

REFINITIV

DELTA REPORT

10-Q

AROW - ARROW FINANCIAL CORP

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 1100

■ CHANGES	488
■ DELETIONS	311
■ ADDITIONS	301

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2024 September 30, 2024

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-12507

ARROW FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New York

22-2448962

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

250 Glen Street

Glens Falls

New York

12801

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

518 745-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, Par Value \$1.00 per share	AROW	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding as of August 2, 2024 October 31, 2024</u>
Common Stock, par value \$1.00 per share	16,732,668 16,738,980

ARROW FINANCIAL CORPORATION
FORM 10-Q
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Item 1. FINANCIAL STATEMENTS

**ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Amounts)

(Unaudited)

ASSETS

Cash and Due From Banks

Interest-Bearing Deposits at Banks

Investment Securities:

Available-for-Sale at Fair Value

Held-to-Maturity (Fair Value of \$96,454 at June 30, 2024; \$128,837 at December 31, 2023; and \$139,143 at June 30, 2023)

Held-to-Maturity (Fair Value of \$101,929 at September 30, 2024; \$128,837 at December 31, 2023; and \$134,811 at September 30, 2023)

Equity Securities

Other Investments

Loans

Allowance for Credit Losses

Net Loans

Premises and Equipment, Net

Goodwill

Other Intangible Assets, Net

Other Assets

Total Assets

LIABILITIES

Noninterest-Bearing Deposits

Interest-Bearing Checking Accounts

	June 30, 2024	December 31, 2023	June 30, 2023	September 30, 2024	December 31, 2023	September 30, 2023
ASSETS	ASSETS			ASSETS		
Cash and Due From Banks						
Interest-Bearing Deposits at Banks						
Investment Securities:	Investment Securities:			Investment Securities:		
Available-for-Sale at Fair Value						
Held-to-Maturity (Fair Value of \$96,454 at June 30, 2024; \$128,837 at December 31, 2023; and \$139,143 at June 30, 2023)						
Held-to-Maturity (Fair Value of \$101,929 at September 30, 2024; \$128,837 at December 31, 2023; and \$134,811 at September 30, 2023)						
Equity Securities						
Other Investments						
Loans						
Allowance for Credit Losses						
Net Loans						
Premises and Equipment, Net						
Goodwill						
Other Intangible Assets, Net						
Other Assets						
Total Assets						
LIABILITIES	LIABILITIES			LIABILITIES		
Noninterest-Bearing Deposits						
Interest-Bearing Checking Accounts						

Savings Deposits
 Time Deposits over \$250,000
 Other Time Deposits
 Total Deposits
 Borrowings
 Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts
 Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts
 Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts
 Finance Leases
 Other Liabilities
 Total Liabilities

STOCKHOLDERS' EQUITY	STOCKHOLDERS' EQUITY
Preferred Stock, \$1 Par Value and 1,000,000 Shares Authorized at June 30, 2024, December 31, 2023 and June 30, 2023	
Common Stock, \$1 Par Value; 30,000,000 Shares Authorized (22,066,559 Shares Issued at June 30, 2024 and December 31, 2023 and 21,423,992 Shares Issued at June 30, 2023)	
Preferred Stock, \$1 Par Value and 1,000,000 Shares Authorized at September 30, 2024, December 31, 2023 and September 30, 2023	
Common Stock, \$1 Par Value; 30,000,000 Shares Authorized (22,066,559 Shares Issued at September 30, 2024, December 31, 2023 and September 30, 2023)	
Additional Paid-in Capital	
Retained Earnings	
Accumulated Other Comprehensive Loss	
Accumulated Other Comprehensive Loss	
Accumulated Other Comprehensive Loss	
Treasury Stock, at Cost (5,343,295 Shares at June 30, 2024; 5,124,073 Shares at December 31, 2023 and 4,870,934 Shares at June 30, 2023)	
Treasury Stock, at Cost (5,332,907 Shares at September 30, 2024; 5,124,073 Shares at December 31, 2023 and 5,017,063 Shares at September 30, 2023)	
Total Stockholders' Equity	

Total Liabilities and Stockholders' Equity

See Notes to Unaudited Interim Consolidated Financial Statements.

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

INTEREST AND DIVIDEND INCOME

INTEREST AND DIVIDEND INCOME

INTEREST AND DIVIDEND INCOME

Interest and Fees on Loans

Interest and Fees on Loans

Interest and Fees on Loans

Interest on Deposits at Banks

Interest on Deposits at Banks

Interest on Deposits at Banks

Interest and Dividends on Investment Securities:

Interest and Dividends on Investment Securities:

Interest and Dividends on Investment Securities:

Fully Taxable

Fully Taxable

Fully Taxable

Exempt from Federal Taxes
Exempt from Federal Taxes
Exempt from Federal Taxes
Total Interest and Dividend Income
Total Interest and Dividend Income
Total Interest and Dividend Income

INTEREST EXPENSE

INTEREST EXPENSE

INTEREST EXPENSE

Interest-Bearing Checking Accounts

Interest-Bearing Checking Accounts

Interest-Bearing Checking Accounts

Savings Deposits

Savings Deposits

Savings Deposits

Time Deposits over \$250,000

Time Deposits over \$250,000

Time Deposits over \$250,000

Other Time Deposits

Other Time Deposits

Other Time Deposits

Borrowings

Borrowings

Borrowings

Junior Subordinated Obligations Issued to

Unconsolidated Subsidiary Trusts

Junior Subordinated Obligations Issued to

Unconsolidated Subsidiary Trusts

Junior Subordinated Obligations Issued to

Unconsolidated Subsidiary Trusts

Interest on Financing Leases

Interest on Financing Leases

Interest on Financing Leases

Total Interest Expense

Total Interest Expense

Total Interest Expense

NET INTEREST INCOME

NET INTEREST INCOME

NET INTEREST INCOME

Provision for Credit Losses on Loans

Provision for Credit Losses on Loans

Provision for Credit Losses on Loans

NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES

NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES

NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES

NON-INTEREST INCOME

NON-INTEREST INCOME

NON-INTEREST INCOME

Income From Fiduciary Activities

Income From Fiduciary Activities

Income From Fiduciary Activities

Fees for Other Services to Customers

Fees for Other Services to Customers

Fees for Other Services to Customers

Insurance Commissions

Insurance Commissions

Insurance Commissions

Net Gain (Loss) on Securities

Net Gain (Loss) on Securities

Net Gain (Loss) on Securities

Net Gain on Sales of Loans

Net Gain on Sales of Loans

Net Gain on Sales of Loans

Other Operating Income

Other Operating Income

Other Operating Income

Total Non-Interest Income

Total Non-Interest Income

Total Non-Interest Income

NON-INTEREST EXPENSE

NON-INTEREST EXPENSE

NON-INTEREST EXPENSE

Salaries and Employee Benefits

Salaries and Employee Benefits

Salaries and Employee Benefits

Occupancy Expenses, Net

Occupancy Expenses, Net

Occupancy Expenses, Net

Technology and Equipment Expense

Technology and Equipment Expense

Technology and Equipment Expense

FDIC Assessments

FDIC Assessments

FDIC Assessments

Other Operating Expense

Other Operating Expense

Other Operating Expense

Total Non-Interest Expense

Total Non-Interest Expense

Total Non-Interest Expense

INCOME BEFORE PROVISION FOR INCOME TAXES

INCOME BEFORE PROVISION FOR INCOME TAXES

INCOME BEFORE PROVISION FOR INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

Provision for Income Taxes

NET INCOME

NET INCOME

NET INCOME

Average Shares Outstanding 1:

Average Shares Outstanding 1:

Average Shares Outstanding 1:

Average Shares Outstanding:

Average Shares Outstanding:**Average Shares Outstanding:**

Basic

Basic

Basic

Diluted

Diluted

Diluted

Per Common Share:**Per Common Share:****Per Common Share:**

Basic Earnings

Basic Earnings

Basic Earnings

Diluted Earnings

Diluted Earnings

Diluted Earnings

¹2023 Share and Per Share Amounts have been restated for the September 26, 2023 3% stock dividend.See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,		2023	2024	2023	2024	2023	2024	2023	2024
	2024	2024	2023	2024								
Net Income												
Other Comprehensive Income (Loss), Net of Tax:												
Net Unrealized Securities Holding Gain (Loss)												
Arising During the Period												
Net Unrealized Securities Holding Gain (Loss)												
Arising During the Period												
Net Unrealized Securities Holding Gain (Loss)												
Arising During the Period												
Net Unrealized Gain (Loss) on Cash Flow Hedge Agreements												
Net Unrealized Gain (Loss) on Cash Flow Hedge Agreements												
Net Unrealized Gain (Loss) on Cash Flow Hedge Agreements												
Reclassification of Net Unrealized (Gain) Loss on Cash Flow Hedge Agreements to Interest Expense												
Net Unrealized (Loss) Gain on Cash Flow Hedge Agreements												
Net Unrealized (Loss) Gain on Cash Flow Hedge Agreements												
Net Unrealized (Loss) Gain on Cash Flow Hedge Agreements												
Reclassification of Net Unrealized (Loss) Gain on Cash Flow Hedge Agreements to Interest Expense												
Amortization of Net Retirement Plan Actuarial (Gain)												
Amortization of Net Retirement Plan Actuarial (Gain)												
Amortization of Net Retirement Plan Actuarial (Gain)												
Amortization of Net Retirement Plan Prior Service Cost												

Other Comprehensive Income (Loss)

Comprehensive Income

See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Six Month Period Ended June 30, 2024			Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Common Stock	Common Stock	Additional Paid-In Capital									
Balance at December 31, 2023												
Net Income												
Net Income												
Net Income												
Other Comprehensive Income												
Cash Dividends Paid, \$.54 per Share												
Cash Dividends Paid, \$.81 per Share												
Cash Dividends Paid, \$.54 per Share												
Cash Dividends Paid, \$.81 per Share												
Cash Dividends Paid, \$.54 per Share												
Cash Dividends Paid, \$.81 per Share												
Stock Options Exercised, Net (8,620 Shares)												
Shares Issued Under the Directors' Stock Plan (10,602 Shares)												
Shares Issued Under the Employee Stock Purchase Plan (5,843 Shares)												
Shares Issued Under the Directors' Stock Plan (15,196 Shares)												
Shares Issued Under the Employee Stock Purchase Plan (8,884 Shares)												
Shares Issued Related to Restricted Stock Units (2,753 Shares)												
Shares Issued Related to Restricted Share Awards (22,230 Shares)												
Compensation expense related to Employee Stock Purchase Plan												
Stock-Based Compensation Expense												
Shares Issued Related to Restricted Share Awards (22,230 Shares)												
Shares Issued Related to Restricted Share Awards (22,230 Shares)												
Shares Issued Related to Restricted Share Awards (22,230 Shares)												
Compensation expense related to Employee Stock Purchase Plan												
Stock-Based Compensation Expense												
Tax Benefit from Exercise of Stock Options												
Purchase of Treasury Stock (266,517 Shares)												
Purchase of Treasury Stock (266,517 Shares) ¹												
Purchase of Treasury Stock (266,517 Shares) ¹												
Purchase of Treasury Stock (266,517 Shares) ¹												
Balance at June 30, 2024												
Balance at September 30, 2024												
Balance at June 30, 2024												

Three Month Period Ended September 30, 2024						
Three Month Period Ended September 30, 2024						
Three Month Period Ended September 30, 2024						
Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total	
Balance at June 30, 2024						
Three Month Period Ended June 30, 2024						
Three Month Period Ended June 30, 2024						
Three Month Period Ended June 30, 2024						
Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total	
Balance at March 31, 2024						
Net Income						
Net Income						
Net Income						
Other Comprehensive Income						
Cash Dividends Paid, \$.27 per Share						
Cash Dividends Paid, \$.27 per Share						
Cash Dividends Paid, \$.27 per Share						
Stock Options Exercised, Net (2,560 Shares)						
Shares Issued Under the Directors' Stock Plan (5,715 Shares)						
Shares Issued Under the Employee Stock Purchase Plan (3,572 Shares)						
Shares Issued Related to Restricted Share Awards (22,230 Shares)						
Shares Issued Under the Directors' Stock Plan (4,594 Shares)						
Shares Issued Under the Directors' Stock Plan (4,594 Shares)						
Shares Issued Under the Directors' Stock Plan (4,594 Shares)						
Shares Issued Under the Employee Stock Purchase Plan (3,041 Shares)						
Shares Issued Related to Restricted Stock Units (2,753 Shares)						
Compensation expense related to Employee Stock purchase Plan						
Compensation expense related to Employee Stock purchase Plan						
Compensation expense related to Employee Stock purchase Plan						
Stock-Based Compensation Expense						
Stock-Based Compensation Expense						
Stock-Based Compensation Expense						
Tax Benefit from Exercise of Stock Options						
Purchase of Treasury Stock (21,037 Shares)						
Purchase of Treasury Stock (0 Shares) ¹						
Purchase of Treasury Stock (0 Shares) ¹						
Purchase of Treasury Stock (0 Shares) ¹						
Balance at June 30, 2024						
Balance at September 30, 2024						
Balance at June 30, 2024						
Balance at September 30, 2024						
Balance at June 30, 2024						

Balance at September 30, 2024

Six Month Period Ended June 30, 2023										Nine Month Period Ended September 30, 2023										
Six Month Period Ended June 30, 2023										Nine Month Period Ended September 30, 2023										
Six Month Period Ended June 30, 2023										Nine Month Period Ended September 30, 2023										
Nine Month Period Ended September 30, 2023										Nine Month Period Ended September 30, 2023										
Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total								
Balance at December 31, 2022																				
Net Income																				
Net Income																				
Net Income																				
Other Comprehensive Income																				
3% Stock Dividend (642,567 Shares)																				
Cash Dividends Paid, \$.524 per Share ¹																				
3% Stock Dividend (642,567 Shares)																				
Cash Dividends Paid, \$.524 per Share ¹																				
Cash Dividends Paid, \$.524 per Share ¹																				
3% Stock Dividend (642,567 Shares)																				
Cash Dividends Paid, \$.786 per Share																				
Stock Options Exercised, Net (3,772 Shares)																				
Shares Issued Under the Directors' Stock Plan (3,418 Shares)																				
Shares Issued Under the Employee Stock Purchase Plan (3,872 Shares)																				
Shares Issued for Dividend Reinvestment Plans (17,753 Shares)																				
Stock-Based Compensation Expense																				
Purchase of Treasury Stock (27,395 Shares)																				
Purchase of Treasury Stock (27,395 Shares)																				
Purchase of Treasury Stock (27,395 Shares)																				
Purchase of Treasury Stock (27,395 Shares) ¹																				
Purchase of Treasury Stock (27,395 Shares) ¹																				
Purchase of Treasury Stock (27,395 Shares) ¹																				
Purchase of Treasury Stock (27,395 Shares) ¹																				
Balance at September 30, 2023																				
Balance at September 30, 2023																				
Balance at September 30, 2023																				
Three Month Period Ended September 30, 2023										Three Month Period Ended September 30, 2023										
Three Month Period Ended September 30, 2023										Three Month Period Ended September 30, 2023										
Three Month Period Ended September 30, 2023										Three Month Period Ended September 30, 2023										
Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total															
Balance at June 30, 2023																				
Balance at June 30, 2023																				
Balance at June 30, 2023																				
Three Month Period Ended June 30, 2023										Three Month Period Ended June 30, 2023										
Three Month Period Ended June 30, 2023										Three Month Period Ended June 30, 2023										
Three Month Period Ended June 30, 2023										Three Month Period Ended June 30, 2023										

	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Earnings	Treasury Stock	Accumulated Loss	Total
Balance at March 31, 2023							
Net Income							
Other Comprehensive Loss							
3% Stock Dividend (642,567 Shares)							
Cash Dividends Paid, \$.262 per Share ¹							
3% Stock Dividend (642,567 Shares)							
Cash Dividends Paid, \$.262 per Share ¹							
Cash Dividends Paid, \$.262 per Share ¹							
3% Stock Dividend (642,567 Shares)							
Cash Dividends Paid, \$.262 per Share							
Stock-Based Compensation Expense							
Stock-Based Compensation Expense							
Stock-Based Compensation Expense							
Balance at June 30, 2023							
Balance at September 30, 2023							
Balance at June 30, 2023							
Balance at September 30, 2023							
Balance at June 30, 2023							
Balance at September 30, 2023							

¹ Cash dividends paid per share have been adjusted. Cost of Treasury Stock for the September 26, 2023 2024 periods includes accrual of Stock Buyback Tax Under the Inflation Reduction Act of 2022 3% stock dividend.

See Notes to Unaudited Interim Consolidated Financial Statements.

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

Cash Flows from Operating Activities:	Six Months Ended		Nine Months Ended	
	June 30	2024	2023	September 30
Net Income				
Provision for Credit Losses				
Provision for Credit Losses				
Provision for Credit Losses				
Depreciation and Amortization				
Net (Gain) Loss on Securities Transactions				
Net (Gain) Loss on Securities Transactions				
Net (Gain) Loss on Securities Transactions				
Loans Originated and Held-for-Sale				
Proceeds from the Sale of Loans Held-for-Sale				
Net Gain on the Sale of Loans				
Net (Gain) Loss on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets				
Contributions to Retirement Benefit Plans				
Deferred Income Tax Benefit				
Shares Issued Under the Directors' Stock Plan				
Stock-Based Compensation Expense				
Tax Benefit from Exercise of Stock Options				
Net (Increase) Decrease in Other Assets				
Net (Increase) Decrease in Other Assets				
Net (Increase) Decrease in Other Assets				
Net Decrease in Other Liabilities				
Net Increase in Other Assets				

Net Increase in Other Assets	
Net Increase in Other Assets	
Net Increase in Other Liabilities	
Net Cash Provided By Operating Activities	
Cash Flows from Investing Activities:	
Proceeds from the Maturities and Calls of Securities Available-for-Sale	
Proceeds from the Maturities and Calls of Securities Available-for-Sale	
Proceeds from the Maturities and Calls of Securities Available-for-Sale	
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	
Purchases of Securities Held-to-Maturity	
Net Increase in Loans	
Net Increase in Loans	
Purchases of Equity Securities	
Net Increase in Loans	
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	
Purchase of Premises and Equipment	
Net Decrease in FHLB and Federal Reserve Bank Stock	
Net Decrease in FHLB and Federal Reserve Bank Stock	
Net Decrease in FHLB and Federal Reserve Bank Stock	
Net Cash Used By Investing Activities	
Net Cash Used By Investing Activities	
Net Cash Used By Investing Activities	
Purchase of Bank Owned Life Insurance	
Acquisition of Whitehall Branch	
Net Cash Provided (Used) By Investing Activities	
Cash Flows from Financing Activities:	
Net (Decrease) Increase in Deposits	
Net (Decrease) Increase in Deposits	
Net (Decrease) Increase in Deposits	
Net Increase in Deposits	
Net Increase in Deposits	
Net Increase in Deposits	
Finance Lease Payments	
Finance Lease Payments	
Finance Lease Payments	
Other Borrowings - Advances	
Other Borrowings - Paydowns	
Net Cash Collateral Received from Derivative Counterparties	
Purchase of Treasury Stock	
Stock Options Exercised, Net	
Shares Issued Under the Employee Stock Purchase Plan	
Shares Issued for Dividend Reinvestment Plans	
Shares Issued for Dividend Reinvestment Plans	
Shares Issued for Dividend Reinvestment Plans	
Cash Dividends Paid	
Cash Dividends Paid	
Cash Dividends Paid	
Net Cash Provided By Financing Activities	
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents at Beginning of Period	
Cash and Cash Equivalents at End of Period	

Supplemental Disclosures to Statements of Cash Flow Information:

Supplemental Disclosures to Statements of Cash Flow Information:

Supplemental Disclosures to Statements of Cash Flow Information:

Interest on Deposits and Borrowings
Interest on Deposits and Borrowings
Interest on Deposits and Borrowings
Income Taxes
Transfer of Loans to Other Real Estate Owned and Repossessed Assets
Transfer of Loans to Other Real Estate Owned and Repossessed Assets
Transfer of Loans to Other Real Estate Owned and Repossessed Assets
Total fair value of assets acquired in acquisition of Whitehall Branch, net of cash
Total fair value of liabilities assumed in acquisition of Whitehall Branch, net of cash

See Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. RISKS AND UNCERTAINTIES

Nature of Operations - Arrow Financial Corporation, a New York corporation ("Arrow," the "Company," "we," or "us"), 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. The banking subsidiaries are Glens Falls National Bank and Trust Company ("GFNB") whose main office is located in Glens Falls, New York, and Saratoga National Bank and Trust Company ("SNB") whose main office is located in Saratoga Springs, New York. The two subsidiary banks provide a full range of services to individuals and small to mid-size businesses in northeastern New York State from Albany, the State's capitol, to the Canadian border. Both banks have wealth management departments which provide investment management and administrative services. **We have commenced preparation for the unification of the banking subsidiaries into one entity to be renamed Arrow Bank National Association (the "Unification").** An active subsidiary of GFNB is Upstate Agency LLC, offering insurance services including property and casualty insurance, group health insurance and individual life insurance products. North Country Investment Advisers, Inc., a registered investment adviser that provides investment advice to our proprietary mutual fund, and Arrow Properties, Inc., a real estate investment trust (REIT), are subsidiaries of GFNB. Arrow also owns directly two subsidiary business trusts, organized in 2003 and 2004 to issue trust preferred securities (TRUPs), which are still outstanding.

Concentrations of Credit - With the exception of some indirect auto lending, Arrow's loans are primarily with borrowers in upstate 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, "Loans," 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.

Liquidity - The objective of effective liquidity management is to ensure that Arrow has the ability to raise cash when needed at a reasonable cost. This includes the capability of meeting expected and unexpected obligations to Arrow's customers at any time. Given the uncertain nature of customer demands and the need to maximize earnings, Arrow must have available reasonably priced sources of funds, both on- and off-balance sheet, that can be accessed quickly in times of need. Arrow's liquidity position should provide the Company with the necessary flexibility to address any unexpected near-term disruptions such as reduced cash flows from the investment and loan portfolio, unexpected deposit runoff, or increased loan originations. Arrow's primary sources of available liquidity are overnight investments in federal funds sold, interest bearing bank balances at the Federal Reserve Bank of New York ("FRBNY"), advances from the FRBNY Bank Term Funding Program ("BTFP") and cash flow from investment securities and loans.

Note 2. ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements contain all of the adjustments necessary to present fairly the financial position as of **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**; the results of operations for the three and **six nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023; the consolidated statements of comprehensive income for the three and **six nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023; the changes in stockholders' equity for the three and **six nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023; and the cash flows for the **six nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023. All such adjustments are of a normal recurring nature. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements of Arrow for the year ended December 31, 2023 included in Arrow's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K").

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." On January 7, 2021, the FASB issued ASU 2021-01, which refines the scope of ASC 848 and clarifies some of its guidance. The ASU and related amendments provide temporary optional expedients and exceptions to the existing guidance for applying GAAP to affected contract modifications and hedge accounting relationships in the transition away from the LIBOR or other interbank offered rate on financial reporting. The guidance also allows a one-time election to sell and/or reclassify to AFS or trading HTM debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective March 12, 2020 through December 31, 2022 and permit relief solely for reference rate reform actions and different elections over the effective date for legacy and new activity. In December 2022, FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848)" which deferred the sunset date of Topic 848 to December 31, 2024, to allow for a transition period after the sunset of LIBOR. Arrow does not expect ASU 2022-06 will have a material impact on its consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures. This ASU amends FASB Topic 280 to permit the disclosure of multiple measures of a segment's profit or loss, and requires an entity with a single reportable segment to apply FASB Topic 280 in its entirety. In addition, this ASU requires new segment disclosures. Arrow does not expect this new standard will have a material impact on the consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09,1 which establishes new income tax disclosure requirements in addition to modifying and eliminating certain existing requirements. Under the new guidance, entities must consistently categorize and provide greater disaggregation of information in the rate reconciliation. They must also further disaggregate income taxes paid. Arrow does not expect this new standard will have a material impact on the consolidated financial statements.

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 (GAAP) 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. Management utilized estimates and assumptions in its evaluation of potential impairment of Arrow's right-of-use lease assets, goodwill and intangible assets. Our most significant estimate is the allowance for credit losses. Other estimates include the fair value of financial instruments, evaluation of pension and other post-retirement liabilities, an analysis of a need for a valuation allowance for deferred tax assets and a reserve for unfunded loan commitments recorded as an other liability. 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 credit losses. In connection with the determination of the allowance for credit losses management obtains economic forecasts from reliable sources and appraisals for properties. The allowance for credit losses is management's best estimate of the life of loan losses as of the balance sheet date. While management uses available information to recognize losses on loans, future adjustments to the allowance for credit losses may be necessary based on changes in economic conditions.

Allowance for Credit Losses – Loans - Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL) approach requires an estimate of the credit losses expected over the life of a loan (or pool of loans). It replaces the incurred loss approach's threshold that required the recognition of a credit loss when it was probable that a loss event was incurred. The allowance for credit losses is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net lifetime amount expected to be collected on the loans. Credit losses are charged off against the allowance when management believes a loan balance is confirmed to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance using relevant available information from internal and external sources related to past events, current conditions, and a reasonable and supportable single economic forecast. Historical credit loss experience provides the basis for the estimation of expected credit losses. Arrow's historical loss experience is supplemented with peer information when there is insufficient loss data for Arrow. Peer selection is based on a review of institutions with comparable loss experience as well as loan yield, bank size, portfolio concentration and geography. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in credit concentrations, delinquency level, collateral values and underwriting standards as well as changes in economic conditions or other relevant factors. Management judgment is required at each point in the measurement process.

Portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. Management developed portfolio segments for estimating loss based on type of borrower and collateral as follows:

- Commercial Loans
- Commercial Real Estate Loans
- Consumer Loans
- Residential Loans

Further details related to loan portfolio segments is included in Note 5 Loans.

Historical credit loss experience for both Arrow and segment-specific peers provides the basis for the estimation of expected credit losses. Arrow utilized regression analyses of peer data where observed credit losses and selected economic factors were utilized to determine suitable loss drivers for modeling lifetime probability of default (PD) rates. Arrow uses the discounted cash flow (DCF) method to estimate expected credit losses for the commercial, commercial real estate, and residential segments. For each of these loan segments, Arrow generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, PD, and segment-specific loss given default (LGD) risk factors. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data and adjusted, if necessary, based on the reasonable and supportable forecast of economic conditions.

For the loan segments utilizing the DCF method, (commercial, commercial real estate, and residential) management utilizes externally developed economic forecast of the following economic factors as loss drivers: national unemployment, gross domestic product and Case-Shiller U.S. National Home Price Index ("HPI") (HPI). The economic forecast is applied over a reasonable and supportable forecast period. Arrow utilizes a six quarter reasonable and supportable forecast period with an eight quarter reversion to the historic mean on a straight-line basis.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows (NPV). An allowance for credit loss is established for the difference between the instrument's NPV and amortized cost basis.

Arrow uses the vintage analysis method to estimate expected credit losses for the consumer loan segment. The vintage method was selected since the loans within the consumer loan segment are homogeneous, not just by risk characteristic, but by loan structure. Under the vintage analysis method, a loss rate is calculated based on the quarterly net charge-offs to the outstanding loan balance for each vintage year over the lookback period. Once this periodic loss rate is calculated for each quarter in the lookback period, the periodic rates are averaged into the loss rate. The loss rate is then applied to the outstanding loan balances based on the loan's vintage year. Arrow maintains, over the life of the loan, the loss curve by vintage year. If estimated losses computed by the vintage method need to be adjusted based on current conditions and the reasonable and supportable economic forecast, these adjustments would be incorporated over a six quarter reasonable and supportable forecast period, reverting to historical losses using a straight-line method over an eight quarter period. Based on current conditions and the reasonable and supportable economic forecast, no adjustment to the loss rate for each vintage is currently required.

The vintage and DCF models also consider the need to qualitatively adjust expected loss estimates for information not already captured in the quantitative loss estimation process. Qualitative considerations include limitations inherent in the quantitative model; trends experienced in nonperforming and delinquent loans; changes in value of underlying collateral; changes in lending policies and procedures; nature and composition of loans; portfolio concentrations that may affect loss experience across one or more components or the portfolio; the experience, ability and depth of lending management and staff; Arrow's credit review system; and the effect of external factors such as competition, legal and regulatory requirements. These qualitative factor adjustments may increase or decrease Arrow's estimate of expected credit losses so that the allowance for credit loss is reflective of the estimate of lifetime losses that exist in the loan portfolio at the balance sheet date.

All loans that exceed \$250,000 which are on nonaccrual, are evaluated on an individual basis. For collateral dependent financial assets where Arrow has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and Arrow expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, Arrow has elected to measure the allowance for credit loss as the difference between the fair value of the collateral less cost to sell, and the amortized cost basis of the asset as of the measurement date. In the event the repayment of a collateral dependent financial asset is expected to be provided substantially through the operation of the collateral, Arrow will use fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance for credit losses may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

As part of ASU No. 2022-02, Arrow evaluates whether the modification represents a new loan or a continuation of an existing loan, consistent with the current GAAP treatment for other loan modifications. In addition, Arrow evaluates and if necessary, discloses if loan modifications made to borrowers experiencing financial difficulty contain a financial concession.

Estimated Credit Losses on Off-Balance Sheet Credit Exposures Recognized as Other Liabilities - Arrow estimates expected credit losses over the contractual period in which Arrow has exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by Arrow. The allowance for credit losses on off-balance sheet credit exposures recognized in other liabilities, is adjusted as an expense in other non-interest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit

losses on commitments expected to be funded over their estimated lives. Estimating credit losses on unfunded commitments requires Arrow to consider the following categories of off-balance sheet credit exposure: unfunded commitments to extend credit, unfunded lines of credit, and standby letters of credit. Each of these unfunded commitments is then analyzed for a probability of funding to calculate a probable funding amount. The life of loan loss factor by related portfolio segment from the loan allowance for credit loss calculation is then applied to the probable funding amount to calculate the estimated credit losses on off-balance sheet credit exposures recognized as other liabilities.

Accrued Interest Receivable - Arrow has made the following elections regarding accrued interest receivable: (1) presented accrued interest receivable balances separately within the other assets balance sheet line item; (2) excluded interest receivable that is included in amortized cost of financing receivables from related disclosures requirements and (3) continued its policy to write off accrued interest receivable by reversing interest income. For loans, write off typically occurs upon becoming over 90 to 120 days past due and therefore the amount of such write offs are immaterial. Historically, Arrow has not experienced uncollectible accrued interest receivable on investment securities.

Allowance for Credit Losses – Held-to-Maturity (HTM) Debt Securities - Arrow's HTM debt securities are also required to utilize the CECL approach to estimate expected credit losses. Management measures expected credit losses on HTM debt securities on a collective basis by major security types that share similar risk characteristics, such as financial asset type and collateral type adjusted for current conditions and reasonable and supportable forecasts. Management classifies the HTM portfolio into the following major security types: U.S. government agency or U.S. government sponsored mortgage-backed and collateralized mortgage obligations securities, and state and municipal debt securities.

Arrow's HTM debt securities are comprised of U.S. government-sponsored enterprises (GSEs) or state and municipal obligations. GSE securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Therefore, Arrow did not record a credit loss for these securities.

State and municipal bonds carry an investment grade from an accredited ratings agency, primarily with an investment grade rating. In addition, Arrow has a limited amount of New York state local municipal bonds that are not rated. The estimate of expected credit losses on the HTM portfolio is based on the expected cash flows of each individual CUSIP over its contractual life and utilized a municipal loss forecast model for determining PD and LGD rates. Management may exercise discretion to make adjustments based on environmental factors. A calculated expected credit loss for individual securities was determined using the PD and LGD rates. Arrow determined that the expected credit loss on its municipal bond portfolio was de minimis, and therefore, an allowance for credit losses was not recorded.

Allowance for Credit Losses – Available-for-Sale (AFS) Debt Securities - Arrow's AFS debt securities are comprised of U.S. Treasuries, U.S. Government & Agency Obligations, State and Municipal Obligations, Mortgage-Backed Securities and Corporate and Other Debt Securities. The impairment model for AFS debt securities differs from the CECL approach utilized by HTM debt securities since AFS debt securities are measured at fair value rather than amortized cost. For AFS debt securities in an unrealized loss position,

Arrow first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, in making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, adverse conditions specifically related to the security, failure of the issuer of the debt security to make scheduled interest or principal payments, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. The cash flows are estimated using information relevant to the collectability of the security, including information about past events, current conditions and reasonable and supportable forecasts. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Investments in Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") stock are required for membership in those organizations and are carried at cost since there is no market value available. The FHLB New York ("FHLBNY") continues to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FRB and FHLB stock.

Cybersecurity Risk Management, Strategy, Governance and Incident Disclosure:

Cybersecurity Risk management and strategy - Annually, registrants are required to describe the processes, if any, for assessing, identifying, and managing material risks from cybersecurity threats in sufficient detail for a reasonable investor to understand those processes.

The registrant must also describe whether and how any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect the registrant, including its business strategy, results of operations, or financial condition.

Governance - Disclosure is required about management's and the board of directors' oversight of cybersecurity risk, including a description of the board of directors' oversight of risks from cybersecurity threats and a description of management's role in assessing and managing the registrant's material risks from cybersecurity threats.

The annual disclosure requirements became effective for the Company beginning with the 2023 Form 10-K.

Note 3. CASH AND CASH EQUIVALENTS (In Thousands)

The following table is the schedule of Cash and Cash Equivalents at June 30, 2024, December 31, 2023 and June 30, 2023:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>	<u>June 30, 2023</u>
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The following table is the schedule of Cash and Cash Equivalents at September 30, 2024, December 31, 2023 and September 30, 2023:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>	<u>September 30, 2023</u>
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Cash and Due From Banks

Interest-bearing Deposits at Banks

Total Cash and Cash Equivalents

Note 4. INVESTMENT SECURITIES (In Thousands)

The following table is the schedule of Available-For-Sale Securities at June 30, 2024 September 30, 2024, December 31, 2023 and June 30, 2023 September 30, 2023:

Available-For-Sale Securities

Available-For-Sale Securities												
Available-For-Sale Securities												
U.S. Treasuries	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate Debt Securities	Total Available-For-Sale Securities	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate Debt Securities	Total Available-For-Sale Securities
June 30, 2024												
Available-For-Sale Securities, at Amortized Cost												
Available-For-Sale Securities, at Amortized Cost												
Available-For-Sale Securities, at Amortized Cost												
Gross Unrealized Gains												
Gross Unrealized Losses												
Available-For-Sale Securities, at Fair Value												
Available-For-Sale Securities, Pledged as Collateral, at Fair Value												
<u>Maturities of Debt Securities, at Amortized Cost:</u>												
<u>Maturities of Debt Securities, at Amortized Cost:</u>												
<u>Maturities of Debt Securities, at Amortized Cost:</u>												
Within One Year												
Within One Year												
Within One Year												
From 1 - 5 Years												
From 5 - 10 Years												
Over 10 Years												
<u>Maturities of Debt Securities, at Fair Value:</u>												
<u>Maturities of Debt Securities, at Fair Value:</u>												
<u>Maturities of Debt Securities, at Fair Value:</u>												
Within One Year												
Within One Year												
Within One Year												

From 1 - 5 Years

From 5 - 10 Years

Over 10 Years

Securities in a
Continuous

Loss Position, at Fair

Value:

Securities in a
Continuous

Loss Position, at Fair

Value:

Securities in a
Continuous

Loss Position, at Fair

Value:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Number of Securities

in a

Continuous Loss
Position

Unrealized Losses on
Securities in a
Continuous

Loss Position:

Unrealized Losses on
Securities in a
Continuous

Loss Position:

Unrealized Losses on
Securities in a
Continuous

Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

US Treasuries,

at Amortized Cost

US Treasuries,

at Amortized Cost

US Treasuries,

at Amortized Cost

US Treasuries,

at Fair Value

US Treasuries,

at Fair Value

US Treasuries,

at Fair Value

US Agency
Obligations,
at Amortized Cost

US Agency
Obligations,
at Amortized Cost

US Agency
Obligations,
at Amortized Cost

US Agency
Obligations,
at Fair Value

US Agency
Obligations,
at Fair Value

US Agency
Obligations,
at Fair Value

Local Municipal
Obligations,
at Amortized Cost

Local Municipal
Obligations,
at Amortized Cost

Local Municipal
Obligations,
at Amortized Cost

Local Municipal
Obligations,
at Fair Value

Local Municipal
Obligations,
at Fair Value

Local Municipal
Obligations,
at Fair Value

US Government
Agency
Securities, at
Amortized Cost

US Government
Agency
Securities, at
Amortized Cost

US Government
Agency
Securities, at
Amortized Cost

Available-For-Sale Securities

Available-For-Sale Securities

Available-For-Sale Securities

U.S. Treasuries	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate Debt Securities	Total Available-For-Sale Securities	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate Debt Securities	Total Available-For-Sale Securities
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US Government Agency
Securities, at Fair Value
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Fair Value
December 31, 2023
December 31, 2023
December 31, 2023
Available-For-Sale Securities,
at Amortized Cost
Available-For-Sale Securities,
at Amortized Cost
Available-For-Sale Securities,
at Amortized Cost
Gross Unrealized Gains
Gross Unrealized Losses
Available-For-Sale Securities,
at Fair Value
Available-For-Sale Securities,
Pledged as Collateral,
at Fair Value
Securities in a Continuous
Loss Position, at Fair Value:
Securities in a Continuous
Loss Position, at Fair Value:
Securities in a Continuous
Loss Position, at Fair Value:
Less than 12 Months
Less than 12 Months
Less than 12 Months
12 Months or Longer
Total
Number of Securities in a
Continuous Loss Position

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

US Treasuries,

at Amortized Cost

US Treasuries,

at Amortized Cost

US Treasuries,

at Amortized Cost

US Treasuries,

at Fair Value

US Treasuries,

at Fair Value

US Treasuries,

at Fair Value

US Agency Obligations,

at Amortized Cost

US Agency Obligations,

at Amortized Cost

US Agency Obligations,

at Amortized Cost

US Agency Obligations,

at Fair Value

US Agency Obligations,

at Fair Value

US Agency Obligations,

at Fair Value

Local Municipal Obligations,

at Amortized Cost

Local Municipal Obligations,

at Amortized Cost

Local Municipal Obligations,

at Amortized Cost

Local Municipal Obligations,

at Fair Value

Local Municipal Obligations,

at Fair Value

Local Municipal Obligations,

at Fair Value

US Government Agency

Securities, at Amortized Cost

US Government Agency
Securities, at Amortized Cost
US Government Agency
Securities, at Amortized Cost
US Government Agency
Securities, at Fair Value
US Government Agency
Securities, at Fair Value
US Government Agency
Securities, at Fair Value
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Amortized Cost

Available-For-Sale Securities
Available-For-Sale Securities
Available-For-Sale Securities

	U.S. Treasuries	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Total Available-For-Sale Securities	U.S. Treasuries	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Debt Securities	Corporate Securities	Total Available-For-Sale Securities
Corporate Trust Preferred Securities, at Fair Value													
<u>June 30, 2023</u>													
<u>September 30, 2023</u>													
<u>June 30, 2023</u>													
<u>September 30, 2023</u>													
<u>June 30, 2023</u>													
<u>September 30, 2023</u>													
Available-For-Sale Securities, at Amortized Cost													
Available-For-Sale Securities, at Amortized Cost													
Available-For-Sale Securities, at Amortized Cost													
Gross Unrealized Gains													
Gross Unrealized Losses													
Available-For-Sale Securities, at Fair Value													

Available-For-Sale Securities,
Pledged as Collateral, at Fair
Value

Securities in a Continuous
Loss Position, at Fair Value:

Securities in a Continuous
Loss Position, at Fair Value:

Securities in a Continuous
Loss Position, at Fair Value:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Number of Securities in a
Continuous Loss Position

Unrealized Losses on Securities
in a Continuous Loss Position:

Unrealized Losses on Securities
in a Continuous Loss Position:

Unrealized Losses on Securities
in a Continuous Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

US Treasury Obligations,
at Amortized Cost

US Treasury Obligations,
at Amortized Cost

US Treasury Obligations,
at Amortized Cost

US Treasury Obligations,
at Fair Value

US Treasury Obligations,
at Fair Value

US Treasury Obligations,
at Fair Value

US Agency Obligations,
at Amortized Cost

US Agency Obligations,
at Amortized Cost

US Agency Obligations,
at Fair Value

US Agency Obligations,
at Fair Value

US Agency Obligations,
at Fair Value

REFINITIV CORPORATE DISCLOSURES | www.refinitiv.com | Contact Us

Local Municipal Obligations,
at Amortized Cost
Local Municipal Obligations,
at Amortized Cost
Local Municipal Obligations,
at Amortized Cost
Local Municipal Obligations,
at Fair Value
Local Municipal Obligations,
at Fair Value
Local Municipal Obligations,
at Fair Value
US Government Agency
Securities, at Amortized Cost
US Government Agency
Securities, at Amortized Cost
US Government Agency
Securities, at Amortized Cost
US Government Agency
Securities, at Fair Value
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Amortized Cost
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Government Sponsored Entity
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Amortized Cost
Corporate Trust Preferred
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Fair Value
Corporate Trust Preferred
Securities, at Fair Value

At **June 30, 2024** **September 30, 2024**, there was no allowance for credit losses for the AFS debt securities portfolio.

The following table is the schedule of Held-To-Maturity Securities at **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**:

Held-To-Maturity Securities
Held-To-Maturity Securities
Held-To-Maturity Securities

	State and Municipal Obligations	State and Municipal Obligations	Mortgage- Backed Securities	Total Held-To Maturity Securities	State and Municipal Obligations	Mortgage- Backed Securities	Total Held-To Maturity Securities
<u>June 30, 2024</u>							
<u>September 30, 2024</u>							
Held-To-Maturity Securities, at Amortized Cost							
Held-To-Maturity Securities, at Amortized Cost							
Held-To-Maturity Securities, at Amortized Cost							
Gross Unrealized Losses							
Gross Unrealized Losses							
Gross Unrealized Losses							
Held-To-Maturity Securities, at Fair Value							
Held-To-Maturity Securities, Pledged as Collateral, at Carrying Value							
Held-To-Maturity Securities, Pledged as Collateral, at Fair Value							
<u>Maturities of Debt Securities, at Amortized Cost:</u>							
<u>Maturities of Debt Securities, at Amortized Cost:</u>							
<u>Maturities of Debt Securities, at Amortized Cost:</u>							
Within One Year							
Within One Year							
Within One Year							
From 1 - 5 Years							
From 5 - 10 Years							
Over 10 Years							
<u>Maturities of Debt Securities, at Fair Value:</u>							
<u>Maturities of Debt Securities, at Fair Value:</u>							
<u>Maturities of Debt Securities, at Fair Value:</u>							
Within One Year							
Within One Year							
Within One Year							
From 1 - 5 Years							
From 5 - 10 Years							
Over 10 Years							
<u>Securities in a Continuous Loss Position, at Fair Value:</u>							
<u>Securities in a Continuous Loss Position, at Fair Value:</u>							
<u>Securities in a Continuous Loss Position, at Fair Value:</u>							
Less than 12 Months							
Less than 12 Months							
Less than 12 Months							

12 Months or Longer

Total

Number of Securities in a
Continuous Loss Position

Number of Securities in a
Continuous Loss Position

Number of Securities in a
Continuous Loss Position

Unrealized Losses on Securities

in a Continuous Loss Position:

Unrealized Losses on Securities

in a Continuous Loss Position:

Unrealized Losses on Securities

in a Continuous Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Fair Value

Municipal Obligations, at Fair Value

Municipal Obligations, at Fair Value

US Government Agency

Securities, at Amortized Cost

US Government Agency

Securities, at Amortized Cost

US Government Agency

Securities, at Amortized Cost

Held-To-Maturity Securities

Held-To-Maturity Securities

Held-To-Maturity Securities

State and
Municipal
Obligations

State and
Municipal
Obligations

Mortgage-
Backed
Securities

Total
Held-To
Maturity
Securities

State and
Municipal
Obligations

Mortgage-
Backed
Securities

Total
Held-To
Maturity
Securities

US Government Agency

Securities, at Fair Value

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Fair Value

Government Sponsored Entity

Securities, at Fair Value

Government Sponsored Entity

Securities, at Fair Value

December 31, 2023

December 31, 2023

December 31, 2023

Held-To-Maturity Securities,
at Amortized Cost

Held-To-Maturity Securities,
at Amortized Cost

Held-To-Maturity Securities,
at Amortized Cost

Gross Unrealized Losses

Gross Unrealized Losses

Gross Unrealized Losses

Held-To-Maturity Securities,
at Fair Value

Held-To-Maturity Securities,
Pledged as Collateral, at Carrying Value

Held-To-Maturity Securities,
Pledged as Collateral, at Fair Value

Securities in a Continuous

Loss Position, at Fair Value:

Securities in a Continuous

Loss Position, at Fair Value:

Securities in a Continuous

Loss Position, at Fair Value:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Number of Securities in a
Continuous Loss Position

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Fair Value

Municipal Obligations, at Fair Value
 Municipal Obligations, at Fair Value
 US Government Agency
 Securities, at Amortized Cost
 US Government Agency
 Securities, at Fair Value
 US Government Agency
 Securities, at Fair Value
 US Government Agency
 Securities, at Fair Value
 Government Sponsored Entity
 Securities, at Amortized Cost
 Government Sponsored Entity
 Securities, at Amortized Cost
 Government Sponsored Entity
 Securities, at Amortized Cost
 Government Sponsored Entity
 Securities, at Fair Value
 Government Sponsored Entity
 Securities, at Fair Value
 Government Sponsored Entity
 Securities, at Fair Value

	Held-To-Maturity Securities	Held-To-Maturity Securities	Held-To-Maturity Securities	Total Held-To Maturity Securities	State and Municipal Obligations	Mortgage-Backed Securities	Total Held-To Maturity Securities
	State and Municipal Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Total Held-To Maturity Securities	State and Municipal Obligations	Mortgage-Backed Securities	Total Held-To Maturity Securities
<u>June 30, 2023</u>							
<u>September 30, 2023</u>							
Held-To-Maturity Securities, at Amortized Cost							
Held-To-Maturity Securities, at Amortized Cost							
Held-To-Maturity Securities, at Amortized Cost							
Gross Unrealized Gains							
Gross Unrealized Losses							
Held-To-Maturity Securities, at Fair Value							
Held-To-Maturity Securities, Pledged as Collateral, at Carrying Value							
Held-To-Maturity Securities, Pledged as Collateral, at Fair Value							
<u>Securities in a Continuous Loss Position, at Fair Value:</u>							
<u>Securities in a Continuous Loss Position, at Fair Value:</u>							

Securities in a Continuous

Loss Position, at Fair Value:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Number of Securities in a

Continuous Loss Position

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Unrealized Losses on

Securities in a Continuous

Loss Position:

Less than 12 Months

Less than 12 Months

Less than 12 Months

12 Months or Longer

Total

Disaggregated Details:

Disaggregated Details:

Disaggregated Details:

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Amortized Cost

Municipal Obligations, at Fair Value

Municipal Obligations, at Fair Value

Municipal Obligations, at Fair Value

US Government Agency

Securities, at Amortized Cost

US Government Agency

Securities, at Amortized Cost

US Government Agency

Securities, at Amortized Cost

US Government Agency

Securities, at Fair Value

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Amortized Cost

Government Sponsored Entity

Securities, at Fair Value

Government Sponsored Entity

Securities, at Fair Value

Government Sponsored Entity
Securities, at Fair Value

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

Arrow's investment policy requires that investments held in our portfolio be investment grade or better at the time of purchase. Arrow performs an analysis of the creditworthiness of municipal obligations to determine if a security is of investment grade. The analysis may include but may not solely rely upon credit analysis conducted by external credit rating agencies.

Arrow evaluates AFS debt securities in unrealized loss positions at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or non-credit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized within the allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings via credit loss expense. Arrow determined that at **June 30, 2024** **September 30, 2024**, gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. Arrow does not intend to sell, nor is it more likely than not that Arrow will be required to sell any securities before recovery of its amortized cost basis, which may be at maturity. Therefore, Arrow carried no allowance for credit loss at **June 30, 2024** **September 30, 2024** and there was no credit loss expense recognized by Arrow with respect to the securities portfolio during the three months ended **June 30, 2024** **September 30, 2024**.

Arrow's HTM debt securities are comprised of U.S. government-sponsored enterprises (GSEs) or state and municipal obligations. GSE securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Arrow determined that the expected credit loss on its HTM debt portfolio was immaterial and therefore no allowance for credit loss was recorded as of **June 30, 2024** **September 30, 2024**.

The following table is the schedule of Equity Securities at **June 30, 2024** **September 30, 2024**, **December 31, 2023** and **June 30, 2023** **September 30, 2023**:

		Equity Securities				
		June 30, 2024	June 30, 2024	June 30, 2024	December 31, 2023	June 30, 2023
		September 30, 2024	September 30, 2024	September 30, 2024	December 31, 2023	September 30, 2023
Equity Securities, at Fair Value						
Equity Securities, at Fair Value						
Equity Securities, at Fair Value			\$1,996		\$1,925	\$1,889
						\$5,089
						\$1,925
						\$1,960

Net Gain (Loss) on Equity Securities

Net Gain (Loss) on Equity Securities

Net Gain (Loss) on Equity Securities

Less: Net gain recognized during the reporting period on equity securities sold during the period

Less: Net gain recognized during the reporting period on equity securities sold during the period

Less: Net gain recognized during the reporting period on equity securities sold during the period

Unrealized net gain (loss) recognized during the reporting period on equity securities still held at the reporting date

Unrealized net gain (loss) recognized during the reporting period on equity securities still held at the reporting date

Unrealized net gain (loss) recognized during the reporting period on equity securities still held at the reporting date.

Note 5. LOANS (In Thousands)

Note 5. LOANS (In Thousands)

Loan Categories and Past Due Loans

The following two tables present loan balances outstanding as of **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023** 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 when the borrower is two payments past due. Loans held-for-sale of \$998, \$203, \$165 and \$312 \$165 as of **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**, respectively, are included in the residential real estate balances for current loans.

Schedule of Past Due Loans by Loan Category

	Commercial	Commercial	Commercial	Real Estate	Consumer	Residential	Total	Real Estate	Consumer	Residential	Total
<u>June 30, 2024</u>											
<u>September 30, 2024</u>											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 60-89 Days											
Loans Past Due 90 or more Days											
Total Loans Past Due											
Current Loans											
Total Loans											
<u>December 31, 2023</u>											
<u>December 31, 2023</u>											
<u>December 31, 2023</u>											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 60-89 Days											
Loans Past Due 90 or more Days											
Total Loans Past Due											
Current Loans											
Total Loans											
<u>June 30, 2023</u>											
<u>June 30, 2023</u>											
<u>June 30, 2023</u>											
<u>September 30, 2023</u>											
<u>September 30, 2023</u>											
<u>September 30, 2023</u>											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 30-59 Days											
Loans Past Due 60-89 Days											
Loans Past Due 90 or more Days											
Total Loans Past Due											
Current Loans											
Total Loans											

Schedule of Non Accrual Loans by Category

	Commercial	Commercial	Real Estate	Consumer	Residential	Total
<u>June 30, 2024</u>						
<u>June 30, 2024</u>						
<u>June 30, 2024</u>						
<u>September 30, 2024</u>						
<u>September 30, 2024</u>						
<u>September 30, 2024</u>						
Commercial						
Real Estate						
Consumer						
Residential						
Total						

Loans 90 or More Days Past Due

and Still Accruing Interest

Nonaccrual Loans

Nonaccrual With No Allowance for Credit Loss

Interest Income on Nonaccrual Loans

December 31, 2023

December 31, 2023

December 31, 2023

Loans 90 or More Days Past Due

and Still Accruing Interest

Loans 90 or More Days Past Due

and Still Accruing Interest

Loans 90 or More Days Past Due

and Still Accruing Interest

Nonaccrual Loans

June 30, 2023

June 30, 2023

June 30, 2023

September 30, 2023

September 30, 2023

September 30, 2023

Loans 90 or More Days Past Due

and Still Accruing Interest

Loans 90 or More Days Past Due

and Still Accruing Interest

Loans 90 or More Days Past Due

and Still Accruing Interest

Nonaccrual Loans

Arrow disaggregates its loan portfolio into the following four categories:

Commercial - Arrow offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. **Generally, these loans carry a higher risk than commercial real estate loans due to the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and generally have a lower liquidation value than real estate.** In the event of default by the borrower, Arrow may be required to liquidate collateral at deeply discounted values. To reduce the risk, management usually obtains personal guarantees to support the borrowing, as permitted by applicable law.

Commercial Real Estate - Arrow offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are typically secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and both owner- and non-owner-occupied facilities. **These loans are typically less risky than commercial loans, since they are secured by real estate and buildings, and are generally originated in amounts of no more than 80% of the appraised value of the property. However,** Arrow also offers commercial construction and land development loans to finance projects. Many projects will ultimately be used by the borrowers' businesses, while others are developed for resale. These real estate loans are also typically secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities and both owner-occupied and non-owner-occupied facilities. There is enhanced risk during the construction period, since the loan is secured by an incomplete project. Arrow's Commercial Real Estate loans are primarily located within the footprint of the Company's branch network, with some loans extending into the greater upstate New York area. Arrow does not provide Commercial Real Estate loans in major metropolitan areas such as New York City, Boston, etc.

Consumer Loans - This category is primarily comprised of automobile loans. Arrow primarily finances the purchases of automobiles indirectly through dealer relationships located throughout upstate New York and Vermont. Most automobile loans carry a fixed rate of interest with principal repayment terms typically ranging from three to seven years. Automobile loans are underwritten on a secured basis using the underlying collateral being financed. Arrow also offers a variety of consumer installment loans to finance personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to five years, based upon the nature of the collateral and the size of the loan. In addition to installment loans, Arrow also offers personal lines of credit and overdraft protection. Several of these consumer loans are unsecured, which carry a higher risk of loss.

Residential - Residential real estate loans consist primarily of loans secured by first or second mortgages on primary residences. Arrow originates fixed-rate and adjustable-rate one-to-four-family residential real estate loans for the construction, purchase of real estate or refinancing of an existing mortgage. These loans are collateralized primarily by owner-occupied properties generally located in Arrow's market area. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 80% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. Arrow's underwriting analysis for residential mortgage loans typically includes credit verification, independent appraisals, and a review of the borrower's financial condition. Mortgage title insurance and hazard insurance are normally required. It is Arrow's general practice to underwrite residential real estate loans to secondary market standards. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period. In addition, Arrow offers fixed home equity loans, as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Arrow's policy allows for a maximum loan to

value ratio of 80%, although periodically higher advances are allowed. Arrow originates home equity lines of credit and second mortgage loans (loans secured by a second junior lien position on one-to-four-family residential real estate). Risk is generally reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Allowance for Credit Losses

Loan segments were selected by class code and application code to ensure each segment is comprised of loans with homogenous loan characteristics and similar risk profiles. The resulting loan segments are commercial, commercial real estate, consumer and residential real estate loans. The consumer segment is mainly comprised of automobile loans, and since they are relatively short-term in nature, with similar dollar amounts and collateral, the vintage analysis method was selected to determine the credit loss reserve. The vintage method utilizes Arrow loan data exclusively as the method calculates a loss rate based on the total origination balance of the loans by year and the charge-off and recovery rate of the same origination year. Arrow maintains, over the life of the loan, the loss curve by vintage year. The discounted cash flow method (DCF) is used to calculate the reserve for credit losses for the commercial, commercial real estate and residential real estate segments.

The **June 30, 2024** **September 30, 2024** allowance for credit losses calculation incorporated a reasonable and supportable forecast period to account for economic conditions utilized in the measurement. The quantitative model utilized a six-quarter economic forecast sourced from reputable third-parties that reflects no projects a negative change of approximately 0.25% in the forecasted national unemployment rate, forecasted gross domestic product projected to improve by approximately 0.17% 0.07%, and the home price index (HPI) forecast to increase by approximately 2.62% 0.20% from the previous quarter economic forecast. The overall change in the allowance from **March 31, 2024** **June 30, 2024** was primarily driven by the following factors: net loan growth contributed \$0.5 million, \$335 thousand, changes in macro economic conditions reduced the allowance by \$0.8 million, qualitative factors increased the allowance by \$0.4 million, \$82 thousand, and net charge-offs of \$0.6 million, \$681 thousand. The **second** **third** quarter provision for credit losses was \$75 \$934 thousand. In addition, Arrow recorded a credit an increase for estimated credit losses on off-balance sheet credit exposures in other liabilities of \$153 \$234 thousand in the **second** **third** quarter of 2024. Management's evaluation considers the allowance for credit losses for loans to be appropriate as of **June 30, 2024** **September 30, 2024**.

The following table details activity in the allowance for credit losses on loans for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** and **June 30, 2023** **September 30, 2023**:

Allowance for Credit Losses											
Allowance for Credit Losses		Allowance for Credit Losses		Allowance for Credit Losses		Allowance for Credit Losses		Allowance for Credit Losses		Allowance for Credit Losses	
	Commercial	Commercial	Commercial Real Estate	Consumer	Residential	Total	Commercial	Commercial Real Estate	Consumer	Residential	Total
<u>March 31, 2024</u>											
<u>June 30, 2024</u>											
<u>March 31, 2024</u>											
<u>June 30, 2024</u>											
<u>March 31, 2024</u>											
<u>June 30, 2024</u>											
Charge-offs											
Recoveries											
Provision											
<u>June 30, 2024</u>											
<u>September 30, 2024</u>											
<u>December 31, 2023</u>											
<u>December 31, 2023</u>											
<u>December 31, 2023</u>											
Charge-offs											
Recoveries											
Provision											
<u>June 30, 2024</u>											
<u>September 30, 2024</u>											
<u>March 31, 2023</u>											
<u>June 30, 2023</u>											
<u>March 31, 2023</u>											
<u>June 30, 2023</u>											
<u>March 31, 2023</u>											
<u>June 30, 2023</u>											
Charge-offs											
Recoveries											
Provision											
<u>June 30, 2023</u>											
<u>September 30, 2023</u>											
<u>December 31, 2022</u>											

December 31, 2022

December 31, 2022

Charge-offs

Recoveries

Provision

June 30, 2023

September 30, 2023

Estimated Credit Losses on Off-Balance Sheet Credit Exposures Recognized as Other Liabilities

Financial instrument credit losses apply to off-balance sheet credit exposures such as unfunded loan commitments and standby letters of credit. A liability for expected credit losses for off-balance sheet exposures is recognized if the entity has a present contractual obligation to extend the credit and the obligation is not unconditionally cancellable by the entity. Changes in this allowance are reflected in other operating expenses within the non-interest expense category. As of **June 30, 2024** **September 30, 2024**, the total unfunded commitment off-balance sheet credit exposure was **\$986 thousand**, **\$1.2 million**.

Individually Evaluated Loans

All loans that exceed \$250,000, which are on nonaccrual status, are evaluated on an individual basis. Arrow has a policy applicable to collateral dependent financial assets when the borrower is experiencing financial difficulty and the repayment is expected through the sale of the collateral. This policy allows Arrow to use fair value of the collateral at the reporting date adjusted for estimated cost to sell when recording the net carrying amount of the asset and determining the allowance for credit losses for a financial asset. In the event where the repayment of a collateral dependent financial asset is expected to be provided substantially through the operation of the collateral, Arrow will use fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses. As of **June 30, 2024** **September 30, 2024**, there were **five** **six** total relationships identified to be evaluated for loss on an individual basis which had an amortized cost basis of **\$17.1** **\$17.3** million and none had an allowance for credit loss.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**:

June 30, 2024	Collateral Type - Residential Real Estate	Collateral Type - Commercial Real Estate	Total Loans
September 30, 2024	Collateral Type - Residential Real Estate	Collateral Type - Commercial Real Estate	Total Loans
Commercial			
Commercial Real Estate			
Consumer			
Residential			
Total			

December 31, 2023	Collateral Type - Residential Real Estate		Collateral Type - Commercial Real Estate		Total Loans
	Estate	Estate	Estate	Estate	
Commercial	\$	—	\$	—	\$
Commercial Real Estate		—		15,308	15,308
Consumer		—		—	—
Residential		1,446		—	1,446
Total	\$	1,446	\$	15,308	\$ 16,754

June 30, 2023	Collateral Type - Residential Real Estate	Collateral Type - Commercial Real Estate	Total Loans
September 30, 2023	Collateral Type - Residential Real Estate	Collateral Type - Commercial Real Estate	Total Loans
Commercial			
Commercial Real Estate			
Consumer			
Residential			
Total			

Allowance for Credit Losses - Collectively and Individually Evaluated

Allowance for Credit Losses - Collectively and Individually Evaluated

Allowance for Credit Losses - Collectively and Individually Evaluated

	Commercial	Commercial	Commercial Real Estate	Consumer	Residential	Total	Commercial	Commercial Real Estate	Consumer	Residential	Total
June 30, 2024											
September 30, 2024											

Ending Loan Balance - Collectively Evaluated

Ending Loan Balance - Collectively Evaluated
Ending Loan Balance - Collectively Evaluated
Allowance for Credit Losses - Loans Collectively Evaluated
Ending Loan Balance - Individually Evaluated
Ending Loan Balance - Individually Evaluated
Ending Loan Balance - Individually Evaluated
Allowance for Credit Losses - Loans Individually Evaluated

December 31, 2023

December 31, 2023

December 31, 2023

Ending Loan Balance - Collectively Evaluated
Ending Loan Balance - Collectively Evaluated
Ending Loan Balance - Collectively Evaluated
Allowance for Credit Losses - Loans Collectively Evaluated
Ending Loan Balance - Individually Evaluated
Allowance for Credit Losses - Loans Individually Evaluated

June 30, 2023

June 30, 2023

June 30, 2023

September 30, 2023

September 30, 2023

September 30, 2023

Ending Loan Balance - Collectively Evaluated
Ending Loan Balance - Collectively Evaluated
Ending Loan Balance - Collectively Evaluated
Allowance for Credit Losses - Loans Collectively Evaluated
Ending Loan Balance - Individually Evaluated
Allowance for Credit Losses - Loans Individually Evaluated

Through the provision for credit losses, an allowance for credit losses is maintained that reflects the best estimate of the calculated expected credit losses in Arrow's loan portfolio as of the balance sheet date. Additions are made to the allowance for credit losses through a periodic provision for credit losses. Actual credit losses are charged against the allowance for credit losses when loans are deemed uncollectible and recoveries of amounts previously charged off are recorded as credits to the allowance for credit losses.

Arrow's loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with certain criticized and classified commercial-related relationships. In addition, the independent internal loan review department performs periodic reviews of the credit quality indicators on individual loans in the commercial loan portfolio.

Arrow considers the need to qualitatively adjust expected credit loss estimates for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. Adjustments are not made for information that has already been considered and included in the loss estimation process.

Arrow considers the qualitative factors that are relevant as of the reporting date, which may include, but are not limited to the following factors:

- The nature and volume of Arrow's financial assets;
- The existence, growth, and effect of any concentrations of credit;
- The volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- The value of the underlying collateral for loans that are not collateral-dependent;
- Arrow's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries;
- The quality of Arrow's loan review function;
- The experience, ability, and depth of Arrow's lending, investment, collection, and other relevant management/staff;
- The effect of other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters;
- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that affect the collectability of financial assets; and
- Other qualitative factors not reflected in quantitative loss rate calculations.

Loan Credit Quality Indicators and Modification

In 2023 and the first ~~half~~ three quarters of 2024, no loans met the criteria for disclosure as part of ASU 2022-02. Any modifications of loans were either immaterial in nature or were made for competitive purposes, i.e., the borrowers were not experiencing financial hardship.

The following tables present credit quality indicators by total loans amortized cost basis by origination year as of June 30, 2024 September 30, 2024, December 31, 2023 and June 30, 2023 September 30, 2023.

Term Loans Amortized Cost Basis by Origination Year				Term Loans Amortized Cost Basis by Origination Year			Term Loans Amortized Cost Basis by Origination Year			Term Loans Amortized Cost Basis by Origination Year			Term Loans Amortized Cost Basis by Origination Year		
June 30, 2024	2024	2021	2020	Prior	Revolving Loans	Revolving Loan	Amortized Cost Basis	Converted to Term	Converted to Total	Revolving Loans	Revolving Loan	Amortized Cost Basis	Converted to Term	Converted to Total	
September 30, 2024	Revolving Loans	Revolving Loan	2024	2023	2022	2021	2020	Prior							
	Amortized Cost	Converted to													
Commercial:	Basis	Term	Total												
Risk rating															
Risk rating															
Risk rating															
Satisfactory															
Satisfactory															
Satisfactory															
Special mention															
Substandard															
Doubtful															
Total Commercial Loans															
Current-period gross charge-offs															
Current-period gross charge-offs															
Current-period gross charge-offs															
Commercial Real Estate:															
Commercial Real Estate:															
Commercial Real Estate:															
Risk rating															
Risk rating															
Risk rating															
Satisfactory															
Satisfactory															
Satisfactory															
Special mention															
Substandard															
Doubtful															
Total Commercial Real Estate Loans															
Current-period gross charge-offs															
Current-period gross charge-offs															
Current-period gross charge-offs															
Consumer:															
Consumer:															
Consumer:															
Risk rating															

Risk rating
 Risk rating
 Performing
 Performing
 Performing
 Nonperforming

Total Consumer
 Loans

Current-period
 gross charge-offs
 Current-period
 gross charge-offs
 Current-period
 gross charge-offs

Residential:

Residential:
 Residential:

Risk rating
 Risk rating
 Risk rating
 Performing
 Performing
 Performing
 Nonperforming

Total Residential
 Loans

Current-period
 gross charge-offs
 Current-period
 gross charge-offs
 Current-period
 gross charge-offs

Total Loans

Total Loans

Total Loans

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year						Prior	Basis	Term	Total
	2023	2022	2021	2020	2019	Revolving Loans Amortized Cost				
Commercial:										
Risk rating										
Satisfactory	\$ 54,584	\$ 34,047	\$ 23,470	\$ 9,655	\$ 4,107	\$ 13,360	\$ 8,586	\$ —	\$ 147,809	
Special mention	—	—	—	117	—	—	—	—	—	117
Substandard	—	—	—	—	—	3,199	5,099	—	—	8,298
Doubtful	—	—	—	—	—	—	—	—	—	—
Total Commercial Loans	\$ 54,584	\$ 34,047	\$ 23,470	\$ 9,772	\$ 4,107	\$ 16,559	\$ 13,685	\$ —	\$ 156,224	
Current-period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
Commercial Real Estate:										
Risk rating										
Satisfactory	\$ 81,582	\$ 151,818	\$ 105,365	\$ 120,845	\$ 41,406	\$ 174,516	\$ 1,667	\$ —	\$ 677,199	
Special mention	—	10,439	—	—	—	4,084	—	—	—	14,523
Substandard	150	9,169	1,670	2,533	791	38,955	497	—	—	53,765

Doubtful	—	—	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate Loans	\$ 81,732	\$ 171,426	\$ 107,035	\$ 123,378	\$ 42,197	\$ 217,555	\$ 2,164	\$ —	\$ —	\$ 745,487	\$ —
Current-period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer:											
Risk rating											
Performing	\$ 405,099	\$ 355,217	\$ 195,799	\$ 93,708	\$ 44,206	\$ 15,252	\$ —	\$ —	\$ —	\$ 1,109,281	\$ —
Nonperforming	208	783	551	210	81	85	468	—	—	2,386	—
Total Consumer Loans	\$ 405,307	\$ 356,000	\$ 196,350	\$ 93,918	\$ 44,287	\$ 15,337	\$ 468	\$ —	\$ —	\$ 1,111,667	\$ —
Current-period gross charge-offs	\$ 366	\$ 1,368	\$ 2,122	\$ 604	\$ 397	\$ 266	\$ —	\$ —	\$ —	\$ 5,123	\$ —
Residential:											
Risk rating											
Performing	\$ 161,878	\$ 231,365	\$ 192,588	\$ 116,451	\$ 73,875	\$ 296,935	\$ 122,573	\$ —	\$ —	\$ 1,195,665	\$ —
Nonperforming	—	—	444	666	127	2,268	360	—	—	3,865	—
Total Residential Loans	\$ 161,878	\$ 231,365	\$ 193,032	\$ 117,117	\$ 74,002	\$ 299,203	\$ 122,933	\$ —	\$ —	\$ 1,199,530	\$ —
Current-period gross charge-offs	\$ —	\$ —	\$ —	\$ 21	\$ —	\$ 33	\$ —	\$ —	\$ —	\$ 54	\$ —
Total Loans	\$ 703,501	\$ 792,838	\$ 519,887	\$ 344,185	\$ 164,593	\$ 548,654	\$ 139,250	\$ —	\$ —	\$ 3,212,908	\$ —

Term Loans Amortized Cost Basis by Origination Year

Term Loans Amortized Cost Basis by Origination Year

Term Loans Amortized Cost Basis by Origination Year

June 30, 2023

June 30, 2023

June 30, 2023

September 30, 2023

September 30, 2023

September 30, 2023

Commercial:

Commercial:

Commercial:

Risk rating

Risk rating

Risk rating

Satisfactory

Satisfactory

Satisfactory

Special mention

Special mention

Special mention

Substandard

Substandard

Substandard

Doubtful

Doubtful

Doubtful

Total Commercial Loans

Total Commercial Loans

Total Commercial Loans

Current-period gross charge-offs

Current-period gross charge-offs

Current-period gross charge-offs

Commercial Real Estate:

Commercial Real Estate:

Commercial Real Estate:

Risk rating

Risk rating

Risk rating

Satisfactory

Satisfactory

Satisfactory

Special mention

Special mention

Special mention

Substandard

Substandard

Substandard

Doubtful

Doubtful

Doubtful

Total Commercial Real Estate Loans

Total Commercial Real Estate Loans

Total Commercial Real Estate Loans

Current-period gross charge-offs

Current-period gross charge-offs

Current-period gross charge-offs

Consumer:

Consumer:

Consumer:

Risk rating

Risk rating

Risk rating

Performing

Performing

Performing

Nonperforming

Nonperforming

Nonperforming

Total Consumer Loans

Total Consumer Loans

Total Consumer Loans

Current-period gross charge-offs

Current-period gross charge-offs

Current-period gross charge-offs

Residential:

Residential:

Residential:

Risk rating

Risk rating

Risk rating

Performing

Performing

Performing
Nonperforming
Nonperforming
Nonperforming
Total Residential Loans
Total Residential Loans
Total Residential Loans
Current-period gross charge-offs
Current-period gross charge-offs
Current-period gross charge-offs
Total Loans
Total Loans
Total Loans

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

As of **June 30, 2024** **September 30, 2024**, the amortized cost of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is **\$2.4** was **\$3.5** million.

For the allowance calculation, an internally developed system of five credit quality indicators is used 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 credit quality indicator 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 Arrow 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 (e.g. 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**; **nonaccrual**; and

5) Loss - Loans classified as "loss" are considered uncollectible with collateral 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 generally evaluated on an annual basis depending on the size and complexity of the loan relationship, unless the credit related quality indicator falls to a level of "special mention" or below, when the loan is evaluated quarterly. The credit quality indicator is one of the factors used in assessing the level of incurred risk of loss in our commercial related loan portfolios.

te 6. DEBT (Dollars in Thousands)

Schedule of Borrowings:

	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
<u>Balance:</u>			
BTFP Advances			
BTFP Advances			
BTFP Advances			
FHLBNY Overnight Advances			
FHLBNY Term Advances			
Total Borrowings			
Total Borrowings			
Total Borrowings			
<u>Maximum Borrowing Capacity:</u>			
<u>Maximum Borrowing Capacity:</u>			
<u>Maximum Borrowing Capacity:</u>			
Federal Funds Purchased			
Federal Funds Purchased			
Federal Funds Purchased			
Federal Home Loan Bank of New York			
Federal Reserve Bank of New York			

Available Borrowing Capacity:Available Borrowing Capacity:Available Borrowing Capacity:

Federal Funds Purchased

Federal Funds Purchased

Federal Funds Purchased

Federal Home Loan Bank of New York

Federal Reserve Bank of New York

Arrow's subsidiary banks have in place unsecured federal funds lines of credit with two correspondent banks. As a member of the FHLBNY, Arrow participates in the advance program which allows for overnight and term advances up to the limit of pledged collateral, including FHLBNY stock and any loans secured by real estate such as commercial real estate, residential real estate and home equity loans (see Notes 4: Investment Securities, and 5: Loans to the Consolidated Financial Statements). The maximum borrowing capacities at the FHLBNY and FRB are determined based on the fair value of the collateral pledged, subject to discounts determined by the respective lenders. As of **June 30, 2024** **September 30, 2024**, the carrying cost for the FHLBNY collateral was approximately **\$861** **\$890** million and approximately **\$1.2** **\$1.1** billion for the FRB. As of **June 30, 2024** **September 30, 2024**, the fair value for the FHLBNY collateral was approximately **\$717** **\$755** million and approximately **\$1.2** **\$1.1** billion for the FRB. The investment in FHLBNY stock is proportional to the total of Arrow's overnight and term advances (see the Schedule of FFRB and FHLB Stock in Note 4, Investment Securities, to the Consolidated Financial Statements). Arrow's bank subsidiaries have also established borrowing facilities with the FRB of New York for potential "discount window" advances, pledging certain consumer loans as collateral (see Note 5, Loans, to the Consolidated Financial Statements).

Debt Maturities

BTFP Advances - The BTFP was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. In the first quarter of 2024, Arrow borrowed \$100 million pursuant to the BTFP. The BTFP **Advances** advances were scheduled to mature in January 2025 and **have** **had** a weighted average interest rate of 4.76%. Arrow paid down \$5 million of the balance in the third quarter and replaced the remaining \$95 million in the fourth quarter with lower cost brokered CDs.

Maturity Schedule of FHLBNY Term Advances:

Final Maturity	Balances			Weighted Average Rate 1		
	6/30/2024	12/31/2023	6/30/2023	6/30/2024	12/31/2023	6/30/2023
First Year	\$ 4,250	\$ 4,250	\$ 7,800	5.80 %	5.80 %	5.14 %
Second Year	2,250	2,250	—	5.38 %	5.38 %	— %
Total	\$ 6,500	\$ 6,500	\$ 7,800	5.66 %	5.66 %	5.14 %

1. The effective rate on the FHLBNY Advances is 0% due to subsidized funding in the form of interest rate credits.

Final Maturity	Balances			Weighted Average Rate 1		
	9/30/2024	12/31/2023	9/30/2023	9/30/2024	12/31/2023	9/30/2023
First Year	\$ —	\$ 4,250	\$ 7,800	— %	5.80 %	5.14 %
Second Year	6,900	2,250	6,500	5.33 %	5.38 %	5.59 %
Third Year	—	—	—	— %	— %	— %
Fourth Year	1,700	—	—	4.85 %	— %	— %
Total	\$ 8,600	\$ 6,500	\$ 14,300	5.24 %	5.66 %	5.38 %

1. The effective rate on the FHLBNY Advances is 0% due to subsidized funding in the form of interest rate credits.

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

At **June 30, 2024** **September 30, 2024**, the Company had two classes of financial instruments issued by two separate subsidiary business trusts of Arrow, Arrow Capital Statutory Trust II ("ACST II") and Arrow Capital Statutory Trust III ("ACST III" and, together with ACST II, the "Trusts"), identified as "Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts" on the Consolidated Balance Sheets and the Consolidated Statements of Income.

The first of the two classes of trust-issued instruments outstanding at **June 30, 2024** **September 30, 2024** was issued by 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 TRUPS"). The rate on the securities is variable, previously adjusting quarterly to the now discontinued 3-month London Inter-Bank Offered Rate ("LIBOR") plus 3.15%. Arrow designated the Secured Overnight Financing Rate ("SOFR") as the replacement index for financial instruments. The rate on the securities are tied to the 3-month SOFR plus 3.15% post-conversion. ACST II used the proceeds of the sale of the ACST II TRUPS 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 TRUPS. The ACST II TRUPS 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 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 TRUPS"). The rate on the ACST III TRUPS is a variable rate, adjusting quarterly to the 3-month SOFR plus 2.00%. The rate previously adjusted quarterly to the now discontinued 3-month LIBOR plus 2.00% pre-conversion. ACST III used the proceeds of the sale of the ACST III TRUPS 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 TRUPS. The ACST III TRUPS became redeemable on or after March 31, 2010 and mature on December 28, 2034.

Arrow has entered into interest rate swaps to synthetically fix the variable rate interest payments associated with \$20 million in outstanding subordinated trust securities attributable to the Trusts. These agreements are designated as cash flow hedges.

The primary assets of 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 Trusts' 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 **June 30, 2024** **September 30, 2024**, December 31, 2023, and **June 30, 2023** **September 30, 2023** 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

	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
ACST II			
Balance			
Balance			
Balance			
Period End:			
Variable Interest Rate			
Variable Interest Rate			
Variable Interest Rate	8.74 %	8.74 %	8.69 %
Fixed Interest Rate resulting from cash flow hedge agreement	Fixed Interest Rate resulting from cash flow hedge agreement	4.00 %	4.00 %
			Fixed Interest Rate resulting from cash flow hedge agreement
			4.00 %
			4.00 %
ACST III			
ACST III			
ACST III			
Balance			
Balance			
Balance			
Period End:			
Variable Interest Rate			
Variable Interest Rate			
Variable Interest Rate	7.59 %	7.59 %	7.54 %
Fixed Interest Rate resulting from cash flow hedge agreement	Fixed Interest Rate resulting from cash flow hedge agreement	2.86 %	2.86 %
			Fixed Interest Rate resulting from cash flow hedge agreement
			2.86 %
			2.86 %

Note 7. COMMITMENTS AND CONTINGENCIES (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 **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**:

	Commitments to Extend Credit and Letters of Credit		
	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
<u>Notional Amount:</u>			
Commitments to Extend Credit			
Commitments to Extend Credit			
Commitments to Extend Credit			
Standby Letters of Credit			
<u>Fair Value:</u>			
Commitments to Extend Credit			
Commitments to Extend Credit			

Commitments to Extend Credit

Standby Letters of Credit

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 not expected to be fully 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 commercial 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 **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023** 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. Arrow's 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 **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**, 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.

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.

Except as noted below, Arrow, including its **subsidiary banks**, **subsidiaries**, is not currently the subject of any material pending legal proceedings, other than ordinary routine litigation occurring in the normal course of their business. On an ongoing basis, Arrow is often the subject of, or a party to, various legal claims by other parties against Arrow, by Arrow against other parties, or involving Arrow, which arise in the normal course of business. **Except as noted below, the** **The** various pending legal claims against Arrow will not, in the opinion of management based upon consultation with counsel, result in any material liability. Legal expenses incurred in connection with loss contingencies are expensed as incurred.

As previously disclosed in certain of the Company's filings with the SEC, on June 23, 2023, Robert C. Ashe filed a putative class action complaint (the "Ashe Lawsuit") against the Company in the United States District Court for the Northern District of New York. In addition to the Company, the complaint names as defendants Thomas J. Murphy, the Company's former CEO and from September 30, 2022 to February 20, 2023, its interim CFO, Edward J. Campanella, the Company's former CFO, and Penko Ivanov, the Company's current CFO ("Individual Defendants" and, together with the Company, the "Defendants"). The complaint alleges that the Defendants made materially false and misleading statements regarding the Company's business, operations and compliance policies in the Company's public filings between March 12, 2022 and May 12, 2023. The complaint further alleges that the Individual Defendants are liable for these materially false and misleading statements as "controlling persons" of the Company. Based on these allegations, the complaint brings two claims for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and of Section 20(a) of the Exchange Act. Mr. Ashe, on behalf of a purported class of shareholders, seeks compensatory damages as well as recovery of the costs and fees associated with the litigation. On December 5, 2023, **Mr. plaintiff Ashe** filed an amended complaint that changed the putative class period to the period from August 5, 2022 through May 12, 2023, but challenged substantially the same statements on the same basis. On February 9, 2024, the Company moved to dismiss the action in its entirety. On **April 22, 2024** **June 7, 2024**, the parties reached **an agreement in principle a settlement (subject to settle the matter, subject to final documentation and court approval)**. Management believes that the terms of the proposed approval. The pending settlement will not have a material **adverse impact on the Company's Company's financial results. In results or position. On August 26, 2024**, the event that court granted preliminary approval of the parties are not able to finalize settlement and set a settlement, the Company intends to continue to vigorously defend against the claims asserted in the Ashe Lawsuit. **final approval hearing for January 10, 2025.**

On December 12, 2023 the Company became aware that Stephen Bull filed a complaint (the "Shareholder Derivative Complaint") on behalf of Arrow against the three individual defendants in the Ashe Lawsuit as well as against all members of Arrow's board of directors during the class period in Ashe. The Company is named solely as a nominal defendant in the action and would be the beneficiary of any recovery. The Shareholder Derivative Complaint alleges breaches of fiduciary duty (i) by the Ashe individual defendants based on substantially the same allegedly misleading statements pleaded in the Ashe complaint; and (ii) the director defendants by failing to adequately oversee the individual defendants and maintain internal and disclosure controls. Plaintiffs seek (i) unspecified damages (which would be payable to the Company) for costs incurred as a result of the alleged misstatements, including costs of investigation, remediation, and litigation, (ii) repayment of the director defendants' compensation on an unjust enrichment theory, and (iii) an order directing the Company to take all necessary actions to reform and improve its corporate governance, and (iv) the recovery of costs and fees associated with the litigation. The Shareholder Derivative Complaint also asserts various federal securities claims based on the same alleged misrepresentations as set forth in the Ashe Lawsuit. **The Company is parties are in active settlement negotiations in this matter and expects to reach** **while the case is currently stayed pending disposition of Ashe. Management does not expect a resolution in the not too distant future. Management believes that any settlement to be reached will not have a material adverse impact on the Company's Company's financial results. In the event that the parties are not able to reach a settlement, the Company intends to continue to vigorously defend itself against the Shareholder Derivative Complaint.**

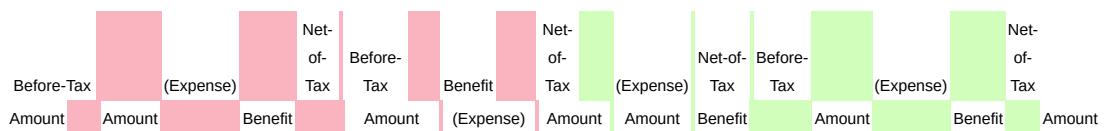
results or position.

Note 8. COMPREHENSIVE INCOME (In Thousands)

The following table presents the components of other comprehensive income (loss) for the three and **six nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023:

Schedule of Comprehensive Income (Loss)

Three Months Ended June 30	Six Months Ended June 30
Three Months Ended September 30	Nine Months Ended September 30
Tax	
Before-Tax	
Before-Tax	



2024

Net Unrealized Securities Holding Gain (Loss) on Securities Available-for-Sale Arising During the Period

Net Unrealized Securities Holding Gain (Loss) on Securities Available-for-Sale Arising During the Period

Net Unrealized Securities Holding Gain (Loss) on Securities Available-for-Sale Arising During the Period

Net Unrealized Gain on Cash Flow Swap

Net Unrealized Securities Holding Gain on Securities Available-for-Sale Arising During the Period

Net Unrealized Securities Holding Gain on Securities Available-for-Sale Arising During the Period

Net Unrealized Securities Holding Gain on Securities Available-for-Sale Arising During the Period

Net Unrealized (Loss) on Cash Flow Swap

Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense

Reclassification of Net Unrealized (Loss) on Cash Flow Hedge Agreements to Interest Expense

Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense

Reclassification of Net Unrealized (Loss) on Cash Flow Hedge Agreements to Interest Expense

Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense

Amortization of Net Retirement Plan Actuarial Gain

Reclassification of Net Unrealized (Loss) on Cash Flow Hedge Agreements to Interest Expense

Amortization of Net Retirement Plan Actuarial (Gain)

Amortization of Net Retirement Plan Prior Service Cost

Other Comprehensive Income

2023

2023

Net Unrealized Securities Holding (Loss) Gain on Securities Available-for-Sale Arising During the Period

Net Unrealized Securities Holding (Loss)
Gain on Securities Available-for-Sale Arising During the Period
Net Unrealized Securities Holding (Loss)
Gain on Securities Available-for-Sale Arising During the Period
Net Unrealized Gain (Loss) on Cash Flow Swap
Reclassification of Net Unrealized Loss on Cash Flow Hedge Agreements to Interest Expense
Net Unrealized Securities Holding (Loss) on Securities Available-for-Sale Arising During the Period
Net Unrealized Securities Holding (Loss) on Securities Available-for-Sale Arising During the Period
Net Unrealized Securities Holding (Loss) on Securities Available-for-Sale Arising During the Period
Net Unrealized Gain on Cash Flow Swap
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense
Amortization of Net Retirement Plan Actuarial Gain
Amortization of Net Retirement Plan Actuarial (Gain)
Amortization of Net Retirement Plan Actuarial Gain
Amortization of Net Retirement Plan Actuarial (Gain)
Amortization of Net Retirement Plan Actuarial Gain
Amortization of Net Retirement Plan Actuarial (Gain)
Amortization of Net Retirement Plan Prior Service Cost
Other Comprehensive (Loss) Income
Other Comprehensive (Loss)

The following table presents the changes in accumulated other comprehensive (loss) income by component:

Changes in Accumulated Other Comprehensive (Loss) Income by Component ⁽¹⁾								
Unrealized Loss on Available-for-Sale Securities	Unrealized Loss on Available-for-Sale Securities	Unrealized Loss on Available-for-Sale Securities	Net Actuarial Loss	Unrealized Gain on Cash Flow Swap	Defined Benefit Plan Items	Unrealized Gain on Cash Flow Swap	Defined Benefit Plan Items	Total

For the quarter-to-date periods ended:

For the quarter-to-date periods ended:

For the quarter-to-date periods ended:

March 31, 2024

March 31, 2024
March 31, 2024
June 30, 2024
June 30, 2024
June 30, 2024

Other comprehensive income or loss
before reclassifications

Amounts reclassified from
accumulated other comprehensive
income or loss

Net current-period other
comprehensive income or loss

June 30, 2024
June 30, 2024
June 30, 2024

September 30, 2024
September 30, 2024
September 30, 2024

March 31, 2023
June 30, 2023

Other comprehensive income or loss before reclassifications

Amounts reclassified from accumulated other comprehensive income or loss

Net current-period other comprehensive income or loss

June 30, 2023
June 30, 2023
June 30, 2023

September 30, 2023
September 30, 2023
September 30, 2023

For the Year-To-Date periods ended:

For the Year-To-Date periods ended:

For the Year-To-Date periods ended:

December 31, 2023

December 31, 2023

December 31, 2023

Other comprehensive income or loss before reclassifications

Amounts reclassified from accumulated other comprehensive income or loss

Net current-period other comprehensive income or loss

June 30, 2024
June 30, 2024
June 30, 2024

September 30, 2024
September 30, 2024
September 30, 2024

December 31, 2022

December 31, 2022

December 31, 2022

Other comprehensive income or loss before reclassifications

Amounts reclassified from accumulated other comprehensive income or loss

Net current-period other comprehensive income or loss

June 30, 2023

June 30, 2023

June 30, 2023

September 30, 2023

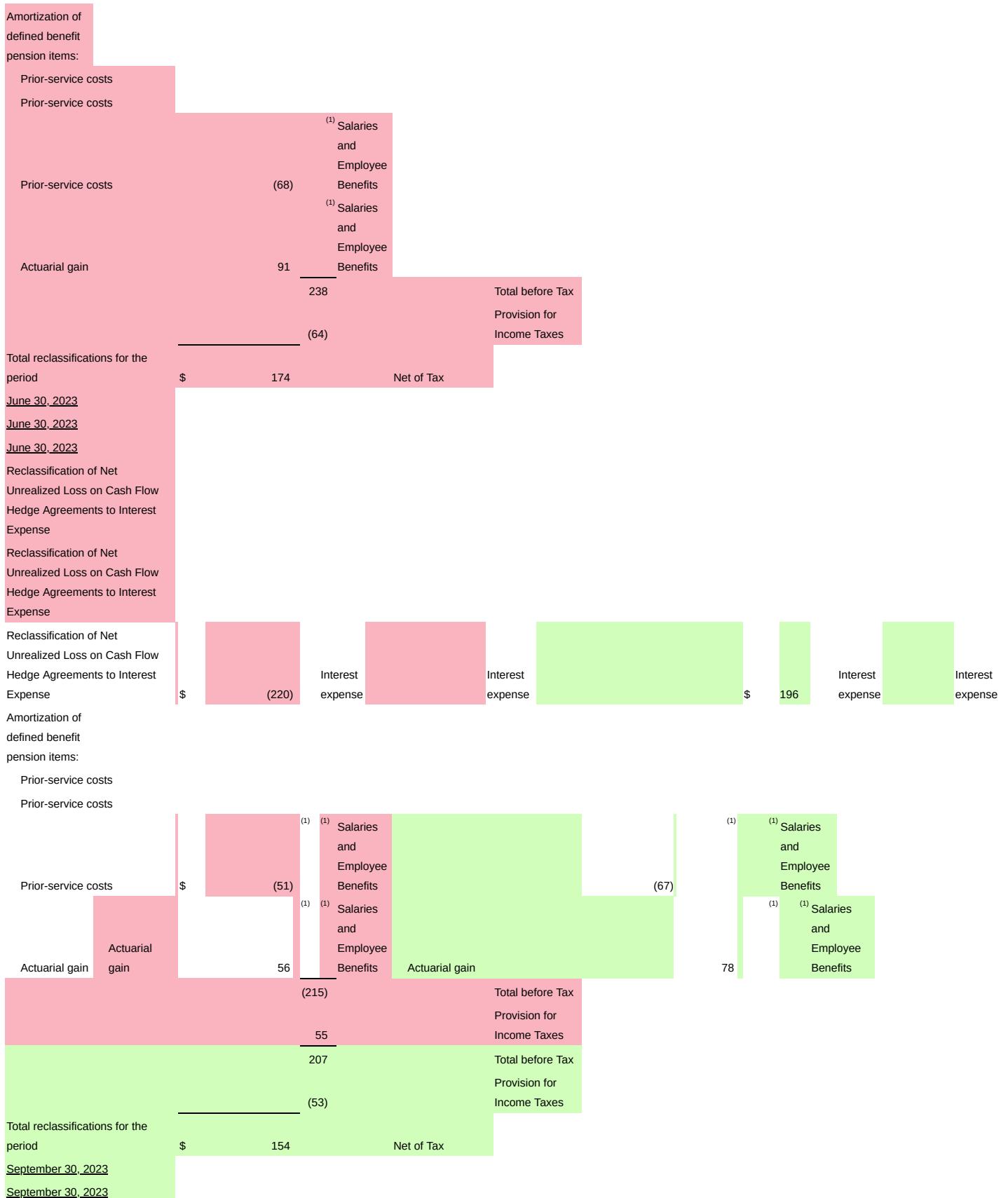
September 30, 2023

September 30, 2023

(1) All amounts are net of tax.

The following table presents the reclassifications out of accumulated other comprehensive income or loss:

Reclassifications Out of Accumulated Other Comprehensive Income or Loss				
Details about Accumulated Other Comprehensive Income or Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	Affected Line Item in the Statement Where Net Income Is Presented	Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	Affected Line Item in the Statement Where Net Income Is Presented
Details about Accumulated Other Comprehensive Income or Loss Components				
For the quarter-to-date periods ended:				
For the quarter-to-date periods ended:				
For the quarter-to-date periods ended:				
June 30, 2024				
September 30, 2024				
June 30, 2024				
September 30, 2024				
June 30, 2024				
September 30, 2024				
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Loss on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Loss on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Loss on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense				
Reclassification of Net Unrealized Gain on Cash Flow Hedge Agreements to Interest Expense	\$ 215	Interest expense		



Reclassification of Net							
Unrealized Gain on Cash Flow							
Hedge Agreements to Interest							
Expense	\$	(418)		Interest expense			
Reclassification of Net							
Unrealized (Gain) on Cash Flow							
Hedge Agreements to Interest							
Expense	\$	(660)		Interest expense			
Amortization of							
defined benefit							
pension items:							
Prior-service costs							
Prior-service costs							
Prior-service costs		(103)	(1)	Salaries and Employee Benefits		(1)	Salaries and Employee Benefits
Actuarial gain		81	(1)	Salaries and Employee Benefits		(1)	Salaries and Employee Benefits
Actuarial gain				Actuarial gain			
		(440)		Total before Tax			
		114		Provision for Income Taxes			
		(693)		Total before Tax			
		177		Provision for Income Taxes			
Total reclassifications for the period	Total reclassifications for the period	\$ (326)	Net of Tax	Net of Tax	Total reclassifications for the period	\$ (516)	Net of Tax
							Net of Tax

(1) These accumulated other comprehensive gain or loss components are included in the computation of net periodic pension cost.

(1) These accumulated other comprehensive gain or loss components are included in the computation of net periodic pension cost.

(1) These accumulated other comprehensive gain or loss components are included in the computation of net periodic pension cost.

Note 9. STOCK-BASED COMPENSATION (Dollars In Thousands, Except Share and Per Share Amounts)

Arrow has established three stock-based compensation plans: a Long Term Incentive Plan, an Employee Stock Purchase Plan (ESPP) and an Employee Stock Ownership Plan (ESOP). All share and per share data have been adjusted for the September 26, 2023 3% stock dividend.

Long Term Incentive Plan

The Long Term Incentive Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, performance units and performance shares. The Compensation Committee of the Board of Directors administers the Long Term Incentive Plan.

Restricted Stock Awards - In May 2024, the Company granted restricted stock awards which will generally vest over a four-year period. Unvested restricted stock will generally be forfeited if the recipient ceases to be employed by the Company, with limited exceptions. Grantees of restricted stock awards are entitled to receive all dividends and distributions declared and paid on restricted stock, or cash payments equivalent to such dividends or distributions, including those declared and paid during the vesting period.

The following table summarizes information about restricted stock awards for the year to date period ended June 30, 2024 September 30, 2024:

Restricted Stock Awards	
Outstanding at January 1, 2024	—
Granted	22,230
Vested	(412)
Forfeited	—
Outstanding at June 30, 2024 September 30, 2024	21,818

The following table presents information on the amounts expensed related to restricted stock for the three and **six** **nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Nine Months Ended September 30,			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,					
	2024	2024	2023	2023	2024	2024	2023	2024

Amount expensed

Stock Options - 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.

The following table summarizes information about stock option activity for the year to date period ended **June 30, 2024** **September 30, 2024**:

	Shares	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2024					
Outstanding at January 1, 2024					
Outstanding at January 1, 2024					
Exercised					
Exercised					
Exercised					
Forfeited					
Outstanding at June 30, 2024					
Outstanding at September 30, 2024					
Vested at Period-End					
Vested at Period-End					
Vested at Period-End					
Expected to Vest					

The following table presents information on the amounts expensed related to stock options for the three and **six** **nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Nine Months Ended September 30,			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,					
	2024	2024	2023	2023	2024	2024	2023	2024

Amount expensed

The expense recorded during the third quarters of 2024 and 2023 reflect the reversal of previously recorded amounts related to forfeited stock options triggered by the departure of previous employees, including the prior President and CEO.

Restricted Stock Units - Historically, the Company has granted restricted stock units which give the recipient the right to receive shares of Company stock upon vesting. The fair value of each restricted stock unit is the market value of Company stock on the date of grant. 100% of the restricted stock unit awards vest three years from the grant date, unless vested or forfeited prior to vesting in accordance with the terms of the award. Once vested, the restricted stock units are no longer forfeitable. Vested units settle upon

retirement, as defined in the Arrow retirement plan, of the recipient. Unvested restricted stock unit awards will generally be forfeited if the recipient ceases to be employed by the Company, with limited exceptions.

There were no restricted stock units outstanding at any time during the three or **six** **nine** month periods ended **June 30, 2024** **September 30, 2024**. The following table summarizes information about restricted stock unit activity for the **six** **nine** month period ended **June 30, 2023** **September 30, 2023**:

	Restricted Stock Units	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2023					
Non-vested at January 1, 2023					
Non-vested at January 1, 2023					
Granted					
Vested					
Non-vested at June 30, 2023					
Non-vested at June 30, 2023					
Non-vested at June 30, 2023					
Non-vested at September 30, 2023					
Non-vested at September 30, 2023					
Non-vested at September 30, 2023					

The following table presents information on the amounts expensed related to restricted stock units for the periods ended **June 30, 2024** **September 30, 2024** and 2023:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Nine Months Ended September 30,			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,					
	2024	2024	2023	2023	2024	2024	2023	2024

Amount expensed

Employee Stock Purchase Plan

In April 2023, Arrow suspended the operation of the prior ESPP (the "Prior ESPP") as a result of the now resolved delay in filing the Annual Report on Form 10-K for the year ended **December 21, 2022** December 31, 2022 (the "2022 Form 10-K") and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the "2023 Q1 Form 10-Q") and the related effects under applicable securities laws. In October 2023, the Board of Directors approved the adoption of a new ESPP intended to satisfy the requirements of Section 423 of the Internal Revenue Code, which was effective January 1, 2024 (the "Qualified ESPP"). Under the Qualified ESPP, the amount of the discount is 10% below market price. Under the Prior ESPP, the amount of the discount was 5% below market price. Under current accounting guidance, a stock purchase plan with a discount of 5% or less is not considered a compensatory plan. The Qualified ESPP is considered a compensatory plan. The Qualified ESPP was approved by Arrow shareholders at the annual meeting of shareholders on June 5, 2024.

Employee Stock Ownership Plan

Arrow maintains an ESOP, pursuant to which substantially all employees of Arrow and its subsidiaries are eligible to participate upon satisfaction of applicable service requirements. The Company may make, and historically has made, a cash contribution to the ESOP each year.

Note 10. RETIREMENT BENEFIT PLANS (Dollars in Thousands)

Arrow sponsors qualified and non-qualified 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 first 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 with a minimum interest credit of 3%. 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 The Employee Retirement Income Security Act (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 allows for grandfathered participants to receive automatic increases of Company contributions each year based on the increase in inflation, limited to a maximum of 5%.

As of December 31, 2023, Arrow **uses used** the sex-distinct Amount-Weighted Pri-2012 Mortality Tables for employees, healthy retirees and contingent survivors, with mortality improvements projected using Scale MP-2021 on a generational basis for the Pension Plan and the sex-distinct Amount-Weighted White Collar Pri-2012 Mortality Tables for employees, healthy retirees and contingent survivors, with mortality improvements projected using Scale MP-2021 on a generational basis for the Select Executive Retirement Plan (the "SERP").

Segment interest rates of 5.50%, 5.76%, 5.83% were used in determining the present value of a lump sum payment/annuitizing cash balance accounts as of December 31, 2023.

Effective January 1, 2021, GFNB amended the Arrow Financial Corporation Employees' Pension Plan (the "Plan"). The Plan change was adopted January 1, 2021 and the amendment was valued as of December 31, 2020. The Plan amendment was as follows:

Effective January 1, 2021, the benefit payable to or on behalf of each participant:

- whose employment with the Employer (or any predecessor Employer, except as noted below) terminated on or before January 1, 2016;
- who satisfied the requirements for early, normal, or late retirement as of such termination;
- who never participated in the United Vermont Bancorporation Plan; and
- who is, or whose beneficiary is, receiving monthly benefit payments from the Plan as of January 1, 2021 (including a participant or beneficiary who shall commence receiving benefits from the Plan as of January 1, 2021), shall be increased by 3%.

The foregoing increase was applied to the monthly benefit actually payable to the participant, or to the participant's beneficiary, as of January 1, 2021, determined after all applicable adjustments, regardless of whether such benefit had been determined under the Company's plan or the plan of a predecessor employer that had been merged into the Plan.

The plan amendment caused a \$351,638 increase in the projected benefit obligation, creating a positive service cost which will be amortized over 9.70 years (the average expected future service of active plan participants.)

Effective January 1, 2021, GFNB amended the Arrow Financial Corporation Employees' SERP. The plan change was adopted January 1, 2021 and the amendment was valued as of December 31, 2020. The plan amendment provides a special adjustment to the monthly benefit payment for certain retirees. The plan amendment caused a \$122,797 increase in the projected benefit obligation, creating a positive prior service cost which will be amortized over 12.5 years.

Settlement accounting is required when lump sum payments during a fiscal year exceed that fiscal year's Service Cost plus Interest Cost components of the Net Periodic Pension Cost. For 2022, the sum of the Service Cost and Interest Cost was \$3.3 million and the 2022 total lump sum payments exceeded that amount. The Plan therefore recognized in the 2022 Net Periodic Pension Cost a portion of the Unamortized Net (Gain)/Loss equal to the ratio of the projected benefit obligation for the participants that received a lump sum to the total projected benefit obligation. As of December 31, 2022, the Unamortized Net Loss prior to reflecting settlement accounting was \$7.2 million. The ratio of the projected benefit obligation for participants that received a lump sum to the total projected benefit obligation was 8.06%. The effect of the settlement that was recognized in the 2022 Net Periodic Pension Cost was \$577 thousand, which was fully reflected in the 2022 Net Periodic Pension Cost. Settlement accounting was not required for the year ended December 31, 2023 or for the three- or **six-month nine-month** periods ended **June 30, 2024 September 30, 2024**.

The following tables provide the components of net periodic benefit costs for the three-month and **six-month nine-month** periods ended **June 30, 2024 September 30, 2024** and 2023:

Employees' Pension Plan	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
-------------------------------	-------------------------------	--	------------------------------------	-------------------------------	--	------------------------------------

Net Periodic Benefit Cost

For the Three Months Ended June 30, 2024:

For the Three Months Ended June 30, 2024:

For the Three Months Ended June 30, 2024:

For the Three Months Ended September 30, 2024:

For the Three Months Ended September 30, 2024:

For the Three Months Ended September 30, 2024:

Service Cost ¹

Service Cost 1
Service Cost 1
Interest Cost 2
Interest Cost (Benefit) 2
Expected Return on Plan Assets 2
Amortization of Prior Service Cost 2
Amortization of Net Gain 2
Net Periodic Cost
Plan Contributions During the Period
Plan Contributions During the Period
Plan Contributions During the Period
For the Three Months Ended June 30, 2023:
For the Three Months Ended June 30, 2023:
For the Three Months Ended June 30, 2023:
For the Three Months Ended September 30, 2023:
For the Three Months Ended September 30, 2023:
For the Three Months Ended September 30, 2023:
Service Cost 1
Service Cost 1
Service Cost 1
Interest Cost 2
Expected Return on Plan Assets 2
Amortization of Prior Service Cost 2
Amortization of Net Loss (Gain) 2
Net Periodic Cost
Plan Contributions During the Period
Plan Contributions During the Period
Plan Contributions During the Period
Net Periodic Benefit Cost
Net Periodic Benefit Cost
Net Periodic Benefit Cost
For the Six Months Ended June 30, 2024:
For the Six Months Ended June 30, 2024:
For the Six Months Ended June 30, 2024:
For the Nine Months Ended September 30, 2024:
For the Nine Months Ended September 30, 2024:
For the Nine Months Ended September 30, 2024:
Service Cost 1
Service Cost 1
Service Cost 1
Interest Cost 2
Expected Return on Plan Assets 2
Amortization of Prior Service Cost 2
Amortization of Net Loss (Gain) 2
Net Periodic Cost
Plan Contributions During the Period
Plan Contributions During the Period
Plan Contributions During the Period
Estimated Future Contributions in the Current Fiscal Year
Estimated Future Contributions in the Current Fiscal Year
Estimated Future Contributions in the Current Fiscal Year

<u>For the Six Months Ended June 30, 2023:</u>
<u>For the Six Months Ended June 30, 2023:</u>
<u>For the Six Months Ended June 30, 2023:</u>
<u>For the Nine Months Ended September 30, 2023:</u>
<u>For the Nine Months Ended September 30, 2023:</u>
<u>For the Nine Months Ended September 30, 2023:</u>

Service Cost 1
 Service Cost 1
 Service Cost 1
 Interest Cost 2
 Expected Return on Plan Assets 2
 Amortization of Prior Service Cost 2
 Amortization of Net Loss (Gain) 2
 Net Periodic Cost

Plan Contributions During the Period
 Plan Contributions During the Period
 Plan Contributions During the Period

Footnotes:

1. Included in Salaries and Employee Benefits on the Consolidated Statements of Income
2. Included in Other Operating Expense on the Consolidated Statements of Income

A contribution to the qualified pension plan was not required during the period ended **June 30, 2024** September 30, 2024 and currently, additional contributions in 2024 are not expected. Arrow makes contributions to its other post-retirement benefit plans in an amount equal to benefit payments for the year.

Note 11. EARNINGS PER COMMON 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 periods ended **June 30, 2024** September 30, 2024 and 2023.

	Earnings Per Share			
	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Earnings Per Share - Basic:				
Net Income	\$ 8,604	\$ 6,047	\$ 16,264	\$ 14,609
Weighted Average Shares - Basic 1	16,685	17,050	16,764	17,050
Earnings Per Share - Basic 1	\$ 0.52	\$ 0.35	\$ 0.97	\$ 0.85
Earnings Per Share - Diluted:				
Net Income	\$ 8,604	\$ 6,047	\$ 16,264	\$ 14,609
Weighted Average Shares - Basic 1	16,685	17,050	16,764	17,050
Dilutive Average Shares Attributable to Stock Options 1	24	—	25	—
Weighted Average Shares - Diluted 1	16,709	17,050	16,789	17,050
Earnings Per Share - Diluted 1	\$ 0.52	\$ 0.35	\$ 0.97	\$ 0.85

	Earnings Per Share			
	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Earnings Per Share - Basic:				
Net Income	\$ 8,975	\$ 7,743	\$ 25,239	\$ 22,352
Weighted Average Shares - Basic	16,710	17,050	16,746	17,049
Earnings Per Share - Basic	\$ 0.54	\$ 0.46	\$ 1.51	\$ 1.31
Earnings Per Share - Diluted:				
Net Income	\$ 8,975	\$ 7,743	\$ 25,239	\$ 22,352
Weighted Average Shares - Basic	16,710	17,050	16,746	17,049
Dilutive Average Shares Attributable to Stock Options	32	—	26	—

Weighted Average Shares - Diluted	16,742	17,050	16,772	17,049
Earnings Per Share - Diluted	\$ 0.53	\$ 0.46	\$ 1.50	\$ 1.31

¹ When applicable, share and per share amounts have been adjusted for the September 26, 2023, 3% stock dividend.

Note 12. FAIR VALUES (Dollars In Thousands)

FASB ASC Subtopic 820-10 defines fair value, establishes a framework for measuring fair value in GAAP and requires certain disclosures about fair value measurements. There are no 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 **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023** were AFS securities, equity securities and derivatives. Arrow held no securities or liabilities for trading on such dates.

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:		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<u>Fair Value of Assets and Liabilities</u>										
<u>Measured on a Recurring Basis:</u>										
<u>Fair Value of Assets and Liabilities</u>										
<u>Measured on a Recurring Basis:</u>										
<u>Fair Value of Assets and Liabilities</u>										
<u>Measured on a Recurring Basis:</u>										
<u>June 30, 2024</u>										
<u>June 30, 2024</u>										
<u>June 30, 2024</u>										
<u>September 30, 2024</u>										
<u>September 30, 2024</u>										
<u>September 30, 2024</u>										
Assets:										
Assets:										
Assets:										
Securities Available-for Sale:										
Securities Available-for Sale:										
Securities Available-for Sale:										
U.S. Treasuries										
U.S. Treasuries										
U.S. Treasuries										
U.S. Government & Agency										
Obligations										
State and Municipal Obligations										
Mortgage-Backed Securities										
Corporate and Other Debt										
Securities										
Total Securities Available-for-Sale										
Equity Securities										
Total Securities Measured on a Recurring Basis										
Derivative Assets										
Total Measured on a Recurring Basis										
Liabilities:										
Derivative Liabilities										

Derivative Liabilities
Derivative Liabilities
Total Measured on a Recurring Basis

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

Fair Value Measurements at Reporting Date Using:

	Fair Value	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
--	------------	------------	--	---	---	------------	--	---	---

Liabilities:

Derivative Liabilities

Derivative Liabilities

Derivative Liabilities

Total Measured on a Recurring Basis

December 31, 2023

Assets:

Assets:

Assets:

Securities Available-for Sale:

Securities Available-for Sale:

Securities Available-for Sale:

U.S. Treasuries

U.S. Treasuries

U.S. Treasuries

U.S. Government & Agency Obligations

Obligations

State and Municipal Obligations

Mortgage-Backed Securities

Corporate and Other Debt Securities

Total Securities Available-for-Sale

Equity Securities

Total Securities Measured on a Recurring Basis

Derivative Assets

Total Measured on a Recurring Basis

Liabilities:

Derivative Liabilities

Derivative Liabilities

Derivative Liabilities

Total Measured on a Recurring Basis

June 30, 2023

September 30, 2023

Assets:

Assets:

Assets:

Securities Available-for Sale:

Securities Available-for Sale:

Securities Available-for Sale:

U.S. Government & Agency
Obligations

U.S. Government & Agency
Obligations

U.S. Government & Agency
Obligations

State and Municipal
Obligations

Mortgage-Backed Securities

Corporate and Other Debt
Securities

Total Securities Available-for-
Sale

Equity Securities

Total Securities Measured on
a Recurring Basis

Derivative Assets

Total Measured on a
Recurring Basis

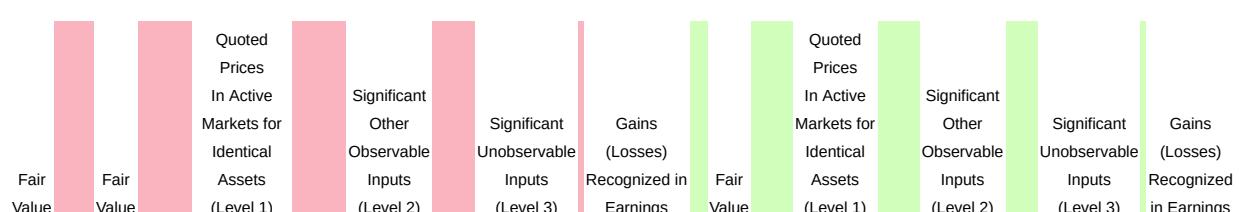
Liabilities:

Derivative Liabilities

Derivative Liabilities

Derivative Liabilities

Total Measured on a
Recurring Basis



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

June 30, 2024

June 30, 2024

June 30, 2024

September 30, 2024

September 30, 2024

September 30, 2024

Collateral Dependent
Evaluated Loans

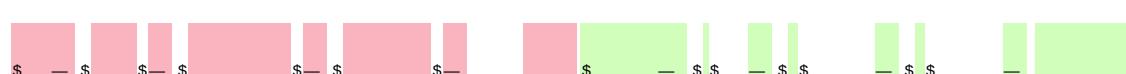
Collateral Dependent
Evaluated Loans

Collateral Dependent
Evaluated Loans

Other Real Estate Owned
and Repossessed Assets,

Net

December 31, 2023



Collateral Dependent												
Impaired Loans												
Collateral Dependent												
Impaired Loans												
Collateral Dependent	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Impaired Loans												
Other Real Estate Owned and Repossessed Assets, Net												
June 30, 2023												
September 30, 2023												
Collateral Dependent												
Impaired Loans												
Collateral Dependent												
Impaired Loans												
Collateral Dependent	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Impaired Loans												
Other Real Estate Owned and Repossessed Assets, Net												

The fair value of financial instruments is determined 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; and,
- 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 AFS securities are based on unadjusted, quoted market prices from exchanges in active markets. The fair value of Level 2 AFS securities 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. The fair value of Level 2 equities are based on the last observable price in open markets. The fair value of Level 2 equities are based on the last observable price in open markets. The fair value of Level 2 derivatives is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes.

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

The fair value of collateral dependent evaluated loans and other real estate owned was based on third-party appraisals less estimated cost to sell. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. 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 at least annually, with no impairment recognized for these assets at **June 30, 2024** **September 30, 2024**, December 31, 2023 and **June 30, 2023** **September 30, 2023**.

Fair Value by Balance Sheet Grouping

The following table presents a summary of the carrying amount, the fair value (exit price) or an amount approximating fair value and the fair value hierarchy of Arrow's financial instruments:

	Carrying Value	Carrying Value	Fair Value	Level			Carrying Value	Fair Value	Level			Fair Value Hierarchy
				1	2	3			1	2	3	
June 30, 2024												
September 30, 2024												
Cash and Cash Equivalents												
Cash and Cash Equivalents												
Cash and Cash Equivalents												
Securities Available-for-Sale												
Securities Held-to-Maturity												

Category	Sub-Category	Value
Assets	Derivative Assets	12,180
	Deposits	12,180
	Equity Securities	1,925
Liabilities	Derivative Liabilities	15,198
	Deposits	15,198
	Equity Securities	1,925

<u>June 30, 2023</u>													
<u>June 30, 2023</u>													
<u>June 30, 2023</u>													
<u>September 30, 2023</u>													
<u>September 30, 2023</u>													
<u>September 30, 2023</u>													
Cash and Cash Equivalents													
Cash and Cash Equivalents													
Cash and Cash Equivalents													
Securities Available-for-Sale													
Securities Held-to-Maturity													
Equity Securities	Equity Securities	1,889	1,889	1,889	—	1,889	1,889	—	1,960	1,960	—	1,960	1,960
Federal Home Loan Bank and Federal Reserve Bank Stock													
Net Loans													
Accrued Interest													
Receivable													
Derivative Assets													
Deposits													
Borrowings													
Borrowings													
Borrowings													
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts													
Accrued Interest													
Payable													
Derivative Liabilities													

Note 13. LEASES (Dollars in Thousands)

Arrow is a lessee in its leases, which are mainly for financial services locations in addition to leases for corporate vehicles. These leases generally require Arrow to pay third-party expenses on behalf of the Lessor, which are referred to as variable payments. Under some leases, Arrow pays the variable payments to the lessor, and in other leases, Arrow pays the variable payments directly to the applicable third party. None of Arrow's current leases include any residual value guarantees or any subleases, and there are no significant rights and obligations of Arrow for leases that have not commenced as of the reporting date.

Arrow leases two of its branch offices, at market rates, from Stewart's Shops Corp. Additionally on June 14th, 2024, Arrow entered into a sale-leaseback agreement with Stewart's Shops Corp. for a bank branch location. The sale price of the property was \$1.1 million which resulted in a gain of \$377 thousand. The lease agreement began in June 2024 and runs through May 2029, with rent totaling \$5 thousand per month for the remainder of the lease. Mr. Gary C. Dake, President of Stewart's Shops Corp., serves as a Director on the Board of Directors of Arrow and its two subsidiary banks.

The following includes quantitative data related to Arrow's leases as of and for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and **June 30, 2023** **September 30, 2023**:

	Finance Lease Amounts:	Finance Lease Amounts:	Classification	June 30, 2024	Six Months Ended		September 30, 2024	Classification	September 30, 2024	September 30, 2023	Classification	September 30, 2023	Nine Months Ended
					June	Finance Lease							
Finance Lease Amounts:													
Right-of-Use Assets													
Lease Liabilities													
Operating Lease Amounts:													
Operating Lease Amounts:													
Operating Lease Amounts:													
Right-of-Use Assets													

Right-of-Use Assets
 Right-of-Use Assets
 Lease Liabilities
Other Information:
Other Information:
Other Information:
 Cash Paid For Amounts Included In The Measurement Of Lease Liabilities:
 Cash Paid For Amounts Included In The Measurement Of Lease Liabilities:
 Cash Paid For Amounts Included In The Measurement Of Lease Liabilities:
 Operating Outgoing Cash Flows From Finance Leases
 Operating Outgoing Cash Flows From Finance Leases
 Operating Outgoing Cash Flows From Finance Leases
 Operating Outgoing Cash Flows
 From Operating Leases
 Financing Outgoing Cash Flows
 From Finance Leases
 Right-of-Use Assets Obtained In
 Exchange For New Finance Lease
 Liabilities
 Right-of-Use Assets Obtained In
 Exchange For New Operating Lease
 Liabilities

Weighted-average Remaining Lease Term - Finance Leases (Yrs.)	Weighted-average Remaining Lease Term - Finance Leases (Yrs.)	25.82	Weighted-average Remaining Lease Term - Finance Leases (Yrs.)	26.78 (Yrs.)	25.58	Weighted-average Remaining Lease Term - Finance Leases (Yrs.)	26.54
Weighted-average Remaining Lease Term - Operating Leases (Yrs.)	Weighted-average Remaining Lease Term - Operating Leases (Yrs.)	10.55	Weighted-average Remaining Lease Term - Operating Leases (Yrs.)	11.56	10.44	Weighted-average Remaining Lease Term - Operating Leases (Yrs.)	11.45
Weighted-average Discount Rate—Finance Leases	Weighted-average Discount Rate—Finance Leases	3.75 %	Weighted-average Discount Rate—Finance Leases	3.75 %	3.75 %	Weighted-average Discount Rate—Operating Leases	3.75 %
Weighted-average Discount Rate—Operating Leases	Weighted-average Discount Rate—Operating Leases	3.23 %	Weighted-average Discount Rate—Operating Leases	3.01 %	3.37 %	Weighted-average Discount Rate—Operating Leases	3.01 %

Lease cost information for Arrow's leases is as follows:

	Three Months Ended			
	Three Months Ended		Six Months Ended	
	Three Months Ended		Nine Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
<u>Lease Cost:</u>	<u>September 30, 2024</u>	<u>September 30, 2023</u>	<u>September 30, 2024</u>	<u>September 30, 2023</u>

Finance Lease Cost:
 Finance Lease Cost:
 Finance Lease Cost:
 Reduction of Right-of-Use Assets
 Reduction of Right-of-Use Assets
 Reduction of Right-of-Use Assets
 Interest on Lease Liabilities
 Operating Lease Cost
 Short-term Lease Cost
 Variable Lease Cost
 Total Lease Cost

Future Lease Payments at June 30, 2024 are as follows:

Future Lease Payments at September 30, 2024 are as follows:

Operating
Leases
Operating
Leases
Operating
Leases

Twelve Months Ended:

Twelve Months Ended:

Twelve Months Ended:

6/30/2025
6/30/2025
6/30/2025
6/30/2026
6/30/2026
6/30/2026
6/30/2027
6/30/2027
6/30/2027
6/30/2028
6/30/2028
6/30/2028
6/30/2029
6/30/2029
6/30/2029

9/30/2025
9/30/2025
9/30/2025
9/30/2026
9/30/2026
9/30/2026
9/30/2027
9/30/2027
9/30/2027
9/30/2028
9/30/2028
9/30/2028
9/30/2029
9/30/2029
9/30/2029

Thereafter
Thereafter
Thereafter

Total Undiscounted Cash Flows

Total Undiscounted Cash Flows

Total Undiscounted Cash Flows

Less: Net Present Value Adjustment

Less: Net Present Value Adjustment

Less: Net Present Value Adjustment

Lease Liability

Lease Liability

Lease Liability

Note 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (In Thousands)

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Arrow is exposed to certain risks arising from both its business operations and economic conditions. Arrow principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Arrow manages economic risks, including interest rate, primarily by managing the amount, sources and duration of its assets and liabilities and through the use of derivative instruments. Specifically, Arrow enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Arrow's derivative financial instruments are used to manage differences in the amount, timing and duration of known or expected cash receipts and its known or expected cash payments principally related to certain fixed rate borrowings. Arrow also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in Arrow's assets or liabilities. Arrow's goal is to have a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Derivatives Not Designated as Hedging Instruments

Arrow enters into interest rate swap agreements with its commercial customers to provide them with a long-term fixed rate, while simultaneously entering into offsetting interest rate swap agreements with a counterparty to swap the fixed rate to a variable rate to manage interest rate exposure.

These interest rate swap agreements are not designated as a hedge for accounting purposes. As the interest rate swap agreements have substantially equivalent and offsetting terms, they do not present material **interest rate** exposure to Arrow's consolidated statements of income. Arrow records its interest rate swap agreements at fair value and is presented on a gross basis within other assets and other liabilities on the consolidated balance sheets. Changes in the fair value of assets and liabilities arising from these derivatives are included, net, in other income in the consolidated statement of income.

The following table depicts the fair value adjustment recorded related to the notional amount of derivatives, not designated as hedging instruments, outstanding as well as the notional amount of the interest rate swap agreements:

Derivatives Not Designated as Hedging Instruments - Interest Rate Swap Agreements			
	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
Fair value adjustment included in other assets			
Fair value adjustment included in other liabilities			
Notional amount			

Derivatives Designated as Hedging Instruments

Arrow entered into two pay-fixed portfolio layer method ("PLM") fair value swaps, designated as hedging instruments, with a total notional amount of \$250 million and \$50 million, respectively, in the third quarter of 2023. Arrow is designating the fair value swaps under PLM. Under PLM, the hedged items are designated as hedged layers of a closed portfolio of financial loans that are anticipated to remain outstanding for the designated hedged period. Adjustments will be made to record the swaps at fair value on the Consolidated Balance Sheets, with changes in fair value recognized in interest income. The carrying value of the fair value swaps on the Consolidated Balance Sheets will also be adjusted through interest income, based on changes in fair value attributable to changes in the hedged risk.

The following table depicts the fair value adjustment recorded related to the notional amount of derivatives, designed as hedging instruments, outstanding as well as the notional amount of the interest rate swap agreements:

Derivatives Designated as Hedging Instruments - Fair Value Agreements			
	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
Fair value adjustment included in other assets			
Fair value adjustment included in other liabilities			
Notional amount			

The following table summarizes the effect of the fair value hedging relationship recognized on the unaudited interim consolidated statement of income:

Derivatives Designated as Hedging Instruments - Fair Value Agreements			
	Six Months Ended	Twelve Months Ended	Six Months Ended
	June 30, 2024	December 31, 2023	June 30, 2023
Hedged Asset			
Fair value derivative designated as hedging instrument			
Total (loss) gain recognized in the consolidated statements of income with interest and fees on loans			

The following table represents the carrying value of the PLM hedged assets and the cumulative fair value hedging adjustment included in the carrying value of the hedged asset:

Derivatives Designated as Hedging Instruments - Fair Value Swap Agreements			
	June 30, 2024	December 31, 2023	June 30, 2023
	September 30, 2024	December 31, 2023	September 30, 2023
Carrying Value of Portfolio Layer Method Hedged Asset			
Cumulative Fair Value Hedging Adjustment			

In the third quarter of 2024, Arrow entered into a forward interest rate swaps agreement which will commence in the first quarter of 2025, designated as hedging instruments, to add stability to interest expense and to manage its exposure to the variability of the future cash flows attributable to the contractually specified interest rates. The notional amount is \$125 million and will synthetically fix the variable rate interest payments. The effective fixed rate is 3.29% until maturity. Arrow entered into pay-fixed interest rate swaps to convert rolling 90 days brokered deposits. The funding will serve as the long-term replacement of the BTFP borrowings at 4.76%, which were replaced with brokered CDs in the fourth quarter at a rate of 4.70%.

The following table indicates the effect of cash flow hedge accounting on AOCI and on the consolidated statement of income.

Derivatives Designated as Hedging Instruments - Cash Flow Hedge Agreements

	Nine Months Ended	Twelve Months Ended	Nine Months Ended
	September 30, 2024	December 31, 2023	September 30, 2023
Fair value adjustment included in other liabilities	\$ 287	\$ —	\$ —
Amount of (loss) recognized in AOCI	(287)	—	—
Amount of loss reclassified from AOCI interest expense	—	—	—

In the fourth quarter of 2023, Arrow entered into two interest rate swaps, designated as hedging instruments, to add stability to interest expense and to manage its exposure to the variability of the future cash flows attributable to the contractually specified interest rates. The notional amounts were \$100 million and \$75 million, respectively. Arrow entered into pay-fixed interest rate swaps to convert rolling 90 days brokered deposits.

For derivatives that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in **Accumulated Other Comprehensive Income ("AOCI")** AOCI and subsequently reclassified into interest expense in the same period during which the hedge transaction affects earnings.

The following table indicates the effect of cash flow hedge accounting on AOCI and on the consolidated statement of income.

Derivatives Designated as Hedging Instruments - Cash Flow Hedge Agreements

	Six Months Ended	Twelve Months Ended	Six Months Ended
	June 30, 2024	December 31, 2023	June 30, 2023
Fair value adjustment included in other assets (liabilities)			
Fair value adjustment included in other liabilities	Nine Months Ended	Twelve Months Ended	Nine Months Ended
	September 30, 2024	December 31, 2023	September 30, 2023
Amount of gain (loss) recognized in AOCI			
Amount of gain reclassified from AOCI interest expense			

In 2019, Arrow entered into interest rate swaps to synthetically fix the variable rate interest payments associated with \$20 million in outstanding subordinated trust securities. These agreements are designated as cash flow hedges.

The following table indicates the effect of cash flow hedge accounting on AOCI and on the consolidated statement of income.

Derivatives Designated as Hedging Instruments - Cash Flow Hedge Agreements

	Nine Months Ended	Twelve Months Ended	Nine Months Ended
	September 30, 2024	December 31, 2023	September 30, 2023
Fair value adjustment included in other assets	\$ 4,501	\$ 4,998	\$ 6,230
Amount of (loss) gain recognized in AOCI	(1,226)	(1,355)	125
Amount of loss reclassified from AOCI to interest expense	729	907	660

For derivatives that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest expense in the same period during which the hedge transaction affects earnings. **Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on Arrow's Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts borrowings.**

The following table indicates the effect of cash flow hedge accounting on AOCI and on the consolidated statement of income.

Derivatives Designated as Hedging Instruments - Cash Flow Hedge Agreements

	Six Months Ended	Twelve Months Ended	Six Months Ended
	June 30, 2024	December 31, 2023	June 30, 2023
Fair value adjustment included in other assets	\$ 5,409	\$ 4,998	\$ 5,142
Amount of loss recognized in AOCI	(73)	(1,355)	(721)
Amount of loss reclassified from AOCI to interest expense	(484)	(907)	(418)

Note 15. SUBSEQUENT EVENTS BRANCH ACQUISITION (In Thousands)

On July 22 2024, Arrow received approval from the Office of the Comptroller of the Currency to combine its two subsidiary banks, GFNB and SNB, into one bank that will be known as Arrow Bank National Association (the "Combination"). The Combination will create operational efficiencies, unify branding and enhance Arrow's ability to pursue its strategic growth objectives. We expect to complete the Combination by December 31, 2024.

On August 2, 2024 GFNB completed the previously announced acquisition of the branch office at 184 Broadway, Whitehall New York (the "Whitehall Branch") from Berkshire Bank Branch. The Whitehall Branch includes deposit accounts with an aggregate approximate balance assets acquired consisted primarily of \$37.5 million and loans, with an aggregate approximate balance of \$3 million. The acquisition includes the as well as branch premises and substantially all of the personal property and equipment used in the operation of the Whitehall Branch. All employees associated with Goodwill of \$1,510 was recognized, reflecting in large part the cost (external/internal) and time savings of not having to build out and establish a new branch and being able to benefit from already existing customer relationships. The fair value of intangible assets acquired, primarily core deposit intangibles, was \$955. The liabilities assumed from the Whitehall Branch acquisition were offered employment with Arrow, primarily deposits.

The following table summarizes the amount of the consideration received for the Whitehall Branch and the amounts of assets acquired and liabilities assumed recognized at the acquisition date.

Total consideration received	\$ 32,307
Total assets acquired	\$ 3,866
Total liabilities assumed	\$ (37,683)
Total Fair Value of Identifiable Net Assets	\$ (33,817)
Goodwill	\$ 1,510

Item 2.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

June September 30, 2024

NOTE ON TERMINOLOGY

In this Report, the terms "Arrow," "the registrant," "the Company," "we," "us," and "our" generally refer to Arrow Financial Corporation and its subsidiaries as a group, except where the context indicates otherwise. At certain points in this Report, Arrow's performance is compared with that of the Company's "peer group" of financial institutions. Unless otherwise specifically stated, the peer group for the purposes of this Report is comprised of the group of 193 190 domestic bank holding companies with \$3 to \$10 billion in total consolidated assets as identified in the FRB's "Bank Holding Company Performance Report" for March 31, 2024 June 30, 2024 (the most recent such report currently available), and peer group data contained herein has been derived from such report.

THE COMPANY AND ITS SUBSIDIARIES

Arrow is a two-bank holding company headquartered in Glens Falls, New York. The banking subsidiaries are GFNB, whose main office is located in Glens Falls, New York, and SNB, whose main office is located in Saratoga Springs, New York. In July 2024, Arrow announced plans to undertake the Unification, which will be legally completed by December 31, 2024. Active subsidiaries of GFNB include Upstate Agency, LLC (an insurance agency that sells property and casualty insurance and also specializes in selling and servicing group health care policies and life insurance), North Country Investment Advisers, Inc. (a registered investment adviser that provides investment advice to Arrow's proprietary mutual funds) and Arrow Properties, Inc. (a real estate investment trust, or REIT). Arrow also owns directly two subsidiary business trusts, organized in 2003 and 2004, which issued trust preferred securities (TRUPs), which are still outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") contains statements that are not historical in nature but rather are based on Arrow's beliefs, assumptions, expectations, estimates and projections about the future. These statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and involve a degree of uncertainty and attendant risk. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "continue," and variations of such words and similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements include statements regarding Arrow's asset quality, the level of allowance for credit losses, the sufficiency of liquidity sources, interest rate change exposure, changes in accounting standards, and Arrow's tax plans and strategies. Some of these statements, such as those included in the interest rate sensitivity analysis in Part I, Item 3, entitled "Quantitative and Qualitative Disclosures About Market Risk," are merely presentations of what future performance or changes in future performance would look like based on hypothetical assumptions and on simulation models. Other forward-looking statements are based on Arrow's general perceptions of market conditions and trends in business activity, both Arrow's and in the banking industry generally, as well as current management strategies for future operations and development.

These forward-looking statements may not be exhaustive, are not guarantees of future performance and involve certain risks and uncertainties that are difficult to quantify or, in some cases, to identify. You should not place undue reliance on any such forward-looking statements. In the case of all forward-looking statements, our actual outcomes and results may differ materially from what the statements predict or forecast. Factors that could cause or contribute to such differences include, but are not limited to the following:

- Market conditions could present significant challenges to the U.S. commercial banking industry and its core business of making and servicing loans and any substantial downturn in the regional markets in which Arrow operates or in the U.S. economy generally could adversely affect Arrow's ability to maintain steady growth in the loan portfolio and earnings.
- A continued period of high inflation could adversely impact our business and our customers.
- Arrow operates in a highly competitive industry and market areas that could negatively affect growth and profitability.
- The financial services industry is faced with technological advances and changes on a continuing basis, and failure to adapt to these advances and changes could have a material adverse impact on Arrow's business.
- Problems encountered by other financial institutions could adversely affect Arrow.
- Any future economic or financial downturn, including any significant correction in the equity markets, may negatively affect the volume of income attributable to, and demand for, fee-based services of banks such as Arrow, including the Company's fiduciary business, which could negatively impact Arrow's financial condition and results of operations.
- Potential complications with the implementation of (i) our new core banking system or (ii) adjustments related to integrating the core systems of our subsidiary banks in connection with the Combination Unification could adversely impact our business and operations.
- Arrow faces continuing and growing security risks to its information base including the information maintained relating to customers, and any breaches in the security systems implemented to protect this information could have a material negative effect on Arrow's business operations and financial condition.
- Business could suffer if Arrow loses key personnel unexpectedly or if employee wages increase significantly.
- Arrow is subject to interest rate risk, which could adversely affect profitability.
- Arrow could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.
- Arrow's allowance for possible credit losses may be insufficient, and an increase in the allowance would reduce earnings.

- Arrow's financial condition and the results of its operations could be negatively impacted by liquidity management.
- The increasing complexity of Arrow's operations presents varied risks that could affect earnings and financial condition.
- We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in a material misstatement of our financial statements.
- The Company relies on the operations of its banking subsidiaries to provide liquidity, which, if limited, could impact Arrow's ability to pay dividends to its shareholders or to repurchase its common stock.
- Capital and liquidity standards require banks and bank holding companies to maintain more and higher quality capital and greater liquidity than has historically been the case.
- Federal banking statutes and regulations could change in the future, which may adversely affect Arrow.
- Non-compliance with the Patriot Act, Bank Secrecy Act, or other anti-money laundering laws and regulations could result in fines or sanctions and restrictions on conducting acquisitions or establishing new branches.
- Arrow, through its banking subsidiaries, is subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.
- Disruption in the continuity, timing and effectiveness of the recent transition in executive management could adversely affect Arrow's business activities, financial conditional and results of operations.

Arrow is under no duty to update any of the forward-looking statements after the date of this Report to conform such statements to actual results. All forward-looking statements, express or implied, included in this Report and the documents incorporated by reference and that are attributable to Arrow are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that Arrow or any persons acting on its behalf may issue. This Report should be read in conjunction with the 2023 Form 10-K and our other filings with the SEC.

USE OF NON-GAAP FINANCIAL MEASURES

The SEC has adopted Regulation G, which applies to certain public disclosures, including earnings releases, made by registered companies that contain "non-GAAP financial measures." GAAP is generally accepted accounting principles in the United States of America. Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure and a statement of Arrow's reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of "non-GAAP financial measures" certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. The following measures used in this Report, which are commonly utilized by financial institutions, have not been specifically exempted by the SEC and may constitute "non-GAAP financial measures" within the meaning of the SEC's rules, although Arrow is unable to state with certainty that the SEC would so regard them.

Tax-Equivalent Net Interest Income and Net Interest Margin: Net interest income, as a component of the tabular presentation by financial institutions of Selected Financial Information regarding their recently completed operations, as well as disclosures based on that tabular presentation, is commonly presented on a tax-equivalent basis. That is, to the extent that some component of the institution's net interest income, which is presented on a before-tax basis, is exempt from taxation (e.g., is received by the institution as a result of its holdings of state or municipal obligations), an amount equal to the tax benefit derived from that component is added to the actual before-tax net interest income total. This adjustment is considered helpful in comparing one financial institution's net interest income to that of another institution or in analyzing any institution's net interest income trend line over time, to correct any analytical distortion that might otherwise arise from the fact that financial institutions vary widely in the proportions of their portfolios that are invested in tax-exempt securities, and from the fact that even a single institution may significantly alter over time the proportion of its own portfolio that is invested in tax-exempt obligations. Moreover, net interest income is itself a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, tax-equivalent net interest income is generally used by financial institutions, again to provide a better basis of comparison from institution to institution and to better demonstrate a single institution's performance over time. Arrow follows these practices.

The Efficiency Ratio: Financial institutions often use an "efficiency ratio" as a measure of expense control. The efficiency ratio typically is defined as the ratio of non-interest expense to net interest income and non-interest income. Net interest income as utilized in calculating the efficiency ratio is typically the same as the net interest income presented in the Selected Financial Information table discussed in the preceding paragraph, i.e., it is expressed on a tax-equivalent basis. Moreover, many financial institutions, in calculating the efficiency ratio, also adjust both non-interest expense and non-interest income to exclude from these items (as calculated under GAAP) certain recurring component elements of income and expense, such as intangible asset amortization (which is included in non-interest expense under GAAP but may be excluded therefrom for purposes of calculating the efficiency ratio) and securities gains or losses (which are reflected in the calculation of non-interest income under GAAP but may be excluded therefrom for purposes of calculating the efficiency ratio). Arrow makes these adjustments.

Tangible Book Value per Share: Tangible equity is total stockholders' equity less intangible assets. Tangible book value per share is tangible equity divided by total shares issued and outstanding. Tangible book value per share is often regarded as a more meaningful comparative ratio than book value per share as calculated under GAAP, that is, total stockholders' equity including intangible assets divided by total shares issued and outstanding. Intangible assets include many items, but in Arrow's case, essentially represents goodwill.

Adjustments for Certain Items of Income or Expense: In addition to our regular utilization in our public filings and disclosures of the various non-GAAP measures commonly utilized by financial institutions discussed above, Arrow may also elect from time to time, in connection with our presentation of various financial measures prepared in accordance with GAAP, such as net income, EPS, return on

average assets (ROA), and return on average equity (ROE), to provide as well certain comparative disclosures that adjust these GAAP financial measures, typically by removing them from the impact of certain transactions or other material items of income or expense that are unusual or unlikely to be repeated. Arrow will do so only if it believes that provision of the resulting non-GAAP financial measures may improve the average investor's understanding of our results of operations by separating out items that have a disproportional positive or negative impact on the particular period in question or by otherwise permitting a better comparison from period-to-period in our results of operations with respect to our fundamental lines of business, including the commercial banking business.

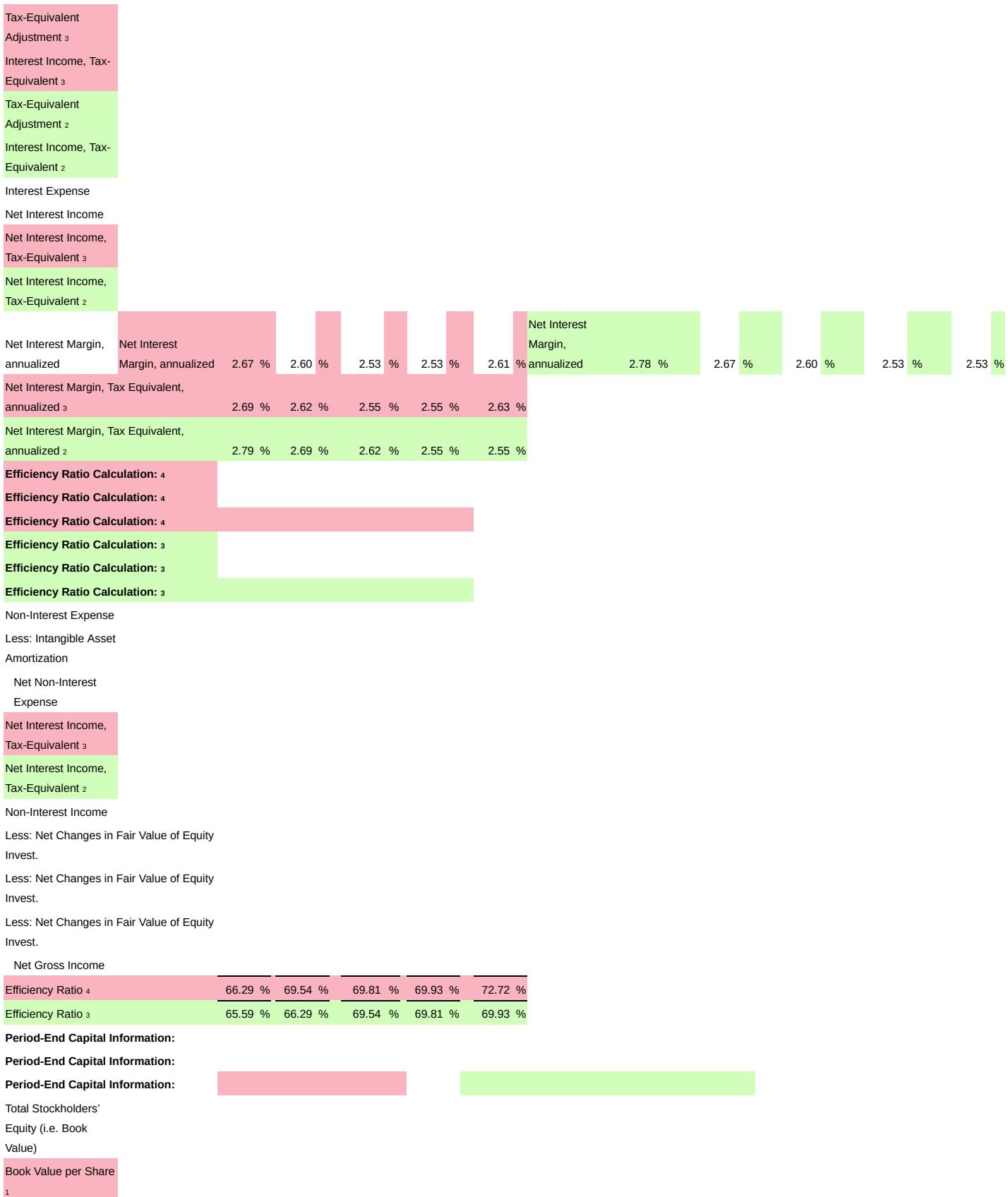
Arrow believes that the non-GAAP financial measures disclosed from time-to-time are useful in evaluating our performance and that such information should be considered as supplemental in nature, and not as a substitute for, or superior to, the related financial information prepared in accordance with GAAP. Non-GAAP financial measures may differ from similar measures presented by other companies.

Arrow Financial Corporation

Selected Quarterly Information

(Dollars In Thousands, Except Per Share Amounts - Unaudited)

Quarter Ended	Quarter Ended	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023	Quarter Ended	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023
Net Income												
Net Changes in Fair Value of Equity Investments (Net of Tax)												
Net Changes in Fair Value of Equity Investments (Net of Tax)												
Net Changes in Fair Value of Equity Investments (Net of Tax)												
Share and Per Share Data:¹												
Share and Per Share Data:												
Share and Per Share Data: ¹												
Share and Per Share Data:												
Share and Per Share Data: ¹												
Share and Per Share Data:												
Period End Shares												
Outstanding												
Basic Average												
Shares Outstanding												
Diluted Average												
Shares Outstanding												
Basic Earnings Per Share												
Diluted Earnings Per Share												
Cash Dividend Per Share												
Selected Quarterly Average Balances:												
Selected Quarterly Average Balances:												
Selected Quarterly Average Balances:												
Interest-bearing Deposits at Banks												
Investment Securities												
Loans												
Deposits												
Other Borrowed Funds												
Stockholders' Equity												
Total Assets												
Return on Average Assets, annualized	Return on Average Assets, annualized	0.82 %	0.73 %	0.74 %	0.75 %	0.59 %	Return on Average Assets, annualized	0.84 %	0.82 %	0.73 %	0.74 %	0.75 %
Return on Average Equity, annualized	Return on Average Equity, annualized	9.15 %	8.12 %	8.42 %	8.47 %	6.64 %	Return on Average Equity, annualized	9.20 %	9.15 %	8.12 %	8.42 %	8.47 %
Return on Average Tangible Equity, annualized ²		9.74 %	8.64 %	8.99 %	9.05 %	7.10 %						
Return on Average Tangible Equity, annualized ¹		9.79 %	9.74 %	8.64 %	8.99 %	9.05 %						
Average Earnings Assets												
Average Paying Liabilities												
Interest Income												



Book Value per Share																			
Goodwill and Other																			
Intangible Assets, net																			
Tangible Book Value per Share ^{1,2}																			
Tangible Book Value per Share ¹																			
Capital Ratios:																			
Capital Ratios:																			
Capital Ratios:																			
Capital Ratios:																			
Capital Ratios:																			
Capital Ratios:																			
Tier 1 Leverage Ratio																			
Tier 1 Leverage Ratio																			
Tier 1 Leverage Ratio	9.74 %	9.63 %	9.84 %	9.94 %	9.92 %	9.78 %	9.74 %	9.63 %	9.84 %	9.94 %									
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital Ratio	12.88 %	12.84 %	13.00 %	13.17 %	13.27 %	Common Equity Tier 1 Capital Ratio	12.77 %	12.88 %	12.84 %	13.00 %	13.17 %							
Tier 1 Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	13.53 %	13.50 %	13.66 %	13.84 %	13.96 %	Tier 1 Risk-Based Capital Ratio	13.41 %	13.53 %	13.50 %	13.66 %	13.84 %							
Total Risk-Based Capital Ratio	Total Risk-Based Capital Ratio	14.57 %	14.57 %	14.74 %	14.94 %	15.08 %	Total Risk-Based Capital Ratio	14.46 %	14.57 %	14.57 %	14.74 %	14.94 %							

Assets Under Trust Admin. &

Investment Mgmt.

Assets Under Trust Admin. &

Investment Mgmt.

Assets Under Trust Admin. &

Investment Mgmt.

Arrow Financial Corporation
Selected Quarterly Information - Continued

(Dollars In Thousands, Except Per Share Amounts - Unaudited)

Footnotes:

1.

Share and Per Share Data have been restated for the September 26, 2023, 3% stock dividend.

2.

Non-GAAP Financial Measures Reconciliation: Tangible Book Value, Tangible Equity and Return on Tangible Equity exclude goodwill and other intangible assets, net from total equity. These are non-GAAP financial measures which Arrow believes provide investors with information that is useful in understanding our financial performance. See "Use of Non-GAAP Financial Measures" on page 49.

1.

Non-GAAP Financial Measures Reconciliation: Tangible Book Value, Tangible Equity and Return on Tangible Equity exclude goodwill and other intangible assets, net from total equity. These are non-GAAP financial measures which Arrow believes provide investors with information that is useful in understanding our financial performance. See "Use of Non-GAAP Financial Measures" on page 49.

6/30/2024 3/31/2024 12/31/2023 9/30/2023 6/30/2023

	<u>9/30/2024</u>	<u>6/30/2024</u>	<u>3/31/2024</u>	<u>12/31/2023</u>	<u>9/30/2023</u>
Total					
Stockholders' Equity (GAAP)					
Less: Goodwill and Other					
Intangible assets, net					

Tangible Equity (Non-GAAP)							
Period End Shares Outstanding							
Period End Shares Outstanding							
Period End Shares Outstanding							
Tangible Book Value per Share (Non-GAAP)							
Net Income							
Return on Average Tangible Equity (Net Income/Tangible Equity - Annualized)	Return on Average Tangible Equity (Net Income/Tangible Equity - Annualized)	9.74 %	8.64 %	8.99 %	9.05 %	7.10 %	9.79 %
3.							9.
3.							
3.	Non-GAAP Financial Measures Reconciliation: Net Interest Margin, Tax-Equivalent is the ratio of our annualized tax-equivalent net interest income to average earning assets. This is also a non-GAAP financial measure which Arrow believes provides investors with information that is useful in understanding our financial performance. See "Use of Non-GAAP Financial Measures" on page 49.						
		<u>6/30/2024</u>	<u>3/31/2024</u>	<u>12/31/2023</u>	<u>9/30/2023</u>	<u>6/30/2023</u>	
2.							
2.	Non-GAAP Financial Measures Reconciliation: Net Interest Margin, Tax-Equivalent is the ratio of our annualized tax-equivalent net interest income to average earning assets. This is also a non-GAAP financial measure which Arrow believes provides investors with information that is useful in understanding our financial performance. See "Use of Non-GAAP Financial Measures" on page 49.						
		<u>9/30/2024</u>	<u>6/30/2024</u>	<u>3/31/2024</u>	<u>12/31/2023</u>	<u>9/30/2023</u>	
Interest Income (GAAP)							
Add: Tax- Equivalent adjustment (Non-GAAP)							
Interest Income - Tax Equivalent (Non-GAAP)							
Net Interest Income (GAAP)							
Add: Tax- Equivalent adjustment (Non-GAAP)							
Net Interest Income - Tax Equivalent (Non-GAAP)							
Average Earning Assets							
Net Interest Margin (Non- GAAP)*	Net Interest Margin (Non- GAAP)*	2.69 %	2.62 %	2.55 %	2.55 %	2.63 %	2.79 %
3.							2.



Average Consolidated Balance Sheets and Net Interest Income Analysis

(Dollars In Thousands)

(Dollars In Thousands)

(Dollars In Thousands)

Quarter Ended June 30:

Quarter Ended June 30:

Quarter Ended June 30: 2024 2023

Quarter Ended September 30:

Quarter Ended September 30:

Quarter Ended September 30: 2024 2023

Interest-Bearing Deposits at Banks

	Interest	Interest	Rate	Interest	Interest	Rate	Interest	Interest	Rate	Interest
	Average Balance	Average Balance	Income/Expense	Earned/Paid	Average Balance	Income/Expense	Earned/Paid	Average Balance	Income/Expense	Earned/Paid
Interest-Bearing Deposits at Banks										

Investment

Securities:

Fully Taxable

Fully Taxable

Fully Taxable

Exempt from

Federal

Taxes

Loans (1)

Total Earning

Assets (1)

Allowance for

Credit Losses

Cash and Due From

Banks

Cash and Due From

Banks

Cash and Due From

Banks

Other Assets

Other Assets

Other Assets

Total Assets

Total Assets

Total Assets

Deposits:

Deposits:

Deposits:

Interest-Bearing

Checking Accounts

Interest-Bearing

Checking Accounts

Interest-Bearing

Checking Accounts

Savings

Deposits

Time

Deposits of

\$250,000 or

More

Other Time

Deposits

Total

Interest-

Bearing

Deposits

Borrowings

Junior

Subordinated

Obligations

Issued to

Unconsolidated

Subsidiary

Trusts

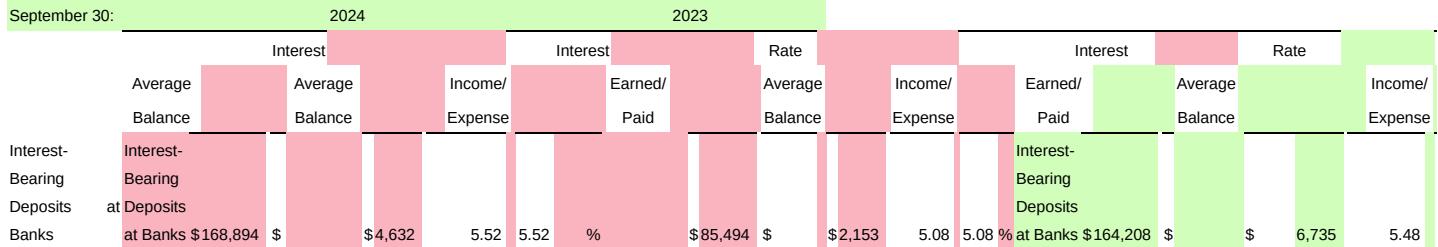
The chart illustrates the components of Net Interest Margin (NIM) and Net Interest Income (NI) across different asset and liability categories. The total NIM is 1.92%, which is composed of Net Interest Income (2.78%) and Net Interest Margin (2.53%).

Category	Sub-Category	Value	Color
Total Liabilities	Interest-bearing Liabilities	2.04 %	Pink
	Noninterest-bearing Deposits	2.11 %	Light Green
	Total Liabilities	2.12 %	Light Green
	Total Liabilities	2.67 %	Pink
Total Assets	Interest-bearing Liabilities	2.61 %	Light Green
	Noninterest-bearing Deposits	2.78 %	Light Blue
	Total Assets	2.78 %	Light Blue
	Total Assets	2.53 %	Yellow
Net Interest Income	Net Interest Income	2.78 %	Light Blue
	Net Interest Income	2.78 %	Light Blue
Net Interest Margin	Net Interest Margin	2.53 %	Yellow
	Net Interest Margin	2.53 %	Yellow

Average Consolidated Balance Sheets and Net Interest Income Analysis

Six Months Ended June
30:
Six Months Ended June
30:

Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
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September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:
Nine Months Ended
September 30:



Investment Securities:

Fully Taxable

Fully Taxable

Fully Taxable

Exempt from Federal Taxes

Loans (1)

Total Earning

Assets (1)

Allowance for Credit Losses

Cash and Due From Banks

Cash and Due From Banks

Cash and Due From Banks

Other Assets

Other Assets

Other Assets

Total Assets

Total Assets

Deposits:

Deposits:

Deposits:

Interest-Bearing

Checking Accounts

Interest-Bearing

Checking Accounts

Interest-Bearing

Checking Accounts

Savings

Deposits

Time Deposits

of \$250,000 or

More

Other Time

Deposits

Total Interest-

Bearing

Deposits

Short-Term

Borrowings

FHLBNY Term

Advances &

Other Long-

Term Debt

Borrowings

Junior

Subordinated

Obligations

Issued to

Unconsolidated

Subsidiary

Trusts

Finance

Leases

Total Interest-

Bearing

Liabilities

Noninterest-

bearing

deposits

Noninterest-

Bearing

Deposits

Other Liabilities

Other Liabilities

Other Liabilities

Total Liabilities

Total Liabilities

Total Liabilities

Stockholders' Equity

Stockholders' Equity

Stockholders' Equity

Total Liabilities and

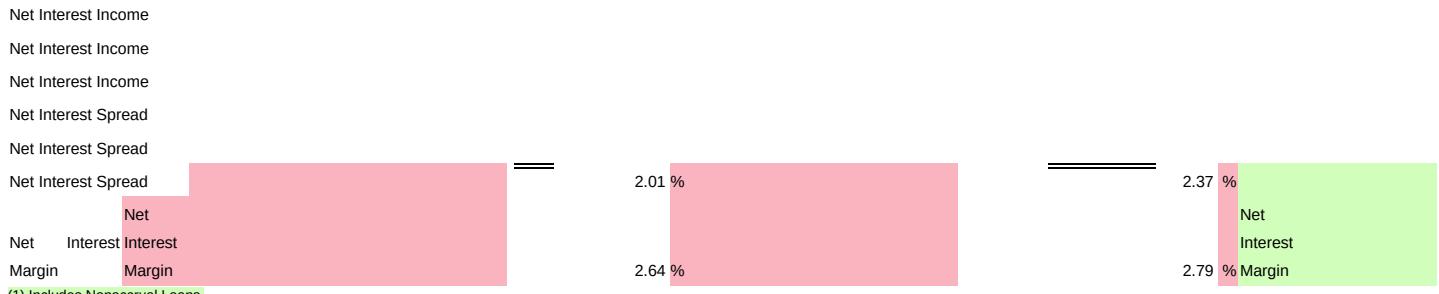
Stockholders' Equity

Total Liabilities and

Stockholders' Equity

Total Liabilities and

Stockholders' Equity



(1) Includes Nonaccrual Loans.

OVERVIEW

The following discussion and analysis focuses on and reviews the results of operations for the three-month period ended **June 30, 2024** **September 30, 2024** and the financial conditions as of **June 30, 2024** **September 30, 2024** and 2023. The discussion below should be read in conjunction with the selected quarterly and annual information set forth above and the Unaudited Interim Consolidated Financial Statements and other financial data presented elsewhere in this Report. When necessary, prior-year financial information has been reclassified to conform to the current-year presentation.

Summary of Q2 Q3 2024 Financial Results: Net income for the **second** **third** quarter of 2024 was **\$8.6 million** **\$9.0 million**, increasing from **\$7.7 million** in the first quarter of 2024 and **\$6.0 million** **\$8.6 million** in the second quarter of 2024 and **\$7.7 million** in the third quarter of 2023. As compared to the prior quarter, net income benefited from an increase of **\$0.7 million** **\$1.3 million** in net interest income, as well as a decrease partially offset by an increase in non-interest expense of **\$0.7 million** **\$0.8 million**. As compared to the **second** **third** quarter of 2023, net income growth was driven by an increase in net interest income increased **\$1.4 million**. Non-interest income increased **\$1.0 million** and of **\$3.1 million**, partially offset by an increase in non-interest expense decreased **\$0.8 million** of **\$0.6 million**.

Net interest income for the **second** **third** quarter of 2024 was **\$27.2 million** **\$28.4 million**, increasing **2.6%** **4.7%** from **\$26.5 million** **\$27.2 million** for the **first** **second** quarter of 2024 and increasing **5.4%** **12.2%** from **\$25.8 million** **\$25.4 million** in the **second** **third** quarter of 2023. Total interest and dividend income was **\$48.0 million** **\$49.4 million** for the **second** **third** quarter of 2024, an increase from **\$46.7 million** **\$48.0 million** in the **first** **second** quarter of 2024 and from **\$40.0 million** **\$42.1 million** for the **second** **third** quarter of 2023. These increases were primarily driven by loan growth and higher loan rates. yields. Interest expense for the **third** quarter of 2024 was **\$21.0 million**, an increase from **\$20.8 million** for the **second** **third** quarter of 2024 was **\$20.8 million**, an increase and from **\$20.2 million** **\$16.8 million** for the **first** **second** quarter of 2024 and from **\$14.2 million** for the **second** **third** quarter of 2023. The increases for both comparison periods were increase from the prior year was driven primarily by higher deposit rates and changes in deposit composition.

Net interest margin, on a tax-equivalent an FTE basis (non-GAAP measure), for the **second** **third** quarter of 2024 was **2.69%** **2.79%** compared to **2.62%** for the **first** **second** quarter of 2024 and **2.63%** **2.69%** for the **second** **third** quarter of 2023. See the disclosure on page 49 related to the use of non-GAAP financial measures, including net interest margin, 2024 and Footnote 3 to the Selected Quarterly Information 2.55% for the reconciliation to GAAP, third quarter of 2023. The increase in net interest margin compared to the **first** **second** quarter in 2024 was primarily the result of continued yield expansion on earning assets combined with the moderating increase in the cost of interest-bearing liabilities. As compared to the **second** **third** quarter of 2023, the increase in net interest margin was primarily the result of yield on average earning assets increasing at a faster pace than costs of interest-bearing liabilities. Net interest margin is affected by deposits continuing to migrate to higher costs costing products, such as money market savings and time deposits. See the disclosure on page 49 related to the use of non-GAAP financial measures, including net interest margin, on an FTE basis, and Footnote 2 to the Selected Quarterly Information for the reconciliation to GAAP.

For the **second** **third** quarter of 2024, the provision for credit losses was **\$0.8 million** **\$0.9 million** compared to **\$0.6 million** **\$0.8 million** in the **first** **second** quarter of 2024 and **\$0.9 million** **\$0.4 million** in the **second** **third** quarter of 2023. The key drivers for the provision for credit losses in the **second** **third** quarter of 2024 were loan growth and replenishment of the allowance for charge-offs, partially offset by growth in loan balances and changes to the economic forecast factors embedded in the credit loss allowance model.

Non-interest income for the three months ended **June 30, 2024** **September 30, 2024**, was **\$8.1 million**, an increase from **\$7.9 million** in the **second** **third** quarter of 2024 and consistent with the **first** **third** quarter of 2023. The increases from the prior periods are primarily the result of the resumption of loan sales from current loan originations, higher wealth management fees resulting from improved market valuations of assets under management and increased insurance commissions resulting from the acquisition of the assets of A&B Agency, Inc (the "A&B Acquisition"). The third quarter of 2023 included one-time proceeds from bank-owned life insurance in other income.

Non-interest expense for the **third** quarter of 2024 was **\$24.1 million**, an increase from **\$23.3 million** in the **second** **third** quarter of 2024 and an increase from **\$6.9 million** in the **second** **third** quarter of 2023, primarily due to the other investment income and a small gain on a sale leaseback transaction.

Non-interest expense **\$23.5 million** for the **second** **third** quarter of 2024 was **\$23.3 million**, a decrease from **\$24.0 million** in the **first** **second** quarter of 2024 and from **\$24.1 million** for the **second** **third** quarter of 2023. The decrease increase from the prior quarter and year was primarily due attributable to elimination of elevated legal and professional one-time non-core expenses related to the delayed filings acquisition of a bank branch located in 2023, Whitehall, New York (the "Whitehall Branch") and the A&B Acquisition.

The provision for income taxes was and effective tax rate were **\$2.6 million** and **22.2%**, for the **third** quarter of 2024, **\$2.3 million** and **21.2%**, or **\$2.3 million**, for the **second** **third** quarter of 2024 **20.9%**, or **\$2.0 million** and **19.1%**, for the **first** **third** quarter of 2024 and **20.9%**, or **\$1.6 million**, for 2023. The increase in the **second** **third** quarter of 2023.

Total assets were **\$4.2 billion** at **June 30, 2024**, a decrease of **\$89.2 million**, or **2.1%**, as compared to **March 31, 2024** and an increase of **\$140.8 million**, or **3.4%**, as compared to **June 30, 2023**. For effective tax rate from the **second** **third** quarter of 2024 overall was primarily attributable to a decrease in the amount of tax advantaged earning assets as a percentage of total earning assets, while the increase in the effective tax rate from the **third** quarter of 2023 was primarily due to a change in pre-tax income combined with a decrease in the amount of tax advantaged earning assets as a percentage of total earning assets.

Total assets were **\$4.4 billion** at **September 30, 2024**, an increase of **\$167.0 million**, or **3.9%**, as compared to **June 30, 2024** and an increase of **\$138.5 million**, or **3.2%**, as compared to **September 30, 2023**. For the **third** quarter of 2024, overall growth in the balance sheet was attributable to seasonal changes in cash balances, offset by primarily seasonal municipal deposits, as well as growth in the loan portfolio.

Total investments were **\$556.4 million** **\$549.8 million** as of **June 30, 2024** **September 30, 2024**, a decrease of **\$63.6 million** **\$6.6 million**, or **10.3%** **1.2%**, compared to **March 31, 2024** **June 30, 2024** and a decrease of **\$137.6 million** **\$117.0 million**, or **19.8%** **17.6%**, compared to **June 30, 2023** **September 30, 2023**. The decrease from **March 31, 2024** **June 30, 2024** was driven primarily by paydowns and maturities. The change decrease from **June 30, 2023** **September 30, 2023** was also driven by paydowns and maturities as well as the fourth quarter 2023 repositioning of the investment portfolio, reducing which reduced the portfolio by approximately \$25 million at the time of the transaction. There were no credit quality issues related to the investment portfolio.

Total loans reached were **\$3.3 billion** as of **June 30, 2024** **September 30, 2024**. Loan growth for the **second** **third** quarter of 2024 was **\$57.6 million** **\$24.2 million**, and **\$245.3 million** **\$201.2 million** since **June 30, 2023** **September 30, 2023**. Loan growth was spread across all loan products products.

The allowance for credit losses was **\$31.0 million** as At **September 30, 2024**, deposit balances were **\$3.8 billion**, an increase of **\$153.8 million** from **June 30, 2024**, which represented **0.94%** and an increase of loans outstanding, as compared to **\$31.6 million**, or **0.97%**, at **March 31, 2024** and **\$31.2 million**, or **1.02%**, at **June 30, 2023**. Net charge-offs, expressed as an annualized percentage of average loans outstanding, were **0.16%** for the three-month period ended **June 30, 2024**, as compared to **0.04%** for the three-month period ended **March 31, 2024** and **0.07%** for the three-month period ended **June 30, 2023**. Nonperforming assets were **\$21.3 million** as of **June 30, 2024**, representing **0.50%** of period-end assets, consistent with **0.50%** at **March 31, 2024** and up **\$171.0 million** from **0.17%** at **June 30, 2023** **September 30, 2023**. The increase from the **second** **third** quarter of 2023 was primarily due to one large, well collateralized loan relationship of approximately **\$15 million**, which moved into non-performing status during the fourth quarter of 2023.

At June 30, 2024, deposit balances were \$3.7 billion, a decrease of \$95.4 million from March 31, 2024 and an increase of \$181.4 million from June 30, 2023. The decrease from the first quarter was primarily attributable to the seasonality of municipal and corporate deposits expected and to normalize in a lesser degree the third quarter Whitehall acquisition. The increase from June 30, 2023 September 30, 2023 was partially attributable to \$175 million of brokered certificates of deposit ("CDs"), CDs, primarily used to reduce borrowings by \$160 million. Arrow simultaneously entered into three-year interest rate swaps to strategically manage its asset-liability profile and cost of funds. Please refer to page 6 for further details related to deposits.

¹Excludes both \$0.4 million fair value hedge adjustment at June 30, 2024 and \$1.2 million fair value hedge adjustment at March 31, 2024

²Charge-offs for 2Q24 included 0.09% related to a previously specifically reserved amount for overdraft balances relating to one customer relationship

fund continued loan growth.

The changes in net income, net interest income and net interest margin between the three-month and six-month nine-month periods are discussed in detail under the heading "RESULTS OF OPERATIONS," beginning on page 70.

¹Includes both \$6.5 million fair value hedge adjustment at September 30, 2024 and \$0.4 million fair value hedge adjustment at June 30, 2024

Regulatory Capital and Change in Stockholders' Equity: At June 30, 2024 September 30, 2024, Arrow continued to exceed all required minimum capital ratios under the current bank regulatory capital rules (the "Capital Rules") as implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") at both the holding company and bank levels. At that date, both subsidiary banks continued to qualify as "well-capitalized" under the capital classification guidelines as defined by the Capital Rules. Because of continued profitability and strong asset quality, the regulatory capital levels throughout recent years have consistently remained well in excess of the various required regulatory minimums in effect from time to time, as they do at present.

Stockholders' equity was \$383.0 million \$393.3 million at June 30, 2024 September 30, 2024, an increase of \$3.2 million \$13.5 million, or 0.9% 3.6%, from the December 31, 2023 level of \$379.8 million. The increase in stockholders' equity over the first six months of 2024 principally reflected the following factors: the addition of (i) \$16.3 million \$25.2 million of net income for the period, and (ii) other comprehensive gain \$1.8 million of \$7.4 million, and (iii) the issuance of \$0.7 million \$0.9 million of common stock through employee benefit and dividend reinvestment plans, reduced by (iv) cash dividends of \$9.1 million \$13.6 million and (v) repurchases of common stock of \$6.5 million. The components of the change in stockholders' equity since year-end 2023 are presented in the Consolidated Statements of Changes in Stockholders' Equity on page 6, and are discussed in more detail in the next section.

At June 30, 2024 September 30, 2024, book value per share was \$22.90 \$23.50, up 8.0% 11.3% over the prior-year level. Tangible book value per share (a non-GAAP measure that deducts intangible assets from stockholders' equity) was \$21.54 \$21.95, an increase of \$1.70 \$2.19, or 8.6% 11.1%, over the level as of June 30, 2023 September 30, 2023. See the disclosure on page 49 related to the use of non-GAAP financial measures, including tangible book value, and Footnote 2 to the Selected Quarterly Information for the reconciliation to GAAP.

On June 30, 2024 September 30, 2024, Arrow's closing stock price was \$26.05 \$28.66 per share, representing a trading multiple of 1.21 1.31 to tangible book value per share. In the second third quarter of 2024, Arrow paid a quarterly cash dividend of \$0.27 \$0.27 per share. Further discussion of dividends is included in the Capital Components; Stock Repurchases; Dividends section located on page 68.

Loan Quality: Net charge-offs for the second third quarter of 2024 were \$1.3 million \$0.7 million as compared to \$562 thousand \$0.4 million for the comparable 2023 quarter. The ratio of net charge-offs to average loans (annualized) was 0.16% 0.08% for the three month period ended June 30, 2024 September 30, 2024, an increase from 0.07% with 0.05% as compared to the three month period ended June 30, 2023 September 30, 2023.

For the second third quarter of 2024, the provision for credit losses was \$775 \$934 thousand and a credit an expense for estimated credit losses on off-balance sheet credit exposures was \$153 \$234 thousand. The allowance for credit losses was \$31.0 million \$31.3 million on June 30, 2024 September 30, 2024, which represented 0.94% of loans outstanding, as compared to 1.02% 0.99% on June 30, 2023 September 30, 2023.

Nonperforming loans were \$21.1 million \$21.9 million at June 30, 2024 September 30, 2024, representing 0.64% 0.66% of period-end loans, an increase from the June 30, 2023 September 30, 2023 ratio of 0.21% 0.20% and a decrease was unchanged from the March 31, 2024 ratio of 0.66% December 31, 2023. The ratio continues to reasonably compare with the weighted average ratio of the peer group of 0.53% 0.54% at March 31, 2024 June 30, 2024. Nonperforming assets of \$21.3 million \$22.3 million at June 30, 2024 September 30, 2024 represented 0.50% 0.51% of period-end assets up from 0.17% 0.16% at June 30, 2023 September 30, 2023. The increase in delinquent loans from the prior year is primarily attributable to one commercial loan relationship moving to non-performing status during the fourth quarter of 2023.

Loan Segments: As of June 30, 2024 September 30, 2024, total loans grew by \$102.6 million \$127.0 million, or 3.2% 4.0%, as compared to the balance at December 31, 2023. The largest increase was in the residential real estate loan portfolio which increased \$55.9 million \$93.9 million, or 4.7% 7.8%. Consumer loans increased \$27.1 million \$8.6 million, or 2.4% 0.8%, primarily comprised of automobile loans. Commercial and commercial real estate loans increased by \$19.6 million \$24.6 million, or 2.2% 2.7%, from December 31, 2023.

- Commercial and Commercial Real Estate Loans:** Combined, these loans comprise 27.8% 27.7% of the total loan portfolio at period-end. Commercial property values in Arrow's region have largely remained stable, however, there remains uncertainty surrounding market conditions due to inflation and the rising interest rate environment. Appraisals on nonperforming and watched commercial real estate loan properties are updated as deemed necessary, usually when the loan is downgraded or when there has been significant market deterioration since the last appraisal.
- Consumer Loans:** These loans (primarily automobile loans) comprised 34.4% 33.6% of the total loan portfolio at period-end. Consumer automobile loans at June 30, 2024 September 30, 2024, were 99.6% of this portfolio segment. The vast majority of automobile loans are initiated through the purchase of vehicles by consumers through automobile dealers. As of June 30, 2024 September 30, 2024, volume and growth have been relatively stable year over year. Inflation and higher rates may continue to limit the potential growth in this category.
- Residential Real Estate Loans:** These loans, including home equity loans, made up 37.9% 38.7% of the total loan portfolio at period-end. Demand for residential real estate has continued but weakened as interest rates have increased. A continuous elevated rate environment may impact future demand. Arrow originated nearly all of the residential real estate loans currently held in the loan portfolio and applies conservative underwriting standards to loan originations. In the third quarter of 2024, Arrow has historically sold resumed selling a portion of residential real estate mortgage originations into the secondary market. The ratio of the sales of originations to total originations tends to fluctuate from period to period based on market conditions and other factors. The rate at which mortgage loan originations are sold in future periods will depend on various circumstances, including prevailing mortgage rates, other lending opportunities, capital and liquidity needs, and the availability of a market for such transactions.

Liquidity and Access to Credit Markets: Arrow has not experienced any liquidity events or special concerns in recent years or thus far in 2024. Arrow's liquidity position provides the necessary flexibility to address any unexpected near-term liquidity needs. Interest-bearing cash balances at June 30, 2024 September 30, 2024 were \$169.8 million \$286.1 million compared to \$139.8 million \$255.0 million at June 30, 2023 September 30, 2023. Contingent lines of credit are also available. Operating collateralized lines of credit are established and available through the FHLBNY, FRB and other bank lines totaling approximately \$1.3 billion. The general terms of Arrow's lines of credit have not changed significantly in recent periods (see the general liquidity discussion on page 68).

Historically, Arrow has principally relied on asset-based liquidity (i.e., funds in overnight investments and cash flow from maturing investments and loans) with liability-based liquidity as a secondary source of funds.

the (the main liability-based sources are an overnight borrowing arrangement with correspondent banks, an arrangement for overnight borrowing and term credit advances from the FHLBNY, and an additional arrangement for short-term advances at the FRB

discount window). Regular liquidity stress tests and tests of the contingent liquidity plan are performed to ensure that an adequate amount of available funds can be generated to meet a wide variety of potential liquidity crises.

Visa Class B Common Stock: In the fourth quarter of 2023, Arrow's subsidiary bank, GFNB, sold all 27,771 shares of Visa Class B common stock it previously held for a pre-tax gain of \$9.3 million. The gain was used to offset a pre-tax loss of \$9.2 million related to the sale of securities with a amortized cost basis of approximately \$110 million. The sale of securities was driven by the strategic decision to reposition the investment portfolio to higher yielding investments producing an improved interest income run-rate.

Branch Acquisition: On August 2, 2024 GFNB completed the previously announced acquisition of the Whitehall Branch from Berkshire Bank, a subsidiary of Berkshire Hills Bancorp, Inc. The Whitehall Branch includes deposit accounts with an aggregate approximate balance of \$37.5 million and loans with an aggregate approximate balance of \$3 million. The acquisition includes the branch premises and substantially all of the personal property and equipment used in the operation of the Whitehall Branch. All employees associated with the Whitehall Branch were offered employment with Arrow. See footnote 15 for additional details of the acquisition.

Subsidiary Bank Combination Unification: On July 22 2024, Arrow received approval from the Office of the Comptroller of the Currency to complete the Combination, Unification, combining its two subsidiary banks, GFNB and SNB, into one bank that will be known as Arrow Bank National Association. The Combination Unification will create long term operational efficiencies, unify branding and enhance Arrow's ability to pursue its strategic growth objectives. We expect to complete the Combination Unification by December 31, 2024.

A&B Acquisition: On July 1, 2024, Arrow expanded our insurance business with the strategic acquisition of the assets of A&B Agency, Inc.

CHANGE IN FINANCIAL CONDITION

Summary of Selected Consolidated Balance Sheet Data
(Dollars in Thousands)

		At Period-End									
		6/30/2024	6/30/2024								
		6/30/2024	12/31/2023	6/30/2023		\$ Change	From December	\$ Change	From June	% Chan	From
		9/30/2024	9/30/2024	9/30/2023		\$ Change	From December	\$ Change	From June	% Chan	Decem
		9/30/2024	9/30/2024	9/30/2023		\$ Change	From December	\$ Change	From June	% Chan	(not annualiz
Interest-Bearing Bank Balances	Interest-Bearing Bank Balances	\$ 169,826	\$ 105,781	\$ 139,798		\$ 64,045	\$ (46,983)	\$ 30,028	\$ 60,5	60.5	From Decem
Securities Available-for-Sale	Securities Available-for-Sale	450,786	497,769	497,769	543,708	(46,983)	(46,983)	(92,922)	(92,922)	(9.4)	(not annualiz
Securities Held-to-Maturity	Securities Held-to-Maturity	99,348	131,395	131,395	143,460	(32,047)	(32,047)	(44,112)	(44,112)	(24.4)	From Decem
Equity Securities	Equity Securities	1,996	1,925	1,925	1,889	71	71	107	107	3.7	(not annualiz
Loans (1)	Loans (1)	3,315,523	3,212,908	3,212,908	3,069,897	102,615	102,615	245,626	245,626	3.2	From Decem
Allowance for Credit Losses	Allowance for Credit Losses	31,009	31,265	31,265	31,170	(256)	(256)	(161)	(161)	(0.8)	(not annualiz

Earning Assets (1)	Earning Assets (1)	4,041,753	3,954,827	3,954,827	3,903,684	3,903,684	86,926	138,069	138,069	2.2
Total Assets	Total Assets	\$ 4,244,407	\$ 4,169,868	\$ 4,169,868	\$ 4,103,653	\$ 74,539	\$ 86,926	\$ 140,754	\$ 140,754	1.8
Noninterest-Bearing Deposits	Noninterest-Bearing Deposits	\$ 704,707	\$ 758,425	\$ 758,425	\$ 759,495	\$ (53,718)	\$ 86,926	\$ (54,788)	\$ (54,788)	(7.1)
Interest-Bearing Checking Accounts	Interest-Bearing Checking Accounts	856,788	799,785	799,785	856,016	856,016	57,003	772	772	7.1
Savings Deposits	Savings Deposits	1,446,821	1,466,280	1,466,280	1,517,937	1,517,937	(19,459)	(19,459)	(19,459)	(1.3)
Time Deposits over \$250,000	Time Deposits over \$250,000	173,526	179,301	179,301	140,694	140,694	(5,775)	32,832	32,832	(3.2)
Other Time Deposits	Other Time Deposits	501,797	483,775	483,775	228,082	228,082	18,022	273,715	273,715	3.7
Total Deposits	Total Deposits	\$ 3,683,639	\$ 3,687,566	\$ 3,687,566	\$ 3,502,224	\$ (3,927)	\$ 181,415	\$ (65,300)	\$ (65,300)	(0.1)
Borrowings	Borrowings	\$ 106,500	\$ 26,500	\$ 26,500	\$ 171,800	\$ 171,800	\$ 80,000	\$ 301.9	\$ 301.9	(0.1)
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts										
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts										
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts										
Stockholders' Equity	Stockholders' Equity	383,018	379,772	379,772	361,443	361,443	3,246	21,575	21,575	0.9

(1) Includes Nonaccrual Loans.

Changes in Earning Assets: The loan portfolio at **June 30, 2024** September 30, 2024, was \$3.3 billion, an increase of **\$102.6 million** \$127.0 million, or **3.2% 4.0%**, from the December 31, 2023 level and up by **\$245.6 million** \$201.3 million, or **8.0% 6.4%**, from the **June 30, 2023** September 30, 2023 level. The following trends were experienced in our largest segments:

- **Commercial and commercial real estate loans:** This segment of the loan portfolio increased by **\$19.6 million** \$24.6 million, or **2.2% 2.7%**, during the first **six nine** months of 2024. In the first **six nine** months of 2024, loan growth has slowed as a result of the current rate environment.
- **Consumer loans (primarily automobile loans through indirect lending):** As of **June 30, 2024** September 30, 2024, these loans, primarily auto loans originated through dealerships in New York and Vermont, increased by **\$27.1 million** \$8.6 million, or **2.4% 0.8%**, from the December 31, 2023 balance. Inflation and rising rates may continue to slow demand.
- **Residential real estate loans:** This segment increased during the first **six nine** months of 2024 by **\$55.9 million** \$93.9 million, or **4.7% 7.8%**. **A** Loan growth continues to be solid however a deterioration of economic conditions may trigger a reduction in loan production for the remainder of the year.

Changes in Sources of Funds: Deposit balances reached **\$3.7 billion** \$3.8 billion, an increase of **\$181.4 million** \$171.0 million, or **5.2% 4.7%**, from the prior-year level and a **decrease** an increase of **\$3.9 million** \$149.9 million from December 31, 2023. The increase from **June 30, 2023** September 30, 2023 was partially attributable to \$175 million of brokered CDs primarily used to reduce borrowings by \$160 million. **fund continued loan growth.** Noninterest-bearing deposits represented **19.1% 19.3%** of total deposits at **June 30, 2024** September 30, 2024, compared to **21.7% 21.8%** of total deposits on **June 30, 2023** September 30, 2023. At **June 30, 2024** September 30, 2024, total time deposits were **\$675.3 million** \$677.1 million. Municipal deposits decreased **\$17.7 million** \$43.2 million, or **2.0% 4.4%** from **June 30, 2023** September 30, 2023. Total borrowings were **\$106.5 million** \$103.6 million, an increase a decrease from **\$171.8 million** \$174.3 million at **June 30, 2023** September 30, 2023. In the first quarter of 2024, Arrow borrowed \$100 million as part of the BTFF to improve on-balance sheet liquidity and fund loan production. The BTFF was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. **In the third quarter, Arrow paid down \$5 million of the balance outstanding and replaced the remaining \$95 million in the fourth quarter with lower cost brokered CDs.**

Municipal Deposits: Fluctuations in balances of interest-bearing checking accounts are often the result of timing and behavior of municipal deposits. Municipal deposits have historically averaged between 20% to 30% of total deposits. Municipal deposits are typically placed in interest-bearing checking, savings and various time deposit accounts.

In general, there is a seasonal pattern to municipal deposits which dip to a low point in August each year. Account balances tend to increase throughout the fall and into early winter from tax deposits, flatten out after the beginning of the ensuing calendar year, and increase again at the end of March from the electronic deposit of NYS aid payments to school districts. In addition to seasonal

behavior, the overall level of municipal deposit balances fluctuates from year-to-year as a result of local economic factors as well as competition from other banks and non-bank entities.

Arrow uses reciprocal deposits for a select group of municipalities to reduce the amount of investment securities required to be pledged as collateral for municipal deposits where municipal deposits in excess of the FDIC insurance coverage limits were transferred to other participating banks, divided into portions so as to qualify such transferred deposits for FDIC insurance coverage at each transferee bank. In return, reciprocal amounts are transferred to Arrow in equal amounts of deposits from the participant banks. The balances of reciprocal deposits were **\$629.9 million** **\$700.6 million** and **\$603.5 million** **\$618.9 million** at **June 30, 2024** **September 30, 2024** and **June 30, 2023** **September 30, 2023**, respectively.

Uninsured Deposits: Arrow's deposit base includes both insured and uninsured deposits. Arrow continually monitors levels and composition of uninsured deposits. Uninsured deposit balances at **June 30, 2024** **September 30, 2024** were less than 30% of the total deposit base.

FINANCIAL CONDITION

Investment Portfolio Trends

The table below presents the changes in the period-end balances for available-for-sale, held-to-maturity and equity securities from December 31, 2023 to **June 30, 2024** **September 30, 2024** (in thousands):

	(Dollars in Thousands)					
	Fair Value at Period-End		Fair Value at Period-End		Net Unrealized Gains (Losses) For Period Ended	
	6/30/2024	12/31/2023	Change	6/30/2024	12/31/2023	Change
	9/30/2024	12/31/2023	Change	9/30/2024	12/31/2023	Change
Securities Available-for-Sale:						
U.S. Treasury Securities						
U.S. Treasury Securities						
U.S. Treasury Securities						
U.S. Agency Securities						
State and Municipal Obligations						
Mortgage-Backed Securities						
Corporate and Other Debt Securities						
Total						
Total						
Total						
Securities Held-to-Maturity:						
Securities Held-to-Maturity:						
Securities Held-to-Maturity:						
State and Municipal Obligations						
State and Municipal Obligations						
State and Municipal Obligations						
Mortgage-Backed Securities						
Total						
Total						
Total						
Equity Securities:						
Equity Securities						
Equity Securities						
Equity Securities						

The table below presents the weighted average yield for available-for-sale and held-to-maturity securities, at amortized cost, as of **June 30, 2024** **September 30, 2024** (in thousands).

	June 30, 2024						Total	Within One Year			
	Within One Year		After One But Within Five Years		After Five But Within Ten Years						
	Amount	Yield	Amount	Yield	Amount	Yield					
Securities Available-for-Sale:											
U.S. Treasury Securities											



At **June 30, 2024** **September 30, 2024**, Arrow held no investment securities in the securities portfolios that consisted of or included, directly or indirectly, obligations of foreign governments or governmental agencies of foreign issuers.

In the periods referenced above, mortgage-backed securities consisted solely of mortgage pass-through securities and collateralized mortgage obligations (CMOs) issued or guaranteed by U.S. federal agencies or by government-sponsored enterprises (GSEs). Mortgage pass-through securities provide to the investor monthly portions of principal and interest pursuant to the contractual obligations of the underlying mortgages. CMOs are pools of mortgage-backed securities, the repayments on which have generally been separated into two or more components (tranches), where each tranche has a separate estimated life and yield. Arrow's practice has been to purchase pass-through securities and CMOs that are issued or guaranteed by U.S. federal agencies or GSEs, and the tranches of CMOs purchased are generally those having shorter average lives and/or durations. Lower market interest rates and/or payment deferrals on underlying loans that make up mortgage-backed security collateral may impact cashflows.

In the periods referenced above, U.S. Government & Agency Obligations consisted solely of agency bonds issued by GSEs. These securities generally pay fixed semi-annual coupons with principal payments at maturity. For some, callable options are included

that may impact the timing of these principal payments. Arrow's practice has been to purchase agency securities that are issued or guaranteed by GSEs with limited embedded optionality (call features). Final maturities are generally less than 5 years.

Arrow evaluates available-for-sale debt securities in unrealized loss positions at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or non-credit related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized within the allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings via credit loss expense. Arrow determined that at **June 30, 2024** **September 30, 2024**, gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The recent rising interest rate environment resulted in an increase in unrealized losses versus the comparable prior period. Arrow does not intend to sell, nor is it more likely than not that Arrow will be required to sell any securities before recovery of its amortized cost basis, which may be at maturity.

Therefore, Arrow carried no allowance for credit loss at **June 30, 2024** **September 30, 2024** and there was no credit loss expense recognized by Arrow with respect to the securities portfolio during the **six** **nine** months ended **June 30, 2024** **September 30, 2024**.

Arrow's held-to-maturity debt securities are comprised of GSEs and state and municipal obligations. GSE securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Arrow performs an analysis of the credit worthiness of municipal obligations to determine if a security is of investment grade. The analysis may include, but may not solely rely upon credit analysis conducted by external credit rating agencies. Arrow determined that the expected credit loss on its held to maturity debt portfolio was immaterial and, therefore, no allowance for credit loss was recorded as of **June 30, 2024** **September 30, 2024**.

Changes in net unrealized gains or losses during recent periods have been primarily attributable to changes in market rates during the periods in question and not due to the credit-worthiness of the issuers.

Investment Sales, Purchases and Maturities

There were no sales of investment securities within the **six** **nine** month periods ended **June 30, 2024** **September 30, 2024** or 2023.

The following table summarizes purchases of investment securities within the available-for-sale and held-to-maturity portfolios for the **six** **three** and **nine** month periods ended **June 30, 2024** **September 30, 2024** and 2023, as well as proceeds from the maturity and calls of investment securities within each portfolio for the respective periods presented:

(In Thousands)	(In Thousands)	Three Months Ended	Six Months Ended	(In Thousands)	Three Months Ended	Nine Months Ended			
Purchases:	Purchases:	6/30/2024	6/30/2023	6/30/2024	6/30/2023	Purchases: 9/30/2024	9/30/2023	9/30/2024	9/30/2023

Available-for-Sale Portfolio

U.S. Agency Securities
U.S. Agency Securities
U.S. Agency Securities
Mortgage-Backed Securities
Mortgage-Backed Securities
Mortgage-Backed Securities
Total Purchases
Total Purchases
Total Purchases

Maturities & Calls

Maturities & Calls
Maturities & Calls

(In Thousands)	(In Thousands)	Three Months Ended	Six Months Ended	(In Thousands)	Three Months Ended	Nine Months Ended			
Purchases:	Purchases:	6/30/2024	6/30/2023	6/30/2024	6/30/2023	Purchases: 9/30/2024	9/30/2023	9/30/2024	9/30/2023

Held-to-Maturity Portfolio

State and Municipal Obligations
State and Municipal Obligations
State and Municipal Obligations

Maturities & Calls

Maturities & Calls
Maturities & Calls

Loan Trends

The following three tables present, for each of the last five quarters, the quarterly average balances by loan type, the percentage of total loans represented by each loan type and the annualized yield of each loan category:

Quarterly Average Loan Balances

(Dollars in Thousands)

Quarter Ended

	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023

Commercial

Commercial Real Estate

Commercial Real Estate

Commercial Real Estate

Consumer

Residential Real Estate

Total Loans

Percentage of Total Quarterly Average Loans

		Quarter Ended										
		6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023						
		9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023						
Commercial	Commercial	5.0 %	4.9 %	4.8 %	4.8 %	4.5 %	Commercial	5.0 %	5.0 %	4.9 %	4.8 %	4.8 %
Commercial Real Estate												
Consumer	Consumer	34.5 %	34.4 %	35.0 %	35.4 %	35.6 %	Consumer	33.9 %	34.5 %	34.4 %	35.0 %	35.4 %
Residential												
Real Estate	Real Estate	37.6 %	37.5 %	36.9 %	36.3 %	36.1 %	Real Estate	38.3 %	37.6 %	37.5 %	36.9 %	36.3 %
Total Loans	Total Loans	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	Total Loans	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Quarterly Yield on Loans												
		Quarter Ended										
		6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023						
		9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023						
Commercial	Commercial	5.66 %	5.53 %	5.38 %	4.89 %	4.53 %	Commercial	5.81 %	5.66 %	5.53 %	5.38 %	4.89 %
Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate	Commercial Real Estate
Consumer	Consumer	5.60 %	5.36 %	5.11 %	4.83 %	4.61 %	Consumer	5.78 %	5.60 %	5.36 %	5.11 %	4.83 %
Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate	Residential Real Estate
Total Loans	Total Loans	5.17 %	5.02 %	4.86 %	4.70 %	4.57 %	Total Loans	5.27 %	5.17 %	5.02 %	4.86 %	4.70 %

The average yield on the loan portfolio was 5.17% 5.27% for the second third quarter of 2024 up 60.57 basis points from the second third quarter of 2023. Market rates have continued to increase, which impacts new loan yields for fixed rate loans, and variable loan yields as these loans reach their repricing dates.

The table below shows the maturity of loans outstanding as of June 30, 2024 September 30, 2024. Also provided are the amounts due after one year, classified according to fixed interest rates and variable interest rates (in thousands):

	June 30, 2024					Total	September 30, 2024				
	Within One Year	Within One Year	After One But Within Five Years	After Five But Within 15 Years	After 15 Years		Within One Year	After One But Within Five Years	After Five But Within 15 Years	After 15 Years	Total
Commercial											
Commercial											
Real Estate											
Consumer											
Residential											
Real Estate											
Total											
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
	After One But Within Five Years						After One But Within Five Years				
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Maintenance of High Quality Credit in the Loan Portfolio: There have been no significant fluctuations in the quality of the loan portfolio or any segment thereof. In general, residential real estate loans have historically been underwritten to secondary market standards and Arrow has not engaged in subprime mortgage lending as a business line. Similarly, high underwriting standards have generally been applied to the commercial, commercial real estate and indirect lending program as well.

Commercial Loans and Commercial Real Estate Loans: Substantially all commercial and commercial real estate loans in the loan portfolio were extended to businesses or borrowers located in Arrow's regional markets. A portion of the loans in the commercial portfolio have variable rates tied to market indices, such as Prime, SOFR or FHLBNY.

Consumer Loans: At **June 30, 2024** **September 30, 2024**, consumer loans (primarily automobile loans originated through dealerships located in upstate New York and Vermont) continue to be a significant component of Arrow's business, comprising approximately one third of the total loan portfolio.

For credit quality purposes, Arrow assigns potential automobile loan customers into one of four tiers, ranging from lower to higher quality in terms of anticipated credit risk. Arrow's experienced lending staff not only utilizes credit evaluation software tools but also reviews and evaluates each loan individually prior to the loan being funded. Arrow believes that this disciplined approach to evaluating risk has contributed to maintaining the strong credit quality in this portfolio.

Residential Real Estate Loans: Strong demand for residential real estate has continued even as interest rates have increased. Although the projected ongoing rise in the interest rates may impact future demand, Arrow has historically sold portions of originations in the secondary **market** **market** and resumed the practice beginning in the third quarter of 2024. Sales decreased as the result of the strategic decision to grow the residential loan portfolio as well as current market conditions. The rate at which mortgage loan originations are sold in future periods will depend on a variety of factors, including demand for residential mortgages in our operating markets, market conditions for mortgage sales and strategic balance sheet and interest-rate risk management decisions.

Deposit Trends

The following tables provide information on trends in the balance and mix of the deposit portfolio by presenting, for each of the last five quarters, the quarterly average balances by deposit type and the percentage of total deposits represented by each deposit type. The quarterly average balances increased in 2023 and into 2024. In the first quarter of 2024, Arrow added \$175 million of brokered CDs, primarily used to reduce borrowings by \$160 million. CDs. In addition, due to the current rate environment and increased competitive pricing, deposits have also migrated to higher cost time deposits.

Quarterly Average Deposit Balances						(Dollars in Thousands)
	Quarter Ended		Quarter Ended			
	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023	
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023	
Noninterest-Bearing Deposits						
Interest-Bearing Checking Accounts						
Savings Deposits						
Time Deposits over \$250,000						
Other Time Deposits						
Total Deposits						
	Quarter Ended					
	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023	
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023	
Non-Municipal Deposits						
Municipal Deposits						
Total Deposits						

Percentage of Total Quarterly Average Deposits									
Quarter Ended									
		6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023			
		9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023			
Noninterest-Bearing Deposits	Noninterest-Bearing Deposits	18.6 %	19.1 %	21.1 %	22.3 %	21.9 %	Noninterest-Bearing Deposits	19.6 %	18.6 %
Interest-Bearing Checking Accounts	Interest-Bearing Checking Accounts	22.6 %	22.5 %	22.3 %	22.8 %	25.0 %	Interest-Bearing Checking Accounts	21.4 %	22.6 %
Savings Deposits	Savings Deposits	40.4 %	40.1 %	42.0 %	43.0 %	43.5 %	Savings Deposits	40.7 %	40.4 %
Time Deposits over \$250,000	Time Deposits over \$250,000	4.7 %	4.8 %	4.7 %	4.4 %	3.9 %	Time Deposits over \$250,000	4.7 %	4.7 %
Other Time Deposits	Other Time Deposits	13.7 %	13.5 %	9.9 %	7.4 %	5.8 %	Other Time Deposits	13.6 %	13.7 %

Total Deposits	Total Deposits	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	Total Deposits	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Quarterly Cost of Deposits												
Quarter Ended												
		6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023						
		9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023						
Demand Deposits	Demand Deposits	— %	— %	— %	— %	— %	Demand Deposits	— %	— %	— %	— %	— %
Interest-Bearing	Interest-Bearing						Interest-Bearing					
Checking Accounts	Checking Accounts	0.92 %	0.79 %	0.65 %	0.58 %	0.38 %	Checking Accounts	1.00 %	0.92 %	0.79 %	0.65 %	0.58 %
Savings Deposits	Savings Deposits	2.86 %	2.78 %	2.76 %	2.56 %	2.27 %	Savings Deposits	2.91 %	2.86 %	2.78 %	2.76 %	2.56 %
Time Deposits over	Time Deposits over						Time Deposits over					
\$250,000	\$250,000	4.35 %	4.47 %	4.22 %	3.81 %	3.35 %	\$250,000	4.12 %	4.35 %	4.47 %	4.22 %	3.81 %
Other Time Deposits	Other Time Deposits	4.05 %	4.11 %	3.81 %	3.16 %	2.38 %	Other Time Deposits	3.94 %	4.05 %	4.11 %	3.81 %	3.16 %
Total Deposits	Total Deposits	2.12 %	2.06 %	1.88 %	1.64 %	1.35 %	Total Deposits	2.12 %	2.12 %	2.06 %	1.88 %	1.64 %

For the quarter ended **June 30, 2024** **September 30, 2024**, the total cost of deposits **increased 6 basis points from** **remained consistent with** the previous quarter and **77 increased 48 basis points from** the comparable prior year quarter. The Federal Funds rate increased throughout 2023 and has remained elevated **for the** **for the first half of 2024**. In the third quarter of 2024, the targeted Federal Funds rate fell 50 basis points and future rate decreases are possible. Arrow is well positioned for a variety of rate environments, see Part I, Item 3, entitled "Quantitative and Qualitative Disclosures About Market Risk," on page 74 for further discussion.

Non-Deposit Sources of Funds

Arrow's other sources of funds include securities sold under agreements to repurchase, term advances from the FHLBNY and BTFP advances. The securities sold under agreements to repurchase are offered to existing customers, short-term in nature and are collateralized by investment securities. The remaining term advance from the FHLBNY is a fixed rate non-callable advance that will mature within one year. The BTFP advances **were scheduled to mature in less than 12 months and have had a weighted average interest rate of 4.76%**. In the third quarter, Arrow paid down \$5 million **of the balance outstanding and replaced the remaining \$95 million in the fourth quarter with lower cost brokered CDs**.

The \$20 million principal amount of Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts listed on the consolidated balance sheet as of **June 30, 2024** **September 30, 2024** (i.e., previously issued TRUPs) will, subject to certain limits, continue to qualify as Tier 1 regulatory capital for Arrow until such TRUPs mature or are redeemed. This is further discussed under "Capital Resources" beginning on page 66 of this Report.

ASSET QUALITY

The following table presents information related to the allowance and provision for credit losses for the past five quarters:

Summary of the Allowance and Provision for Credit Losses

(Dollars in Thousands, Loans Stated Net of Unearned Income)

	6/30/2024	3/31/2024	12/31/2023	9/30/2023	6/30/2023
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023

Loan Balances:

Period-End Loans

Period-End Loans

Period-End Loans

Average

Loans, Year-

to-Date

Average

Loans,

Quarter-to-

Date

Period-End

Assets

Allowance for Credit Losses:

Year-to-Date:

Allowance for Credit Losses:

Year-to-Date:

Allowance for Credit Losses:

Year-to-Date:

Allowance for Credit Losses,

Beginning of Period

Allowance for Credit Losses,

Beginning of Period

Allowance for Credit Losses,

Beginning of Period

Provision for Credit Losses,

YTD

Provision for Credit Losses,

YTD

Provision for Credit Losses,

YTD

Loans

Charged-off,

YTD

Recoveries of

Loans

Previously

Charged-off

Net Charge-

offs, YTD

Allowance for

Credit Losses,

End of Period

Nonperforming Assets, at

Period-End:

Nonperforming Assets, at

Period-End:

Nonperforming Assets, at

Period-End:

Nonaccrual Loans

Nonaccrual Loans

Nonaccrual Loans

Loans Past

Due 90 or

More Days

and Still

Accruing

Interest

Restructured

and in

Compliance

with

Modified

Terms

Total

Nonperforming

Loans

Repossessed

Assets

Other Real

Estate Owned

Total

Nonperforming

Assets

Asset Quality Ratios:

Asset Quality Ratios:

Asset Quality Ratios:

Allowance to Nonperforming

Loans

Allowance to Nonperforming Loans	147.18 %	147.21 %	147.82 %	491.19 %	477.26 %	142.79 %	147.18 %	147.21 %	147.82 %	49
Allowance to Period-End Loans	Allowance to Period-End Loans	0.94 %	0.97 %	0.97 %	0.99 %	1.02 %	Allowance to Period-End Loans	0.94 %	0.94 %	0.97 %
Provision to Average Loans	Provision to Average Loans						Provision to Average Loans			
(Quarter) (1)	(Quarter) (1)	0.10 %	0.08 %	0.07 %	0.05 %	0.13 %	(Quarter) (1)	0.11 %	0.10 %	0.08 %
Provision to Average Loans (YTD)	Provision to Average Loans (YTD)						Provision to Average Loans (YTD)			
(1)	(1)	0.09 %	0.08 %	0.11 %	0.13 %	0.17 %	(1)	0.09 %	0.09 %	0.08 %
Net Charge-offs to Average Loans	Net Charge-offs to Average Loans						Net Charge-offs to Average Loans			
(Quarter) (1)	(Quarter) (1)	0.16 %	0.04 %	0.05 %	0.05 %	0.07 %	(Quarter) (1)	0.08 %	0.16 %	0.04 %
Net Charge-offs to Average Loans (YTD)	Net Charge-offs to Average Loans (YTD)						Net Charge-offs to Average Loans (YTD)			
(1)	(1)	0.10 %	0.04 %	0.07 %	0.07 %	0.09 %	(1)	0.09 %	0.10 %	0.04 %
Nonperforming Loans to Total Loans	Nonperforming Loans to Total Loans						Nonperforming Loans to Total			
Nonperforming Assets to Total Assets	Nonperforming Assets to Total Assets						Nonperforming Assets to Total			
Assets	Assets	0.50 %	0.50 %	0.51 %	0.16 %	0.17 %	Assets	0.51 %	0.50 %	0.51 %

(1) Annualized

Provision for Credit Losses

Through the provision for credit losses, an allowance for credit losses is maintained that reflects the best estimate of the calculated expected credit losses in Arrow's loan portfolio as of the balance sheet date. Additions are made to the allowance for credit losses through a periodic provision for credit losses. Actual credit losses are charged against the allowance for credit losses when loans are deemed uncollectible and recoveries of amounts previously charged off are recorded as credits to the allowance for credit losses.

Arrow loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with certain criticized and classified commercial-related relationships. In addition, the independent internal loan review department performs periodic reviews of the credit quality indicators on individual loans in the commercial loan portfolio.

CECL calculates losses over the life of a loan or financial instrument. Arrow and its subsidiaries utilize a loss projection model updated with data from our core systems, and incorporates various assumptions to produce the CECL reserve. A CECL Steering Committee was created to provide a management governance function to review, critically challenge and approve components of the CECL reporting process. One key responsibility of the CECL Steering Committee is to review annually the key assumptions utilized in the CECL calculation including loan segmentation, loan loss regression analysis, reasonable and supportable forecast period, reversion period, discounted cash flow inputs including economic forecast data and prepayment and curtailment speeds and qualitative factors.

The **June 30, 2024** **September 30, 2024** allowance for credit losses calculation incorporated a reasonable and supportable forecast period to account for economic conditions utilized in the measurement. The quantitative model utilized a six-quarter economic forecast sourced from reputable third-parties that reflects no projects a negative change of approximately 0.25% in the forecasted national unemployment rate, forecasted gross domestic product projected to improve by approximately 0.17% 0.07%, and the **HPI** home price index (HPI) forecast to increase by approximately 2.62% 0.20% from the previous quarter economic forecast. The overall change in the allowance from **March 31, 2024** **June 30, 2024** was primarily driven by the following factors: net loan growth contributed \$0.5 million, \$335 thousand, changes in macro economic conditions reduced the allowance by \$0.8 million, qualitative factors increased the allowance by \$0.4 million, \$82 thousand, and net charge-offs of \$0.6 million, \$681 thousand. The **second** **third** quarter provision for credit losses was \$775 \$934 thousand. In addition, Arrow recorded a credit an increase for estimated credit losses on off-balance sheet credit exposures in other liabilities of \$153 \$234 thousand in the **second** **third** quarter of 2024.

See Note 2 to the unaudited interim consolidated financial statements for additional discussion related to CECL.

The ratio of the allowance for credit losses to total loans was 0.94% at **September 30, 2024**, consistent with **June 30, 2024**, and a decrease from 0.97% 0.99% at **March 31, 2024** and 1.02% at **June 30, 2023** **September 30, 2023**.

The accounting policy relating to the allowance for credit losses is considered to be a critical accounting policy, given the uncertainty involved in evaluating the level of the allowance required to cover credit losses in the loan portfolio, and the material effect that such judgments may have on the results of operations. The process for determining the provision for credit losses is described in Note 5 to the unaudited interim consolidated financial statements.

Risk Elements

Nonperforming assets at **June 30, 2024** **September 30, 2024** amounted to \$21.3 million \$22.3 million, a decrease an increase from the \$21.5 million at December 31, 2023 and an increase from \$7.1 million \$6.9 million at **June 30, 2023** **September 30, 2023**. For the three month periods ended **June 30, 2024** **September 30, 2024** and 2023, ratios of nonperforming assets to total assets have remained fairly consistent to the average ratios for the peer group. (See page 48 for a discussion of the peer group.) At **March 31, 2024** **June 30, 2024**, the ratio of loans past due 90 or more days plus nonaccrual loans plus other real estate owned to total assets was 0.50% as compared to the 0.42% 0.43% ratio of the peer group at such date (the latest date for which peer group information is available). At **June 30, 2024** **September 30, 2024** the ratio was 0.50% 0.51%.

The following table presents the balance of other non-current loans at period-end as to which interest income was being accrued (i.e., loans 30 to 89 days past due, as defined in bank regulatory guidelines). These non-current loans are not included in nonperforming assets, but entail heightened risk:

Loans Past Due 30-89 Days and Accruing Interest (\$ in 000's)	6/30/2024	12/31/2023	6/30/2023
	9/30/2024	12/31/2023	9/30/2023
Commercial Loans			
Commercial Real Estate Loans			
Residential Real Estate Loans			
Consumer Loans - Primarily Indirect Automobile			
Total Loans Past Due 30-89 Days and Accruing Interest			

At **June 30, 2024** **September 30, 2024**, the loans in the above-referenced category totaled **\$20.3 million** **\$20.2 million**, a decrease from the \$24.3 million of such loans at December 31, 2023. The **June 30, 2024** **September 30, 2024** total of non-current loans equaled **0.61%** **0.60%** of loans then outstanding, compared to 0.76% at December 31, 2023 and **0.58%** **1.10%** at **June 30, 2023** **September 30, 2023**.

The number and dollar amount of performing loans that demonstrate characteristics of potential weakness from time-to-time (potential problem loans) typically is a very small percentage of the loan portfolio. See the table of Credit Quality Indicators in Note 5 to the unaudited interim consolidated financial statements. Arrow considers all performing commercial and commercial real estate loans classified as substandard or lower (as reported in Note 5) to be potential problem loans. These loans will continue to be closely monitored and Arrow currently expects to collect all payments of contractual principal and interest in full on these classified loans.

As of **June 30, 2024** **September 30, 2024**, Arrow held **one** **two** other real estate owned **property** **properties**. At this time, Arrow does not expect to acquire a significant number of other real estate properties in the near term as a result of payment defaults or the foreclosure process.

CAPITAL RESOURCES

Regulatory Capital Standards

Capital Adequacy Requirements. An important area of banking regulation is the federal banking system's promulgation and enforcement of minimum capitalization standards for banks and bank holding companies.

In 2020, federal bank regulators introduced an optional simplified measure of capital adequacy for qualifying community banking organizations (the "CBLR Framework"). A qualifying community banking organization that opts into the CBLR Framework and meets all the requirements under the CBLR Framework will be considered to have met the well-capitalized ratio requirements under the "prompt corrective action" regulations and will not be required to report or calculate risk-based capital ratios. Arrow and both subsidiary banks have opted out of utilizing the CBLR framework. Therefore, the Capital Rules remain applicable to Arrow.

The following is a summary of certain definitions of capital under the various capital measures in the Capital Rules:

Common Equity Tier 1 Capital (CET1): Equals the sum of common stock instruments and related surplus (net of treasury stock), retained earnings, AOCI, and qualifying minority interests, minus applicable regulatory adjustments and deductions. Such deductions will include AOCI, if the organization has exercised its irrevocable option not to include AOCI in capital (Arrow made such an election). Mortgage-servicing assets, deferred tax assets, and investments in financial institutions are limited to 15% of CET1 in the aggregate and 10% of CET1 for each such item individually.

Additional Tier 1 Capital: Equals the sum of noncumulative perpetual preferred stock, tier 1 minority interests, grandfathered TRUPs, and Troubled Asset Relief Program instruments, minus applicable regulatory adjustments and deductions.

Tier 2 Capital: Equals the sum of subordinated debt and preferred stock, total capital minority interests not included in Tier 1, and allowance for loan and lease losses (not exceeding 1.25% of risk-weighted assets) minus applicable regulatory adjustments and deductions.

The following table presents the minimum regulatory capital ratios applicable to Arrow and its subsidiary banks under the current Capital Rules:

Capital Ratio	2024
Minimum CET1 Ratio	4.500 %
Capital Conservation Buffer ("Buffer")	2.500 %
Minimum CET1 Ratio Plus Buffer	7.000 %
Minimum Tier 1 Risk-Based Capital Ratio	6.000 %
Minimum Tier 1 Risk-Based Capital Ratio Plus Buffer	8.500 %
Minimum Total Risk-Based Capital Ratio	8.000 %
Minimum Total Risk-Based Capital Ratio Plus Buffer	10.500 %
Minimum Leverage Ratio	4.000 %

These minimum capital ratios, especially the minimum CET1 ratio (4.5%) and the enhanced minimum Tier 1 risk-based capital ratio (6.0%), represent a heightened and more restrictive capital regime than institutions like Arrow previously had to meet under the prior capital rules.

At **June 30, 2024** **September 30, 2024**, Arrow's subsidiary banks exceeded by a substantial amount each of the applicable minimum capital ratios established under the Capital Rules, including the minimum CET1 Ratio, the minimum Tier 1 Risk-Based Capital Ratio, the minimum Total Risk-Based Capital Ratio, and the minimum Leverage Ratio, including in the case of each risk-based ratio, the capital buffer.

Prompt Corrective Action Capital Classifications. Under applicable banking law, federal banking regulators are required to take prompt corrective action with respect to depository institutions that do not meet certain minimum capital requirements. For these purposes, the regulators have established five capital classifications for banking institutions, ranging from the highest category of "well-capitalized" to the lowest category of "critically under-capitalized". Under the current capital classifications, a banking institution is considered "well-capitalized" if it meets the following capitalization standards on the date of measurement: a CET1 risk-based capital ratio of 6.50% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater, a total risk-based capital ratio of 10.00% or greater, and

a Tier 1 leverage ratio of 5.00% or greater, provided the institution is not subject to any regulatory order or written directive regarding capital maintenance. Federal banking law also ties the ability of banking organizations to engage in certain types of activities and to utilize certain procedures to such organizations' continuing to qualify for inclusion in one of the two highest rankings of these capitalization categories, i.e., as "well-capitalized" or "adequately capitalized."

Current Capital Ratios: The table below sets forth the regulatory capital ratios of Arrow and its subsidiary banks under the current Capital Rules, as of **June 30, 2024** **September 30, 2024**:

	Common Equity Tier 1 Capital Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio	Tier 1 Leverage Ratio	Common Equity Tier 1 Capital Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio	Tier 1 Leverage Ratio
Arrow Financial Corporation	Arrow Financial Corporation	12.88 %	13.53 %	14.57 %	9.74 %	Arrow Financial Corporation	12.77 %	13.41 %
Glens Falls National Bank & Trust Co.								
Glens Falls National Bank & Trust Co.								
Glens Falls National Bank & Trust Co.	13.13 %	13.14 %	14.12 %	8.79 %	12.97 %	12.97 %	13.94 %	8.75 %
Saratoga National Bank & Trust Co.	Saratoga National Bank & Trust Co.	12.21 %	12.21 %	13.39 %	9.38 %	Saratoga National Bank & Trust Co.	12.04 %	12.04 %
FDICIA's Prompt Corrective Action - "Well-Capitalized" Standard (2019)								
FDICIA's Prompt Corrective Action - "Well-Capitalized" Standard (2019)	6.50 %	8.00 %	10.00 %	5.00 %	6.50 %	8.00 %	10.00 %	5.00 %
Regulatory Minimum	Regulatory Minimum	7.00% ⁽¹⁾	8.50% ⁽¹⁾	10.50% ⁽¹⁾	4.00 %	Regulatory Minimum	7.00% ⁽¹⁾	8.50% ⁽¹⁾

⁽¹⁾ Including the fully phased-in 2.50% capital conservation buffer

⁽²⁾ Including the fully phased-in 2.50% capital conservation buffer

⁽³⁾ Including the fully phased-in 2.50% capital conservation buffer

At **June 30, 2024** **September 30, 2024**, Arrow's subsidiary banks exceeded the minimum regulatory capital ratios established under the current Capital Rules and each also qualified as "well-capitalized", the highest category in the new capital classification scheme established by federal bank regulatory agencies under the "prompt corrective action" standards, as described above.

Capital Components; Stock Repurchases; Dividends

Stockholders' Equity: Stockholders' equity was **\$383.0 million** **\$393.3 million** at **June 30, 2024** **September 30, 2024**, an increase of **\$3.2 million** **\$13.5 million**, or **0.9%** **3.6%**, from the December 31, 2023 level of **\$379.8 million**. The increase in stockholders' equity over the first **six** **nine** months of 2024 principally reflected the following factors: the addition of (i) **\$16.3 million** **\$25.2 million** of net income for the period, and (ii) other comprehensive gain **\$1.8 million** **\$7.4 million** and (iii) the issuance of **\$0.7 million** **\$0.9 million** of common stock through employee benefit and dividend reinvestment plans, reduced by (iv) cash dividends of **\$9.1 million** **\$13.6 million** and (v) repurchases of common stock of **\$6.5 million**.

Trust Preferred Securities: In each of 2003 and 2004, Arrow issued \$10 million of TRUPs in a private placement. Under the FRB's regulatory capital rules then in effect, TRUPs proceeds typically qualified as Tier 1 capital for bank holding companies such as Arrow,

but only in amounts up to 25% of Tier 1 capital, net of goodwill less any associated deferred tax liability. Under the Dodd-Frank Act, any trust preferred securities that Arrow might issue on or after the grandfathering date set forth in Dodd-Frank (May 19, 2010) would not qualify as Tier 1 capital under bank regulatory capital guidelines. For Arrow, TRUPs outstanding prior to the grandfathering cutoff date set forth in Dodd-Frank (May 19, 2010) would continue to qualify as Tier 1 capital until maturity or redemption, subject to limitations. Thus, Arrow's outstanding TRUPs continue to qualify as Tier 1 regulatory capital, subject to such limitations.

In the first quarter of 2020, Arrow entered into interest rate swap agreements to synthetically fix the variable rate interest payments associated with \$20 million in outstanding subordinated trust securities. The effective fixed rate is 3.43% until maturity. These agreements are designated as cash flow hedges.

Stock Repurchase Program: On October 25, 2023, the Board expanded its existing stock repurchase program (the "2022 Repurchase Program") by \$5 million, bringing the total availability under the repurchase program to \$9.1 million, and removed the expiration date previously incorporated into the 2022 Repurchase Program. The 2022 Repurchase Program allowed Arrow to repurchase shares of its common stock in open-market or negotiated transactions. Arrow resumed repurchasing its shares in the fourth quarter of 2023. In the first half of 2024, Arrow repurchased approximately \$6.4 million (263,000 shares of its common stock) under the 2022 Repurchase Program and fully utilized the \$9.1 million authorized program amount.

On April 24, 2024, the Board approved a new stock repurchase program (the "2024 Repurchase Program"), under which the Board authorized management, in its discretion, to repurchase from time to time, in the open market or in privately negotiated transactions, up to \$5 million of Arrow common stock.

From time to time, Arrow may establish a written trading plan in accordance with Rule 10b-5-1 of the Exchange Act, pursuant to which it may repurchase shares of its common stock. Additional repurchases may be made by Arrow, at times and in amounts as it deems appropriate, and may be made through open market transactions in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements, and other factors.

In addition, \$2.6 million a de minimis portion of Arrow's common stock was purchased during the **six nine** months ended **June 30, 2024** **September 30, 2024** other than through its repurchase program, i.e., through purchases in the open market under the ESOP and the surrender or deemed surrender of Arrow common stock to Arrow in connection with employees' stock-for-stock exercises of compensatory stock options to buy Arrow common stock. stock.

Dividends: Arrow's common stock is traded on NasdaqGS® under the symbol AROW. The high and low stock prices for the past **six seven** quarters listed below represent actual sales transactions, as reported by NASDAQ. Per share amounts and share counts in the following tables have been restated for the September 26, 2023 3% stock dividend.



Cash Dividends Per Share

Diluted Earnings Per Share

Dividend Payout Ratio

Dividend Payout Ratio 51.92 % 74.86 % Dividend Payout Ratio 50.94 % 56.96 %

Total Equity (in thousands)

Shares Issued and Outstanding (in thousands)

Book Value Per Share

Intangible Assets (in thousands)

Tangible Book Value Per Share

LIQUIDITY

The objective of effective liquidity management is to ensure that Arrow has the ability to raise cash when needed at a reasonable cost. This includes the capability of meeting expected and unexpected obligations to Arrow's customers at any time. Given the uncertain nature of customer demands and the need to maximize earnings, Arrow must have available reasonably priced sources of funds, both on- and off-balance sheet, that can be accessed quickly in times of need. Arrow's liquidity position should provide the

Company with the necessary flexibility to address any unexpected near-term disruptions such as reduced cash flows from the investment and loan portfolio, unexpected deposit runoff, or increased loan originations.

Arrow's primary sources of available liquidity are overnight investments in federal funds sold, interest-bearing bank balances at the FRBNY, and cash flow from investment securities and loans. Certain investment securities are categorized as available-for-sale at time of purchase based on their marketability and collateral value, as well as their yield and maturity. The securities available-for-sale portfolio was \$450.8 million \$437.1 million at **June 30, 2024** **September 30, 2024**, a decrease of \$47.0 million \$60.7 million, from the year-end 2023 level. Due to the potential for volatility in market values, Arrow may not always be able to sell securities on short notice at their carrying value, even to provide needed liquidity. Arrow also held interest-bearing cash balances at **June 30, 2024** **September 30, 2024** of \$169.8 million \$286.1 million compared to \$105.8 million at December 31, 2023.

In addition to liquidity from cash, short-term investments, investment securities and loans, Arrow has supplemented available operating liquidity with additional off-balance sheet sources such as a federal funds lines of credit with correspondent banks and credit lines with the FHLBNY. The federal funds lines of credit are with two correspondent banks totaling \$28 million which were not drawn on during the **three nine** months ended **June 30, 2024** **September 30, 2024**.

To support the borrowing relationship with the FHLBNY, Arrow has pledged collateral, including residential mortgage, home equity and commercial real estate loans. At **June 30, 2024** **September 30, 2024**, Arrow had outstanding collateralized obligations with the FHLBNY of **\$7 million** **\$9 million**; as of that date, the unused borrowing capacity at the FHLBNY was approximately **\$535 million** **\$557 million**. Brokered deposits have also been identified as an available source of funding accessible in a relatively short time period. At **June 30, 2024** **September 30, 2024**, there were \$175 million in brokered CD deposits. In addition, Arrow's two bank subsidiaries have each established a borrowing facility with the FRBNY, pledging certain consumer loans as collateral for potential "discount window" advances, which are maintained for contingency liquidity purposes. At **June 30, 2024** **September 30, 2024**, the amount available under this facility was approximately **\$770 million** **\$774 million** in the aggregate, and there were no advances then outstanding.

Arrow performs regular liquidity stress tests and tests of the contingent liquidity plan to ensure that an adequate amount of available funds can be generated to meet a wide variety of potential liquidity events. Additionally, Arrow continually monitors levels and composition of uninsured deposits.

Arrow measures and monitors basic liquidity as a ratio of liquid assets to total short-term liabilities, both with and without the availability of borrowing arrangements. Based on the level of overnight investments, available liquidity from the investment securities portfolio, cash flows from the loan portfolio, the stable core deposit base and the significant borrowing capacity, Arrow believes that the available liquidity is sufficient to meet all reasonably likely events or occurrences. At **June 30, 2024** **September 30, 2024**, Arrow's primary liquidity ratio was approximately **8.4% 11.0%** of total assets, well in excess of the internal policy limit of 5%. Total primary liquidity was approximately **\$356 million** **\$483 million**, comprised of **\$200.2 million** **\$340 million** of unencumbered cash and **\$155.9 million** **\$143 million** in unencumbered securities.

Arrow did not experience any liquidity constraints in the **six** nine month period ended **June 30, 2024** **September 30, 2024**, in 2023 or in any recent prior period. Arrow has not at any time during such periods been forced to pay above-market rates to obtain retail deposits or other funds from any source.

RESULTS OF OPERATIONS

Three Months Ended **June 30, 2024** **September 30, 2024** Compared With
Three Months Ended **June 30, 2023** **September 30, 2023**

Summary of Earnings Performance

(Dollars in Thousands, Except Per Share Amounts)

Three Months Ended

Net income was \$8.6 million \$9.0 million and diluted EPS of \$0.52 \$0.53 for the second third quarter of 2024, compared to net income of \$6.0 million \$7.7 million and diluted EPS of \$0.35 \$0.46 for the second third quarter of 2023. Return on average assets for the second third quarter of 2024 was 0.82% 0.84%, an increase from 0.59% 0.75% in the second third quarter of 2023. In addition, return on average equity increased to 9.15% 9.20% for the second third quarter of 2024, from 6.64% 8.47% in the second third quarter of 2023.

The following narrative discusses the quarter-to-quarter changes in net interest income, non-interest income, non-interest expense and income taxes:

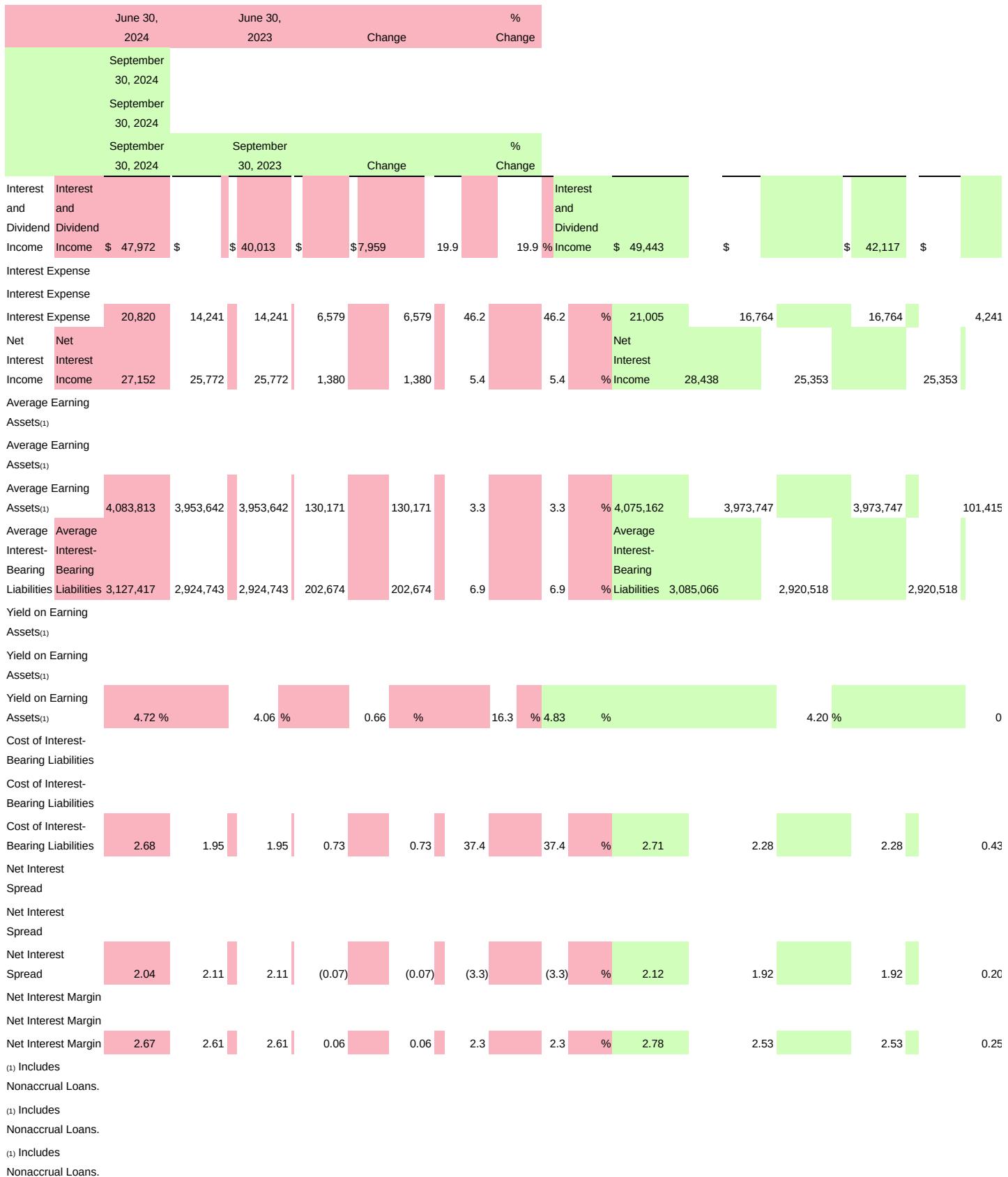
Net Interest Income

Summary of Net Interest Income

Summary of Net Assets
(Dollars in Thousands)

Three Months Ended

June 30,
2024



Net interest income for the recently completed quarter increased by **\$1.4 million** **\$3.1 million**, or **5.4% 12.2%**, from the **second** **third** quarter of 2023. Interest and fees on loans were **\$42.1 million** **\$44.1 million** for the **second** **third** quarter of 2024, an increase from **\$34.6 million** **\$36.7 million** for the quarter ending **June 30, 2023** **September 30, 2023**, primarily due to loan growth and higher loan rates. Interest expense for the **second** **third** quarter of 2024 was **\$20.8 million** **\$21.0 million**, an increase of **\$6.6 million** **\$4.2 million** versus the comparable quarter ending **June 30, 2023** **September 30, 2023**, primarily due to higher deposit rates and changes in deposit composition. Net interest margin increased **625** basis points in the **second** **third** quarter of 2024 to **2.67%** **2.78%**, from **2.61%** **2.53%** during the **second** **third** quarter of 2023. Average earning asset yields were **66.63** basis points higher as compared to the **second** **third** quarter of 2023. The cost of interest-bearing liabilities increased **73.43** basis points from the quarter ended **June 30, 2023** **September 30, 2023**. Arrow defines net interest margin as net interest income divided by average earning assets, annualized. Further detailed information is presented above under the section entitled "Average Consolidated Balance Sheets and Net Interest Income Analysis" on page 54. The impact of recent interest rate changes on Arrow's deposit and loan portfolios are discussed above in this Report under the sections entitled "Deposit Trends" on page 63 and "Loan Trends" on page 61.

As discussed previously under the heading "Asset Quality" beginning on page 65, the provision for loan losses for the **second** **third** quarter of 2024 was **\$775** **\$934** thousand, compared to a provision of **\$948** **\$354** thousand for the **second** **third** quarter of 2023.

Non-interest Income

Summary of Non-interest Income

(Dollars in Thousands)

Three Months Ended									
	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2023	Change	% Change	Income From Fiduciary Activities	Income From Fiduciary Activities	June 30, 2024
	September 30, 2024	September 30, 2024	September 30, 2024	September 30, 2023	September 30, 2023	% Change	Income From Fiduciary Activities	Income From Fiduciary Activities	June 30, 2024
Income From Fiduciary Activities	\$ 2,451	\$ 2,428	\$ 2,429	\$ 2,378	\$ 23	0.9	0.9	0.9	\$ 2,429
Fees for Other Services to Customers	2,706	2,717	2,717	2,761	(11)	(11)	(0.4)	(0.4)	2,761
Insurance Commissions	1,662	1,560	1,560	1,695	102	102	6.5	6.5	1,695
Net Gain on Securities	54	(181)	(181)	71	235	235	(129.8)	(129.8)	71
Net Gain on the Sale of Loans	5	—	—	126	5	5	—	—	126
Other Operating Income	978	382	382	21	596	596	156.0	156.0	21
Total Non- interest Income	\$ 7,856	\$ 6,906	\$ 8,133	\$ 8,050	\$ 950	13.8	13.8	13.8	\$ 8,133
							Total Non- interest Income	Total Non- interest Income	
							% Income	% Income	
							\$ 83	\$ 83	
							1.0	1.0	

Total non-interest income in the current quarter was **\$7.9 million** **\$8.1 million**, an increase of **\$1.0 million** **\$83 thousand** from the comparable quarter of 2023. Income from fiduciary activities for the **second** **third** quarter of 2024 remained **fairly** consistent with the **second** **third** quarter of 2023. Assets under trust administration and investment management at **June 30, 2024** **September 30, 2024** were **\$1.85 billion** **\$1.94 billion**, an increase from **\$1.71 billion** **\$1.63 billion** at **June 30, 2023** **September 30, 2023**.

Fees for other services to customers were **\$2.7 million** **\$2.9 million** for the **second** **third** quarter of 2024 consistent with an increase of **\$120 thousand** as compared to the **second** **third** quarter of 2023.

Insurance commissions were **\$1.7 million** **\$2.0 million** for the **second** **third** quarter of 2024, an increase of **\$102 thousand** or **6.5% 15.3%**, as compared to the **second** **third** quarter of 2023. The increase was partially attributable to the A&B Acquisition which occurred in the third quarter of 2024.

Net gain on securities of **\$54** **\$4 thousand** for the **second** **third** quarter of 2024 was the result of an increase in the fair value of equity securities from December 31, 2023. Other The change in other operating income increased from the comparable prior-year quarter was primarily driven by one-time proceeds from bank-owned life insurance received in the gains on the sale of assets. 2023.

Non-interest Expense

Summary of Non-interest Expense

Provision for Income Taxes	Provision for Income Taxes	\$ 2,311	\$ 1,600	\$ 711	44.4 %	44.4 %	Provision for Income Taxes	\$ 2,562	\$ 1,827	\$ 735	40.2 %	40.2 %
Effective Tax Rate	Effective Tax Rate	21.2 %	20.9 %	0.3 %	1.4 %	Effective Tax Rate	22.2 %	19.1 %	3.1 %	16.2 %		

The increase in the effective tax rate for the three months ended **June 30, 2024** **September 30, 2024** compared to the three months ended **June 30, 2023** **September 30, 2023** was primarily due to fluctuations in benefits related to pre-tax income combined with a decrease in the amount of tax exempt income, advantaged earning assets as a percentage of total earning assets.

RESULTS OF OPERATIONS

Six Nine Months Ended June 30, 2024 September 30, 2024 Compared With
Six Nine Months Ended June 30, 2023 September 30, 2023

Summary of Earnings Performance

(Dollars in Thousands, Except Per Share Amounts)

	Six Months Ended		June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2023	Change	% Change	Nine Months Ended		September 30, 2024	September 30, 2024	September 30, 2024	September 30, 2023	Change	% Change	
	Net Income	Net Income	Net Income	\$ 16,264	\$ 14,609	\$ 1,655	11.3	11.3 %	Net Income	\$ 25,239	\$ 22,352	\$ 2,887	12.9	12.9 %			
Diluted Earnings Per Share																	
Return on Average Assets																	
Return on Average Equity																	

Net income was **\$16.3 million** **\$25.2 million** and diluted EPS was **\$0.97** **\$1.50** for the first **six nine** months of 2024, compared to net income of **\$14.6 million** **\$22.4 million** and diluted EPS of **\$0.85** **\$1.31** for the first **six nine** months of 2023. ROA for the first **six nine** months of 2024 was **0.77%** **0.79%**, an increase from **0.73%** **0.74%** for the first **six nine** months of 2023. In addition, ROE increased to **8.63%** **8.83%** for the first **six nine** months of 2024 from **8.13%** **8.25%** for the first **six nine** months of 2023.

The following narrative discusses the period-to-period changes in net interest income, non-interest income, non-interest expense and income taxes:

Net Interest Income

Summary of Net Interest Income

(Dollars in Thousands)

	Six Months Ended		June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2023	Change	% Change	Nine Months Ended		September 30, 2024	September 30, 2024	September 30, 2024	September 30, 2023	Change	% Change	
	Interest and Dividend Income	Interest and Dividend Income	Interest and Dividend Income	\$ 94,649	\$ 76,123	\$ 18,526	24.3	24.3 %	Interest and Dividend Income	\$ 144,092	\$ 118,240	\$ 25,852	23.0	23.0 %			
Interest Expense																	
Interest Expense				41,042	22,257	22,257	18,785	18,785	84.4	84.4 %	62,047	39,021	39,021	23,000	23,000	23.0 %	



Net interest income for the first **six** nine months of 2024 decreased \$0.3 million **increased** \$2.8 million, or **0.5%** **3.6%**, as compared to the first **six** nine months of 2023. Total loans at **June 30, 2024** **September 30, 2024** increased **\$245.6 million** **\$201.3 million** from **June 30, 2023** **September 30, 2023**. Investments decreased **\$137.6 million** **\$117.0 million** from **June 30, 2023** **September 30, 2023**. At **June 30, 2024** **September 30, 2024**, deposit balances were **\$3.7 billion** **\$3.8 billion**. The decline of deposits from **June 30, 2023** **September 30, 2023** to **June 30, 2024** **September 30, 2024** was **\$181.4 million** **\$171.0 million**, or **5.2%** **4.7%**. Net interest margin for the first **six** nine months of 2024 decreased **151** basis points point to **2.64%** **2.69%**, from **2.79%** **2.70%** for the first **six** nine months of 2023. Average earning asset yields were **72.69** basis points higher as compared to the first **six** nine months of 2023, primarily due to higher market rates. The cost of interest-bearing liabilities increased **108.86** basis points from the first **six** nine months of 2023. Arrow defines net interest margin as net interest income divided by average earning assets, annualized. Further detailed information is presented above under the section entitled "Average Consolidated Balance Sheets and Net Interest Income Analysis." The impact of recent interest rate changes on Arrow's deposit and loan portfolios are discussed above in this Report under the sections entitled "Deposit Trends" on page 63 and "Loan Trends" on page 61.

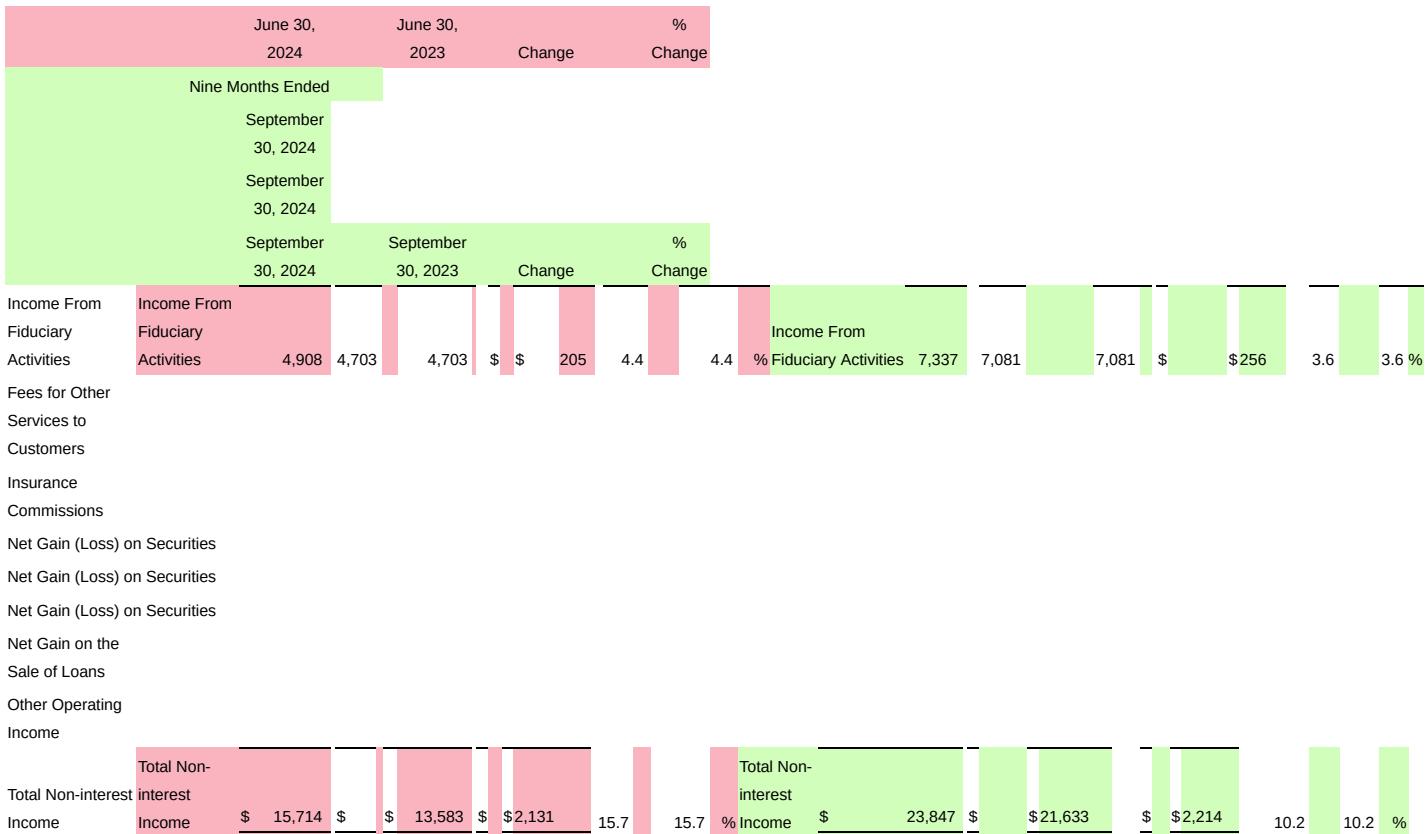
As discussed previously under the heading "Asset Quality" beginning on page 65, the provision for loan losses for the first **six** **nine** months of 2024 was **\$1.4 million** **\$2.3 million**, compared to **\$2.5 million** **\$2.9 million** for the first **six** **nine** months of 2023.

Non-interest Income

Summary of Non-interest Income

(Dollars in Thousands)

Six Months Ended
June 30,
2024
June 30,
2024



Total non-interest income for the first **six** nine months of 2024 was **\$15.7 million** **\$23.8 million**, an increase of **\$2.1 million** **\$2.2 million** from the first **six** nine months of 2023. Income from fiduciary activities for the first **six** nine months of 2024 increased by **4.4%** **3.6%** from the first **six** nine months of 2023, primarily due to market performance. For the first **six** nine months of 2024, Arrow has been able to maintain a stable customer base.

Fees for other services to customers were \$5.2 million \$8.1 million for the first six nine months of 2024 relatively consistent with the prior year comparative period.

Insurance commissions were \$3.3 million for the first nine months of 2024, an increase of \$264 thousand or 8.6%, from the first nine months of 2023. The increase was partially attributable to the A&B Acquisition which occurred in the third quarter of 2024.

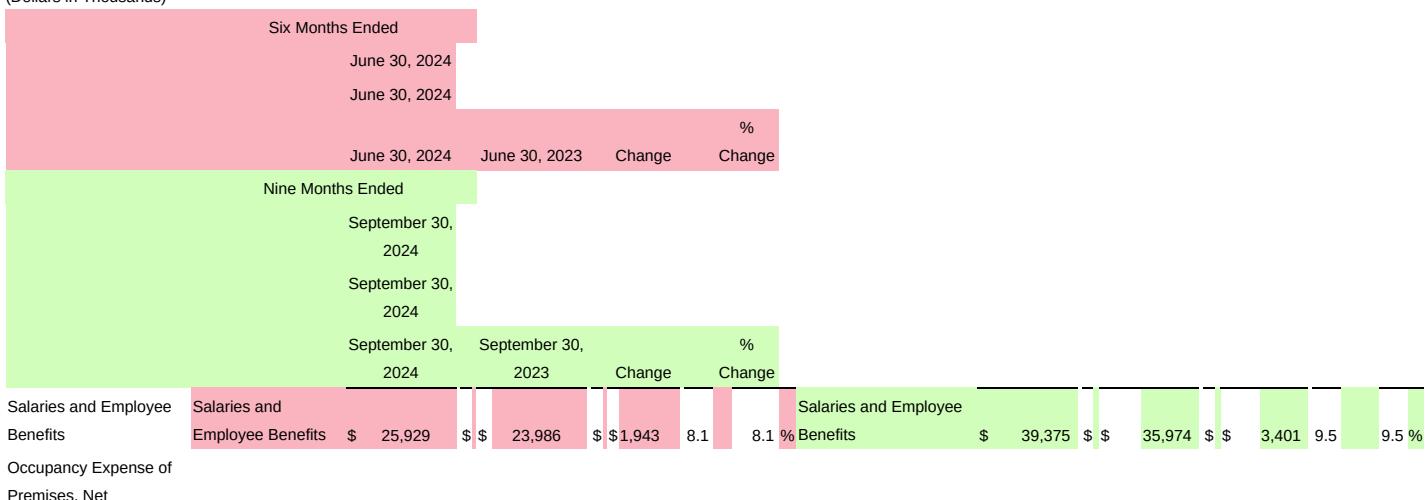
Net loss on security transactions of \$71,165 thousand for the first six months of 2024 was the result of the increase in the fair value of equity securities.

Other operating income increased \$1.4 million \$888 thousand from the comparable period in 2023, due partially attributable to gains on other assets as well as the gain on the sale of assets received in 2024.

Noninterest Expense

Noninterest Expense

Summary of Net Inter (Dollars in Thousands)



Technology and
Equipment Expense
FDIC and FICO
Assessments
Amortization
Other Operating Expense

Total Noninterest
Expense

Efficiency Ratio	Efficiency Ratio	67.90 %	67.94 %	(0.04)%	(0.1) %	Efficiency Ratio	67.10 %	68.60 %	(1.50) %	(2.2) %
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Noninterest expense for the first **six** **nine** months of 2024 was **\$47.3 million** **\$71.4 million**, an increase of **\$1.0 million** **\$1.6 million**, or **2.1%** **2.3%**, from the first **six** **nine** months of 2023. Salaries and benefit expenses increased **\$1.9 million** **\$3.4 million**, or **8.1%** **9.5%**, from the comparable period in 2023 primarily driven by the overall growth in organization and inflation driven wage increases. Technology expenses increased **\$775 thousand** **\$1.1 million**, or **8.8%** **8.3%**, from the first **six** **nine** months of 2023. Other non-interest expense decreased **\$2.5 million** **\$4.2 million** for the first **six** **nine** months of 2024, as compared to the first **six** **nine** months of 2023. Other operating expense decreased from the prior year as previous filing delays and related matters are resolved.

Income Taxes

Summary of Income Taxes

(Dollars in Thousands)

		Six Months Ended					
		June 30, 2024	June 30, 2023	Change	%		
		June 30, 2024	June 30, 2023	Change	%		
		Nine Months Ended					
		September 30, 2024	September 30, 2023	Change	%		
		September 30, 2024	September 30, 2023	Change	%		
Provision for Income Taxes	Provision for Income Taxes	\$ 4,335	\$ 3,959	\$ 376	9.5 %	9.5 %	Provision for Income Taxes \$ 6,897
Effective Tax Rate	Effective Tax Rate	21.0 %	21.3 %	(0.3)%	(1.4) %	Rate	Effective Tax Rate 21.5 %
							\$ 5,786
							\$ 1,111
							19.2 %
							19.2 %
							4.4 %

The increase in the effective tax rate for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to a change in pre-tax income combined with a decrease in the amount of tax advantaged earning assets as a percentage of total earning assets.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to credit risk in the loan portfolio and liquidity risk, discussed earlier, Arrow's business activities also generate market risk. Market risk is the possibility that changes in future market rates (interest rates) or prices (market value of financial instruments) will make Arrow's position (i.e., assets and operations) less valuable. Arrow's primary market risk is interest rate volatility. The ongoing monitoring and management of interest rate risk is an important component of the 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 the asset/liability profile based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends.

Changes in market interest rates, whether increases or decreases, can trigger repricing and changes in the pace of payments for both assets and liabilities (prepayment risk). This may individually or in combination affect net interest income, net interest margin, and ultimately net income, either positively or negatively. ALCO utilizes the results of a detailed and dynamic simulation model to quantify this interest rate risk by projecting net interest income in various interest rate scenarios.

Arrow's standard simulation model applies a parallel shift in interest rates, ramped over a 12-month period, to capture the impact of changing interest rates on net interest income. The results are 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 100 and 200 basis point downward and a 200 basis point upward shift in interest rates. Additional tools to monitor potential longer-term interest rate risk, including periodic stress testing involving hypothetical sudden and significant interest rate spikes, are also evaluated.

The following table summarizes the percentage change in net interest income as compared to the base scenario, which assumes no change in market interest rates as generated from the standard simulation model. The results are presented for each of the first two years of the simulation period for the 100 and 200 basis point decreases in interest rate scenario and the 200 basis point increase in interest rate scenario. These results are well within the ALCO policy limits.

As of **June 30, 2024** **September 30, 2024**:

Change in Interest Rate	Change in Interest Rate	Calculated change in Net Interest Income - Year 1	Calculated change in Net Interest Income - Year 2	Change in Interest Rate	Calculated change in Net Interest Income - Year 1	Calculated change in Net Interest Income - Year 2
- 200 basis points	- 200 basis points	2.3%	10.3%	- 200 basis points	0.9%	4.7%
- 100 basis points	- 100 basis points	1.3%	13.6%	- 100 basis points	0.6%	9.4%
+200 basis points	+200 basis points	(3.9)%	15.6%	+200 basis points	(2.3)%	15.6%

The balance sheet shows an inverse relationship between changes in prevailing rates and Arrow's net interest income in the near term, suggesting that liabilities and sources of funds generally reprice more quickly than earning assets. However, when net interest income is simulated over a longer time frame, the balance sheet shows a relatively neutral profile with long-term asset sensitivity, as asset yields continue to reprice while the cost of funding reaches assumed ceilings or floors.

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, Arrow 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.

Item 4.

CONTROLS AND PROCEDURES

Management, under the supervision and with the participation of the Chief Executive Officer ("CEO") (who is our principal executive officer) and Chief Financial Officer ("CFO") (who is our principal financial officer), evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of **June 30, 2024** **September 30, 2024**. The term "disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that:

- information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms; and
- information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, or persons and committees performing similar functions, such as the Audit Committee, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, management concluded that our internal control over financial reporting was not effective due to the following unremediated material weaknesses identified in our internal control over financial reporting, previously disclosed on the 2023 Form 10-K:

- We did not maintain effective monitoring controls related to 1) Internal Audit's testing of management's internal control over financial reporting, 2) the completeness and accuracy of information presented to the Audit Committee by Internal Audit, and 3) the related Audit Committee oversight over Internal Audit's testing of management's internal control over financial reporting.
- With regard to the conversion of our core banking information technology system, we did not effectively perform risk assessment procedures to identify the impact of the conversion on our internal control over financial reporting.

The material weaknesses did not result in a material misstatement of our annual or interim financial statements or previously released financial results. For additional information please refer to Part II - Item 9A. of the 2023 Form 10-K.

Prior to filing this Report, we performed relevant and responsive substantive procedures as of **June 30, 2024** **September 30, 2024**, in order to complete our financial statements and related disclosures. Based on these procedures, management believes that our consolidated financial statements included in this Report have been prepared in accordance with GAAP. Our CEO and CFO have certified that, based on their knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of the dates, and for the periods presented in this Report.

Remediation Efforts to Address the Material Weaknesses

The aforementioned material weaknesses were previously disclosed in the 2023 and 2022 Forms 10-K. While the Company has improved its organizational capabilities and implemented necessary remediation measures, the remediation steps taken were not in place for a sufficient amount of time for the material weaknesses to be considered remediated as of **June 30, 2024** **September 30, 2024**. Accordingly, the Company will continue to monitor its remediation measures in the **remaining quarters** **final quarter** of 2024 in order to confirm effective remediation of the identified material weaknesses.

During the year ended December 31, 2023 and through the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, management initiated and/or completed the following remedial actions:

- The Company evaluated the assignment of responsibilities of internal and external resources associated with the performance of internal controls over financial reporting and hired additional resources, contracted external resources, and/or provided additional training to existing resources as appropriate. In addition, we have initiated a process to identify and maintain the information required to support the functioning of internal control.
- Audit Committee and management implemented the following actions to improve the monitoring activities related to Audit Committee oversight over Internal Audit's testing of management's internal control over financial reporting:
 - Increased the frequency and depth of reporting to the Audit Committee through the creation of a sub-committee of Audit Committee members that meet in the months in which the full Audit Committee does not have scheduled meetings or as needed.
 - Instituted more frequent Audit Committee meetings to facilitate timely review of matters related to the results of the Company's monitoring program and Internal Audit's progress against their plan as well as status of control testing results.

- Developed a comprehensive internal audit strategy and program to test management's controls over financial reporting.
- Developed a robust reporting mechanism to ensure the completeness, accuracy and improved effectiveness of information which is presented on a timely basis to the Audit Committee to help fulfill the Audit Committee's oversight responsibilities.
- Utilized monthly dashboards to report status and results of internal audits as well as operations of internal controls over financial reporting.
- Engaged a professional services firm to review the Company's control program required by the Sarbanes-Oxley Act of 2002, as amended, and assist management with its overall Company-wide processes and with selecting and developing control activities designed to mitigate risks and support achievement of control objectives.
- Performed a thorough risk assessment to identify the impact of the core banking system conversion on our internal control over financial reporting. As a result, the company identified the need for additional controls to mitigate risks and support the achievement of control objectives. These controls are being implemented as part of the ongoing, overall remediation efforts.

The actions that we are taking are subject to ongoing management review and Audit Committee oversight to ensure they remain in place and continue to operate in order to be deemed effective.

Changes in Internal Control Over Financial Reporting

Except for the remediation measures in connection with the material weaknesses described above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the quarter ended **June 30, 2024** **September 30, 2024** that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.

Legal Proceedings

Except as noted below, Arrow, including its subsidiary banks, subsidiaries, is not currently the subject of any material pending legal proceedings, other than ordinary routine litigation occurring in the normal course of their business. On an ongoing basis, Arrow is often the subject of, or a party to, various legal claims by other parties against Arrow, by Arrow against other parties, or involving Arrow, which arise in the normal course of business. Except as noted below, the The various pending legal claims against Arrow will not, in the opinion of management based upon consultation with counsel, result in any material liability. Legal expenses incurred in connection with loss contingencies are expensed as incurred.

As previously disclosed in certain of the Company's filings with the SEC, on June 23, 2023, Robert C. Ashe filed a putative class action complaint (the "Ashe Lawsuit") against the Company in the United States District Court for the Northern District of New York. In addition to the Company, the complaint names as defendants Thomas J. Murphy, the Company's former CEO and from September 30, 2022 to February 20, 2023, its interim CFO, Edward J. Campanella, the Company's former CFO, and Penko Ivanov, the Company's current CFO ("Individual Defendants" and, together with the Company, the "Defendants"). The complaint alleges that the Defendants made materially false and misleading statements regarding the Company's business, operations and compliance policies in the Company's public filings between March 12, 2022 and May 12, 2023. The complaint further alleges that the Individual Defendants are liable for these materially false and misleading statements as "controlling persons" of the Company. Based on these allegations, the complaint brings two claims for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and of Section 20(a) of the Exchange Act. Mr. Ashe, on behalf of a purported class of shareholders, seeks compensatory damages as well as recovery of the costs and fees associated with the litigation. On December 5, 2023, plaintiff Ashe filed an amended complaint that changed the putative class period to the period from August 5, 2022 through May 12, 2023, but challenged substantially the same statements on the same basis. On February 9, 2024, the Company moved to dismiss the action in its entirety. On **April 22, 2024** **June 7, 2024**, the parties reached an agreement in principle a settlement (subject to settle the matter, subject to final documentation and court approval. Management believes that the terms of the proposed) The pending settlement will not have a material adverse impact on the Company's financial results. In results or position. On August 26, 2024, the event that court granted preliminary approval of the parties are not able to finalize settlement and set a settlement, the Company intends to continue to vigorously defend against the claims asserted in the Ashe Lawsuit. final approval hearing for January 10, 2025.

On December 12, 2023 the Company became aware that Stephen Bull filed a complaint (the "Shareholder Derivative Complaint") on behalf of Arrow against the three individual defendants in the Ashe Lawsuit as well as against all members of Arrow's board of directors during the class period in Ashe. The Company is named solely as a nominal defendant in the action and would be the beneficiary of any recovery. The Shareholder Derivative Complaint alleges breaches of fiduciary duty (i) by the Ashe individual defendants based on substantially the same allegedly misleading statements pleaded in the Ashe complaint; and (ii) the director defendants by failing to adequately to oversee the individual defendants and maintain internal and disclosure controls. Plaintiffs seek (i) unspecified damages (which would be payable to the Company) for costs incurred as a result of the alleged misstatements, including costs of investigation, remediation, and litigation, (ii) repayment of the director defendants' compensation on an unjust enrichment theory, and (iii) an order directing the Company to take all necessary actions to reform and improve its corporate governance, and (iv) the recovery of costs and fees associated with the litigation. The Shareholder Derivative Complaint also asserts various federal securities claims based on the same alleged misrepresentations as set forth in the Ashe Lawsuit. The Company is parties are in active settlement negotiations, in this matter and expects to reach while the case is currently stayed pending disposition of Ashe. Management does not expect a resolution in the not too distant future. Management believes that any settlement to be reached will not have a material adverse impact on the Company's financial results. In the event that the parties are not able to reach a settlement, the Company intends to continue to vigorously defend itself against the Shareholder Derivative Complaint.

results or position.

Item 1.A.

Risk Factors

The Risk Factors identified in the 2023 Form 10-K continue to represent the most significant risks to Arrow's future results of operations and financial conditions, without further modification or amendment.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

The following table presents information about purchases of common stock (our only class of equity securities registered pursuant to Section 12 of the Exchange Act) by Arrow during the three months ended **June 30, 2024** **September 30, 2024**. In October 2023, the Board of Directors expanded the 2022 Repurchase Program by \$5 million, bringing the total availability under the repurchase program to \$9.1 million, and removed the expiration date previously incorporated into the existing repurchase program. In the first quarter of 2024, Arrow repurchased approximately \$6.0 million (244,000 shares of its common stock) under the 2022 Repurchase Program and additional purchases in April 2024 fully utilized the \$9.1 million authorized program amount.

On April 24, 2024, the Board approved the 2024 Repurchase Program, under which the Board authorized management, in its discretion to repurchase from time to time, in the open market or in privately negotiated transactions, up to \$5 million of Arrow common stock. No shares were purchased under the 2024 Repurchase Program during the three months ended September 20, 2024.

Second Quarter

Third Quarter 2024 Calendar Month	(A) Total Number of Shares Purchased ¹	(B) Average Price Paid Per Share ¹	(C) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ²	(D) Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs ³	
				Shares Purchased as Part of Publicly Announced Plans or Programs ²	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs ³
April July	18,924 32,563	\$ 24.22 27.16	18,924 —	\$ —	5,000,000
May August	42,244 —	24.80 —	—	—	5,000,000
June September	63,105 —	24.85 —	—	—	5,000,000
Total	124,273 32,563	24.74 27.16	18,924 —	—	—

¹ The total number of shares purchased and the average price paid per share listed in columns (A) and (B) consist of (i) any shares purchased in such periods in the open market under the ESOP on behalf of the participants under the ESOP by the administrator of the ESOP and (ii) any shares repurchased by Arrow pursuant to the Company's 2022 2024 Repurchase Program. In the months indicated, the listed number of shares purchased included the following number of shares purchased by Arrow and the ESOP through such methods: April - repurchased under the 2022 Repurchase Program (18,924 shares); May July - purchased by the ESOP (42,244 (32,563 shares); August - none; and June September - purchased by the ESOP (63,105 shares.) none.

² Includes only those shares acquired by Arrow pursuant to the 2022 Repurchase Program. No shares were acquired under the 2024 Repurchase Program in April, May July, August or June, September 2024.

³ Reflects the approximate dollar value of shares that may yet be purchased under the 2024 Repurchase Program, as the purchases in April under the 2022 Repurchase Program fully utilized the \$9.1 million authorized program amount of the 2022 Repurchase Program.

Item 3.

Defaults Upon Senior Securities - None

Item 4.

Mine Safety Disclosures - None

Item 5.

Other Information

Appointment of New Directors

The Board of Directors of the Company has reset the number of the directors of the Board to 13 members and effective November 5, 2024, has appointed James M. Dawsey, Kristine D. Duffy, Ed D., Philip C. Morris and Daniel J. White to serve as new directors to the Board.

All of the new directors except Daniel J. White are currently serving as directors of the Company's subsidiary banks. Biographical information of the new directors is set forth below.

James M. Dawsey, 72	Mr. Dawsey graduated from Manhattan College in 1975 with a civil engineering degree and has a master's degree from SUNY Plattsburgh. He is currently the President and CEO of MLB Construction Services LLC. He is a member of the Board of Directors and serves as Vice Chair on the Executive Board for Eastern Contractor's Association and he is a Trustee of Local #157.
Kristine D. Duffy, Ed.D. 59	Dr. Duffy has been the President of SUNY Adirondack since 2013. She has significant experience in New York state higher education. She served for seven years as vice president of Enrollment Management and Student Services at Onondaga Community College and six years as dean of Enrollment Management at Cayuga Community College. She holds a Doctor of Education in Executive Leadership from St. John Fisher College.
Philip C. Morris, 69	Mr. Morris is the CEO of Arts Center and Theater of Schenectady, Inc. dba Proctors Collaborative. Mr. Morris has nearly 50 years cultural facilities and development experience, renovating over 20 buildings for cultural uses and raising over \$200 million for those projects. In addition, he oversees operations of the facilities in Schenectady, Saratoga Springs and Albany attracting nearly one million visitors a year.
Daniel J. White, 60	Mr. White is the former Office Managing Partner for KPMG LLP's Albany and Upstate Offices, retiring from KPMG LLP in September 2023. He specialized in community bank auditing and accounting, SEC reporting and related matters, bank internal controls, corporate governance, credit review, public stock and debt offerings, pensions and benefits, and mergers and acquisitions throughout his 37-year career. Mr. White is a Certified Public Accountant.

There are no arrangements between the new directors and any other person pursuant to which such director was elected to serve as a director.

All of the new directors except James M. Dawsey have been determined to be independent. As previously disclosed in our Annual Reports on Form 10-K for the years ended December 31, 2022 and 2023, James M. Dawsey is the Chief Executive Officer of MLB Construction Services, the general contractor which led the recently-completed, multi-year renovation project to enhance and improve the downtown Glens Falls, New York Company Main Campus (the "Renovation"). The terms of the engagement with MLB Construction Services, from the Company's perspective, were no less favorable than terms the Company could have obtained from a non-related party for comparable services in an arms-length transaction. Arrow paid MLB Construction Services \$2.8 million in 2023 for services rendered in connection with the Renovation. From January 1, 2024 until September 30, 2024, the Company has paid MLB Construction Services \$86 thousand for services rendered with respect to the Renovation. The Company does not expect that additional amounts paid to MLB Construction Services in 2024 will be material.

There are no other related party transactions between the Company and the new directors that would require disclosure under Item 404(a) of Regulation S-K.

In connection with the appointment to the Board, Mr. White was also appointed to the Audit Committee, given his demonstrated financial expertise.

Each of the new directors will receive compensation as outlined in the Company's most recent proxy statement, which was filed with the Securities Exchange Commission on April 25, 2024 (the "2024 Proxy Statement"). This compensation shall be pro-rated, based on the total number of days served for the calendar year. For additional information on director compensation paid by Arrow to its directors, please see the 2024 Proxy Statement under the heading Director Compensation.

Rule 10b5-1 Trading Arrangements

On May 13, 2024 During the three months ended September 30, 2024, Arrow Director Raymond F. O'Conor adopted a Rule 10b5-1 Sales Plan to sell up to 2,000 shares per month starting on August 15, 2024 and ending on May 31, 2025. The maximum number of shares that may be sold during the term no director or officer of the plan Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is 20,000, defined in Item 408(a) of Regulation S-K.

Item 6.

Exhibits

<u>Exhibit Number</u>	<u>Exhibit</u>
3.(i)	Certificate of Incorporation of the Registrant as Amended through June 3, 2019, incorporated by reference from the Registrant's Current Report on Form 8-K filed June 5, 2019, Exhibit 3.1
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 February 1, 2024, Exhibit 3.1

The following exhibits are submitted herewith:

<u>Exhibit Number</u>	<u>Exhibit</u>
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
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Management contracts or compensation plans required to be filed as an exhibit.

SIGNATURES

Pursuant to the requirements 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

Registrant

August 8, November 7, 2024

Date

/s/ David S. DeMarco

David S. DeMarco

President and Chief Executive Officer

(Principal Executive Officer)

August 8, November 7, 2024

Date

/s/ Penko Ivanov

Penko Ivanov

Chief Financial Officer

(Principal Financial and Accounting Officer)

RESTRICTED STOCK AWARD AGREEMENT (this "Agreement") is entered into between Arrow Financial Corporation, a New York corporation (the "Company"), and _____ ("Grantee"), who is a valued and trusted employee of the Company or a subsidiary of the Company, and has been granted an opportunity to receive the aggregate number of shares of Restricted Stock of the Company ("Restricted Stock") identified above, subject to the terms and conditions set forth in this Agreement and in accordance with the Arrow Financial Corporation 2022 Long-Term Incentive Plan (the "Plan"), with the expectation that the provision of this award to Grantee will provide added incentive to work for the success of the Company and its subsidiaries. Unless otherwise indicated herein, all capitalized terms used herein shall have the same meaning given such terms in the Plan as in effect on the Date of Grant. The terms and conditions of said restricted stock award are as follows:

1. Grant of Restricted Stock. (a) As of the Date of Grant identified above, the Company hereby grants to Grantee the aggregate number of shares of Restricted Stock identified (the "Award"). (b) The Award is granted subject to the terms of this Agreement and the Plan, a copy of which has been made available to Grantee and shall be deemed a part of this Agreement as if fully set forth herein, if any provision of this Agreement conflicts with the expressly applicable terms of the Plan, the provisions of the Plan shall control and, if necessary, the applicable provisions of this Agreement shall be deemed to be amended to comply with the terms of the Plan. (c) This Agreement sets forth the terms of the agreement between Grantee and the Company with respect to the Award. By accepting the Award and executing this Agreement, Grantee agrees to be bound by all of the terms hereof.

2. Vesting. Subject to the provisions, exceptions and limitations set forth in this Agreement, including with respect to the requirement of continued Service, as defined below, the Restricted Stock shall vest over four years, 25% on each anniversary of the Date of Grant.

3. Restrictions on Transferability; Voting Rights. Until the Restricted Stock becomes vested as described in Section 2, the Restricted Stock may not be sold, transferred or otherwise alienated or hypothecated by Grantee except in the event of Grantee's death (in which such case, Sections 8 and 10 shall apply). Grantee and any permitted transferee of any interest in the Award shall have voting rights as

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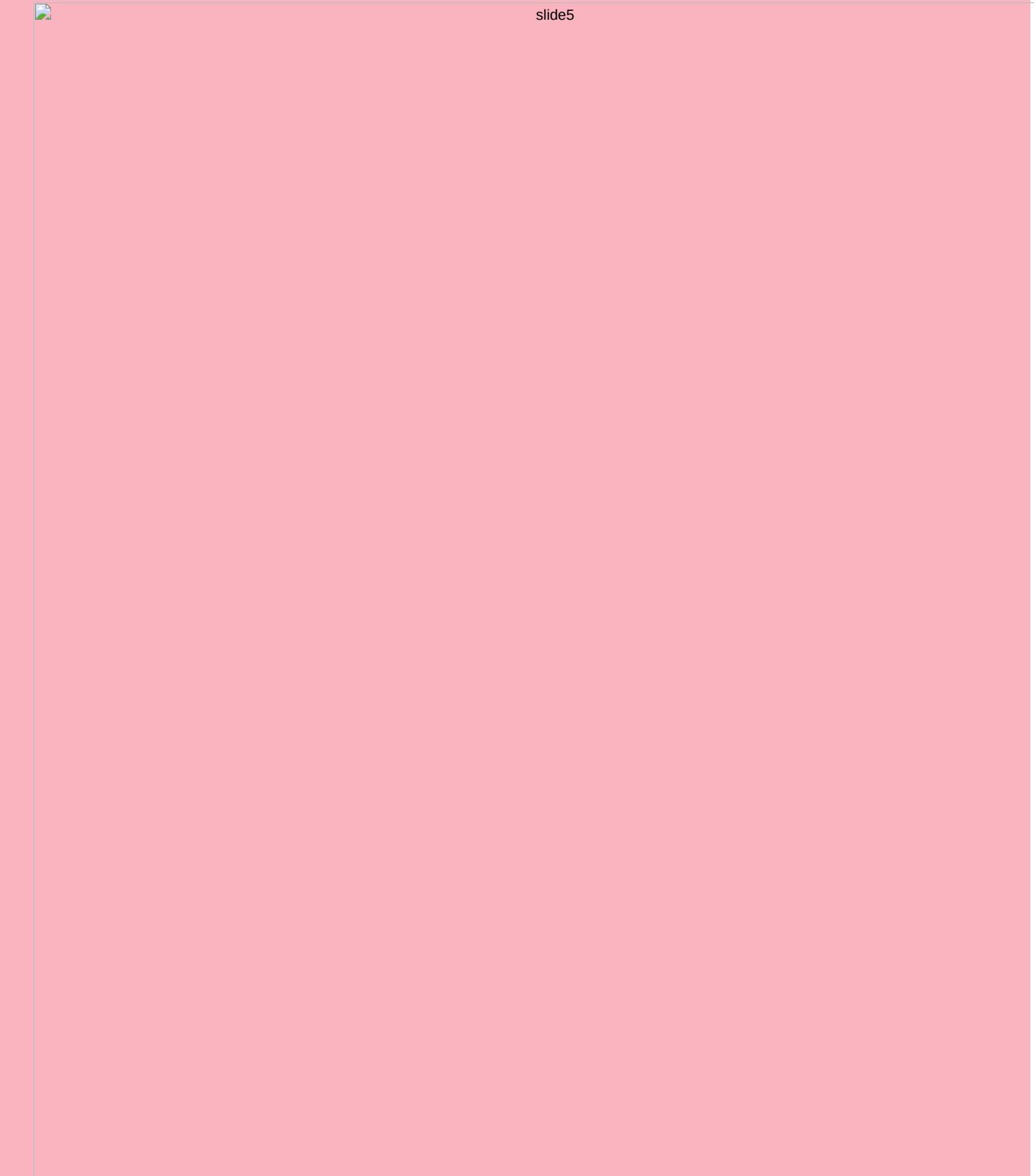
Certificate No. RS _____ (At-Will Employee Award) a shareholder with respect to any Restricted Stock to which the Award relates from the Date of Grant and thereafter, including prior to vesting of the Restricted Stock. 4. Expiration of Restrictions. The restrictions on all of the Restricted Stock granted pursuant to this Agreement will expire and the Restricted Stock shall become transferable and non-forfeitable at the time such Restricted Stock has vested pursuant to this Agreement. 5. Value of Restricted Stock. Restricted Stock consists of shares of common stock, par value \$1.00 per share of the Company ("Common Stock"), subject to the terms of this Agreement and the Plan. The "Fair Market Value" of a share of Common Stock as of any particular date is the closing price of a share of Common Stock on such date. 6. Issuance of Restricted Stock. The shares of Restricted Stock shall be held by the Company in the name of Grantee in book entry form until such Restricted Stock has vested pursuant to Section 2, subject to an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, as determined in the sole discretion of the Administrator. Once the Restricted Stock has vested, and subject to any applicable tax withholding, the Company shall register the Restricted Stock in Grantee's name, free of restriction under this Agreement, promptly after, and only after, such Restricted Stock has vested pursuant to Section 2. 7. Dividends and Distributions. Grantee shall be entitled to receive all cash dividends and distributions (or payments in cash equivalent to such dividends or distributions) as may be declared and paid by the Company with respect to the Restricted Stock, subject to applicable tax withholding. 8. Termination of Award. The Award, to the extent not previously vested, shall terminate upon a Termination Event; provided, however, that the Award shall become vested under the following circumstances, in which such case, the Restricted Stock shall be free of the restrictions upon the applicable vesting date: (a) on the date of Grantee's termination of Service, as a result of the death or Disability of Grantee; or (b) on the date of the Change of Control, in the event of a Change of Control; or (c) upon such other circumstance or circumstances arising after the Date of Grant and prior to termination of the Award as the Administrator may determine in its sole discretion from time to time as justifying such acceleration. Upon termination of the Award, all unvested shares of Restricted Stock under the Award shall be immediately forfeited to the Company along with any rights under this Agreement including any rights as a shareholder with respect to the Restricted Stock. Grantee's "Service" shall mean (i) the full- or part-time employment of Grantee with the Company and/or its subsidiaries as an employee, (ii) the rendering of services by Grantee for the Company and/or its subsidiaries under a Qualifying Services Contract, as defined below, or (iii) as a director on the Company's Board of Directors so long as there is no break in service between Grantee's serving as an employee of the Company and/or its subsidiaries and Grantee's service as a director of the Company. Service shall not be deemed to terminate for purposes of the Award due to a leave of absence required by law or otherwise granted by the Company or its subsidiaries or as a result of any transfer of the employment or service of Grantee between or among the Company and/or its subsidiaries or to any successor of the Company or its

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Certificate No. RS _____ (At-Will Employee Award) subsidiaries incident to any merger or similar business combination involving the Company or its subsidiaries that does not constitute a Change of Control. A "Qualifying Services Contract" shall mean a written agreement between Grantee and the Company under which Grantee shall continue to render services for the Company and/or its subsidiaries for a specified period of time following a Termination Event (or following termination of a prior Qualifying Services Agreement), which agreement satisfies each of the following conditions: (i) the services to be rendered thereunder by Grantee shall qualify as "substantial," as that term is defined and determined by the Administrator from time to time with such definition to be set forth or referenced in such agreement; (ii) Grantee in rendering such services shall be acting as or for an independent contractor and not as an employee of the Company and/or its subsidiaries; and (iii) there shall be no break in service between Grantee's Service (or serving under a prior Qualifying Services Contract) and serving under such agreement. 9. Adjustments. If, after the Date of Grant, all issued and outstanding shares of Common Stock shall be increased or decreased in number, pursuant to stock dividends, stock splits, consolidations of shares, recapitalizations, mergers, consolidations, reorganizations, combinations or exchange of shares or similar transactions, the number of shares to which the Award theretofore related shall be appropriately adjusted by the Company to provide the same overall economic value to Grantee immediately after the occurrence of such event as existed immediately prior to the occurrence of such event (subject to applicable rules and regulations); provided, however, that if the Company shall issue additional shares of Common Stock for a consideration, no such adjustment shall be made. 10. Designation of Beneficiary. Grantee may designate a person or persons to receive the Award in the event of the death of Grantee. Any such designation must be made upon properly completed forms supplied by and returned to the Company and, once made, may be revoked only in writing. If Grantee fails to designate a beneficiary, the estate of Grantee or any heir or successor who by reason of Grantee's death acquired the rights to the Award will be deemed to be the beneficiary of Grantee with respect to the Award. Any such person with rights under the Award shall possess all rights of Grantee under this Agreement with respect to such Award and shall remain subject to all the terms and conditions applicable thereto, including without limitation, the provisions of this Agreement. 11. Taxes and Withholding. The Company shall be entitled to withhold, and shall withhold, the minimum amount of any federal, state or local tax attributable to this Award (and may withhold such greater amount as is permissible under applicable tax, legal, accounting and other guidance), upon vesting of the shares of Restricted Stock, or pursuant to the occurrence of any other Taxable Event, after giving notice to Grantee as far in advance of the Taxable Event as practicable. Grantee is hereby notified that such withholding shall become due upon the occurrence of a taxable event (e.g., vesting of the Award in accordance with Sections 2 or 8 hereof, or upon a valid Section 83(b) election in accordance with Section 12 hereof). In any such case in which repayment or indemnification of such amount by or on behalf of Grantee is required, the Company may defer making delivery as to any Award until such repayment or indemnification is completed. Such withholding obligation of the Company may be satisfied by any reasonable method, including, by reducing the number of shares otherwise deliverable to or on behalf of Grantee on such Taxable Event by a number of shares having a Fair Market Value on the date of such Taxable Event equal to the amount of such withholding obligation. 12. Section 83(b) Election. Grantee hereby acknowledges that Section 83(a) of the Internal Revenue Code of 1986, as amended (the "Code"), taxes as ordinary income the difference between the amount paid for the Restricted Stock and the Fair Market Value of the Restricted Stock as of the date any restrictions on the Restricted Stock lapse. Grantee has been informed that, with respect to the shares of

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Certificate No. RS _____ (At-Will Employee Award) Restricted Stock, Grantee may file an election with the Internal Revenue Service, within 30 days following the Date of Grant, electing pursuant to Section 83(b) of the Code ("Section 83(b)") to be taxed currently on the Fair Market Value of the shares of Restricted Stock on the Date of Grant, in which case any future appreciation in the shares of Common Stock covered by the Award will be taxed as capital gains. Absent such an election, ordinary income will be measured and recognized by Grantee at the time or times which the Restricted Stock vests. Grantee is strongly encouraged to seek the advice of Grantee's tax advisors connection with the advisability of the filing of the election under Section 83(b). Grantee further acknowledges that the Company has directed Grantee to seek independent advice regarding the applicable provisions of the Code, the income tax laws of any municipality, state or foreign country in which Grantee may reside and the tax consequences of Grantee's death. GRANTEE ACKNOWLEDGES THAT IT IS GRANTEE'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO PREPARE AND FILE A TIMELY ELECTION UNDER SECTION 83(b). EVEN IF GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON GRANTEE'S BEHALF (WHICH ELECTION THE COMPANY IS NOT IN ANY WAY RESPONSIBLE FOR), GRANTEE IS RELYING SOLELY ON GRANTEE'S ADVISORS AND NOT THE COMPANY WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION. A form of election under Section 83(b) is attached to this Award as Schedule I. By acceptance of this Agreement, Grantee agrees that if Grantee makes such an election, Grantee shall provide the Company with written notice thereof in accordance with the regulations promulgated under Section 83(b) of the Code within 5 business days of such election. 13. Grantee Representations and Warranties. Grantee represents, warrants, and agrees as follows, and the parties agree that the Company may rely on the same in consummating the issuance of any Common Stock pursuant to this Agreement: (a) Grantee is entering into this Agreement, and will acquire the Restricted Stock, solely on the basis of Grantee's own familiarity with the Company and all relevant factors about the Company's affairs, and neither the Company nor any agent of the Company has made any express or implied representations, covenants, or warranties to Grantee with respect to such matters. (b) Grantee is acquiring the Restricted Stock for Grantee's own account for investment and not with a view to the resale or distribution of the Restricted Stock. (c) Grantee is willing and able to bear the economic risk of an investment in the Restricted Stock (in making this representation, attention has been given to whether Grantee can afford to hold the Restricted Stock for an indefinite period of time and whether, at this time, Grantee can afford a complete loss of the investment). 14. Other Terms and Conditions. (a) No Guaranty of Service. The granting of the Award will not confer upon Grantee any right to continued Service with the Company or its subsidiaries, nor will



Certificate No. RS _____ (At-Will Employee Award) applicable laws and regulations as are in effect from time to time, including all applicable requirements of federal and state securities laws, (ii) all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed and (iii) current or subsequently adopted policies or guidelines issued by the Company or the Board of Directors of the Company (or a duly authorized committee thereof), or as required by applicable law or any applicable securities exchange listing standards in each case, impacting such compensation or benefits pursuant to the terms of such applicable laws, regulations, policies or guidelines (e.g., clawback or incentive compensation recoupment policies, insider trading and/or stock ownership guidelines). No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws, stock exchange(s) and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel. Grantee understands that the Company is under no obligation to register the shares of Common Stock with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance. (c) Notice. All notices or other communications relating to the Plan and this Agreement as it relates to Grantee shall be in writing and shall be delivered electronically, personally or mailed (U.S. mail) by the Company to Grantee at the then current address as maintained by the Company or such other address as Grantee may advise the Company in writing. (d) Headings. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement. (e) Amendment. Except as permitted by the Plan, this Agreement may not be amended, modified, terminated or otherwise altered except by the written consent of the Company and Grantee. (f) Entire Agreement. Except as otherwise provided herein, the Plan and this Agreement constitute the entire agreement between Grantee and the Company and supersede any prior understandings, agreements, or representations by or between the parties, written or oral, to the extent they relate in any way to the subject matter of this Agreement. (g) Acceptance. Grantee hereby acknowledges receipt of a copy of the Plan, the related Prospectus and this Agreement. Grantee acknowledges that there may be adverse tax consequences upon the grant or vesting of the Restricted Stock or disposition of the shares and that Grantee has been advised to consult a tax advisor prior to such grant, vesting or disposition. (h) Counterparts. This Agreement may be executed in any number of identical counterparts, each of which shall be deemed an original for all purposes, but all of which taken together shall form one agreement. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the

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Certificate No. RS _____ (At-Will Employee Award) original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature. To the extent this Award is presented electronically, this Award shall be null and void unless Grantee electronically accepts this Award and this Agreement within Grantee's stock plan account with the Company's stock plan administrator according to the procedures then in effect. [Signature page follows]



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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer as of the Date of Grant first above written. ARROW FINANCIAL CORPORATION
By: _____ Name: _____ Title: _____ ACKNOWLEDGED AND AGREED: _____ [Grantee] Date: _____

Address: _____



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8 Schedule I ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986 The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code, to include in taxpayer's gross income for the current taxable year, the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below: 1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows: NAME OF TAXPAYER: NAME OF SPOUSE: ADDRESS: IDENTIFICATION NUMBER OF TAXPAYER: IDENTIFICATION NUMBER OF SPOUSE: TAXABLE YEAR: 2. The property with respect to which the election is made is described as follows: [INSERT]. 3. The date on which the property was transferred is: [INSERT]. 4. The property is subject to the following restrictions: [INSERT] 5. The aggregate fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: [INSERT]. 6. The amount, if any, paid for such property is: [INSERT].



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9 The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property. The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner. Dated: [TAXPAYER] Dated: [SPOUSE]



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Certificate No. RS _____ (Contracted Employee Award) ARROW FINANCIAL CORPORATION 2022 Long-Term Incentive Plan RESTRICTED STOCK AWARD AGREEMENT (Contracted Employee)

Granted to: _____ Date of Grant: _____ Number of Shares of Restricted Stock: _____ THIS

RESTRICTED STOCK AWARD AGREEMENT (this "Agreement") is entered into between Arrow Financial Corporation, a New York corporation (the "Company"), and _____ ("Grantee"), who is a valued and trusted employee of the Company or a subsidiary of the Company, and has been granted an opportunity to receive the aggregate number of shares of Restricted Stock of the Company ("Restricted Stock") identified above, subject to the terms and conditions set

forth in this Agreement and in accordance with the Arrow Financial Corporation 2022 Long-Term Incentive Plan (the "Plan"), with the expectation that the provision of this award to Grantee will provide added incentive to work for the success of the Company and its subsidiaries. Unless otherwise indicated herein, all capitalized terms used herein shall have the same meaning given such terms in the Plan as in effect on the Date of Grant. The terms and conditions of said restricted stock award are as follows: 1. Grant of Restricted Stock. (a) As of the Date of Grant identified above, the Company hereby grants to Grantee the aggregate number of shares of Restricted Stock identified (the "Award"). (b) The Award is granted subject to the terms of this Agreement and the Plan, a copy of which has been made available to Grantee and shall be deemed a part of this Agreement as if fully set forth herein. If any provision of this Agreement conflicts with the expressly applicable terms of the Plan, the provisions of the Plan shall control and, if necessary, the applicable provisions of this Agreement shall be deemed to be amended to comply with the terms of the Plan. (c) This Agreement sets forth the terms of the agreement between Grantee and the Company with respect to the Award. By accepting the Award and executing this Agreement, Grantee agrees to be bound by all of the terms hereof. 2. Vesting. Subject to the provisions, exceptions and limitations set forth in this Agreement, including with respect to the requirement of continued Service, as defined below, the Restricted Stock shall vest over four years, 25% on each anniversary of the Date of Grant. 3. Restrictions on Transferability; Voting Rights. Until the Restricted Stock becomes vested as described in Section 2, the Restricted Stock may not be sold, transferred or otherwise alienated or hypothecated by Grantee except in the event of Grantee's death (in which such case, Sections 8 and 10 shall apply). Grantee and any permitted transferee of any interest in the Award shall have voting rights as

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Certificate No. RS _____ (Contracted Employee Award) a shareholder with respect to any Restricted Stock to which the Award relates from the Date of Grant and thereafter, including prior to vesting of the Restricted Stock. 4. Expiration of Restrictions. The restrictions on all of the Restricted Stock granted pursuant to this Agreement will expire and the Restricted Stock shall become transferable and non-forfeitable at the time such Restricted Stock has vested pursuant to this Agreement. 5. Value of Restricted Stock. Restricted Stock consists of shares of common stock, par value \$1.00 per share of the Company ("Common Stock"), subject to the terms of this Agreement and the Plan. The "Fair Market Value" of a share of Common Stock as of any particular date is the closing price of a share of Common Stock on such date. 6. Issuance of Restricted Stock. The shares of Restricted Stock shall be held by the Company in the name of Grantee in book entry form until such Restricted Stock has vested pursuant to Section 2, subject to an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, as determined in the sole discretion of the Administrator. Once the Restricted Stock has vested, and subject to any applicable tax withholding, the Company shall register the Restricted Stock in Grantee's name, free of restriction under this Agreement, promptly after, and only after, such Restricted Stock has vested pursuant to Section 2. 7. Dividends and Distributions. Grantee shall be entitled to receive all cash dividends and distributions (or payments in cash equivalent to such dividends or distributions) as may be declared and paid by the Company with respect to the Restricted Stock, subject to applicable tax withholding. 8. Termination of Award. The Award, to the extent not previously vested, shall terminate upon a Termination Event; provided, however, that the Award shall become vested under the following circumstances, in which such case, the Restricted Stock shall be free of the restrictions upon the applicable vesting date: (a) on the date of Grantee's termination of Service, as a result of the death or Disability of Grantee; or (b) on the date of Grantee's termination of Service within twelve months of a Change of Control in the event (i) Grantee's Service is terminated by the Company without "Cause" or by Grantee for "Good Reason," as such terms are defined below, and (ii) Grantee timely signs and returns to the Company a release of claims against the Company in a form prepared by the Company (the "Release"). If Grantee fails to timely sign and return the Release to the Company or revokes the Release prior to the date the Release becomes effective, the unvested shares of Restricted Stock subject to this Agreement shall be forfeited; or (c) upon such other circumstance or circumstances arising after the Date of Grant and prior to termination of the Award as the Administrator may determine in its sole discretion from time to time as justifying such acceleration. For purposes of this Agreement, "Cause" shall mean any one or more of the following: (i) any willful misconduct by Grantee which is materially injurious to the Company or its affiliates, monetarily or otherwise; (ii) any willful failure by Grantee to follow the reasonable directions of the Board; (iii) any failure by Grantee substantially to perform any reasonable and lawful directions of the Board (other than failure resulting from Disability or death) within thirty (30) days after delivery to Grantee by the Board of



Certificate No. RS _____ (Contracted Employee Award) a written demand for substantial performance, which written demand shall specifically identify the manner in which the Board believes that Grantee has not substantially performed: (iv) any inability of Grantee to serve as an officer or director of the Company or any affiliate, as applicable, or perform any substantial portion of Grantee's duties, by reason of any order of a regulatory authority or agency having jurisdiction over the Company or any of its affiliates; (v) intentionally providing false or misleading information to, or otherwise misleading, the Board or any committee thereof; (vi) habitual insobriety, abuse of prescribed drugs, or illegal use of controlled substances that materially impairs Grantee's ability to perform Grantee's duties and/or negatively reflects upon the Company, its affiliates or their reputation; or (vii) any breach of any agreement with the Company or its affiliates that has a material and/or adverse economic effect on the Company and its subsidiaries, taken as a whole, if not cured within 30 days from Grantee's receipt from the Company of written notice thereof, specifying in reasonable detail the alleged breach; (viii) engaging in or directing others to engage in an act or omission, or series of actions, deemed to be fraudulent, dishonest or unlawful; (ix) any knowing and material violation of Grantee of corporate policies and procedures that result in the damage to the business or reputation of the Company or its affiliates, including without limitation, the Company's code of conduct, code of ethics, conflict of interest policies, or policies prohibiting discrimination, harassment or retaliation; (x) any knowing breach of the fiduciary duty or duty of loyalty of Grantee; or (xi) any demonstrated incompetence of Grantee. For purposes of this Agreement, "Good Reason" shall mean (i) the occurrence of a "Non-Offer of a Replacement Agreement" pursuant to Grantee's employment agreement with the Company, as the case may be; (ii) a material diminution in Grantee's title, authority, duties, or responsibilities without Grantee's prior consent; (iii) Grantee is required to relocate more than 100 miles from the base location at which Grantee currently performs Grantee's Service without Grantee's prior consent; or (iv) the occurrence of a material breach by the Company of any provision of Grantee's employment agreement with the Company, if any. Upon termination of the Award, all unvested shares of Restricted Stock under the Award shall be immediately forfeited to the Company along with any rights under this Agreement including any rights as a shareholder with respect to the Restricted Stock. Grantee's "Service" shall mean (i) the full- or part-time employment of Grantee with the Company and/or its subsidiaries as an employee, (ii) the rendering of services by Grantee for the Company and/or its subsidiaries under a Qualifying Services Contract, as defined below, or (iii) as a director on the Company's Board of Directors so long as there is no break in service between Grantee's serving as an employee of the Company and/or its subsidiaries and Grantee's service as a director of the Company. Service shall not be deemed to terminate for purposes of the Award due to a leave of absence required by law or otherwise granted by the Company or its subsidiaries or as a result of any transfer of the employment or service of Grantee between or among the Company and/or its subsidiaries or to any successor of the Company or its subsidiaries incident to any merger or similar business combination involving the Company or its subsidiaries that does not constitute a Change of Control. A "Qualifying Services Contract" shall mean a written agreement between Grantee and the Company under which Grantee shall continue to render services for the Company and/or its subsidiaries for a specified period of time following a Termination Event (or following termination of a prior Qualifying Services Agreement), which agreement satisfies each of the following conditions: (i) the services to be rendered thereunder by Grantee shall qualify as "substantial," as that term is defined and determined by the Administrator from time to time with such definition to be set forth or referenced in such agreement; (ii) Grantee in rendering such services shall be acting as or for an independent contractor and not as an employee of the Company and/or its subsidiaries; and (iii) there shall be no break in service between



Certificate No. RS _____ (Contracted Employee Award) Grantee's Service (or serving under a prior Qualifying Services Contract) and serving under such agreement. 9. Adjustments. If, after the Date of Grant, all issued and outstanding shares of Common Stock shall be increased or decreased in number, pursuant to stock dividends, stock splits, consolidations of shares, recapitalizations, mergers, consolidations, reorganizations, combinations or exchange of shares or similar transactions, the number of shares to which the Award theretofore related shall be appropriately adjusted by the Company to provide the same overall economic value to Grantee immediately after the occurrence of such event as existed immediately prior to the occurrence of such event (subject to applicable rules and regulations); provided, however, that if the Company shall issue additional shares of Common Stock for a consideration, no such adjustment shall be made. 10. Designation of Beneficiary. Grantee may designate a person or persons to receive the Award in the event of the death of Grantee. Any such designation must be made upon properly completed forms supplied by and returned to the Company and, once made, may be revoked only in writing. If Grantee fails to designate a beneficiary, the estate of Grantee or any heir or successor who by reason of Grantee's death acquired the rights to the Award will be deemed to be the beneficiary of Grantee with respect to the Award. Any such person with rights under the Award shall possess all rights of Grantee under this Agreement with respect to such Award and shall remain subject to all the terms and conditions applicable thereto, including without limitation, the provisions of this Agreement. 11. Taxes and Withholding. The Company shall be entitled to withhold, and shall withhold, the minimum amount of any federal, state or local tax attributable to this Award (and may withhold such greater amount as is permissible under applicable tax, legal, accounting and other guidance), upon vesting of the shares of Restricted Stock, or pursuant to the occurrence of any other Taxable Event, after giving notice to Grantee as far in advance of the Taxable Event as practicable. Grantee is hereby notified that such withholding shall become due upon the occurrence of a taxable event (e.g., vesting of the Award in accordance with Sections 2 or 8 hereof, or upon a valid Section 83(b) election in accordance with Section 12 hereof). In any such case in which repayment or indemnification of such amount by or on behalf of Grantee is required, the Company may defer making delivery as to any Award until such repayment or indemnification is completed. Such withholding obligation of the Company may be satisfied by any reasonable method, including, by reducing the number of shares otherwise deliverable to or on behalf of Grantee on such Taxable Event by a number of shares having a Fair Market Value on the date of such Taxable Event equal to the amount of such withholding obligation. 12. Section 83(b) Election. Grantee hereby acknowledges that Section 83(a) of the Internal Revenue Code of 1986, as amended (the "Code"), taxes as ordinary income the difference between the amount paid for the Restricted Stock and the Fair Market Value of the Restricted Stock as of the date any restrictions on the Restricted Stock lapse. Grantee has been informed that, with respect to the shares of Restricted Stock, Grantee may file an election with the Internal Revenue Service, within 30 days following the Date of Grant, electing pursuant to Section 83(b) of the Code ("Section 83(b)") to be taxed currently on the Fair Market Value of the shares of Restricted Stock on the Date of Grant, in which case any future appreciation in the shares of Common Stock covered by the Award will be taxed as capital gains. Absent such an election, ordinary income will be measured and recognized by Grantee at the time or times which the Restricted Stock vests.



Certificate No. RS _____ (Contracted Employee Award) the tax consequences of Grantee's death. GRANTEE ACKNOWLEDGES THAT IT IS GRANTEE'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO PREPARE AND FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON GRANTEE'S BEHALF (WHICH ELECTION THE COMPANY IS NOT IN ANY WAY RESPONSIBLE FOR). GRANTEE IS RELYING SOLELY ON GRANTEE'S ADVISORS AND NOT THE COMPANY WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION. A form of election under Section 83(b) is attached to this Award as Schedule I. By acceptance of this Agreement, Grantee agrees that if Grantee makes such an election, Grantee shall provide the Company with written notice thereof in accordance with the regulations promulgated under Section 83(b) of the Code within 5 business days of such election. 13. Grantee Representations and Warranties. Grantee represents, warrants, and agrees as follows, and the parties agree that the Company may rely on the same in consummating the issuance of any Common Stock pursuant to this Agreement: (a) Grantee is entering into this Agreement, and will acquire the Restricted Stock, solely on the basis of Grantee's own familiarity with the Company and all relevant factors about the Company's affairs, and neither the Company nor any agent of the Company has made any express or implied representations, covenants, or warranties to Grantee with respect to such matters. (b) Grantee is acquiring the Restricted Stock for Grantee's own account for investment and not with a view to the resale or distribution of the Restricted Stock. (c) Grantee is willing and able to bear the economic risk of an investment in the Restricted Stock (in making this representation, attention has been given to whether Grantee can afford to hold the Restricted Stock for an indefinite period of time and whether, at this time, Grantee can afford a complete loss of the investment). 14. Other Terms and Conditions. (a) No Guaranty of Service. The granting of the Award will not confer upon Grantee any right to continued Service with the Company or its subsidiaries, nor will it interfere in any way with the right of the Company or its subsidiaries to terminate the employment of Grantee at any time, with or without cause. (b) Compliance with Laws and Company Policies or Guidelines. This Award and any issuance and transfer of shares of Common Stock hereunder shall be subject to (i) applicable laws and regulations as are in effect from time to time, including all applicable requirements of federal and state securities laws, (ii) all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed and (iii) current or subsequently adopted policies or guidelines issued by the Company or the Board of Directors of the Company (or a duly authorized committee thereof), or as required by applicable law or any applicable securities exchange listings standards in each case, impacting such compensation or benefits pursuant to the terms of such applicable laws, regulations, policies or guidelines (e.g., clawback or incentive compensation recoupment policies, insider trading and/or stock ownership guidelines). No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and

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Certificate No. RS _____ (Contracted Employee Award) federal laws, stock exchange(s) and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel. Grantee understands that the Company is under no obligation to register the shares of Common Stock with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance. (c) Notice. All notices or other communications relating to the Plan and this Agreement as it relates to Grantee shall be in writing and shall be delivered electronically, personally or mailed (U.S. mail) by the Company to Grantee at the then current address as maintained by the Company or such other address as Grantee may advise the Company in writing. (d) Headings. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement. (e) Amendment. Except as permitted by the Plan, this Agreement may not be amended, modified, terminated or otherwise altered except by the written consent of the Company and Grantee. (f) Entire Agreement. Except as otherwise provided herein, the Plan and this Agreement constitute the entire agreement between Grantee and the Company and supersede any prior understandings, agreements, or representations by or between the parties, written or oral, to the extent they relate in any way to the subject matter of this Agreement. (g) Acceptance. Grantee hereby acknowledges receipt of a copy of the Plan, the related Prospectus and this Agreement. Grantee has read and understands the terms and provisions thereof, and accepts the Restricted Stock subject to all of the terms and conditions of the Plan, the Prospectus and this Agreement. Grantee acknowledges that there may be adverse tax consequences upon the grant or vesting of the Restricted Stock or disposition of the shares and that Grantee has been advised to consult a tax advisor prior to such grant, vesting or disposition. (h) Counterparts. This Agreement may be executed in any number of identical counterparts, each of which shall be deemed an original for all purposes, but all of which taken together shall form one agreement. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature. To the extent this Award is presented electronically, this Award shall be null and void unless Grantee electronically accepts this Award and this Agreement within Grantee's stock plan account with the Company's stock plan administrator according to the procedures then in effect. [Signature page follows]

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Certificate No. RS _____ (Contracted Employee Award)



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31664308.9 IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer as of the Date of Grant first above written. ARROW FINANCIAL CORPORATION
By: _____ Name: _____ Title: _____ ACKNOWLEDGED AND AGREED: _____ [Grantee] Date: _____

Address: _____



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9 31664309.9 Schedule I ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986 The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code, to include in taxpayer's gross income for the current taxable year, the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below: 1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows: NAME OF TAXPAYER: NAME OF SPOUSE: ADDRESS: IDENTIFICATION NUMBER OF TAXPAYER: IDENTIFICATION NUMBER OF SPOUSE: TAXABLE YEAR: 2. The property with respect to which the election is made is described as follows: [INSERT]. 3. The date on which the property was transferred is: [INSERT]. 4. The property is subject to the following restrictions: [INSERT] 5. The aggregate fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: [INSERT]. 6. The amount, if any, paid for such property is: [INSERT].



10 31664308.9 The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property. The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner. Dated: [TAXPAYER] Dated: [SPOUSE]

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Certificate No. RS _____ (Non-Employee Director Award) ARROW FINANCIAL CORPORATION 2022 Long-Term Incentive Plan RESTRICTED STOCK AWARD AGREEMENT (Non-Employee Director)

Granted to: _____ Date of Grant: _____ Number of Shares of Restricted Stock: _____ THIS

RESTRICTED STOCK AWARD AGREEMENT (this "Agreement") is entered into between Arrow Financial Corporation, a New York corporation (the "Company"), and _____ ("Grantee"), who is a valued and trusted Director, and has been granted an opportunity to receive the aggregate number of shares of Restricted Stock of the Company ("Restricted Stock") identified above, subject to the terms and conditions set forth in this Agreement and in accordance with the Arrow Financial Corporation 2022 Long-Term Incentive Plan (the "Plan"), with the expectation that the provision of this award to Grantee will provide added incentive to work for the success of the Company and its subsidiaries. Unless otherwise indicated herein, all capitalized terms used herein shall have the same meaning given such terms in the Plan as in effect on the Date of Grant. The terms and conditions of said restricted stock award are as follows:

1. Grant of Restricted Stock. (a) As of the Date of Grant identified above, the Company hereby grants to Grantee the aggregate number of shares of Restricted Stock identified (the "Award"). (b) The Award is granted subject to the terms of this Agreement and the Plan, a copy of which has been made available to Grantee and shall be deemed a part of this Agreement as if fully set forth herein. If any provision of this Agreement conflicts with the expressly applicable terms of the Plan, the provisions of the Plan shall control and, if necessary, the applicable provisions of this Agreement shall be deemed to be amended to comply with the terms of the Plan. (c) This Agreement sets forth the terms of the agreement between Grantee and the Company with respect to the Award. By accepting the Award and executing this Agreement, Grantee agrees to be bound by all of the terms hereof.

2. Vesting. Subject to the provisions, exceptions and limitations set forth in this Agreement, including with respect to the requirement of continued Service, as defined below, the Restricted Stock shall vest over four years, 25% on each anniversary of the Date of Grant.

3. Restrictions on Transferability. Voting Rights. Until the Restricted Stock becomes vested as described in Section 2, the Restricted Stock may not be sold, transferred or otherwise alienated or



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Certificate No. RS _____ (Non-Employee Director Award) hypothecated by Grantee except in the event of Grantee's death (in which such case, Sections 8 and 10 shall apply). Grantee and any permitted transferee of any interest in the Award shall have voting rights as a shareholder with respect to any Restricted Stock to which the Award relates from the Date of Grant and thereafter, including prior to vesting of the Restricted Stock. 4. Expiration of Restrictions. The restrictions on all of the Restricted Stock granted pursuant to this Agreement will expire and the Restricted Stock shall become transferable and non-forfeitable at the time such Restricted Stock has vested pursuant to this Agreement. 5. Value of Restricted Stock. Restricted Stock consists of shares of common stock, par value \$1.00 per share, of the Company ("Common Stock"), subject to the terms of this Agreement and the Plan. The "Fair Market Value" of a share of Common Stock as of any particular date is the closing price of a share of Common Stock on such date. 6. Issuance of Restricted Stock. The shares of Restricted Stock shall be held by the Company in the name of Grantee in book entry form until such Restricted Stock has vested pursuant to Section 2, subject to an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, as determined in the sole discretion of the Administrator. Once the Restricted Stock has vested, and subject to any applicable tax withholding, the Company shall register the Restricted Stock in Grantee's name, free of restriction under this Agreement, promptly after, and only after, such Restricted Stock has vested pursuant to Section 2. 7. Dividends and Distributions. Grantee shall be entitled to receive all cash dividends and distributions (or payment in cash equivalent to such dividends or distributions) as may be declared and paid by the Company with respect to the Restricted Stock, subject to applicable tax withholding. 8. Termination of Award. The Award, to the extent not previously vested, shall terminate upon a Termination Event; provided, however, that the Award shall become vested under the following circumstances, in which such case, the Restricted Stock shall be free of the restrictions upon the applicable vesting date: (a) on the date of Grantee's termination of Service as a result of the death or Disability of Grantee; or (b) on the date of the Change of Control, in the event of a Change of Control; or (c) upon such other circumstance or circumstances arising after the Date of Grant and prior to termination of the Award as the Administrator may determine in its sole discretion from time to time as justifying such acceleration. Upon termination of the Award, all unvested shares of Restricted Stock under the Award shall be immediately forfeited to the Company along with any rights under this Agreement including any rights as a shareholder with respect to the Restricted Stock. Grantee's "Service" shall mean (i) service as a Director of the Company or any subsidiary of the Company, as applicable, but excluding service as an honorary, advisory or emeritus director or any other individual whose title includes the word "director" but who does not possess all powers possessed by a



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Certificate No. RS _____ (Non-Employee Director Award) director as a matter of law, or (ii) the rendering of services by Grantee for the Company and/or its subsidiaries under a Qualifying Services Contract, as defined below. A "Qualifying Services Contract" shall mean a written agreement between Grantee and the Company under which Grantee shall continue to render services for the Company and/or its subsidiaries for a specified period of time following a Termination Event (or following termination of a prior Qualifying Services Agreement), which agreement satisfies each of the following conditions: (i) the services to be rendered thereunder by Grantee shall qualify as "substantial," as that term is defined and determined by the Administrator from time to time with such definition to be set forth or referenced in such agreement; (ii) Grantee in rendering such services shall be acting as or for an independent contractor and not as an employee of the Company and/or its subsidiaries; and (iii) there shall be no break in service between Grantee's Service (or serving under a prior Qualifying Services Contract) and serving under such agreement. 9. Adjustments. If, after the Date of Grant, all issued and outstanding shares of Common Stock shall be increased or decreased in number, pursuant to stock dividends, stock splits, consolidations of shares, recapitalizations, mergers, consolidations, reorganizations, combinations or exchange of shares or similar transactions, the number of shares to which the Award theretofore related shall be appropriately adjusted by the Company to provide the same overall economic value to Grantee immediately after the occurrence of such event as existed immediately prior to the occurrence of such event (subject to applicable rules and regulations); provided, however, that if the Company shall issue additional shares of Common Stock for a consideration, no such adjustment shall be made. 10. Designation of Beneficiary. Grantee may designate a person or persons to receive the Award in the event of the death of Grantee. Any such designation must be made upon properly completed forms supplied by and returned to the Company and, once made, may be revoked only in writing. If Grantee fails to designate a beneficiary, the estate of Grantee or any heir or successor who by reason of Grantee's death acquired the rights to the Award will be deemed to be the beneficiary of Grantee with respect to the Award. Any such person with rights under the Award shall possess all rights of Grantee under this Agreement with respect to such Award and shall remain subject to all the terms and conditions applicable thereto, including without limitation, the provisions of this Agreement. 11. Taxes and Withholding. Grantee shall be required to pay to the Company, and the Company shall have the right to deduct from any Director fees or other compensation paid to the Grantee, the amount of any required withholding taxes in respect of the Award and to take all such other action as the Company deems necessary to satisfy all obligations for the payment of such withholding taxes. The Company may permit Grantee to satisfy any federal, state or local tax withholding obligation by any reasonable means of payment. Notwithstanding any action the Company takes with respect to any or all income tax, social insurance, payroll tax, or other tax-related withholding ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains Grantee's responsibility and the Company (a) makes no representation or undertakings regarding the treatment of any Tax-Related Items in connection with the grant or vesting of the Restricted Stock or the subsequent sale of the Restricted Stock; and (b) does not commit to structure the Award to reduce or eliminate Grantee's liability for Tax-Related Items.



Certificate No. RS _____ (Non-Employee Director Award) 12. Section 83(b) Election. Grantee hereby acknowledges that Section 83(a) of the Internal Revenue Code of 1986, as amended (the "Code"), taxes as ordinary income the difference between the amount paid for the Restricted Stock and the Fair Market Value of the Restricted Stock as of the date any restrictions on the Restricted Stock lapse. Grantee has been informed that, with respect to the shares of

Restricted Stock, Grantee may file an election with the Internal Revenue Service, within 30 days following the Date of Grant, electing pursuant to Section 83(b) of the Code ("Section 83(b)") to be taxed currently on the Fair Market Value of the shares of Restricted Stock on the Date of Grant, in which case any future appreciation in the shares of Common Stock covered by the Award will be taxed as capital gains. Absent such an election, ordinary income will be measured and recognized by Grantee at the time or times which the Restricted Stock vests. Grantee is strongly encouraged to seek the advice of Grantee's tax advisors connection with the advisability of the filing of the election under Section 83(b). Grantee further acknowledges that the Company has directed Grantee to seek independent advice regarding the applicable provisions of the Code, the income tax laws of any municipality, state or foreign country in which Grantee may reside and the tax consequences of Grantee's death. GRANTEE ACKNOWLEDGES THAT IT IS GRANTEE'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO PREPARE AND FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON GRANTEE'S BEHALF (WHICH ELECTION THE COMPANY IS NOT IN ANY WAY RESPONSIBLE FOR). GRANTEE IS RELYING SOLELY ON GRANTEE'S ADVISORS AND NOT THE COMPANY WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION. A form of election under Section 83(b) is attached to this Award as Schedule I. By acceptance of this Agreement, Grantee agrees that if Grantee makes such an election, Grantee shall provide the Company with written notice thereof in accordance with the regulations promulgated under Section 83(b) of the Code within 5 business days of such election.

13. Grantee Representations and Warranties. Grantee represents, warrants, and agrees as follows, and the parties agree that the Company may rely on the same in consummating the issuance of any Common Stock pursuant to this Agreement: (a) Grantee is entering into this Agreement, and will acquire the Restricted Stock, solely on the basis of Grantee's own familiarity with the Company and all relevant factors about the Company's affairs, and neither the Company nor any agent of the Company has made any express or implied representations, covenants, or warranties to Grantee with respect to such matters. (b) Grantee is acquiring the Restricted Stock for Grantee's own account for investment and not with a view to the resale or distribution of the Restricted Stock. (c) Grantee is willing and able to bear the economic risk of an investment in the Restricted Stock (in making this representation, attention has been given to whether Grantee can afford to hold the Restricted Stock for an indefinite period of time and whether, at this time, Grantee can afford a complete loss of the investment).

14. Other Terms and Conditions.

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Certificate No. RS _____ (Non-Employee Director Award) (a) No Guaranty of Service. The granting of the Award will not confer upon Grantee any right to continued Service with the Company or its subsidiaries. (b) Notice. All notices or other communications relating to the Plan and this Agreement as it relates to Grantee shall be in writing and shall be delivered electronically, personally or mailed (U.S. mail) by the Company to Grantee at the then current address as maintained by the Company or such other address as Grantee may advise the Company in writing. (c) Headings. The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement. (d) Amendment. Except as permitted by the Plan, this Agreement may not be amended, modified, terminated or otherwise altered except by the written consent of the Company and Grantee. (e) Entire Agreement. Except as otherwise provided herein, the Plan and this Agreement constitute the entire agreement between Grantee and the Company and supersede any prior understandings, agreements, or representations by or between the parties, written or oral, to the extent they relate in any way to the subject matter of this Agreement. (f) Acceptance. Grantee hereby acknowledges receipt of a copy of the Plan, the related Prospectus and this Agreement. Grantee has read and understands the terms and provisions thereof, and accepts the Restricted Stock subject to all of the terms and conditions of the Plan, the Prospectus and this Agreement. Grantee acknowledges that there may be adverse tax consequences upon the grant or vesting of the Restricted Stock or disposition of the shares and that Grantee has been advised to consult a tax advisor prior to such grant, vesting or disposition. (g) Compliance with Law. The issuance and transfer of shares of Common Stock hereunder shall be subject to compliance by the Company and Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel. Grantee understands that the Company is under no obligation to register the shares of Common Stock with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance. (h) Counterparts. This Agreement may be executed in any number of identical counterparts, each of which shall be deemed an original for all purposes, but all of which taken together shall form one agreement. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable

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Certificate No. RS _____ (Non-Employee Director Award) document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature. To the extent this Award is presented electronically, this Award shall be null and void unless Grantee electronically accepts this Award and this Agreement within Grantee's stock plan account with the Company's stock plan administrator according to the procedures then in effect. [Signature page follows]

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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer as of the Date of Grant first above written. ARROW FINANCIAL CORPORATION
By: _____ Name: _____ Title: _____ ACKNOWLEDGED AND AGREED: _____ [Grantee] Date: _____
Address: _____



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Schedule I ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986 The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code, to include in taxpayer's gross income for the current taxable year, the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below: 1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows: NAME OF TAXPAYER: NAME OF SPOUSE: ADDRESS: IDENTIFICATION NUMBER OF TAXPAYER: IDENTIFICATION NUMBER OF SPOUSE: TAXABLE YEAR: 2. The property with respect to which the election is made is described as follows: [INSERT]. 3. The date on which the property was transferred is: [INSERT]. 4. The property is subject to the following restrictions: [INSERT] 5. The aggregate fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: [INSERT]. 6. The amount, if any, paid for such property is: [INSERT].



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The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property. The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner. Dated: [TAXPAYER] Dated: [SPOUSE]

**Certification of the Chief Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, David S. DeMarco, certify that:

1. I have reviewed the quarterly report on Form 10-Q of Arrow Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 8, 2024** November 7, 2024

By: **/s/**David S. DeMarco
David S. DeMarco
Chief Executive Officer

**Certification of the Chief Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Penko Ivanov, certify that:

1. I have reviewed the quarterly report on Form 10-Q of Arrow Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024 November 7, 2024

By: /s/ Penko Ivanov
Penko Ivanov
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant To
Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Arrow Financial Corporation (the "Company") on Form 10-Q for the period ended June 30, 2024 September 30, 2024, filed with the Securities and Exchange Commission (the "Report"), we, David S. DeMarco, Chief Executive Officer of the Company, and Penko Ivanov, Chief Financial Officer of the Company, hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2024 November 7, 2024

/s/ David S. DeMarco
David S. DeMarco
Chief Executive Officer

/s/ Penko Ivanov
Penko Ivanov
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Arrow Financial Corporation and will be retained by Arrow Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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