Risk Factors Comparison 2024-03-11 to 2023-03-01 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The following are general risk factors affecting the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business operations. Any of these risks could materially and adversely affect our business, financial condition or results of operations. In such cases, you may lose all or part of your investment. Risks Related to Our Lending Activities Changes in interest rates ~~, including recent and possible future increases fueled by inflation,~~ may significantly impact our financial condition and results of operations Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments, and interest paid on deposits and borrowings. The level of net interest income is primarily a function of the average balance of our interest- earning assets, the average balance of our interest- bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest- earning assets and our interest- bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the FRB (the " FOMC "), and market interest rates. Over any specific period of time, our interest- earning assets may be more sensitive to changes in market interest rates than our interest- bearing liabilities, or vice- versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, earnings may be negatively affected. **The** ~~In March 2022, the~~ Federal Open Market Committee (" FOMC ") increased the target range for the federal funds rate seven times in 2022 **and four times in 2023** by a total of ~~425~~ **525** basis points, to a range of ~~4~~ **5** . 25 % to ~~4~~ **5** . 50 % as of end of ~~2022. At its meeting on February 1,~~ 2023 ~~, the FOMC increased the target range for the federal funds by an additional 25 basis points, to a range of 4. 50 % to 4. 75 %~~ . All of these increases were expressly made in response to inflationary pressures ~~, which are currently expected to continue~~ . In its **September and** October ~~2022~~ **2023** " Beige ~~Book~~ **Books** ", the FRB noted that ~~national~~ **overall economic growth was modest during July and August and that there has been little to no change in overall** economic activity ~~had expanded at a modest pace on net~~ since ~~the~~ **then** ~~previous~~ **. Regional banks continued to** report **ongoing declines in loan demand, tighter credit conditions, and narrowing loan spreads. Furthermore** , while **most banks reported higher deposit** ~~conditions varied across industries and districts. Rising mortgage~~ rates ~~and elevated housing prices further weakened single- family starts~~ , **delinquency rates edged up. In addition, inflationary pressures moderated somewhat but remained widespread** while ~~commercial real estate slowed in both construction and sales amid supply shortages and elevated construction and borrowing costs, and there were scattered reports of declining property prices. More locally, the New York district, the district in which the Company' s primary operations are located, stated economic activity continued to contract at a modest pace and that~~ conditions in the broad finance sector **weakened slightly during the last reporting period** ~~deteriorated, and regional banks reported widening loan spreads and weakening loan demand~~ . ~~IndexThere~~ **There** can be no assurances as to any future FOMC conduct. If the FOMC further increases the targeted federal funds rates, overall interest rates likely will rise, which will positively impact our interest income but may further negatively impact the entire national economy, including the housing industry in the markets we serve, by reducing refinancing activity and new home purchases. In addition, deflationary pressures, while possibly lowering our operational costs, could have a significant negative effect on our borrowers and the values of collateral securing loans, which could negatively affect our financial performance. A significant portion of our loans have fixed interest rates (or, if adjustable, are initially fixed for periods of five to 10 years) and longer terms than our deposits and borrowings. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. ~~We~~ **IndexWe** also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage- related securities. Increases in interest rates may decrease loan demand and / or may make it more difficult for borrowers to repay adjustable rate loans. Decreases in interest rates often result in increased prepayments of loans and mortgage- related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities. Conversely, increases in interest rates often result in slowed prepayments of loans and mortgage- related securities, reducing cash flows and reinvestment opportunities. Changes in interest rates also affect the value of the Bank' s interest- earning assets, and in particular the Bank' s securities portfolio. Generally, the value of fixed- rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on shareholders' equity. **Ongoing** ~~Inflationary~~ **inflationary** pressures and ~~rising~~ **continued elevated** prices may affect our results of operations and financial condition. Inflation rose sharply at the end of 2021 and has **remained** ~~continued rising in 2022~~ at **an** ~~levels not seen for over 40 years. Inflationary pressures are currently expected to remain~~ elevated **level** ~~throughout~~ --- **through** ~~2022~~ **the date of this filing** . Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans **has and** may **continue to** deteriorate, and in some cases this deterioration **has occurred and** may **in the future** occur quickly, which ~~would~~ **can** adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation ~~could~~ **has caused and may continue to** cause wages and other costs to the Company to increase, which

could adversely affect our results of operations and financial condition We are exposed to credit risk in our lending activities. There are inherent risks associated with our lending and trading activities. Loans to individuals and business entities, our single largest asset group, depend for repayment on the willingness and ability of borrowers to perform as contracted. A material adverse change in the ability of a significant portion of our borrowers to meet their obligation to us, due to changes in economic conditions, interest rates, natural disaster, acts of war, or other causes over which we have no control, could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans, and could have a material adverse impact on our earnings and financial condition **. Our commercial loan portfolio is increasing and the inherently higher risk of loss may lead to additional provisions for credit losses or charge- offs, which would negatively impact earnings and capital. Commercial loans generally expose a lender to greater risk of non- payment and loss than one- to four- family residential mortgage loans because repayment of the loans often depends on the successful operation of the business and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four- family residential mortgage loans. Also, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four- family residential mortgage loan. Commercial business loans expose us to additional risk since they typically are dependent on the borrower' s ability to make repayments from the cash flows of the business and are secured by non- real estate collateral that may depreciate over time. Further, our commercial business loans may be secured by collateral other than real estate, such as inventory and accounts receivable, the value of which may be more difficult to appraise, control or collect and may be more susceptible to fluctuation in value at the time of default. In addition, if we foreclose on these loans, our holding period for the collateral may be longer than for a single or multi- family residential property if there are fewer potential purchasers of the collateral** . IndexIf our allowance for credit losses on loans (" ACLL ") is not sufficient to cover expected loan losses, our earnings could decrease. Our borrowers may not repay their loans according to the terms of the loans, and, as a result of potential declines in home prices, the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. TrustCo adopted ASU No. 2016- 13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (" CECL ") effective January 1, 2022. This standard requires financial institutions to determine periodic estimates of lifetime expected credit losses on financial instruments and other commitments to extend credit. When determining the amount of the ACLL, we make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans, as well as about the current and expected future economic environment. In deciding on the adequacy of the allowance for credit losses, management reviews past due information, historical charge- off and recovery data, nonperforming loan activity and reasonable and supportable forecasts. Also, there are a number of other factors that are taken into consideration, including: the magnitude, nature and trends of recent loan charge- offs and recoveries, the growth in the loan portfolio and the implication that it has in relation to the economic climate in the Bank' s market territories, and the economic environment in the Upstate New York territory (the Company' s largest geographical area) primarily over the last several years, as well as in the Company' s other market areas. A significant portion of the ACLL is determined using qualitative factors. The determination of qualitative factors involves subjective judgement and subjective measurement. We cannot predict loan losses with certainty that charge- offs in future periods will not exceed our estimate of expected losses as determined through our ACLL. If our assumptions and analysis prove to be incorrect, including with respect to the economic environment, our ACLL may not be sufficient to cover expected losses in our loan portfolio, resulting in additions to our ACLL which is maintained through provisions for credit losses. In addition, regulatory agencies, as an integral part of their examination process, may require additions to the allowance based on their judgment about information available to them at the time of their examination. Material additions to our ACLL would materially decrease our net income. We may not be able to meet the cash flow requirements of our depositors or borrowers or meet our operating cash needs to fund corporate expansion and other activities. Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of Trustco Bank is used to make loans and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits have been established by our board of directors, and our management monitors the overall liquidity position of Trustco Bank to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Trustco Bank is also a member of the Federal Home Loan Bank which provides funding to members through advances and other extensions of credit that are typically collateralized with securities or mortgage- related assets. Our securities portfolio can be used as a secondary source of liquidity, and additional liquidity could be obtained from securities sold under repurchase agreements, non- core deposits, and debt or equity securities issuances in public or private transactions. If we were unable to access any of these funding sources when needed, we might not be able to meet the needs of our customers, which could adversely affect our financial condition, our results of operations, cash flows and our level of regulatory capital. We are subject to claims and litigation pertaining to fiduciary responsibility and lender liability. Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. In addition, loan workout and other activities may expose us or Trustco Bank to legal actions, including lender liability or environmental claims. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities or loan- related activities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and / or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition, results of operations and prospects. IndexRisks Related to Our Operations We are dependent upon the services of our management team. We are dependent upon the ability and experience of a number of our key

management personnel who have substantial experience with our operations, the financial services industry and the markets in which we offer our services. It is possible that the loss of the services of one or more of our senior executives or key managers would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage and retain other qualified middle management personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel. Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by TrustCo in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC' s rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision- making can be faulty and that breakdowns can occur because of simple error or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected. If the business continuity and disaster recovery plans that we have in place are not adequate to continue our operations in the event of a disaster, the business disruption can adversely impact our operations. External events, including terrorist or military actions, or an outbreak of disease, and resulting political and social turmoil could cause unforeseen damage to our physical facilities or could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. Additionally, our customers, vendors and counterparties could suffer from such events. Should these events affect us, or our customers, or vendors or counterparties with which we conduct business, our results of operations could be adversely affected. The Company' s risk management framework may not be effective in mitigating risk and loss. The Company maintains an enterprise risk management program that is designed to identify, quantify, monitor, report, and control the risks that it faces. These risks include interest rate, credit, liquidity, operations, reputation, compliance, and litigation. While the Company assesses and improves this program on an ongoing basis, there can be no assurance that its approach and framework for risk management and related controls will effectively mitigate all risk and limit losses in its business. If conditions or circumstances arise that expose flaws or gaps in the Company' s risk management program, or if its controls break down, the performance and value of its business could be adversely affected. Risks Related to Market Conditions A prolonged...... consequences in the future. Other Risks New lines of business or new products and services may subject us to additional risks. From time to time, we may develop and grow new lines of business or offer new products and services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and / or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition. All service offerings, including current offerings and those which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond our control . Provisions in our articles of incorporation...... to stockholders in the most efficient manner . IndexWe are exposed to climate risk. Climate change may be associated with rising sea levels as well as extreme weather conditions such as more intense hurricanes, thunderstorms, tornadoes, drought and snow or ice storms. Extreme weather conditions may increase our costs or cause damage to our facilities, and any damage resulting from extreme weather may not be fully insured. Many of our facilities are located near coastal areas or waterways where rising sea levels or flooding could disrupt our operations or adversely impact our facilities. Furthermore, periods of extended inclement weather or associated flooding may inhibit construction activity adversely affecting the use of some of our lending products. Any such events could have a material adverse effect on our costs or results of operations. These same issues also could impact the value of mortgage collateral and the security for residential and commercial loans. As a mortgage lender, Trustco Bank has identified credit, market, liquidity, and operational factors as climate- related risks. Adverse climate factors could impact the ability of loan customers to timely repay their loans. Adverse climate impacts also could adversely impact the stock and bond markets which could adversely affect TrustCo' s non- interest income earning potential. Severe physical impacts from climate change, such as rising sea levels, could reduce the value of residential and / or commercial portfolio. These two factors, given sufficiently severe impacts, could affect liquidity. Additionally, severe weather and other climate events could impact hiring and retention of employees, facilities management, retail services, and technology infrastructure, thus creating operational risk. Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers. Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes, and the like. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including increasing our business with climate- friendly companies, may not be effective in protecting us from the

negative impact of new laws and regulations or changes in consumer or business behavior. ~~Securities~~ **.** Provisions in our articles of incorporation and bylaws and New York law may discourage or prevent takeover attempts,and these provisions may have the effect of reducing the market price of our stock.Our articles of incorporation and bylaws include several provisions that may have the effect of discouraging or preventing hostile takeover attempts,and therefore,making the removal of incumbent management difficult.The provisions include requirements of supermajority votes to approve certain business transactions.In addition,New York law contains several provisions that may make it more difficult for a third party to acquire control of us without the approval of the board of directors,and may make it more difficult or expensive for a third party to acquire a majority of our outstanding stock.To the extent that these provisions are effective in discouraging or preventing takeover attempts,they may tend to reduce the market price for our stock.We cannot guarantee that our allocation of capital to various alternatives,including stock repurchase plans,will enhance long- term stockholder value.Our business plan calls for us to execute a variety of strategies to allocate and deploy any excess capital including,but not limited to,continued organic balance sheet growth and diversification,implementation of stock repurchase plans and payment of regular cash dividends.Additionally,we will carefully consider acquisition opportunities to further deploy capital when we expect such opportunities to significantly enhance long- term shareholder value.If we are unable to effectively and timely deploy capital through these strategies,it may constrain growth in earnings and return on equity and thereby diminish potential growth in stockholder value.On March ~~17~~ **9** , ~~2023~~ **2022** ,we announced that our Board authorized a new stock repurchase plan to acquire up to 200,000 shares of the Company' s outstanding common stock.Repurchases are made at management' s discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders,subject to the availability of stock,general market conditions,the trading price of the stock,alternative uses for capital,and the Company' s financial performance. ~~IndexThe~~ **The** Inflation Reduction Act of 2022,which was signed into law on August 16,2022,contains a number of changes to U.S.federal tax laws.One such change is a 1 % excise tax on stock repurchases,which will increase the cost of stock repurchases and may impact our future decisions on how to return value to stockholders in the most efficient manner Item 1B Unresolved Staff Comments