

 **ARROW** Financial Corporation

2014 ANNUAL REVIEW



Our Business Customers Shared Their Experiences

We asked our business customers why they bank with us, and they responded with great testimonials about their experiences. This positive feedback was the basis for a regional advertising campaign that underscores our commitment to quality service at all levels.

Glens Falls National Bank Helped Us. Let Them Help You.

I have been impressed with the ability of this community bank to provide the most current technology for my business, allowing me to be competitive — and most of all safe — in this fast-changing online world.

Bob Smith
President, Nina's Restaurant Group
Pittsburgh, New York

Saratoga National Bank Helped Us. Let Them Help You.

I feel that my business is truly valued at Saratoga National Bank. I especially appreciate the personalized service that only a community bank can provide.

David Fusco (left)
Fusco Realty Group/Colonial Car Wash
Schenectady, New York

John Wyatt (right)
Vice President, Corporate Banking,
Saratoga National Bank

Glens Falls National Bank Helped Us. Let Them Help You.

It is easy to love doing business with Glens Falls National Bank, as they are there for you when you need them. We have always been made to feel as if we are very important to the Bank — and that is a nice feeling.

Mike Hoffman
President, Carl Petros

Invested in the Community. Committed to You.

Glens Falls National
Bank and Trust Company

Equal Housing Lender Member FDIC

gfnational.com

For your banking

U.S. Avenue
324-4362

Corral
501

Invested in the Community. Committed to You.

Glens Falls National
Bank and Trust Company

Equal Housing Lender Member FDIC

608-1
501 Ne

For your business banking needs, call:

793-4121 | gfnational.com



Saratoga National Bank Expanded to Colonie

Saratoga National Bank opened its eighth office last June in the growing community of Colonie, New York. This branch has performed well in its first year, capturing both retail and commercial banking opportunities, and providing an important introduction to the Albany County market.

Cover Photo: The courtyard at Glens Falls National Bank's Main Office complex, Glens Falls, New York

To Our Shareholders, Staff and Friends:



We are pleased to announce another strong year for Arrow Financial Corporation, marked by growth and solid financial results, as described in this report.

Among the highlights, our two bank subsidiaries launched totally redesigned websites and added mobile check deposit for retail customers. In addition, Saratoga National Bank and Trust Company continued to expand, opening its eighth office last June in Colonie, New York. This is our first branch in Albany County, and it positions us well to capture both retail and commercial banking opportunities in the dynamic Capital Region.

Last year also brought a number of honors and recognitions. Both subsidiary banks maintained a 5-Star Superior rating from BauerFinancial, and Saratoga National Bank was recognized as the Capital Region's No. 1 Small Community Lender by the Small Business Administration. Plus, Arrow Financial Corporation was again named one of "America's 100 Most Trustworthy Companies" by Forbes, a "Top-Performing Mid-Sized Bank" by the ABA Banking Journal, and included on the Sandler O'Neill "Sm-All Stars Class of 2014" list of top-performing small-cap banks and thrifts.

Additionally, I would like to welcome former Congressman Bill Owens to the Arrow and Glens Falls National boards as of January 2015. Bill has a deep knowledge of the North Country and Plattsburgh region – important markets for our Company – and a strong commitment to

2014 FINANCIAL HIGHLIGHTS

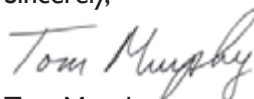
- Record net income of \$23.4 million
- Strong profitability, represented by 11.79% return on average equity (ROE), 1.07% return on average assets (ROA), and 13.56% return on tangible equity
- 2% stock dividend distributed in September
- Cash dividends paid to shareholders effectively increased 2%
- Continued strong levels of capital, including increases in book value per share of 4.5% and stockholders' equity of 4.6%
- Record assets of \$2.217 billion at year-end
- \$131.2 million in mortgage loans originated
- Strong asset quality, represented by only 0.37% of non-performing assets at year-end and loans charged-off just 0.05% of average loans outstanding
- Income from fiduciary activities rose 10.9%
- Insurance income increased 6.3%

his community. We are honored to have him serve as a Director.

Looking ahead, our management team will strive to continue to deliver shareholder value by adhering to our conservative business model. We are very proud of our performance, our employees and our service to our customers, our communities and our shareholders.

We couldn't do any of this without you and your continued support. Thank you.

Sincerely,



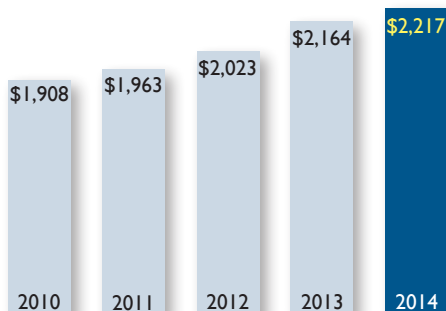
Tom Murphy
President and Chief Executive Officer

PERFORMANCE COMPARISONS



DILUTED EARNINGS PER SHARE

*For the 12 Months Ended December 31



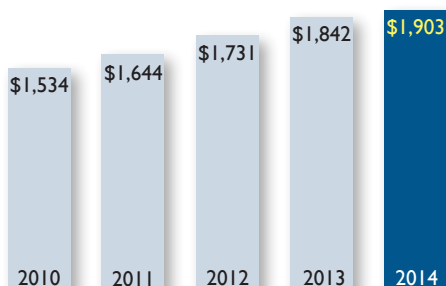
ASSETS

As of December 31
(\$ in Millions)



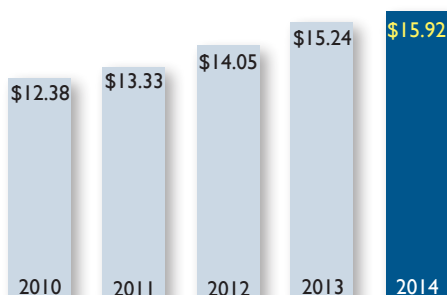
CASH DIVIDENDS PAID PER SHARE

*For the 12 Months Ended December 31



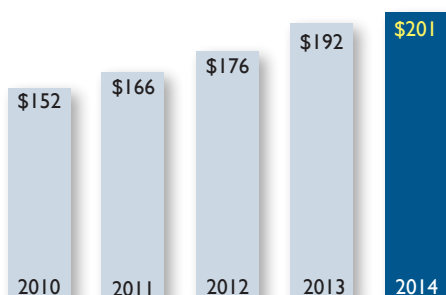
DEPOSITS

As of December 31
(\$ in Millions)



BOOK VALUE PER SHARE

*As of December 31



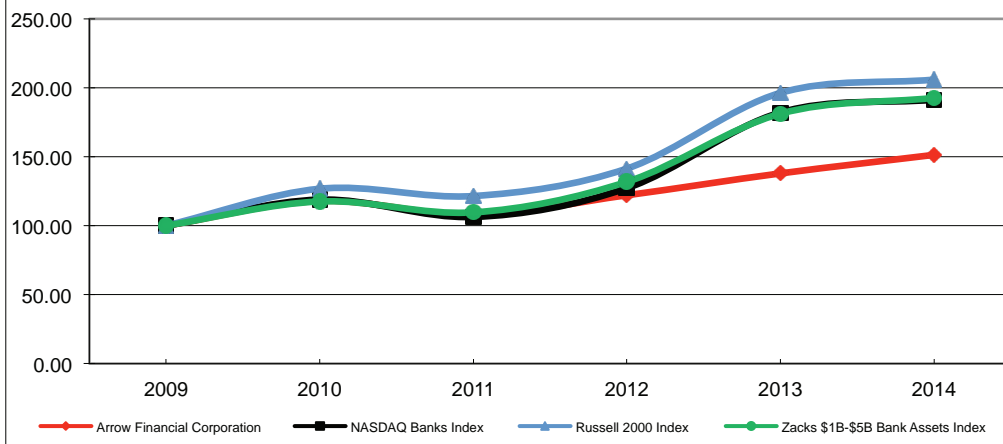
STOCKHOLDERS' EQUITY

As of December 31
(\$ in Millions)

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

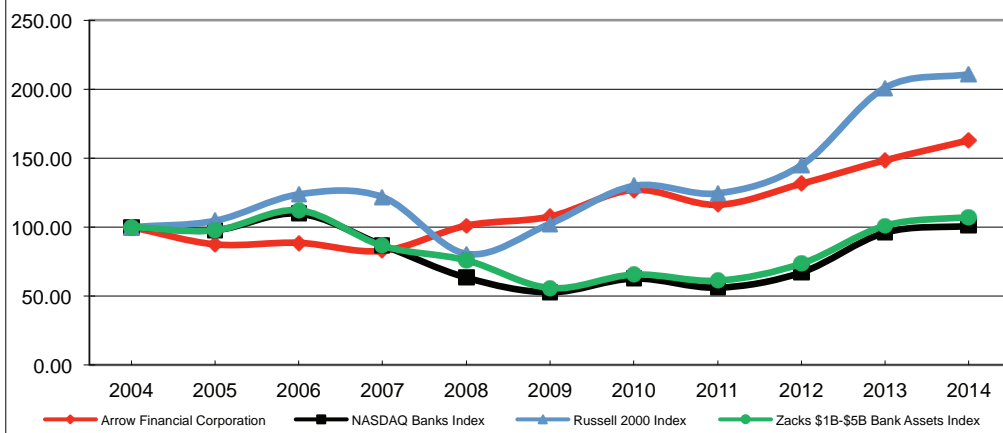
TOTAL RETURN PERFORMANCE

Comparison of 5-Year Cumulative Total Return Assumes Initial Investment of \$100
December 2014



	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Arrow Financial Corporation	100.00	117.96	107.90	122.09	137.93	151.37
NASDAQ Banks Index	100.00	118.92	106.36	127.24	182.11	191.37
Russell 2000 Index	100.00	126.81	121.52	141.42	196.32	205.93
Zacks \$1B-\$5B Bank Assets Index	100.00	117.59	109.67	131.82	181.24	192.66

Comparison of 10-Year Cumulative Total Return Assumes Initial Investment of \$100
December 2014



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Arrow Financial Corporation	100.00	87.41	88.53	82.68	100.95	107.59	126.91	116.09	131.35	148.40	162.86
NASDAQ Banks Index	100.00	97.68	109.68	86.80	63.28	52.66	62.62	56.01	67.00	95.90	100.78
Russell 2000 Index	100.00	104.51	123.67	121.71	80.56	102.38	129.84	124.42	144.79	201.00	210.84
Zacks \$1B-\$5B Bank Assets Index	100.00	97.60	112.09	86.29	75.87	55.70	65.50	61.09	73.43	100.96	107.32

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years Ended December 31

(in thousands, except per share amounts)	2010	2011	2012	2013	2014
Interest and Dividend Income	\$ 84,972	\$ 76,791	\$ 69,379	\$ 64,138	\$ 66,861
Interest Expense	23,695	18,679	11,957	7,922	5,767
Net Interest Income	61,277	58,112	57,422	56,216	61,094
Provision for Loan Losses	1,302	845	845	200	1,848
Net Interest Income After Provision for Loan Losses	59,975	57,267	56,577	56,016	59,246
Total Noninterest Income	19,089	25,928	27,099	28,061	28,316
Total Noninterest Expense	47,418	51,548	51,836	53,203	54,028
Income Before Taxes	31,646	31,647	31,840	30,874	33,534
Provision for Income Taxes	9,754	9,714	9,661	9,079	10,174
Net Income	\$ 21,892	\$ 21,933	\$ 22,179	\$ 21,795	\$ 23,360
Share and Per Share Data					
Diluted Average Shares Outstanding	12,352	12,466	12,502	12,573	12,633
Diluted Earnings Per Share	\$ 1.77	\$ 1.76	\$ 1.77	\$ 1.73	\$ 1.85
Cash Dividends Per Share	.89	.92	.95	.97	.99
Book Value Per Share	12.38	13.33	14.05	15.24	15.92
Tangible Book Value Per Share	10.97	11.19	11.94	13.17	13.89
Key Earnings Ratios					
Return on Average Assets	1.16%	1.13%	1.11%	1.04%	1.07%
Return on Average Equity	14.56%	13.45%	12.88%	12.11%	11.79%
Return on Tangible Equity	16.42%	15.84%	15.24%	14.19%	13.56%
Net Interest Margin	3.58%	3.36%	3.26%	3.06%	3.17%
Capital Ratios					
Tier I Leverage Ratio	8.53%	8.95%	9.10%	9.19%	9.44%
Total Risk-Based Capital Ratio	15.75%	15.96%	16.26%	15.77%	15.54%
Asset Quality Ratios					
Nonperforming Assets to Period-End Assets	0.26%	0.41%	0.45%	0.37%	0.37%
Allowance for Loan Losses to Period-End Loans	1.28%	1.33%	1.30%	1.14%	1.10%

Share and per share amounts have been restated for stock dividends distributed.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of December 31

(in thousands)

	2010	2011	2012	2013	2014
Assets					
Cash and Due from Banks	\$ 25,961	\$ 29,598	\$ 37,076	\$ 37,275	\$ 35,081
Interest-Bearing Deposits at Banks	5,118	14,138	11,756	12,705	11,214
Investment Securities	685,904	713,948	724,293	763,148	673,014
Loans	1,145,508	1,131,457	1,172,341	1,266,472	1,413,268
Allowance for Loan Losses	(14,689)	(15,003)	(15,298)	(14,434)	(15,570)
Net Loans	1,130,819	1,116,454	1,157,043	1,252,038	1,397,698
Premises and Equipment, Net	18,836	22,629	28,897	29,154	28,488
Goodwill and Intangible Assets, Net	17,241	26,752	26,495	26,143	25,628
Other Assets	24,457	39,165	37,236	43,235	46,297
Total Assets	\$1,908,336	\$1,962,684	\$2,022,796	\$2,163,698	\$2,217,420
Liabilities and Stockholders' Equity					
Noninterest-Bearing Deposits	\$ 214,393	\$ 232,038	\$ 247,232	\$ 278,958	\$ 300,786
NOW and Savings Deposits	951,206	1,059,350	1,200,650	1,316,145	1,396,319
Time Deposits of \$100,000 or More	120,330	123,668	93,375	78,928	61,797
Other Time Deposits	248,075	228,990	189,898	168,299	144,046
Total Deposits	1,534,004	1,644,046	1,731,155	1,842,330	1,902,948
Short-Term Borrowings	53,214	68,293	41,678	64,777	60,421
Federal Home Loan Bank Term Advances	130,000	40,000	30,000	20,000	10,000
Other Long-Term Debt	20,000	20,000	20,000	20,000	20,000
Other Liabilities	18,859	23,960	24,138	24,437	23,125
Total Liabilities	1,756,077	1,796,299	1,846,971	1,971,544	2,016,494
Total Stockholders' Equity	152,259	166,385	175,825	192,154	200,926
Total Liabilities and Stockholders' Equity	\$1,908,336	\$1,962,684	\$2,022,796	\$2,163,698	\$2,217,420

BOARDS OF DIRECTORS

Arrow Financial Corporation

Thomas L. Hoy (Chairman)
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Carusone & Carusone

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JMZ Architects and Planners, P.C.

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Retired President and CEO
Lone Star Industries

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President
Stewart's Shops Corp.

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Retired President and CEO
Glens Falls Hospital

Elizabeth O'Connor Little
New York State Senator
45th District

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President
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Treasurer and CFO

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Kelleher & Trombley, PLLC

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Chair
Department of Economics and
Finance at SUNY Plattsburgh

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Chairman - Section of Dentistry
Glens Falls Hospital

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Herbert O. Carpenter

Mary-Elizabeth T. FitzGerald
George C. Frost
Herbert A. Heineman, Jr.

Dr. Edward F. Huntington
Michael F. Massiano (*Chairman Emeritus*)
Doris E. Ornstein

Glens Falls National Bank and Trust Company

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Retired President and CEO

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President
JMZ Architects and Planners, P.C.

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Kelleher & Trombley, PLLC

Dr. Colin L. Read
Chair
Department of Economics and
Finance at SUNY Plattsburgh

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

Saratoga National Bank and Trust Company

Raymond F. O'Connor (Chairman)
Retired President and CEO

John J. Carusone, Jr.
Attorney
Carusone & Carusone

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President
Stewart's Shops Corp.

James M. Dawsey
President
MLB Industries, Inc.

David S. DeMarco
President and CEO

Marianne Pompa LaRoche
Vice President
Pompa Bros.

Frank J. Parillo
President
Saratoga Prime Properties
and Wilton Travel Plaza

Mary L. Passaretti, MS
Principal
Aztech Technologies, Inc.

MANAGEMENT TEAM

Arrow Financial Corporation

Thomas J. Murphy, CPA
President and CEO

Terry R. Goodemote, CPA
Executive Vice President and CFO

David S. DeMarco
Senior Vice President

Glens Falls National Bank and Trust Company

Thomas J. Murphy, CPA
President and CEO

Timothy C. Badger
Senior Vice President
Marketing/Shareholder Relations

Laurie A. LaFountain
Senior Vice President
Trust/Investment Division

Terry R. Goodemote, CPA
Senior Executive Vice President
and CFO

Suzanna M. Bernd
Senior Vice President
Business Development

Peter J. Lareau
Senior Vice President
and Chief Risk Officer

Mark E. Bulmer, CPA
Executive Vice President
Financial Services

Katherine M. Dier
Senior Vice President
Branch Services

Peter F. Luciano
Senior Vice President
Consumer Loan Administration

David D. Kaiser
Executive Vice President
and Chief Credit Officer

Karen E. Guisepppe
Senior Vice President
Director of Internal Audit

Debra A. Meier
Senior Vice President
Human Resources

Kathleen Kelleher
Executive Vice President
and Chief Information Officer

Michael J. Jacobs
Senior Vice President
Information Technology

Kurt E. Moser
Senior Vice President
Corporate Banking

Donna M. Perkett
Executive Vice President
Retail Banking

Saratoga National Bank and Trust Company

David S. DeMarco
President and CEO

Richard J. Ferguson
Senior Vice President
Corporate Banking

STOCKHOLDER 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 and Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Tel: (800) 278-4353
amstock.com

OUR LOCATIONS

Glens Falls National Bank and Trust Company

gfnational.com

Main Office

250 Glen Street
Glens Falls, NY 12801
(518) 793-4121

Argyle Office

93 Main Street
Argyle, NY 12809
(518) 638-8261

Aviation Road Office

339 Aviation Road
Queensbury, NY 12804
(518) 793-5386

Bay Road Office

402 Bay Road
Queensbury, NY 12804
(518) 743-8349

Broad Street Plaza Office

Four Broad Street Plaza
Glens Falls, NY 12801
(518) 793-8844

Cambridge Office

25 West Main Street
Cambridge, NY 12816
(518) 677-2642

Chestertown Office

6353 State Route 9
Chestertown, NY 12817
(518) 494-2691

Cornelia Street Office

308 Cornelia Street
Plattsburgh, NY 12901
(518) 566-6650

Exit 18 Office

221 Corinth Road
Queensbury, NY 12804
(518) 636-3146

Fort Ann Office

110 George Street
Fort Ann, NY 12827
(518) 639-5591

Fort Edward Office

159 Broadway
Fort Edward, NY 12828
(518) 747-4165

Granville Office

8646 State Route 22
Granville, NY 12832
(518) 642-2206

Greenwich Office

132 Main Street
Greenwich, NY 12834
(518) 692-2201

Greenwich Drive-In Office

1153 State Route 29
Greenwich, NY 12834
(518) 692-9021

Kingsbury Office

3019 State Route 4
Hudson Falls, NY 12839
(518) 747-2061

Lake George Office

2252 State Route 9
Lake George, NY 12845
(518) 668-5461

Lake Luzerne Office

15 Main Street
Lake Luzerne, NY 12846
(518) 696-5819

Margaret Street Office

25 Margaret Street
Plattsburgh, NY 12901
(518) 561-3101

Port Henry Office

4307 Main Street
Port Henry, NY 12974
(518) 546-3312

Queensbury Office

696 Upper Glen Street
Queensbury, NY 12804
(518) 793-9656

Rt.9 - Queensbury Office

1002 State Route 9
Queensbury, NY 12804
(518) 798-7201

Salem Office

212 Main Street
Salem, NY 12865
(518) 854-3500

Schroon Lake Office

1080 Main Street
Schroon Lake, NY 12870
(518) 532-7121

Schuylerville Office

73 Broad Street
Schuylerville, NY 12871
(518) 695-3224

South Glens Falls Office

147 Saratoga Avenue
South Glens Falls, NY 12803
(518) 793-4431

Ticonderoga Office

123 Montcalm Street
Ticonderoga, NY 12883
(518) 585-9025

Ticonderoga Drive-In Office

1127 Wicker Street
Ticonderoga, NY 12883
(518) 585-3621

U.S. Avenue Office

5023 U.S. Avenue
Plattsburgh, NY 12903
(518) 324-4362

Warrensburg Office

3853 Main Street
Warrensburg, NY 12885
(518) 623-3036

Washington County Office

343 Broadway
Fort Edward, NY 12828
(518) 747-0601

Saratoga National Bank and Trust Company

saratoganational.com

Main Office

171 South Broadway
Saratoga Springs, NY 12866
(518) 583-3114

Ballard Road Office

227 Ballard Road
Wilton, NY 12831
(518) 587-4051

Clifton Park Office

386 Clifton Park Center Road
Clifton Park, NY 12065
(518) 935-2707

Colonie Office

501 New Karner Road
Albany, NY 12205
(518) 608-1044

Corinth Office

238 Main Street
Corinth, NY 12822
(518) 654-9001

Jones Road Office

4208 Route 50
Saratoga Springs, NY 12866
(518) 587-8484

Route 9 Wilton Office

3 Carpenter Lane
Saratoga Springs, NY 12866
(518) 584-8120

West Avenue Office

91 West Avenue
Saratoga Springs, NY 12866
(518) 583-6504

Capital Financial Group, Inc.

capitalfinancialgroupinc.com

89 Saratoga Avenue
South Glens Falls, NY 12803
(518) 793-2885

Loomis and LaPann, Inc.

loomislapann.com

250 Glen Street
Glens Falls, NY 12801
(518) 792-6561

Upstate Insurance Agency, LLC

upstateagency.com

Chestertown Office

93 Riverside Drive
Chestertown, NY 12817
(518) 494-2417

Elizabethtown Office

223 Water Street, Suite 2
Elizabethtown, NY 12932
(518) 873-2149

Schroon Lake Office

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Schroon Lake, NY 12870
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South Glens Falls Office

89 Saratoga Avenue
South Glens Falls, NY 12803
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98 Montcalm Street
Ticonderoga, NY 12883
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Warrensburg Office

3857 Main Street
Warrensburg, NY 12885
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Willsboro Office

3423 State Route 22
Willsboro, NY 12996
(518) 963-4663

McPhillips Insurance Agency – A Division of Glens Falls National Insurance Agencies, LLC

mcpins.com

Glens Falls Office

20 East Washington Street
Glens Falls, NY 12801
(518) 792-5841

Lake Luzerne Office

15 Main Street
Lake Luzerne, NY 12846
(518) 696-2000

Warrensburg Office

3857 Main Street
Warrensburg, NY 12885
(518) 623-3151

Greenwich Office

132 Main Street
Greenwich, NY 12834
(518) 692-2831

Saratoga Springs Office

171 South Broadway
Saratoga Springs, NY 12866
(518) 306-2771

ARROW Financial Corporation

Glens Falls National
Bank and Trust Company

SARATOGA
BANK & TRUST COMPANY
NATIONAL
The Thoroughbred of Banks 



LOOMIS & LAPANN, INC.
INSURANCE SINCE 1852



250 Glen Street • P. O. Box 307 • Glens Falls, NY 12801

Tel: (518) 745-1000

arrowfinancial.com