LINDNER S CRAIG
Form 4
September 07, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
LINDNER S CRAIG

(Last) (First) (Middle)

301 EAST FOURTH STREET

(Street)

CINCINNATI, OH 45202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AMERICAN FINANCIAL GROUP INC [AFG]

3. Date of Earliest Transaction (Month/Day/Year)
09/05/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Co-CEO & Co-President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/22/2012		G	V	2,760	D	$ 0	1,968,991	I	#1 (1)
Common Stock	09/05/2012		S		39,204	D	$ 38.0667 (2)	1,929,787	I	#1 (1)
Common Stock	09/06/2012		S		1,596	D	$ 38.3107 (3)	1,928,191	I	#1 (1)
Common Stock								111,862	I	#3 (4)
	08/22/2012		G	V	690	A	$ 0	26,563	I	#6 (5)

Common Stock			
Common Stock	27,798.5	I	#12 (6)
Common Stock	225,546	I	#23 (7)
Common Stock	194,939	I	#24 (8)
Common Stock	301,805	I	#25 (9)
Common Stock	27,000	I	#26 (10)
Common Stock	66,760	I	#27 (11)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LINDNER S CRAIG 301 EAST FOURTH STREET CINCINNATI, OH 45202	X		Co-CEO & Co-President	

Signatures

S. Craig Lindner By: Karl J. Grafe, as Attorney-in-Fact	09/07/2012
**Signature of Reporting Person	Date

Explanation of Responses:

*	If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
**	Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
(1)	Indirect #1: SCL TTEE of the SCL Living Trust DTD 03/30/83.
(2)	The price reported in Column 4 is a weighted average price. These shares were sold in multiple transactions at prices ranging from $38.00 to $38.225, inclusive. The reporting person undertakes to provide to American Financial Group, Inc., ("AFG"), any security holder of AFG, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in footnotes 2 and 3.
(3)	The price reported in Column 4 is a weighted average price. These shares were sold in multiple transactions at prices ranging from $38.31 to $38.311, inclusive.
(4)	Indirect #3: By Frances R. Lindner, Trustee for the Frances R. Lindner living Trust dated 9/13/93. (SCL)
(5)	Indirect #6: FRL, Cust. CFL Under OH Tsfr to Min Act. (SCL)
(6)	Indirect #12: Held in the Company's Retirement and Savings Plan. The number of shares of Common is based on a statement dated as of 12/31/2011. (SCL)
(7)	Indirect #23: CFL TR U/A DTD 4/21/05 FRL TTEE (SCL)
(8)	Indirect #24: My Nyhart TTEE Christine CU Trust Agreement dtd 12/14/00.
(9)	Indirect #25: M. Nyhart TTEE CFL 2010 Consolidation Trust DTD 12/17/2010.
(10)	Indirect #26: M. Nyhart TTEE CFL 2010 Special Trust DTD 12/17/10.
(11)	Indirect #27: Shares voting and dispositive power and holds a remainder interest in shares held by charitable lead annuity trust. The reporting person disclaims beneficial interest of the shares held by the trust except to the extent of his pecuniary interest in such shares.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. font-size:9pt;">: In November 2011, the Board of Directors approved a $5.0 million stock repurchase program, effective January 1, 2012 (the 2012 program), under which management was authorized, in its discretion, to repurchase from time to time during 2012, in the open market or in privately negotiated transactions, up to $5 million of Arrow common stock, to the extent management believed the Company's stock was reasonably priced and such repurchases appeared to be an attractive use of available capital and in the best interests of stockholders. As of December 31, 2012, approximately $3.3 million had been used under the 2012 Program to repurchase shares. In December 2012, the Board of Directors authorized a similar $5.0 million stock repurchase program, effective for calendar year 2013.

F. OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, we may engage in a variety of financial transactions or arrangements, including derivative transactions or arrangements, that in accordance with generally accepted accounting principles are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions or arrangements involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions or arrangements may be used by us or our customers for general corporate purposes, such as managing credit, interest rate, or liquidity risk or to optimize capital, or may be used by us or our customers to manage funding needs.

We have no off-balance sheet arrangements that are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity or capital expenditures. As of December 31, 2012, we had no derivative securities, including interest rate swaps, credit default swaps, or equity puts or calls, in our investment portfolio.

49

G. CONTRACTUAL OBLIGATIONS (In Thousands)

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-Term Debt Obligations:					
Federal Home Loan Bank Advances [1]	$30,000	$10,000	$20,000	$—	$—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts [2]	20,000	—	—	—	20,000
Operating Lease Obligations [3]	3,080	618	1,158	732	572
Obligations under Retirement Plans [4]	51,583	3,179	6,668	6,607	35,129
Total	$104,663	$13,797	$27,826	$7,339	$55,701

[1] See Note 10 to the Consolidated Financial Statements in Item 8 of this Report for additional information on Federal Home Loan Bank Advances, including call provisions.
[2] See Note 10 to the Consolidated Financial Statements in Item 8 of this Report for additional information on Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts (trust preferred securities).
[3] See Note 18 to the Consolidated Financial Statements in Item 8 of this Report for additional information on our Operating Lease Obligations.
[4] See Note 13 to the Consolidated Financial Statements in Item 8 of this Report for additional information on our Retirement Plans

50

Explanation of Responses:

H. FOURTH QUARTER RESULTS

We reported net income of $5.5 million for the fourth quarter of 2012, an increase of $118 thousand, or 2.2%, from the fourth quarter of 2011. Diluted earnings per common share for the fourth quarter of 2012 were $.46, an increase of $.01, or 2.2%, from the $.45 amount for the fourth quarter of 2011. The net change in earnings was primarily affected by the following: (a) a $127 thousand increase in tax-equivalent net interest income, (b) a $698 thousand increase in noninterest income, (c) a $105 thousand decrease in the provision for loan losses, (d) a $662 thousand increase in noninterest expense, and (e) a $65 thousand decrease in the provision for income taxes. The factors contributing to these quarter-to-quarter changes are included in the discussion of the year-to-year changes in net income set forth elsewhere in this Item 7., specifically, in Section B., "Results of Operations," above, as well as in the Company's Current Report on Form 8-K, as filed with the SEC on January 22, 2013, incorporating by referenced the Company's earnings release for the fiscal year ended December 31, 2012.

SELECTED FOURTH QUARTER FINANCIAL INFORMATION
(Dollars In Thousands, Except Per Share Amounts)

	For the Quarters Ended December 31,			
	2012		2011	
Interest and Dividend Income	$16,740		$18,347	
Interest Expense	2,503		4,022	
Net Interest Income	14,237		14,325	
Provision for Loan Losses	175		280	
Net Interest Income after Provision for Loan Losses	14,062		14,045	
Noninterest Income	6,897		6,199	
Noninterest Expense	13,117		12,455	
Income Before Provision for Income Taxes	7,842		7,789	
Provision for Income Taxes	2,293		2,358	
Net Income	$5,549		$5,431	
SHARE AND PER SHARE DATA:				
Weighted Average Number of Shares Outstanding:				
Basic	12,014		12,017	
Diluted	12,032		12,024	
Basic Earnings Per Common Share	$0.46		0.45	
Diluted Earnings Per Common Share	0.46		0.45	
Cash Dividends Per Common Share	0.25		0.25	
AVERAGE BALANCES:				
Assets	$2,064,602		$1,963,915	
Earning Assets	1,945,441		1,849,891	
Loans	1,160,226		1,126,452	
Deposits	1,781,778		1,668,062	
Stockholders' Equity	176,514		168,293	
SELECTED RATIOS (Annualized):				
Return on Average Assets	1.07	%	1.10	%
Return on Average Equity	12.51	%	12.80	%
Net Interest Margin [1]	3.13	%	3.25	%
Net Charge-offs to Average Loans	0.04	%	0.07	%

Provision for Loan Losses to Average Loans	0.06	%	0.10	%

[1] Net Interest Margin is the ratio of tax-equivalent net interest income to average earning assets. (See “Use of Non-GAAP Financial Measures” on page 4).

51

SUMMARY OF QUARTERLY FINANCIAL DATA (Unaudited)
The following quarterly financial information for 2012 and 2011 is unaudited, but, in the opinion of management, fairly presents the results of Arrow.

SELECTED QUARTERLY FINANCIAL DATA
(In Thousands, Except Per Share Amounts)

	2012 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Interest and Dividend Income	$17,938	$17,533	$17,168	$16,740
Net Interest Income	14,406	14,254	14,525	14,237
Provision for Loan Losses	280	240	150	175
Net Securities Gains	502	143	64	156
Income Before Provision for Income Taxes	7,539	8,171	8,288	7,842
Net Income	5,288	5,594	5,748	5,549
Basic Earnings Per Common Share	0.44	0.47	0.48	0.46
Diluted Earnings Per Common Share	0.44	0.47	0.48	0.46

	2011 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Interest and Dividend Income	$19,891	$19,556	$18,997	$18,347
Net Interest Income	14,554	14,581	14,652	14,325
Provision for Loan Losses	220	170	175	280
Net Securities Gains	542	482	1,771	—
Income Before Provision for Income Taxes	7,635	8,468	7,755	7,789
Net Income	5,281	5,849	5,372	5,431
Basic Earnings Per Common Share	0.44	0.49	0.45	0.45
Diluted Earnings Per Common Share	0.44	0.49	0.45	0.45

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
In addition to credit risk in our loan portfolio and liquidity risk, discussed earlier, our business activities also generate market risk. Market risk is the possibility that changes in future market rates (interest rates) or prices (fees for products and services) will make our position less valuable. The ongoing monitoring and management of interest rate and market risk is an important component of our asset/liability management process, which is governed by policies that are reviewed and approved annually by the Board of Directors. The Board of Directors delegates responsibility for carrying out asset/liability oversight and control to management's Asset/Liability Committee ("ALCO"). In this capacity ALCO develops guidelines and strategies impacting our asset/liability profile based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. We have not made use of derivatives, such as interest rate swaps, in our risk management process.
Interest rate risk is the most significant market risk affecting us. Interest rate risk is the exposure of our net interest income to changes in interest rates. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to the risk of prepayment of loans and early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes varies by

product.

The ALCO utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, it also utilizes additional tools to monitor potential longer-term interest rate risk, including periodic stress testing involving hypothetical sudden and significant interest rate spikes.

Our standard simulation model attempts to capture the impact of changing interest rates on the interest income received and interest expense paid on all interest-sensitive assets and liabilities reflected on our consolidated balance sheet. This sensitivity analysis is compared to ALCO policy limits which specify a maximum tolerance level for net interest income exposure over a one year horizon, assuming no balance sheet growth and a 200 basis point upward and a 100 basis point downward shift in interest rates, and a repricing of interest-bearing assets and liabilities at their earliest reasonably predictable repricing date. We normally apply a parallel and pro rata shift in rates over a 12 month period. However, at year-end 2012 the targeted federal funds rate remained where it had been since late 2009, a range of 0 to .25%, with assurances from the Fed that prevailing rates would remain at or near their current historically low rates at least through year-end 2014. Moreover, our average cost of deposits for 2012 had decreased to 0.71%. Thus, for purposes of our decreasing rate simulation, we applied a hypothetical 100 basis point downward

52

shift in interest rates for the long end of the yield curve with hypothetical short-term rate decreases equal to the lesser of 100 basis points or such lower rate decrease required to reach zero percent.

Applying the simulation model analysis as of December 31, 2012, a 200 basis point increase in interest rates demonstrated a 2.6% decrease in net interest income, and a 100 basis point/zero limit decrease in interest rates demonstrated a 1.1% decrease in net interest income. These amounts were well within our ALCO policy limits.

Historically there has existed an inverse relationship between changes in prevailing rates and our net interest income, reflecting the fact that our liabilities and sources of funds generally reprice more quickly than our earning assets. However, when prevailing interest rates are already extremely low, as is the case at present, a further decline in prevailing rates may not produce the otherwise expected increase in net interest income, even over a relatively short time horizon, because as noted above, further decreases in rates with respect to liabilities (deposits) may be significantly impeded by the absolute lower boundary of the zero rate, whereas further decreases in asset rates are not, as a technical matter at least, subject to the same absolute lower boundary and thus assets may more fully, if more slowly, reprice downward in response to general rate declines than liabilities. Even in the short run, rate decreases may not be beneficial to income.

This explains the anomalous result of our simulation model, above, i.e., that over the indicated time horizon of 12 months, an assumed increase in prevailing rates projects a decrease in our net interest income, as might normally be expected (due to assets repricing more slowly than liabilities), while at the same time, an assumed decrease in prevailing rates also projects a decrease, if a smaller decrease, in our net interest income, presumably due to the zero rate boundary factor.

Moreover, if the impact of rate change on our income is projected over a longer time horizon, e.g., two years or longer, it might be expected that a decrease in prevailing rates would have a greater negative impact on our income, as compared to the short-term result, as assets reprice downward in full response, while liabilities do not further reprice but remain trapped by the absolute zero rate boundary. On the other hand, an increase in prevailing rates would have a much less negative impact over the longer term, and perhaps even a neutral or positive impact, on our net interest income, as our asset portfolios eventually reprice upward fully to match the repricing of our liabilities. However, other factors may play a significant role in any analysis of the impact of rising rates on our income, including a possible softening of loan demand and/or slowing of the economy that might be expected to accompany any general rate rise. The preceding sensitivity analysis does not represent a forecast on our part and should not be relied upon as being indicative of expected operating results.

We continue to believe that, in a normalized rate environment, any downturn in prevailing interest rates will generally have a short-term positive impact on our net interest margin and net interest income, which would be mitigated or perhaps reversed over the mid- to longer-term of ensuing rate decreases. We also believe an upturn in prevailing rates will generally have a short-term negative impact on our margin and net interest income, which again would likely be mitigated or perhaps reversed as rates continue to rise over the medium- or long-term. We believe that, whether rates are generally increasing, decreasing or stable, changes in the slope of the yield curve will also affect net interest income and the net interest margin. Other things being equal, a more sharply sloping (upward) yield curve will generally have a positive impact on our net interest income and interest margin, whereas a flattening yield curve will generally have a negative impact. We are not able to predict with certainty what the magnitude of these effects taken together-that is, changes in rates, plus changes in the yield curve-would be in any particular case, especially if changes in rate and curve, taken independently, would normally work against each other (e.g., lower rates, combined with a flattening yield curve).

The hypothetical estimates underlying the sensitivity analysis are based upon numerous assumptions including: the nature and timing of changes in interest rates including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurance as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate changes on caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, unanticipated shifts in the yield curve and other internal/external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in responding to or anticipating changes in interest rates.

53

Item 8. Financial Statements and Supplementary Data

The following audited consolidated financial statements and unaudited supplementary data are submitted herewith:
Reports of Independent Registered Public Accounting Firm
Financial Statements:
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Arrow Financial Corporation:

We have audited the accompanying consolidated balance sheets of Arrow Financial Corporation and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arrow Financial Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2013, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Albany, New York
March 15, 2013

54

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Arrow Financial Corporation:

We have audited Arrow Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arrow Financial Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arrow Financial Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 15, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Albany, New York
March 15, 2013

55

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Amounts)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and Due From Banks	$37,076	$29,598
Interest-Bearing Deposits at Banks	11,756	14,138
Investment Securities:		
Available-for-Sale	478,698	556,538
Held-to-Maturity (Approximate Fair Value of $248,252 at December 31, 2012 and $159,059 at December 31, 2011)	239,803	150,688
Federal Home Loan Bank and Federal Reserve Bank Stock	5,792	6,722
Loans	1,172,341	1,131,457
Allowance for Loan Losses	(15,298)	(15,003)
Net Loans	1,157,043	1,116,454
Premises and Equipment, Net	28,897	22,629
Other Real Estate and Repossessed Assets, Net	1,034	516
Goodwill	22,003	22,003
Other Intangible Assets, Net	4,492	4,749
Accrued Interest Receivable	5,486	6,082
Other Assets	30,716	32,567
Total Assets	$2,022,796	$1,962,684
LIABILITIES		
Noninterest-Bearing Deposits	$247,232	$232,038
NOW Accounts	758,287	642,521
Savings Deposits	442,363	416,829
Time Deposits of $100,000 or More	93,375	123,668
Other Time Deposits	189,898	228,990
Total Deposits	1,731,155	1,644,046
Short-Term Borrowings	41,678	68,293
Federal Home Loan Bank Term Advances	30,000	40,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000
Accrued Interest Payable	584	1,147
Other Liabilities	23,554	22,813
Total Liabilities	1,846,971	1,796,299
STOCKHOLDERS’ EQUITY		
Preferred Stock, $5 Par Value; 1,000,000 Shares Authorized	—	—
Common Stock, $1 Par Value; 20,000,000 Shares Authorized (16,416,163 Shares Issued at December 31, 2012 and 16,094,277 Shares Issued at December 31, 2011)	16,416	16,094
Additional Paid-in Capital	218,650	207,600
Retained Earnings	26,251	23,947
Unallocated ESOP Shares (102,890 Shares at December 31, 2012 and 117,502 Shares at December 31, 2011)	(2,150)	(2,500)
Accumulated Other Comprehensive Loss	(8,462)	(6,695)
Treasury Stock, at Cost (4,288,617 Shares at December 31, 2012 and 4,213,470 shares at December 31, 2011)	(74,880)	(72,061)

Total Stockholders' Equity	175,825	166,385
Total Liabilities and Stockholders' Equity	$2,022,796	$1,962,684

See Notes to Consolidated Financial Statements.

56

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)

	Years Ended December 31,		
	2012	2011	2010
INTEREST AND DIVIDEND INCOME			
Interest and Fees on Loans	$54,511	$58,599	$64,283
Interest on Deposits at Banks	108	99	157
Interest and Dividends on Investment Securities:			
Fully Taxable	9,269	12,402	14,701
Exempt from Federal Taxes	5,491	5,691	5,831
Total Interest and Dividend Income	69,379	76,791	84,972
INTEREST EXPENSE			
NOW Accounts	3,564	5,052	5,582
Savings Deposits	1,287	1,898	2,136
Time Deposits of $100,000 or More	2,007	2,633	2,903
Other Time Deposits	3,730	5,143	5,900
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	22	74	124
Federal Home Loan Bank Advances	729	3,295	6,458
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	618	584	592
Total Interest Expense	11,957	18,679	23,695
NET INTEREST INCOME	57,422	58,112	61,277
Provision for Loan Losses	845	845	1,302
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	56,577	57,267	59,975
NONINTEREST INCOME			
Income From Fiduciary Activities	6,290	6,113	5,391
Fees for Other Services to Customers	8,245	8,034	7,864
Insurance Commissions	8,247	7,374	2,987
Net Gain on Securities Transactions	865	2,795	1,507
Net Gain on Sales of Loans	2,282	866	1,024
Other Operating Income	1,170	746	316
Total Noninterest Income	27,099	25,928	19,089
NONINTEREST EXPENSE			
Salaries and Employee Benefits	31,703	30,205	27,552
Occupancy Expenses, Net	7,467	7,369	6,849
FDIC Assessments	1,026	1,292	1,982
Prepayment Penalty on FHLB Advances	—	1,638	—
Other Operating Expense	11,640	11,044	11,035
Total Noninterest Expense	51,836	51,548	47,418
INCOME BEFORE PROVISION FOR INCOME TAXES	31,840	31,647	31,646
Provision for Income Taxes	9,661	9,714	9,754
NET INCOME	$22,179	$21,933	$21,892
Average Shares Outstanding:			
Basic	12,007	11,970	11,836
Diluted	12,017	11,982	11,872
Per Common Share:			

Basic Earnings	$1.85	$1.83	$1.85
Diluted Earnings	1.85	1.83	1.84

Share and Per Share Amounts have been restated for the September 2012 2% stock dividend.
See Notes to Consolidated Financial Statements.

57

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Years Ended December 31,		
	2012	2011	2010
Net Income	$22,179	$21,933	$21,892
Other Comprehensive Income (Loss), Net of Tax:			
Unrealized Securities Holding (Losses) Gains Arising During the Period	(661)	4,741	1,514
Reclassification Adjustment for Net Securities Gains Included in Net Income	(522)	(1,688)	(910)
Net Retirement Plan Loss	(1,340)	(3,701)	(1,093)
Net Retirement Plan Prior Service (Cost) Credit	(245)	(161)	146
Amortization of Net Retirement Plan Actuarial Loss	1,013	602	672
Accretion of Net Retirement Plan Prior Service Credit	(12)	(65)	(112)
Other Comprehensive (Loss) Income	(1,767)	(272)	217
Comprehensive Income	$20,412	$21,661	$22,109

See Notes to Consolidated Financial Statements.

58

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Share and Per Share Amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallo-cated ESOP Shares	Accumu-lated Other Com-prehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2009	$15,170	$178,192	$24,100	$ (2,204)	$ (6,640)	$(67,800)	$140,818
Net Income	—	—	21,892	—	—	—	21,892
Other Comprehensive (Loss) Income	—	—	—	—	217	—	217
3% Stock Dividend (455,113 Shares)	456	9,962	(10,418)	—	—	—	—
Cash Dividends Paid, $.93 per Share [1]	—	—	(10,997)	—	—	—	(10,997)
Stock Options Exercised (52,662 Shares)	—	352	—	—	—	446	798
Shares Issued Under the Directors' Stock Plan (5,587 Shares)	—	101	—	—	—	48	149
Shares Issued Under the Employee Stock Purchase Plan (19,564 Shares)	—	310	—	—	—	165	475
Shares Issued for Dividend Reinvestment Plans (66,177 Shares)	—	1,163	—	—	—	552	1,715
Stock-Based Compensation Expense	—	299	—	—	—	—	299
Tax Benefit for Disposition of Stock Options	—	105	—	—	—	—	105
Purchase of Treasury Stock (135,812 Shares)	—	—	—	—	—	(3,347)	(3,347)
Acquisition of Subsidiary (26,240 Shares)	—	459	—	—	—	223	682
Acquisition by ESOP of Arrow Stock (40,890 Shares)	—	—	—	(1,000)	—	—	(1,000)
Allocation of ESOP Stock (17,616 Shares)	—	125	—	328	—	—	453
Balance at December 31, 2010	$15,626	$191,068	$24,577	$ (2,876)	$ (6,423)	$(69,713)	$152,259
Balance at December 31, 2010	$15,626	$191,068	$24,577	$ (2,876)	$ (6,423)	$(69,713)	$152,259
Net Income	—	—	21,933	—	—	—	21,933
Other Comprehensive (Loss) Income	—	—	—	—	(272)	—	(272)

3% Stock Dividend (468,765 Shares)	468	10,647	(11,115)	—	—	—	—
Cash Dividends Paid, $.96 per Share [1]	—	—	(11,448)	—	—	—	(11,448)
Stock Options Exercised (72,802 Shares)	—	705	—	—	—	708	1,413
Shares Issued Under the Directors' Stock Plan (7,456 Shares)	—	104	—	—	—	71	175
Shares Issued Under the Employee Stock Purchase Plan (20,484 Shares)	—	282	—	—	—	192	474
Shares Issued for Dividend Reinvestment Plans (76,447 Shares)	—	1,062	—	—	—	734	1,796
Stock-Based Compensation Expense	—	354	—	—	—	—	354
Tax Benefit for Disposition of Stock Options	—	51	—	—	—	—	51
Purchase of Treasury Stock (251,962 Shares)	—	—	—	—	—	(6,039)	(6,039)
Acquisition of Subsidiary (221,517 Shares)	—	3,275	—	—	—	1,986	5,261
Allocation of ESOP Stock (18,216 Shares)	—	52	—	376	—	—	428
Balance at December 31, 2011	$16,094	$207,600	$23,947	$ (2,500)	$ (6,695)	$(72,061)	$166,385

59

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY, Continued
(In Thousands, Except Share and Per Share Amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallo-cated ESOP Shares	Accumu-lated Other Com-prehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2011	$16,094	$207,600	$23,947	$ (2,500)	$ (6,695)	$(72,061)	$166,385
Net Income	—	—	22,179	—	—	—	22,179
Other Comprehensive (Loss) Income	—	—	—	—	(1,767)	—	(1,767)
2% Stock Dividend (321,886 Shares) [2]	322	7,738	(8,060)	—	—	—	—
Cash Dividends Paid, $.99 per Share [1]	—	—	(11,815)	—	—	—	(11,815)
Stock Options Exercised (96,471 Shares)	—	1,152	—	—	—	953	2,105
Shares Issued Under the Directors' Stock Plan (7,226 Shares)	—	104	—	—	—	71	175
Shares Issued Under the Employee Stock Purchase Plan (20,687 Shares)	—	279	—	—	—	205	484
Shares Issued for Dividend Reinvestment Plans (74,260 Shares)	—	1,086	—	—	—	736	1,822
Stock-Based Compensation Expense	—	424	—	—	—	—	424
Tax Benefit for Disposition of Stock Options	—	68	—	—	—	—	68
Purchase of Treasury Stock (199,323 Shares)	—	—	—	—	—	(4,877)	(4,877)
Acquisition of Subsidiaries (9,356 Shares)	—	140	—	—	—	93	233
Allocation of ESOP Stock (16,629 Shares)	—	59	—	350	—	—	409
Balance at December 31, 2012	$16,416	$218,650	$26,251	$ (2,150)	$ (8,462)	$(74,880)	$175,825

[1] Cash dividends paid per share have been adjusted for the September 2012 2% stock dividend.
[2] Included in the shares issued for the 2% stock dividend in 2012 were treasury shares of 83,824 and unallocated ESOP shares of 2,017.

See Notes to Consolidated Financial Statements.

60

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Years Ended December 31,		
Cash Flows from Operating Activities:	2012	2011	2010
Net Income	$22,179	$21,933	$21,892
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	845	845	1,302
Depreciation and Amortization	8,856	6,509	3,563
Allocation of ESOP Stock	409	428	453
Gains on the Sale of Securities Available-for-Sale	(949)	(2,795)	(1,507)
Losses on the Sale of Securities Available-for-Sale	84	—	—
Loans Originated and Held-for-Sale	(60,668)	(39,111)	(41,030)
Proceeds from the Sale of Loans Held-for-Sale	61,041	49,378	31,760
Net Gains on the Sale of Loans	(2,282)	(866)	(1,024)
Net (Gain) Loss on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	(71)	(32)	10
Contributions to Pension Plans	(328)	(5,319)	(1,813)
Deferred Income Tax (Benefit) Expense	(353)	2,172	154
Shares Issued Under the Directors’ Stock Plan	175	175	149
Stock-Based Compensation Expense	424	354	299
Net Decrease in Other Assets	2,108	1,725	638
Net Increase (Decrease) in Other Liabilities	990	689	(4,627)
Net Cash Provided By Operating Activities	32,460	36,085	10,219
Cash Flows from Investing Activities:			
Proceeds from the Sale of Securities Available-for-Sale	58,718	39,009	25,497
Proceeds from the Maturities and Calls of Securities Available-for-Sale	210,224	280,126	278,804
Purchases of Securities Available-for-Sale	(197,029)	(354,310)	(382,614)
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	49,983	40,692	15,227
Purchases of Securities Held-to-Maturity	(140,635)	(31,701)	(6,532)
Net (Increase) Decrease in Loans	(40,951)	3,108	(24,259)
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	1,263	770	612
Purchase of Premises and Equipment	(8,073)	(5,372)	(1,081)
Cash Paid for Subsidiaries	(75)	(3,296)	264
Net Decrease in Other Investments	930	1,880	333
Purchase of Bank Owned Life Insurance	—	(15,702)	—
Net Cash Used In Investing Activities	(65,645)	(44,796)	(93,749)
Cash Flows from Financing Activities:			
Net Increase in Deposits	87,109	110,042	90,438
Net (Decrease) Increase in Short-Term Borrowings	(26,615)	15,079	(20,694)
Federal Home Loan Bank Advances	—	10,000	10,000
Federal Home Loan Bank Repayments	(10,000)	(100,000)	(20,000)
Purchase of Treasury Stock	(4,877)	(6,039)	(3,347)
Stock Options Exercised	2,105	1,413	798
Shares Issued Under the Employee Stock Purchase Plan	484	474	475
Tax Benefit from Exercise of Stock Options	68	51	105
Treasury Stock Issued for Dividend Reinvestment Plans	1,822	1,796	1,715

Acquisition by ESOP of Arrow Stock	—	—	(1,000)
Cash Dividends Paid	(11,815)	(11,448)	(10,997)
Net Cash Provided By Financing Activities	38,281	21,368	47,493
Net Increase (Decrease) in Cash and Cash Equivalents	5,096	12,657	(36,037)
Cash and Cash Equivalents at Beginning of Year	43,736	31,079	67,116
Cash and Cash Equivalents at End of Year	$48,832	$43,736	$31,079
Supplemental Disclosures to Statements of Cash Flow Information:			
Interest on Deposits and Borrowings	$12,520	$19,490	$23,995
Income Taxes	8,866	7,952	15,223
Non-cash Investing and Financing Activity:			
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	1,426	1,011	568
Shares Issued for Acquisition of Subsidiary	233	5,261	682
Fair Value of Assets from Acquisition of Subsidiary	—	10,638	882
Fair Value of Liabilities from Acquisition of Subsidiary	—	2,081	465

See Notes to Consolidated Financial Statements.

61

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: RISKS AND UNCERTAINTIES

Nature of Operations - Arrow Financial Corporation, a New York corporation, was incorporated on March 21, 1983 and is registered as a bank holding company within the meaning of the Bank Holding Company Act of 1956. Arrow derives most of its earnings from the ownership of two nationally chartered commercial banks and through the ownership of four insurance agencies. The two banks provide a full range of services to individuals and small to mid-size businesses in northeastern New York State from just north of Albany, the State's capitol, to the Canadian border. Both banks have trust departments which provide investment management and administrative services. The insurance agencies specialize in property and casualty insurance, group health insurance, sports accident and health insurance, and individual life insurance.

Management’s Use of Estimates -The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Our most significant estimates are the allowance for loan losses, the evaluation of other-than-temporary impairment of investment securities, goodwill impairment, pension and other postretirement liabilities, analysis of a need for a valuation allowance for deferred tax assets and other fair value calculations. Actual results could differ from those estimates.
A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains appraisals for properties. The allowance for loan losses is management’s best estimate of probable loan losses incurred as of the balance sheet date. While management uses available information to recognize losses on loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions.

Concentrations of Credit - Virtually all of Arrow's loans are with customers in northeastern New York. Although the loan portfolios of the subsidiary banks are well diversified, tourism has a substantial impact on the northeastern New York economy. The commitments to extend credit are fairly consistent with the distribution of loans presented in Note 5, generally have the same credit risk and are subject to normal credit policies. Generally, the loans are secured by assets and are expected to be repaid from cash flow or the sale of selected assets of the borrowers. Arrow evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Arrow upon extension of credit, is based upon management's credit evaluation of the counterparty. The nature of the collateral varies with the type of loan and may include: residential real estate, cash and securities, inventory, accounts receivable, property, plant and equipment, income producing commercial properties and automobiles.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Dollars In Thousands)

Principles of Consolidation - The financial statements of Arrow and its wholly owned subsidiaries are consolidated and all material inter-company transactions have been eliminated. In the “Parent Company Only” financial statements in Note 20, the investment in wholly owned subsidiaries is carried under the equity method of accounting. When necessary, prior years’ consolidated financial statements have been reclassified to conform to the current-year financial statement presentation.

Segment Reporting - Arrow operations are primarily in the community banking industry, which constitutes Arrow’s only segment for financial reporting purposes. Arrow provides other services, such as trust administration, retirement plan administration, advice to our proprietary mutual funds and insurance products, but these services do not rise to the quantitative thresholds for separate disclosure. Arrow operates primarily in the northeastern region of New York State in Warren, Washington, Saratoga, Essex and Clinton counties and surrounding areas.

Cash and Cash Equivalents - Cash and cash equivalents include the following items: cash at branches, due from bank balances, cash items in the process of collection, interest-bearing bank balances and federal funds sold.

Securities - Management determines the appropriate classification of securities at the time of purchase. Securities reported as held-to-maturity are those debt securities which Arrow has both the positive intent and ability to hold to maturity and are stated at amortized cost. Securities available-for-sale are reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income or loss, net of taxes. Realized gains and losses are based upon the amortized cost of the specific security sold. A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. To determine whether an impairment is other-than-temporary, we consider all available information relevant to the collectibility of the security, including past events, current conditions, and reasonable and supportable forecasts when developing an estimate of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in. When an other-than-temporary impairment has occurred on a debt security, the amount of the other-than-temporary impairment recognized in earnings depends on whether we intend to sell the debt security or more likely than not

62

will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. If we intend to sell the debt security or it is more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable income taxes.

Loans and Allowance for Loan Losses - Interest income on loans is accrued and credited to income based upon the principal amount outstanding. Loan fees and costs directly associated with loan originations are deferred and amortized as an adjustment to yield over the lives of the loans originated.

From time-to-time, Arrow has sold (most with servicing retained) residential real estate loans at or shortly after origination. Any gain or loss on the sale of loans, along with the value of the servicing right, is recognized at the time of sale as the difference between the recorded basis in the loan and net proceeds from the sale. Loans held for sale are recorded at the lower of cost or fair value on an aggregate basis.

Loans are placed on nonaccrual status either due to the delinquency status of principal and/or interest or a judgment by management that the full repayment of principal and interest is unlikely. Loans secured by home equity lines of credit are put on nonaccrual status when 120 days past due; residential real estate loans when 150 days past due; commercial and commercial real estate loans are evaluated on a loan-by-loan basis and are placed on nonaccrual status when 90 days past due if the full collection of principal and interest is uncertain. The balance of any accrued interest deemed uncollectible at the date the loan is placed on nonaccrual status is reversed - against earnings for interest accrued during the calendar year and against the allowance for loan losses for interest accrued for the prior year. A loan is returned to accrual status at the later of the date when the past due status of the loan falls below the threshold for nonaccrual status or management deems that it is likely that the borrower will repay all interest and principal. For payments received while the loan is on nonaccrual status, we may recognize interest income on a cash basis if the repayment of the remaining principal and accrued interest is deemed likely.

The allowance for loan losses is maintained by charges to operations based upon our best estimate of the probable amount of loans that we will be unable to collect based on current information and events. Provisions to the allowance for loan losses are offset by actual loan charge-offs (net of any recoveries). We evaluate the loan portfolio for potential charge-offs on a monthly basis. In general, automobile and other consumer loans are charged-off when 120 days delinquent. Residential real estate loans are charged-off upon repossession based on a new appraisal. Commercial and commercial real estate loans loans are evaluated early in their delinquency status and are charged-off when it is apparent that not all principal will be repaid from on-going cash flows or liquidation of collateral. An evaluation of estimated proceeds from the liquidation of the loan's collateral is compared to the loan carrying amount and a charge to the allowance for loan losses is taken for any deficiency. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions in Arrow's market area. In addition, various Federal regulatory agencies, as an integral part of their examination process, review Arrow's allowance for loan losses. Such agencies may require Arrow to recognize additions to the allowance in future periods, based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

We evaluate nonaccrual loans over $250 thousand and all troubled debt restructured loans individually for impairment. Impaired loans are measured based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Arrow determines impairment for collateral dependent loans based on the fair value of the collateral less estimated costs to sell. For other loans, impairment is determined by comparing the recorded investment in the loan to the present value of the expected cash flows, discounted at the loan's effective interest rate. If the measurement of the fair value of the impaired loan is less than the recorded investment in the loan, an impairment reserve is recognized as part of the allowance for loan losses. Any further impairment, over time, is also charged to the allowance for loan losses.

Allowance for loan losses on the remaining loans are primarily determined based on historical loss factors adjusted for current trends. Arrow determines the interest income recognition method for impaired loans on a loan-by-loan basis. Based upon the borrowers' payment histories and cash flow projections, interest recognition methods include full accrual or cash basis.

In management's opinion, the balance of the allowance for loan losses, at each balance sheet date, is sufficient to provide for probable loan losses inherent in the corresponding loan portfolio.

Other Real Estate Owned and Repossessed Assets - Real estate acquired by foreclosure and assets acquired by repossession are recorded at the fair value of the property less estimated costs to sell at the time of repossession. Subsequent declines in fair value, after transfer to other real estate owned and repossessed assets are recognized through a valuation allowance. Such declines in fair value along with related operating expenses to administer such properties or assets are charged directly to operating expense.

Premises and Equipment - Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization included in operating expenses are computed largely on the straight-line method. Depreciation is based on the estimated useful lives of the assets (buildings and improvements 20-40 years; furniture and equipment 7-10 years; data processing equipment 5-7 years) and, in the case of leasehold improvements, amortization is computed over the terms of the respective leases or their estimated useful lives, whichever is shorter. Gains or losses on disposition are reflected in earnings.

63

Income Taxes - Arrow accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. Arrow's policy is that deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Goodwill and Other Intangible Assets – Identifiable intangible assets acquired in a business combination are capitalized and amortized. Any remaining unidentifiable intangible asset is classified as goodwill, for which amortization is not required but which must be evaluated for impairment. Arrow tests for impairment of goodwill on an annual basis, or when events and circumstances indicate potential impairment. In evaluating goodwill for impairment, Arrow first assesses certain qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any.
The carrying amounts of other recognized intangible assets that meet recognition criteria and for which separate accounting records have been maintained (core deposit intangibles and mortgage servicing rights), have been included in the consolidated balance sheet as "Other Intangible Assets, Net." Core deposit intangibles are being amortized on a straight-line basis over a period of ten to fifteen years.
Arrow has sold residential real estate loans, primarily to Freddie Mac, with servicing retained. Mortgage servicing rights are recognized as an asset when loans are sold with servicing retained, by allocating the cost of an originated mortgage loan between the loan and servicing right based on estimated relative fair values. The cost allocated to the servicing right is capitalized as a separate asset and amortized in proportion to, and over the period of, estimated net servicing income. Capitalized mortgage servicing rights are evaluated for impairment by comparing the asset's carrying value to its current estimated fair value. Fair values are estimated using a discounted cash flow approach, which considers future servicing income and costs, current market interest rates, and anticipated prepayment, and default rates. Impairment losses are recognized through a valuation allowance for servicing rights having a current fair value that is less than amortized cost on an aggregate basis. Adjustments to increase or decrease the valuation allowance are charged or credited to income as a component of other operating income.

Pension and Postretirement Benefits - Arrow maintains a non-contributory, defined benefit pension plan covering substantially all employees, a supplemental pension plan covering certain executive officers selected by the Board of Directors, and certain post-retirement medical, dental and life insurance benefits for employees and retirees. The costs of these plans, based on actuarial computations of current and future benefits for employees, are charged to current operating expenses. The cost of post-retirement benefits other than pensions is recognized on an accrual basis as employees perform services to earn the benefits. Arrow recognizes the overfunded or underfunded status of our single employer defined benefit pension plan as an asset or liability on its consolidated balance sheet and recognizes changes in the funded status in comprehensive income in the year in which the change occurred.
Prior service costs or credits are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation or the fair value of assets are amortized over the average remaining service period of active participants.
The discount rate assumption is based on the Citigroup Pension Discount Curve as adjusted to provide the necessary cash flows for the payment of benefits when due.

Stock-Based Compensation Plans – Arrow has two stock option plans, which are described more fully in Note 12. The Company expenses the grant date fair value of options granted. The expense is recognized over the vesting period of the grant, typically four years, on a straight-line basis. Shares are generally issued from treasury for the exercise of stock options.

Arrow sponsors an Employee Stock Purchase Plan (“ESPP”) under which employees may purchase Arrow’s common stock at a 5% discount below market price at the time of purchase. This stock purchase plan is not considered a compensatory plan.

Arrow sponsors an Employee Stock Ownership Plan (ESOP), a qualified defined contribution plan. The ESOP has borrowed funds from one of Arrow’s subsidiary banks to purchase Arrow common stock. The shares pledged as collateral are reported as a reduction of Arrow’s stockholders’ equity. Compensation expense is recognized as shares are release for allocation to individual employee accounts equal to the current average market price.

Securities Sold Under Agreements to Repurchase - In securities repurchase agreements, Arrow receives cash from a counterparty in exchange for the transfer of securities to a third party custodian’s account that explicitly recognizes Arrow’s interest in the securities. These agreements are accounted for by Arrow as secured financing transactions, since it maintains effective control over the transferred securities, and meets other criteria for such accounting. Accordingly, the cash proceeds are recorded as borrowed funds, and the underlying securities continue to be carried in Arrow’s securities available-for-sale portfolio.

Earnings Per Share (“EPS”) - Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as Arrow’s stock options), computed using the treasury stock method. Unallocated common shares held by Arrow’s Employee Stock Ownership Plan are not included in the weighted average number of common shares outstanding for either the basic or diluted EPS calculation.

64

Financial Instruments - Arrow is a party to certain financial instruments with off-balance sheet risk, such as: commercial lines of credit, construction lines of credit, overdraft protection, home equity lines of credit and standby letters of credit. Arrow's policy is to record such instruments when funded. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time Arrow's entire holdings of a particular financial instrument. Because no market exists for a significant portion of Arrow's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, Arrow has a trust department that contributes net fee income annually. The value of trust department customer relationships is not considered a financial instrument of the Company, and therefore this value has not been incorporated into the fair value estimates. Other significant assets and liabilities that are not considered financial assets or liabilities include deferred taxes, premises and equipment, the value of low-cost, long-term core deposits and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The carrying amount of the following short-term assets and liabilities is a reasonable estimate of fair value: cash and due from banks, federal funds sold and purchased, securities sold under agreements to repurchase, demand deposits, savings, N.O.W. and money market deposits, other short-term borrowings, accrued interest receivable and accrued interest payable. The fair value estimates of other on- and off-balance sheet financial instruments, as well as the method of arriving at fair value estimates, are included in the related footnotes and summarized in Note 17.

Fair Value Measures – We determine the fair value of financial instruments under the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Management’s Use of Estimates -The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Our most significant estimates are the allowance for loan losses, the evaluation of other-than-temporary impairment of investment securities, goodwill impairment, pension and other postretirement liabilities, analysis of a need for a valuation allowance for deferred tax assets and other fair value calculations. Actual results could differ from those estimates.

A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains appraisals for properties. The allowance for loan losses is management’s best estimate of probable loan losses incurred as of the balance sheet date. While management uses available information to recognize losses on loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions.

Recent Accounting Pronouncements

During 2012, the FASB issued seven accounting standards updates. Two were for technical corrections, which did not have an impact on accounting standards or reporting requirements. The other five did not apply to Arrow.

65

Note 3: CASH AND CASH EQUIVALENTS (Dollars In Thousands)

The following table is the schedule of cash and cash equivalents at December 31, 2012 and 2011:

	2012	2011
Cash and Due From Banks	$37,076	$29,598
Interest-Bearing Deposits at Banks	11,756	14,138
Total Cash and Cash Equivalents	$48,832	$43,736
Supplemental Information:		
Total required reserves, including vault cash and Federal Reserve Bank deposits	$23,168	$24,268

The Company is required to maintain reserve balances with the Federal Reserve Bank of New York. The required reserve is calculated on a fourteen day average and the amounts presented in the table above represent the average for the period that includes December 31.

66

Note 4. INVESTMENT SECURITIES (Dollars In Thousands)

The following table is the schedule of Available-For-Sale Securities at December 31, 2012 and 2011:
Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
December 31, 2012						
Available-For-Sale Securities, at Amortized Cost	$122,297	$84,798	$252,480	$8,689	$1,120	$469,384
Available-For-Sale Securities, at Fair Value	122,457	84,838	261,804	8,451	1,148	478,698
Gross Unrealized Gains	204	206	9,405	—	28	9,843
Gross Unrealized Losses	44	166	81	238	—	529
Available-For-Sale Securities, Pledged as Collateral						260,292
Maturities of Debt Securities, at Amortized Cost:						
Within One Year	—	28,231	19,180	—		47,411
From 1 - 5 Years	122,297	53,797	217,387	6,381		399,862
From 5 - 10 Years	—	1,593	15,913	1,308		18,814
Over 10 Years	—	1,177	—	1,000		2,177
Maturities of Debt Securities, at Fair Value:						
Within One Year	—	28,284	19,838	—		48,122
From 1 - 5 Years	122,457	53,731	224,982	6,350		407,520
From 5 - 10 Years	—	1,646	16,984	1,301		19,931
Over 10 Years	—	1,177	—	800		1,977
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$72,531	$46,627	$10,230	$8,451	$—	$137,839
12 Months or Longer	—	2,149	4,968	—	—	7,117
Total	$72,531	$48,776	$15,198	$8,451	$—	$144,956
Number of Securities in a Continuous Loss Position	22	198	7	11	—	238
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$44	$160	$50	$238	$—	$492
12 Months or Longer	—	6	31	—	—	37
Total	$44	$166	$81	$238	$—	$529
December 31, 2011						
Available-For-Sale Securities, at Amortized Cost	$116,055	$44,712	$382,118	$1,015	$1,365	$545,265

Available-For-Sale Securities, at Fair Value	116,393	44,999	392,712	1,015	1,419	556,538
Gross Unrealized Gains	342	305	10,813	—	69	11,529
Gross Unrealized Losses	4	18	219	—	15	256
Available-For-Sale Securities, Pledged as Collateral						265,854
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$25,956	$4,505	$9,857	$—	$—	$40,318
12 Months or Longer	—	—	5,715	—	78	5,793
Total	$25,956	$4,505	$15,572	$—	$78	$46,111

67

Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
Number of Securities in a Continuous Loss Position	7	12	5	—	2	26
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$4	$18	$204	$—	$—	$226
12 Months or Longer	—	—	15	—	15	30
Total	$4	$18	$219	$—	$15	$256

The following table is the schedule of Held-To-Maturity Securities at December 31, 2012 and 2011:
Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
December 31, 2012				
Held-To-Maturity Securities, at Amortized Cost	$183,373	$55,430	$1,000	$239,803
Held-To-Maturity Securities, at Fair Value	191,196	56,056	1,000	248,252
Gross Unrealized Gains	7,886	626	—	8,512
Gross Unrealized Losses	63	—	—	63
Held-To-Maturity Securities, Pledged as Collateral				238,803
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	32,047	—	—	32,047
From 1 - 5 Years	69,431	55,430	—	124,861
From 5 - 10 Years	76,096	—	—	76,096
Over 10 Years	5,799	—	1,000	6,799
Maturities of Debt Securities, at Fair Value:				
Within One Year	32,115	—	—	32,115
From 1 - 5 Years	70,371	56,056	—	126,427
From 5 - 10 Years	82,476	—	—	82,476
Over 10 Years	6,234	—	1,000	7,234
Securities in a Continuous Loss Position, at Fair Value:				

Less than 12 Months	$21,583	$—	$—	$21,583
12 Months or Longer	503	—	—	503
Total	$22,086	$—	$—	$22,086
Number of Securities in a Continuous Loss Position	61	—	—	61
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$62	$—	$—	$62
12 Months or Longer	1	—	—	1
Total	$63	$—	$—	$63

68

Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
December 31, 2011				
Held-To-Maturity Securities, at Amortized Cost	$149,688	$—	$1,000	$150,688
Held-To-Maturity Securities, at Fair Value	158,059	—	1,000	159,059
Gross Unrealized Gains	8,378	—	—	8,378
Gross Unrealized Losses	7	—	—	7
Held-To-Maturity Securities, Pledged as Collateral				149,688
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$510	$—	$—	$510
12 Months or Longer	—	—	—	—
Total	$510	$—	$—	$510
Number of Securities in a Continuous Loss Position	1	—	—	1
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$7	$—	$—	$7
12 Months or Longer	—	—	—	—
Total	$7	$—	$—	$7

In the tables above, maturities of mortgage-backed-securities - residential are included based on their expected average lives. Actual maturities will differ from the table below because issuers may have the right to call or prepay obligations with or without prepayment penalties.

In the available-for-sale category at December 31, 2012, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $122.3 million and a fair value of $122.5 million. Mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $36.4 million and a fair value of $37.8 million and GSE securities with an amortized cost of $216.1 million and a fair value of $224.0 million. In the held-to-maturity category at December 31, 2012, mortgage-backed securities-residential consisted of GSEs with an amortized cost of $55.4 million and a fair value of $56.1 million.

In the available-for-sale category at December 31, 2011, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $116.1 million and a fair value of $116.4 million. Mortgage-backed securities-residential consisted of US Government Agency securities with an amortized cost of $52.6 million and a fair value of $54.5 million and GSEs with an amortized cost of $329.5 million and a fair value of $338.2 million.

Securities in a continuous loss position, in the tables above for December 31, 2012 and December 31, 2011 do not reflect any deterioration of the credit worthiness of the issuing entities. U.S. agency issues, including mortgage-backed securities, are all rated Aaa by Moody's and AA+ by Standard and Poor's. The state and municipal obligations are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. Obligations issued by school districts are supported by state aid. For any non-rated municipal securities, credit analysis is performed in-house based upon data that has been submitted by the issuers to the NY State Comptroller. That analysis shows no deterioration in the credit worthiness of the municipalities. Subsequent to December 31, 2012, there were no securities downgraded below investment grade.

The unrealized losses on these temporarily impaired securities are primarily the result of changes in interest rates for fixed rate securities where the interest rate received is less than the current rate available for new offerings of similar securities, changes in market spreads as a result of shifts in supply and demand, and/or changes in the level of prepayments for mortgage related securities. Because we do not currently intend to sell any of our temporarily impaired securities, and because it is not more likely-than-not we would be required to sell the securities prior to recovery, the impairment is considered temporary.

Other investments consist solely of Federal Reserve Bank and Federal Home Loan Bank Stock and are carried at cost.

Schedule of Federal Reserve Bank and Federal Home Loan Bank Stock

	December 31, 2012	2011
Federal Reserve Bank Stock	$1,018	$1,031
Federal Home Loan Bank Stock	4,774	5,691
Total Federal Reserve Bank and Federal Home Loan Bank Stock	$5,792	$6,722

Note 5: LOANS (Dollars In Thousands)

Loan Categories and Past Due Loans

The following table presents loan balances outstanding as of December 31, 2012 and December 31, 2011 and an analysis of the recorded investment in loans that are past due at these dates. Generally, Arrow considers a loan past due 30 or more days if the borrower is two or more payments past due.

Schedule of Past Due Loans by Loan Category

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
December 31, 2012							
Loans Past Due 30-59 Days	$1,045	$—	$534	$43	$2,427	$407	$4,456
Loans Past Due 60-89 Days	1,588	—	1,332	17	793	2,466	6,196
Loans Past Due 90 or More Days	494	—	1,871	—	185	1,462	4,012
Total Loans Past Due	3,127	—	3,737	60	3,405	4,335	14,664
Current Loans	102,409	29,149	241,440	6,624	345,695	432,360	1,157,677
Total Loans	$105,536	$29,149	$245,177	$6,684	$349,100	$436,695	$1,172,341
Loans 90 or More Days Past Due and Still Accruing Interest	$126	$—	$378	$—	$42	$374	$920
Nonaccrual Loans	$1,787	$—	$2,026	$1	$419	$2,400	$6,633
December 31, 2011							
Loans Past Due 30-59 Days	$538	$—	$284	$75	$3,512	$1,544	$5,953
Loans Past Due 60-89 Days	197	—	—	12	670	226	1,105
Loans Past Due 90 or more Days	17	—	1,825	6	314	3,056	5,218
Total Loans Past Due	752	—	2,109	93	4,496	4,826	12,276
Current Loans	99,039	11,083	230,040	6,225	317,879	454,915	1,119,181
Total Loans	$99,791	$11,083	$232,149	$6,318	$322,375	$459,741	$1,131,457
Loans 90 or More Days Past Due and Still Accruing Interest	$17	$—	$684	$—	$56	$905	$1,662
Nonaccrual Loans	$6	$—	$1,503	$6	$431	$2,582	$4,528

70

Allowance for Loan Losses

The following table presents a roll-forward of the allowance for loan losses and other information pertaining to the allowance for loan losses:

Allowance for Loan Losses

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Unallocated	Total
Rollfoward of the Allowance for Loan Losses for the Year Ended:								
December 31, 2011	$1,927	$602	$3,136	$350	$4,496	$3,414	$1,078	$15,003
Charge-offs	(90)	—	(206)	(52)	(401)	(33)	—	(782)
Recoveries	23	—	—	9	200	—	—	232
Provision	484	(1)	120	(3)	241	24	(20)	845
December 31, 2012	$2,344	$601	$3,050	$304	$4,536	$3,405	$1,058	$15,298
December 31, 2010	$2,037	$135	$2,993	$328	$4,760	$3,163	$1,273	$14,689
Charge-offs	(105)	—	—	(42)	(480)	(147)	—	(774)
Recoveries	17	—	—	28	198	—	—	243
Provision	(22)	467	143	36	18	398	(195)	845
December 31, 2011	$1,927	$602	$3,136	$350	$4,496	$3,414	$1,078	$15,003
December 31, 2009	$1,304	$—	$4,000	$—	$4,901	$2,954	$855	$14,014
Charge-offs	(30)	—	—	—	(864)	—	—	(894)
Recoveries	5	—	—	—	262	—	—	267
Provision	758	135	(1,007)	328	461	209	418	1,302
December 31, 2010	$2,037	$135	$2,993	$328	$4,760	$3,163	$1,273	$14,689
December 31, 2012								
Allowance for loan losses - Loans Individually Evaluated for Impairment	$853	$—	$—	$—	$—	$—	$—	$853
Allowance for loan losses - Loans Collectively	$1,491	$601	$3,050	$304	$4,536	$3,405	$1,058	$14,445

Evaluated for Impairment								
Ending Loan Balance - Individually Evaluated for Impairment	$1,432	$—	$2,528	$—	$203	$1,090	$—	$5,253
Ending Loan Balance - Collectively Evaluated for Impairment	$104,104	$29,149	$242,649	$6,684	$348,897	$435,605	$—	$1,167,088
December 31, 2011								
Allowance for loan losses - Loans Collectively Evaluated for Impairment	$1,927	$602	$3,136	$350	$4,496	$3,414	$1,078	$15,003

71

Allowance for Loan Losses

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Unallocated	Total
Ending Loan Balance - Individually Evaluated for Impairment	$ 66	$ —	$ 1,953	$—	$268	$2,108	$—	$4,395
Ending Loan Balance - Collectively Evaluated for Impairment	$ 99,725	$ 11,083	$ 230,196	$6,318	$322,107	$457,633	$—	$1,127,062

Through the provision for loan losses, an allowance is maintained that reflects our best estimate of losses related to specifically identified loans and the inherent risk of probable losses for categories of loans in the remaining portfolio. Actual loan losses are charged against this allowance when loans are deemed uncollectible.

We use a two-step process to determine the provision for loans losses and the amount of the allowance for loan losses. We evaluate nonaccrual loans over $250 thousand and all troubled debt restructured loans individually for impairment, while we evaluate the remainder of the portfolio on a pooled basis as described below.

Quantitative Analysis: Quantitatively, we determine the historical loss rate for each homogeneous loan pool. During the past five years we have had little charge-off activity on loans secured by residential real estate. Indirect consumer lending (principally automobile loans) represents a significant component of our total loan portfolio and contains the majority of our total loan charge-offs. We have had only two small losses on commercial real estate loans in the past five years. Losses on commercial loans (other than those secured by real estate) are also historically low, but can vary widely from year-to-year; this is the most complex category of loans in our loss analysis. Our net charge-offs for the past five years have been at or near historical lows for our Company. Annualized net charge-offs for the entire loan portfolio has ranged from .04% to .09% of average loans during this period.

Qualitative Analysis: While historical loss experience provides a reasonable starting point for our analysis, historical losses, or even recent trends in losses, do not by themselves form a sufficient basis to determine the appropriate level for the allowance. Therefore, we also consider and adjust historical loss factors for qualitative and environmental factors that are likely to impact the inherent risk of loss associated with our existing portfolio. These included:

- Changes in the volume and severity of past due, nonaccrual and adversely classified loans
- Changes in the nature and volume of the portfolio and in the terms of loans
- Changes in the value of the underlying collateral for collateral dependent loans
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses
- Changes in the quality of the loan review system
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio or pool

For each homogeneous loan pool, we estimate a loss factor expressed in basis points for each of the qualitative factors above, and for historical net credit losses. We update and change, if necessary, the loss-rates assigned to various pools based on the analysis of loss trends and the change in qualitative and environmental factors on a quarterly basis.

Due to the imprecise nature of the loan loss estimation process and ever changing economic conditions, the risk attributes of our portfolio may not be adequately captured in data related to the formula-based loan loss components used to determine allocations in our analysis of the adequacy of the allowance for loan losses. Management, therefore, has established and held an unallocated portion within the allowance for loan losses reflecting the uncertainty of unknown incurred adverse events.

72

Credit Quality Indicators

The following table presents the credit quality indicators by loan category at December 31, 2012 and December 31, 2011:

Loan Credit Quality Indicators

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
December 31, 2012							
Credit Risk Profile by Creditworthiness Category:							
Satisfactory	$97,085	$27,913	$225,312				$350,310
Special Mention	192	—	1,419				1,611
Substandard	6,872	1,236	18,446				26,554
Doubtful	1,387	—	—				1,387
Credit Risk Profile Based on Payment Activity:							
Performing				$6,683	$348,676	$433,922	789,281
Nonperforming				1	424	2,773	3,198
December 31, 2011							
Credit Risk Profile by Creditworthiness Category:							
Satisfactory	$91,555	$9,195	$213,413				$314,163
Special Mention	3,975	—	458				4,433
Substandard	4,261	1,888	18,278				24,427
Doubtful	—	—	—				—
Credit Risk Profile Based on Payment Activity:							
Performing				$6,312	$321,888	$456,254	$784,454
Nonperforming				6	487	3,487	3,980

We use an internally developed system of five credit quality indicators to rate the credit worthiness of each commercial loan defined as follows:

1) Satisfactory - "Satisfactory" borrowers have acceptable financial condition with satisfactory record of earnings and sufficient historical and projected cash flow to service the debt. Borrowers have satisfactory repayment histories and primary and secondary sources of repayment can be clearly identified;

2) Special Mention - Loans in this category have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. "Special mention" assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Loans which might be assigned this risk rating include loans to borrowers with deteriorating financial strength and/or earnings record and loans with potential for problems due to weakening economic or market conditions;

3) Substandard - Loans classified as “substandard” are inadequately protected by the current sound net worth or paying capacity of the borrower or the collateral pledged, if any. Loans in this category have well defined weaknesses that jeopardize the repayment. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. “Substandard” loans may include loans which are likely to require liquidation of collateral to effect repayment, and other loans where character or ability to repay has become suspect. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified

substandard;
4) Doubtful - Loans classified as “doubtful” have all of the weaknesses inherent in those classified as “substandard” with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values highly questionable and improbable. Although possibility of loss is extremely high, classification of these loans as “loss” has been deferred due to specific pending factors or events which may strengthen the value (i.e. possibility of additional collateral, injection of capital, collateral liquidation, debt restructure, economic recovery, etc). Loans classified as “doubtful” need to be placed on non-accrual; and
5) Loss - Loans classified as “loss” are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. As of the date of the balance sheet, all loans in this category have been charged-off to the allowance for loan losses. Commercial loans are evaluated on an annual basis, unless the credit quality indicator falls to a level of "substandard" or below, when the loan is evaluated quarterly. The credit quality indicator is one of the factors used to determine any loss, as further described in this footnote.

73

For the purposes of the table above, nonperforming automobile, residential and other consumer loans are those loans on nonaccrual status or are 90 days or more past due and still accruing interest.

Impaired Loans

The following table presents information on impaired loans based on whether the impaired loan has a recorded related allowance or has no recorded related allowance:

Impaired Loans

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
December 31, 2012							
Recorded Investment:							
With No Related Allowance	$45	$—	$2,528	$—	$203	$1,090	$3,866
With a Related Allowance	1,387	—	—	—	—	—	1,387
Unpaid Principal Balance:							
With No Related Allowance	45	—	2,695	—	203	1,090	4,033
With a Related Allowance	1,387	—	—	—	—	—	1,387
December 31, 2011							
Recorded Investment:							
With No Related Allowance	$66	$—	$1,953	$—	$268	$2,108	$4,395
Unpaid Principal Balance:							
With No Related Allowance	66	—	1,953	—	268	2,108	4,395
For the Year-To-Date Period Ended:							
December 31, 2012							
Average Recorded Balance:							
With No Related Allowance	$56	$—	$2,241	$—	$236	$1,599	$4,132
With a Related Allowance	694	—	—	—	—	—	694
Interest Income Recognized:							
With No Related Allowance	6	—	64	—	12	9	91
With a Related Allowance	—	—	—	—	—	—	—
Cash Basis Income:							
With No Related Allowance	—	—	64	—	—	—	64
With a Related Allowance	—	—	—	—	—	—	—
December 31, 2011							
Average Recorded Balance:							
With No Related Allowance	$40	$—	$1,993	$5	$274	$1,328	$3,640
Interest Income Recognized:							
With No Related Allowance	6	—	42	—	19	7	74
Cash Basis Income:							
With No Related Allowance	—	—	42	—	—	—	42
December 31, 2010							

Average Recorded Balance:							
With No Related Allowance	$13	$—	$1,983	$11	$280	$550	$2,837
Interest Income Recognized:							
With No Related Allowance	4	—	123	1	16	17	161
Cash Basis Income:							
With No Related Allowance	—	—	57	—	—	—	57

At December 31, 2012 and December 31, 2011, all impaired loans were considered to be collateral dependent and were therefore evaluated for impairment based on the fair value of collateral less estimated cost to sell. There was no allowance for loan losses allocated to impaired loans at December 31, 2011. Interest income recognized in the table above, represents income earned after the loans became impaired and includes restructured loans in compliance with their modified terms and nonaccrual loans where we have recognized interest income on a cash basis.

74

Loans Modified in Trouble Debt Restructurings

The following table presents information on loans modified in trouble debt restructurings during the periods indicated:
Loans Modified in Trouble Debt Restructurings During the Period

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
For the Year Ended:							
December 31, 2012							
Number of Loans	—	—	2	—	17	—	19
Pre-Modification Outstanding Recorded Investment	$—	$—	$47	$—	$160	$—	$207
Post-Modification Outstanding Recorded Investment	$—	$—	$47	$—	$160	$—	$207
Subsequent Default, Number of Contracts	—	—	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—	—	—
Commitments to lend additional funds to modified loans	—	—	—	—	—	—	—
December 31, 2011							
Number of Loans	1	—	1	—	14	1	17
Pre-Modification Outstanding Recorded Investment	$63	$—	$917	$—	$121	$242	$1,343
Post-Modification Outstanding Recorded Investment	$63	$—	$917	$—	$121	$242	$1,343
Subsequent Default, Number of Contracts	—	—	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—	—	—
Commitments to lend additional funds to modified loans	—	—	—	—	—	—	—

In general, loans requiring modification are restructured to accommodate the projected cash-flows of the borrower. Such modifications may involve a reduction of the interest rate, a significant deferral of payments or forgiveness of a portion of the outstanding principal balance. As indicated in the table above, no loans modified during the preceding twelve months subsequently defaulted as of December 31, 2012 and December 31, 2011.

Schedule of Supplemental Loan Information

	2012	2011
Supplemental Information:		
Unamortized deferred loan origination costs, net of deferred loan	$1,571	$1,445

origination fees, included in the above balances		
Overdrawn deposit accounts, included in the above balances	690	390
Pledged loans secured by one-to-four family residential mortgages under a blanket collateral agreement to secure borrowings from the Federal Home Loan Bank of New York	133,709	172,704
Residential real estate loans serviced for Freddie Mac, not included in the balances above	134,688	106,220
Loans held for sale at period-end, included in the above balances	2,801	893
Loans to Related Parties:		
Balance at beginning of year	$15,772	$14,987
Adjustment due to change in composition of related parties	45	—
New loans and renewals, during the year	5,939	3,016
Repayments, during the year	(4,309)	(2,231)
Balance at end of year	$17,447	$15,772

75

Note 6: PREMISES AND EQUIPMENT (In Thousands)

A summary of premises and equipment at December 31, 2012 and 2011 is presented below:

	2012	2011
Land and Bank Premises	$33,908	$28,391
Equipment, Furniture and Fixtures	20,123	18,028
Leasehold Improvements	957	932
Total Cost	54,988	47,351
Accumulated Depreciation and Amortization	(26,091)	(24,722)
Net Premises and Equipment	$28,897	$22,629

Amounts charged to expense for depreciation totaled $1,521, $1,382 and $1,286 in 2012, 2011 and 2010, respectively.

Note 7: OTHER INTANGIBLE ASSETS (In Thousands)

The following table presents information on Arrow's intangible assets (other than goodwill) as of December 31, 2012, 2011 and 2010:

	Depositor Intangibles[1]	Mortgage Servicing Rights[2]	Customer Intangibles[1]	Total
Gross Carrying Amount, December 31, 2012	$2,247	$1,251	$4,451	$7,949
Accumulated Amortization	(2,094)	(392)	(971)	(3,457)
Net Carrying Amount, December 31, 2012	$153	$859	$3,480	$4,492
Gross Carrying Amount, December 31, 2011	$2,247	$834	$4,451	$7,532
Accumulated Amortization	(1,961)	(235)	(587)	(2,783)
Net Carrying Amount, December 31, 2011	$286	$599	$3,864	$4,749
Roll Forward of Intangible Assets:				
Balance, December 31, 2009	$674	$212	$557	$1,443
Intangible Assets Acquired	—	226	126	352
Amortization of Intangible Assets	(214)	(67)	(56)	(337)
Balance, December 31, 2010	460	371	627	1,458
Intangible Assets Acquired	—	339	3,573	3,912
Amortization of Intangible Assets	(174)	(111)	(336)	(621)
Balance, December 31, 2011	286	599	3,864	4,749
Intangible Assets Acquired	—	417	—	417
Amortization of Intangible Assets	(133)	(157)	(384)	(674)
Balance, December 31, 2012	$153	$859	$3,480	$4,492

[1] Reported in the income statement as a component of other operating expense.
[2] Reported in the income statement as a reduction of fees for other services to customers.

76

The following table presents the remaining estimated annual amortization expense for Arrow's intangible assets as of December 31, 2012:

	Depositor Intangibles[1]	Mortgage Servicing Rights[2]	Customer Intangibles[1]	Total
Estimated Annual Amortization Expense:				
2013	$92	$197	$361	$650
2014	51	197	336	584
2015	10	175	319	504
2016	—	154	301	455
2017	—	95	281	376
Later Years	—	41	1,882	1,923
Total	$153	$859	$3,480	$4,492

[1] Reported in the income statement as a component of other operating expense.
[2] Reported in the income statement as a reduction of servicing fee income.

Note 8: GUARANTEES (In Thousands)

The following table presents the notional amount and fair value of Arrow's off-balance sheet commitments to extend credit and commitments under standby letters of credit as of December 31, 2012 and 2011:

Balance at December 31,	2012	2011
Notional Amount:		
Commitments to Extend Credit	$198,405	$203,556
Standby Letters of Credit	10,929	11,641
Fair Value:		
Commitments to Extend Credit	$198,405	$203,556
Standby Letters of Credit	10,929	11,641

Arrow is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit include home equity lines of credit, commitments for residential and commercial construction loans and other personal and commercial lines of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement Arrow has in particular classes of financial instruments.

Arrow's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. Arrow uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Arrow evaluates each customer's creditworthiness on a case-by-case basis. Home equity lines of credit are secured by residential real estate. Construction lines of credit are secured by underlying real estate. For other lines of credit, the amount of collateral obtained, if deemed necessary by Arrow upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment,

and income-producing commercial properties. Most of the commitments are variable rate instruments.
Arrow does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.
Arrow has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit at December 31, 2012 and 2011 represent the maximum potential future payments Arrow could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios will generally range from 50% for movable assets, such as inventory, to 100% for liquid assets, such as bank CD's. Fees for standby letters of credit range from 1% to 3% of the notional amount. Fees are collected upfront and amortized over the life of the commitment. The carrying amount and fair value of Arrow's standby letters of credit at December 31, 2012 and 2011 were insignificant. The fair value of standby letters of credit is based on the fees currently charged for similar agreements or the cost to terminate the arrangement with the counterparties.

77

The fair value of commitments to extend credit is determined by estimating the fees to enter into similar agreements, taking into account the remaining terms and present creditworthiness of the counterparties, and for fixed rate loan commitments, the difference between the current and committed interest rates. Arrow provides several types of commercial lines of credit and standby letters of credit to its commercial customers. The pricing of these services is not isolated as Arrow considers the customer's complete deposit and borrowing relationship in pricing individual products and services. The commitments to extend credit also include commitments under home equity lines of credit, for which Arrow charges no fee. The carrying value and fair value of commitments to extend credit are not material and Arrow does not expect to incur any material loss as a result of these commitments.
In the normal course of business, Arrow and its subsidiary banks become involved in a variety of routine legal proceedings. At present, there are no legal proceedings pending or threatened, which in the opinion of management and counsel, would result in a material loss to Arrow.

Note 9: TIME DEPOSITS (In Thousands)

The following summarizes the contractual maturities of time deposits during years subsequent to December 31, 2012:

Year of Maturity	Total Time Deposits
2013	$153,777
2014	68,493
2015	21,154
2016	17,387
2017	18,965
2018 and Beyond	3,497
Total	$283,273

Note 10: DEBT (Dollars in Thousands)

Schedule of Short-Term Borrowings:

	2012	2011
Balances at December 31:		
Overnight Advances from the Federal Home Loan Bank of New York	$29,000	$42,000
Securities Sold Under Agreements to Repurchase	12,678	26,293
Total Short-Term Borrowings	$41,678	$68,293
Maximum Borrowing Capacity at December 31:		
Federal Funds Purchased	$30,000	$30,000
Overnight Advances from the Federal Home Loan Bank of New York	90,000	114,000
Federal Reserve Bank of New York	268,000	244,000

Securities sold under agreements to repurchase mature in one day. Arrow maintains effective control over the securities underlying the agreements.

Arrow's subsidiary banks have in place unsecured federal funds lines of credit with three correspondent banks. As a member of the FHLBNY, we participate in the an advance program which allows for overnight and term advances up to the limit of pledged collateral, including FHLB NY stock, mortgage-backed securities and residential real estate loans (see Note 4. "Investment Securities" and Note 5. "Loans"). Our investment in FHLBNY stock is proportional to the total of our overnight and term advances (see the Schedule of Federal Reserve Bank and Federal Home Loan Bank

Stock in Note 4. "Investment Securities"). Our bank subsidiaries have also established borrowing facilities with the Federal Reserve Bank of New York for potential “discount window” advances, pledging certain consumer loans as collateral (see Note 5. "Loans").

Long Term Debt - FHLBNY Term Advances

In addition to overnight advances, Arrow also borrows longer-term funds from the FHLBNY. Certain borrowings are in the form of “convertible advances.” These advances have a set final maturity, but are callable by the FHLBNY at certain dates beginning no earlier than one year from the issuance date. If the advances are called, Arrow may elect to have the funds replaced by the FHLBNY at the then prevailing market rate of interest.

78

Maturity Schedule of FHBLNY Term Advances Over the Next Five Years:

	Balances		Weighted Average Rate			
Final Maturity	2012	2011	2012		2011	
First Year	$10,000	$10,000	1.65	%	4.70	%
Second Year	10,000	10,000	1.43	%	1.65	%
Third Year	10,000	10,000	3.88	%	1.43	%
Fourth Year	—	10,000	—	%	3.88	%
Fifth Year	—	—	—	%	—	%
Years After	—	—	—	%	—	%
Total	$30,000	$40,000	2.32	%	2.92	%

Long Term Debt - Guaranteed Preferred Beneficial Interests in Corporation's Junior Subordinated Debentures

During 2012, there were outstanding two classes of financial instruments issued by two separate subsidiary business trusts of Arrow, identified as “Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts” on the Consolidated Balance Sheets and the Consolidated Income Statements.

The first of the two classes of trust-issued instruments outstanding at year-end was issued by Arrow Capital Statutory Trust II ("ACST II"), a Delaware business trust established on July 16, 2003, upon the filing of a certificate of trust with the Delaware Secretary of State. In July 2003, ACST II issued all of its voting (common) stock to Arrow and issued and sold to an unaffiliated purchaser 30-year guaranteed preferred beneficial interests in the trust's assets ("ACST II trust preferred securities"). The rate on the securities is variable, adjusting quarterly to the 3-month LIBOR plus 3.15%. ACST II used the proceeds of the sale of its trust preferred securities to purchase an identical amount of junior subordinated debentures issued by Arrow that bear an interest rate identical at all times to the rate payable on the ACST II trust preferred securities. The ACST II trust preferred securities became redeemable after July 23, 2008 and mature on July 23, 2033.

The second of the two classes of trust-issued instruments outstanding at year-end was issued by Arrow Capital Statutory Trust III ("ACST III"), a Delaware business trust established on December 23, 2004, upon the filing of a certificate of trust with the Delaware Secretary of State. On December 28, 2004, the ACST III issued all of its voting (common) stock to Arrow and issued and sold to an unaffiliated purchaser 30-year guaranteed preferred beneficial interests in the trust's assets ("ACST III"). The rate on the ACST III trust preferred securities is a variable rate, adjusted quarterly, equal to the 3-month LIBOR plus 2.00%. ACST III used the proceeds of the sale of its trust preferred securities to purchase an identical amount of junior subordinated debentures issued by Arrow that bear an interest rate identical at all times to the rate payable on the ACST III trust preferred securities. The ACST III trust preferred securities became redeemable on or after March 31, 2010 and mature on December 28, 2034.

The primary assets of the two subsidiary trusts having trust preferred securities outstanding at year-end, ACST II and ACST III (the “Trusts”), are Arrow's junior subordinated debentures discussed above, and the sole revenues of the Trusts are payments received by them from Arrow with respect to the junior subordinated debentures. The trust preferred securities issued by the Trusts are non-voting. All common voting securities of the Trusts are owned by Arrow. Arrow used the net proceeds from its sale of junior subordinated debentures to the Trusts, facilitated by the Trust’s sale of their trust preferred securities to the purchasers thereof, for general corporate purposes. The trust preferred securities and underlying junior subordinated debentures, with associated expense that is tax deductible, qualify as Tier I capital under regulatory definitions.

Arrow's primary source of funds to pay interest on the debentures that are held by the Trusts are current dividends received by Arrow from its subsidiary banks. Accordingly, Arrow's ability to make payments on the debentures, and the ability of the Trusts to make payments on their trust preferred securities, are dependent upon the continuing ability of Arrow's subsidiary banks to pay dividends to Arrow. Since the trust preferred securities issued by the subsidiary trusts and the underlying junior subordinated debentures issued by Arrow at December 31, 2012, 2011 and 2010 are classified as debt for financial statement purposes, the expense associated with these securities is recorded as interest expense in the consolidated statements of income for the three years.

Schedule of Guaranteed Preferred Beneficial Interests in Corporation's Junior Subordinated Debentures

	2012		2011	
ACST II				
Balance at December 31,	$10,000		$10,000	
Period-End Interest Rate	3.51	%	3.52	%
ACST III				
Balance at December 31,	$10,000		$10,000	
Period-End Interest Rate	2.36	%	2.37	%

79

Note 11: COMPREHENSIVE INCOME (Dollars In Thousands)

The following table presents the components of other comprehensive income for the years ended December 31, 2012, 2011 and 2010:

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2012			
Unrealized Securities Holding Gains Arising During the Period	$(1,094)	$433	$(661)
Reclassification Adjustment for Net Securities Gains Included in Net Income	(865)	343	(522)
Net Retirement Plan Loss	(2,218)	878	(1,340)
Net Retirement Plan Prior Service Cost	(405)	160	(245)
Amortization of Net Retirement Plan Actuarial Loss	1,677	(664)	1,013
Accretion of Net Retirement Plan Prior Service Credit	(20)	8	(12)
Other Comprehensive Income	$(2,925)	$1,158	$(1,767)
2011			
Unrealized Securities Holding Gains Arising During the Period	$7,850	$(3,109)	$4,741
Reclassification Adjustment for Net Securities Gains Included in Net Income	(2,795)	1,107	(1,688)
Net Retirement Plan Loss	(6,129)	2,428	(3,701)
Net Retirement Plan Prior Service Credit	(266)	105	(161)
Amortization of Net Retirement Plan Actuarial Loss	996	(394)	602
Accretion of Net Retirement Plan Prior Service Credit	(108)	43	(65)
Other Comprehensive Income	$(452)	$180	$(272)
2010			
Unrealized Securities Holding Gains Arising During the Period	$2,507	$(993)	$1,514
Reclassification Adjustment for Net Securities Gains Included in Net Income	(1,507)	597	(910)
Net Retirement Plan Loss	(1,811)	718	(1,093)
Net Retirement Plan Prior Service Cost	242	(96)	146
Amortization of Net Retirement Plan Actuarial Loss	1,112	(440)	672
Accretion of Net Retirement Plan Prior Service Credit	(186)	74	(112)
Other Comprehensive Income	$357	$(140)	$217

The following table presents the components, net of tax, of accumulated other comprehensive loss as of December 31:

	2012	2011
Retirement Plan Net Loss	$(14,036)	$(13,709)
Retirement Plan Prior Service Credit	(51)	206
Net Unrealized Securities Holding Gains	5,625	6,808
Total Accumulated Other Comprehensive Loss	$(8,462)	$(6,695)

Note 12: STOCK BASED COMPENSATION (Dollars In Thousands, Except Share and Per Share Amounts)

Arrow has established two stock based compensation plans: an Incentive and Non-qualified Stock Option Plan (Stock Option Plan) and an Employee Stock Ownership Plan (ESOP). All share and per share data have been adjusted for the

September 2012 2% stock dividend.

Stock Option Plan

Options may be granted at a price no less than the greater of the par value or fair market value of such shares on the date on which such option is granted, and generally expire ten years from the date of grant. The options usually vest over a four-year period.

80

Roll Forward Schedule of Stock Option Plan by Shares and Weighted Average Exercise Prices

	Stock Option Plans
Roll Forward of Shares Outstanding:	
Outstanding at January 1, 2012	482,765
Granted	75,786
Exercised	(97,804)
Forfeited	(18,362)
Outstanding at December 31, 2012	442,385
Exercisable at December 31, 2012	259,150
Vested and Expected to Vest	183,235
Roll Forward of Shares Outstanding - Weighted Average Exercise Price:	
Outstanding at January 1, 2012	$22.46
Granted	24.92
Exercised	21.53
Forfeited	23.93
Outstanding at December 31, 2012	23.03
Exercisable at December 31, 2012	22.46
Vested and Expected to Vest	23.83
Weighted Average Remaining Contractual Life (in years):	
Outstanding at December 31, 2012	5.95
Exercisable at December 31, 2012	4.45
Vested and Expected to Vest	8.08
Aggregate Intrinsic Value:	
Outstanding at December 31, 2012	$849
Exercisable at December 31, 2012	645
Vested and Expected to Vest	204
Shares Available for Grant at Period-End	37,695

Schedule of Shares Authorized Under the Stock Option Plan by Exercise Price Range

	Exercise Price Ranges					
	$19.47 to $20.27	$21.63 to $21.66	$22.19 to $22.71	$24.24 to $24.92	$26.29	Total
Outstanding Options at December 31, 2012						
Number of Shares Outstanding	103,872	32,719	102,916	148,676	54,202	442,385
Weighted-Average Remaining Contractual Life (in years)	5.66	3.92	5.25	8.55	1.96	5.95
Weighted-Average Exercise Price	$19.99	$21.66	$22.56	$24.59	$26.29	$23.03
Exercisable Options at December 31, 2012						
Number of Shares Outstanding	86,021	32,719	66,826	19,382	54,202	259,150
Weighted-Average Remaining Contractual Life (in years)	5.58	3.92	4.26	8.01	1.96	4.45

Weighted-Average Exercise Price	$19.93	$21.66	$22.47	$24.26	$26.29	$22.46

81

Schedule of Other Stock Option Plan Information

	2012		2011		2010	
Shares Granted	75,786		78,425		77,047	
Weighted Average Grant Date Information:						
Fair Value of Options Granted	$6.01		$6.12		$6.12	
Fair Value Assumptions:						
Dividend Yield	3.93	%	4.00	%	3.80	%
Expected Volatility	37.43	%	36.50	%	35.40	%
Risk Free Interest Rate	1.22	%	2.54	%	3.14	%
Expected Lives (in years)	6.46		6.40		7.79	
Amount Expensed During the Year	$424		$354		$299	
Compensation Costs for Non-vested Awards Not Yet Recognized	737		705		579	
Weighted Average Expected Vesting Period, In Years	1.71		1.80		1.80	
Proceeds From Stock Options Exercised	$2,105		$1,413		$798	
Tax Benefits Related to Stock Options Exercised	68		51		105	
Intrinsic Value of Stock Options Exercised	2,434		1,740		1,404	

Employee Stock Ownership Plan

Arrow maintains an employee stock ownership plan ("ESOP"). Substantially all employees of Arrow and its subsidiaries are eligible to participate upon satisfaction of applicable service requirements. The ESOP borrowed funds from one of Arrow's subsidiary banks to purchase outstanding shares of Arrow's common stock. The notes require annual payments of principal and interest through 2018. As the debt is repaid, shares are released from collateral based on the proportion of debt paid to total debt outstanding for the year and allocated to active employees. In addition, the Company makes additional cash contributions to the Plan each year.

Schedule of ESOP Compensation Expense

	2012	2011	2010
ESOP Compensation Expense	$550	$550	$500

As the debt is repaid, shares are released from collateral based on the proportion of debt paid to total debt outstanding for the year and allocated to active employees.
Shares pledged as collateral are reported as unallocated ESOP shares in stockholders' equity. As shares are released from collateral, Arrow reports compensation expense equal to the current average market price of the shares, and the shares become outstanding for earnings per share computations. The ESOP shares as of December 31, 2012 were as follows:

Schedule of Shares in ESOP Plan

ESOP Plan Shares:	2012
Allocated Shares	740,124
Shares Released for Allocation During 2012	16,629
Unallocated Shares	102,890
Total ESOP Shares	859,643
Market Value of Unallocated Shares	$2,570

82

Explanation of Responses:

Note 13: RETIREMENT BENEFIT PLANS (Dollars in Thousands)

Arrow sponsors qualified and nonqualified defined benefit pension plans and other postretirement benefit plans for its employees. Arrow maintains a non-contributory pension plan, which covers substantially all employees. Effective December 1, 2002, all active participants in the qualified defined benefit pension plan were given a one-time irrevocable election to continue participating in the traditional plan design, for which benefits were based on years of service and the participant's final compensation (as defined), or to begin participating in the new cash balance plan design. All employees who participate in the plan after December 1, 2002 automatically participate in the cash balance plan design. The interest credits under the cash balance plan are based on the 30-year U.S. Treasury rate in effect for November of the prior year. The service credits under the cash balance plan are equal to 6.0% of eligible salaries for employees who become participants on or after January 1, 2003. For employees in the plan prior to January 1, 2003, the service credits are scaled based on the age of the participant, and range from 6.0% to 12.0%. The funding policy is to contribute up to the maximum amount that can be deducted for federal income tax purposes and to make all payments required under ERISA. Arrow also maintains a supplemental non-qualified unfunded retirement plan to provide eligible employees of Arrow and its subsidiaries with benefits in excess of qualified plan limits imposed by federal tax law.
Arrow has multiple non-pension postretirement benefit plans. The health care, dental and life insurance plans are contributory, with participants' contributions adjusted annually. Arrow's policy is to fund the cost of postretirement benefits based on the current cost of the underlying policies. However, the health care plan provision for automatic increases of Company contributions each year is based on the increase in inflation and is limited to a maximum of 5%.

The following tables set forth changes in the plans' benefit obligations (projected benefit obligation for pension benefits and accumulated benefit obligation for postretirement benefits) and changes in the plans' assets and the funded status of the pension plans and other postretirement benefit plan at December 31:

Schedule of Defined Benefit Plan Disclosures

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Defined Benefit Plan Funded Status			
December 31, 2012			
Fair Value of Plan Assets	$39,880	$—	$—
Benefit Obligation	37,046	5,324	9,213
Funded Status of Plan	$2,834	$(5,324)	$(9,213)
December 31, 2011			
Fair Value of Plan Assets	$39,206	$—	$—
Benefit Obligation	35,047	4,529	8,556
Funded Status of Plan	$4,159	$(4,529)	$(8,556)
Change in Benefit Obligation			
Benefit Obligation, at January 1, 2012	$35,047	$4,529	$8,556
Service Cost	1,467	87	202
Interest Cost	1,436	190	338
Plan Participants' Contributions	—	—	348
Amendments	—	405	—
Actuarial Loss	2,857	441	491

Benefits Paid	(3,761)	(328)	(722)
Benefit Obligation, at December 31, 2012	$37,046	$5,324	$9,213
Benefit Obligation, at January 1, 2011	$32,337	$4,319	$7,873
Service Cost	1,353	81	173
Interest Cost	1,598	222	372
Plan Participants' Contributions	—	—	382
Amendments	191	75	—
Actuarial Loss	1,616	151	505
Benefits Paid	(2,048)	(319)	(749)
Benefit Obligation, at December 31, 2011	$35,047	$4,529	$8,556

83

Schedule of Defined Benefit Plan Disclosures

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Change in Fair Value of Plan Assets			
Fair Value of Plan Assets, at January 1, 2012	$39,206	$—	$—
Actual Return on Plan Assets	4,435	—	—
Employer Contributions	—	328	374
Plan Participants' Contributions	—	—	348
Benefits Paid	(3,761)	(328)	(722)
Fair Value of Plan Assets, at December 31, 2012	$39,880	$—	$—
Change in Fair Value of Plan Assets, continued			
Fair Value of Plan Assets, at January 1, 2011	$37,319	$—	$—
Actual Return (Loss) on Plan Assets	(1,065)	—	—
Employer Contributions	5,000	319	367
Plan Participants' Contributions	—	—	382
Benefits Paid	(2,048)	(319)	(749)
Fair Value of Plan Assets, at December 31, 2011	$39,206	$—	$—
Accumulated Benefit Obligation at December 31, 2012	$36,519	$5,324	$9,213
Amounts Recognized in the Consolidated Balance Sheets			
December 31, 2012			
Prepaid Benefit Cost	$2,834	$—	—
Accrued Benefit Liability	—	(5,324)	(9,213)
Net Benefit Cost Recognized	$2,834	$(5,324)	$(9,213)
December 31, 2011			
Prepaid Benefit Cost	$4,159	$—	—
Accrued Benefit Liability	—	(4,529)	(8,556)
Net Benefit Cost Recognized	$4,159	$(4,529)	$(8,556)
Amounts Recognized in Other Comprehensive Income			
For the Year Ended December 31, 2012			
Net Unamortized Loss Arising During the Period	$1,286	$441	$491
Net Prior Service Cost Arising During the Period	—	405	—
Amortization of Net Loss	(1,387)	(156)	(134)
Amortization of Prior Service (Cost) Credit	(41)	(53)	114
Total Other Comprehensive (Loss) Income for Pension and Other Postretirement Benefit Plans	$(142)	$637	$471
For the Year Ended December 31, 2011			
Net Unamortized Loss Arising During the Period	$5,474	$151	$504
Net Prior Service Cost Arising During the Period	191	75	—
Amortization of Net Loss	(778)	(147)	(71)
Amortization of Prior Service (Cost) Credit	(38)	32	114
Total Other Comprehensive (Loss) Income for Pension and	$4,849	$111	$547

Other Postretirement Benefit Plans

For the Year Ended December 31, 2010			
Net Unamortized Loss Arising During the Period	$1,018	$339	$454
Net Prior Service Cost Arising During the Period	—	—	(242)
Amortization of Net Loss	(899)	(128)	(85)
Amortization of Prior Service (Cost) Credit	(25)	105	106
Total Other Comprehensive (Loss) Income for Pension and Other Postretirement Benefit Plans	$94	$316	$233

84

Schedule of Defined Benefit Plan Disclosures

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Accumulated Other Comprehensive Income			
December 31, 2012			
Net Actuarial Loss	$18,026	$2,368	$2,850
Prior Service (Credit) Cost	(218)	721	(419)
Total Accumulated Other Comprehensive Income, Before Tax	$17,808	$3,089	$2,431
December 31, 2011			
Net Actuarial Loss	$18,127	$2,083	$2,493
Prior Service (Credit) Cost	(177)	369	(533)
Total Accumulated Other Comprehensive Income, Before Tax	$17,950	$2,452	$1,960
Amounts that will be Amortized from Accumulated Other Comprehensive Income the Next Year			
Net Actuarial Loss	$1,246	$151	$164
Prior Service (Credit) Cost	$37	$78	$(114)
Net Periodic Benefit Cost			
For the Year Ended December 31, 2012			
Service Cost	$1,467	$87	$202
Interest Cost	1,436	190	338
Expected Return on Plan Assets	(2,865)	—	—
Amortization of Prior Service (Credit) Cost	41	53	(114)
Amortization of Net Loss	1,387	156	134
Net Periodic Benefit Cost	$1,466	$486	$560
For the Year Ended December 31, 2011			
Service Cost	$1,353	$81	$173
Interest Cost	1,598	222	372
Expected Return on Plan Assets	(2,793)	—	—
Amortization of Prior Service (Credit) Cost	38	(32)	(114)
Amortization of Net Loss	778	147	71
Net Periodic Benefit Cost	$974	$418	$502
For the Year Ended December 31, 2010			
Service Cost	$1,185	$56	$163
Interest Cost	1,667	235	421
Expected Return on Plan Assets	(2,454)	—	—
Amortization of Prior Service (Credit) Cost	25	(105)	(105)
Amortization of Net Loss	899	128	85
Net Periodic Benefit Cost	$1,322	$314	$564
Weighted-Average Assumptions Used in Calculating Benefit Obligation			
December 31, 2012			
Discount Rate	3.55%	3.15%	3.55%

Rate of Compensation Increase	3.50 %	3.50 %	3.50 %
Interest Rate Credit for Determining Projected Cash Balance Account	3.00 %		
Interest Rate to Annuitize Cash Balance Account	4.50 %		
Interest Rate to Convert Annuities To Actuarially Equivalent Lump Sum Amounts	4.50 %	4.50 %	

85

Schedule of Defined Benefit Plan Disclosures

	Employees' Pension Plan		Select Executive Retirement Plan		Postretirement Benefit Plans	
December 31, 2011						
Discount Rate	4.05	%	4.05	%	4.05	%
Rate of Compensation Increase	3.50	%	3.50	%	3.50	%
Interest Rate Credit for Determining Projected Cash Balance Account	3.25	%				
Interest Rate to Annuitize Cash Balance Account	5.00	%				
Interest Rate to Convert Annuities To Actuarially Equivalent Lump Sum Amounts	5.00	%	5.00	%		
Weighted-Average Assumptions Used in Calculating Net Periodic Benefit Cost						
December 31, 2012						
Discount Rate	4.05	%	4.05	%	4.05	%
Expected Long-Term Return on Plan Assets	7.50	%				
Rate of Compensation Increase	3.50	%	3.50	%	3.50	%
Interest Rate Credit for Determining Projected Cash Balance Account	3.25	%				
Interest Rate to Annuitize Cash Balance Account	5.00	%				
Interest Rate to Convert AnnuitiesTo Actuarially Equivalent Lump Sum Amounts	5.00	%	5.00	%		
December 31, 2011						
Discount Rate	5.15	%	5.15	%	5.15	%
Expected Long-Term Return on Plan Assets	7.50	%				
Rate of Compensation Increase	3.50	%	3.50	%	3.50	%
Interest Rate Credit for Determining Projected Cash Balance Account	4.25	%				
Interest Rate to Annuitize Cash Balance Account	5.50	%				
Interest Rate to Convert AnnuitiesTo Actuarially Equivalent Lump Sum Amounts	5.50	%	5.50	%		
December 31, 2010						
Discount Rate	5.80	%	5.80	%	5.80	%
Expected Long-Term Return on Plan Assets	7.50	%				
Rate of Compensation Increase	3.50	%	3.50	%	3.50	%
Interest Rate Credit for Determining Projected Cash Balance Account	4.50	%				
Interest Rate to Annuitize Cash Balance Account	6.00	%				
Interest Rate to Convert AnnuitiesTo Actuarially Equivalent Lump Sum Amounts	6.00	%	6.00	%		

86

Explanation of Responses:

Schedule of Defined Benefit Plan Disclosures
Information about Defined Benefit Plan Assets - Employees' Pension Plan

Asset Category	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Percent of Total		Target Allocation Minimum		Target Allocation Maximum	
December 31, 2012										
Cash	$17	$—	$—	$17	—	%	—	%	15.0	%
Interest-Bearing Money Market Fund	5,236	—	—	5,236	13.1	%	—	%	15.0	%
Arrow Common Stock[1]	4,197	—	—	4,197	10.5	%	—	%	10.0	%
North Country Funds - Equity [2]	13,043	—	—	13,043	32.8	%				
Other Mutual Funds - Equity	11,160	—	—	11,160	28.0	%				
Total Equity Funds	24,203	—	—	24,203	60.8	%	55.0	%	85.0	%
North Country Funds - Fixed income [2]	4,236	—	—	4,236	10.6	%				
Other Mutual Funds - Fixed Income	1,991	—	—	1,991	5.0	%				
Total Fixed Income Funds	6,227	—	—	6,227	15.6	%	10.0	%	30.0	%
Total	$39,880	$—	$—	$39,880	100.0	%				
December 31, 2011										
Cash	$7	$—	$—	$7	—	%	—	%	15.0	%
Interest-Bearing Money Market Fund	1,857	—	—	1,857	4.7	%	—	%	15.0	%
Arrow Common Stock	3,843	—	—	3,843	9.8	%	—	%	10.0	%
North Country Funds - Equity [2]	13,259	—	—	13,259	33.9	%				
Other Mutual Funds - Equity	14,908	—	—	14,908	38.0	%				
Total Equity Funds	28,167	—	—	28,167	71.9	%	55.0	%	85.0	%
North Country Funds - Fixed income [2]	4,151	—	—	4,151	10.6	%				
Other Mutual Funds - Fixed Income	1,181	—	—	1,181	3.0	%				
Total Fixed Income Funds	5,332	—	—	5,332	13.6	%	10.0	%	30.0	%
Total	$39,206	$—	$—	$39,206	100.0	%				

[1] Acquisition of Arrow Financial Corporation common stock was under 10% of the total fair value of the employee's pension plan assets at the time of acquisition.
[2] The North Country Funds - Equity and the North Country Funds - Fixed Income are publicly traded mutual funds advised by Arrow's subsidiary, North Country Investment Advisors, Inc.

87

Schedule of Defined Benefit Plan Disclosures

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans	
Expected Future Benefit Payments				
2013	$2,228	$457	$494	
2014	2,463	468	527	
2015	2,226	443	541	
2016	2,189	431	562	
2017	2,435	418	572	
2018-2022	12,415	1,883	3,113	
Estimated Contributions During 2013	$—	$457	$494	
Assumed Health Care Cost Trend Rates				
December 31, 2012				
Health Care Cost Trend Rate Assumed for Next Year			9.00	%
Rate to which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)			5.00	%
Year that the Rate Reaches the Ultimate Trend Rate			2021	
December 31, 2011				
Health Care Cost Trend Rate Assumed for Next Year			8.50	%
Rate to which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)			5.00	%
Year that the Rate Reaches the Ultimate Trend Rate			2019	
Effect of a One-Percentage Point Change in Assumed Health Care Cost Trend Rates				
Effect of a One Percentage Point Increase on Service and Interest Cost Components			$66	
Effect of a One Percentage Point Decrease on Service and Interest Cost Components			(54	)
Effect of a One Percentage Point Increase on Accumulated Postretirement Benefit Obligation			763	
Effect of a One Percentage Point Decrease on Accumulated Postretirement Benefit Obligation			(643	)

Fair Value of Plan Assets (Defined Benefit Plan):

For information on fair value measurements, including descriptions of level 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by Arrow, see Note 2 - "Summary of Significant Accounting Policies" and Note 17 - "Fair Values."

The fair value of level 1 financial instruments in the table above are based on unadjusted, quoted market prices from exchanges in active markets.

In accordance with ERISA guidelines, the Board authorized the purchase of Arrow common stock up to 10% of the fair market value of the plan's assets at the time of acquisition.

88

Pension Plan Investment Policies and Strategies:

The Company maintains a non-contributory pension benefit plan covering substantially all employees for the purpose of rewarding long and loyal service to the Company. The pension assets are held in trust and are invested in a prudent manner for the exclusive purpose of providing benefits to participants. The investment objective is to achieve an inflation-protected rate of return that meets the actuarial assumption which is used for funding purposes. The investment strategy attempts to maximize the investment return on assets at a level of risk deemed appropriate by the Company while complying with ERISA and any applicable regulations and laws. The investment strategy utilizes asset allocation as a principal determinant for establishing the risk/reward profile of the assets. Asset allocation ranges are established, periodically reviewed, and adjusted as funding levels, and participant benefit characteristics change. Active and passive investment management is employed to help enhance the risk/return profile of the assets.

The Plan's assets are invested in a diversified portfolio of equity securities comprised of companies with small, mid, and large capitalizations. Both domestic and international equities are allowed to provide further diversification and opportunity for return in potentially higher growth economies with lower correlation of returns. Growth and value styles of investment are employed to increase the diversification and offer varying opportunities for appreciation. The fixed income portion of the plan may be invested in U.S. dollar denominated debt securities that shall be rated within the top four ratings categories by nationally recognized ratings agencies. The fixed income portion will be invested without regard to industry or sector based on analysis of each target security's structural and repayment features, current pricing and trading opportunities as well as credit quality of the issuer. Individual bonds with ratings that fall below the Plan's rating requirements will be sold only when it is in the best interests of the Plan. Hybrid investments, such as convertible bonds, may be used to provide growth characteristics while offering some protection to declining equity markets by having a fixed income component. Alternative investments such as Treasury Inflation Protected Securities, commodities, and REITs may be used to further enhance diversification while offering opportunities for return. In accordance with ERISA guidelines, common stock of the Company may be purchased up to 10% of the fair market value of the Plan's assets at the time of acquisition. Derivative investments are prohibited in the plan.

The return on assets assumption was developed through review of historical market returns, historical asset class volatility and correlations, current market conditions, the Plan's past experience, and expectations on potential future market returns. The assumption represents a long-term average view of the performance of the assets in the Plan, a return that may or may not be achieved during any one calendar year. The assumption is based on the return of the Plan using the historical fifteen year return adjusted for the potential for lower than historical returns due to low interest rates, and an expected modest recovery in global economic growth as a result of the deep recession.

Cash Flows - We were not required to make any contribution to our qualified pension plan in 2012. Arrow makes contributions for its postretirement benefits in an amount equal to actual expenses for the year.

Note 14: OTHER EXPENSES (In Thousands)

Other operating expenses included in the consolidated statements of income are as follows:

	2012	2011	2010
Computer Services	$2,263	$1,654	$1,372
Legal and Other Professional Fees	1,962	1,972	2,102
Postage and Courier	1,040	1,088	1,218
Advertising and Promotion	831	853	1,024
Stationery and Printing	975	891	980
Telephone and Communications	808	981	896

Intangible Asset Amortization	518	510	270
All Other	3,243	3,095	3,173
Total Other Operating Expense	$11,640	$11,044	$11,035

89

Note 15: INCOME TAXES (In Thousands)

The provision for income taxes is summarized below:

Current Tax Expense:	2012	2011	2010
Federal	$8,763	$6,726	$8,369
State	1,251	816	1,231
Total Current Tax Expense	10,014	7,542	9,600
Deferred Tax Expense (Benefit):			
Federal	(290)	1,775	273
State	(63)	397	(119)
Total Deferred Tax Expense (Benefit)	(353)	2,172	154
Total Provision for Income Taxes	$9,661	$9,714	$9,754

The provisions for income taxes differed from the amounts computed by applying the U.S. Federal Income Tax Rate of 35% for 2012, 2011 and 2010 to pre-tax income as a result of the following:

	2012	2011	2010
Computed Tax Expense at Statutory Rate	$11,144	$11,076	$11,076
Increase (Decrease) in Income Taxes Resulting From:			
Tax-Exempt Income	(2,132)	(2,199)	(2,236)
Nondeductible Interest Expense	95	152	176
State Taxes, Net of Federal Income Tax Benefit	814	788	723
Other Items, Net	(260)	(103)	15
Total Provision for Income Taxes	$9,661	$9,714	$9,754

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 are presented below:

	2012	2011
Deferred Tax Assets:		
Allowance for Loan Losses	$6,105	$5,957
Pension and Deferred Compensation Plans	4,140	3,965
Pension Liability Included in Accumulated Other Comprehensive Income	9,241	8,859
Other	608	669
Total Gross Deferred Tax Assets	20,094	19,450
Valuation Allowance for Deferred Tax Assets	—	—
Total Gross Deferred Tax Assets, Net of Valuation Allowance	$20,094	$19,450
Deferred Tax Liabilities:		
Pension Plans	$8,178	$8,758
Depreciation	1,475	1,347
Deferred Income	3,189	3,017
Net Unrealized Gains on Securities Available-for-Sale Included in Accumulated Other Comprehensive Income	3,690	4,465
Goodwill	5,225	5,036
Total Gross Deferred Tax Liabilities	$21,757	$22,623

The following table presents supplemental income tax information for the periods ending December 31, 2012 and 2011:

	2012	2011
Supplemental Information:		
Deferred Tax Assets During the Year from the Acquisition of Subsidiaries	$—	$44
Deferred Tax Liabilities During the Year from the Acquisition of Subsidiaries	—	1,061
Unrecognized Tax Benefits	—	—

Management believes that the realization of the recognized net deferred tax assets at December 31, 2012 and 2011 is more likely than not, based on existing loss carryback ability, available tax planning strategies and expectations as to future taxable income.

90

Interest and penalties are recorded as a component of the provision for income taxes, if any. Tax years 2009 through 2012 are subject to Federal and New York State examination.

Note 16: EARNINGS PER SHARE (In Thousands, Except Per Share Amounts)

The following table presents a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per common share (“EPS”) for each of the years in the three-year period ended December 31, 2012. All share and per share amounts have been adjusted for the 2012 2% stock dividend.

Earnings Per Share

	Year-to-Date Period Ended:		
	12/31/2012	12/31/2011	12/31/2010
Earnings Per Share - Basic:			
Net Income	$22,179	$21,933	$21,892
Weighted Average Shares - Basic	12,007	11,970	11,836
Earnings Per Share - Basic	$1.85	$1.83	$1.85
Earnings Per Share - Diluted:			
Net Income	$22,179	$21,933	$21,892
Weighted Average Shares - Basic	12,007	11,970	11,836
Dilutive Average Shares Attributable to Stock Options	10	12	36
Weighted Average Shares - Diluted	12,017	11,982	11,872
Earnings Per Share - Diluted	$1.85	$1.83	$1.84
Antidilutive Shares Excluded from the Calculation of Earnings Per Share	203	136	70

Note 17: FAIR VALUES (In Thousands)

FASB ASC Subtopic 820-10 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and requires certain disclosures about fair value measurements. We do not have any nonfinancial assets or liabilities measured at fair value on a recurring basis. The only assets or liabilities that Arrow measured at fair value on a recurring basis at December 31, 2012 and 2011 were securities available-for-sale. Arrow held no securities or liabilities for trading on such date. For information on fair value measurements, including descriptions of level 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by Arrow, see Note 2 - “Summary of Significant Accounting Policies.”

91

The table below presents the financial instrument's fair value and the amounts within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement:

Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

		Fair Value Measurements at Reporting Date Using:		
Fair Value of Assets and Liabilities Measured on a Recurring Basis:	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Securities Available-for Sale:				
U.S. Agency Obligations	$122,457	$—	$122,457	$—
State and Municipal Obligations	84,838	—	84,838	—
Mortgage-Backed Securities - Residential	261,804	—	261,804	—
Corporate and Other Debt Securities	8,451	—	8,451	—
Mutual Funds and Equity Securities	1,148	—	1,148	—
Total Securities Available-for-Sale	$478,698	$—	$478,698	$—
December 31, 2011				
Securities Available-for Sale:				
U.S. Agency Obligations	$116,393	$—	$116,393	$—
State and Municipal Obligations	44,999	—	44,999	—
Mortgage-Backed Securities - Residential	392,712	—	392,712	—
Corporate and Other Debt Securities	1,015	—	1,015	—
Mutual Funds and Equity Securities	1,419	257	1,162	—
Total Securities Available-for Sale	$556,538	$257	$556,281	$—
Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis:				
December 31, 2012				
Collateral Dependent Impaired Loans	$1,020	$—	$—	$1,020
Other Real Estate Owned and Repossessed Assets, Net	$1,034	$—	$—	$1,034
December 31, 2011				
Other Real Estate Owned and Repossessed Assets, Net	$516	$—	$—	$516

We determine the fair value of financial instruments under the following hierarchy:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Fair Value Methodology for Assets and Liabilities Measured on a Recurring Basis

The fair value of level 1 securities available-for-sale are based on unadjusted, quoted market prices from exchanges in active markets. The fair value of level 2 securities available-for-sale are based on an independent bond and equity pricing service for identical assets or significantly similar securities and an independent equity pricing service for equity securities not actively traded. The pricing services use a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Fair Value Methodology for Assets and Liabilities Measured on a Nonrecurring Basis

The fair value of collateral dependent impaired loans and other real estate owned was based on third-party appraisals. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses ranging from 10% to 35%.

92

Other assets which might have been included in this table include mortgage servicing rights, goodwill and other intangible assets. Arrow evaluates each of these assets for impairment on an annual basis, with no impairment recognized for these assets at December 31, 2012 and December 31, 2011.

Unobservable Input Reconciliation of the Fair Value of Assets Measured on a Recurring Basis

The following table is a reconciliation of the beginning and ending balances for 2011 of the Level 3 assets of Arrow, i.e., as to which fair value is measured using significant unobservable inputs, all of which are securities available-for-sale:

Roll-Forward of the Fair Value of Level 3 Assets Measured on a Recurring Basis

	Available-for-Sale Securities
Beginning Balance, January 1, 2011	$ 283
Principal payment received	(331)
Total net gains (realized/unrealized) included in other comprehensive income	48
Ending Balance, December 31, 2011	$ —

There was no other-than-temporary impairment of the assets in the table above.

93

Fair Value by Balance Sheet Grouping

The following table presents a summary of the carrying amount, the fair value or an amount approximating fair value and the fair value hierarchy of Arrow's financial instruments:
Schedule of Fair Values by Balance Sheet Grouping

			Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2012					
Cash and Cash Equivalents	$48,832	$48,832	$48,832	$—	$—
Securities Available-for-Sale	478,698	478,698	—	478,698	—
Securities Held-to-Maturity	239,803	248,252	—	248,252	—
Federal Home Loan Bank and Federal Reserve Bank Stock	5,792	5,792	5,792	—	—
Net Loans	1,157,043	1,192,628	—	—	1,192,628
Accrued Interest Receivable	5,486	5,486	5,486	—	—
Deposits	1,731,155	1,732,894	1,447,882	285,012	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	12,678	12,678	12,678	—	—
Federal Home Loan Bank Term Advances	59,000	60,312	29,000	31,312	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	584	584	584	—	—
December 31, 2011					
Cash and Cash Equivalents	$43,736	$43,736	$43,736	$—	$—
Securities Available-for-Sale	556,538	556,538	257	556,281	—
Securities Held-to-Maturity	150,688	159,059	—	159,059	—
Federal Home Loan Bank and Federal Reserve Bank Stock	6,722	6,722	6,722	—	—
Net Loans	1,116,454	1,141,310	—	—	1,141,310
Accrued Interest Receivable	6,082	6,082	6,082	—	—
Deposits	1,644,046	1,650,849	1,291,388	359,461	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	26,293	26,293	26,293	—	—
Federal Home Loan Bank Term Advances	82,000	83,553	—	83,553	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	1,147	1,147	1,147	—	—

Fair Value Methodology for Financial Instruments Not Measured on a Recurring or Nonrecurring Basis

Securities held-to-maturity are fair valued utilizing an independent bond pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Fair values for loans are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage, indirect and other consumer loans. Each loan category is further segmented into fixed and adjustable interest rate terms and by performing and nonperforming categories. The fair value methodology does not use an exit price methodology. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions. Fair value for nonperforming loans is generally based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

94

The fair value of time deposits is based on the discounted value of contractual cash flows, except that the fair value is limited to the extent that the customer could redeem the certificate after imposition of a premature withdrawal penalty. The discount rates are estimated using the FHLBNY yield curve, which is considered representative of Arrow's time deposit rates. The fair value of all other deposits is equal to the carrying value.

The fair value of FHLBNY advances is estimated based on the discounted value of contractual cash flows. The discount rate is estimated using current rates on FHLBNY advances with similar maturities and call features.

Based on Arrow's capital adequacy, the book value of the outstanding trust preferred securities (Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts) are considered to approximate fair value since the interest rates are variable (indexed to LIBOR) and Arrow is well-capitalized.

Note 18: LEASES (In Thousands)

At December 31, 2012, Arrow was obligated under a number of noncancellable operating leases for buildings and equipment. Certain of these leases provide for escalation clauses and contain renewal options calling for increased rentals if the lease is renewed.
Rent expense for the years ended December 31, 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Rent Expense	$597	$570	$351

Future minimum lease payments on operating leases at December 31, 2012 were as follows:

	Operating Leases
2013	$618
2014	603
2015	555
2016	412
2017	320
Later Years	572
Total Minimum Lease Payments	$3,080

Arrow leases four of its branch offices, at market rates, from Stewart's Shops Corp. Mr. Gary C. Dake, President of Stewart's Shops Corp., serves on both the boards of Arrow and Saratoga National Bank and Trust Company.

Note 19: REGULATORY MATTERS (Dollars in Thousands)

In the normal course of business, Arrow and its subsidiaries operate under certain regulatory restrictions, such as the extent and structure of covered inter-company borrowings and maintenance of reserve requirement balances.
The principal source of the funds for the payment of stockholder dividends by Arrow has been from dividends declared and paid to Arrow by its bank subsidiaries. As of December 31, 2012, the maximum amount that could have been paid by subsidiary banks to Arrow, without prior regulatory approval, was approximately $27,323.
Under current Federal Reserve regulations, Arrow is prohibited from borrowing from the subsidiary banks unless such borrowings are secured by specific obligations. Additionally, the maximum of any such borrowing is limited to 10% of an affiliate's capital and surplus.

Arrow and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on an institution's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Arrow and its subsidiary banks must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Arrow and its subsidiary banks to maintain minimum capital amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012 and 2011, that Arrow and both subsidiary banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2012, Arrow and both subsidiary banks qualified as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized," Arrow and its subsidiary banks must maintain minimum total risk-

95

based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed Arrow's or its subsidiary banks' categories.
Arrow's and its subsidiary banks', Glens Falls National Bank and Trust Company ("Glens Falls National") and Saratoga National Bank and Trust Company ("Saratoga National"), actual capital amounts and ratios are presented in the table below as of December 31, 2012 and 2011:

	Actual			Minimum Amounts For Capital Adequacy Purposes			Minimum Amounts To Be Well-Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2012:									
Total Capital (to Risk Weighted Assets):									
Arrow	$200,480	16.3	%	$98,395	8.0	%	$122,994	10.0	%
Glens Falls National	164,889	16.2	%	81,427	8.0	%	101,783	10.0	%
Saratoga National	31,911	15.1	%	16,906	8.0	%	21,133	10.0	%
Tier I Capital (to Risk Weighted Assets):									
Arrow	185,170	15.0	%	49,379	4.0	%	74,068	6.0	%
Glens Falls National	152,205	14.9	%	40,860	4.0	%	61,291	6.0	%
Saratoga National	29,297	13.8	%	8,492	4.0	%	12,738	6.0	%
Tier I Capital (to Average Assets):									
Arrow	185,170	9.1	%	81,393	4.0	%	81,393	4.0	%
Glens Falls National	152,205	8.8	%	69,184	4.0	%	86,480	5.0	%
Saratoga National	29,297	9.4	%	12,467	4.0	%	15,584	5.0	%

	Actual			Minimum Amounts For Capital Adequacy Purposes			Minimum Amounts To Be Well-Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2011:									
Total Capital (to Risk Weighted Assets):									
Arrow	$187,681	16.0	%	93,841	8.0	%	117,301	10.0	%
Glens Falls National	155,209	15.9	%	78,093	8.0	%	97,616	10.0	%
Saratoga National	29,853	15.0	%	15,922	8.0	%	19,902	10.0	%
Tier I Capital (to Risk Weighted Assets):									
Arrow	172,956	14.7	%	47,063	4.0	%	70,594	6.0	%
Glens Falls National	142,998	14.6	%	39,178	4.0	%	58,766	6.0	%
Saratoga National	27,365	13.8	%	7,932	4.0	%	11,898	6.0	%
Tier I Capital (to Average Assets):									
Arrow	172,956	9.0	%	76,869	4.0	%	76,869	4.0	%
Glens Falls National	142,998	8.6	%	66,511	4.0	%	83,138	5.0	%

Saratoga National	27,365	9.3	%	11,770	4.0	%	14,712	5.0	%

96

Note 20: PARENT ONLY FINANCIAL INFORMATION (In Thousands)

Condensed financial information for Arrow Financial Corporation is as follows:

BALANCE SHEETS	December 31,	
ASSETS	2012	2011
Interest-Bearing Deposits with Subsidiary Banks	$1,913	$2,395
Available-for-Sale Securities	1,148	1,433
Held-to-Maturity Securities	1,000	1,000
Investment in Subsidiaries at Equity	192,985	184,515
Other Assets	5,339	3,915
Total Assets	$202,385	$193,258
LIABILITIES		
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	$20,000	$20,000
Other Liabilities	6,560	6,873
Total Liabilities	26,560	26,873
STOCKHOLDERS' EQUITY		
Total Stockholders' Equity	175,825	166,385
Total Liabilities and Stockholders' Equity	$202,385	$193,258

STATEMENTS OF INCOME	Years Ended December 31,		
Income:	2012	2011	2010
Dividends from Bank Subsidiaries	$12,700	$14,450	$12,400
Interest and Dividends on Investments	123	127	129
Other Income (Including Management Fees)	776	596	720
Net Gains on Securities Transactions	63	17	27
Total Income	13,662	15,190	13,276
Expense:			
Interest Expense	692	669	666
Salaries and Employee Benefits	75	92	109
Other Expense	957	820	908
Total Expense	1,724	1,581	1,683
Income Before Income Tax Benefit and Equity in Undistributed Net Income of Subsidiaries	11,938	13,609	11,593
Income Tax Benefit	575	477	489
Equity in Undistributed Net Income of Subsidiaries	9,666	7,847	9,810
Net Income	$22,179	$21,933	$21,892

The Statement of Changes in Stockholders' Equity is not reported because it is identical to the Consolidated Statement of Changes in Stockholders' Equity.

97

STATEMENTS OF CASH FLOWS	Years Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net Income	$22,179	$21,933	$21,892
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Undistributed Net Income of Subsidiaries	(9,666)	(7,847)	(9,810)
Net Gains on the Sale of Securities Available-for-Sale	(63)	(17)	(27)
Shares Issued Under the Directors' Stock Plan	175	175	149
Stock-Based Compensation Expense	424	354	299
Changes in Other Assets and Other Liabilities	(1,640)	(165)	(1,253)
Net Cash Provided by Operating Activities	11,409	14,433	11,250
Cash Flows from Investing Activities:			
Proceeds from the Sale of Securities Available-for-Sale	681	410	270
Purchases of Securities Available-for-Sale	(359)	(253)	(373)
Net Cash Provided by (Used in) Investing Activities	322	157	(103)
Cash Flows from Financing Activities:			
Stock Options Exercised	2,105	1,413	798
Shares Issued Under the Employee Stock Purchase Plan	484	474	475
Treasury Stock Issued for Dividend Reinvestment Plans	1,822	1,796	1,715
Tax Benefit from Exercise of Stock Options	68	51	105
Purchase of Treasury Stock	(4,877)	(6,039)	(3,347)
Cash Dividends Paid	(11,815)	(11,448)	(10,997)
Net Cash Used in Financing Activities	(12,213)	(13,753)	(11,251)
Net (Decrease) Increase in Cash and Cash Equivalents	(482)	837	(104)
Cash and Cash Equivalents at Beginning of the Year	2,395	1,558	1,662
Cash and Cash Equivalents at End of the Year	$1,913	$2,395	$1,558
Supplemental Disclosures to Statements of Cash Flow Information:			
Interest Paid	$692	$669	$666
Non-cash Investing and Financing Activities:			
Shares Issued for Acquisition of Subsidiary	233	5,261	682

98

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure - None.

Item 9A. Controls and Procedures

Senior management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods provided in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, senior management has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and therefore has been required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13(a)-15(e) under the Exchange Act) as of December 31, 2012. Based upon that evaluation, senior management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective on that date. There were no changes made in our internal controls or in other factors that could significantly affect these internal controls subsequent to the date of the evaluation performed by the Chief Executive Officer and Chief Financial Officer.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting. Our evaluation is based on the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Item 9B. Other Information – None.

PART III

Item 10.Directors, Executive Officers and Corporate Governance
The information required by this item regarding directors and nominees for directors and the Company's committees is set forth under the captions "Voting Item 1: Election of Directors" and “Corporate Governance” of Arrow's Proxy Statement for its Annual Meeting of Shareholders to be held May 1, 2013 (the Proxy Statement), which sections are incorporated herein by reference. Information regarding Compliance with Section 16(a) of the Exchange Act is set forth in the Company's Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting” and is incorporated herein by reference. Certain required information regarding our Executive Officers is contained in Part I, Item 1.G., of this Report, "Executive Officers of the Registrant." Arrow has adopted a Financial Code of Ethics applicable to our principal executive officer, principal financial officer and principal accounting officer, a copy of which can be found on our website at www.arrowfinancial.com under the link "Corporate Governance."

Item 11. Executive Compensation
The information required by this item is set forth under the captions “Corporate Governance - Director Independence,” "Compensation Discussion and Analysis” including the “Compensation Committee Report” thereof, “Executive Compensation,” “Agreements with Executive Officers” including the ”Potential Payments Upon Termination or Change of Control” and “Potential Payments Table” sections thereof, and “Voting Item 1: Election of Directors - Director Compensation” of the Proxy Statement, which sections are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Certain information required by this item is set forth under the caption "Stock Ownership Information" of the Proxy Statement, which section is incorporated herein by reference, and under the caption "Equity Compensation Plan Information" in Part II of this Form 10-K on page 17.

Item 13. Certain Relationships and Related Transactions, and Director Independence
The information required by this item is set forth under the captions “Corporate Governance - Related Party Transactions” and ““Corporate Governance - Director Independence” of the Proxy Statement, which sections are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services
The information required by this item is set forth under the captions "Voting Item 4 - Ratification of Independent Registered Public Accounting Firm - Independent Registered Public Accounting Firm Fees," and “Corporate Governance - Board Committees” of the Proxy Statement, which sections are incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Financial Statements

The following financial statements, the notes thereto, and the independent auditors' report thereon are filed in Part II, Item 8 of this report. See the index to such financial statements at the beginning of Item 8.

Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Changes in Stockholders'
Equity for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

2. Schedules

All schedules are omitted as the required information is either not applicable or not required or is contained in the respective financial statements or in the notes thereto.

3. Exhibits:

See Exhibit Index on page 103.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARROW FINANCIAL CORPORATION

Date: March 15, 2013	By /s/ Thomas J. Murphy Thomas J. Murphy President and Chief Executive Officer
Date: March 15, 2013	By: /s/ Terry R. Goodemote Terry R. Goodemote Executive Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 15, 2013 by the following persons in the capacities indicated.

/s/ Herbert O. Carpenter Herbert O. Carpenter Director	/s/ David G. Kruczlnicki David G. Kruczlnicki Director
/s/ John J. Carusone, Jr. John J. Carusone, Jr. Director	/s/ Elizabeth O'C. Little Elizabeth O'C. Little Director
/s/ Michael B. Clarke Michael B. Clarke Director	/s/ David L. Moynehan David L. Moynehan Director
/s/ Gary C. Dake Gary C. Dake Director	/s/ John J. Murphy John J. Murphy Director
/s/ Mary Elizabeth T. FitzGerald Mary Elizabeth T. FitzGerald Director	/s/ Thomas J. Murphy Thomas J. Murphy Director
/s/ Thomas L. Hoy Thomas L. Hoy Director and Chairman	/s/ Richard J. Reisman, D.M.D. Richard J. Reisman, D.M.D. Director

102

EXHIBIT INDEX

The following exhibits are incorporated by reference herein.

Exhibit Number	Exhibit
3.(i)	Certificate of Incorporation of the Registrant, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2007, Exhibit 3.(i)
3.(ii)	By-laws of the Registrant, as amended, incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 24, 2009, Exhibit 3.(ii)
4.1	Amended and Restated Declaration of the Trust by and among U.S. Bank National Association, as Institutional Trustee, the Registrant, as Sponsor and certain Administrators named therein, dated as of July 23, 2003, relating to Arrow Capital Statutory Trust II, incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, Exhibit 4.1
4.2	Indenture between the Registrant, as Issuer, and U.S. Bank National Association, as Trustee, dated as of July 23, 2003, incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, Exhibit 4.2
4.3	Placement Agreement by and among the Registrant, Arrow Capital Statutory Trust II and SunTrust Capital Markets, Inc., dated July 23, 2003, incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, Exhibit 4.3
4.4	Guarantee Agreement by and between the Registrant and U.S. Bank National Association, dated as of July 23, 2003, incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, Exhibit 4.4
4.5	Amended and Restated Trust Agreement among the Registrant, as Depositor, Wilmington Trust Company, as Property Trustee, Wilmington Trust Company, as Delaware trustee, and certain Administrators named therein, dated as of December 28, 2004, relating to Arrow Capital Statutory Trust III, incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, Exhibit 4.6
4.6	Junior Subordinated Indenture between the Registrant, as Issuer, and Wilmington Trust Company, as Trustee, dated as of December 28, 2004, incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, Exhibit 4.7
4.7	Placement Agreement among the Registrant, Arrow Capital Statutory Trust III and SunTrust Capital Markets, Inc., dated December 28, 2004, incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, Exhibit 4.8
4.8	Guarantee Agreement between the Registrant and Wilmington Trust Company, dated as of December 28, 2004, incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, Exhibit 4.9
10.1	1998 Long Term Incentive Plan of the Registrant, incorporated herein by reference from Registrant's 1933 Act Registration Statement on Form S-8, Exhibit 4.1 (File number 333-62719; filed on September 2, 1998)*
10.2	2008 Long Term Incentive Plan of the Registrant, incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on May 6, 2008, Exhibit 10.1*
10.3	Profit Sharing Plan of the Registrant, as amended, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.6*
10.4	Directors' Deferred Compensation Plan of the Registrant, as amended and restated, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.7*
10.5	Directors' Stock Plan of the Registrant, as amended, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.8*
10.6	

	Select Executive Retirement Plan of the Registrant for benefits accrued or vested after December 31, 2004, as amended and restated, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.9*
10.7	Select Executive Retirement Plan of the Registrant for benefits accrued or vested on or before December 31, 2004, as amended and restated, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.10*
10.8	Senior Officers Deferred Compensation Plan of the Registrant, as amended, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.11*
10.9	Short Term Incentive Plan of the Registrant, as amended, incorporated herein by reference from the Registrant's Annual Report filed on Form 10-K for the year ended December 31, 2008, Exhibit 10.12*
10.10	Form of Incentive Stock Option Certificate (Employee Award) of the Registrant, incorporated herein by reference from the Registrant's Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2009, Exhibit 10.1*

103

Exhibit Number	Exhibit
10.11	Form of Non-Qualified Stock Option Certificate (Employee Award) of the Registrant, incorporated herein by reference from the Registrant's Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2009, Exhibit 10.2*
10.12	Form of Non-Qualified Stock Option Certificate (Director Award) of the Registrant, incorporated herein by reference from the Registrant's Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2009, Exhibit 10.3*
14	Financial Code of Ethics, incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 14
	* Management contracts or compensation plans required to be filed as an exhibit.

The following exhibits are submitted herewith:

Exhibit Number	Exhibit
10.13	Consulting Agreement between the Registrant and Thomas L. Hoy, effective January 1, 2013.
10.14	Consulting Agreement between the Registrant and Raymond F. O'Conor, effective January 1, 2013.
10.15	Employment Agreement between the Registrant and Thomas J. Murphy, President and Chief Executive Officer, effective February 1, 2013.*
10.16	Employment Agreement between the Registrant and Terry R. Goodemote, Executive Vice President, Treasurer and Chief Financial Officer, effective February 1, 2013.*
10.17	Employment Agreement between the Registrant and David S. DeMarco, Senior Vice President, effective February 1, 2013.*
21	Subsidiaries of Arrow Financial Corporation
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer under SEC Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer under SEC Rule 13a-14(a)/15d-14(a)
32	Certification of Chief Executive Officer under 18 U.S.C. Section 1350 and Certification of Chief Financial Officer under 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
	* Management contracts or compensation plans required to be filed as an exhibit.

104