

# ARROW Financial Corporation



2012 ANNUAL REVIEW



**Glens Falls National Bank and Trust Company** recently completed an expansion of its downtown Glens Falls campus. The new building at 20 South Street, shown above, houses our Commercial Lending Services as well as Trust, Investment and Retirement Services. The project is a reflection of the Bank's commitment to the community and will accommodate future growth.

## STOCKHOLDER INFORMATION

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### Arrow Stock

Arrow's common stock trades on the NASDAQ Global Select Market<sup>SM</sup> 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  
59 Maiden Lane  
New York, NY 10038  
Tel: 800-278-4353  
[amstock.com](http://amstock.com)

# To Our Shareholders, Staff and Friends:



We are pleased to announce another year of increased earnings and growth for Arrow Financial Corporation. Despite the ongoing challenges posed by increasing regulation and a prolonged low

interest rate environment, our management team stayed the course and delivered a solid performance that included a fifth consecutive year of record net income.

In addition to our strong financial results, which are described in further detail on the following pages, we would like to note a few important highlights. In the fall, we completed an expansion of the Glens Falls National Bank and Trust Company Main Office in beautiful downtown Glens Falls, New York. Our new building demonstrates our commitment to the community and improves the level of service we provide to our customers – key elements of success for a community bank. More recently, we announced plans to expand Saratoga National Bank and Trust Company operations into Clifton Park, New York.

Last year also brought a number of honors and recognitions, including four by banking industry publications. Arrow appeared in Bank Director Magazine's annual "Bank Performance Scorecard", American Banker Magazine's "Top 200 Community Banks" list, the ABA Banking Journal's "25 Top Performing Mid-Sized Banks" list, and American Banker newspaper's "Banks of the Year" list. In addition, Glens Falls National Bank was named "Large Business of the Year" by the Adirondack Regional Chamber of Commerce in 2012 and "Business of the Year" by the North Country Chamber of Commerce in January 2013.

Finally, we thank Thomas L. Hoy, former President and CEO of both Arrow Financial Corporation and Glens Falls National Bank, and Raymond F. O'Connor, former President

## 2012 FINANCIAL HIGHLIGHTS

- Net income grew to a record \$22.2 million
- Strong profitability, represented by 12.88% return on average equity (ROE), 1.11% return on average assets (ROA), and 15.24% return on tangible equity
- Cash dividends paid to shareholders increased 3%
- 2% stock dividend distributed in September
- Continued strong levels of capital, including 5.4% growth in book value per share and 5.7% growth in stockholders' equity
- Assets grew to \$2.023 billion at year-end
- Deposit growth of 5.3%
- \$109.1 million in mortgage loans originated
- Strong asset quality, represented by only 0.45% of assets non-performing at year-end and loans charged-off just 0.05% of average loans outstanding

and CEO of Saratoga National Bank and Trust Company, for their decades of service, and we wish them well in retirement. We also acknowledge and thank Herbert O. Carpenter, retiring Arrow and Glens Falls National Bank Director, for his years of valuable service.

Looking ahead, our management team will strive to continue delivering shareholder value by adhering to the conservative business model that has served us well over the years. We are very proud of our 2012 results, our employees and their service to our customers, our communities and our shareholders. Thanks to all of you for your continued support.

Sincerely,

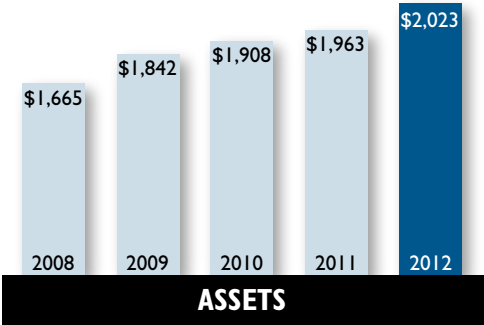
A handwritten signature in black ink that reads "Thomas J. Murphy". The signature is written in a cursive, flowing style.

Thomas J. Murphy, CPA  
President and Chief Executive Officer

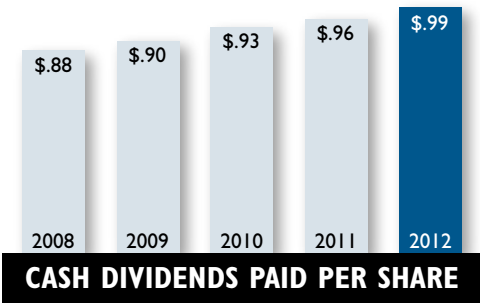
# PERFORMANCE COMPARISONS



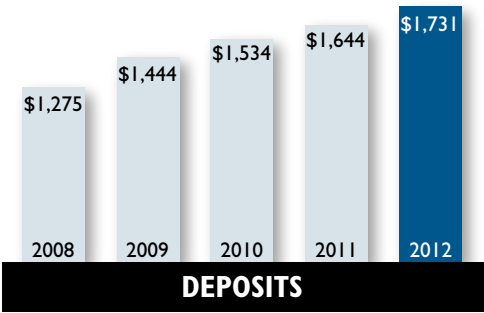
\*For the 12 Months Ended December 31



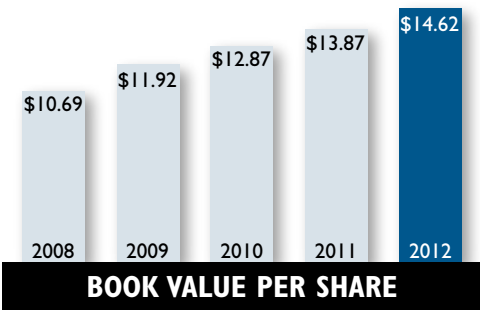
As of December 31  
(\$ in Millions)



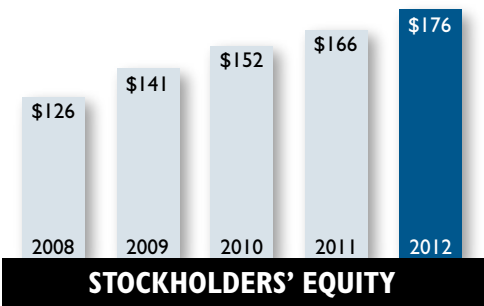
\*For the 12 Months Ended December 31



As of December 31  
(\$ in Millions)



\*As of December 31

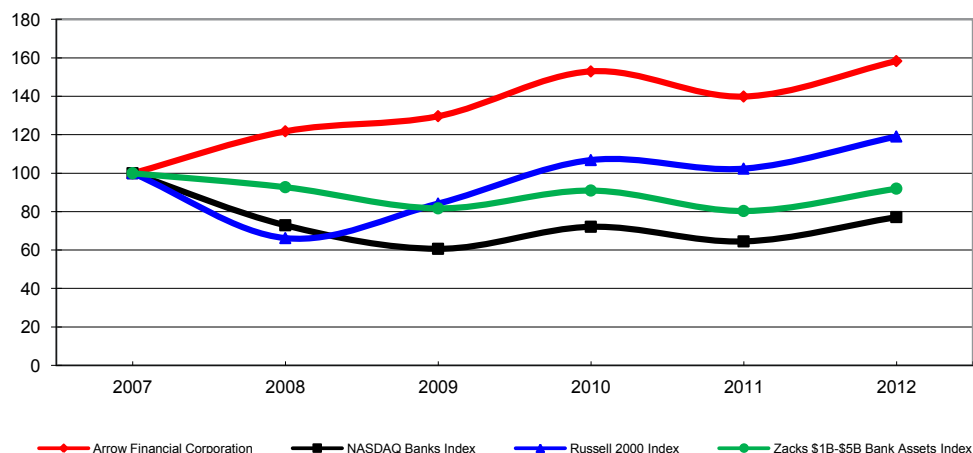


As of December 31  
(\$ in Millions)

\*Per share amounts have been restated for the 2% stock dividend distributed on September 27, 2012.

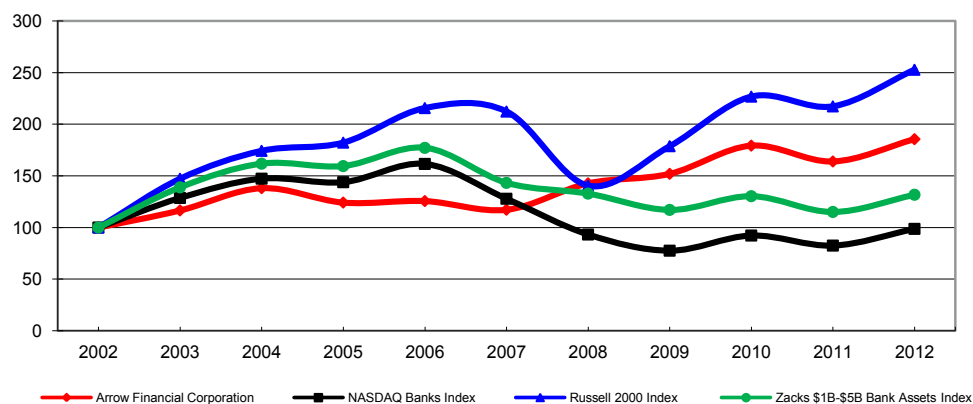
## TOTAL RETURN PERFORMANCE

Comparison of 5-Year Cumulative Total Return Assumes Initial Investment of \$100  
December 2012



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Arrow Financial Corporation	100.00	121.80	129.66	152.95	139.87	158.32
NASDAQ Banks Index	100.00	72.91	60.66	72.13	64.51	77.18
Russell 2000 Index	100.00	66.21	84.20	106.82	102.36	119.08
Zacks \$1B-\$5B Bank Assets Index	100.00	92.73	81.72	90.99	80.34	91.96

Comparison of 10-Year Cumulative Total Return Assumes Initial Investment of \$100  
December 2012



	<u>2002</u>	<u>2003</u>	<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>
Arrow Financial Corporation	100.00	116.55	138.10	124.17	125.62	117.22	142.78	151.99	179.30	163.97	185.59
NASDAQ Banks Index	100.00	128.64	147.31	143.90	161.59	127.87	93.23	77.56	92.24	82.49	98.69
Russell 2000 Index	100.00	147.25	174.25	182.18	215.65	212.27	140.55	178.74	226.74	217.28	252.77
Zacks \$1B-\$5B Bank Assets Index	100.00	138.88	161.80	159.48	177.14	143.24	132.83	117.06	130.33	115.08	131.73

Source: Prepared by Zacks Investment Research, Inc. Used with permission. All rights reserved. Copyright 1980-2013.

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Years Ended December 31,		
(in thousands, except per share amounts)	2010	2011	2012
Interest and Dividend Income	\$ 84,972	\$ 76,791	\$ 69,379
Interest Expense	23,695	18,679	11,957
Net Interest Income	61,277	58,112	57,422
Provision for Loan Losses	1,302	845	845
Net Interest Income After Provision for Loan Losses	59,975	57,267	56,577
Total Noninterest Income	19,089	25,928	27,099
Total Noninterest Expense	47,418	51,548	51,836
Income Before Taxes	31,646	31,647	31,840
Provision for Income Taxes	9,754	9,714	9,661
<b>Net Income</b>	<b>\$ 21,892</b>	<b>\$ 21,933</b>	<b>\$ 22,179</b>
<b>Share and Per Share Data</b>			
Diluted Average Shares			
Outstanding	11,872	11,982	12,017
Diluted Earnings Per Share	\$ 1.84	\$ 1.83	\$ 1.85
Cash Dividends Per Share	.93	.96	.99
Book Value Per Share	12.87	13.87	14.62
Tangible Book Value Per Share	11.42	11.64	12.42
<b>Key Earnings Ratios</b>			
Return on Average Assets	1.16%	1.13%	1.11%
Return on Average Equity	14.56%	13.45%	12.88%
Return on Tangible Equity	16.42%	15.84%	15.24%
Net Interest Margin	3.58%	3.36%	3.26%
<b>Capital Ratios</b>			
Tier 1 Leverage Ratio	8.53%	8.95%	9.10%
Total Risk-Based Capital Ratio	15.75%	15.96%	16.26%
<b>Asset Quality Ratios</b>			
Nonperforming Assets to Period-End Assets	0.26%	0.41%	0.45%
Allowance for Loan Losses to Period-End Loans	1.28%	1.33%	1.30%

Share and per share amounts have been restated for the 2% stock dividend distributed on September 27, 2012.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

December 31,

(in thousands)

	2010	2011	2012
<b>Assets</b>			
Cash and Due from Banks	\$ 25,961	\$ 29,598	\$ 37,076
Interest-Bearing Deposits at Banks	5,118	14,138	11,756
Investment Securities	685,904	713,948	724,293
Loans	1,145,508	1,131,457	1,172,341
Allowance for Loan Losses	(14,689)	(15,003)	(15,298)
Net Loans	<u>1,130,819</u>	<u>1,116,454</u>	<u>1,157,043</u>
Premises and Equipment, Net	18,836	22,629	28,897
Goodwill and Intangible Assets, Net	17,241	26,752	26,495
Other Assets	<u>24,457</u>	<u>39,165</u>	<u>37,236</u>
<b>Total Assets</b>	<u>\$1,908,336</u>	<u>\$1,962,684</u>	<u>\$2,022,796</u>
<b>Liabilities and Stockholders' Equity</b>			
Noninterest-Bearing Deposits	\$ 214,393	\$ 232,038	\$ 247,232
NOW and Savings Deposits	951,206	1,059,350	1,200,650
Time Deposits of \$100,000 or More	120,330	123,668	93,375
Other Time Deposits	<u>248,075</u>	<u>228,990</u>	<u>189,898</u>
Total Deposits	<u>1,534,004</u>	<u>1,644,046</u>	<u>1,731,115</u>
Short-Term Borrowings	53,214	68,293	41,678
Federal Home Loan Bank Term Advances	130,000	40,000	30,000
Other Long-Term Debt	20,000	20,000	20,000
Other Liabilities	<u>18,859</u>	<u>23,960</u>	<u>24,138</u>
Total Liabilities	<u>1,756,077</u>	<u>1,796,299</u>	<u>1,846,971</u>
Total Stockholders' Equity	<u>152,259</u>	<u>166,385</u>	<u>175,825</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$1,908,336</u>	<u>\$1,962,684</u>	<u>\$2,022,796</u>

## BOARDS OF DIRECTORS

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### Arrow Financial Corporation

**Thomas L. Hoy (Chairman)**  
Retired President and CEO

**Herbert O. Carpenter**  
Chairman  
Northeast Printing and  
Distribution Company, Inc.

**John J. Carusone, Jr.**  
Attorney  
Carusone & Carusone

**Michael B. Clarke**  
Retired President and CEO  
Lone Star Industries

**Gary C. Dake**  
President  
Stewart's Shops Corp.

**Mary-Elizabeth T. FitzGerald**  
Retired Executive Director  
Tri-County United Way

**David G. Kruczynicki**  
President and CEO  
Glens Falls Hospital

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

**David L. Moynehan**  
President  
Riverside Gas & Oil Company, Inc.

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

**Thomas J. Murphy, CPA**  
President and CEO

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

### Glens Falls National Bank and Trust Company

**Thomas L. Hoy (Chairman)**  
Retired President and CEO

**Herbert O. Carpenter**  
Chairman  
Northeast Printing and  
Distribution Company, Inc.

**Tenée Rehm Casaccio, AIA**  
Managing Principal  
JMZ Architects and Planners, P.C.

**Michael B. Clarke**  
Retired President and CEO  
Lone Star Industries

**Mary-Elizabeth T. FitzGerald**  
Retired Executive Director  
Tri-County United Way

**David G. Kruczynicki**  
President and CEO  
Glens Falls Hospital

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

**David L. Moynehan**  
President  
Riverside Gas & Oil Company, Inc.

**John J. Murphy**  
Retired Senior Executive  
Vice President and CFO

**Thomas J. Murphy, CPA**  
President and CEO

**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

**Reverend Arnold J. Byrd**  
Bishop and Senior Pastor  
Soul Saving Station Church

**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

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

**Mary Lauren Passaretti, MS**  
Principal  
Aztech Technologies, Inc.



## MANAGEMENT TEAM

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### 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

**Katherine M. Dier**  
Senior Vice President  
Branch Services

**Debra A. Meier**  
Senior Vice President  
Human Resources

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

**Michael J. Jacobs**  
Senior Vice President  
Information Technology

**Kurt E. Moser**  
Senior Vice President  
Corporate Banking

**Mark E. Bulmer, CPA**  
Executive Vice President  
Financial Services

**Laurie A. LaFountain**  
Senior Vice President  
Trust/Investment Division

**Karen E. Guiseppe**  
Director of Internal Audit

**David D. Kaiser**  
Executive Vice President  
and Chief Credit Officer

**Peter J. Lareau**  
Senior Vice President  
and Chief Risk Officer

**Kathleen Kelleher**  
Executive Vice President  
and Chief Information Officer

**Peter F. Luciano**  
Senior Vice President  
Consumer Loan Administration

**Timothy C. Badger**  
Senior Vice President  
Marketing/Business Development

### Saratoga National Bank and Trust Company

**David S. DeMarco**  
President and CEO

**Richard J. Ferguson**  
Senior Vice President  
Corporate Banking

## ARROW Financial Corporation

**Glens Falls National**  
*Bank and Trust Company*

 **Capital**  
FINANCIAL GROUP INC.

 **UPSTATE**  
**AGENCY**  
INSURANCE

**SARATOGA**  
BANK & TRUST COMPANY  
**NATIONAL**  
*The Thoroughbred of Banks*



**LOOMIS & LAPANN, INC.**  
INSURANCE SINCE 1852

**McPhillips**  
**McPhillips**  
INSURANCE

## OUR LOCATIONS

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### Glens Falls National Bank and Trust Company

gfnational.com

**Main Office (ATM)**

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

**Argyle Office (ATM)**

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

**Aviation Road Office (ATM)**

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

**Bay Road Office (ATM)**

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

**Broad Street Plaza Office (ATM)**

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

**Cambridge Office (ATM)**

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

**Chestertown Office (ATM)**

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

**Cornelia Street Office (ATM)**

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

**Fort Ann Office (ATM)**

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

**Fort Edward Office**

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

**Granville Office (ATM)**

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

**Greenwich Office (ATM)**

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

**Greenwich Drive-In Office (ATM)**

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

**Kingsbury Office (ATM)**

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

**Lake George Office (ATM)**

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

**Lake Luzerne Office (ATM)**

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

**Margaret Street Office (ATM)**

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

**Port Henry Office (ATM)**

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

**Queensbury Office (ATM)**

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

**Rt.9 - Queensbury Office (ATM)**

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

**Salem Office (ATM)**

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

**Schroon Lake Office (ATM)**

1080 Main Street, Route 9  
Schroon Lake, NY 12870  
(518) 532-7121

**Schuylerville Office (ATM)**

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

**South Glens Falls Office (ATM)**

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

**Ticonderoga Office (ATM)**

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

**Ticonderoga Drive-In Office (ATM)**

Wicker Street, Route 9N  
Ticonderoga, NY 12883  
(518) 585-3621

**U.S. Avenue Office (ATMs)**

Corners U.S. Avenue &  
New York Road  
Plattsburgh, NY 12903  
(518) 324-4362

**Warrensburg Office (ATM)**

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

**Washington County Office (ATM)**

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

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## Saratoga National Bank and Trust Company

[saratoganational.com](http://saratoganational.com)

### Main Office (ATM)

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

### Ballard Road Office (ATM)

Stewart's Plaza  
Ballard & Traver Roads  
Wilton, NY 12831  
(518) 587-4051

### Corinth Office (ATM)

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

### Jones Road Office (ATM)

Stewart's Plaza  
Jones Road & Route 50  
Wilton, NY 12831  
(518) 587-8484

### Route 9 Wilton Office (ATM)

3 Carpenter Lane & Route 9  
Wilton, NY 12866  
(518) 584-8120

### West Avenue Office (ATM)

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

### Clifton Park Office\* (ATM)

386 Clifton Park Center Road  
Clifton Park, NY 12065  
(518) 935-2707  
\*Opening March 2013

## Capital Financial Group, Inc.

[capitalfinancialgroupinc.com](http://capitalfinancialgroupinc.com)

89 Saratoga Avenue, Route 9  
South Glens Falls, NY 12803  
(518) 793-2885

## Loomis and LaPann, Inc.

[loomislapann.com](http://loomislapann.com)

18 Exchange Street  
Glens Falls, NY 12801  
(518) 792-6561

## Upstate Insurance Agency, LLC

[upstateagency.com](http://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 US Route 9  
Schroon Lake, NY 12870  
(518) 532-7396

### South Glens Falls Office

89 Saratoga Avenue, Route 9  
South Glens Falls, NY 12803  
(518) 793-5806

### Ticonderoga Office

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

### Warrensburg Office

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

### Willsboro Office

3926 NYS Route 22  
Willsboro, NY 12996  
(518) 963-4663

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

[mcpins.com](http://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

### Warrensburg Office

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

 **ARROW** Financial Corporation

250 Glen Street • P.O. Box 307 • Glens Falls, NY 12801  
Tel: 518-745-1000

[arrowfinancial.com](http://arrowfinancial.com)