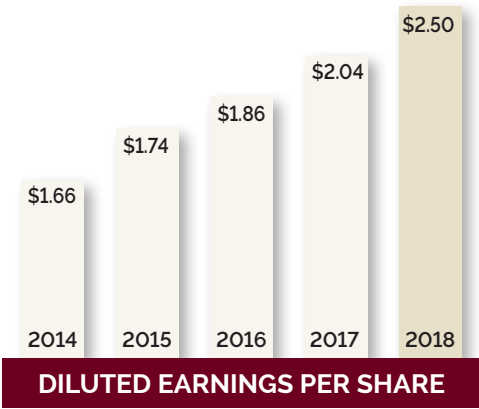


2018

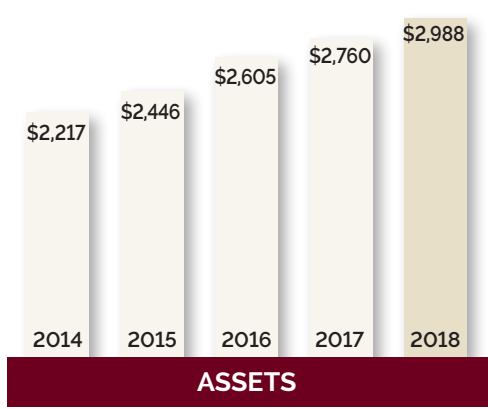
ANNUAL REVIEW

 **ARROW** Financial Corporation

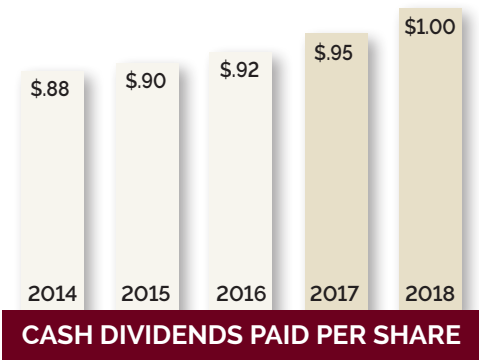
Performance Comparisons



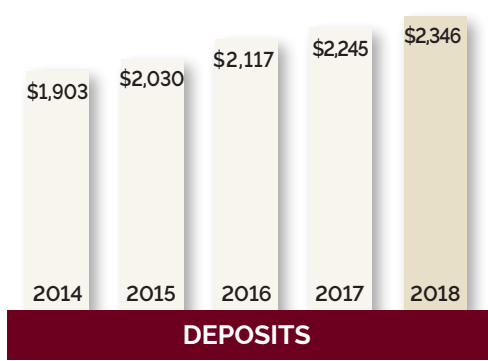
For the 12 Months Ended December 31*



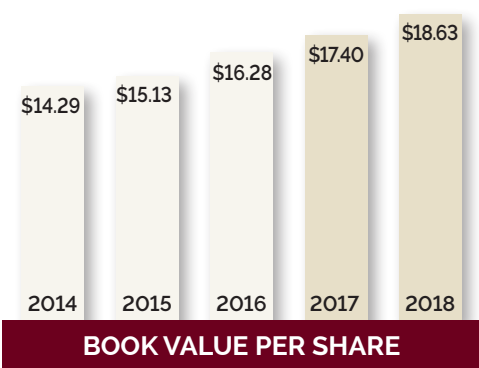
As of December 31
(\$ in Millions)



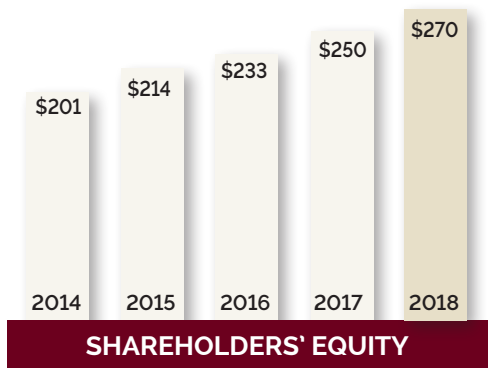
For the 12 Months Ended December 31*



As of December 31
(\$ in Millions)



As of December 31*



As of December 31
(\$ in Millions)

*Per share amounts have been restated for stock dividends distributed.

Fellow Shareholders:



I am proud to share the enclosed report highlighting the 2018 financial performance and remarkable accomplishments of Arrow Financial Corporation and our family of companies.

Through hard work, we demonstrated steady growth, improved profitability, and a constant commitment to serving our customers and their communities.

Some key points of interest from this past year included:

- Double-digit growth in our loan portfolio for the fifth consecutive year, reaching a record high of \$2.2 billion in total loan balances at year-end.
- New records for net income, year-end total assets and total equity.
- Our cash dividend increased to \$0.26 per share in Q3 – the first actual increase in our cash dividend since 2008.
- American Banker's "Mid-tier Performers" list ranked Arrow 31st out of more than 200 financial institutions. It is one of only three New York banks, and the only one from the Capital Region, to appear in the top 50.
- Both Glens Falls National Bank and Saratoga National Bank maintained 5-Star Superior ratings from BauerFinancial.
- Saratoga National was named "Top Small Community Lender" by the U.S. Small Business Administration for the Capital Region for the fifth consecutive year.
- Saratoga National also announced plans for further expansion into the Capital Region with its 11th location, opening in Rotterdam, N.Y. this year.
- We completed a multi-year, multi-phase strategic plan to unify our insurance offerings. Capital Financial Group is now the

2018 FINANCIAL HIGHLIGHTS

Net Income: \$36.3 million, up 23.7%

Total Loans: \$2.20 billion, up 12.6%

Total Deposits: \$2.35 billion, up 4.5%

Total Assets: \$2.99 billion, up 8.3%

Return on Average Equity: 13.96%

Return on Average Assets: 1.27%

Return on Tangible Equity: 15.38%

Stock Dividend: 3% distributed in Sept.

Current Quarterly Cash Dividend: \$0.26

Book Value Per Share: Increase of 7.1%

Shareholders' Equity: Increase of 8.0%

"Employee Benefits Division" of Upstate Agency, allowing us to deliver more value and greater efficiency to our customers.

None of these accomplishments would have been possible without the efforts of our Arrow Team. I'd like to personally give my thanks to them for their continued dedication and efforts.

We continue to focus on long-term opportunities that drive our business forward. Like most other financial institutions, we face the pressures of economic conditions beyond our control. Through strategic planning, spending and investments, we will remain a strong company that is well-positioned to deliver value to our customers, our communities, our employees and our shareholders.

Thank you for your continued trust, support and partnership.

Sincerely,

Tom Murphy
President and Chief Executive Officer

Consolidated Statements of Income (Unaudited)

Years Ended December 31

(in thousands, except per-share amounts)	2014	2015	2016	2017	2018
Interest and Dividend Income	\$ 66,861	\$ 70,738	\$ 76,915	\$ 84,657	\$ 96,503
Interest Expense	5,767	4,813	5,356	7,006	12,485
Net Interest Income	61,094	65,925	71,559	77,651	84,018
Provision for Loan Losses	1,848	1,347	2,033	2,736	2,607
Net Interest Income after Provision for Loan Losses	59,246	64,578	69,526	74,915	81,411
Total Noninterest Income	28,316	28,124	27,832	27,645	28,949
Total Noninterest Expense	54,028	57,430	59,609	62,705	65,055
Income Before Taxes	33,534	35,272	37,749	39,855	45,305
Provision for Income Taxes	10,174	10,610	11,215	10,529	9,026
Net Income	\$ 23,360	\$ 24,662	\$ 26,534	\$ 29,326	\$ 36,279
Share and Per Share Data					
Diluted Average Shares					
Outstanding	14,080	14,142	14,296	14,406	14,488
Diluted Earnings Per Share	\$ 1.66	\$ 1.74	\$ 1.86	\$ 2.04	\$ 2.50
Cash Dividends Per Share	\$.88	\$.90	\$.92	\$.95	\$ 1.00
Book Value Per Share	\$ 14.29	\$ 15.13	\$ 16.28	\$ 17.40	\$ 18.63
Tangible Book Value Per Share	\$ 12.46	\$ 13.37	\$ 14.56	\$ 15.71	\$ 16.99
Key Earnings Ratios					
Return on Average Assets	1.07%	1.05%	1.06%	1.09%	1.27%
Return on Average Equity	11.79%	11.86%	11.79%	12.14%	13.96%
Return on Tangible Equity	13.56%	13.50%	13.25%	13.51%	15.38%
Net Interest Margin	2.95%	2.97%	3.00%	3.02%	3.07%
Capital Ratios					
Tier 1 Leverage Ratio	9.44%	9.25%	9.47%	9.49%	9.61%
Total Risk-Based Capital Ratio	15.54%	15.09%	15.15%	14.98%	14.86%
Asset Quality Ratios					
Nonperforming Assets to Period-End Assets	0.37%	0.36%	0.28%	0.28%	0.23%
Allowance for Loan Losses to Period-End Loans	1.10%	1.02%	0.97%	0.95%	0.92%

Consolidated Balance Sheets (Unaudited)

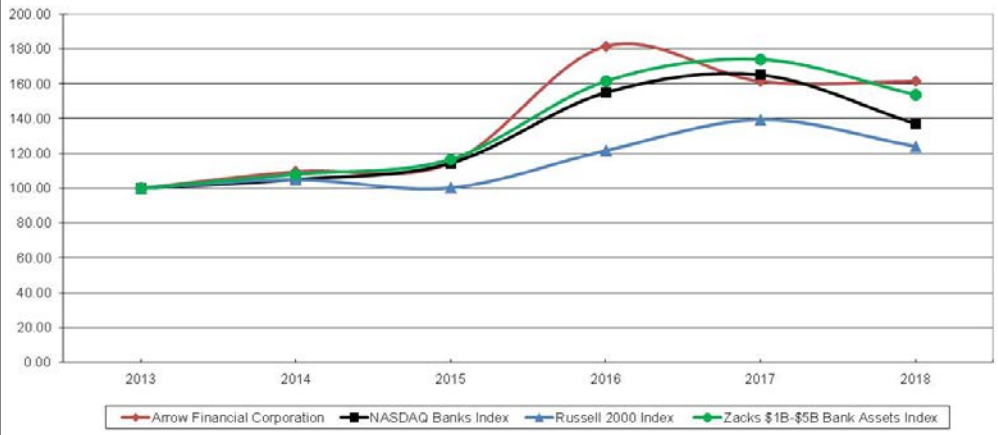
As of December 31

(in thousands)

	2014	2015	2016	2017	2018
Assets					
Cash and Due from Banks	\$ 35,081	\$ 34,816	\$ 43,024	\$ 42,562	\$ 56,529
Interest-Bearing Deposits at Banks	11,214	16,252	14,331	30,276	27,710
Investment Securities	673,014	731,759	703,335	646,056	618,291
Loans	1,413,268	1,573,952	1,753,268	1,950,770	2,196,215
Allowance for Loan Losses	(15,570)	(16,038)	(17,012)	(18,586)	(20,196)
Net Loans	1,397,698	1,557,914	1,736,256	1,932,184	2,176,019
Premises and Equipment, Net	28,488	27,440	26,938	27,619	30,446
Goodwill and Intangible Assets, Net	25,628	24,980	24,569	24,162	23,725
Other Assets	46,297	53,027	56,789	57,606	55,614
Total Assets	\$ 2,217,420	\$ 2,446,188	\$ 2,605,242	\$ 2,760,465	\$ 2,988,334
Liabilities and Shareholders' Equity					
Noninterest-Bearing Deposits	\$ 300,786	\$ 358,751	\$ 387,280	\$ 441,945	\$ 472,768
Interest-Bearing Checking and Savings Deposits	1,396,319	1,481,855	1,529,953	1,601,888	1,608,829
Time Deposits	205,843	189,817	199,313	201,283	263,987
Total Deposits	1,902,948	2,030,423	2,116,546	2,245,116	2,345,584
Short-Term Borrowings	60,421	105,173	158,836	169,966	288,659
Federal Home Loan Bank Term Advances	10,000	55,000	55,000	55,000	45,000
Other Long-Term Debt	20,000	20,000	20,000	20,000	20,000
Other Liabilities	23,125	21,621	22,008	20,780	19,507
Total Liabilities	2,016,494	2,232,217	2,372,390	2,510,862	2,718,750
Total Shareholders' Equity	200,926	213,971	232,852	249,603	269,584
Total Liabilities and Shareholders' Equity	\$ 2,217,420	\$ 2,446,188	\$ 2,605,242	\$ 2,760,465	\$ 2,988,334

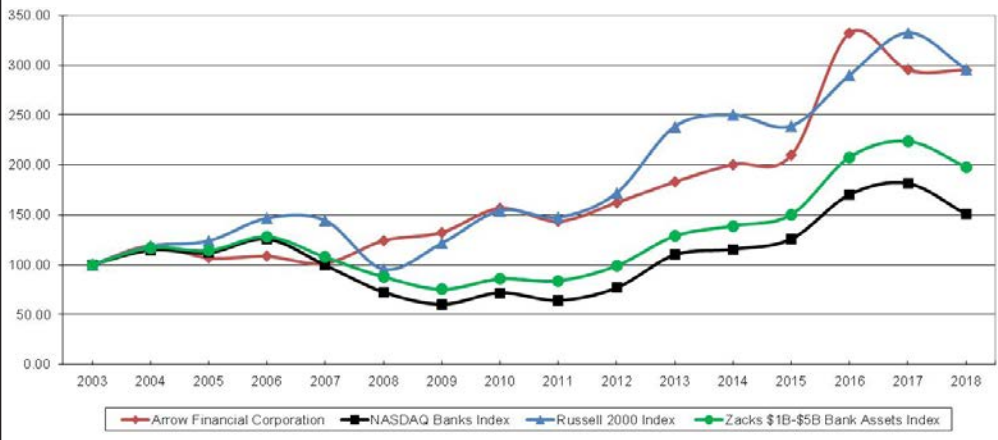
Total Return Performance

Comparison of Five-Year Cumulative Total Return • Assumes Initial Investment of \$100



	2013	2014	2015	2016	2017	2018
Arrow Financial Corporation	100.00	109.59	114.57	181.56	161.42	161.33
NASDAQ Banks Index	100.00	105.08	114.45	154.96	165.08	137.07
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09
Zacks \$1B-\$5B Bank Assets Index	100.00	108.03	116.76	161.47	174.08	153.75

Comparison of 15-Year Cumulative Total Return • Assumes Initial Investment of \$100



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Arrow Financial Corporation	100.00	118.58	106.58	108.20	101.28	123.94	132.30	156.43	143.40	162.12	182.92	200.46	209.58	332.12	295.27	295.11
NASDAQ Banks Index	100.00	114.52	111.86	125.60	99.40	72.47	60.30	71.71	64.14	76.73	109.82	115.40	125.69	170.18	181.29	150.53
Russell 2000 Index	100.00	118.44	123.78	146.52	144.22	95.49	121.43	154.03	147.60	171.73	238.39	250.05	239.02	289.96	332.44	295.83
Zacks \$1B-\$5B Bank Assets Index	100.00	116.74	114.01	127.88	107.38	87.68	75.27	85.54	83.73	98.75	128.58	138.91	150.13	207.62	223.83	197.70

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Arrow Financial Corporation

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Retired President and CEO
Arrow/Glens Falls National Bank

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President
Behan Communications, Inc.

Tenée R. Casaccio, AIA
President
JMZ Architects and Planners, P.C.

Michael B. Clarke
Retired President and CEO
Lone Star Industries

Gary C. Dake
President
Stewart's Shops Corp.

David G. Kruczynski
Retired President and CEO
Glens Falls Hospital

Elizabeth A. Miller
President and CEO
Miller Mechanical Services, Inc.

Thomas J. Murphy
President and CEO
Arrow/Glens Falls National Bank

Raymond F. O'Connor
Chairman and Retired President
and CEO
Saratoga National Bank

William L. Owens, Esq.
Partner
Stafford, Owens, Piller, Murnane,
Kelleher & Trombley, PLLC

Colin L. Read, PhD
Mayor, City of Plattsburgh
Professor of Economics
and Finance
SUNY Plattsburgh

Richard J. Reisman, DMD
Chairman - Section of Dentistry
Glens Falls Hospital

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Mary-Elizabeth T. FitzGerald

Herbert A. Heineman, Jr.
Elizabeth O'Connor Little
Michael F. Massiano
(Chairman Emeritus)

David L. Moynihan
John J. Murphy
Doris E. Ornstein

Corporate Officers

Thomas J. Murphy
President and CEO

Edward J. Campanella
Senior Vice President, Treasurer
and Chief Financial Officer

David S. DeMarco
Senior Vice President
and Chief Banking Officer

David D. Kaiser
Senior Vice President

Andrew J. Wise
Senior Vice President
and Chief Operating Officer

Shareholder Information

Arrow Stock

Arrow's common stock trades on the NASDAQ Global Select MarketSM under the symbol "AROW."

Dividend Reinvestment Plan

The Arrow Financial Corporation Dividend Reinvestment Plan offers participants a convenient and economical way to acquire common stock of Arrow Financial Corporation without payment of any brokerage commission or service charge.

Participants may reinvest all cash dividends in additional shares as well as make optional cash contributions to buy shares.

Since the Plan is entirely voluntary, you may join at any time and terminate whenever you wish.

For more information, please contact:

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Tel: (888) 444-0058 or astfinancial.com



ARROW
Financial Corporation

Our Family of Companies

Glens Falls National
Bank and Trust Company

SARATOGA
BANK & TRUST COMPANY
NATIONAL



UPSTATE
AGENCY^{INC.}
INSURANCE

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