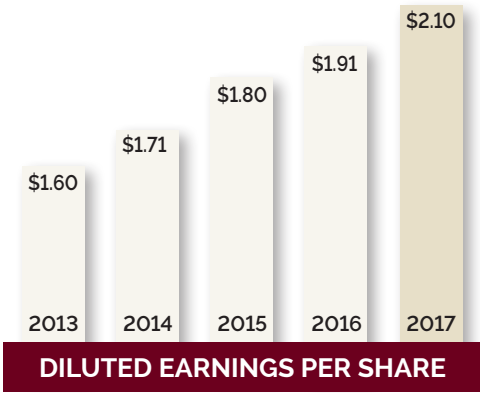




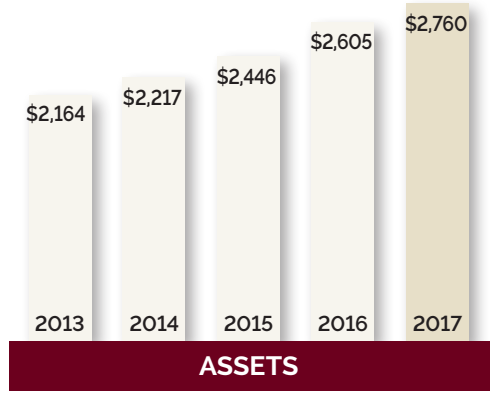
2017
— ANNUAL REVIEW —

Performance Comparisons



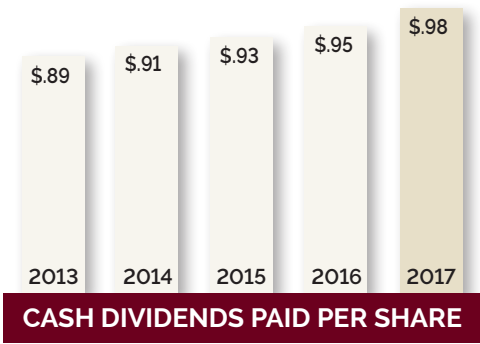
DILUTED EARNINGS PER SHARE

For the 12 Months Ended December 31*



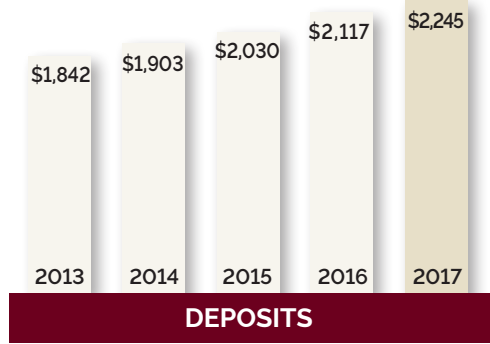
ASSETS

As of December 31
(\$ in Millions)



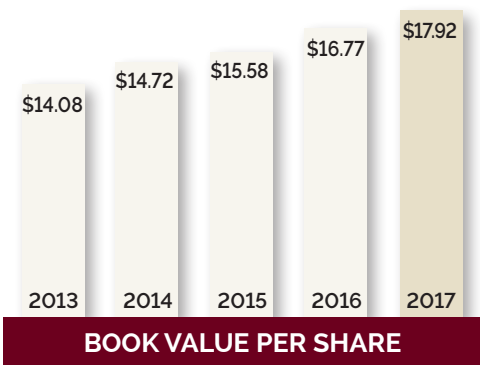
CASH DIVIDENDS PAID PER SHARE

For the 12 Months Ended December 31*



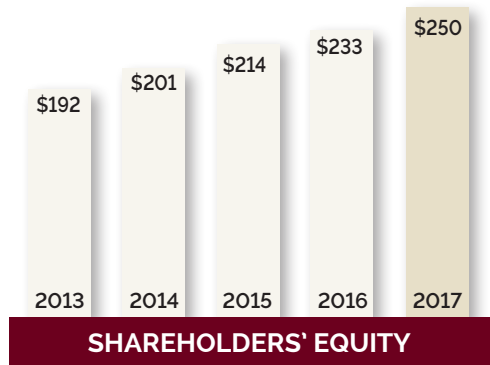
DEPOSITS

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.

Fellow Shareholders:



I am proud to report that 2017 was another outstanding year of record financial performance and remarkable accomplishments for Arrow Financial Corporation.

Through hard work, we were again able to deliver growth in key markets, while maintaining strong profitability ratios and asset quality.

Some of the highlights from this past year included:

- Double-digit growth in our loan portfolio for the fourth consecutive year, reaching a record high of \$1.95 billion in total loan balances at year-end.
- New records for net income, year-end total assets and total equity, as well as assets under trust administration and investment management as of December 31, 2017.
- Our Company was named one of America's "Most Trustworthy" financial companies by *Forbes* for the sixth consecutive year and made *Bank Director Magazine's* top-performer list for the third year in a row.
- Both Glens Falls National Bank and Saratoga National Bank maintained 5-Star Superior ratings from BauerFinancial.
- Saratoga National continued to expand its footprint into the Capital Region with the opening of its 10th location, in Schenectady.
- And the Company combined decades of expertise in the property and casualty insurance industry by bringing its insurance agencies together under the Upstate Agency brand.

2017 FINANCIAL HIGHLIGHTS

Net income: \$29.3 million, up 10.5%

Total Loans: \$1.95 billion, up 11.3%

Total Deposits: \$2.25 billion, up 6.1%

Total Assets: \$2.76 billion, up 5.9%

Return on Average Equity: 12.1%

Return on Average Assets: 1.09%

Return on Tangible Equity: 13.5%

Stock Dividend: 3% distributed in Sept.

Quarterly Cash Dividend: \$0.25

Book Value Per Share: Increase of 6.8%

Shareholders' Equity: Increase of 7.2%

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

As we look ahead, we remain committed to driving our business forward. We will do that by focusing on strategic growth priorities in target markets and advancing our brand, with the long-term mission of delivering value to our customers, our communities, our employees and our shareholders.

Thank you for your continued trust, support and partnership. You are the reason we are Arrow Strong.

Sincerely,



Tom Murphy
President and Chief Executive Officer

Consolidated Statements of Income (Unaudited)

Years Ended December 31

(in thousands, except per share amounts)	2013	2014	2015	2016	2017
Interest and Dividend Income	\$ 64,138	\$ 66,861	\$ 70,738	\$ 76,915	\$ 84,657
Interest Expense	7,922	5,767	4,813	5,356	7,006
Net Interest Income	56,216	61,094	65,925	71,559	77,651
Provision for Loan Losses	200	1,848	1,347	2,033	2,736
Net Interest Income after Provision for Loan Losses	56,016	59,246	64,578	69,526	74,915
Total Noninterest Income	28,061	28,316	28,124	27,832	27,645
Total Noninterest Expense	53,203	54,028	57,430	59,609	62,705
Income Before Taxes	30,874	33,534	35,272	37,749	39,855
Provision for Income Taxes	9,079	10,174	10,610	11,215	10,529
Net Income	\$ 21,795	\$ 23,360	\$ 24,662	\$ 26,534	\$ 29,326
Share and Per Share Data					
Diluted Average Shares					
Outstanding	13,606	13,670	13,730	13,880	13,986
Diluted Earnings Per Share	\$ 1.60	\$ 1.71	\$ 1.80	\$ 1.91	\$ 2.10
Cash Dividends Per Share	\$.89	\$.91	\$.93	\$.95	\$.98
Book Value Per Share	\$ 14.08	\$ 14.72	\$ 15.58	\$ 16.77	\$ 17.92
Tangible Book Value Per Share	\$ 12.17	\$ 12.83	\$ 13.77	\$ 15.00	\$ 16.18
Key Earnings Ratios					
Return on Average Assets	1.04%	1.07%	1.05%	1.06%	1.09%
Return on Average Equity	12.11%	11.79%	11.86%	11.79%	12.14%
Return on Tangible Equity	14.19%	13.56%	13.50%	13.25%	13.51%
Net Interest Margin	3.06%	3.17%	3.17%	3.15%	3.17%
Capital Ratios					
Tier 1 Leverage Ratio	9.24%	9.44%	9.25%	9.47%	9.49%
Total Risk-Based Capital Ratio	15.77%	15.54%	15.09%	15.15%	14.98%
Asset Quality Ratios					
Nonperforming Assets to Period-End Assets	0.37%	0.37%	0.36%	0.28%	0.28%
Allowance for Loan Losses to Period-End Loans	1.14%	1.10%	1.02%	0.97%	0.95%

The Tax Cuts and Jobs Act reduced tax expense by \$11 million in 2017.

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

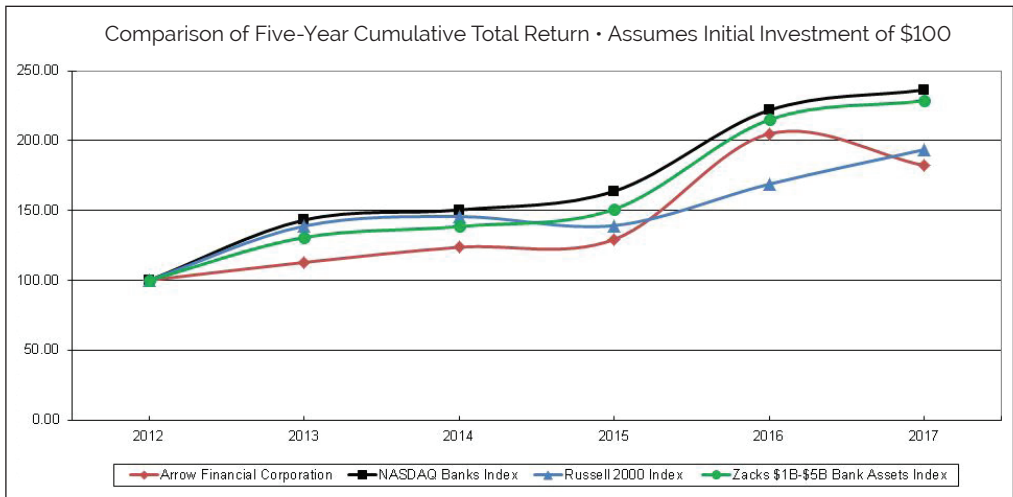
Consolidated Balance Sheets (Unaudited)

As of December 31

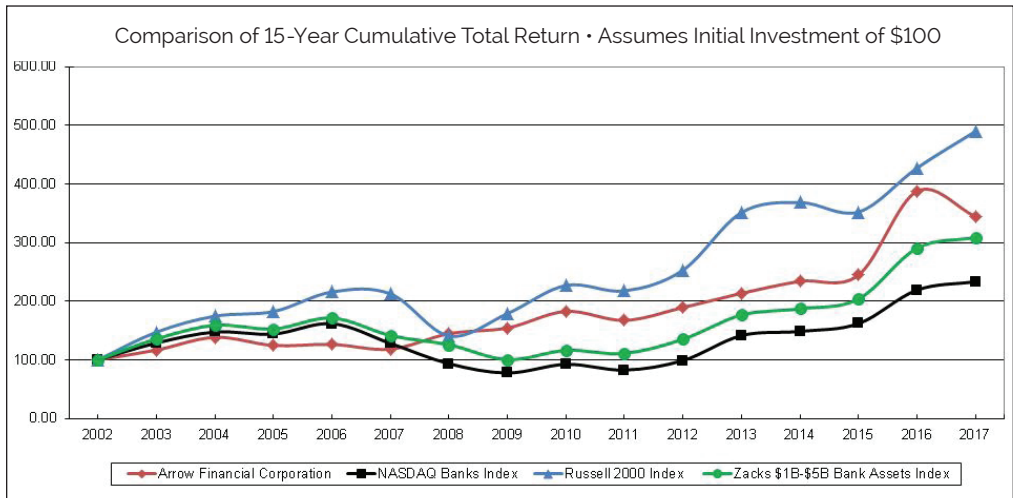
(in thousands)

	2013	2014	2015	2016	2017
Assets					
Cash and Due from Banks	\$ 37,275	\$ 35,081	\$ 34,816	\$ 43,024	\$ 42,562
Interest-Bearing Deposits at Banks	12,705	11,214	16,252	14,331	30,276
Investment Securities	763,148	673,014	731,759	703,335	646,056
Loans	1,266,472	1,413,268	1,573,952	1,753,268	1,950,770
Allowance for Loan Losses	(14,434)	(15,570)	(16,038)	(17,012)	(18,586)
Net Loans	1,252,038	1,397,698	1,557,914	1,736,256	1,932,184
Premises and Equipment, Net	29,154	28,488	27,440	26,938	27,619
Goodwill and Intangible Assets, Net	26,143	25,628	24,980	24,569	24,162
Other Assets	43,235	46,297	53,027	56,789	57,606
Total Assets	\$2,163,698	\$2,217,420	\$2,446,188	\$2,605,242	\$2,760,465
Liabilities and Shareholders' Equity					
Noninterest-Bearing Deposits	\$ 278,958	\$ 300,786	\$ 358,751	\$ 387,280	\$ 441,945
Interest-Bearing Checking and Savings Deposits	1,316,145	1,396,319	1,481,855	1,529,953	1,601,888
Time Deposits	247,227	205,843	189,817	199,313	201,283
Total Deposits	1,842,330	1,902,948	2,030,423	2,116,546	2,245,116
Short-Term Borrowings	64,777	60,421	105,173	158,836	169,966
Federal Home Loan Bank Term Advances	20,000	10,000	55,000	55,000	55,000
Other Long-Term Debt	20,000	20,000	20,000	20,000	20,000
Other Liabilities	24,437	23,125	21,621	22,008	20,780
Total Liabilities	1,971,544	2,016,494	2,232,217	2,372,390	2,510,862
Total Shareholders' Equity	192,154	200,926	213,971	232,852	249,603
Total Liabilities and Shareholders' Equity	\$2,163,698	\$2,217,420	\$2,446,188	\$2,605,242	\$2,760,465

Total Return Performance



	2012	2013	2014	2015	2016	2017
Arrow Financial Corporation	100.00	112.83	123.65	129.28	204.86	182.13
NASDAQ Banks Index	100.00	143.13	150.40	163.81	221.79	236.29
Russell 2000 Index	100.00	138.82	145.62	139.19	168.85	193.58
Zacks \$1B-\$5B Bank Assets Index	100.00	130.65	138.51	150.87	214.90	228.54



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Arrow Financial Corporation	100.00	116.64	138.31	124.30	126.20	118.13	144.56	154.31	182.46	167.25	189.09	213.35	233.81	244.45	387.37	344.38
NASDAQ Banks Index	100.00	128.64	147.32	143.90	161.58	127.88	93.23	77.58	92.25	82.51	98.71	141.28	148.46	161.69	218.92	233.24
Russell 2000 Index	100.00	147.25	174.40	182.27	215.75	212.37	140.62	178.82	226.85	217.37	252.91	351.10	368.29	352.03	427.04	489.59
Zacks \$1B-\$5B Bank Assets Index	100.00	135.63	158.83	152.55	171.18	141.30	125.61	100.29	115.98	110.87	134.99	176.37	186.98	203.66	290.10	308.52

Arrow Financial Corporation

Board of Directors

Thomas L. Hoy (Chairman)
Retired President and CEO
Arrow/Glens Falls National Bank

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

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.

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

Director Emeriti

Herbert O. Carpenter
John J. Carusone, Jr.
Mary-Elizabeth T. FitzGerald
Herbert A. Heineman, Jr.
Elizabeth O'Connor Little

Michael F. Massiano
(Chairman Emeritus)

John J. Murphy
Doris E. Ornstein

In Memoriam:
George C. Frost
Dr. Edward F. Huntington

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



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