ARROW FINANCIAL CORP
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

or
[ ] 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

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. x Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x 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 x Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding as of October 30, 2015
Common Stock, par value $1.00 per share	12,907,654

ARROW FINANCIAL CORPORATION
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PART I - Financial Information

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

	September 30, 2015	December 31, 2014	September 30, 2014
ASSETS			
Cash and Due From Banks	$43,870	$35,081	$46,771
Interest-Bearing Deposits at Banks	25,821	11,214	17,893
Investment Securities:			
Available-for-Sale	397,559	366,139	374,335
Held-to-Maturity (Approximate Fair Value of $324,009 at September 30, 2015; $308,566 at December 31, 2014; and $302,567 at September 30, 2014)	317,480	302,024	296,522
Federal Home Loan Bank and Federal Reserve Bank Stock	5,143	4,851	3,001
Loans	1,536,925	1,413,268	1,381,440
Allowance for Loan Losses	(15,774)	(15,570)	(15,293)
Net Loans	1,521,151	1,397,698	1,366,147
Premises and Equipment, Net	28,186	28,488	28,206
Goodwill	22,003	22,003	22,003
Other Intangible Assets, Net	3,263	3,625	3,744
Other Assets	55,075	46,297	50,123
Total Assets	$2,419,551	$2,217,420	$2,208,745
LIABILITIES			
Noninterest-Bearing Deposits	$347,963	$300,786	$296,384
NOW Accounts	971,252	871,671	887,865
Savings Deposits	568,022	524,648	524,906
Time Deposits of $100,000 or More	60,978	61,797	69,797
Other Time Deposits	133,836	144,046	156,404
Total Deposits	2,082,051	1,902,948	1,935,356
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	24,414	19,421	19,654
Federal Home Loan Bank Overnight Advances	—	41,000	—
Federal Home Loan Bank Term Advances	55,000	10,000	10,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	20,000
Other Liabilities	26,944	23,125	23,646
Total Liabilities	2,208,409	2,016,494	2,008,656
STOCKHOLDERS’ EQUITY			
Preferred Stock, $5 Par Value; 1,000,000 Shares Authorized			
Common Stock, $1 Par Value; 20,000,000 Shares Authorized (17,420,776 Shares Issued at September 30, 2015, and 17,079,376 Shares Issued at December 31, 2014 and September 30, 2014)	17,421	17,079	17,079
Additional Paid-in Capital	249,931	239,721	239,247
Retained Earnings	28,791	29,458	26,240

Unallocated ESOP Shares (55,185 Shares at September 30, 2015; 71,748 Shares at December 31, 2014; and 71,740 Shares at September 30, 2014)	(1,100)	(1,450)	(1,450)
Accumulated Other Comprehensive Loss	(6,520)	(7,166)	(4,284)
Treasury Stock, at Cost (4,460,654 Shares at September 30, 2015; 4,386,001 Shares at December 31, 2014; and 4,402,932 Shares at September 30, 2014)	(77,381)	(76,716)	(76,743)
Total Stockholders' Equity	211,142	200,926	200,089
Total Liabilities and Stockholders' Equity	$2,419,551	$2,217,420	$2,208,745

See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	$14,364	$13,460	$41,953	$39,436
Interest on Deposits at Banks	13	12	60	41
Interest and Dividends on Investment Securities:				
Fully Taxable	1,979	1,919	5,936	5,968
Exempt from Federal Taxes	1,475	1,369	4,279	4,276
Total Interest and Dividend Income	17,831	16,760	52,228	49,721
INTEREST EXPENSE				
NOW Accounts	292	386	960	1,345
Savings Deposits	189	218	538	663
Time Deposits of $100,000 or More	89	195	267	626
Other Time Deposits	179	335	566	1,085
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	5	6	15	15
Federal Home Loan Bank Advances	353	115	804	387
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	146	144	432	427
Total Interest Expense	1,253	1,399	3,582	4,548
NET INTEREST INCOME	16,578	15,361	48,646	45,173
Provision for Loan Losses	537	444	882	1,407
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,041	14,917	47,764	43,766
NONINTEREST INCOME				
Income From Fiduciary Activities	1,923	1,861	5,907	5,640
Fees for Other Services to Customers	2,331	2,353	6,904	6,924
Insurance Commissions	2,343	2,451	6,849	7,188
Net Gain on Securities Transactions	—	137	106	110
Net Gain on Sales of Loans	236	213	488	502
Other Operating Income	304	336	1,183	892
Total Noninterest Income	7,137	7,351	21,437	21,256
NONINTEREST EXPENSE				
Salaries and Employee Benefits	8,699	7,781	24,577	23,303
Occupancy Expenses, Net	2,275	2,266	7,106	6,923
FDIC Assessments	297	273	873	828
Other Operating Expense	3,579	3,206	10,632	9,675
Total Noninterest Expense	14,850	13,526	43,188	40,729
INCOME BEFORE PROVISION FOR INCOME TAXES	8,328	8,742	26,013	24,293
Provision for Income Taxes	2,395	2,595	7,920	7,302
NET INCOME	$5,933	$6,147	$18,093	$16,991
Average Shares Outstanding:				
Basic	12,888	12,858	12,886	12,853

Diluted	12,929	12,874	12,926	12,865
Per Common Share:				
Basic Earnings	$0.46	$0.48	$1.40	$1.32
Diluted Earnings	0.46	0.48	1.40	1.32

Share and Per Share Amounts have been restated for the September 2015 2% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	$5,933	$6,147	$18,093	$16,991
Other Comprehensive Income, Net of Tax:				
Net Unrealized Securities Holding Gains (Losses) Arising During the Period	543	(770)	384	(15)
Reclassification Adjustments for Securities (Gains) Losses Included in Net Income	—	(82)	(65)	(66)
Amortization of Net Retirement Plan Actuarial Loss	117	70	352	209
Accretion of Net Retirement Plan Prior Service Credit	(9)	(13)	(25)	(39)
Other Comprehensive Income Gain (Loss)	651	(795)	646	89
Comprehensive Income	$6,584	$5,352	$18,739	$17,080

See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallo-cated ESOP Shares	Accumu-lated Other Com-prehensive Loss	Treasury Stock	Total
Balance at December 31, 2014	$17,079	$239,721	$29,458	$(1,450)	$(7,166)	$(76,716)	$200,926
Net Income	—	—	18,093	—	—	—	18,093
Other Comprehensive Income	—	—	—	—	646	—	646
2% Stock Dividend (341,400 Shares)	342	8,939	(9,281)	—	—	—	—
Cash Dividends Paid, $.735 per Share [1]	—	—	(9,479)	—	—	—	(9,479)
Stock Options Exercised, Net (24,554 Shares)	—	289	—	—	—	242	531
Shares Issued Under the Directors' Stock Plan (4,579 Shares)	—	73	—	—	—	45	118
Shares Issued Under the Employee Stock Purchase Plan (13,990 Shares)	—	222	—	—	—	137	359
Shares Issued for Dividend Reinvestment Plans (16,112 Shares)	—	281	—	—	—	158	439
Stock-Based Compensation Expense	—	233	—	—	—	—	233
Tax Benefit for Disposition of Stock Options	—	31	—	—	—	—	31
Purchase of Treasury Stock (46,403 Shares)	—	—	—	—	—	(1,247)	(1,247)
Allocation of ESOP Stock (17,645 Shares)	—	142	—	350	—	—	492
Balance at September 30, 2015	$17,421	$249,931	$28,791	$(1,100)	$(6,520)	$(77,381)	$211,142
Balance at December 31, 2013	$16,744	$229,290	$27,457	$(1,800)	$(4,373)	$(75,164)	$192,154
Net Income	—	—	16,991	—	—	—	16,991
Other Comprehensive Income	—	—	—	—	89	—	89
2% Stock Dividend (334,890 Shares)	335	8,617	(8,952)	—	—	—	—
Cash Dividends Paid, $.721 per Share [1]	—	—	(9,256)	—	—	—	(9,256)
Stock Options Exercised, Net (45,194 Shares)	—	619	—	—	—	444	1,063
Shares Issued Under the Directors' Stock Plan (3,872 Shares)	—	63	—	—	—	38	101

Shares Issued Under the Employee Stock Purchase Plan (14,172 Shares)	—	212	—	—	—	139	351
Stock-Based Compensation Expense	—	270	—	—	—	—	270
Tax Benefit for Disposition of Stock Options	—	22	—	—	—	—	22
Purchase of Treasury Stock (86,710 Shares)	—	—	—	—	—	(2,235)	(2,235)
Acquisition of Subsidiaries (3,595 Shares)	—	56	—	—	—	35	91
Allocation of ESOP Stock (17,308 Shares)	—	98	—	350	—	—	448
Balance at September 30, 2014	$17,079	$239,247	$26,240	$(1,450)	$(4,284)	$(76,743)	$200,089

[1] Cash dividends paid per share have been adjusted for the September 2015 2% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
Cash Flows from Operating Activities:	2015	2014
Net Income	$18,093	$16,991
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	882	1,407
Depreciation and Amortization	4,844	5,622
Allocation of ESOP Stock	492	448
Gains on the Sale of Securities Available-for-Sale	(106)	(137)
Losses on the Sale of Securities Available-for-Sale	—	27
Loans Originated and Held-for-Sale	(15,733)	(16,462)
Proceeds from the Sale of Loans Held-for-Sale	15,615	15,879
Net Gains on the Sale of Loans	(488)	(502)
Net Losses on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	136	52
Contributions to Retirement Benefit Plans	(574)	(656)
Deferred Income Tax Expense (Benefit)	1,242	(418)
Shares Issued Under the Directors' Stock Plan	118	101
Stock-Based Compensation Expense	233	270
Net Increase in Other Assets	(9,134)	(1,146)
Net Increase in Other Liabilities	4,393	31
Net Cash Provided By Operating Activities	20,013	21,507
Cash Flows from Investing Activities:		
Proceeds from the Sale of Securities Available-for-Sale	21,449	49,917
Proceeds from the Maturities and Calls of Securities Available-for-Sale	70,971	131,861
Purchases of Securities Available-for-Sale	(124,906)	(100,684)
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	38,403	45,602
Purchases of Securities Held-to-Maturity	(54,796)	(43,967)
Net Increase in Loans	(125,942)	(115,568)
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	997	1,093
Purchase of Premises and Equipment	(1,231)	(885)
Cash Paid for Subsidiaries, Net	—	(75)
Net (Increase) Decrease in Other Investments	(292)	3,280
Purchase of Bank Owned Life Insurance	—	(5,245)
Net Cash Used In By Investing Activities	(175,347)	(34,671)
Cash Flows from Financing Activities:		
Net Increase in Deposits	179,103	93,026
Net Decrease in Short-Term Borrowings	(36,007)	(45,123)
Federal Home Loan Bank Advances	45,000	—
Repayments of Federal Home Loan Bank Term Advances	—	(10,000)
Purchase of Treasury Stock	(1,247)	(2,235)
Stock Options Exercised, Net	531	1,063
Shares Issued Under the Employee Stock Purchase Plan	359	351
Tax Benefit from Exercise of Stock Options	31	22

Shares Issued for Dividend Reinvestment Plans	439	—
Cash Dividends Paid	(9,479)	(9,256)
Net Cash Provided By Financing Activities	178,730	27,848
Net Increase in Cash and Cash Equivalents	23,396	14,684
Cash and Cash Equivalents at Beginning of Period	46,295	49,980
Cash and Cash Equivalents at End of Period	$69,691	$64,664
Supplemental Disclosures to Statements of Cash Flow Information:		
Interest on Deposits and Borrowings	$3,548	$4,629
Income Taxes	8,257	7,035
Non-cash Investing and Financing Activity:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	2,213	1,137
Acquisition of Subsidiaries	—	91

See Notes to Unaudited Interim Consolidated Financial Statements.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. ACCOUNTING POLICIES

In the opinion of the management of Arrow Financial Corporation (Arrow), the accompanying unaudited consolidated interim financial statements contain all of the adjustments necessary to present fairly the financial position as of September 30, 2015, December 31, 2014 and September 30, 2014; the results of operations for the three-month and nine-month periods ended September 30, 2015 and 2014; the consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014; the changes in stockholders' equity for the nine-month periods ended September 30, 2015 and 2014; and the cash flows for the nine-month periods ended September 30, 2015 and 2014. All such adjustments are of a normal recurring nature. Certain prior period amounts have been reclassified to conform to the current presentation. The preparation of financial statements requires the use of management estimates. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements of Arrow for the year ended December 31, 2014, included in Arrow's 2014 Form 10-K.

New Accounting Standards Updates (ASU): During 2015, through the date of this report, the FASB issued 16 accounting standards updates, The standards listed below did not have had an immediate impact on Arrow, but could in the future.
ASU 2015-01 "Income Statement - Extraordinary and Unusual Items" eliminated the concept of extraordinary items. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-02 "Consolidation" changed the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-03 and ASU 2015-15 "Interest - Imputation of Interest" required debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. There were no changes to the recognition and measurement of debt issuance costs. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-04 "Compensation-Retirement Benefits" provides several practical expedients for the measurement or, in certain circumstances, the remeasurement of defined benefit plan assets and obligations. Most of the practical expedients will not apply to Arrow, however, if used, an entity must disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-05 "Intangibles - Goodwill and Other - Internal use Software" provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-06 "Earnings Per Share" contains guidance that addresses master limited partnerships. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-07 "Fair Value Measurement" permits a reporting entity to measure the fair value of certain investments using the net asset value per share of the investment. For Arrow, the standard is effective for the first quarter of 2016.
ASU 2015-08 "Business Combinations" amended various SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 115.

Note 2. INVESTMENT SECURITIES (In Thousands)

The following table is the schedule of Available-For-Sale Securities at September 30, 2015, December 31, 2014 and September 30, 2014:

Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
September 30, 2015						
Available-For-Sale Securities, at Amortized Cost	$161,253	$55,263	$158,351	$16,871	$1,120	$392,858
Available-For-Sale Securities, at Fair Value	162,518	55,486	161,637	16,672	1,246	397,559
Gross Unrealized Gains	1,269	223	3,292	12	125	4,921
Gross Unrealized Losses	4	—	6	211	—	221
Available-For-Sale Securities, Pledged as Collateral						348,115
Maturities of Debt Securities, at Amortized Cost:						
Within One Year	—	22,968	16,168	5,420		44,556
From 1 - 5 Years	161,253	30,696	136,752	10,451		339,152
From 5 - 10 Years	—	999	5,431	—		6,430
Over 10 Years	—	600	—	1,000		1,600

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Available-For-Sale Securities	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
Maturities of Debt Securities, at Fair Value:						
Within One Year	—	23,019	16,504	5,420		44,943
From 1 - 5 Years	162,518	30,868	139,201	10,452		343,039
From 5 - 10 Years	—	999	5,932	—		6,931
Over 10 Years	—	600	—	800		1,400
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$—	$—	$—	$—	$—	$—
12 Months or Longer	12,996	406	4,775	7,162	—	25,339
Total	$12,996	$406	$4,775	$7,162	$—	$25,339
Number of Securities in a Continuous Loss Position	3	1	1	11	—	16
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$—	$—	$—	$—	$—	$—
12 Months or Longer	4	—	6	211	—	221
Total	$4	$—	$6	$211	$—	$221
December 31, 2014						
Available-For-Sale Securities, at Amortized Cost	$137,540	$81,582	$124,732	$16,988	$1,120	$361,962
Available-For-Sale Securities, at Fair Value	137,603	81,730	128,827	16,725	1,254	366,139
Gross Unrealized Gains	208	187	4,100	7	134	4,636
Gross Unrealized Losses	145	39	5	270	—	459
Available-For-Sale Securities, Pledged as Collateral						267,384
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$39,631	$3,309	$82	$—	$—	$43,022
12 Months or Longer	28,020	14,035	1,546	10,738	—	54,339
Total	$67,651	$17,344	$1,628	$10,738	$—	$97,361
Number of Securities in a Continuous Loss Position	22	65	3	15	—	105
Unrealized Losses on Securities in a Continuous Loss Position:						

Less than 12 Months	$48	$—	$—	$—	$—	$48
12 Months or Longer	97	39	5	270	—	411
Total	$145	$39	$5	$270	$—	$459
September 30, 2014						
Available-For-Sale Securities, at Amortized Cost	$134,485	$91,799	$126,108	$17,027	$1,120	$370,539
Available-For-Sale Securities, at Fair Value	134,051	92,150	130,101	16,756	1,277	374,335
Gross Unrealized Gains	1	355	4,046	9	157	4,568
Gross Unrealized Losses	435	4	53	280	—	772
Available-For-Sale Securities, Pledged as Collateral						292,850

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Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$90,968	$450	$5,528	$—	$—	$96,946
12 Months or Longer	27,994	2,665	4,515	10,752	—	45,926
Total	$118,962	$3,115	$10,043	$10,752	$—	$142,872
Number of Securities in a Continuous Loss Position	35	18	7	15	—	75
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$296	$—	$18	$—	$—	$314
12 Months or Longer	139	4	35	280	—	458
Total	$435	$4	$53	$280	$—	$772

The following table is the schedule of Held-To-Maturity Securities at September 30, 2015, December 31, 2014 and September 30, 2014:

Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
September 30, 2015				
Held-To-Maturity Securities, at Amortized Cost	$218,502	$97,978	$1,000	$317,480
Held-To-Maturity Securities, at Fair Value	223,050	99,959	1,000	324,009
Gross Unrealized Gains	4,633	1,981	—	6,614
Gross Unrealized Losses	85	—	—	85
Held-To-Maturity Securities, Pledged as Collateral				296,921
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	37,916	—	—	37,916
From 1 - 5 Years	88,502	72,904	—	161,406
From 5 - 10 Years	87,529	25,074	—	112,603
Over 10 Years	4,556	—	1,000	5,556
Maturities of Debt Securities, at Fair Value:				
Within One Year	38,028	—	—	38,028
From 1 - 5 Years	91,022	74,407	—	165,429

From 5 - 10 Years	89,370	25,552	—	114,922
Over 10 Years	4,630	—	1,000	5,630
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$—	$—	$—	$—
12 Months or Longer	14,896	—	—	14,896
Total	$14,896	$—	$—	$14,896
Number of Securities in a Continuous Loss Position	51	—	—	51
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$—	$—	$—	$—

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Held-To-Maturity Securities	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
12 Months or Longer	85	—	—	85
Total	$85	$—	$—	$85
December 31, 2014				
Held-To-Maturity Securities, at Amortized Cost	$188,472	$112,552	$1,000	$302,024
Held-To-Maturity Securities, at Fair Value	193,252	114,314	1,000	308,566
Gross Unrealized Gains	4,935	1,770	—	6,705
Gross Unrealized Losses	155	8	—	163
Held-To-Maturity Securities, Pledged as Collateral				282,640
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$2,143	$4,581	$—	$6,724
12 Months or Longer	16,033	—	—	16,033
Total	$18,176	$4,581	$—	$22,757
Number of Securities in a Continuous Loss Position	74	1	—	75
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$17	$8	$—	$25
12 Months or Longer	138	—	—	138
Total	$155	$8	$—	$163
September 30, 2014				
Held-To-Maturity Securities, at Amortized Cost	$178,699	$116,823	$1,000	$296,522
Held-To-Maturity Securities, at Fair Value	184,116	117,451	1,000	302,567
Gross Unrealized Gains	5,535	672	—	6,207
Gross Unrealized Losses	118	44	—	162
Held-To-Maturity Securities, Pledged as Collateral				277,636
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$2,289	$9,221	$—	$11,510
12 Months or Longer	13,058	4,366	—	17,424
Total	$15,347	$13,587	$—	$28,934
Number of Securities in a	58	5	—	63

Continuous Loss Position				
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$15	$32	$—	$47
12 Months or Longer	103	12	—	115
Total	$118	$44	$—	$162

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

In the available-for-sale category at September 30, 2015, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $161.3 million and a fair value of $162.5 million. Mortgage-backed securities - residential consisted of U.S. Government Agency securities with an amortized cost of $27.5 million and a fair value of $28.1 million and government sponsored entity (GSE) securities with an amortized cost of $130.8 million and a fair value of $133.5 million. In the held-to-maturity category at September 30, 2015, mortgage-backed securities-residential consisted of U.S Government Agency securities with an amortized cost of $27.8 million and a fair value of $28.4 million and GSE securities with an amortized cost of $70.2 million and a fair value of $71.5 million.

In the available-for-sale category at December 31, 2014, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $137.5 million and a fair value of $137.6 million. Mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $23.0 million and a fair value of $23.6 million and GSE securities with an amortized cost of $101.7 million and a fair value of $105.2 million. In the held-to-maturity category at December 31, 2014, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $4.4 million and a fair value of $4.5 million and GSE securities with an amortized cost of $108.1 million and a fair value of $109.8 million.

In the available-for-sale category at September 30, 2014, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $134.5 million and a fair value of $134.1 million. Mortgage-backed securities-residential consisted of US Government Agency securities with an amortized cost of $26.0 million and a fair value of $26.6 million and GSE securities with an amortized cost of $100.1 million and a fair value of $103.5 million. In the held-to-maturity category at September 30, 2014, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $4.5 million and a fair value of $4.6 million and GSE securities with an amortized cost of $112.3 million and a fair value of $112.9 million.

Securities in a continuous loss position, in the tables above for September 30, 2015, December 31, 2014 and September 30, 2014, do not reflect any deterioration of the credit worthiness of the issuing entities. U.S. Agency issues, including agency-backed collateralized mortgage obligations and mortgage-backed securities, are all rated at least Aaa by Moody's or AA+ by Standard and Poor's. The state and municipal obligations are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. Obligations issued by school districts are supported by state aid. For any non-rated municipal securities, credit analysis is performed in-house based upon data that has been submitted by the issuers to the NY State Comptroller. That analysis reflects satisfactory credit worthiness of the municipalities. Corporate and other debt securities continue to be rated above investment grade according to Moody's and Standard and Poor's. Subsequent to September 30, 2015, and through the date of filing this report, there were no securities downgraded below investment grade.

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

Note 3. LOANS (In Thousands)

Loan Categories and Past Due Loans

The following table presents loan balances outstanding as of September 30, 2015, December 31, 2014 and September 30, 2014 and an analysis of the recorded investment in loans that are past due at these dates. Generally, Arrow considers a loan past due 30 or more days if the borrower is two or more payments past due. Loans held-for-sale of $1,004, $398 and $1,149 as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively, are included in the residential real estate balances for current loans.

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2015					
Loans Past Due 30-59 Days	$47	$—	$4,258	$427	$4,732
Loans Past Due 60-89 Days	68	—	1,234	658	1,960
Loans Past Due 90 or more Days	371	1,817	350	2,909	5,447
Total Loans Past Due	486	1,817	5,842	3,994	12,139
Current Loans	102,403	371,855	453,078	597,450	1,524,786
Total Loans	$102,889	$373,672	$458,920	$601,444	$1,536,925
Loans 90 or More Days Past Due and Still Accruing Interest	$—	$—	$1	$962	$963
Nonaccrual Loans	$466	$2,752	$439	$4,134	$7,791
December 31, 2014					
Loans Past Due 30-59 Days	$124	$432	$4,167	$482	$5,205
Loans Past Due 60-89 Days	154	7	1,225	1,495	2,881
Loans Past Due 90 or more Days	345	1,832	206	2,999	5,382
Total Loans Past Due	623	2,271	5,598	4,976	13,468
Current Loans	98,888	337,841	431,443	531,628	1,399,800
Total Loans	$99,511	$340,112	$437,041	$536,604	$1,413,268
Loans 90 or More Days Past Due and Still Accruing Interest	$—	$—	$—	$537	$537
Nonaccrual Loans	$473	$2,071	$415	$3,940	$6,899
September 30, 2014					
Loans Past Due 30-59 Days	$109	$—	$2,962	$389	$3,460
Loans Past Due 60-89 Days	210	232	1,066	1,379	2,887
Loans Past Due 90 or more Days	485	1,832	266	3,064	5,647
Total Loans Past Due	804	2,064	4,294	4,832	11,994
Current Loans	96,042	338,544	422,672	512,188	1,369,446
Total Loans	$96,846	$340,608	$426,966	$517,020	$1,381,440

Loans 90 or More Days Past Due and Still Accruing Interest	$328	$—	$—	$243	$571
Nonaccrual Loans	$241	$2,073	$438	$4,296	$7,048

The Company disaggregates its loan portfolio into the following four categories:

Commercial - The Company 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. 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, the Company may be required to liquidate collateral at deeply discounted values. To reduce the risk, management usually obtains personal guarantees of the borrowers.

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Commercial Real Estate - The Company 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 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, the Company also offers commercial construction and land development loans to finance projects, primarily within the communities that we serve. Many projects will ultimately be used by the borrowers' businesses, while others are developed for resale. These real estate loans are also secured by first liens on the real estate, which may include apartments, commercial structures, housing business, 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.

Consumer Loans - The Company 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, the Company also offers personal lines of credit and overdraft protection. Several loans are unsecured, which carry a higher risk of loss. Also included in this category are automobile loans. The Company primarily finances the purchases of automobiles indirectly through dealer relationships located throughout upstate New York and Vermont. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to seven years. Indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Residential Real Estate Mortgages - Residential real estate loans consist primarily of loans secured by first or second mortgages on primary residences. We originate adjustable-rate and fixed-rate one-to-four-family residential real estate loans for the construction, purchase or refinancing of an existing mortgage. These loans are collateralized primarily by owner-occupied properties generally located in the Company’s market area. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. The Company’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 our general practice to underwrite our 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, the Company 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. Our policy allows for a maximum loan to value ratio of 80%, although periodically higher advances are allowed. The Company 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 Loan Losses

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

Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Roll-forward of the Allowance for Loan						

Losses for the Quarterly Periods:						
June 30, 2015	$1,815	$3,932	$5,416	$3,699	$712	$15,574
Charge-offs	(15)	—	(150)	(215)	—	(380)
Recoveries	5	—	38	—	—	43
Provision	16	100	225	311	(115)	537
September 30, 2015	$1,821	$4,032	$5,529	$3,795	$597	$15,774
June 30, 2014	$2,055	$4,215	$4,680	$3,133	$953	$15,036
Charge-offs	(26)	—	(193)	(46)	—	(265)
Recoveries	24	—	54	—	—	78
Provision	90	(64)	249	187	(18)	444
September 30, 2014	$2,143	$4,151	$4,790	$3,274	$935	$15,293

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Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Roll-forward of the Allowance for Loan Losses for the Year-to-Date Periods:						
December 31, 2014	$2,100	$4,128	$5,210	$3,369	$763	$15,570
Charge-offs	(46)	—	(483)	(306)	—	(835)
Recoveries	23	—	134	—	—	157
Provision	(256)	(96)	668	732	(166)	882
September 30, 2015	$1,821	$4,032	$5,529	$3,795	$597	$15,774
December 31, 2013	$1,886	$3,962	$4,478	$3,026	$1,082	$14,434
Charge-offs	(192)	—	(486)	(91)	—	(769)
Recoveries	49	—	172	—	—	221
Provision	400	189	626	339	(147)	1,407
September 30, 2014	$2,143	$4,151	$4,790	$3,274	$935	$15,293
September 30, 2015						
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$—	$—	$135	$—	$135
Allowance for loan losses - Loans Collectively Evaluated for Impairment	$1,821	$4,032	$5,529	$3,660	$597	$15,639
Ending Loan Balance - Individually Evaluated for Impairment	$164	$2,371	$130	$1,511	$—	$4,176
Ending Loan Balance - Collectively Evaluated for Impairment	$102,725	$371,301	$458,790	$599,933	$—	$1,532,749
December 31, 2014						
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$—	$—	$109	$—	$109
Allowance for loan losses - Loans Collectively Evaluated for	$2,100	$4,128	$5,210	$3,260	$763	$15,461

Impairment						
Ending Loan Balance - Individually Evaluated for Impairment	$494	$1,492	$118	$2,237	$—	$4,341
Ending Loan Balance - Collectively Evaluated for Impairment	$99,017	$338,620	$436,923	$534,367	$—	$1,408,927
September 30, 2014						
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$—	$—	$82	$—	$82
Allowance for loan losses - Loans Collectively Evaluated for Impairment	$2,143	$4,151	$4,790	$3,192	$935	$15,211
Ending Loan Balance - Individually Evaluated for Impairment	$201	$1,493	$123	$2,200	$—	$4,017
Ending Loan Balance - Collectively Evaluated for Impairment	$96,645	$339,115	$426,843	$514,820	$—	$1,377,423

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

Our 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, our independent internal loan review department performs periodic reviews of the risk ratings on individual loans in our commercial loan portfolio.

We use a two-step process to determine the provision for loan losses and the amount of the allowance for loan losses. We measure impairment on our impaired loans on a quarterly basis. Our impaired loans are generally nonaccrual loans over $250 thousand and all troubled debt restructured loans. Our impaired loans are generally considered to be collateral dependent with the specific reserve, if any, determined based on the value of the collateral less estimated costs to sell.

The remainder of the portfolio is evaluated on a pooled basis. For each homogeneous loan pool, we estimate a total loss factor based on the historical net loss rates adjusted for applicable qualitative factors. We update the total loss factors assigned to each loan category on a quarterly basis. For the commercial and commercial real estate categories, we further segregate the loan categories by credit risk profile (pools of loans graded satisfactory, special mention and substandard). Additional description of the credit risk classifications is detailed in the Credit Quality Indicators section of this note.

We determine the annualized historical net loss rate for each loan category using a trailing three-year net charge-off average. While historical net loss experience provides a reasonable starting point for our analysis, historical net losses, or even recent trends in net losses, do not by themselves form a sufficient basis to determine the appropriate level of the allowance for loan losses. Therefore, we also consider and adjust historical net loss factors for qualitative factors that impact the inherent risk of loss associated with our loan categories within our total loan portfolio. These include:

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

Further, due to the imprecise nature of the loan loss estimation process, the risk attributes of our loan portfolio may not be fully captured in data related to the determination of loss factors used to determine our analysis of the adequacy of the allowance for loan losses. Management, therefore, has established an unallocated portion within the allowance for loan losses reflecting the imprecision that naturally exists in the allowance for loan loss estimation process. The unallocated allowance for loan losses is not considered a significant component of the overall allowance for loan loss estimation process.

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Credit Quality Indicators

The following table presents the credit quality indicators by loan category at September 30, 2015, December 31, 2014 and September 30, 2014:

Loan Credit Quality Indicators

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2015					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$92,896	$350,070			$442,966
Special Mention	1,157	5,170			6,327
Substandard	8,836	18,432			27,268
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			$458,479	$596,348	1,054,827
Nonperforming			441	5,096	5,537
December 31, 2014					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	85,949	317,747			403,696
Special Mention	2,442	3,718			6,160
Substandard	11,120	18,647			29,767
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			436,626	532,127	968,753
Nonperforming			415	4,477	4,892
September 30, 2014					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	82,232	316,395			398,627
Special Mention	4,969	7,032			12,001
Substandard	9,645	17,181			26,826
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			426,528	512,481	939,009
Nonperforming			438	4,539	4,977

We use an internally developed system of five credit quality indicators to rate the credit worthiness of each commercial loan defined as follows: 1) Satisfactory - "Satisfactory" borrowers have acceptable financial condition with satisfactory record of earnings and sufficient historical and projected cash flow to service the debt. Borrowers have satisfactory repayment histories and primary and secondary sources of repayment can be clearly identified; 2) Special Mention - Loans in this category have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. "Special mention" assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Loans which might be assigned this risk rating include loans to borrowers with deteriorating financial strength and/or earnings record and loans with potential for problems due to weakening economic or market conditions; 3) Substandard - Loans classified as "substandard" are inadequately protected by the current sound net worth or paying capacity of the borrower or the collateral pledged, if any. Loans in this category have well defined weaknesses that jeopardize the repayment. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. "Substandard" loans may include loans which are likely to require liquidation of collateral to effect repayment, and other loans where character or ability to repay has become suspect. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard; 4) Doubtful - Loans classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values highly questionable and improbable. Although possibility of loss is extremely high, classification of these loans as "loss" has been deferred due to specific pending factors or events which may strengthen the value (i.e. possibility of additional collateral, injection of capital, collateral liquidation, debt restructure, economic recovery, etc). Loans classified as "doubtful" need to be placed on

non-accrual; and 5) Loss - Loans classified as “loss” are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. As of the date of the balance sheet, all loans in this category have been charged-off to the allowance for loan losses. Large commercial loans are evaluated on an annual basis, unless the credit 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 to determine any loss, as further described in this footnote.
For the purposes of the table above, nonperforming consumer loans are those loans on nonaccrual status or are 90 days or more past due and still accruing interest.

Impaired Loans

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

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2015					
Recorded Investment:					
With No Related Allowance	$164	$2,371	$130	$926	$3,591
With a Related Allowance	—	—	—	585	585
Unpaid Principal Balance:					
With No Related Allowance	164	2,371	130	926	3,591
With a Related Allowance	—	—	—	585	585
December 31, 2014					
Recorded Investment:					
With No Related Allowance	$494	$1,492	$118	$1,678	$3,782
With a Related Allowance	—	—	—	559	559
Unpaid Principal Balance:					
With No Related Allowance	494	1,492	118	1,678	3,782
With a Related Allowance	—	—	—	559	559
September 30, 2014					
Recorded Investment:					
With No Related Allowance	$201	$1,493	$123	$1,667	$3,484
With a Related Allowance	—	—	—	533	533
Unpaid Principal Balance:					
With No Related Allowance	201	1,493	123	1,667	$3,484
With a Related Allowance	—	—	—	533	533
For the Quarter Ended:					
September 30, 2015					
Average Recorded Balance:					
With No Related Allowance	$313	$1,931	$112	$1,312	$3,668
With a Related Allowance	—	—	—	590	590
Interest Income Recognized:					
With No Related Allowance	2	—	2	1	5
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—

With a Related Allowance	—	—	—	—	—
September 30, 2014					
Average Recorded Balance:					
With No Related Allowance	$205	$1,493	$124	$1,394	$3,216
With a Related Allowance	—	—	—	554	554
Interest Income Recognized:					
With No Related Allowance	2	—	2	—	4
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—

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Impaired Loans

	Commercial	Commercial Real Estate	Consumer	Residential	Total
For the Year-To-Date Period Ended:					
September 30, 2015					
Average Recorded Balance:					
With No Related Allowance	$329	$1,932	$124	$1,302	$3,687
With a Related Allowance	—	—	—	572	572
Interest Income Recognized:					
With No Related Allowance	6	—	4	2	12
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—
September 30, 2014					
Average Recorded Balance:					
With No Related Allowance	$211	$1,639	$149	$1,988	$3,987
With a Related Allowance	—	—	—	267	267
Interest Income Recognized:					
With No Related Allowance	7	—	6	1	14
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—

At September 30, 2015, December 31, 2014 and September 30, 2014, all impaired loans were considered to be collateral dependent and were therefore evaluated for impairment based on the fair value of collateral less estimated cost to sell. Interest income recognized in the table above, represents income earned after the loans became impaired and includes restructured loans in compliance with their modified terms and nonaccrual loans where we have recognized interest income on a cash basis.

Loans Modified in Trouble Debt Restructurings

The following table presents information on loans modified in trouble debt restructurings during the periods indicated. All loans were modified under Arrow's own programs. The principal modification, for all the modifications in the table below, involved payment deferrals.

Loans Modified in Trouble Debt Restructurings During the Period

	Commercial	Commercial Real Estate	Consumer	Residential	Total
For the Quarter Ended:					
September 30, 2015					
Number of Loans	—	1	3	—	4
Pre-Modification Outstanding Recorded Investment	$—	$883	$49	$—	$932
Post-Modification Outstanding Recorded Investment	$—	$883	$49	$—	$932
September 30, 2014					
Number of Loans	—	—	1	—	1
Pre-Modification Outstanding Recorded Investment	$—	$—	$12	$—	$12
Post-Modification Outstanding Recorded Investment	$—	$—	$12	$—	$12
For the Year-To-Date Period Ended:					
September 30, 2015					
Number of Loans	—	1	4	—	5
Pre-Modification Outstanding Recorded Investment	$—	$883	$51	$—	$934
Post-Modification Outstanding Recorded Investment	$—	$883	$51	$—	$934
September 30, 2014					
Number of Loans	—	—	2	1	3
Pre-Modification Outstanding Recorded Investment	$—	$—	$14	$574	$588
Post-Modification Outstanding Recorded Investment	$—	$—	$14	$574	$588

In general, loans requiring modification are restructured to accommodate the projected cashflows of the borrower. No loans modified during the preceding twelve months subsequently defaulted as of September 30, 2015.

Note 4. GUARANTEES (In Thousands)

The following table presents the balance for standby letters of credit for the periods ended September 30, 2015, December 31, 2014 and September 30, 2014:

Loan Commitments and Letters of Credit

	September 30, 2015	December 31, 2014	September 30, 2014
Notional Amount:			
Commitments to Extend Credit	$293,728	$249,803	$255,587

Standby Letters of Credit	3,201	3,317	3,157
Fair Value:			
Commitments to Extend Credit	$—	$—	$—
Standby Letters of Credit	10	39	52

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. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement Arrow has in particular classes of financial instruments.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Arrow evaluates each customer's creditworthiness on a case-by-case basis. Home equity lines of credit are secured by residential real estate. Construction commitments 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 has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit at September 30, 2015, December 31, 2014 and September 30, 2014 represent the maximum potential future payments Arrow could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios 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 typically range from 1% to 3% of the notional amount. Fees are collected upfront and are amortized over the life of the commitment. The fair values of Arrow's standby letters of credit at September 30, 2015, December 31, 2014 and September 30, 2014, in the table above, were the same as the carrying amounts. 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.

Note 5. COMPREHENSIVE INCOME (In Thousands)

The following table presents the components of other comprehensive income for the three and nine months ended September 30, 2015 and 2014:

Schedule of Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2015						
Net Unrealized Securities Holding Losses Arising During the Period	$892	$(349)	$543	$631	$(247)	$384
Reclassification Adjustment for Securities Gains Included in Net Income	—	—	—	(106)	41	(65)
Amortization of Net Retirement Plan Actuarial Loss	192	(75)	117	579	(227)	352
Accretion of Net Retirement Plan Prior Service Credit	(13)	4	(9)	(41)	16	(25)
Other Comprehensive Loss	$1,071	$(420)	$651	$1,063	$(417)	$646
2014						
Net Unrealized Securities Holding Gains Arising During the Period	$(1,274)	$504	$(770)	$(25)	$10	$(15)
Reclassification Adjustment for Securities Losses Included in Net Income	(137)	55	(82)	(110)	44	(66)
Amortization of Net Retirement Plan Actuarial Loss	116	(46)	70	346	(137)	209
Accretion of Net Retirement Plan Prior Service Credit	(22)	9	(13)	(65)	26	(39)
Other Comprehensive Income	$(1,317)	$522	$(795)	$146	$(57)	$89

The following table presents the changes in accumulated other comprehensive income by component:
Changes in Accumulated Other Comprehensive Income (Loss) by Component [1]

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Plan Items		
		Net Gain (Loss)	Net Prior Service (Cost) Credit	Total
For the Quarter-To-Date periods ended:				
June 30, 2015	$2,315	$(9,020)	$(466)	$(7,171)
Other comprehensive income or loss before reclassifications	543	—	—	543
Amounts reclassified from accumulated other comprehensive income	—	117	(9)	108
Net current-period other comprehensive income	543	117	(9)	651
September 30, 2015	$2,858	$(8,903)	$(475)	$(6,520)
June 30, 2014	$3,145	$(6,558)	$(76)	$(3,489)
Other comprehensive income or loss before reclassifications	(770)	—	—	(770)
Amounts reclassified from accumulated other comprehensive income	(82)	70	(13)	(25)
Net current-period other comprehensive income	(852)	70	(13)	(795)
September 30, 2014	$2,293	$(6,488)	$(89)	$(4,284)
For the Year-To-Date periods ended:				
December 31, 2014	$2,539	$(9,255)	$(450)	$(7,166)
Other comprehensive income or loss before reclassifications	384	—	—	384
Amounts reclassified from accumulated other comprehensive income	(65)	352	(25)	262
Net current-period other comprehensive income	319	352	(25)	646
September 30, 2015	$2,858	$(8,903)	$(475)	$(6,520)
December 31, 2013	$2,374	$(6,697)	$(50)	$(4,373)
Other comprehensive income or loss before reclassifications	(15)	—	—	(15)
Amounts reclassified from accumulated other comprehensive income	(66)	209	(39)	104
Net current-period other comprehensive income	(81)	209	(39)	89
September 30, 2014	$2,293	$(6,488)	$(89)	$(4,284)

(1) All amounts are net of tax. Amounts in parentheses indicate debits.

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The following table presents the reclassifications out of accumulated other comprehensive income:
Reclassifications Out of Accumulated Other Comprehensive Income [1]

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
For the Quarter-to-date periods ended:			
September 30, 2015			
Unrealized gains and losses on available-for-sale securities	$—		Gain on Securities Transactions
	—		Total before Tax
	—		Provision for Income Taxes
	$—		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$13	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(192	) [2]	Salaries and Employee Benefits
	(179	)	Total before Tax
	70		Provision for Income Taxes
	$(109	)	Net of Tax
Total reclassifications for the period	$(109	)	Net of Tax
September 30, 2014			
Unrealized gains and losses on available-for-sale securities	$137		Gain on Securities Transactions
	137		Total before Tax
	(55	)	Provision for Income Taxes
	$82		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$22	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(116	) [2]	Salaries and Employee Benefits
	(94	)	Total before Tax
	37		Provision for Income Taxes
	$(57	)	Net of Tax
Total reclassifications for the period	$25		Net of Tax

Reclassifications Out of Accumulated Other Comprehensive Income [1]

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
For the Year-to-date periods ended:			
September 30, 2015			
Unrealized gains and losses on available-for-sale securities	$106		Gain on Securities Transactions
	106		Total before Tax
	(42	)	Provision for Income Taxes
	$64		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$41	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(579	) [2]	Salaries and Employee Benefits
	(538	)	Total before Tax
	211		Provision for Income Taxes
	$(327	)	Net of Tax
Total reclassifications for the period	$(263	)	Net of Tax
September 30, 2014			
Unrealized gains and losses on available-for-sale securities	$110		Gain on Securities Transactions
	110		Total before Tax
	(44	)	Provision for Income Taxes
	$66		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	65	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	$(346	) [2]	Salaries and Employee Benefits
	(281	)	Total before Tax
	111		Provision for Income Taxes
	$(170	)	Net of Tax
Total reclassifications for the period	$(104	)	Net of Tax

(1) Amounts in parentheses indicate debits to profit/loss.
(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

Note 6. STOCK BASED COMPENSATION PLANS

Under our 2013 Long-Term Incentive Plan, we granted options in the first quarter of 2015 to purchase shares of our common stock. The fair values of the options were estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of our grants is expensed over the four year vesting period.
The following table presents a roll-forward of our stock option plans and grants issued during 2015:
Schedule of Share-based Compensation Arrangements

	Stock Option Plans	
Roll-Forward of Shares Outstanding:		
Outstanding at January 1, 2015	409,478	
Granted	55,590	
Exercised	(25,047	)
Forfeited	—	
Outstanding at September 30, 2015	440,021	
Exercisable at Period-End	305,099	
Vested and Expected to Vest	134,922	
Roll-Forward of Shares Outstanding - Weighted Average Exercise Price:		
Outstanding at January 1, 2015	$22.16	
Granted	25.35	
Exercised	21.15	
Forfeited	—	
Outstanding at September 30, 2015	22.57	
Exercisable at Period-End	21.73	
Vested and Expected to Vest	24.46	
Grants Issued During 2015 - Weighted Average Information:		
Fair Value	5.67	
Fair Value Assumptions:		
Dividend Yield	3.90	%
Expected Volatility	33.55	%
Risk Free Interest Rate	1.57	%
Expected Lives (in years)	7.66	

The following table presents information on the amounts expensed for the periods ended September 30, 2015 and 2014:
Share-Based Compensation Expense

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Share-Based Compensation Expense	$76	$90	$233	$270

Arrow also sponsors an Employee Stock Purchase Plan under which employees purchase Arrow's common stock at a 5% discount below market price. Under current accounting guidance, a stock purchase plan with a discount of 5% or less is not considered a compensatory plan.

Note 7. RETIREMENT PLANS (Dollars in Thousands)

The following tables provide the components of net periodic benefit costs for the three- and nine-month period ended September 30:

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Net Periodic Benefit Cost			
For the Three Months Ended September 30, 2015:			
Service Cost	$353	$3	$43
Interest Cost	402	61	144
Expected Return on Plan Assets	(808)	—	—
Amortization of Prior Service (Credit) Cost	(21)	15	(8)
Amortization of Net Loss	139	30	24
Net Periodic Benefit Cost	$65	$109	$203
Plan Contributions During the Period	$3,000	$70	$106
For the Three Months Ended September 30, 2014:			
Service Cost	$377	$—	$52
Interest Cost	298	55	49
Expected Return on Plan Assets	(722)	—	—
Amortization of Prior Service (Credit) Cost	(11)	18	(29)
Amortization of Net Loss	86	23	7
Net Periodic Benefit Cost	$28	$96	$79
Plan Contributions During the Period	$—	$119	$72
Net Periodic Benefit Cost			
For the Nine Months Ended September 30, 2015:			
Service Cost	$1,058	$8	$130
Interest Cost	1,203	182	361
Expected Return on Plan Assets	(2,423)	—	—
Amortization of Prior Service Cost (Credit)	(62)	44	(23)
Amortization of Net Loss	417	91	71
Net Periodic Benefit Cost	$193	$325	$539
Plan Contributions During the Period	$3,000	$344	$231
Estimated Future Contributions in the Current Fiscal Year	$—	$115	$77
For the Nine Months Ended September 30, 2014:			
Service Cost	$1,130	$—	$158
Interest Cost	896	164	221
Expected Return on Plan Assets	(2,167)	—	—
Amortization of Prior Service (Credit) Cost	(33)	54	(86)
Amortization of Net Loss	258	68	20

Net Periodic Benefit Cost	$84	$286	$313
Plan Contributions During the Period	$—	$356	$300

We were not required to make a contribution to our qualified pension plan in 2015, and currently, we do not expect to make additional contributions in 2015. Arrow makes contributions to its other post-retirement benefit plans in an amount equal to benefit payments for the year.

Note 8. 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 September 30, 2015 and 2014. All share and per share amounts have been adjusted for the September 2015 2% stock dividend.

Earnings Per Share

	Quarterly Period Ended:		Year-to-Date Period Ended:	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Earnings Per Share - Basic:				
Net Income	$5,933	$6,147	$18,093	$16,991
Weighted Average Shares - Basic	12,888	12,858	12,886	12,853
Earnings Per Share - Basic	$0.46	$0.48	$1.40	$1.32
Earnings Per Share - Diluted:				
Net Income	$5,933	$6,147	$18,093	$16,991
Weighted Average Shares - Basic	12,888	12,858	12,886	12,853
Dilutive Average Shares Attributable to Stock Options	41	16	40	12
Weighted Average Shares - Diluted	12,929	12,874	12,926	12,865
Earnings Per Share - Diluted	$0.46	$0.48	$1.40	$1.32
Antidilutive Shares Excluded from the Calculation of Earnings Per Share	—	—	—	—

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Note 9. FAIR VALUE OF FINANCIAL INSTRUMENTS (In Thousands)

FASB ASC Subtopic 820-10 defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP) and requires certain disclosures about fair value measurements. We do not have any nonfinancial assets or liabilities measured at fair value on a recurring basis. The only assets or liabilities that Arrow measured at fair value on a recurring basis at September 30, 2015, December 31, 2014 and September 30, 2014 were securities available-for-sale. 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:			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Fair Value of Assets and Liabilities Measured on a Recurring Basis:					
September 30, 2015					
Securities Available-for Sale:					
U.S. Agency Obligations	$162,518	$—	$162,518	$—	
State and Municipal Obligations	55,486	—	55,486	—	
Mortgage-Backed Securities - Residential	161,637	—	161,637	—	
Corporate and Other Debt Securities	16,672	—	16,672	—	
Mutual Funds and Equity Securities	1,246	—	1,246	—	
Total Securities Available-for-Sale	$397,559	$—	$397,559	$—	
December 31, 2014					
Securities Available-for Sale:					
U.S. Agency Obligations	$137,603	$—	$137,603	$—	
State and Municipal Obligations	81,730	—	81,730	—	
Mortgage-Backed Securities - Residential	128,827	—	128,827	—	
Corporate and Other Debt Securities	16,725	—	16,725	—	
Mutual Funds and Equity Securities	1,254	—	1,254	—	
Total Securities Available-for Sale	$366,139	$—	$366,139	$—	
September 30, 2014					
Securities Available-for Sale:					
U.S. Agency Obligations	$134,051	$—	$134,051	$—	
State and Municipal Obligations	92,150	—	92,150	—	
Mortgage-Backed Securities - Residential	130,101	—	130,101	—	
Corporate and Other Debt Securities	16,756	—	16,756	—	
Mutual Funds and Equity Securities	1,277	—	1,277	—	
Total Securities Available-for Sale	$374,335	$—	$374,335	$—	
Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis:					
September 30, 2015					
	$902	$—	$—	$902	$(322)

Other Real Estate Owned and Repossessed Assets, Net					
Collateral Dependent Impaired Loans	585	—	—	$585	(135)
December 31, 2014					
Other Real Estate Owned and Repossessed Assets, Net	$393	$—	$—	$393	$(15)
Collateral Dependent Impaired Loans	574	—	—	$574	(109)
September 30, 2014					
Other Real Estate Owned and Repossessed Assets, Net	$392	$—	$—	$392	$(139)
Collateral Dependent Impaired Loans	533	—	—	$533	(82)

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; 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 securities available-for-sale are based on unadjusted, quoted market prices from exchanges in active markets. The fair value of Level 2 securities available-for-sale are based on an independent bond and equity pricing service for identical assets or significantly similar securities and an independent equity pricing service for equity securities not actively traded. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

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

The fair value of collateral dependent impaired loans was based on third-party appraisals of the collateral. The fair value of other real estate owned was based on third-party appraisals. Other assets which might have been included in this table include mortgage servicing rights, goodwill and other intangible assets. Arrow evaluates each of these assets for impairment on a quarterly basis, with no impairment recognized for these assets at September 30, 2015, December 31, 2014 and September 30, 2014.

Fair Value by Balance Sheet Grouping

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

	Carrying Amount	Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3
September 30, 2015					
Cash and Cash Equivalents	$69,691	$69,691	$69,691	$—	$—
Securities Available-for-Sale	397,559	397,559	—	397,559	—
Securities Held-to-Maturity	317,480	324,009	—	324,009	—
Federal Home Loan Bank and Federal Reserve Bank Stock	5,143	5,143	5,143	—	—
Net Loans	1,521,151	1,530,930	—	—	1,530,930
Accrued Interest Receivable	6,949	6,949	6,949	—	—
Deposits	2,082,051	2,076,658	1,887,237	189,421	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	24,414	24,414	24,414	—	—
Federal Home Loan Bank Term Advances	55,000	56,630	—	56,630	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	306	306	306	—	—
December 31, 2014					
Cash and Cash Equivalents	$46,295	$46,295	$46,295	$—	$—
Securities Available-for-Sale	366,139	366,139	—	366,139	—
Securities Held-to-Maturity	302,024	308,566	—	308,566	—
Federal Home Loan Bank and Federal Reserve Bank Stock	4,851	4,851	4,851	—	—
Net Loans	1,397,698	1,405,454	—	—	1,405,454
Accrued Interest Receivable	5,834	5,834	5,834	—	—
Deposits	1,902,948	1,899,682	1,697,105	202,577	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	19,421	19,421	19,421	—	—
Federal Home Loan Bank Term Advances	51,000	51,258	41,000	10,258	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	274	274	274	—	—
September 30, 2014					
Cash and Cash Equivalents	$64,664	$64,664	$64,664	$—	$—
Securities Available-for-Sale	374,335	374,335	—	374,335	—
Securities Held-to-Maturity	296,522	302,567	—	302,567	—
Federal Home Loan Bank and Federal	3,001	3,001	3,001	—	—

Reserve Bank Stock					
Net Loans	1,366,147	1,371,368	—	—	1,371,368
Accrued Interest Receivable	6,629	6,629	6,629	—	—
Deposits	1,935,356	1,929,377	1,709,155	220,222	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	19,654	19,654	19,654	—	—
Federal Home Loan Bank Term Advances	10,000	10,340	10,340	—	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	357	357	357	—	—

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

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

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

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

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

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

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Arrow Financial Corporation:

We have reviewed the consolidated balance sheets of Arrow Financial Corporation and subsidiaries (the Company) as of September 30, 2015 and 2014, and related consolidated statements of income, comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, and related consolidated statements of changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Arrow Financial Corporation and subsidiaries as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 13, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
Albany, New York
November 6, 2015

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 30, 2015

Note on Terminology - In this Quarterly Report on Form 10-Q, 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.

The Company and Its Subsidiaries - Arrow is a two-bank holding company headquartered in Glens Falls, New York. Our banking subsidiaries are Glens Falls National Bank and Trust Company (Glens Falls National) whose main office is located in Glens Falls, New York, and Saratoga National Bank and Trust Company (Saratoga National) whose main office is located in Saratoga Springs, New York. Our non-bank subsidiaries include Capital Financial Group, Inc. (an insurance agency specializing in selling and servicing group health care policies); two property and casualty insurance agencies: Upstate Agency LLC and McPhillips Agency (which is a division of Glens Falls National Insurance Agencies LLC); North Country Investment Advisers, Inc. (a registered investment adviser that provides investment advice to our proprietary mutual funds); Glens Falls National Community Development Corporation (which invests in qualifying community development projects); and Arrow Properties, Inc. (a real estate investment trust, or REIT). All of these are wholly- owned or majority owned subsidiaries of Glens Falls National.

Our Peer Group - At certain points in this Report, our performance is compared with that of our “peer group” of financial institutions. Unless otherwise specifically stated, this peer group is comprised of the group of 332 domestic bank holding companies with $1 to $3 billion in total consolidated assets as identified in the Federal Reserve Board’s “Bank Holding Company Performance Report” for June 30, 2015 (the most recent such Report currently available), and peer group data contained herein has been derived from such Report.

Forward Looking Statements - This Quarterly Report on Form 10-Q contains statements that are not historical in nature but rather are based on our 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 “expects,” “believes,” “anticipates,” “estimates” and variations of such words and similar expressions are intended to identify such forward-looking statements. 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 our general perceptions of market conditions and trends in business activity, both our own and in the banking industry generally, as well as current management strategies for future operations and development.

Examples of Forward-Looking Statements:

Topic	Page	Location
Future compliance with regulatory capital standards	40	1st paragraph under "Regulatory Capital and Increase in Stockholders' Equity"
VISA	40	"VISA Class B Common Stock"
Impact of market rate structure on net interest margin, loan yields and deposit rates	45	1st and last paragraphs under "Quarterly Taxable Equivalent Yield on Loans"
	58	Last paragraph under "Quantitative and Qualitative Disclosures about Market Risk
Future level of residential real estate loans	44	2nd paragraph under "Residential Real Estate Loans"

Future level of indirect consumer loans	45	Last paragraph under "Automobile Loans"
Future level of commercial loans	44	3rd paragraph under "Commercial, Commercial Real Estate and Construction and Land Development Loans"
Impact of changes in mortgage rates	46	Paragraph under "Investment Sales, Purchases and Maturities"
Provision for loan losses	48	1st paragraph in section
Future level of nonperforming assets	49	Last 3 paragraphs under "Risk Elements"
Liquidity	52	2nd full paragraph under "LIQUIDITY"
Fees for other services to customers	53,55	3rd paragraph under "Noninterest Income"

Forward-looking statements contained herein are not guarantees of future performance and involve certain risks and uncertainties that are difficult to quantify or, in some cases, to identify. In the case of all such forward-looking statements, 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:

a. rapid and dramatic changes in economic and market conditions, such as the U.S. economy and financial markets experienced in the early stages of the 2008-2009 "financial crisis;"
b. sharp fluctuations in interest rates, economic activity, and consumer spending patterns;
c. network attacks or unauthorized access to computer systems and network infrastructure, interruptions of service and other security risks, whether company-specific, industry-specific or regional or nationwide;
d. sudden changes in the market for products we provide, such as real estate loans;

e. significant new banking laws and regulations, including rules still to be issued under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act or Dodd-Frank);

f. unexpected or enhanced competition from new or unforeseen sources, whether company-specific or industry-specific ; and

g. similar uncertainties inherent in banking operations such as ours, the financial world, or governmental finance generally, including periodic heightened concerns about U.S. or state governmental budgets, deficits, spending and taxes.

Readers are cautioned not to place undue reliance on forward-looking statements in this Report, which speak only as of the date hereof. We undertake no obligation to revise or update these forward-looking statements to reflect the occurrence of unanticipated events. This Quarterly Report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014.

USE OF NON-GAAP FINANCIAL MEASURES

Regulation G, a rule adopted by the Securities and Exchange Commission (SEC), applies to certain SEC filings, 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 (if a comparable GAAP measure exists) and a statement of the Company’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.

One such exempt non-GAAP measure is regulatory capital. Financial institutions like the Company and its subsidiary banks must calculate and report their condition under an array of bank regulatory capital measures that are financial in nature but are not based on GAAP and are not easily reconcilable to the closest comparable GAAP financial measures, even in those cases where a comparable measure exists. The Company follows industry practice in disclosing its financial condition under these various regulatory capital measures, including period-end regulatory capital ratios for itself and its subsidiary banks, in its periodic reports filed with the SEC, including this Report, and does so without compliance with Regulation G, on the widely-shared understanding that the SEC regards regulatory capital measures to be exempt from Regulation G.

In addition, the Company uses in preparing its financial statements several additional non-GAAP financial measures that are commonly utilized by financial institutions but have not been specifically exempted by the SEC from Regulation G and may not be exempt. Some of the more significant non-GAAP measures generally included by the Company in its public filings with the SEC are identified and described below, with a brief explanation for the Company's usage of such measures if and when they are in fact included in filed reports. Some of these non-GAAP measures are included in this Report, including in the tables on pages 36 and 38 and the notes on page 37. Where any such non-GAAP measure is used in this Report, and a comparable GAAP measure exists, a reconciliation of the non-GAAP measure to the GAAP measure is set forth in proximity to, or cross-referenced from, the non-GAAP measure.

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 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. We follow 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 noninterest expense to net interest income and noninterest income. Net interest income as utilized in calculating the efficiency ratio is typically the same as the net interest income presented in Selected Financial Information table discussed in the preceding paragraph, i.e., it is expressed on a tax-equivalent basis. Moreover, most financial institutions, in calculating the efficiency ratio, also adjust both noninterest expense and noninterest income to exclude from these items (as calculated under GAAP) certain recurring component elements of income and expense, such as intangible asset amortization (deducted from noninterest expense) and securities gains or losses (excluded from noninterest income). We follow these practices.

Tangible Book Value per Share: Tangible equity, a non-GAAP measure, 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 includes many items, but in our case, essentially represents goodwill.

Adjustments for Certain Items of Income or Expense: In addition to our disclosures of net income, earnings per share (i.e. EPS), return on average assets (i.e. ROA), return on average equity (i.e. ROE) and other financial measures that are prepared in accordance with GAAP, we may also provide comparative disclosures that adjust these GAAP financial measures by removing the impact of certain non recurring transactions or other material items of income or expense. We believe that the resulting non-GAAP financial measures may improve an understanding of our results of operations by separating out items that have a disproportional positive or negative impact on the particular period in question. Additionally, we believe that the adjustment for certain items allows 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. We believe that such non-GAAP financial measures disclosed by us 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.

Selected Quarterly Information - Unaudited (dollars in thousands except per share amounts)

Quarter Ended	9/30/2015	6/30/2015	3/31/2015