

ARROW Financial Corporation

2015 ANNUAL REVIEW



Saratoga National Bank Expands to Troy

Saratoga National Bank opened an office in Troy last September, marking our entry into Rensselaer County and further strengthening our position in the Capital Region. The branch is Saratoga National's ninth overall and third to open in the last three years.



Glens Falls National Helps Launch the "Saratoga" Quarter

Glens Falls National Bank was proud to be selected by the National Park Service as bank sponsor for the 2015 Saratoga National Historical Park quarter's ceremonial release in November. This coin is part of the U.S. Mint's America the Beautiful Quarters® program and is available for purchase at select branches.

Cover Photo: Aerial of Glens Falls National Bank's Main Office complex, Glens Falls, New York

To Our Shareholders, Our Team and Our Friends:



Thank you for taking the time to read our Annual Review, featuring a brief summary of Arrow Financial Corporation's financial performance and accomplishments in 2015.

Thanks to the efforts of our dedicated team, we reported double-digit growth in our loan portfolio, which reached a record high at year-end. We also set new records for net income and diluted earnings per share for the year, and total equity as of December 31, 2015. Our profitability measurements remained strong and our asset quality ratios continued to be better than our peer group.

Among other highlights, our Company was again named one of "America's 50 Most Trustworthy Companies" by *Forbes*. Arrow also appeared on top-performer lists for *American Banker* and *Bank Director* magazines and was awarded the Raymond James Community Bankers Cup. In addition, both subsidiary banks maintained 5-Star Superior ratings from BauerFinancial, and Saratoga National was recognized as the Capital Region's No. 1 Small Community Lender by the Small Business Administration for the second year running. Finally, our proprietary mutual fund, the North Country Equity Growth Fund, appeared twice in the *Wall Street Journal's* "Category of Kings" as a top-performer in the Large-Cap Core Equity Category.

We continue to expand in the Capital District, which has proven to be a key market for Arrow's growth. During 2015, Saratoga National Bank opened its ninth office in Troy, New York.

2015 FINANCIAL HIGHLIGHTS

- Record net income of \$24.7 million
- Strong profitability, represented by 11.86% return on average equity (ROE), 1.05% return on average assets (ROA), and 13.50% return on tangible equity
- 2% stock dividend distributed in September effectively increasing cash dividends by 2%
- Continued strong levels of capital, including increases in book value per share of 5.96% and shareholders' equity of 6.5%
- Record assets of \$2.45 billion at year-end
- Total loans increased by 11.4%
- \$144.2 million in mortgage loans originated
- Strong asset quality, represented by non-performing assets at year-end of only 0.36% and loans charged-off just 0.06% of average loans outstanding.

Looking ahead, our Company will continue to pursue banking and insurance opportunities, and our management team will continue to do what it does best: Strive to increase shareholder value by following our tried-and-true conservative business model.

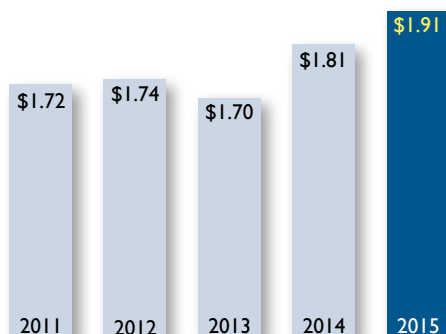
I am very pleased with our performance and the team that made it happen. I am proud of our employees and their service to our customers, our communities and our shareholders.

Thank you for your continued support.

Sincerely,

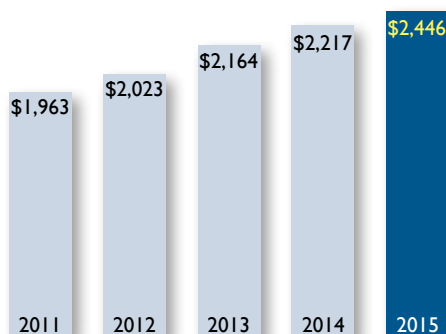
Tom Murphy
President and Chief Executive Officer

PERFORMANCE COMPARISONS



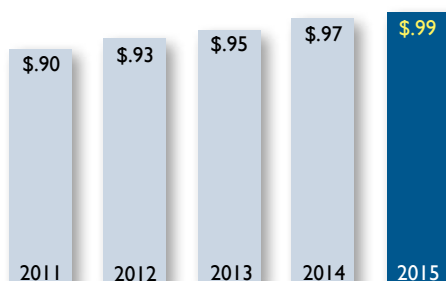
DILUTED EARNINGS PER SHARE

For the 12 Months Ended December 31*



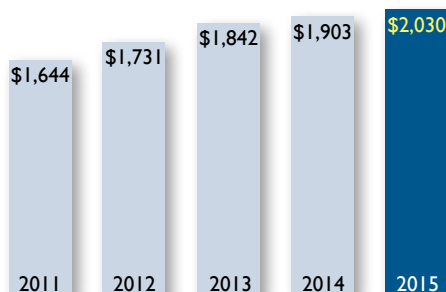
ASSETS

As of December 31
(\$ in Millions)



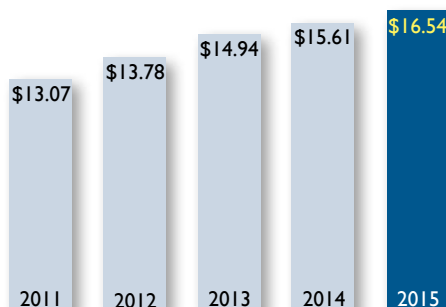
CASH DIVIDENDS PAID PER SHARE

For the 12 Months Ended December 31*



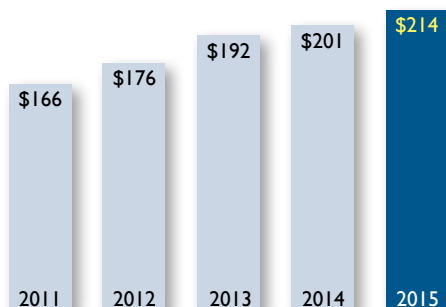
DEPOSITS

As of December 31
(\$ in Millions)



BOOK VALUE PER SHARE

As of December 31*

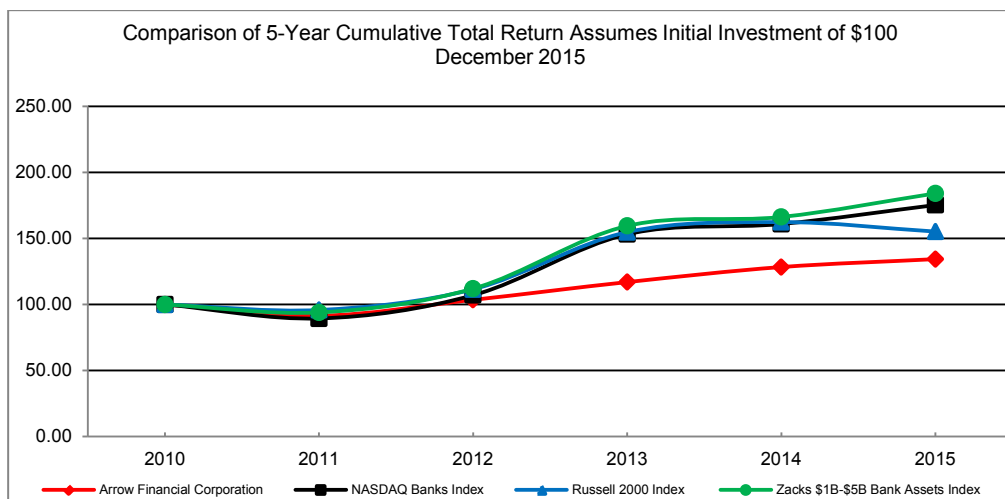


SHAREHOLDERS' EQUITY

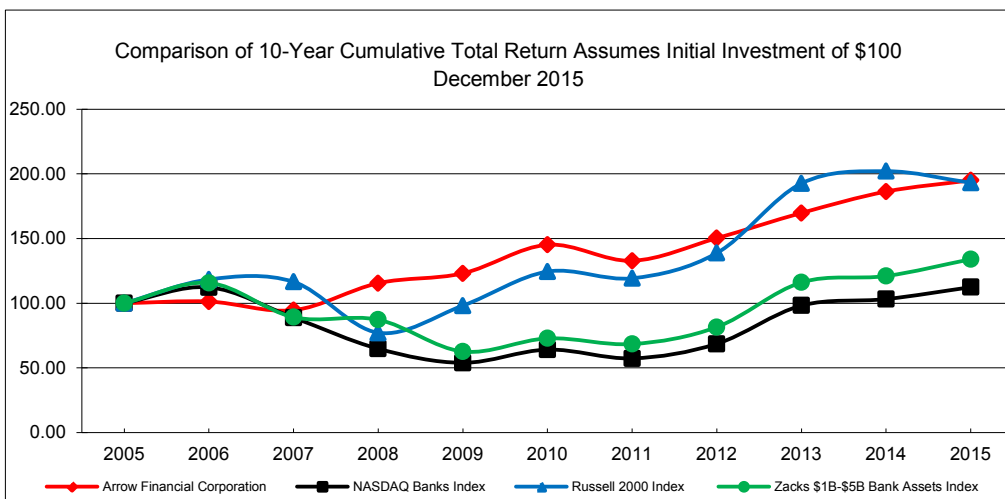
As of December 31
(\$ in Millions)

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

TOTAL RETURN PERFORMANCE



	2010	2011	2012	2013	2014	2015
Arrow Financial Corporation	100.00	91.47	103.50	116.93	128.33	134.33
NASDAQ Banks Index	100.00	89.43	107.00	153.14	160.92	175.27
Russell 2000 Index	100.00	95.82	111.49	154.78	162.35	155.18
Zacks \$1B-\$5B Bank Assets Index	100.00	93.98	111.99	159.46	166.25	184.07



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Arrow Financial Corporation	100.00	101.28	94.59	115.50	123.08	145.18	132.80	150.27	169.77	186.31	195.02
NASDAQ Banks Index	100.00	112.29	88.87	64.79	53.91	64.11	57.34	68.60	98.18	103.17	112.37
Russell 2000 Index	100.00	118.37	116.51	77.15	98.11	124.46	119.26	138.76	192.63	202.06	193.14
Zacks \$1B-\$5B Bank Assets Index	100.00	115.68	89.15	87.23	62.63	72.79	68.40	81.52	116.07	121.01	133.99

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years Ended December 31

(in thousands, except per share amounts)	2011	2012	2013	2014	2015
Interest and Dividend Income	\$ 76,791	\$ 69,379	\$ 64,138	\$ 66,861	\$ 70,738
Interest Expense	18,679	11,957	7,922	5,767	4,813
Net Interest Income	<u>58,112</u>	<u>57,422</u>	<u>56,216</u>	<u>61,094</u>	<u>65,925</u>
Provision for Loan Losses	<u>845</u>	<u>845</u>	<u>200</u>	<u>1,848</u>	<u>1,347</u>
Net Interest Income After Provision for Loan Losses	57,267	56,577	56,016	59,246	64,578
Total Noninterest Income	25,928	27,099	28,061	28,316	28,124
Total Noninterest Expense	<u>51,548</u>	<u>51,836</u>	<u>53,203</u>	<u>54,028</u>	<u>57,430</u>
Income Before Taxes	<u>31,647</u>	<u>31,840</u>	<u>30,874</u>	<u>33,534</u>	<u>35,272</u>
Provision for Income Taxes	<u>9,714</u>	<u>9,661</u>	<u>9,079</u>	<u>10,174</u>	<u>10,610</u>
Net Income	<u><u>\$ 21,933</u></u>	<u><u>\$ 22,179</u></u>	<u><u>\$ 21,795</u></u>	<u><u>\$ 23,360</u></u>	<u><u>\$ 24,662</u></u>
Share and Per Share Data					
Diluted Average Shares					
Outstanding	12,715	12,752	12,825	12,886	12,942
Diluted Earnings Per Share	\$ 1.72	\$ 1.74	\$ 1.70	\$ 1.81	\$ 1.91
Cash Dividends Per Share	.90	.93	.95	.97	.99
Book Value Per Share	13.07	13.78	14.94	15.61	16.54
Tangible Book Value Per Share	10.97	11.70	12.91	13.62	14.61
Key Earnings Ratios					
Return on Average Assets	1.13%	1.11%	1.04%	1.07%	1.05%
Return on Average Equity	13.45%	12.88%	12.11%	11.79%	11.86%
Return on Tangible Equity	15.84%	15.24%	14.19%	13.56%	13.50%
Net Interest Margin	3.36%	3.26%	3.06%	3.17%	3.17%
Capital Ratios					
Tier 1 Leverage Ratio	8.95%	9.10%	9.19%	9.44%	9.59%
Total Risk-Based Capital Ratio	15.96%	16.26%	15.77%	15.54%	15.09%
Asset Quality Ratios					
Nonperforming Assets to Period-End Assets	0.41%	0.45%	0.37%	0.37%	0.36%
Allowance for Loan Losses to Period-End Loans	1.33%	1.30%	1.14%	1.10%	1.02%

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

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of December 31

(in thousands)

	2011	2012	2013	2014	2015
Assets					
Cash and Due from Banks	\$ 29,598	\$ 37,076	\$ 37,275	\$ 35,081	\$ 34,816
Interest-Bearing Deposits at Banks	14,138	11,756	12,705	11,214	16,252
Investment Securities	713,948	724,293	763,148	673,014	731,759
Loans	1,131,457	1,172,341	1,266,472	1,413,268	1,573,952
Allowance for Loan Losses	(15,003)	(15,298)	(14,434)	(15,570)	(16,038)
Net Loans	1,116,454	1,157,043	1,252,038	1,397,698	1,557,914
Premises and Equipment, Net	22,629	28,897	29,154	28,488	27,440
Goodwill and Intangible Assets, Net	26,752	26,495	26,143	25,628	24,980
Other Assets	39,165	37,236	43,235	46,297	53,027
Total Assets	\$1,962,684	\$2,022,796	\$2,163,698	\$2,217,420	\$2,446,188
Liabilities and Shareholders' Equity					
Noninterest-Bearing Deposits NOW and Savings Deposits	\$ 232,038	\$ 247,232	\$ 278,958	\$ 300,786	\$ 358,751
Time Deposits of \$100,000 or More	123,668	93,375	78,928	61,797	59,792
Other Time Deposits	228,990	189,898	168,299	144,046	130,025
Total Deposits	1,644,046	1,731,155	1,842,330	1,902,948	2,030,423
Short-Term Borrowings	68,293	41,678	64,777	60,421	105,173
Federal Home Loan Bank Term Advances	40,000	30,000	20,000	10,000	55,000
Other Long-Term Debt	20,000	20,000	20,000	20,000	20,000
Other Liabilities	23,960	24,138	24,437	23,125	21,621
Total Liabilities	1,796,299	1,846,971	1,971,544	2,016,494	2,232,217
Total Shareholders' Equity	166,385	175,825	192,154	200,926	213,971
Total Liabilities and Shareholders' Equity	\$1,962,684	\$2,022,796	\$2,163,698	\$2,217,420	\$2,446,188

BOARDS OF DIRECTORS

Arrow Financial Corporation

Thomas L. Hoy (Chairman)
Retired President and CEO

John J. Carusone, Jr.
Attorney
Carusone & Carusone

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. Kruczynicki
Retired President and CEO
Glens Falls Hospital

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

David L. Moynihan
Retired President
Riverside Gas & Oil Company, Inc.

John J. Murphy
Retired Executive Vice President,
Treasurer and CFO

Thomas J. Murphy, CPA
President and CEO

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

Dr. Colin L. Read
Professor of Economics
and Finance
SUNY Plattsburgh

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

Director Emeriti

Jan-Eric O. Bergstedt
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

Thomas L. Hoy (Chairman)
Retired President and CEO

Mark L. Behan
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

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

Elizabeth A. Miller
President
Miller Mechanical Services, Inc.

David L. Moynihan
Retired President
Riverside Gas & Oil Company, Inc.

Thomas J. Murphy, CPA
President and CEO

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

Dr. Colin L. Read
Professor of Economics
and Finance
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

Gary C. Dake
President
Stewart's Shops Corp.

James M. Dawsey
President
MLB Industries, Inc.

David S. DeMarco
President and CEO

David G. Kruczynicki
Retired President and CEO
Glens Falls Hospital

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

David S. DeMarco
Senior Vice President

Terry R. Goodemote, CPA
Executive Vice President and CFO

David D. Kaiser
Senior Vice President

Glens Falls National Bank and Trust Company

Thomas J. Murphy, CPA
President and CEO

Suzanna M. Bernd
Senior Vice President
Customer/Shareholder Relations
Corporate Secretary

Peter F. Luciano
Senior Vice President
Consumer Loan Administration

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

Katherine M. Dier
Senior Vice President
Branch Services

Debra A. Meier
Senior Vice President
Human Resources

David D. Kaiser
Executive Vice President
and Chief Credit Officer

Karen E. Guiseppe
Senior Vice President
Director of Internal Audit

Kurt E. Moser
Senior Vice President
Corporate Banking

Kathleen Kelleher
Executive Vice President
and Chief Information Officer

Michael J. Jacobs
Senior Vice President
Information Technology

Kevin T. O'Brien
Senior Vice President
Insurance Division

Donna M. Perkett
Executive Vice President
Retail Banking

Peter J. Lareau
Senior Vice President
and Chief Risk Officer

Mickey S. Orta
Senior Vice President
Wealth Management Division

Timothy C. Badger
Senior Vice President
Marketing

Saratoga National Bank and Trust Company

David S. DeMarco
President and CEO

Thomas E. Ratsep
Senior Vice President
Corporate Banking

Richard J. Ferguson
Senior Vice President
Corporate Secretary
and Community Development

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 and Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Tel: (800) 278-4353 or 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

Troy Office

120 Hoosick Street
Troy, NY 12180
(518) 953-0109

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

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

1072 State Route 9
Schroon Lake, NY 12870
(518) 532-7396

South Glens Falls Office

89 Saratoga Avenue
South Glens Falls, NY 12803
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Ticonderoga Office

98 Montcalm Street
Ticonderoga, NY 12883
(518) 585-6774

Warrensburg Office

3857 Main Street
Warrensburg, NY 12885
(518) 623-2710

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

Greenwich Office

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

Lake Luzerne Office

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

Saratoga Springs Office

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

Warrensburg Office

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

Glens Falls National
Bank and Trust Company

SARATOGA
BANK & TRUST COMPANY
NATIONAL
The Thoroughbred of Banks



 **Capital**
FINANCIAL GROUP INC.

 **UPSTATE**
AGENCY
INSURANCE

 **McPhillips**
INSURANCE

Arrow Financial Corporation

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