 2.61% |              |           | 2.68% |         |       |          |
| Net Interest margin (net interest income to total interest earning assets) |              |           |       |              |           |       |         |       |          |
|  |              |           | 2.97% |              |           | 3.11% |         |       |          |
| Tax equivalent adjustment  |              |           |       |              |           |       |         |       |          |
|  |              | (1,491)   |       |              | (1,555)   |       |         |       |          |
| Net Interest Income  |              |           |       |              |           |       |         |       |          |
|  |              | \$ 47,871 |       |              | \$ 47,703 |       |         |       |          |

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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, 2007 the Company is subject to interest rate risk as its principal market risk. As noted in detail throughout this Management's Discussion and Analysis for the three and six months ended June 30, 2008, the Company continues to respond to changes in interest rates in a fashion to position the Company to meet both short term earning goals but to also allow the Company to respond to changes in interest rates in the future. Consequently the year-to-date average balance of federal funds sold and other short-term investments has increased to \$442.1 million in 2008 from \$373.0 million in 2007. As investment opportunities present themselves, management plans to continue to invest funds from the federal funds sold and other short-term investment portfolio into the trading securities, securities available for sale, held-to-maturity and loan portfolios. This trend is expected to continue for the remainder of the year.

The Company had \$226.4 million of trading account assets at June 30, 2008 and \$465.2 million as of December 31, 2007. These trading account assets have been recorded at their fair value as determined by quoted market prices from a third party pricing service. The trading account securities at June 30, 2008 were substantially all fixed rate callable bonds issued by Government Sponsored Enterprises with a final average maturity of approximately 7 months and weighted average yield of 2.57%. Changes in market interest rates could affect the fair value of this portfolio and net trading gains and losses recorded in periodic earnings results.

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.



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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 are no material changes to the Company's risk factors as discussed in The Annual Report on Form 10K for the year ended December 31, 2007.

Item 2.

## Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3.

## Defaults Upon Senior Securities

None.

Item 4.

## Submissions of Matters to Vote of Security Holders

At the annual meeting held May 19, 2008, shareholders of the Company were asked to consider the Company's nominees for directors and to elect two (2) directors. The Company's nominees for director were Anthony J. Marinello, M.D., Ph.D. (three-year term) and William D. Powers (three-year term).

The results of shareholder voting are as follows:

1.

## Election of Directors:

| Director                         | For        | Withheld  |
|----------------------------------|------------|-----------|
| Anthony J. Marinello, M.D., Ph.D | 57,652,861 | 4,127,598 |
| William D. Powers                | 54,057,779 | 7,722,680 |

Directors continuing in office are Thomas O. Maggs, Joseph A. Lucarelli, Robert A. McCormick, Robert J. McCormick and William J. Purdy.

2. Proposal to ratify the appointment of KPMG LLP as the independent certified public accountants of TrustCo for the fiscal year ending December 31, 2008.

| For        | Against   | Abstain |
|------------|-----------|---------|
| 59,339,729 | 2,060,463 | 380,260 |

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Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Reg Description  
S-K (Item 601)  
Exhibit No.

|       |   |
|-------|---|
| 15    | KPMG 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. |

(b) Reports on Form 8-K

During the quarter ended June 30, 2008, TrustCo filed the following reports on Form 8-K:

April 15, 2008, regarding a press release dated April 15, 2008, detailing first quarter results for the quarter ending March 31, 2008.

May 19, 2008, regarding presentation materials presented at the Annual Meeting of Shareholders held May 19, 2008.

May 20, 2008, regarding a press release dated May 20, 2008, announcing results of the Annual Meeting held May 19, 2008 and declaring a cash dividend of \$0.11 per share payable on July 1, 2008, to shareholders of record at the close of business on June 6, 2008.

June 17, 2008, regarding a shareholder letter issued May 22, 2008 discussing the annual meeting held on May 19, 2008.

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SIGNATURES

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

TrustCo Bank Corp NY

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

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

Date: August 8, 2008

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Exhibits Index

Reg S-K Exhibit

No. Description

|              |   |
|--------------|---|
| <u>15</u>    | KPMG 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. |

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